ONTARIO ELECTRICITY FINANCIAL CORPORATION

Financial Statements
for the year ended March 31, 2019

Financial Statements

Responsibility for Financial Reporting

The accompanying financial statements of OEFC have been prepared in accordance with Canadian public sector accounting standards and are management's responsibility. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to August 9, 2019.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. The Ontario Internal Audit Division of the Treasury Board Secretariat independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board.

The Board is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee assists the Board in carrying out these responsibilities. The Audit Committee periodically meets with management, the internal auditors and the external auditors to deal with issues raised by them, and to review the financial statements before recommending Board approval.

The financial statements have been audited by the Auditor General of Ontario (the external auditor). The Auditor's responsibility is to express an opinion on whether OEFC's financial statements fairly present OEFC's financial position in accordance with Canadian public sector accounting standards. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of management:

Gadi Mayman
Vice-Chair and Chief Executive Officer

Ken Kandeepan
Chief Financial and Risk Officer

Auditor's Report

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Ontario Electricity Financial Corporation

Opinion

I have audited the financial statements of the Ontario Electricity Financial Corporation (OEFC), which comprise the statement of financial position as at March 31, 2019, and the statements of operations and change in unfunded liability, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the OEFC as at March 31, 2019, and the results of its operations, its change in unfunded liability, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and my auditor's report thereon, in OEFC's 2019 Annual Report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, 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 OEFC's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless OEFC either intends to cease operations, or has no realistic alternative but to do so.

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

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Auditor's Responsibility for the Audit of the Financial Statements

My 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 my 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 OEFC'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 OEFC's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the OEFC 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.

I 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 I identify during my audit.

Toronto, Ontario
August 9, 2019

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

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Ontario Electricity Financial Corporation

Statement of Financial Position

As at March 31, 2019 ($ millions)

	2019	2018
ASSETS		
Cash	$ 3	$ 3
Investments	4,597	4,068
Accounts receivable (Note 4)	40	163
Interest receivable	50	26
Due from Province of Ontario (Note 5)	2,916	3,426
Notes and loans receivable (Note 6)	10,303	10,607
	$ 17,909	$ 18,293
LIABILITIES		
Accounts payable and accrued liabilities (Note 7)	$ 24	$ 24
Interest payable	369	371
Debt (Note 8)	18,798	19,112
Power purchase contracts (Note 10)	63	104
	19,254	19,611
NET DEBT	(1,345)	(1,318)
NON-FINANCIAL ASSETS		
Deferred costs on hedging	29	35
UNFUNDED LIABILITY (Notes 1, 3, 12)	$ (1,316)	$ (1,283)
Contingencies (Note 13)		

Approved on behalf of the Board:

Greg Orencsak
Chair

Gadi Mayman
Vice-Chair and Chief Executive Officer

See accompanying notes to financial statements.

Ontario Electricity Financial Corporation

Statement of Operations and Change in Unfunded Liability

For the year ended March 31, 2019 ($ millions)

	2019	2018
REVENUE		
Debt retirement charge (Notes 1, 12)	$ 15	$ 593
Payments-in-lieu of tax and provincial corporate taxes (Notes 1, 12)	435	494
Interest (Note 6)	632	642
Power supply contract recoveries (Note 10)	173	185
Net reduction of power purchase contracts (Note 10)	41	74
Electricity sector dedicated income (Notes 5, 12)		815
Financial benefit from the Province related to the disposition of Hydro One and Hydro One Brampton Shares (Notes 5, 12)		531
Other	5	5
	$ 1,301	$ 3,339
EXPENSE		
Interest on debt	$ 1,058	$ 1,112
Power supply contract costs (Note 10)	173	191
Debt guarantee fee	96	102
Operating	7	7
Industrial electricity incentive program costs (Note 11)		8
	1,334	1,420
(Deficiency) excess of revenue over expense	(33)	1,919
Unfunded liability, beginning of year	(1,283)	(3,202)
Unfunded liability, end of year	$ (1,316)	$ (1,283)

See accompanying notes to financial statements.

