

Financial Statements

**Fair Hydro Trust**  
December 31, 2019



# INDEPENDENT AUDITOR'S REPORT

To the Unitholders of the **Fair Hydro Trust**

## Opinion

We have audited the financial statements of the **Fair Hydro Trust** (the Trust), which comprise the balance sheets as at December 31, 2019 and 2018, and the statements of income and comprehensive income, and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with United States generally accepted accounting principles.

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with United States generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Toronto, Canada  
April 20, 2020

/s/ Ernst & Young LLP  
Chartered Professional Accountants  
Licensed Public Accountants

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**FAIR HYDRO TRUST**

**STATEMENTS OF INCOME AND  
COMPREHENSIVE INCOME**

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**Years Ended December 31**

*(thousands of dollars)*

**2019**

**2018**

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**Revenues**

Interest income <i>(Note 8)</i>	<b>65,407</b>	60,770
Cost recovery revenue <i>(Note 8)</i>	<b>419</b>	1,230
Other income	<b>300</b>	188
	<b>66,126</b>	62,188

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**Expenses**

Interest expense <i>(Note 4 and Note 8)</i>	<b>65,407</b>	60,770
Operations, maintenance and administration	<b>419</b>	1,230
	<b>65,826</b>	62,000

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<b>Net income and comprehensive income</b>	<b>300</b>	188
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*See accompanying notes to the financial statements*

**FAIR HYDRO TRUST**

**STATEMENTS OF CASH FLOWS**

<b>Years Ended December 31</b> <i>(thousands of dollars)</i>	<b>2019</b>	<b>2018</b>
<b>OPERATING ACTIVITIES</b>		
Net income	300	188
Amortization of deferred issuance fees <i>(Note 4)</i>	1,115	1,006
Decrease in unbilled cost recovery revenue	1,931	4,669
Decrease in accounts payable and accrued charges	(26)	(2,805)
Decrease in payable to OPG	(2,024)	(3,710)
Increase in interest receivable	(8,223)	-
(Decrease) Increase in interest payable	(87)	7,452
(Decrease) increase in advances from related parties	(9,017)	9,881
<b>Cash (used in) provided by operating activities</b>	<b>(16,031)</b>	<b>16,681</b>
<b>INVESTING ACTIVITIES</b>		
Receipt of financing receivables <i>(Note 4)</i>	23,294	-
Acquisition of financing receivables <i>(Note 4)</i>	-	(609,000)
<b>Cash provided by (used in) investing activities</b>	<b>23,294</b>	<b>(609,000)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of long-term debt to third parties <i>(Note 4)</i>	-	1,205,890
Issuance of long-term debt to OPG <i>(Note 4)</i>	-	1,163,116
Repayment of warehouse facilities issued to third parties <i>(Note 4)</i>	(11,880)	(900,000)
Repayment of warehouse facilities issued to OPG <i>(Note 4)</i>	(11,414)	(864,706)
<b>Cash (used in) provided by financing activities</b>	<b>(23,294)</b>	<b>604,300</b>
<b>Net (decrease) increase in restricted cash</b>	<b>(16,031)</b>	<b>11,981</b>
Restricted cash, beginning of the year	16,391	4,410
<b>Restricted cash, end of the year</b>	<b>360</b>	<b>16,391</b>

*See accompanying notes to the financial statements*

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**FAIR HYDRO TRUST****BALANCE SHEETS**

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<b>As at December 31</b> <i>(thousands of dollars)</i>	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
<b>Current</b>		
Restricted cash (Note 3)	<b>360</b>	16,391
Interest receivable (Note 4 and Note 8)	<b>8,223</b>	-
Unbilled cost recovery revenue (Note 8)	-	1,931
	<b>8,583</b>	18,322
<b>Non-current</b>		
Financing receivables (Note 8)	<b>1,764,706</b>	1,788,000
Deferred issuance fees (Note 4)	-	776
	<b>1,764,706</b>	1,788,776
<b>Total assets</b>	<b>1,773,289</b>	1,807,098

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*See accompanying notes to the financial statements*

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**FAIR HYDRO TRUST****BALANCE SHEETS**

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**As at December 31***(thousands of dollars)*

	<b>2019</b>	<b>2018</b>
<b>LIABILITIES AND UNITHOLDERS' CAPITAL</b>		
<b>Current</b>		
Accounts payable and accrued charges	-	26
Payable to OPG <i>(Note 5 and Note 8)</i>	-	2,024
Interest payable <i>(Note 4)</i>	<b>8,223</b>	8,310
Advances from related parties <i>(Note 8)</i>	<b>4,017</b>	13,034
	<b>12,240</b>	23,394
<b>Non-current</b>		
Long-term debt <i>(Note 4)</i>	<b>1,760,551</b>	1,783,506
<b>Unitholders' capital</b> <i>(Note 7)</i>	<b>498</b>	198
<b>Total liabilities and Unitholders' capital</b>	<b>1,773,289</b>	1,807,098

*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

**Alec Cheng (signed)**

Vice President – Treasurer

Ontario Power Generation Inc.

