Unaudited Interim Financial Statements

Fair Hydro Trust
March 31, 2018

FAIR HYDRO TRUST

INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (UNAUDITED)

Three months ended March 31 *(thousands of dollars)*	**2018**	**2017**
Revenues		
Interest income	**9,854**	**-**
Cost recovery revenue	**875**	**-**
Other income	**17**	**-**
	10,746	**-**
Expenses		
Interest	**9,846**	**-**
Operations, maintenance and administration	**886**	**-**
	10,732	**-**
Net income and comprehensive income	**14**	**-**

See accompanying notes to the financial statements

FAIR HYDRO TRUST

INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended March 31 *(thousands of dollars)*	**2018**	**2017**
OPERATING ACTIVITIES		
Net income	**14**	-
Adjustment for non-cash items:		
Amortization of deferred issuance fees *(Note 4)*	**212**	-
Accretion of financing receivables	**(8)**	-
Increase in unbilled cost recovery revenue from IESO	**(574)**	-
Decrease in accounts payable and accrued charges	**(627)**	-
Increase in payable to OPG	**719**	-
Increase in interest payable	**4,682**	-
Increase in advances from IESO	**6,704**	-
Cash provided by operating activities	**11,122**	-
INVESTING ACTIVITIES		
Acquisition of financing receivables *(Note 4)*	**(460,000)**	-
Cash used in investing activities	**(460,000)**	-
FINANCING ACTIVITIES		
Repayment of revolving warehouse debt issued to third parties *(Note 4)*	**(500,000)**	-
Repayment of revolving warehouse debt issued to OPG *(Note 4)*	**(480,393)**	-
Net issuance of long-term notes to third parties *(Note 4)*	**732,100**	-
Issuance of long-term notes to OPG *(Note 4)*	**705,793**	-
Cash provided by financing activities	**457,500**	-
Net increase in restricted cash during the period	**8,622**	-
Restricted cash, beginning of period	**4,410**	-
Restricted cash, end of period	**13,032**	-

See accompanying notes to the financial statements

FAIR HYDRO TRUST

INTERIM BALANCE SHEETS (UNAUDITED)

As at

(thousands of dollars)	**March 31 2018**	**December 31 2017**
ASSETS		
Current		
Restricted cash *(Note 3)*	**13,032**	4,410
Unbilled cost recovery revenue from IESO	**7,174**	6,600
	20,206	11,010
Non-current		
Financing receivables *(Note 4)*	**1,639,008**	1,179,000
Deferred issuance fees *(Note 4)*	**1,379**	1,576
	1,640,387	1,180,576
Total assets	**1,660,593**	1,191,586

See accompanying notes to the financial statements

FAIR HYDRO TRUST

INTERIM BALANCE SHEETS
(UNAUDITED)

As at

(thousands of dollars)	**March 31 2018**	**December 31 2017**
LIABILITIES AND UNITHOLDERS' CAPITAL		
Current		
Accounts payable and accrued charges	**2,204**	2,831
Payable to OPG *(Note 5)*	**6,453**	5,734
Interest payable	**5,540**	858
Advances from IESO	**9,857**	3,153
	24,054	12,576
Non-current		
Long-term debt *(Note 4)*	**1,636,515**	1,179,000
	1,636,515	1,179,000
Unitholders' capital *(Note 7)*	**24**	10
Total liabilities and Unitholders' capital	**1,660,593**	1,191,586

Commitments *(Note 8)*

See accompanying notes to the financial statements

Computershare Trust Company of Canada,
in its capacity as trustee of **Fair Hydro Trust**,
by **Ontario Power Generation Inc.**,
not in its individual capacity but solely as Manager

John Lee (signed)
Vice President – Treasurer
Ontario Power Generation Inc.

