
FAIR HYDRO TRUST

Unaudited Interim Financial Statements

Fair Hydro Trust
September 30, 2019



FAIR HYDRO TRUST**INTERIM STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
(UNAUDITED)**

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
<i>(thousands of dollars)</i>	2019	2018	2019	2018
Revenues				
Interest income	16,381	17,703	48,966	44,247
Cost recovery revenue	-	44	419	1,122
Other income	61	54	218	105
	16,442	17,801	49,603	45,474
Expenses				
Interest expense <i>(Note 4)</i>	16,381	17,727	48,966	44,250
Operations, maintenance and administration	-	10	419	1,122
	16,381	17,737	49,385	45,372
Net income and comprehensive income	61	64	218	102

See accompanying notes to the unaudited financial statements

FAIR HYDRO TRUST

**INTERIM STATEMENTS OF CASH FLOWS
(UNAUDITED)**

Nine Months Ended September 30

(thousands of dollars)

	2019	2018
OPERATING ACTIVITIES		
Net income	218	102
Adjustment for non-cash items:		
Amortization of deferred issuance fees <i>(Note 4)</i>	851	730
Decrease in unbilled cost recovery revenue from IESO	1,931	4,981
Decrease in accounts payable and accrued charges	(26)	(2,783)
Decrease in payable to OPG	(2,024)	(3,554)
Increase in interest payable	15,745	23,436
(Decrease) Increase in advances from IESO	(986)	10,119
Cash provided by operating activities	15,709	33,031
INVESTING ACTIVITIES		
Acquisition of financing receivables	-	(609,000)
Cash used in investing activities	-	(609,000)
FINANCING ACTIVITIES		
Repayment of revolving warehouse debt issued to third parties	-	(900,000)
Repayment of revolving warehouse debt issued to OPG	-	(864,706)
Net issuance of long-term notes to third parties	-	1,205,890
Issuance of long-term notes to OPG	-	1,163,116
Cash provided by financing activities	-	604,300
Net increase in restricted cash during the period	15,709	28,331
Restricted cash, beginning of period	16,391	4,410
Restricted cash, end of period	32,100	32,741

See accompanying notes to the unaudited financial statements

FAIR HYDRO TRUST**INTERIM BALANCE SHEETS
(UNAUDITED)**

As at <i>(thousands of dollars)</i>	September 30 2019	December 31 2018
ASSETS		
Current		
Restricted cash	32,100	16,391
Unbilled cost recovery revenue from IESO	-	1,931
Deferred issuance fees <i>(Note 4)</i>	178	-
	32,278	18,322
Non-current		
Financing receivables <i>(Note 4)</i>	1,788,000	1,788,000
Deferred issuance fees <i>(Note 4)</i>	-	776
	1,788,000	1,788,776
Total assets	1,820,278	1,807,098

See accompanying notes to the unaudited financial statements

FAIR HYDRO TRUST**INTERIM BALANCE SHEETS
(UNAUDITED)**

As at <i>(thousands of dollars)</i>	September 30 2019	December 31 2018
LIABILITIES AND UNITHOLDERS' CAPITAL		
Current		
Accounts payable and accrued charges	-	26
Payable to OPG (Note 5)	-	2,024
Interest payable	24,055	8,310
Advances from IESO	12,048	13,034
	36,103	23,394
Non-current		
Long-term debt (Note 4)	1,783,759	1,783,506
	1,783,759	1,783,506
Unitholders' capital (Note 7)	416	198
Total liabilities and Unitholders' capital	1,820,278	1,807,098

Commitments (Note 8)

See accompanying notes to the unaudited 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 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

*For the three and nine months ended September 30, 2019
(thousands of dollars unless otherwise stated)*

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 (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* (Fair Hydro Act), which reduced 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. The Fair Hydro Act received Royal Assent on June 1, 2017 and the associated general regulation came into force in June 2017. The general regulation provides details on the structural, operational and financial elements required to implement the Fair Hydro Act.

Pursuant to the Fair Hydro 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 Fair Hydro 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 Fair Hydro 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 Fair Hydro Act.

The Declaration of Trust established FHT 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 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 incurred senior debt from capital markets and subordinated debt from OPG. The Trust's investment attracts financing amounts and other related fees.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

*For the three and nine months ended September 30, 2019
(thousands of dollars unless otherwise stated)*

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 Fair Hydro 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 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.

On May 9, 2019, the *Fixing the Hydro Mess Act, 2019* (Fixing the Hydro Mess Act) received Royal Assent, effective November 1, 2019. Under the legislation, the Province will be responsible for paying existing funding obligations administered by the Trust, while OPG will be responsible for paying the operating costs of the Trust. As there will be no new Global Adjustment refinancings, and the Province will be responsible for the existing funding obligations, including principal repayments, administered by the Trust, the Trust will be prohibited from issuing any new funding obligations. The IESO will no longer provide for the administration or servicing of the Investment Interest on behalf of the Trust effective November 1, 2019. Consistent with the Fixing the Hydro Mess Act, regulations were filed on September 13, 2019 which revoked the general regulations of the Fair Hydro Act effective November 1, 2019.

