

ONTARIO ELECTRICITY FINANCIAL CORPORATION

2021 ANNUAL REPORT

Mandate

Ontario Electricity Financial Corporation (OEFC or the Corporation) is one of five entities established by the *Electricity Act, 1998* (the Act) as part of the restructuring of the former Ontario Hydro.

Under the Act, the former Ontario Hydro was restructured into Ontario Power Generation Inc. (OPG), Hydro One Inc. (now a subsidiary of Hydro One Ltd., or Hydro One), the Independent Electricity System Operator (IESO), the Electrical Safety Authority and OEFC.

In accordance with the Act, OEFC has the following mandate:

- managing its debt, financial risks and liabilities, including the debt of the former Ontario Hydro;
- managing the former Ontario Hydro's contracts with non-utility generators (NUGs);
- receiving all payments and administering other assets, liabilities, rights and obligations of the Corporation that were not transferred to another of the former Ontario Hydro successor corporations and disposing of any of these items as it deems appropriate or as directed by the Minister of Finance;
- providing financial assistance to the successor corporations of Ontario Hydro;
- entering into financial and other agreements relating to the supply and demand management of electricity in Ontario; and
- performing any additional objects specified by the Lieutenant Governor in Council.

OEFC retains the services of the Ontario Financing Authority (OFA) and the Ministry of Finance to carry out its daily operations on a cost-recovery basis. The OFA is the agency of the Province of Ontario (the Province) responsible for Provincial borrowing and debt management.

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Statement from the Chair and Chief Executive Officer

We are pleased to present OEFC's 2021 Annual Report, which describes the Corporation's operational highlights and financial results for the year ended March 31, 2021.

The OEFC continued to deliver on its mandate through the COVID-19 pandemic, supported by the Ontario Financing Authority (OFA) and its robust business continuity plan. The OEFC has no staff and draws on services agreements with the OFA and Ministry of Finance to provide for its daily operations. These agreements allow the OEFC, OFA and Ministry to work collaboratively and efficiently, which was of particularly high value during 2020-21 and the pandemic.

Revenue exceeded expense by \$547 million in 2020–21, reducing the Corporation's unfunded liability from \$1,161 million to \$614 million as at March 31, 2021.

The unfunded liability, at \$614 million, is \$18.8 billion less than the initial unfunded liability on April 1, 1999, when the former Ontario Hydro was restructured. Total debt and liabilities are \$16.9 billion, down from the \$38.1 billion inherited by the Corporation from the restructuring.

Cost savings of \$1.4 million were achieved through the management of the power purchase agreements with non-utility generators.

Looking ahead to 2021–22, the Corporation will continue to manage its debt and liabilities in a cost-effective manner and support the implementation of the government's electricity policies and initiatives as Ontario emerges from the pandemic with a focus on economic recovery and growth.



Greg Orenszak
Chair



Gadi Mayman
Vice-Chair and Chief Executive Officer

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Management's Discussion and Analysis

2020–21 HIGHLIGHTS

- Annual excess of revenue over expense for OEFC of \$547 million, decreasing its unfunded liability by that amount.
- Continued to effectively manage its debt and other liabilities. Total debt and liabilities were \$16.9 billion, a decrease of \$1.4 billion from March 31, 2020 to March 31, 2021.
- Total expense was \$1,136 million, a decrease of \$116 million from 2019–20 primarily due to reduced debt interest expense.
- Achieved cost-savings of \$1.4 million by managing power purchase agreements.

Financial Results

Revenue and Expense

Total revenue for 2020–21 was \$1,683 million, an increase of \$276 million from 2019–20. Revenue included \$542 million in interest income from the Province, OPG and the IESO; \$563 million in payments-in-lieu (PIL) of taxes; \$428 million in Electricity Sector Dedicated Income (ESDI); and \$116 million in power supply contract recoveries.

The increase in revenue is largely due to higher ESDI in 2020-21 (\$428 million) from 2019–20 (\$131 million), reflecting OPG's strong financial performance during the fiscal year.

Total expense was \$1,136 million, a decrease of \$116 million from 2019–20 primarily due to reduced debt interest expense. Expenses included interest payments on debt of \$924 million and power supply contract costs of \$116 million.