1. DESCRIPTION OF BUSINESS

Fair Hydro Trust (FHT or the Trust) is a special purpose trust established under the laws of the Province of Ontario (Province) by Computershare Trust Company of Canada, acting as Issuer Trustee, pursuant to the Declaration of Trust dated December 20, 2017, and was caused to be established by Ontario Power Generation Inc. (OPG). The Trust was established in connection with Ontario's Fair Hydro Plan (Fair Hydro Plan) aimed at reducing electricity bills for residential, farm, small businesses and other eligible consumers (Specified Consumers) in the province by refinancing a portion of the Global Adjustment costs over a longer period of time. The Global Adjustment includes the difference between Ontario's electricity market clearing price used to dispatch generation and the prices paid to contracted and regulated generators in the province, and the cost of conservation and demand management programs. On June 1, 2017, the *Ontario Fair Hydro Plan Act, 2017* (the Fair Hydro Act or the Act) received Royal Assent and the associated general regulation came into force in June 2017. The Act established a framework under which the costs and benefits associated with the Government of Ontario's clean energy initiatives are to be allocated between present and future consumers of electricity under the Fair Hydro Plan. The general regulation provides details on the structural, operational and financial elements required to implement the Fair Hydro Plan.

Pursuant to the Act, effective May 1, 2017, the Independent Electricity System Operator (IESO) began to defer the collection of a portion of the Global Adjustment costs. The Act allows the IESO to transfer a portion of the deferred balance to a financing entity that would fund the deferral in exchange for an irrevocable right to recover the balance and associated financing and other costs from Specified Consumers in the future (Investment Interest). The legislation appointed OPG as Financial Services Manager under the Act and conveyed upon it statutory obligations, including the creation of one or more financing entities that may acquire Investment Interests from the IESO. The Trust is a financing entity under the Act.

The Declaration of Trust established FHT to carry on activities for the exclusive benefit of its unitholders, FHP2017 Inc. (FHP2017), a wholly owned subsidiary of OPG, and the Indenture Trustee, BNY Trust Company of Canada (BNY), under the Master Trust Indenture (collectively, the Unitholders). The beneficial interest and rights generally of the Unitholders in the Trust are limited to the right to participate in distributions when and as declared by the Issuer Trustee and distributions upon the termination of the Trust. The legal ownership of the Trust's property and the right to conduct the activities of the Trust are vested exclusively in the Issuer Trustee and no Unitholder has any right of ownership in any of the Trust's property. The Unitholders will also not be subject to any liability arising out of the activities of the Trust.

In order for the Trust to finance the Investment Interest acquired from the IESO, it incurs senior debt from capital markets and subordinated debt from OPG. The Trust's investment attracts financing amounts and other related fees.

Concurrent with every issuance of the Trust's senior notes, it is expected that OPG will purchase subordinated debt of the Trust in an aggregate amount not to exceed 49 percent of the Trust's total outstanding debt, with funding for 44 percent of the total outstanding debt to be provided by the Province through equity injections in OPG and five percent to be provided by OPG. The subordination level may vary over time, but must at least equal to, or be greater than 35 percent of the Trust's total outstanding debt.

The Issuer Trustee, on behalf of the Trust, has entered into a Management Agreement with OPG, as manager, whereby all of the powers and duties of managing the Trust have been delegated to OPG. OPG is entitled to charge the Trust a management service fee, comprised of a base fee and a variable fee, and to recover costs and expenses incurred by OPG on behalf of the Trust or in relation to the establishment, management and administration of the Trust and its Investment Interest without margin. All fees to be charged by OPG as Financial Services Manager are subject to the provisions outlined in sections 10.1 to 10.15 of the general regulation of the Act and are subject to an annual review by the Ontario Energy Board (OEB). OPG's entitlement to fees is subject to the payment priorities set forth in the Master Trust Indenture.