Ontario Electricity Financial Corporation
Statement of Cash Flows

For the year ended March 31, 2019 ($ millions)

	2019	2018
CASH FLOWS USED IN OPERATING ACTIVITIES		
(Deficiency) excess of revenue over expense	$ (33)	$ 1,919
Adjustments for:		
Decrease in accounts receivable (Note 4)	123	127
Increase in interest receivable	(24)	–
Decrease in due from province of Ontario (Note 5)	510	151
Decrease in accounts payable and accrued liabilities (Note 7)	–	(69)
Decrease in interest payable	(2)	(1)
Net increase in debt from revaluation	6	24
Net reduction of power purchase contracts (Note 10)	(41)	(74)
Decrease (increase) in deferred costs on hedging	6	(8)
Other items	(3)	5
Cash provided from operations	$ 542	$ 2,074
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchase of investments	(529)	(1,512)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt issued	$ 400	$ 800
Long-term debt retired	(715)	(2,119)
Short-term debt issued, net	1	1
Note receivable repayment, net	301	756
Cash required by financing activities	(13)	(562)
Decrease in cash	–	–
Cash, beginning of year	3	3
Cash, end of year	$ 3	$ 3

See accompanying notes to financial statements.

Notes to Financial Statements

1) Nature of Operations

Effective April 1, 1999, pursuant to the *Electricity Act, 1998* (the Act), Ontario Hydro was continued as a corporation without share capital under the name "Ontario Electricity Financial Corporation" (OEFC or Corporation). The Corporation is one of five entities established by the Act as part of the restructuring of the former Ontario Hydro. It is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

OEFC is a Crown agency whose mandate includes:

- managing the debt and administering the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities and managing the former Ontario Hydro's non-utility generator (NUG) contracts;
- providing financial assistance to the successor corporations of Ontario Hydro; and
- entering into financial and other agreements relating to the supply and demand management of electricity in Ontario.

These other successor entities are:

- Ontario Power Generation Inc. (OPG), an electricity generation company;
- Hydro One Inc. (now a subsidiary of Hydro One Ltd.; or Hydro One), a regulated electricity transmission and distribution company;
- Independent Electricity System Operator (IESO), the regulated, system operator responsible for directing system operations, operating the electricity market, planning for and securing resources to meet medium and long-term energy needs, and coordinating conservation efforts; and
- Electrical Safety Authority (ESA), which performs a regulatory function related to electrical inspections.

On April 1, 1999, the Ministry of Finance determined that the estimated value of the assets being transferred to the new entities was $17.2 billion, which was exceeded by the former Ontario Hydro's total debt and other liabilities of $38.1 billion. OPG, Hydro One (and their subsidiaries) and the IESO were transferred assets valued at $8.5 billion, $8.6 billion and $78 million respectively in exchange for debt payable to OEFC. The resulting shortfall of $20.9 billion was determined by the Ministry of Finance to be "stranded debt." After adjusting for $1.5 billion in loans and other assets retained by OEFC, $19.4 billion was the unfunded liability reflected on the OEFC opening balance sheet.

To allow OEFC to service and retire $38.1 billion in total debt including the $20.9 billion in stranded debt, the Province established a long-term plan where debt service and repayment would be through dedicated revenues from electricity-sector companies. This would be broken down for the electricity sector as follows:

- Notes receivable from the Province, OPG, Hydro One and IESO;

- Payments in lieu of taxes (PILs), which are equivalent to the corporate income, property and capital taxes paid by private corporations;
- Debt retirement charge (DRC) paid by electricity consumers; and
- The cumulative combined profits of OPG and Hydro One (proportionate to the Province's ownership share) in excess of the government's annual interest cost of its investments in the two companies.

As of April 1, 1999, the present value of the future PILs and the cumulative combined profits of OPG and Hydro One in excess of the government's $520 million annual interest cost of its investments in the two companies to be dedicated to OEFC was estimated at $13.1 billion. As a result, subtracting the $13.1 billion from the stranded debt of $20.9 billion resulted in an initial estimate of $7.8 billion, for the residual stranded debt.

Previously, the Act provided for the DRC to be paid by electricity consumers until the residual stranded debt was retired. The Act was amended in 2015 and all reference to the "stranded debt" and "residual stranded debt" were removed including the removal of the requirement to determine the residual stranded debt from time-to-time. The DRC was eliminated for residential consumers as of January 1, 2016 and for all other electricity consumers as of April 1, 2018.

