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Ontario

March 20, 2018

Mr. Ken Hartwick
Senior Vice President Finance, Strategy, Risk and Chief Financial Officer
Ontario Power Generation Inc.
700 University Avenue
Toronto, Ontario Canada
M5G 1X6

Dear Mr. Hartwick:

I am writing to you to confirm that Ontario Power Generation (OPG) will be reported in the Province's consolidated financial results on an IFRS basis for the fiscal year ended March 31, 2018.

Based on information provided by OPG Finance, the estimated difference between OPG's results in its standalone financial statements reported in accordance with US GAAP versus an IFRS basis will be significant in the future, primarily due to differences in the accounting for asset retirement obligations.

In conjunction with our 2017-18 audit planning process, the Office of the Auditor General of Ontario (OAGO) will require the same nature and level of assurance on OPG's IFRS-based financial results as was provided last year. This letter is to request that you engage with your external auditors to undertake agreed upon audit procedures similar to those for the 2016-17 fiscal year, with a target completion date of June 1, 2018. A draft proposed report on agreed upon audit procedures is attached.

Please note that the Auditor General has requested that the same level of reporting materiality should be used as applied to the audit of OPG's publicly issued US GAAP-based financial statements for the year ended December 31, 2017, and the same threshold for summary of uncorrected IFRS misstatements as last year.

Consistent with last year's request, the agreed upon audit procedures requested by the Auditor General should cover the following periods:

- The year ended December 31, 2017
- The three month period ended March 31, 2018

Similar to last year, we are requesting your external auditors issue an agreed upon procedures reports addressed to the Province of Ontario and the Office of the Auditor General on results where OPG's asset retirement obligation is valued using the alternative preferred rate which reflects the 15-year historical average rate.

Please do not hesitate to contact me if you have any questions regarding this request.

Sincerely,

Mark Donaldson, CPA CMA
Director, Financial Reporting and Fiscal Support
Office of the Provincial Controller
Treasury Board Secretariat

c: Cindy Veinot, Assistant Deputy Minister and Provincial Controller
John Mauti, Vice President, Chief Controller and Accounting Officer

Attachment

Proposed Report on Agreed Upon Audit Procedures

Attention: Auditor General of Ontario
ADM and Provincial Controller, Treasury Board Secretariat

Results of the agreed upon audit procedures performed regarding the adjustments from United States Generally Accepted Accounting Principles (“US GAAP”) to International Financial Reporting Standards (“IFRS”) prepared by Ontario Power Generation Inc. (“OPG” or the “Company”) for the purposes of the audit of the consolidated financial statements of the Government of Ontario as at March 31, 2018 and for the 12-month period then ended.

In connection with your audit of the financial statements of the Government of Ontario as at March 31, 2018 and for the 12-month period then ended, we performed the agreed upon audit procedures (“the Procedures”) as set out below regarding the financial reporting of Ontario Power Generation Inc. to the Government of Ontario reflecting adjustments from US GAAP to IFRS for the periods specified in the Procedures. These Procedures were performed for the purposes of your audit of the consolidated financial statements of the Government of Ontario as at March 31, 2018 and for the 12-month period then ended.

Following is a summary of the agreed upon audit procedures and our findings/conclusions:

Procedures and Findings/Conclusions
1) Obtain from OPG the US GAAP to IFRS Reconciliations (“Reconciliations”) as identified in Appendix 1, as follows: (a) Balance Sheet as at: i. December 31, 2017 and March 31, 2018 (b) Equity and accumulated other comprehensive income (“AOCI”) as at: i. March 31, 2017 and March 31, 2018 (c) Net income and changes in equity excluding AOCI for the following periods: i. Year ended December 31, 2017 ii. Three Months ended March 31, 2017

iii. Three Months ended March 31, 2018

(d) Other comprehensive income and changes in AOCI for the following periods:

i. Year ended December 31, 2017

ii. Three Months ended March 31, 2017

iii. Three Months ended March 31, 2018

2) Obtain the analyses and documentation prepared by OPG supporting each of the adjustments identified in the Reconciliations from procedure 1 related to the Company's nuclear fixed asset removal and nuclear waste management liabilities ("nuclear asset retirement obligation" or "nuclear ARO") and pension and other post-employment benefit ("OPEB") liabilities, the associated deferred tax adjustments, and any additional adjustments identified in the Reconciliations from procedure 1 that exceed the reporting materiality threshold applied to the audit of OPG's publicly issued US GAAP-based financial statements for the year ended December 31, 2017 of $75 million.

3) Obtain any relevant OPG's analysis of Elections under IFRS 1, *First-time Adoption of International Financial Reporting Standards* as at January 1, 2015 for the purposes of preparing the Reconciliations in procedure 1. Ensure that those elections are reflected in the Reconciliations in procedure 1.