The IESO is required under the general regulation to pay and remit to the Trust any amounts charged to the IESO by the Trust in respect of carrying costs incurred from June 1, 2017 to July 31, 2021. Carrying costs include all funding costs, such as interest on all notes outstanding, and other expenses of the Trust, other than repayment of debt principal. Commencing May 1, 2021, a charge in respect of the Clean Energy Adjustment will be included on invoices by local electricity distribution companies sent to Specified Consumers and will be collected and remitted to the Trust through the IESO. The three-month overlap in 2021 is intended to cover the billing and collection lag from the introduction of the Clean Energy Adjustment.

2. BASIS OF PRESENTATION

These interim financial statements for the three months ended March 31, 2018 have been prepared and presented in accordance with United States generally accepted accounting principles (US GAAP). These interim financial statements do not contain all of the disclosures required by US GAAP for annual financial statements. Accordingly, they should be read in conjunction with the Trust's annual financial statements as at and for the year ended December 31, 2017. All dollar amounts are presented in Canadian dollars.

The Trust has evaluated subsequent events and transactions through June 28, 2018 and concluded that there were no events, other than those disclosed in Note 4, that require disclosure in the notes to these interim financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Use of management estimates

The preparation of the Trust's financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. On an ongoing basis, management reviews these estimates. Changes in facts and circumstances may result in revised estimates and actual results could differ materially from those estimates.

Deferred bond issuance fees

The Trust capitalizes the costs of obtaining long-term debt financing and records them as a reduction to the carrying amount of the debt liability. This amount is amortized over the life of the related debt on an effective interest basis and included in interest expense.

FHT's significant accounting policies are outlined in Note 3 to the audited 2017 annual financial statements.

New accounting standards effective in 2018

<u>Revenue from contracts with customers</u>

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes nearly all existing revenue recognition guidance, including industry-specific guidance, under US GAAP. Effective January 1, 2018, the Trust adopted Topic 606 to recognize its revenues, utilizing the modified retrospective approach to complete the transition. No material differences in the timing or amount of revenue recognition have been identified as a result of the adoption of the new standard. The Trust's accounting policy regarding revenue recognition following the adoption of the new standard is outlined below.

Revenue recognition

Revenue is recognized as earned when the related expense is incurred or accrued. Collection of carrying costs from the IESO up to July 31, 2021 is considered to be reasonably assured, as the IESO is required by the general regulation of the Act to pay the carrying costs of the Trust up to this date.

The Trust is considered the principal for cost recovery revenues related to Trust-incurred third party costs, while it is considered an agent acting on behalf of OPG for cost recovery revenues related to OPG's fees as Financial Services Manager. Accordingly, the Trust reports cost recovery revenues related to Trust-incurred third party costs on a gross basis, as the performance obligation of securing financing for the Investment Interest is satisfied. The Trust satisfies this performance obligation as it incurs the third party costs required to facilitate the financing and thereby recognizes the related cost recovery revenue utilizing the input method. This methodology reflects the nature of the underlying performance obligation, wherein revenue recovery is dependent on costs incurred. The cost recovery revenues related to Trust-incurred third party costs are measured at the consideration the Trust is entitled to receive for recovery of these costs. No portion of the performance obligation remains unsatisfied at the end of the applicable reporting period.

Revenues related to management services fees payable to OPG, including OPG-incurred third party costs and direct costs of OPG employees exclusively dedicated to the activities of the Trust, are reported net of the related costs.

All cost recovery revenues are charged without margin and the Trust receives the corresponding pre-funding from the IESO on a monthly basis. The timing of the pre-funding impacts the Trust's contract balances of unbilled cost recovery revenue from IESO.

Unbilled cost recovery revenue from IESO

Unbilled cost recovery revenue from IESO represents current assets related to revenue that the Trust will invoice the IESO in subsequent months for OPG-incurred costs and Trust-incurred expenses that have not been pre-funded by the IESO. Unbilled cost recovery revenue is recorded in the period in which it is earned and measured at the amount the Trust is entitled to receive from the IESO.