2) Summary of Significant Accounting Policies

(a) Basis of Accounting

As OEFC is a government organization, these financial statements are prepared in accordance with Canadian public sector accounting standards.

(b) Net Debt Presentation

A statement of changes in net debt is not presented since this information is readily apparent. A comparison between budget and actual has been excluded due to the unique nature of OEFC's revenues and expenses over which the agency has minimal control. OEFC is a passive recipient of revenues that it receives on the basis of either legislation (e.g., DRC, GRC, PILs, recovery of NUG contractual costs) or allocated by the Province at its discretion (ESDI).

(c) Measurement Uncertainty

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurement uncertainty in these financial statements exists in the valuation of the power purchase contracts, payments-in-lieu of tax revenue, payments-in-lieu of tax receivable and tax refundable, and allowance for doubtful accounts. Estimates are based on the best information available at the time of preparation of the financial statements.

(d) Investments

Investments primarily consist of term deposits held with the Province recorded at cost and mature within one year.

(e) Revenue Recognition

The main sources of revenue are:

- **Debt retirement charge (DRC)** from electricity consumers is recognized in the period earned based on the consumption of electricity.
- **Payments-in-lieu of taxes (PILs) and provincial corporate taxes** are recognized in the period that they are earned from OPG, Hydro One and municipal electric utilities. Also included under PILs are Gross Revenue Charge amounts and amounts allocated by the Province to OEFC equal to the provincial corporate income taxes payable by Hydro One Inc.
- **Interest income** is recognized in the period it is earned on notes receivable from the Province, OPG, IESO, and NUGs.
- **Power supply contract recoveries** are recognized as recovered at the same amount as the costs incurred on the Power supply contracts.
- **Electricity sector dedicated income** is allocated at the discretion of the Province of Ontario, using the cumulative combined net income of OPG and Hydro One Limited (related to the Province's ownership share) in excess of the Province's interest costs of its investment.
- **Provincial allocation related to the sale of Hydro One and Hydro One Brampton** is recognized in accordance with section 50.3 of the *Electricity Act, 1998* where OEFC receives a benefit as a result of the sales of Hydro One shares and Hydro One Brampton shares.

(f) Financial Instruments

The corporation's financial assets and liabilities are accounted for as follows:

- Cash and investments are subject to an insignificant risk of change in value so carrying value approximates fair value.

- Accounts Receivable, Due from Province and Notes and Loans Receivable are recorded at cost. Valuation allowances are made to reflect loan receivable at the lower of amortized cost and net realizable value, when collectability and risk of loss exists. Change in valuation is recognized in the statement of operations and unfunded liability.

- Debt is composed of short, medium and long-term bonds, notes and debentures. Debt denominated in foreign currencies that has been hedged is recorded at the Canadian dollar equivalent using the rates of exchange established by the terms of the hedge agreements. Other foreign currency debt, liabilities and assets are translated to Canadian dollars at year-end rates of exchange and, in accordance with Canadian public sector accounting standards, any exchange gains or losses are deferred and amortized over the remaining term to maturity.

- Discounts, premiums and commissions arising from the issuance of debt or the acquisition of debt prior to maturity are deferred and amortized to operations over the life of the underlying debt. Unamortized debt issue costs are included in total debt.

- Derivatives are financial contracts the value of which is derived from underlying instruments. OEFC uses derivatives for the purpose of hedging and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which OEFC agrees with another party to exchange cash flows based upon one or more notional amounts during a specified period. Other derivative instruments used by OEFC include forward foreign exchange contracts, forward rate agreements, futures and options. Derivatives are recognized at cost on the date on which derivatives are entered and are not subsequently re-measured at fair value at each reporting date.

(g) Debt guarantee fee

A fee equal to 0.5 per cent is payable to the Province annually based on the principal amount of notes, debentures and other indebtedness of the Corporation owed to the Province or guaranteed by the Province excluding adjustments to debt related to unrealized foreign exchange gains and unamortized debt issue costs.

(h) Deferred Costs on Hedging

Fees and other costs from debt related derivatives and gains and losses on sale of bonds used to hedge interest rates are deferred and amortized to operations over the life of the underlying debt. Unamortized amounts are classified under non-financial assets.

