

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Audited Financial Statements

For the year ended March 31, 2024

Financial Statements

Responsibility for Financial Reporting

The accompanying financial statements of the OEFC have been prepared in accordance with Canadian public sector accounting standards. 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, 2024.

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. An internal audit function 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 Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented 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



Muneeb Chaudhary
Chief Financial Officer



INDEPENDENT AUDITOR'S REPORT

To the Ontario Electricity Financial Corporation

Opinion

I have audited the financial statements of the Ontario Electricity Financial Corporation (the OEFC), which comprise the statement of financial position as at March 31, 2024, and the statements of operations and change in accumulated deficit, remeasurement gains and losses 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, 2024, and the results of its operations, its remeasurement gains and losses, 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 the OEFC's 2024 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.

I obtained the 2024 Annual Report prior to the date of this auditor's report. 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 in this auditor's report. 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 related to going concern and using the going concern basis of accounting unless the 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.

Auditor's Responsibilities 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, 2024

Shelley Spence, CPA, CA, LPA
Auditor General

ONTARIO ELECTRICITY FINANCIAL CORPORATION
Statement of Financial Position

As at March 31, 2024 (\$ millions)

	2024	2023 Restated (Note 14)
FINANCIAL ASSETS		
Cash	\$ 25	\$ -
Investments (Note 4)	21	762
Accounts receivable (Note 5)	243	277
Interest receivable	11	9
Derivatives (Note 10)	9	7
Due from Province of Ontario (Note 6)	36	35
Notes and loans receivable (Note 7)	8,925	9,480
	<u>\$ 9,270</u>	<u>\$ 10,570</u>
LIABILITIES		
Accounts payable and accrued liabilities (Note 8)	\$ 12	\$ 7
Derivatives (Note 10)	30	53
Interest payable	131	148
Debt (Note 9)	11,903	13,572
	<u>12,076</u>	<u>13,780</u>
NET DEBT	<u>(2,806)</u>	<u>(3,210)</u>
Accumulated deficit from operations	(2,785)	(3,164)
Accumulated rereasurement losses	(21)	(46)
ACCUMULATED DEFICIT (Note 3)	<u>\$ (2,806)</u>	<u>\$ (3,210)</u>

Contingencies (Note 11)

Approved on behalf of the Board:



Gadi Mayman
Vice-Chair and Chief Executive Officer



Maureen Buckley
Chair, Audit Committee

See accompanying notes to financial statements.

ONTARIO ELECTRICITY FINANCIAL CORPORATION
Statement of Operations and Change in Accumulated Deficit

For the year ended March 31, 2024 (\$ millions)

	2024	2023 Restated (Note 14)
REVENUE		
Payments-in-lieu of tax	\$ 529	\$ 674
Interest (Note 7)	506	511
Power supply contract recoveries	41	48
Provincial corporate income tax transfer (Note 6)	36	35
Other	8	8
	<u>\$ 1,120</u>	<u>\$ 1,276</u>
EXPENSE		
Interest on debt	\$ 626	\$ 692
Debt guarantee fee	68	75
Power supply contract costs	41	48
Operating	6	6
	<u>741</u>	<u>821</u>
Excess of revenue over expense	379	455
Accumulated deficit, beginning of year as previously reported	(3,164)	(3,599)
Opening adjustment, adoption of PS 3450 (Note 2(d)(ii))	-	(20)
Accumulated deficit, beginning of year restated	<u>(3,164)</u>	<u>(3,619)</u>
Accumulated deficit from operations, end of year	<u>\$ (2,785)</u>	<u>\$ (3,164)</u>

See accompanying notes to financial statements.

ONTARIO ELECTRICITY FINANCIAL CORPORATION
Statement of Remeasurement Gains and Losses

For the year ended March 31, 2024 (\$ millions)

	2024	2023
Accumulated remeasurement losses, beginning of year	\$ (46)	\$ -
Adjustment on adoption of PS 3450 Financial Instruments (Note 2(d)(ii))	-	(86)
Unrealized gains attributable to derivatives	25	40
Net remeasurement gains for the year	25	(46)
Accumulated remeasurement losses, end of year	\$ (21)	\$ (46)

See accompanying notes to financial statements.