Restricted cash disclosures

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is effective for the Trust's 2018 fiscal year, including interim periods, and is applied retrospectively. The changes in disclosures under this update are reflected in the interim statements of cash flows.

(thousands of dollars unless otherwise stated)

4. LONG-TERM DEBT, FINANCING RECEIVABLES, AND DEFERRED ISSUANCE FEES

Long-term debt and financing receivables

Long-term debt consists of the following:

As at	March 31 2018	December 31 2017
Long-term notes		
Senior secured notes	**500,000**	-
Subordinated secured notes	**382,353**	-
Junior subordinated secured notes	**98,040**	-
Warehouse facilities		
Senior secured notes	**335,890**	601,290
Subordinated secured notes	**256,857**	459,810
Junior subordinated secured notes	**65,860**	117,900
	1,639,000	1,179,000
Less: bond issuance fees	**(2,485)**	-
Long-term debt	**1,636,515**	1,179,000

On February 9, 2018, the Trust issued 15-year notes due on May 15, 2033 as set out below, with interest payable semi-annually on May 15 and November 15 of each calendar year. The proceeds were used to repay the majority of the corresponding outstanding balances of the warehouse facilities as at December 31, 2017:

- $500,000 of senior notes payable with a coupon interest rate of 3.36 percent and an effective interest rate of 3.44 percent. Following the repayment, the senior warehouse facility had $101,290 outstanding;

- $382,353 of subordinated notes payable with a coupon interest rate of 3.64 percent and an effective interest rate of 3.68 percent. Following the repayment, the subordinated warehouse facility had $77,457 outstanding; and

- $98,040 of junior subordinated notes payable with a coupon interest rate of 3.96 percent and an effective interest rate of 4.01 percent. Following the repayment, the junior subordinated warehouse facility had $19,860 outstanding.

In March 2018, the Trust purchased an Investment Interest from the IESO in the amount of $460,000, which has been classified as a financing receivable on the interim balance sheets. Fifty-one percent of the funding requirement or $234,600 was financed by the Trust through the senior warehouse facility, 39 percent totalling $179,400 through the subordinated warehouse facility, and the remaining ten percent totalling $46,000 through the junior subordinated warehouse facility.

The outstanding balances of the warehouse facilities have been classified as long-term debt as at March 31, 2018 reflecting the contractual terms of the warehouse facilities.

Subsequent events

On April 20, 2018, the Trust purchased an Investment Interest from the IESO in the amount of $149,000. Fifty-one percent of the funding requirement or $75,990 was financed by the Trust through the senior warehouse facility, 39 percent totalling $58,110 through the subordinated warehouse facility, and the remaining ten percent totalling $14,900 through the junior subordinated warehouse facility.

On April 24, 2018, the Trust issued 20-year notes due on May 15, 2038 as set out below, with interest payable semi-annually on May 15 and November 15 of each calendar year. The proceeds were used to repay the majority of the outstanding balances in the warehouse facilities as at April 20, 2018:

- $400,000 of senior notes payable with a coupon interest rate of 3.52 percent and an effective interest rate of 3.60 percent. Following the repayment, the senior warehouse facility had $11,880 outstanding;

- $305,882 of subordinated notes payable with a coupon interest rate of 3.83 percent and an effective interest rate of 3.88 percent. Following the repayment, the subordinated warehouse facility had $9,085 outstanding; and

- $78,431 of junior subordinated notes payable with a coupon interest rate of 4.21 percent and an effective interest rate of 4.27 percent. Following the repayment, the junior subordinated warehouse facility had $2,329 outstanding.

Deferred issuance fees

As at March 31, 2018, total deferred bond issuance fees of $2,485 (December 31, 2017 – nil) were recognized as a reduction to the carrying amount of the long-term debt. During the three months ended March 31, 2018, bond issuance fees of $15 (three months ended March 31, 2017 – nil) were amortized.