Overall, there was an excess of revenue over expense of \$547 million. In 2019–20, there was an excess of revenue over expense of \$155 million.

Borrowing Program

In 2020–21, as in the previous year, the OEFC's cash reserves were adequate to fund OEFC's long term debt maturities of \$1.4 billion, and the OEFC undertook no long-term borrowing.

Debt and Liabilities

The Corporation inherited \$38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured in 1999. This amount included \$30.5 billion in total debt.

A portion of the \$38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving \$20.9 billion of stranded debt not supported by those assets. The initial unfunded liability of \$19.4 billion was the stranded debt adjusted for \$1.5 billion of additional assets.

As at March 31, 2021, total debt and liabilities were \$16.9 billion, with total debt of \$16.6 billion. These figures compare to total debt and liabilities of \$18.4 billion, with total debt of \$17.9 billion, as at March 31, 2020.

The unfunded liability was \$614 million as at March 31, 2021, a decrease of \$547 million from March 31, 2020, and \$18.8 billion below the \$19.4 billion level as at April 1, 1999.

Dedicated Revenues

OEFC receives dedicated revenues, such as PILs, the amount equal to Hydro One Inc.'s provincial corporate income taxes, and the gross revenue charge paid to the OEFC, as well as, at the Province's discretion, any Electricity Sector Dedicated Income, to help service and pay down its unfunded liability.

Debt Repayment Plan

OEFC services and retires the debt and other liabilities of the former Ontario Hydro from the following revenue and cash flow sources in the electricity sector:

- Outstanding notes receivable from the Province, OPG and IESO.
- PIL of corporate income and property taxes, and Gross Revenue Charges made by OPG, Hydro One and municipal electric utilities.
- Since the November 2015 IPO, Hydro One no longer pays PIL of corporate income tax to OEFC. Under the *Electricity Act, 1998*, provincial corporate taxes payable by Hydro One Inc. are due and payable by the Province to OEFC.
- Electricity sector dedicated income – the Province's net income from OPG in excess of the Province's interest cost of its investment in OPG, which may be allocated to OEFC by the Province at its discretion.

Risk Management

OEFC's risk management policies and procedures are designed to manage risk exposures associated with the Corporation's debt, derivatives and related capital market transactions.

Foreign exchange and net interest rate resetting exposures remained within policy limits in 2020–21.

- Foreign exchange exposure remained unchanged at 0.0 per cent of outstanding debt as at March 31, 2021, well within the foreign exchange exposure limit for OEFC of 3.0 per cent.
- Net interest rate resetting exposure was minus 3.7 per cent of outstanding debt as at March 31, 2021, within the limit of 35.0 per cent.

During the COVID-19 pandemic, OEFC has continued to deliver on its mandate, relying on the OEFC and OFA's robust business continuity plan. The OEFC has no staff and draws on services agreements with the OFA and Ministry of Finance to provide for its daily operations. The OFA staff providing services to OEFC transitioned entirely as of March 16, 2020, to working remotely. The transition to remote work was effective due in part to the well rehearsed Business Continuity Plan for the OFA and the OEFC. The OEFC's information technology (IT) systems continue to perform well, while supporting all OFA staff's ability to work remotely. The reliability, security and availability of IT and computing systems is crucial to ensure the OEFC carries out its mandate efficiently and effectively. All systems, infrastructure and services were provided to the OEFC, and all systems functioned as intended in 2020–21.

Other Responsibilities

Management of Power Supply Contracts

Efficiencies were achieved in managing the existing power purchase agreements with the NUGs in 2020–21. Purchase costs were lower by \$1.4 million, compared to \$2.9 million in 2019–20, through OEFC curtailments. Savings are lower in 2020–21 compared to 2019–20 as a result of fewer opportunities to execute curtailments.

For the period from May 1, 2002 to December 31, 2004, the Corporation purchased power from the NUGs under contractual terms, and sold the power at market prices lower than cost. However, after January 1, 2005, the Corporation began to receive actual contract prices for power from ratepayers, eliminating losses on power purchase contracts. At that time, the decision was made to amortize the liability to revenue over the period when the liability arising from the prior estimated losses of the electricity contracts were estimated to be realised. The liability for power purchase agreements was valued at \$5 million as at March 31, 2021, compared to \$33 million as at March 31, 2020.