ONTARIO ELECTRICITY FINANCIAL CORPORATION
Statement of Cash Flows

For the year ended March 31, 2024 (\$ millions)

	2024	2023 Restated (Note 14)
OPERATING TRANSACTIONS		
Excess of revenue over expense	\$ 379	\$ 455
Adjustments for:		
Decrease (increase) in accounts receivable	34	(44)
(Increase) decrease in interest receivable	(2)	3
Increase in due from Province of Ontario	(1)	(5)
Increase (decrease) in accounts payable and accrued liabilities	5	(1)
Decrease in interest payable (net of reclassification to debt)	(17)	(27)
Zero coupon debt interest	81	81
Real return bond CPI adjustment	29	56
Other items	(3)	2
Cash provided by operating transactions	<u>\$ 505</u>	<u>\$ 520</u>
INVESTING TRANSACTIONS		
Proceeds from investments	\$ 741	\$ 817
Cash provided by investing transactions	<u>\$ 741</u>	<u>\$ 817</u>
FINANCING TRANSACTIONS		
Long-term debt issued	\$ 1,531	\$ -
Long-term debt retired	(3,308)	(1,477)
Note receivable repayments	570	135
Note receivable advances	(15)	(20)
Short-term debt issued, net	1	6
Cash applied to financing transactions	<u>\$ (1,221)</u>	<u>\$ (1,356)</u>
Net increase (decrease) in cash	\$ 25	\$ (19)
Cash, beginning of year	-	19
Cash, end of year	<u>\$ 25</u>	<u>\$ -</u>

See accompanying notes to financial statements.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Notes to Financial Statements

For the year ended March 31, 2024

1) Nature of Operations

(a) Overview

Ontario Electricity Financial Corporation (OEFC or the Corporation) is the legal continuation of Ontario Hydro and one of five entities established by the *Electricity Act, 1998* (the Act) as part of the 1999 restructuring of Ontario Hydro. The Corporation is a Crown agency, and is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

OEFC is a Crown agency; its mandate includes:

- managing its debt and administering the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities;
- managing the former Ontario Hydro's contracts with non-utility generator (NUGs);
- 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.

The other Ontario Hydro successor entities are:

- Ontario Power Generation Inc. (OPG);
- Hydro One Inc. (now a subsidiary of Hydro One Limited; or Hydro One);
- Independent Electricity System Operator (IESO); and
- Electrical Safety Authority.

(b) Debt and Liability Management

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 OEFC's 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 whereby debt service and repayment would be through dedicated revenues from electricity-sector companies via:

- 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, eliminated as of April 1, 2018; and
- A policy commitment from the Province 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 as the Electricity Sector Dedicated Income (ESDI). Beginning in 2019-20, the Province changed the ESDI policy commitment to allocate annually, at its discretion, OPG's net income in excess of the interest cost of the Province's investment, to OEFC.

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 these two companies and dedicated to OEFC was estimated at \$13.1 billion. The \$13.1 billion was then applied to the stranded debt of \$20.9 billion which resulted in an initial estimate of \$7.8 billion for the residual stranded debt.

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

(c) Assets Located on Reserves

Following the restructuring of Ontario Hydro in 1999, the other successor entities acquired from OEFC certain assets and liabilities. These were pursuant to transfer orders made under the Act, in exchange for debt issued to OEFC. However, title to some of the assets located on Reserves (as defined in the *Indian Act* (Canada)), were not transferred and continue to be held by OEFC until Hydro One and/or OPG obtain the consents necessary to complete these title transfers.

Hydro One and OPG manage these assets and are required to indemnify OEFC in respect of any costs or liabilities relating to these assets. OEFC does not generate revenues nor incur expense from these assets.

These assets are not included in these financial statements.

2) Summary of Significant Accounting Policies

(a) Basis of Accounting

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS) for government reporting entities established by the Canadian Public Sector Accounting Board.

(b) Net Debt Presentation and Comparison with Budget

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 OEFC has minimal control. OEFC is a passive recipient of revenues that it receives on the basis of either legislation (e.g., Gross Revenue Charge, PILs and provincial corporate income tax transfer, and power supply contract recoveries) or allocation by the Province at its discretion (e.g., ESDI).