**NOTES TO THE FINANCIAL STATEMENTS**

*For the years ended December 31, 2019 and December 31, 2018  
(thousands of dollars unless otherwise stated)*

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**1. DESCRIPTION OF BUSINESS**

Fair Hydro Trust (the Trust) is a special purpose trust established under the laws of the Province of Ontario (the 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 as the financing entity contemplated by the *Ontario Fair Hydro Plan Act, 2017* (the Act), with the objective of deferring and refinancing a portion of the Global Adjustment costs charged to eligible consumers (Specified Consumers) 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. The Act received Royal Assent on June 1, 2017 and the associated General Regulation came into force in June 2017. The General Regulation provided details on the structural, operational and financial elements required to implement the Act.

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 allowed 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 the Trust to carry on activities for the exclusive benefit of its unitholders including FHP2017 Inc. (FHP2017), a wholly owned subsidiary of OPG, and the Indenture Trustee BNY Trust Company of Canada (BNY) (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 are not 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 in 2017 and 2018, it incurred senior debt from capital markets and subordinated debt from OPG. The Trust's investment attracted financing amounts and other related fees.

**NOTES TO THE FINANCIAL STATEMENTS**

*For the years ended December 31, 2019 and December 31, 2018  
(thousands of dollars unless otherwise stated)*

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The Issuer Trustee, on behalf of the Trust, 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 was 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 charged by OPG as Financial Services Manager were subject to the provisions outlined in sections 10.1 to 10.15 of the General Regulation of the Act and were subject to an annual review by the Ontario Energy Board (OEB). OPG's entitlement to fees was subject to the payment priorities set forth in the Master Trust Indenture.

The IESO was 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 by the Trust from June 1, 2017 to July 31, 2021. Carrying costs included all funding costs, such as interest on all notes outstanding, and other expenses of the Trust, other than repayment of debt principal.

Effective November 1, 2019, under the Government of Ontario's *Fixing the Hydro Mess Act, 2019* (being the Act as so amended, referred to as the Fair Hydro Act), the Trust is prohibited from incurring further funding obligations and the Province is responsible for paying existing funding obligations of the Trust, including principal repayments. OPG continues as Financial Services Manager but is responsible for paying the operating costs of the Trust. The IESO no longer provides for the administration or servicing of the Investment Interest on behalf of the Trust effective November 1, 2019. The General Regulation made under the Act was revoked effective November 1, 2019.

**2. BASIS OF PRESENTATION**

These financial statements have been prepared and presented in accordance with United States generally accepted accounting principles (US GAAP) and are presented in Canadian dollars.

The Trust has evaluated subsequent events and transactions through April 20, 2020 and has appropriately reflected events that require disclosure in the notes to these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

*For the years ended December 31, 2019 and December 31, 2018  
(thousands of dollars unless otherwise stated)*

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**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.

**Restricted cash**

Restricted cash represents restricted cash on deposit that is subject to contractual restrictions. Pursuant to the Master Trust Indenture, all of the Trust's bank accounts are under the exclusive control of BNY and have been established in its name. All amounts on deposit are restricted in purpose and the distribution of use is subject to the order of priority outlined in the Master Trust Indenture.

**Financing receivables**

Prior to November 1, 2019, financing receivables consisted of the current and irrevocable right to collect payments from Specified Consumers in accordance with the Act and associated General Regulation. Effective November 1, 2019, financing receivables are collectible from the Province in the future in accordance with the Fair Hydro Act. Financing receivables amounts are initially measured at the transaction price and subsequently measured on an amortized cost basis. The basis of amortization follows the effective interest method. Financing receivables were financed through the issuance of long-term notes and warehouse facilities by the Trust.

**Financial assets and financial liabilities**

Financial assets and financial liabilities are measured at amortized cost. Financial instrument transactions are recorded at fair value on the transaction date.

**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.

**Deferred issuance fees**

The Trust capitalizes the costs of obtaining short-term warehouse credit facilities and records the costs as a separate deferred asset regardless of whether the credit facility has an outstanding balance. The deferred asset is amortized on a straight-line basis over the term of the related credit facility and is included in interest expense.