Supporting the Implementation of the Government's Electricity Policies

As provided for under the Electricity Act, the Corporation provides financing to Ontario Hydro successor corporations.

OEFC provides financing to OPG on commercial terms for general corporate purposes and electricity supply projects, including Darlington refurbishment.

Completed OPG supply projects financed by OEFC include the Niagara Tunnel Project, the Portlands Energy Centre and Lac Seul hydroelectric project.

OEFC also provides financing to the IESO.

2021–22 Outlook

OEFC will focus on the following:

Managing debt and other liabilities cost-effectively

The OFA will continue to manage OEFC's debt and other liabilities in a cost-effective manner.

Managing financial risk within approved policy limits

The debt portfolio will be managed within exposure limits approved by OEFC's Board of Directors (the Board) for 2021–22.

Administering NUG contracts

The Corporation will continue to minimize costs to ratepayers through effective administration of the NUG contracts.

Providing financing as required to the Ontario Hydro successor corporations

The Corporation will facilitate the cash flow requirements of the Ontario Hydro successor corporations as required.

Supporting the implementation of the government's electricity industry policies and analyzing and monitoring the impact on the Corporation

The Corporation will continue to support the government's electricity initiatives as requested, and will monitor and analyze their impact on the Corporation.

Operational

In 2021–22, the ability of OFA staff to work remotely will allow OEFC to continue to deliver effectively on its mandate and objectives through the COVID-19 pandemic.

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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 13, 2021.

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



Ken Kandeepan
Chief Financial and Risk Officer



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, 2021, 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, 2021, 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 2021 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.

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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 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 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 13, 2021


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

Ontario Electricity Financial Corporation

Statement of Financial Position

As at March 31, 2021 (\$ millions)

	2021	2020
ASSETS		
Investments (Note 4)	\$ 3,142	\$ 4,036
Accounts receivable (Note 5)	18	16
Interest receivable	32	48
Due from Province of Ontario (Note 6)	3,319	2,890
Notes and loans receivable (Note 7)	9,778	10,198
	<u>\$ 16,289</u>	<u>\$ 17,188</u>
LIABILITIES		
Accounts payable and accrued liabilities (Note 8)	\$ 19	\$ 56
Interest payable	322	355
Debt (Note 9)	16,581	17,932
Power purchase contracts (Note 11)	5	33
	<u>16,927</u>	<u>18,376</u>
NET DEBT	(638)	(1,188)
NON-FINANCIAL ASSETS	24	27
UNFUNDED LIABILITY (Notes 1, 3, 12)	<u>\$ (614)</u>	<u>\$ (1,161)</u>
Contingencies (Note 13)		

Approved on behalf of the Board:



Greg Orenszak
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, 2021 (\$ millions)

	2021		2020	
REVENUE				
Payments-in-lieu of tax and provincial corporate taxes (Notes 1, 12)	\$	563	\$	505
Interest (Note 7)		542		614
Power supply contract recoveries (Note 11)		116		122
Net reduction of power purchase contracts (Note 11)		28		30
Electricity sector dedicated income (Notes 6, 12)		428		131
Other		6		5
	\$	1,683	\$	1,407
EXPENSE				
Interest on debt	\$	924	\$	1,030
Power supply contract costs (Note 11)		116		122
Debt guarantee fee		90		94
Operating		6		6
		1,136		1,252
Excess of revenue over expense		547		155
Unfunded liability, beginning of year		(1,161)		(1,316)
Unfunded liability, end of year	\$	(614)	\$	(1,161)

See accompanying notes to financial statements.