4) Apply the following procedures to the adjustments identified in procedure 2 related to the nuclear ARO, pension and OPEB liabilities, and associated deferred taxes:

4.1 Trace the reconciliation balances as follows:

(a) US GAAP balances are agreed to OPG's US GAAP consolidated financial statements for the applicable periods; and

(b) IFRS balances are agreed to OPG's IFRS internal working papers for the applicable periods.

4.2 Adjustments to the nuclear asset retirement obligation and related adjustments:

(a) Validate that the calculation files and inputs for the IFRS balances correspond to those used by OPG for the calculation of the nuclear ARO for the applicable periods in accordance with US GAAP, as traced back to EY's engagement files, except for the IFRS differences noted below.

(b) Validate the removal of certain lifecycle costs from the US GAAP nuclear ARO and US GAAP nuclear asset retirement costs ("ARC") in calculating IFRS nuclear ARO and IFRS nuclear ARC, including:

i. Agreeing nuclear ARO calculations, by cost type, to information obtained directly from the Nuclear Waste Management Organization ("NWMO"); and

ii. Recalculating the ARC balances, by station and cost type, before the IFRS adjustments and agreeing them to total US GAAP nuclear ARC balance, as traced back to EY's engagement files. Validate methods and assumptions applied in the measurement of nuclear ARC under IFRS.

(c) Recalculate the discount rate used by OPG in its calculation files for the IFRS nuclear ARO to validate that it represents an average of the 30-year Ontario bond yield over a period of time, as determined using the approach applied by OPG for the purposes of Reconciliations referenced in procedure 1.

(d) Validate that the "short-cut method" under IFRS 1, *First-time Adoption of International Financial Reporting Standards* is used to calculate the discount rate adjustment to nuclear ARC as at January 1, 2015.

(e) Validate the following with respect to the regulatory debits and the regulatory credits under IFRS resulting from the nuclear ARO and nuclear ARC IFRS adjustments:

i. The regulatory debits and the regulatory credits under IFRS reflect OPG's current regulated rate recovery methodologies approved by the Ontario Energy Board ("OEB"), as consistent with positions taken by the Company in respect of these methodologies for the purposes of its US GAAP consolidated financial statements;

ii. The IFRS regulatory debits agree to amounts expected to be recovered through OPG's future regulated rates that would have been recognized as expenses under IFRS; and

iii. The IFRS regulatory credits agree to amounts that have been recovered through OPG's regulated rates but would not yet have been recognized as expenses under IFRS.

(f) Recalculate the IFRS expenses related to the nuclear ARO, including used nuclear fuel and nuclear waste variable expenses, accretion expense, and revaluation resulting from changes in the nuclear ARO discount rate, determined using the methodology in procedure 4.2 (c), for the corresponding periods. Agree variable unit costs to values obtained directly from the NWMO.

(g) Recalculate the IFRS nuclear ARC depreciation expense. Agree estimated station lives used to calculate the IFRS nuclear ARC depreciation expense to those applied in OPG's US GAAP consolidated financial statements, as traced back to EY's engagement files.

(h) Recalculate the IFRS nuclear ARC, the IFRS nuclear ARO and related IFRS regulatory debit and regulatory credit balances as at December 31, 2017 as well as the related changes in the statement of operations for the year ended December 31, 2017, using data from procedures 4.2 (a) to 4.2 (g);

(i) Recalculate the IFRS nuclear ARC, the IFRS nuclear ARO and related IFRS regulatory debits and regulatory credits as at March 31, 2017 and March 31, 2018 as well as the related changes in the statements of operations for the 3 month periods then ended, using data from procedures 4.2 (a) to 4.2 (g);

(j) Recalculate the differences between the IFRS amounts from procedures 4.2 (h) and 4.2 (i) and the corresponding amounts recognized by OPG in its US GAAP consolidated financial statements for the corresponding periods, and agree those differences to the IFRS adjustments shown in Reconciliations from procedure 1.

4.3 Adjustments to pension and OPEB liabilities and related adjustments:

(a) Obtain confirmation directly from the external actuary of the net benefit liabilities for OPG's pension and OPEB plans and attribution of changes in those liabilities between retained earnings and AOCI, determined in accordance with IFRS, as at:

i. December 31, 2017 and for the year then ended

ii. March 31, 2017 and for the three-month period then ended

iii. March 31, 2018 and for the three-month period then ended

(b) Validate that the March 31, 2017, December 31, 2017 and March 31, 2018 IFRS adjustments between retained earnings and AOCI include adjustments related to all of the following that apply:

i. actuarial gains and losses;

ii. non-investment administrative costs;

iii. past service costs and credits; and

iv. return on plan assets.

(c) Validate that the assumptions obtained from the external actuary and used to derive the IFRS liabilities in procedure 4.3 (a) correspond to those used by OPG for the calculation of the pension and OPEB liabilities and changes therein as reported in OPG's consolidated financial statements in accordance with US GAAP for the applicable periods, as traced back to EY's engagement files, except for IFRS differences.

(d) Trace the IFRS pension and OPEB liabilities and changes therein from procedure 4.3 (a) to the Reconciliations in procedure 1.