(c) Measurement Uncertainty

The preparation of financial statements in accordance with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Measurement uncertainty in these financial statements exists in payments-in-lieu of tax revenue, payments-in-lieu of tax receivable, fair value of derivative contracts and allowance for doubtful accounts. Estimates are based on the best information available at the time of preparation of the financial statements. Actual results could differ from these estimates.

(d) Adoption of New Accounting Standards

- (i) **PS 3400 – Revenue** became effective April 1, 2023 for the fiscal year 2023-24.

Effective April 1, 2023, the OEFC retroactively adopted the new PS 3400, Revenue. The implementation of the new standard had no material impact on the recognition or measurement of the OEFC's revenues. As such, the opening balance as at April 1, 2023 has not been restated.

- (ii) **PS 3450 – Financial Instruments, PS 2601 – Foreign Currency Translation and PS 1201 – Financial Statement Presentation** became effective April 1, 2022 for the fiscal year 2022-23.

OEFC adopted these new standards effective April 1, 2022 prospectively. An adjustment reducing accumulated deficit, beginning of year, of \$20 million was recorded on adoption of these standards.

As at April 1, 2022 (\$ millions)	
Accumulated deficit, beginning of year as previously reported (restated, see Note 14)	(3,599)
Deferred issue and hedging costs	(25)
Deferred foreign exchange gain on matured derivative	10
Valuation adjustment related to zero coupon bonds	(5)
Accumulated deficit, beginning of year (restated, see Note 14)	(3,619)

In accordance with the transitional provisions of PS 3450, OEFC recognized a derivative asset of \$5 million and a derivative liability of \$91 million related to the fair value of interest rate swap derivatives at April 1, 2022 with a corresponding unrealized loss of \$86 million on the statement of remeasurement gains and losses.

(e) Revenue Recognition

- **Payments-in-lieu of taxes (PILs)** comprises of payments-in-lieu of taxes relating to income tax, property tax, and gross revenue charges from OPG, Hydro One and municipal electric utilities. Under the Act, the OEFC is entitled to receive the amount of taxes that these entities would have been liable to pay under federal and/or provincial tax legislation. The OEFC receives tax instalments from these entities, which it recognizes as revenue during the fiscal year. Any difference in instalments and the tax assessment that results in an over- or underpayment of taxes will be accounted for as a change in estimate in the period it becomes known.
- **Interest income** pertains to notes receivable from the Province, OPG, IESO, and NUGs. OEFC recognizes interest income using the effective interest method.
- **Power supply contract recoveries** relate to electricity generated by NUGs under power purchase agreements (PPAs) that are sold to consumers through the wholesale electricity market in Ontario, which is administered by the IESO. OEFC has determined its performance obligation is to supply electricity to consumers. The performance obligation to supply energy is satisfied over time, with revenue recognized in the amount that the OEFC has a right to invoice on a monthly basis to the IESO. Under the Act, the OEFC is entitled to receive from IESO an amount that is equal to the contracted price of the electricity generated by NUGs under the PPAs.
- **Provincial corporate income tax transfer** is a government transfer without eligibility criteria or stipulations that is payable by the Ministry of Finance under section 91.2 of the Act. In each fiscal year, the OEFC recognizes the transfer as revenue in an amount equal to the provincial corporate income tax payable by Hydro One for the taxation year that ends in OEFC's fiscal year.
- **Electricity sector dedicated income (ESDI)** is a government transfer without eligibility criteria or stipulations that is payable at the sole discretion of the Province of Ontario. The amount of ESDI is calculated using the cumulative net income of OPG in excess of the Province's interest costs of its investment. The OEFC recognizes ESDI as revenue when the transfer is authorized by the Province. Given that payment of ESDI is at the sole discretion of the Province, the OEFC recognizes revenue as the transfer is received or when the Province decides to provide ESDI and the OEFC has an enforceable right to collect payment.