Ontario Electricity Financial Corporation

Statement of Cash Flows

For the year ended March 31, 2021 (\$ millions)

	2021	2020
CASH FLOWS USED IN OPERATING ACTIVITIES		
Excess of revenue over expense	\$ 547	\$ 155
Adjustments for:		
(Increase) decrease in accounts receivable (Note 5)	(2)	24
Decrease in interest receivable	16	2
(Increase) decrease in due from Province of Ontario (Note 6)	(429)	26
(Decrease) increase in accounts payable and accrued liabilities (Note 8)	(37)	32
Decrease in interest payable	(33)	(14)
Net increase in debt from revaluation	9	21
Net reduction of power purchase contracts (Note 11)	(28)	(30)
Decrease in deferred costs on hedging	3	2
Other items	3	(2)
Cash provided from operations	\$ 49	\$ 216
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from investments	894	561
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt issued	\$ –	\$ 500
Long-term debt retired	(1,361)	(1,384)
Short-term debt retired, net	(2)	(1)
Note receivable repayment, net	420	105
Cash required by financing activities	(943)	(780)
Decrease in cash	–	(3)
Cash, beginning of year	–	3
Cash, end of year	\$ –	\$ –

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;
- 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 Limited; 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, 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 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 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, eliminated as of April 1, 2018; and
- 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 as the Electricity Sector Dedicated Income (ESDI). 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. In 2012, Ontario Regulation 89/12 prescribed the calculation of the residual stranded debt on an annual basis which includes this ESDI allocation. In 2016, this regulation was revoked. Beginning fiscal 2019-20, the Province determined that ESDI will be limited to the net income of OPG in excess of the government's annual interest cost of its investment in that company, excluding the net income from Hydro One.

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.

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 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., GRC, PILs, recovery of NUG contractual costs) or allocation 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) Revenue Recognition

The main sources of revenue are:

- **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 recognized in the amount as 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. Beginning fiscal 2019-20, the Province has allocated the net income of OPG less the cost of financing its investment in OPG, excluding the net income from Hydro One from electricity sector dedicated income.

(e) Financial Instruments

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, 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 and is recorded at amortized cost. 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.

(f) 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.

(g) 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.

(h) Accounts payable and accrued Liabilities

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

(i) 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, since 2005 OEFC has received actual contract prices for power from electricity consumers, 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) Investments

Investments primarily consist of term deposits held with the Province. At March 31, 2021, the interest rates on these investments ranged from 0.23% to 1.78% (2020 – 0.25% to 1.85%) with maturities from April 1, 2021 to June 2, 2022.

5) Accounts Receivable

As at March 31 (\$ millions)	2021	2020
Power supply contract recoveries	\$ 12	\$ 11
Other receivables	6	5
Total	\$ 18	\$ 16

6) Due from the Province

As at March 31 (\$ millions)	2021	2020
Electricity sector dedicated income	\$ 3,292	\$ 2,864
Amount equal to Hydro One Inc. provincial income tax	27	26
Total	\$ 3,319	\$ 2,890

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. In 2012, Ontario Regulation 89/12 prescribed the calculation of the residual stranded debt on an annual basis which included this ESDI allocation. In 2016, this regulation was revoked. Since 2019–20, the Province's ESDI policy commitment is limited to OPG's net income in excess of the Province's financing costs of its investments in OPG (\$300 million per year), and the Province's net income from Hydro One in excess of the Province's financing costs of its investment in Hydro One is no longer included in the ESDI.

For the year ended March 31, 2021, the Province at its discretion allocated to OEFC ESDI of \$428 million (2020 – \$131 million). During fiscal 2020-21, the Province did not make any payments (2020 – \$138 million) to reduce the balance due.

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 2020–21, OEFC has recognized \$27 million under section 91.2 of the Act (2020 – \$26 million).

7) Notes and Loans Receivable

(\$ millions)					
	Maturity Date	Interest Rate	Interest Payable	March 31, 2021	March 31, 2020
Province of Ontario	2039–2041	5.85	Monthly	\$ 6,804	\$ 6,804
OPG	2021–2048	1.75 to 5.40	Semi-Annually	2,835	3,255
IESO	2023	Variable/1.13	Monthly/ Semi-Annually	120	120
				9,759	10,179
Add: Loans receivable from non-utility generators (NUGs)				25	25
Allowance for doubtful accounts				(6)	(6)
Net loans receivable from NUGs				19	19
Total				\$ 9,778	\$ 10,198

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 2021 of \$542 million (2020 – \$614 million) included interest from notes receivable of \$514 million (2020 – \$541 million) and \$28 million (2020 – \$73 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 2020–21, the Province paid \$nil (2020 – \$98 million) to reduce the principal notes outstanding.