(i) Accounts payable and accrued Liabilities

Accounts payable relate to normal business transactions with third-party suppliers and are subject to standard commercial terms.

(j) Power Purchase Contracts

The liability for power purchase contracts was originally calculated by a net present value discounting of the estimated losses over the life of the contracts. Pursuant to legislation, OEFC began receiving actual contract prices for power from electricity consumers, effective January 1, 2005, and no longer incurs losses on these power purchase contracts. At that time, the decision was made to amortize the liability to revenue over the period when most existing electricity contracts expire with the liability fully eliminated in fiscal 2021–22.

3) Economic Dependence

OEFC is dependent on the Province to borrow funds to finance maturing debt and to cover any cash shortfalls in the Corporation, and on OPG repaying its outstanding notes receivable. It is also dependent on the government's long-term plan to defease the unfunded liability as described in Note 12.

4) Accounts Receivable

As at March 31 ($ millions)	**2019**	**2018**
Debt retirement charge	$ -	$ 75
Payments-in-lieu of tax	18	65
Power supply contract recoveries	18	18
Other receivables	4	5
Total	**$ 40**	**$ 163**

5) Due from the Province

As at March 31 ($ millions)	2019	2018
Electricity sector dedicated income	$ 2,871	$ 2,871
Financial benefit related to disposition of Hydro One shares	-	531
Amount equal to Hydro One Inc. provincial income tax	45	24
Total	**$ 2,916**	**$ 3,426**

In 1999, the Province put in place a policy commitment to allocate annually the combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries to OEFC. Under these arrangements, the Province recoups all financing costs associated with its investments in electricity subsidiaries on a cumulative basis before any of the combined net income is allocated to and recognized by OEFC.

For the year ended March 31, 2019, for the purposes of Electricity Sector Dedicated Income, the Province's combined net income of OPG and Hydro One Limited was $304 million (2018 – $1,272 million). After deducting the Province's $404 million interest cost of its investment in these subsidiaries (2018 – $457 million), there was a deficiency of $100 million. Therefore, no dedicated income has been allocated to OEFC for the year (2018 – $815 million).

Section 50.3 of the *Electricity Act, 1998* governs the payments to be made to the Corporation in respect of the disposition of any securities of Hydro One and Hydro One Brampton. For fiscal 2018–19, OEFC recognized $nil from the Province under section 50.3 of the Act (2018 – $531 million).

In addition, section 91.2 of the Act requires the Province to pay to the Corporation an amount equal to the amount of tax payable under the *Taxation Act, 2007* by Hydro One Inc. (or subsidiaries). For fiscal 2018–19, OEFC has recognized $21.4 million under section 91.2 of the Act (2018 – $23.7 million).

6) Notes and Loans Receivable

($ millions)					
	Maturity Date	**Interest Rate**	**Interest Payable**	**March 31, 2019**	**March 31, 2018**
The Province	2039–2041	5.85	Monthly	$ 6,902	$ 6,902
OPG	2019–2048	2.96 to 5.64	Semi-Annually	3,260	3,520
IESO	2020	Variable/1.77	Monthly/ Semi-Annually	120	120
				10,282	10,542
Add: Loans receivable from NUGs				27	71
Allowance for doubtful accounts				(6)	(6)
Net loans receivable from NUGs				21	65
Total				**$ 10,303**	**$ 10,607**

OEFC agreed with OPG and the IESO not to sell notes owing from these successor entities without their prior approval.

OEFC's interest income for 2019 of $632 million (2018 – $642 million) included interest from notes receivable of $559 million (2018 – $614 million) and $73 million (2018 – $28 million) from other sources including temporary investments.

The Province

As previously noted above, at the time of restructuring the former Ontario Hydro, the Province received equity of $8.9 billion in OPG and Hydro One in exchange for assuming debt payable to OEFC. During fiscal 2018–19, the Province did not make any payments to reduce the principal notes outstanding (2018 – $861 million).

OPG

OEFC agreed to provide OPG financing in the form of 10-year and 30-year notes on commercial terms and conditions.