(f) Financial Instruments

Initial recognition and measurement

Financial instruments are classified at initial recognition as either (i) cost or amortized cost or (ii) fair value. In these financial statements, all financial instruments, other than derivatives are classified at cost or amortized cost. Derivatives are presented on a net basis as permitted by our agreement with our counterparty on the Statement of Financial Position as either financial assets or liabilities depending if the net balance is either in a receivable or liability position. Fair value is the amount of the consideration that would be agreed on in an arm's length transaction between knowledgeable willing parties, who are under no compulsion to act.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

(i) Financial Instruments at fair value

Financial instruments at fair value are remeasured at their fair value at the end of each reporting period. Any unrealized gains and losses are recognized in the Statement of Remeasurement Gains and Losses and are subsequently reclassified to the Statement of Operations and Change in Accumulated Deficit upon disposal or settlement.

The following hierarchy is used for determining and disclosing the fair value of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: valuation techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: valuation techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The fair value of financial instruments not traded in an active market is determined by appropriate valuation techniques, including forward pricing and swap models, using present value calculations. The models incorporate various inputs including forward interest rate curves.

(ii) Financial Instruments at cost or amortized cost

For financial assets and financial liabilities measured at amortized cost, interest is to be recorded using the effective interest rate (EIR) method. The EIR is the rate that discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, where appropriate, a shorter period.

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

- Cash and investments are recorded at cost. These items are subject to an insignificant risk of change in value so carrying value approximates fair value.
- Accounts receivable, Interest receivable, Due from Province of Ontario and Interest payable are recorded at cost.
- Notes and loans receivable are recorded at amortized cost. Valuation allowances are made to reflect notes and loans 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 Change in Accumulated Deficit.
- Accounts payable and accrued liabilities are recorded at cost and relate to normal business transactions with related parties and third-party suppliers and are subject to standard commercial terms.
- Other foreign currency assets and liabilities are translated to Canadian dollars at period-end rates of exchange.
- Debt is composed of short, medium and long-term bonds, notes and debentures and is recorded at amortized cost. Debt denominated in foreign currencies is recorded at the Canadian dollar equivalent using the rate of exchange on the date of reporting. Any exchange gains or losses are reported in the Statement of Remeasurement Gains and Losses.
- 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 using the effective interest rate method. 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 recorded on the statement of financial position as an asset or liability and are recognized at fair value on the date on which derivatives are entered and are subsequently re-measured at fair value at each reporting date. The unrealized gains or losses in the derivatives' fair value are recognized in the statement of remeasurement gains and losses.

(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.

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.

4) Investments

Investments primarily consist of term deposits held with the Province. At March 31, 2024, the interest rate on these investments was 5.02% (2023 – 4.50%) with a maturity date of April 1, 2024.

5) Accounts Receivable

As at March 31 (\$ millions)	2024	2023
Power supply contract recoveries	\$ 4	\$ 4
Payments-in-lieu of tax receivable	231	265
Other receivables	8	8
Total	\$ 243	\$ 277

Payments-in-lieu of taxes receivables includes an amount of \$225 million (2023 - \$263 million) due from Ontario Power Generation.

6) Due from Province of Ontario

As at March 31 (\$ millions)	2024	2023
Allocation of Hydro One Inc. provincial corporate income tax	\$ 36	\$ 35
Total	\$ 36	\$ 35

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 2023–24, OEFC recognized \$36 million under section 91.2 of the Act (2023 – \$35 million) and was included in provincial corporate income tax transfer on the Statement of Operations and Accumulated Deficit. During fiscal 2023-24, the Province made payments of \$35 million (2023 – \$30 million) to reduce the balance due.

7) Notes and Loans Receivable

As at March 31 (\$ millions)					
	Maturity Date	Interest Rate	Interest Payable	2024	2023
Province of Ontario	2039–2041	5.85	Monthly	\$ 6,804	\$ 6,804
OPG	2026–2048	3.04 to 5.40	Semi-Annually	2,100	2,520
IESO	2023	Variable/1.13	Monthly/ Semi-Annually	-	135
				8,904	9,459
Add: Loans receivable from NUGs				27	27
Allowance for doubtful accounts				(6)	(6)
Net loans receivable from NUGs				21	21
Total				\$ 8,925	\$ 9,480

OEFC's interest revenue of \$506 million (2023 – \$511 million) included interest from notes receivable of \$494 million (2023 – \$497 million) and \$12 million (2023 – \$14 million) from other sources including temporary investments.

