Ontario Power Generation Inc.

2017 first quarter review

31 March 2017

Building a better working world

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The Audit and Risk Committee of the Board of Directors 3 May 2017

Ontario Power Generation Inc.

Dear Members of the Audit and Risk Committee,

We are pleased to present the status of our review of Ontario Power Generation Inc.'s 2017 first quarter consolidated financial statements.

This Report summarizes the scope of our review and the status of our final procedures, which will be completed prior to the Company's filing of its interim financial statements with the Ontario Securities Commission. The document also contains the Audit and Risk committee communications required by our professional standards, as well as significant current accounting developments and issues that could or will affect Ontario Power Generation Inc.

Our review is performed in accordance with standards in the Assurance Handbook of the Chartered Professional Accountants of Canada. A review of interim financial information consists principally of applying analytical review procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with Canadian generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements. Accordingly, we do not express such an opinion. The objective of a review of interim financial information is to provide the auditor with a basis for communicating whether the auditor is aware of any material modifications that should be made to the interim financial information for it to conform with United States generally accepted accounting principles. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

This report is intended solely for the information and use of the Audit and Risk Committee, Board of Directors and management in their review of the interim financial statements, and to assist the Audit and Risk Committee in discharging its regulatory obligation to review the interim financial statements, and is not intended to be and should not be used by anyone other than these specified parties or for any other purpose. Further, this report is a by-product of our review of the 2017 first quarter financial statements and indicates matters identified during the course of our review. Our review did not necessarily identify all matters that may be of interest to the Audit and Risk Committee in fulfilling its responsibilities.

We appreciate this opportunity to meet with you.

Very truly yours,

[Partner signature]

Tracy Brennan, CPA, CA Sam Whittaker, CPA, CA

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Executive summary

Status

- We are substantially complete with our review of the interim financial statements for the first quarter of 2017.

Scope

- Our timely review OPG's interim financial statements is performed in accordance with CPA Canada Handbook – Assurance Section 7060, *Auditor Review of Interim Financial Statements*. A summary of the procedures performed is included on pages 13 and 14.

Results

- We are not aware of any material modifications that should be made to the interim financial information for it to conform with US GAAP.
- No corrected or material uncorrected misstatements were identified.

Topics to be discussed at the Audit and Risk Committee meeting:

Areas of emphasis (page 6)

- Ontario's Fair Hydro Plan
- Lower Mattagami Limited Partnership ("LMLP") Land Transfer Tax Refund
- Sale of head office premises
- Pension and Other Post-Employment Benefit (OPEB) Costs Full Yield Curve Approach

Updating inquiries relating to matters relevant to the audit and interim review (page 10)

Open items

- Read and review the final financial information included in the quarterly report for compliance with US GAAP and regulatory rules and regulations
- Obtaining the executed letter of representations from management
- Conduct updated fraud and other inquiries with the Audit and Risk Committee and management (to be conducted at this meeting)
- Complete final review procedures over the consolidated financial statements and notes
- Performance of subsequent event procedures through the date of filing of the consolidated financial statements

* These matters are addressed on the following pages within our presentation.

Revenue recognition

Overview for audit committees

The comprehensive revenue recognition standard developed jointly by the IASB and the FASB will supersede nearly all IFRS and US GAAP guidance on revenue recognition, including industry and interpretative guidance.

Core principle: Recognize revenue at an amount that reflects the consideration to which the entity *expects to be entitled* in exchange for transferring goods or services to a customer.

Step 1:	Identify the contract(s) with a customer
Step 2:	Identify the performance obligations in the contract
Step 3:	Determine the transaction price
Step 4:	Allocate the transaction price to the performance obligations
Step 5:	Recognize revenue when (or as) each performance obligation is satisfied

The new revenue standard will change the way many companies measure and recognize revenue and will expand the disclosure requirements for all companies. More judgments and estimates may be required across multiple business functions than in the past. Companies should be timely executing on a well-developed plan to implement the standard.

Transition

- Accounting Standards Codification (ASC) 606 is effective for annual periods beginning on or after **1 January 2018** and interim periods therein
- Two transition approaches are available: full retrospective or modified retrospective
- Our experience indicates that many companies have underestimated the complexity of the standard and its potential impact on IT systems, business processes and internal controls. Many companies are finding that implementation requires more effort than they expected.