The OEFC agreed to provide a $700 million credit facility for the period January 1, 2017 to December 31, 2017. In September 2017, the agreement was amended to increase the credit facility to $2,350 million and extend the expiry date to December 31, 2018. $1,400 million had been advanced under this credit facility. Subsequent to the year-end, in July 2019 OEFC agreed to provide OPG an $800 million credit facility for the period January 1, 2019 to December 31, 2021.

Set out below is a summary by year of maturity of OPG's debt to OEFC ($ millions):

Fiscal Year	Amount
2019–20	505
2020–21	420
2021–22	185
2022–23	130
2023–24	20
2026–27	50
2040–41	150
2041–42	350
2046–47	250
2047–48	1,200
Total	**$ 3,260**

IESO

In April 2017, OEFC refinanced a note receivable with the IESO, originally maturing on April 30, 2017 for an additional term to June 30, 2020. The refinancing increased the principal outstanding from $90 million to $120 million.

In April 2017, OEFC also extended the expiry date of its revolving credit facility to the IESO to June 30, 2020, and increased the credit facility from $95 million to $160 million. The credit facility bears interest at a floating rate equal to the Province's cost of borrowing for a 30 day term plus 50 basis points. The facility will be used for liquidity purposes and to temporarily fund working capital requirements. At March 31, 2019, IESO had not drawn any funds from this credit facility.

NUGs

Loans receivable from NUGs at March 31, 2019 totalled $21 million, net of an allowance for doubtful accounts of $6 million (2018 – $65 million).

7) Accounts Payable and Accrued Liabilities

As at March 31 ($ millions)	2019	2018
Power supply contract costs	$ 19	$ 18
Payments-in-lieu of tax refundable	2	3
Other liabilities	3	3
Total	**$ 24**	**$ 24**

8) Debt

Debt at March 31, 2019, is set out below by maturity and by currency of repayment, expressed in Canadian dollars.

Currency ($ millions)	Canadian Dollars	2019 Total	2018 Total
Maturing in:			
1 year	$ 2,040	$ 2,040	$ 1,376
2 years	1,361	1,361	1,384
3 years	1,804	1,804	1,361
4 years	1,396	1,396	1,804
5 years	2,827	2,827	1,396
1–5 years	9,428	9,428	7,321
6–10 years	4,808	4,808	7,559
11–15 years	850	850	929
16–20 years	1,273	1,273	1,260
21–25 years	582	582	382
26–50 years	1,951	1,951	1,732
	$ 18,892	**$ 18,892**	**$ 19,183**
Debt issue costs		**(94)**	**(71)**
Total		**$ 18,798**	**$ 19,112**

The effective rate of interest on the debt portfolio was 5.55 per cent after considering the effect of derivative instruments used to manage interest rate risk (2018 – 5.50 per cent). The longest term to maturity is to June 2, 2049. There was no foreign currency denominated debt issued at March 31, 2019 (2018 – $0.2 billion, 96 per cent of which was hedged to Canadian funds). Bonds and notes payable are either held, or guaranteed as to principal and interest, by the Province as set out below:

	March 31, 2019			March 31, 2018		
($ millions)	**Held by the Province**	**Guaranteed by the Province**	**Total**	**Held by the Province**	**Guaranteed by the Province**	**Total**
Short-term debt	$ 656	–	$ 656	$ 655	–	$ 655
Current portion of long-term debt	900	484	1,384	721	–	721
Long-term debt	10,932	5,826	16,758	11,426	6,310	17,736
Total	**$ 12,488**	**$ 6,310**	**$ 18,798**	**$ 12,802**	**$ 6,310**	**$ 19,112**

Fair value of debt issued approximates amounts at which debt instruments could be exchanged in a current transaction between willing parties. In valuing OEFC's debt, fair value is estimated using discounted cash flows and other valuation techniques and is compared to public market quotations where available. These estimates are affected by the assumptions made concerning discount rates and the amount and timing of future cash flows.

The estimated fair value of OEFC debt at March 31, 2019, was \$21.8 billion (2018 – \$22.2 billion). This is higher than the book value of \$18.8 billion (2018 – \$19.1 billion) because current interest rates are generally lower than the interest rates at which the debt was issued. The fair value of debt does not reflect the effect of related derivative contracts.