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**Fair Hydro Trust****NOTES TO THE FINANCIAL STATEMENTS**

*For the years ended December 31, 2019 and December 31, 2018  
(thousands of dollars unless otherwise stated)*

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**Advances from related parties**

Advances from related parties represent a current liability for the amount of pre-funding received from the IESO in accordance with the Act and associated General Regulation, related to expected carrying costs calculated under an accrual basis of accounting. The pre-funding of carrying costs was required as the Trust is virtually debt funded and had no cash at inception to settle its liabilities. The balance of the liability is reduced when the corresponding expense is incurred or accrued by the Trust.

**Interest income**

Interest income represents the amount of accretion of the financing receivables balance calculated on a tranche-by-tranche basis using the effective cost of each underlying debt issuance.

**Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly arm's-length transaction between market participants at the measurement date. Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model.

**Income taxes**

Under the terms of the Trust, all taxable income is payable to the Unitholders so that the Trust does not have any liability for income tax. As such, no provision for income taxes is recorded in these financial statements.

**Revenue from contracts with customers***Revenue recognition*

Cost recovery revenue is recognized as earned when the related expense is incurred or accrued. All cost recovery revenues were charged without margin and have been collected by the Trust.

The Trust is considered the principal for any cost recovery revenues related to Trust-incurred third party costs, while it is considered an agent acting on behalf of OPG for any 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.

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## Fair Hydro Trust

### NOTES TO THE FINANCIAL STATEMENTS

*For the years ended December 31, 2019 and December 31, 2018  
(thousands of dollars unless otherwise stated)*

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No portion of the performance obligation remains unsatisfied at the end of the applicable reporting period.

Revenues related to any management service fees payable to OPG, including for 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.

Under the Fair Hydro Act, while OPG is required to continue as Financial Services Manager of the Trust, OPG is no longer entitled to receive compensation as the Financial Services Manager and is responsible for operating costs of the Trust, other than principal and interest on debt and certain taxes.

#### *Unbilled cost recovery revenue*

Unbilled cost recovery revenue represents current assets related to revenue that the Trust invoiced the IESO in subsequent months for OPG-incurred costs and Trust-incurred expenses related to fiscal year 2018 that had not been pre-funded. 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.

### **Recent Accounting Pronouncements**

#### Fair Value Measurement

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement* (Topic 820): *Disclosure Framework – Changes to Disclosure Requirements for Fair Value Measurement*, to continue to improve the effectiveness of disclosures in financial statements for users. Under the new guidance prescribed in this update, entities must disclose additional information regarding Level 3 fair value measurements held at the end of the reporting period. This amendment also clarified existing guidance around measurement uncertainty and investments in entities that calculate net asset value (NAV). This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Additional disclosures stemming from this update will be applied prospectively. The Trust is assessing its current fair value measurement disclosures to determine the impact from the changes in this update.

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**Fair Hydro Trust****NOTES TO THE FINANCIAL STATEMENTS**

*For the years ended December 31, 2019 and December 31, 2018  
(thousands of dollars unless otherwise stated)*

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

Long-term debt consists of the following as at December 31:

	<b>2019</b>	<b>2018</b>
Long-term notes		
Senior secured notes		
3.44% due 2033	<b>500,000</b>	500,000
3.60% due 2038	<b>400,000</b>	400,000
Subordinated secured notes		
3.68% due 2033	<b>382,353</b>	382,353
3.88% due 2038	<b>305,882</b>	305,882
Junior subordinated secured notes		
4.01% due 2033	<b>98,040</b>	98,040
4.27% due 2038	<b>78,431</b>	78,431
Warehouse facilities <sup>1</sup>		
Senior secured notes		
2.74% due 2021	-	11,880
Subordinated secured notes		
2.84% due 2021	-	9,085
Junior subordinated secured notes		
2.84% due 2021	-	2,329
	<b>1,764,706</b>	1,788,000
Less: unamortized bond issuance fees	<b>(4,155)</b>	(4,494)
<b>Long-term debt</b>	<b>1,760,551</b>	1,783,506

<sup>1</sup> The interest rate disclosed reflects the weighted average interest rate during the year ended December 31 2018.

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## Fair Hydro Trust

### NOTES TO THE FINANCIAL STATEMENTS

*For the years ended December 31, 2019 and December 31, 2018  
(thousands of dollars unless otherwise stated)*

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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:

- \$500,000 of senior notes payable with a coupon interest rate of 3.36 per cent and an effective interest rate of 3.44 per cent;
- \$382,353 of subordinated notes payable with a coupon interest rate of 3.64 per cent and an effective interest rate of 3.68 per cent; and
- \$98,040 of junior subordinated notes payable with a coupon interest rate of 3.96 per cent and an effective interest rate of 4.01 per cent.