Key implementation considerations

- Perform and periodically update a comprehensive assessment to identify the effects of the new revenue standard on the company's businesses, processes (including IT) and financial reporting
- Consider the effects on internal control over financial reporting (ICFR), including whether there are material ICFR changes that require disclosure
- Evaluate whether the company has sufficient resources for an effective implementation
- Benchmark the company's preliminary assessment against its competitors
- Disclose the anticipated transition method and effect of the standard and develop a plan for updating disclosures during the transition period

Revenue recognition
Status of management's implementation

Status of management's implementation

- OPG has developed and commenced its project plan and the scoping of revenue streams, which include:
  - Energy Supply Agreements;
  - Certain variance and deferral accounts that are recorded in revenue, including the nuclear rate smoothing account;
  - The 'revenue' components of the Bruce Power Lease Agreement, which includes supplementary rent, fees for nuclear waste management other than used fuel; and
  - Fees for certain other services and existing contracts to determine the impacts of this new revenue standard on its financial reporting and disclosures.
- OPG is currently in the process of reviewing contracts and developing a preliminary accounting policy.
- On March 1, 2017 the AICPA's Power & Utilities Industry Task Force issued a publication on implementation issues related to accounting for tariff sales to regulated customers, which is currently out for comment. The recommendations within the draft are in-line with management's expectations and implementation analysis. OPG will continue to monitor continued interpretations and the impact on its preliminary assessments as the effective date nears.
- OPG has yet to conclude on whether the full retrospective or modified retrospective application approach will be used. Regardless of the approach used, OPG's impact analysis, technical accounting position papers and conclusions, as well as any process and system changes required to capture data for reporting under the new revenue recognition standard, are expected to be largely completed in advance of the effective date.

Detailed discussion of management's status compared to benchmark timeline

- We continue to evaluate the status of each of our clients compared with a benchmark timeline that represents our minimum expectations regarding an entity's progress on implementation efforts.
- The project is reaching a critical stage, therefore conclusions on accounting implications and the transition method need to be made in the coming months.

Quarterly interim review procedures and results

Areas of emphasis

During our review, we focused on the following key areas, significant transactions and other matters with heightened professional skepticism:

Key issue/risk area	Summary of procedures and findings
Ontario's Fair Hydro Plan On March 2, 2017, the Province announced Ontario's Fair Hydro Plan (the Plan) aimed at reducing electricity bills by 25 percent on average for all residential consumers in the province. As part of the Plan, the Province has proposed refinancing a portion of the Global Adjustment (GA) costs over a longer time period for Regulated Price Plan eligible customers (e.g., residential, farm, small businesses). On May 11, 2017, the Province will introduce legislation to implement the Ontario's Fair Hydro Plan. OPG is working with the Province and IESO on the implementation of the Plan and the required financing, subject to approval by OPG's Board of Directors. OPG established a Special Committee to provide timely strategic and other guidance to OPG management in connection with the implementation of the Plan and to make a recommendation to the Board of Directors. There is no impact to the Q1 2017 consolidated financial statements.	▸ EY continues to review the drafts of the legislation to evaluate the ability of OPG to consolidate the Trust entity. ▸ EY reviewed management's accounting memo which summarizes their preliminary views on the accounting impacts of the Ontario Fair Hydro Plan (GA Transaction) on OPG's accounting. ▸ As a result of the review procedures performed, we are not aware of any adjustments required to the accounting or disclosures as at March 31, 2017. ▸ EY is working closely with management and the Special Committee on this matter and will provide a verbal update at the Audit & Risk Committee meeting on May 10, 2017.

Quarterly interim review procedures and results

Areas of emphasis

Area of emphasis	Summary of procedures and findings
Lower Mattagami Limited Partnership ("LMLP") Land Transfer Tax Refund In 2014, when the LMLP stations were put into service, OPG paid $9 million of land transfer tax to the Ministry of Finance. This cost was included in the station asset values and Construction in Progress. In February 2017, the Ministry of Finance returned $9 million paid for land transfer tax to LMLP as the transaction was deemed not taxable. As a result, OPG has adjusted the current asset values and Construction in Progress, which will be reflected in the next revenue requirement submission. The OPG Commercial Contracts team determined that the refund does not consider this amount to be material to re-open the revenue requirement under the Hydroelectric Energy Supply Agreement ("HESA") until the next pricing period. As such, OPG will not be adjusting the prior period or current period revenue requirements for the change in the asset value.	► EY inquired of management on the events and discussions leading up to the land transfer tax refund. Based on our inquiries, the recognition of the refund is a result of the receipt of funds from the Ministry of Finance during the first quarter of 2017. As a result, the recognition of the refund during the first quarter of 2017 is plausible. ► EY inspected the cheques issued by the Ministry of Finance, supporting the existence and valuation of the land transfer tax refund. ► EY reviewed the supporting entries recorded as at March 31, 2017 to verify that the LMLP asset values were adjusted. ► EY inquired of management regarding the recommendation that the amount is not material enough for a re-opener under the HESA and reviewed the HESA to verify the terms aligned to management's analysis. ► EY reviewed the supporting calculation of the potential impact in the current period, if the HESA was amended for the change in the asset value. ► As a result of the review procedures performed, we are not aware of any material adjustments required to the accounting or disclosures as at March 31, 2017.