During the three months ended March 31, 2018, deferred issuance fees related to the warehouse facilities of $197 were amortized and included as interest expense for the period (three months ended March 31, 2017 – nil).

(thousands of dollars unless otherwise stated)

5. PAYABLE TO OPG

The payable to OPG balance represents a current liability related to OPG's general fees as Financial Services Manager, which is comprised of the following as at March 31, 2018:

- General fee for 2017 of $5,734, consisting of $3,100 plus recovery of all third-party and certain direct costs incurred by OPG between June 1, 2017 and December 31, 2017 on behalf of the Trust, which totalled $2,634. The recoverable costs are inclusive of direct costs of four OPG employees who were dedicated exclusively to the Trust during 2017; and

- General fee for the three months ended March 31, 2018 of $719, representing accrued base and variable management fees as well as recovery of direct costs of OPG employees who were dedicated exclusively to the Trust during the period.

OPG has submitted its total 2017 general fee of $5,734 to the OEB for review in February 2018 and the application is in progress. The Trust has recognized recovery from the IESO of OPG's general fees for 2017 and the first quarter of 2018 as unbilled cost recovery revenue from IESO in these interim financial statements.

6. FAIR VALUE MEASUREMENT

The fair values of FHT's financial instruments as at March 31, 2018 and December 31, 2017 are as follows:

	Fair Value	Carrying Value [1]	Balance Sheet Line Item
As at March 31, 2018			
Financing receivables	**1,654,939**	**1,639,008**	Financing receivables
Long-term debt	**(1,654,939)**	**(1,636,515)**	Long-term debt
As at December 31, 2017			
Financing receivables	1,179,000	1,179,000	Financing receivables
Long-term debt	(1,179,000)	(1,179,000)	Long-term debt

[1] The carrying values of other financial instruments including restricted cash, unbilled cost recovery revenue from IESO, accounts payable and accrued charges, payable to OPG, interest payable, and advances from IESO approximate their fair value due to the immediate or short-term maturity of these financial instruments.

Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate.

(thousands of dollars unless otherwise stated)

The fair value of the senior, subordinated and junior subordinated debt including the balances outstanding in the warehouse facilities are based on indicative pricing from the market. The fair value of these debt instruments is based on Level 2 inputs.

For the financing receivables related to the Investment Interests acquired from the IESO, fair value is based on projected cash flows and expected returns on the financing receivables. Therefore, the fair value of the financing receivables is based on Level 3 inputs.

7. UNITHOLDERS' CAPITAL

FHP2017 holds one million units representing 99.9999 percent and BNY holds 1 unit or 0.0001 percent of the Trust. Unitholders' capital as at March 31, 2018 and 2017 are as follows:

	FHP2017	BNY [1]	Total
Unitholders' capital – December 31, 2017	10	-	10
Net income for the period	**14**	**-**	**14**
Unitholders' capital – March 31, 2018	**24**	**-**	**24**
Unitholders' capital – December 31, 2016	-	-	-
Net income for the period	-	-	-
Unitholders' capital – March 31, 2017	-	-	-

[1] BNY's capital is less than one dollar.

8. COMMITMENTS

Credit facilities

Note 4 to the audited 2017 financial statements outlines the details of the two-year warehouse facilities expiring in December 2019 that were established to fund periodic Investment Interest acquisitions from the IESO. The cost of borrowing under the senior warehouse facility is comprised of several components including a commercial paper rate for funding through a securitization conduit, a Canadian dollar offered rate for funding through bank facilities, a margin or program fee, as well as a commitment or utilization fee.

9. ECONOMIC DEPENDENCE

FHT is dependent upon OPG to provide financial management and ongoing administration services pursuant to the Management Agreement between the Trust and OPG.

FHT is dependent upon the IESO to pay and remit carrying costs to the Trust from June 1, 2017 to July 31, 2021 and to remit Clean Energy Adjustment collections from Specified Consumers to the Trust commencing on May 1, 2021.