The Province

As noted above, in 1999, the Province received equity of \$8.9 billion in OPG and Hydro One in exchange for assuming debt payable to OEFC. During fiscal 2023–24, the Province did not make any payments to reduce the principal notes outstanding (2023 – \$nil).

Ontario Power Generation (OPG)

OEFC provides OPG financing on commercial terms and conditions. In November 2021, OEFC agreed to provide OPG a \$750 million credit facility for the period January 1, 2022 to December 31, 2026. At March 31, 2024, no balance had been drawn on the credit facility. Set out below is a summary by year of maturity of OPG's debt to OEFC:

<u>Fiscal Year</u>	<u>Amount</u> <u>(\$ millions)</u>
2026–27	\$ 50
2039–40	100
2040–41	150
2041–42	350
2046–47	250
2047–48	1,200
Total	\$ 2,100

OEFC agreed with OPG to not sell notes owing without their prior approval.

Independent Electricity System Operator (IESO)

At March 31, 2023, OEFC held a note receivable from IESO of \$120 million maturing on June 30, 2023. The IESO repaid the note on maturity. The loan facility also expired on June 30, 2023 and was not renewed as the IESO entered into a new loan facility with the Ontario Financing Authority.

At March 31, 2023, IESO had drawn \$15 million on a \$160 million credit facility maturing on June 30, 2023. IESO repaid all balances on maturity. The credit facility was not renewed as the IESO entered into a new credit facility with the Ontario Financing Authority.

Non-Utility Generators (NUGs)

Loans receivable from NUGs at March 31, 2024 totalled \$21 million (2023 – \$21 million), net of an allowance for doubtful accounts of \$6 million (2023 – \$6 million).

8) Accounts Payable and Accrued Liabilities

As at March 31 (\$ millions)	2024	2023
Power supply contract costs	\$ 8	\$ 4
Other liabilities	4	3
Total	\$ 12	\$ 7

9) Debt

Debt is either held, or guaranteed as to principal and interest, by the Province as set out below:

As at March 31	2024			2023		
(\$ millions)	Held by the Province	Guaranteed by the Province	Total	Held by the Province	Guaranteed by the Province	Total
Short-term debt	\$ 661	–	\$ 661	\$ 660	–	\$ 660
Current portion of long-term debt	1,550	81	1,631	3,227	81	3,308
Long-term debt	6,747	2,864	9,611	6,740	2,864	9,604
Total	\$ 8,958	\$ 2,945	\$ 11,903	\$ 10,627	\$ 2,945	\$ 13,572

All debt issues were denominated in Canadian dollars. Debt maturity is set out below:

(\$ millions)	2024	2023
Maturing in:		
1 year	\$ 2,292	\$ 3,968
2 years	2,123	1,623
3 years	1,066	2,116
4 years	172	1,060
5 years	1,132	166
1–5 years	6,785	8,933
6–10 years	666	745
11–15 years	1,971	1,405
16–20 years	582	382
21–25 years	1,326	875
26–50 years	652	1,303
	\$ 11,982	\$ 13,643
Debt issue costs	(79)	(71)
Total	\$ 11,903	\$ 13,572

The effective rate of interest on the debt portfolio was 5.04 per cent after considering the effect of derivative instruments used to manage interest rate risk (2023 – 4.91 per cent). The longest term to maturity is December 2, 2050. There was no foreign currency denominated debt issued at March 31, 2024 (2023 – \$nil).

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, 2024 was \$11.9 billion (2023 – \$13.9 billion) compared to a book value of \$11.9 billion (2023 – \$13.6 billion). The fair value of debt does not reflect the effect of related derivative contracts.

10) 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.

Derivatives are recorded at fair value as at March 31, 2024 resulting in derivative assets of \$9 million and derivative liabilities of \$30 million on the Statement of Financial Position with net unrealized losses of \$21 million on the Statement of Remeasurement Gains and Losses (March 31, 2023 – derivative assets of \$7 million and derivative liabilities of \$53 million with net unrealized losses of \$46 million on the Statement of Remeasurement Gains and Losses). Fair values were determined using level 2 basis of valuation as defined in Note 2.