9) Risk Management and Derivative Financial Instruments

OEFC operates within strict risk exposure limits to ensure exposure to risk is managed in a prudent and cost-effective manner. A variety of strategies are used including the use of derivative financial instruments ("derivatives"). Derivatives are financial contracts, the value of which is derived from underlying instruments. OEFC uses derivatives for the purpose of hedging and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which OEFC agrees with another party to exchange cash flows based upon one or more notional amounts during a specified period. This allows OEFC to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by OEFC include forward foreign exchange contracts, forward rate agreements, futures and options.

Foreign exchange/currency risk

Foreign exchange or currency risk is the risk foreign currency debt principal and interest payments and foreign currency transactions will vary in Canadian dollar terms due to fluctuations in foreign exchange rates. To manage currency risk, derivative contracts are used to convert foreign currency cash flows into Canadian dollar denominated cash flows. The current policy allows unhedged foreign currency debt principal, net of foreign currency holding, to reach a maximum of 3.0 per cent of total debt. At March 31, 2019, OEFC did not hold any debt issued in foreign currencies (2018 – \$239 million). As a result, the actual unhedged level was 0.0 per cent of total debt (2018 – 0.1 per cent).

Net Interest Rate Resetting Risk

Net interest rate resetting risk is the exposure to changes in interest rates. Exposure to rate changes is reduced by entering into derivative contracts that convert floating interest payments to fixed interest payments. The current policy allows unhedged floating rate debt and fixed rate debt maturing within the next 12 months, net of liquid reserves, to reach a maximum of 35.0 per cent of total debt.

At March 31, 2019, net interest rate resetting risk as a percentage of total debt was minus 15.7 per cent (2018 – minus 17.0 per cent). To minimize interest rate risk, loans to OPG continue to be funded by borrowings on similar terms to maturity, regardless of OEFC's liquid reserve position. The net interest rate resetting risk is negative due to cash and investment balances exceeding the amount of debt over the next twelve months that is exposed to changes in interest rates.

Liquidity Risk

Liquidity risk is the risk OEFC will not be able to meet its current short-term financial obligations. As explained in Note 3, OEFC is dependent on the Province to borrow funds to finance maturing debt and to cover any cash shortfalls in the Corporation, and on OPG repaying its outstanding notes receivable.

The table below presents a maturity schedule of OEFC's derivatives, by type, outstanding at March 31, 2019, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows.

Derivative Portfolio Notional Value

As at March 31, 2019 ($ millions)

Maturity in years Fiscal year	2020	2021	2022	2023	2024	6–10 Years	Over 10 Years	Total	March 2018
Cross-currency swaps	$	$ –	$ –	$ –	$ –	$ –	$ –	$	$ 203
Interest rate swaps	–	–	100	–	–	600	53	753	1,458
Forward foreign exchange contracts	–	–	–	–	–	–	–	–	203
Total	**$ –**	**$ –**	**$ 100**	**$ –**	**$ –**	**$ 600**	**$ 53**	**$ 753**	**$ 1,864**

Credit Risk

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which OEFC has an unrealized gain. The table below presents the credit risk associated with the derivative financial instrument portfolio, measured through the replacement value of derivative contracts, at March 31, 2019.

Credit Risk Exposure ($ millions)	**March 31, 2019**	**March 31, 2018**
Gross credit risk exposure	$ 2	$ 22
Less: Netting	(2)	(22)
Net credit risk exposure	**$ 0**	**$ 0**

OEFC manages its credit risk exposure from derivatives by, among other ways, dealing only with high credit quality counterparties and regularly monitoring compliance to credit limits. As at March 31, 2019, OEFC holds derivative positions exclusively with the Province of Ontario. OEFC has entered into contractual agreements that provide for termination netting and, if applicable, payment netting with the Province.

10) Power Supply Contracts

Power purchase contracts and related loan agreements were entered into by the former Ontario Hydro with NUGs located in Ontario. As the legal continuation of the former Ontario Hydro, OEFC is the counterparty to these contracts. The contracts, expiring on various dates to 2048, provide for the purchase of power at prices in excess of future market price. Accordingly, a liability was recorded at $4,286 million on a discounted cash-flow (DCF) basis when the former Ontario Hydro was continued as OEFC on April 1, 1999.