2. BASIS OF PRESENTATION

These unaudited interim financial statements (interim financial statements) for the three and nine month periods ended September 30, 2019 have been prepared and presented in accordance with United States generally accepted accounting principles (US GAAP) and are presented in Canadian dollars. 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, 2018 (the audited 2018 annual financial statements).

The Trust has evaluated subsequent events and transactions through December 23, 2019 and has appropriately reflected events that require disclosure in the notes to these interim financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

*For the three and nine months ended September 30, 2019
(thousands of dollars unless otherwise stated)*

3. SIGNIFICANT ACCOUNTING POLICIES

Use of management estimates

The preparation of the Trust's interim 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.

FHT's significant accounting policies are outlined in Note 3 to the audited 2018 annual financial statements.

Recent Accounting Pronouncements Not Yet Adopted

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 measurements to determine the impact from the changes in this update.

Fair Hydro Trust**NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

*For the three and nine months ended September 30, 2019
(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	September 30 2019	December 31 2018
Long-term notes		
Senior secured notes	900,000	900,000
Subordinated secured notes	688,235	688,235
Junior subordinated secured notes	176,471	176,471
Warehouse facilities		
Senior secured notes	11,880	11,880
Subordinated secured notes	9,085	9,085
Junior subordinated secured notes	2,329	2,329
	1,788,000	1,788,000
Less: unamortized bond issuance fees	(4,241)	(4,494)
Long-term debt	1,783,759	1,783,506

On December 16, 2019, the Trust repaid the entire balance of \$23,294 of secured notes owing under the warehouse facilities.

Financing receivables

As at September 30, 2019, the Trust held an Investment Interest from the IESO in the amount of \$1,788,000 (December 31, 2018 – \$1,788,000), which has been classified as a financing receivable on the interim balance sheets. This was financed through the long-term notes and warehouse facilities.

Deferred issuance fees

As at September 30, 2019, total deferred bond issuance fees of \$4,241 (December 31, 2018 – \$4,494) were recognized as a reduction to the carrying amount of the long-term debt. During the three and nine months ended September 30, 2019, bond issuance fees of \$86 and \$253, respectively, were amortized (three and nine months ended September 30, 2018 – \$93 and \$132 respectively).

Fair Hydro Trust**NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

*For the three and nine months ended September 30, 2019
(thousands of dollars unless otherwise stated)*

During the three and nine months ended September 30, 2019, deferred issuance fees related to the warehouse facilities of \$201 and \$598, respectively, were amortized and included as interest expense for the periods (three and nine months ended September 30, 2018 – \$201 and \$598 respectively).

5. PAYABLE TO OPG

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.

As part of the Fixing the Hydro Mess Act, OPG would continue as Financial Services Manager of the Trust. OPG would no longer be entitled to receive further compensation as the Financial Services Manager and would be responsible for expenses of the Trust, other than those arising under existing funding obligations such as principal and interest on debt and certain taxes.

6. FAIR VALUE MEASUREMENT

The fair values of FHT's financial instruments as at September 30, 2019 and December 31, 2018 are as follows:

	Fair Value	Carrying Value ¹	Balance Sheet Line Item
As at September 30, 2019			
Financing receivables	2,000,816	1,788,000	Financing receivables
Long-term debt	(1,989,962)	(1,788,000)	Long-term debt
As at December 31, 2018			
Financing receivables	1,868,406	1,788,000	Financing receivables
Long-term debt	(1,854,619)	(1,788,000)	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.

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.

Fair Hydro Trust**NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

*For the three and nine months ended September 30, 2019
(thousands of dollars unless otherwise stated)*

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 per cent and BNY holds one unit or 0.0001 per cent of the Trust. Unitholders' capital as at September 30 is as follows:

	FHT		
	FHP2017	BNY ¹	Total
Unitholders' capital – December 31, 2018	198	-	198
Net income for the period	218	-	218
Unitholders' capital – September 30, 2019	416	-	416
Unitholders' capital – December 31, 2017	10	-	10
Net income for the period	102	-	102
Unitholders' capital – September 30, 2018	112	-	112

¹ BNY's capital is less than one dollar.

8. COMMITMENTS**Credit facilities**

Note 4 to the audited 2018 annual financial statements outlines the details of the warehouse facilities that were established to fund periodic Investment Interest acquisitions from the IESO. On December 16, 2019, the Trust repaid the entire balance of \$23,294 and cancelled the secured notes under the warehouse facilities. 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. The subordinated and junior subordinated warehouse facilities have a 10 basis point spread over the senior warehouse facility.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

*For the three and nine months ended September 30, 2019
(thousands of dollars unless otherwise stated)*

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. Effective November 1, 2019 the IESO is no longer required to pay and remit carrying costs to the Trust or enforce the Clean Energy Adjustment on the invoices of Specified Consumers. The carrying costs will then be the responsibility of the Province, for funding obligations, and OPG, for Trust operating costs.