

Unaudited Interim Financial Statements

Fair Hydro Trust
September 30, 2023



FAIR HYDRO TRUST

**INTERIM STATEMENTS OF INCOME AND
COMPREHENSIVE INCOME
(UNAUDITED)**

	Three Months Ended September 30		Nine Months Ended September 30	
<i>(thousands of dollars)</i>	2023	2022	2023	2022
Revenues				
Interest income	16,020	16,016	47,919	47,908
Other income	5	2	73	5
	16,025	16,018	47,992	47,913
Expenses				
Interest expense	16,020	16,016	47,919	47,908
Net income and comprehensive income	5	2	73	5

See accompanying notes to the unaudited interim financial statements

FAIR HYDRO TRUST**INTERIM STATEMENTS OF CASH FLOWS
(UNAUDITED)**

For the Nine Months Ended September 30*(thousands of dollars)*

	2023	2022
OPERATING ACTIVITIES		
Net income	73	5
Amortization of deferred issuance fees <i>(Note 4)</i>	291	281
Increase in interest receivable	(15,786)	(15,786)
Increase in interest payable	15,786	15,786
Decrease in advances from related parties	(291)	(281)
Cash provided by operating activities	73	5
Net increase in restricted cash	73	5
Restricted cash, beginning of the period	388	361
Restricted cash, end of the period	461	366

See accompanying notes to the unaudited interim financial statements

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

As at <i>(thousands of dollars)</i>	September 30 2023	December 31 2022
ASSETS		
Current		
Restricted cash	461	388
Interest receivable	24,068	8,282
	24,529	8,670
Non-current		
Financing receivables <i>(Note 4)</i>	1,764,706	1,764,706
Total assets	1,789,235	1,773,376
LIABILITIES AND UNITHOLDERS' CAPITAL		
Current		
Interest payable	24,068	8,282
Advances from related parties	2,630	2,921
	26,698	11,203
Non-current		
Long-term debt <i>(Note 4)</i>	1,761,938	1,761,647
Unitholders' capital <i>(Note 6)</i>	599	526
Total liabilities and Unitholders' capital	1,789,235	1,773,376

See accompanying notes to the unaudited interim 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

Arthur Kwok (signed)
Vice President and Treasurer
Ontario Power Generation Inc.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

*For the three and nine months ended September 30, 2023 and 2022
(thousands of dollars unless otherwise stated)*

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 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

*For the three and nine months ended September 30, 2023 and 2022
(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, composed 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. 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. The Trust and the Province entered into a Funding Agreement effective December 1, 2019 that establishes the process and schedule for payments from the Province to the Trust to fund interest and principal on the Trust's obligations to its debtholders.

2. BASIS OF PRESENTATION

These unaudited interim financial statements 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 audited annual financial statements as at and for the year ended December 31, 2022 (the 2022 annual financial statements).

The Trust has evaluated subsequent events and transactions through November 13, 2023 and has appropriately reflected events that require disclosure in the notes to these interim financial statements.

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

*For the three and nine months ended September 30, 2023 and 2022
(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.

The Trust's significant accounting policies are outlined in Note 3 to the 2022 annual financial statements.

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

Long-term debt consists of the following:

As at	September 30 2023	December 31 2022
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
	1,764,706	1,764,706
Less: unamortized bond issuance fees	(2,768)	(3,059)
Long-term debt	1,761,938	1,761,647

During the three and nine months ended September 30, 2023, deferred bond issuance fees of \$99 and \$291, respectively, were amortized to interest expense (three and nine months ended September 30, 2022 - \$96 and \$281, respectively).

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.

As at September 30, 2023 and December 31, 2022, financing receivables represent balances collectible from the Province in the future in accordance with the Fair Hydro Act.

The Trust's subordinated secured notes and junior subordinated secured notes are payable to OPG.

Fair Hydro Trust

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2023 and 2022
(thousands of dollars unless otherwise stated)

5. FAIR VALUE MEASUREMENT

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

	Fair Value	Carrying Value ¹	Balance Sheet Line Item
As at September 30, 2023			
Financing receivables	1,516,349	1,764,706	Financing receivables
Long-term debt	(1,516,349)	(1,761,938)	Long-term debt
As at December 31, 2022			
Financing receivables	1,600,379	1,764,706	Financing receivables
Long-term debt	(1,600,379)	(1,761,647)	Long-term debt

¹ The carrying values of other financial instruments including restricted cash, interest receivable, 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 is based on indicative pricing from the market. The fair value of the financing receivables is based on the fair value of the debt. The fair value of these instruments is based on Level 2 inputs.

6. 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 is as follows:

	FHP2017	BNY ¹	Total
Unitholders' capital – December 31, 2022	526	-	526
Net income for the period	73	-	73
Unitholders' capital – September 30, 2023	599	-	599
Unitholders' capital – December 31, 2021	499	-	499
Net income for the period	5	-	5
Unitholders' capital – September 30, 2022	504	-	504

¹ BNY's capital is less than one dollar.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

*For the three and nine months ended September 30, 2023 and 2022
(thousands of dollars unless otherwise stated)*

7. 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. OPG is responsible for the Trust's operating costs. The Trust is dependent upon the Province, pursuant to the Funding Agreement, to fund the Trust's interest and principal obligations to its debtholders.