(e) Validate the following with respect to the IFRS regulatory debits and the IFRS regulatory credits resulting from the pension and OPEB IFRS adjustments:

i. Regulatory debits and regulatory credits under IFRS reflect OPG's current regulated rate recovery methodologies approved by the OEB, as consistent with positions taken by the Company in respect of these methodologies for the purposes of its US GAAP consolidated financial statements.

ii. The IFRS regulatory debits agree to amounts expected to be recovered through OPG's future regulated rates that would have been recognized as expenses under IFRS; and

iii. The IFRS regulatory credits agree to amounts that would have been recovered through OPG's regulated rates but would not yet have been recognized as expenses under IFRS

(f) Prior to the application of the optional transfer from AOCI to retained earnings as permitted by IAS 19 Employee Benefits, paragraph 122, if any:

i. Recalculate the IFRS pension and OPEB related retained earnings and AOCI balances as at December 31, 2017 as well as the corresponding changes in the statement of operations for the year ended December 31, 2017 using data from procedures 4.3 (a) to 4.3 (e).

ii. Recalculate the IFRS pension and OPEB related retained earnings and AOCI balances as at March 31, 2017 and March 31, 2018 as well as the corresponding changes in the statements of operations for the three-month periods then ended using data from procedure 4.3 (a) to 4.3 (e).

(g) Validate that the optional transfer permitted by IAS 19 Employee Benefits, paragraph 122, if any, between retained earnings and AOCI applied on March 31, 2017, December 31, 2017 and March 31, 2018 and for the periods then ended, for the purposes of the Reconciliations referenced in procedure 1, represents the difference, as of the corresponding date, and the change in the difference, for the period then ended, between the US GAAP and IFRS pension and OPEB related retained earnings balances from procedure 4.3 (f).

(h) Recalculate the differences between the IFRS amounts from procedures 4.3 (a) and 4.3 (g) and the corresponding amounts recognized by OPG in its US GAAP consolidated financial statements, and agree those differences to the IFRS adjustments in Reconciliations from procedure 1.

5) Deferred tax liabilities and related adjustments associated with adjustments from procedures 4.2 and 4.3:

(a) Agree the tax rates used to calculate the deferred tax IFRS adjustments to the tax rates used by OPG in calculating the corresponding deferred tax balances in its US GAAP consolidated financial statements, as traced back to EY's engagement files.

(b) Recalculate the deferred tax adjustments related to the IFRS adjustments in procedures 4.2 and 4.3 by applying the tax rates from procedure 5 (a), and agree those differences to the IFRS adjustments in Reconciliations from procedure 1.

(c) Validate the following with respect to the regulatory debits and the regulatory credits under IFRS resulting from the IFRS deferred tax adjustments:

i. the IFRS regulatory debits and the IFRS regulatory credits reflect OPG's current regulated rate recovery methodologies approved by the OEB, as consistent with positions taken by the Company in respect of these methodologies for the purposes of its US GAAP consolidated financial statements;

ii. the IFRS regulatory debits agree to amounts expected to be recovered through OPG's future regulated rates that would have been recognized as corresponding expenses under IFRS; and

iii. the IFS regulatory credits agree to amounts that would have been recovered through OPG's regulated rates but would not yet have been recognized as corresponding expenses under IFRS.

(d) Recalculate the differences between the IFRS amounts from procedures 5 (b) and 5 (c) and the corresponding amounts

	recognized by OPG in its US GAAP consolidated financial statements, and agree those differences to the IFRS adjustments in procedure 1.
6)	Validate that the IFRS adjustments identified in procedure 2 are consistent with the narrative explanations in Appendix 2 of significant US GAAP to IFRS differences outlined in the notes to the reconciliations referenced in procedure 1.
7)	Complete the EY US GAAP/IFRS Accounting Differences Identifier Tool Checklist to identify any differences between US GAAP and IFRS impacting the Reconciliations referenced in procedure 1 in addition to the adjustments identified in procedure 2 that would be expected to exceed the reporting materiality threshold applied to the audit of OPG's publicly issued US GAAP-based financial statements for the year ended December 31, 2017 of $75 million. Ensure that these differences have been considered by OPG for the purposes of the Reconciliations in procedure 1.
8)	Prepare a summary of any uncorrected IFRS misstatements exceeding $15 million identified in connection with procedures 1 to 7.

The Reconciliations in Appendix 1 and the narrative explanations in Appendix 2 have been prepared by Ontario Power Generation Inc. solely for the purpose of the audit of the consolidated financial statements of the Government of Ontario as at and for the 12-month period ended March 31, 2018.

Our report is intended solely for the use of the Auditor General of Ontario, in connection with the audit of the consolidated financial statements of the Government of Ontario as well as the audit of the financial statements of the Ontario Electricity Financial Corporation as at and for the 12-month period ended March 31, 2018 and should not be used by parties other than the Auditor General of Ontario and must not be used for any other purpose.

Yours truly,