On March 22, 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 balance sheets. Fifty-one per cent of the funding requirement totaling \$234,600 was financed by the Trust through the senior warehouse facility, 39 per cent totaling \$179,400 through the subordinated warehouse facility, and the remaining ten per cent totaling \$46,000 through the junior subordinated warehouse facility.

On April 20, 2018, the Trust purchased an Investment Interest from the IESO in the amount of \$149,000, which has been classified as a financing receivable on the balance sheets. Fifty-one per cent of the funding requirement totaling \$75,990 was financed by the Trust through the senior warehouse facility, 39 per cent totaling \$58,110 through the subordinated warehouse facility, and the remaining ten per cent totaling \$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:

- \$400,000 of senior notes payable with a coupon interest rate of 3.52 per cent and an effective interest rate of 3.60 per cent;
- \$305,882 of subordinated notes payable with a coupon interest rate of 3.83 per cent and an effective interest rate of 3.88 per cent; and
- \$78,431 of junior subordinated notes payable with a coupon interest rate of 4.21 per cent and an effective interest rate of 4.27 per cent.

The proceeds from the February 9, 2018 and April 24, 2018 issuances were used to repay the majority of the outstanding balances under the warehouse facilities.

In October 2018, the capacity of the warehouse facilities was decreased to \$23,294 as a result of the Province's September 2018 announcement of its intention to make future proposed legislative changes to cancel the Global Adjustment refinancing component under the Act.

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**Fair Hydro Trust****NOTES TO THE FINANCIAL STATEMENTS**

*For the years ended December 31, 2019 and December 31, 2018  
(thousands of dollars unless otherwise stated)*

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On December 16, 2019, the Trust repaid the entire balance of \$23,294 of secured notes owing under the warehouse facilities. The funding for this amount was received from the Province and was recognized as a decrease in financing receivables.

Under the Fair Hydro Act, the Province is responsible for expenses of the Trust arising under existing funding obligations, such as principal and interest on debt and certain taxes.

Substantially all of the net book value of the assets of the Fair Hydro Trust is pledged in favour of specified creditors of the Trust, including the senior debtholders and OPG in its capacity as subordinated debtholder of the Trust.

The remaining undiscounted contractual maturities, including principal and interest, of long-term debt are as follows as at December 31, 2019:

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	<b>Principal</b>	<b>Interest</b>
2020	-	63,683
2021	-	63,683
2022	-	63,683
2023	-	63,683
2024	-	63,683
Thereafter	1,764,706	686,871

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During the year ended December 31, 2019, deferred bond issuance fees of \$339 and deferred issuance fees related to the warehouse facilities of \$776 were amortized to interest expense (December 31, 2018 – \$206 and \$800, respectively).

**5. PAYABLE TO OPG**

The payable to OPG balance as at December 31, 2018 included a current liability related to OPG's general fees as Financial Services Manager, which are comprised of 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's general fee for 2018 in the amount of \$1,918 was approved by the OEB in May 2019 and paid to OPG in June 2019.

Under the Fair Hydro Act, OPG is no longer entitled to receive compensation as the Financial Services Manager and is responsible for expenses of the Trust, other than those arising under existing funding obligations such as principal and interest on debt and certain taxes.

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**Fair Hydro Trust****NOTES TO THE FINANCIAL STATEMENTS**

*For the years ended December 31, 2019 and December 31, 2018  
(thousands of dollars unless otherwise stated)*

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**6. FAIR VALUE MEASUREMENT**

The fair values of the Trust's financial instruments as at December 31 are as follows:

	<b>Fair Value</b>	<b>Carrying Value <sup>1</sup></b>	<b>Balance Sheet Line Item</b>
<b>2019</b>			
Financing receivables	<b>1,930,692</b>	<b>1,764,706</b>	Financing receivables
Long-term debt	<b>(1,930,692)</b>	<b>(1,760,551)</b>	Long-term debt
<b>2018</b>			
Financing receivables	1,868,406	1,788,000	Financing receivables
Long-term debt	(1,854,619)	(1,783,506)	Long-term debt

<sup>1</sup> The carrying values of other financial instruments including restricted cash, unbilled cost recovery revenue, accounts payable and accrued charges, payable to OPG, interest payable, and advances from related parties 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.

The fair value of the senior, subordinated and junior subordinated debt including the balances outstanding under 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 receivable from the Province, 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.