OPG

OEFC agreed to provide OPG financing on commercial terms and conditions.

In July 2019 OEFC agreed to provide OPG an \$800 million credit facility for the period January 1, 2019 to December 31, 2021. As at March 31, 2021, \$500 million had been advanced under this credit facility agreement.

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

<u>Fiscal Year</u>	<u>Amount</u>
2021–22	185
2022–23	130
2023–24	420
2026–27	50
2039–40	100
2040–41	150
2041–42	350
2046–47	250
2047–48	1,200
Total	<u>\$ 2,835</u>

IESO

In June 2020, OEFC refinanced a note receivable of \$120 million with the IESO, originally maturing on June 30, 2020 for an additional term to June 30, 2023.

In June 2020, OEFC also extended the expiry date of its revolving \$160 million credit facility to the IESO to June 30, 2023. 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, 2021, IESO had no balance drawn on the credit facility.

NUGs

Loans receivable from NUGs at March 31, 2021 totalled \$19 million (2020 – \$19 million), net of an allowance for doubtful accounts of \$6 million (2020 – \$6 million).

8) Accounts Payable and Accrued Liabilities

As at March 31 (\$ millions)	2021	2020
Power supply contract costs	\$ 12	\$ 11
Payments-in-lieu of tax refundable	5	43
Other liabilities	2	2
Total	\$ 19	\$ 56

9) Debt

Debt at March 31, 2021, is set out below by maturity. All debt issues were denominated in Canadian dollars.

(\$ millions)	2021 Total	2020 Total
Maturing in:		
1 year	\$ 2,457	\$ 2,016
2 years	1,396	1,805
3 years	3,227	1,396
4 years	1,550	3,227
5 years	2,050	1,550
1–5 years	10,680	9,994
6–10 years	1,270	3,322
11–15 years	850	850
16–20 years	1,403	1,394
21–25 years	1,007	482
26–50 years	1,452	1,977
	\$ 16,662	\$ 18,019
Debt issue costs	(81)	(87)
Total	\$ 16,581	\$ 17,932

The effective rate of interest on the debt portfolio was 5.30 per cent after considering the effect of derivative instruments used to manage interest rate risk (2020 – 5.46 per cent). The longest term to maturity is to December 2, 2050. There was no foreign currency denominated debt issued at March 31, 2021 (2020 – \$nil). Bonds and notes payable are either held, or guaranteed as to principal and interest, by the Province as set out below:

March 31, 2021				March 31, 2020		
(\$ millions)	Held by the Province	Guaranteed by the Province	Total	Held by the Province	Guaranteed by the Province	Total
Short-term debt	\$ 653	–	\$ 653	\$ 655	–	\$ 655
Current portion of long-term debt	258	1,546	1,804	823	538	1,361
Long-term debt	10,382	3,742	14,124	10,629	5,287	15,916
Total	\$ 11,293	\$ 5,288	\$ 16,581	\$ 12,107	\$ 5,825	\$ 17,932

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, 2021, was \$19.1 billion (2020 – \$20.9 billion). This is higher than the book value of \$16.6 billion (2020 – \$17.9 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.

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.

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, 2021, OEFC did not hold any debt issued in foreign currencies (2020 – \$nil). As a result, the actual unhedged level was 0.0 per cent of total debt (2020 – 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, 2021, net interest rate resetting risk as a percentage of total debt was minus 3.7 per cent (2020 – minus 13.5 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 outstanding at March 31, 2021 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, 2021 (\$ millions)									
Maturity in years						6–10	Over 10		
Fiscal year	2022	2023	2024	2025	2026	Years	Years	Total	March 2020
Interest rate swaps	100	–	–	–	–	600	53	753	753
Total	\$100	\$ –	\$ –	\$ –	\$ –	\$ 600	\$ 53	\$ 753	\$ 753

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, 2021.