Under legislated reforms to the electricity market, OEFC began receiving actual contract prices for power from ratepayers effective January 1, 2005, and no longer incurs losses on these contracts going forward. At that time, the decision was made to amortize the liability to revenue over the period when most electricity contracts expire with the liability fully eliminated in fiscal 2021–22. The table below presents the unamortized liability.

Statement of Liability for Power Purchase Contracts
As at March 31, 2019 ($ millions)

	2019	**2018**
Liability, beginning of year	$ 104	$ 178
Amortization	(41)	(74)
Liability, end of year	**$ 63**	**$ 104**

During the year ended March 31, 2019, OEFC's costs under power supply contracts totalled $173 million (2018 – $191 million). In 2018, power supply contract costs exceeded power supply contract recoveries by $6 million due to the recognition of an allowance for doubtful accounts related to NUG loan receivables. All amounts are recoverable from the Global Adjustment via the IESO settlements process.

11) Industrial Electricity Incentive Program Costs

Consistent with its objects, OEFC supported the IESO's electricity demand management program, the Industrial Electricity Incentive (IEI) program.

The DRC ceased to be levied as of April 1, 2018. Accordingly, OEFC no longer provides offsetting payments to the IESO on IEI-eligible incremental electricity consumed after April 1, 2018.

12) Unfunded Liability

Pursuant to the Act and consistent with the principles of electricity restructuring, there is a long-term plan to defease the unfunded liability from funds from the electricity sector.

Prior to the Hydro One IPO, these funds included Notes Receivable, PILs, Gross Revenue Charges (GRC), DRC and ESDI.

Following the Hydro One IPO, these funds include Notes Receivable, PILs, GRC, Provincial Corporate Income Taxes allocated by the Province to OEFC from taxes payable by Hydro One Inc., DRC, ESDI (at the discretion of the Province) and a financial benefit from the proceeds of the IPO and subsequent share sales, including the sale of Hydro One Brampton shares, in accordance with section 50.3 of the *Electricity Act, 1998*.

As of April 1, 2018, DRC was removed for all electricity consumers.

13) Contingencies

OEFC may from time to time be involved in various legal actions arising out of the ordinary course and conduct of business. For some claims which relate to the former Ontario Hydro prior to the establishment of OEFC on April 1, 1999, OPG or Hydro One is required to indemnify OEFC for any liability arising from the claim. There are currently no such claims. For claims on which OEFC is provided no indemnification and where the outcome and ultimate disposition of these legal actions is not determinable at this time, the settlements, if any, will be reflected in the period in which settlement occurs.

14) Related Party Transactions

The Province of Ontario is a related party as it is the controlling entity of the OEFC. The Ontario Financing Authority (OFA), an agency of the Province responsible for borrowing and investing monies for the Province and other public bodies, provides day-to-day management services to OEFC on a cost-recovery basis of $4.1 million (2018 – $3.8 million). The Ministry of Finance (MOF) provides revenue collection and reporting services to OEFC on a cost-recovery basis of $2.0 million (2018 – $1.7 million).

In addition, related party transactions pertain to:

a) Province of Ontario Due from the Province and the note receivable disclosed in Notes 5 and 6;

b) Ontario Power Generation Inc. loan receivable and payments-in-lieu of tax and is disclosed in Notes 4 and 6;

c) Hydro One Inc. payments-in-lieu of tax and is disclosed in Note 7; and

d) Independent Electricity System Operator loan receivable and is disclosed in Note 6.

15) Sale of Hydro One Shares

In May 2017, the Province sold 120 million common shares of Hydro One Limited (Hydro One) at $23.25 per common share through a secondary offering. Subsequent to this sale, the Province owned approximately 49.9 per cent of the outstanding common shares of Hydro One.

In December 2017, First Nations in Ontario acquired 14.3 million common shares of Hydro One from the Province. Subsequent to this transaction, the Province owned approximately 47.4 per cent of the outstanding common shares of Hydro One.

The Province did not sell any common shares of Hydro One in 2018–19. The Province owned approximately 47.4 per cent of the outstanding common shares of Hydro One as at March 31, 2019.