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**Fair Hydro Trust****NOTES TO THE FINANCIAL STATEMENTS**

*For the years ended December 31, 2019 and December 31, 2018  
(thousands of dollars unless otherwise stated)*

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**7. UNITHOLDERS' CAPITAL**

FHP2017 holds one million units representing 99.9999 per cent and BNY holds one unit or 0.0001 per cent of the Trust. Unitholders' capital as at December 31 is as follows:

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	<b>FHP2017</b>	<b>BNY <sup>1</sup></b>	<b>Total</b>
Unitholders' capital – December 31, 2018	198	-	198
Net income for the year	<b>300</b>	-	<b>300</b>
Unitholders' capital – December 31, 2019	<b>498</b>	-	<b>498</b>
Unitholders' capital – December 31, 2017	10	-	10
Net income for the year	188	-	188
Unitholders' capital – December 31, 2018	198	-	198

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<sup>1</sup> BNY's capital is less than one dollar.

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**Fair Hydro Trust****NOTES TO THE FINANCIAL STATEMENTS**

*For the years ended December 31, 2019 and December 31, 2018  
(thousands of dollars unless otherwise stated)*

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**8. RELATED PARTY TRANSACTIONS**

The Trust's majority unitholder, FHP2017, is a wholly owned subsidiary of OPG. As the Province owns all of the shares of OPG, related parties of the Trust include the Province and entities controlled by the Province, including the IESO. The transactions between the Trust and related parties are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The related party transactions for the year ended December 31 are summarized below:

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	2019		2018	
	Revenue	Expense	Revenue	Expense
Province				
Interest income	8,403	-	-	-
IESO				
Interest income	57,004	-	60,770	-
Cost recovery revenue	419	-	1,230	-
OPG general fees <sup>1</sup>	540	-	3,497	-
OPG				
OPG general fees <sup>1</sup>	-	540	-	3,497
Subordinated and junior subordinated notes interest expense	-	33,120	-	29,003
	<b>66,366</b>	<b>33,660</b>	65,497	32,500

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<sup>1</sup> As specified in Note 3, the Trust is considered to be acting as an agent on behalf of OPG for any cost recovery revenues related to OPG's fees as Financial Services Manager and reports these revenues net of the related costs. Given that no margin is applied on any cost recoveries, any revenues receivable by the Trust to be remitted to OPG for its fees equal the Trust's expenses, which net to nil in the statements of income and comprehensive income.

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**Fair Hydro Trust****NOTES TO THE FINANCIAL STATEMENTS**

*For the years ended December 31, 2019 and December 31, 2018  
(thousands of dollars unless otherwise stated)*

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The balances between the Trust and its related parties as at December 31 are summarized below:

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	<b>2019</b>	<b>2018</b>
Unbilled cost recovery revenue		
IESO	-	1,931
Financing receivables		
Province	<b>1,764,706</b>	1,788,000
Interest receivable		
Province	<b>8,223</b>	-
Current liabilities		
Payable to OPG	-	2,024
Interest payable – OPG	<b>4,239</b>	4,283
Advances from related parties – IESO <sup>1</sup>	<b>4,017</b>	13,034
Long-term debt		
Subordinated notes payable to OPG	<b>688,235</b>	697,320
Junior subordinated notes payable to OPG	<b>176,471</b>	178,800

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<sup>1</sup> As of December 31, 2019, the balance relates primarily to unamortized amounts previously collected from the IESO to fund deferred issuance fees.

The Province has provided a limited guarantee to specified creditors of the Fair Hydro Trust. The limited guarantee would be triggered in the event that (1) the Trust's ability to receive amounts in respect of its Investment Interest to pay for certain funding obligations is adversely affected due to either of the following events: a) the Province changes the Act or any other legislation or regulation; or b) the Province undertakes a significant change in Ontario's electricity market; or (2) a court declares that the Act is invalid or unconstitutional.

**9. ECONOMIC DEPENDENCE**

The Trust is dependent upon OPG to provide financial management and ongoing administration services pursuant to the Management Agreement between the Trust and OPG. Effective November 1, 2019, the Trust is dependent upon the Province to pay and remit the Trust's carrying costs to the Trust.

**NOTES TO THE FINANCIAL STATEMENTS**

*For the years ended December 31, 2019 and December 31, 2018  
(thousands of dollars unless otherwise stated)*

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**10. SUBSEQUENT EVENTS**

Since December 31, 2019, the outbreak of a novel strain of coronavirus, identified as COVID-19, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing have caused material disruption to businesses globally resulting in an economic slowdown. Global equity, credit and related markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The full duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact, if any, on the financial results and condition of the Trust in future periods.