Credit Risk Exposure (\$ millions)	March 31, 2021	March 31, 2020
Gross credit risk exposure	\$ 2	\$ 0
Less: Netting	(2)	(0)
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, 2021, 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) 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 basis when the former Ontario Hydro was continued as OEFC on April 1, 1999.

Pursuant to legislation, since 2005 OEFC has received actual contract prices for power from ratepayers, 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, 2021 (\$ millions)		
	2021	2020
Liability, beginning of year	\$ 33	\$ 63
Amortization	(28)	(30)
Liability, end of year	\$ 5	\$ 33

During the year ended March 31, 2021, OEFC's costs under power supply contracts totalled \$116 million (2020 – \$122 million). All amounts are recoverable from the Global Adjustment via the IESO settlements process.

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, in accordance with section 50.3 of the *Electricity Act, 1998*.

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. 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 OEFC. The Ontario Financing Authority, 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 \$4.0 million (2020 – \$4.0 million). The Ministry of Finance provides revenue collection and reporting services to OEFC on a cost-recovery basis of \$1.8 million (2020 – \$2.0 million).

In addition, related party transactions pertain to:

- a) Province of Ontario Due from the Province and the note receivable and are disclosed in Notes 6 and 7;
- b) Ontario Power Generation Inc. loan receivable and payments-in-lieu of tax and are disclosed in Notes 7 and 8;
- c) Hydro One Inc. payments-in-lieu of property tax and amounts payable by the Province under section 91.2 of the Act as disclosed in Note 6; and
- d) Independent Electricity System Operator loan receivable and is disclosed in Note 7.

15) Hydro One Shares

The Province has not sold any common shares of Hydro One since December 2017. The Province owned approximately 47.2 per cent of the outstanding common shares of Hydro One as at March 31, 2021, down from 47.3 per cent at March 31, 2020, due to stock-based compensation resulting in a dilution of ownership.

In November 2020, Hydro One at its option redeemed all of the outstanding, non-voting, Series 1 Preferred Shares which were held by the Province. The shares were redeemed at face value of \$25 per share. In accordance with section 50.3 of the *Electricity Act, 1998* (the Act), in the year ended March 31, 2021, OEFC recognized a “nil” financial benefit from the Hydro One redemption of the preferred shares, as the redemption was at book value.

Corporate Governance

Overview

Board of Directors

Risk Management Policies and Procedures

Corporate Governance

Overview

OEFC is an agent of the provincial Crown and is classified by a Management Board of Cabinet directive as a board-governed agency.

Corporate governance at OEFC involves processes that permit the effective supervision and management of OEFC's activities by senior management, the Board, its Audit Committee, and the Minister of Finance. It includes identifying individuals and groups responsible for the Corporation's activities and specifying their roles.

Accountability and Responsibilities

OEFC's accountability structure flows from its governing Act. The Act, together with policies and directives issued by Management Board of Cabinet and the Minister of Finance, form a framework under which OEFC is governed.

Each year, the Minister of Finance is required to table OEFC's Annual Report in the Legislature. In addition, the Minister of Finance reviews and approves OEFC's annual business plan. The Minister also maintains communications with OEFC, through its Chair, regarding government policies and issues relevant to OEFC.

The Chair is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance, and is accountable to the Minister of Finance for the performance of OEFC in fulfilling its mandate. The Chair is responsible for providing advice and information to the Minister of Finance with regard to the operation and affairs of OEFC. In addition, the Chair provides leadership to OEFC's Board.

The Board is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance and is accountable to the Minister through the Chair. The Board performs a supervisory role, overseeing the management of the business and affairs of OEFC to ensure OEFC's mandate is fulfilled. The Board is largely comprised of public servants employed by the Crown. The Board meets at least quarterly and receives regular reports from the CEO and OFA staff concerning the operations of OEFC and its compliance with applicable laws and policies. Standards of conduct for Board members are set out in a Board-approved Code of Conduct.

The Audit Committee of the Board reviews and recommends approval by the Board of an annual internal audit plan and liaises with OEFC's internal auditors and the Auditor General of Ontario regarding financial reporting and internal controls. It also reviews financial policies and financial statements and recommends them to the Board. Another function of the Audit Committee is the review of the Corporation's major risks and mitigation strategies.