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, 2024, OEFC did not hold any debt issued in foreign currencies (2023 – \$nil). As a result, the actual unhedged level was 0.0 per cent of total debt (2023 – 0.0 per cent).

Interest Rate Resetting Risk

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, 2024, net interest rate resetting risk as a percentage of total debt was 21.4 per cent (2023 – 22.1 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 when cash and investment balances exceed the amount of debt over the next 12 months that is exposed to changes in interest rates.

If interest rates had been 100 basis points higher or lower and all other variables were held constant, OEFC's interest on debt for the year ended March 31, 2024 would increase/decrease by \$8 million (2023 - \$3 million) and have a \$19 million (2023 - \$25 million) impact to accumulated remeasurement gains (losses).

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 outstanding at March 31, 2024 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.

<u>Fiscal Year</u>	<u>Amount</u> <u>(\$ millions)</u>
2026-27	\$ 423
2027-28	177
2035-36	53
Total	\$ 653

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, 2024.

<u>Credit Risk Exposure (\$ millions)</u>	<u>2024</u>	<u>2023</u>
Gross credit risk exposure	\$ 9	\$ 7
Less: netting	(9)	(7)
Net credit risk exposure	\$ 0	\$ 0

OEFC manages its credit risk exposure from derivatives by dealing only with high credit quality counterparties and regularly monitoring compliance to credit limits. As at March 31, 2024, 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.

11) Contingencies

OEFC may from time to time be involved in 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. 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.

12) Related Party Transactions

The Province of Ontario is a related party as it is the controlling entity of OEFC. The Ontario Financing Authority provides day-to-day management services to OEFC on a cost-recovery basis of \$4.1 million (2023 – \$4.1 million). The Ministry of Finance provides revenue collection and reporting services to OEFC on a cost-recovery basis of \$1.7 million (2023 – \$1.6 million).

In addition, related party transactions pertain to:

- a) Province of Ontario – Amounts payable by the Province (Due from Province) under section 91.2 of the Act (provincial corporate income tax transfer) is disclosed in Note 6. Note receivable from the Province is disclosed in Note 7. Debt held and guaranteed by the Province is disclosed in Note 9;
- b) Ontario Power Generation Inc. – Payments-in-lieu of tax of \$493 million (2023 – \$631 million) is included in PILs on the Statement of Operations and Change in Accumulated Deficit. Amounts due from OPG relating to PILs is disclosed in Notes 5. Loan receivable from OPG is disclosed in Note 7;
- c) Hydro One Inc. payments-in-lieu of property tax of \$2 million (2023 – \$2 million) is included in PILs on the Statement of Operations and Change in Accumulated Deficit; and
- d) Independent Electricity System Operator loan receivable is disclosed in Note 7.

13) Comparative Figures

Certain comparative figures have been reclassified to conform to the basis of the financial statement presentation adopted in the current year.

14) Prior Period Correction

In prior years, OEFC had recognized ESDI as an amount allocated at the discretion of the Province of Ontario. It was determined that the authority to proceed with the transfer had not been exercised. As such, the comparative figures have been restated to remove previously reported ESDI revenue of \$200 million and related Due from Province balances amounting to \$4,332 million and to restate accumulated surplus (deficit). This prior year restatement has the following impact:

(\$ millions)	March 31, 2023 Previously Stated	Correction	March 31, 2023 Restated
Impact to Statement of Financial Position			
Due from the Province of Ontario	\$ 4,367	\$ (4,332)	\$ 35
Net financial assets (debt)	1,122	(4,332)	(3,210)
Accumulated surplus (deficit)	1,122	(4,332)	(3,210)
Impact to Statement of Operations and Change in Accumulated Surplus (Deficit)			
Electricity sector dedicated income	\$ 200	\$ (200)	\$ -
Excess of revenue over expense	655	(200)	455
Accumulated surplus (deficit), beginning of the year as previously reported	533	(4,132)	(3,599)
Accumulated surplus (deficit), beginning of the year restated	513	(4,132)	(3,619)
Accumulated surplus (deficit) from operations, end of year	1,168	(4,332)	(3,164)