The CEO is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance. The CEO works under the direction of the Chair and the Board to implement policies and operational decisions, and reports the agency's performance to the Board through

the Chair. The CEO is responsible for managing the day-to-day operations and ongoing activities of OEFC in accordance with government policies.

The Corporation does not have employees, although some OFA employees are designated as officers for executing agreements and other instruments on the Corporation's behalf. The OFA carries out the Corporation's day-to-day operations under the supervision of the Board and pursuant to a Services Agreement between the OFA and OEFC. In addition, the Ministry of Finance collects certain payments on behalf of OEFC.

Financial Reporting

OEFC prepares annual financial statements in accordance with Canadian public sector accounting standards. The financial statements are reviewed and recommended by the Audit Committee and approved by the Board. The annual financial statements are audited by the Auditor General of Ontario who expresses an opinion on whether they present the financial results fairly in accordance with Canadian public sector accounting standards. The financial statements and the audit report are reviewed by the Audit Committee and the Board. These audited financial statements are tabled in the Legislature as part of the Annual Report and are included in the Financial Statements of Government Organizations and Business Enterprises section of the Public Accounts of the Province. Unaudited financial statements are prepared quarterly and presented to the Audit Committee and the Board.

Internal Controls

Management is responsible for establishing and maintaining internal controls to provide reasonable assurance regarding the reliability of financial reporting and to safeguard OEFC's assets and manage its liabilities.

In meeting its responsibility for the reliability and timeliness of financial information, OEFC, directly and through the OFA, uses a comprehensive system of internal controls, including organizational and procedural controls. The system of internal controls includes:

- comprehensive business planning
- written communication of policies and procedures governing corporate conduct and risk management
- segregation of duties
- maintenance and retention of detailed records
- responsible delegation of authority and personal accountability
- careful selection and training of personnel
- regularly updated accounting and financial risk policies.

As part of its annual business plan, OEFC conducts a risk assessment of corporate-wide risks and develops appropriate mitigation strategies.

The OEFC's appointed internal auditor, Ernst & Young (EY), develops an annual internal audit plan based on a review of the OEFC's risk assessment and input from the OEFC Audit Committee and OFA Management. The internal audit plan is approved by the Board on the recommendation of the Audit Committee. EY reports to the Audit Committee on the results of its audit work in OEFC. The OEFC has ensured that the internal audit scrutiny of the OEFC remains consistent with

the level of audit review by the Ontario Internal Audit Division (OIAD) of the Treasury Board Secretariat prior to the transition from OIAD to EY commencing in 2020-21.

Board of Directors

The following individuals were members of the Board as of March 31, 2021.

Greg Orencsak

Chair
Deputy Minister of Finance
Date of initial Board appointment: July 2018
Current term expires: September 2023

Gadi Mayman

Vice-Chair and Chief Executive Officer, OEFC
Chief Executive Officer, Ontario Financing Authority
Date of initial Board appointment: August 2000
Current term expires: July 2023

Maureen Buckley

Assistant Deputy Minister and Provincial Controller, Treasury Board Secretariat
Date of initial Board appointment: September 2019
Current term expires: September 2022

Elizabeth Doherty

Assistant Deputy Minister, Office of the Budget, Ministry of Finance
Date of initial Board appointment: April 2019
Current term expires: April 2022

Steen Hume

Assistant Deputy Minister, Energy Supply Policy Division, Ministry of Energy
Date of initial Board appointment: April 2019
Current term expires: April 2022

Nancy Kennedy

Vice President of Human Resources, Ontario Lottery and Gaming Corporation
Date of initial Board appointment: October 2014
Current term expires: December 2023

Ronald Kwan

Assistant Deputy Minister, Corporate and Electricity Finance Division, OFA
Date of initial Board appointment: January 2013
Current term expires: January 2022

Murray Lindo

Date of initial Board appointment: October 2014
Current term expires: December 2021

Nancy Mudrinic

Associate Deputy Minister, Office of Regulatory Policy and Agency Relations, Ministry of Finance

Date of initial Board appointment: April 2019

Current term expires: April 2022

Stephen Rhodes

Deputy Minister, Ministry of Energy

Date of initial Board appointment: October 2018

Current term expires: June 2024

Sriram Subrahmanyam

Assistant Deputy Minister, Tax Policy Division, Ministry of Finance

Date of initial Board appointment: December 2016

Current term expires: December 2022

Board Member Remuneration in 2020–21

Board Member	Dollars (\$)
Murray Lindo	1,000
Total	1,000

Risk Management Policies and Procedures

Overview

The Corporation's risk management policies and procedures provide for the management of risk exposures created by capital market activities. Current policies and procedures address market, credit and operational risk exposures as they pertain to debt and derivatives portfolios and capital markets transactions.

These policies were developed following the guidelines and directives of regulatory bodies, such as the Office of the Superintendent of Financial Institutions of Canada and the Bank for International Settlements and by consulting with Canadian bank representatives on their risk management practices.

The Board and Management committees establish and approve risk management policies and monitor the performance of the OFA's capital market activities related to OEFC.

Market Risk Policy

Market risk is the risk of financial loss attributable to changes in interest rates and foreign exchange rates. This policy provides a framework for borrowing activities and integrates several aspects dealing with the management of market risk. The policy includes several limits:

- **Foreign Exchange Limit** – unhedged foreign currency exposure is limited to 3.0 per cent of outstanding debt. Unhedged foreign exchange exposures are limited to Group of Seven currencies and the Swiss franc.
- **Net Interest Rate Resetting Limit** – the interest rate resetting exposure, net of liquid reserves, is limited to a maximum of 35.0 per cent of outstanding debt.

Credit Risk Policy

Credit risk is the risk that a counterparty defaults on its financially contracted obligations. Credit risk arises when the OFA undertakes financial and derivative transactions on behalf of OEFC. The minimum credit rating of a new counterparty for swap transactions without collateral is AA- and R1-mid, A-1 or P-1 for money market investments. The resulting exposure to a financial counterparty is capped at mark-to-market limits depending on the counterparty's credit rating and capital base.

Policy on the Use of Derivatives and Financial Instruments

Use of derivatives and other financial instruments is restricted to those that the OFA can price and whose risk exposures can be measured by the OFA. Derivatives are used to manage exposures arising from the OEFC Treasury program in a sound and efficient manner. Risks arising from the use of derivatives are monitored and managed prudently.

Policy on Risk Management Reporting

At its regular quarterly meetings, the Board is kept informed of the Corporation's activities:

- The CEO provides the Board with a progress report on its borrowing activities and other operational matters. The CEO also reports on compliance with applicable government directives.
- The Chief Financial and Risk Officer reports on program exposures and performance, as well as exceptions to policies.

In addition, OFA Management is informed of the Corporation's risk exposures and positions on a daily basis so it can direct appropriate actions on behalf of OEFC.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or external events. The OFA manages operational risk relating to OEFC through reviews and improvements of work processes, documented policies and procedures, data processing systems, contingency plans and staff training.

The OFA's Business Continuity Plan covers OEFC's operations and is regularly updated to facilitate the continuation of essential operational functions with minimal disruption in the event of an emergency. In response to the COVID-19 pandemic restricting access into office premises, the OFA including the OEFC transitioned entirely in mid-March 2020 to working remotely and continued remote work throughout the 2020-21 fiscal year. The seamless transition to remote work was due to the well-rehearsed Business Continuity Plan performed on a monthly basis across all OFA business units including those supporting the OEFC ensuring organization preparedness to work remotely. OEFC activities and systems continue to function well with IT teams supporting all staff working remotely through the pandemic.

Additional Sources of Information

Internet

Ontario Electricity Financial Corporation

www.oefc.on.ca

Ontario Financing Authority

www.ofina.on.ca

Ministry of Finance

www.ontario.ca/page/ministry-finance

Ministry of Energy

www.ontario.ca/page/ministry-energy

Ontario Power Generation Inc.

www.opg.com

Hydro One Ltd.

www.hydroone.com

Independent Electricity System Operator

www.ieso.ca

Electrical Safety Authority

www.esasafe.com

Inquiries

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