Quarterly interim review procedures and results

Areas of emphasis

Area of emphasis	Summary of procedures and findings
Sale of head office premises In December 2015, the Province issued a Shareholder Resolution and Shareholder Declaration directing OPG to sell its head office premises comprised of 700 University Avenue and the 40 Murray Street parking garage. An active program to locate a buyer was initiated in October 2016. As a result, the assets met the held for sale criteria at this date and OPG reclassified the assets from property, plant and equipment and into other current assets. Depreciation for these assets also ceased in October 2016. In December 2016, a purchase and sale agreement was executed and the sale was completed in April 2017. In the Q1 consolidated financial statements, management has disclosed the estimated after-tax gain on sale to be approximately $280 million as a subsequent event. The gain will be recognized in the second quarter of 2017.	► EY obtained the executed purchase and sale agreement signed in December 2016, between OPG and a third party, Kingsett Canadian Real Estate Income Fund LP. EY also obtained the executed lease agreement between OPG and the new landlord for 700 University Avenue to lease back 4 of the 19 office tower floors plus ancillary space. ► EY reviewed management's accounting analysis over the classification of these assets as held for sale in October 2016 and concurred with management's assessment that the held-for-sale criteria were met at this date and the appropriate accounting treatment was applied. ► EY reviewed the disclosure in the notes to the consolidated financial statements regarding the sale. ► Based on the procedures performed, we believe the Company's accounting and disclosure for the ongoing sale of the head office premises as at March 31, 2017, are appropriate and in accordance with US GAAP.

Quarterly interim review procedures and results

Areas of emphasis

Area of emphasis	Summary of procedures and findings
Pension and Other Post-Employment Benefit (OPEB) Costs Full Yield Curve Approach Effective January 1, 2017, OPG adopted a full yield curve approach to the estimation of the interest cost and current service cost component of pension and OPEB costs, by applying the specific spot rates along the yield curve used in the determination of the projected benefit obligations to the relevant projected cash flows. Under the previous method, these components of pension and OPEB costs were calculated using the same single weighted-average discount rates as reflected in the calculation of the benefit obligations. This change in the method was accounted for prospectively, as a change in estimate, which is consistent with other entities adopting the full yield curve approach. As a result, pension and OPEB costs were reduced in the first quarter of 2017 by approximately $30M, which was largely offset by the impact of OEB-authorized variance and deferral accounts.	▸ EY reviewed the appropriateness of certain assumptions used in the full yield curve approach calculations under US GAAP (ASC 715). ▸ EY assessed the documentation of the assumption-setting process used in the full yield curve approach. ▸ EY evaluated the appropriateness of the pension and OPEB expense recorded as at March 31, 2017. ▸ EY reviewed the disclosure of the change in estimate in the financial statements. ▸ As a result of the review procedures performed, we are not aware of any material adjustments required to the accounting or disclosures as at March 31, 2017. ▸ EY concurs with management that the prospective adoption of the full yield curve approach will result in a change in estimate that will improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates, and provide a more precise measurement of service and interest costs.

Updating inquiries relating to matters relevant to the audit and interim review

We made inquiries of you in your Audit and Risk Committee meeting in March 2017 related to fraud and other matters, that helped inform our audit strategy and the execution of our audit procedures. As part of our upcoming meeting, we will update our inquiries of you to understand any other matters of which you believe we should be aware, including, but not limited to the following:

- Any changes to your views about the risks of material misstatements due to fraud, including the risks of management override of controls
- Your knowledge of any actual, alleged or suspected fraud
- Your awareness of tips or complaints regarding the Company's financial reporting (including those received through the audit committee's own "whistleblower" program, if any) and your response to such tips and complaints
- Any changes to how you exercise oversight over the Company's assessment of fraud risks and the establishment of controls to address these risks
- Your awareness of other relevant matters including, but not limited to, violations or possible violations of laws or regulations
- Any changes to your understanding of the Company's relationships and transactions with related parties that are significant to the company
- Whether any member of the Audit and Risk Committee has concerns regarding relationships or transactions with related parties and, if so, the substance of those concerns
- Whether the Company has entered into any significant unusual transactions

Required communications

- When performing our quarterly reviews of interim financial information, we are also required to consider whether any matters described in applicable professional standards, as they relate to interim financial information, have been identified. Below we summarize these communications.

Area	Comments
Fraud and non-compliance with laws and regulations	
We communicate to the Audit and Risk Committee fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements.	We are not aware of matters that require communication.
The adoption of, or a change in an accounting principle	
We determine that the Audit and Risk Committee is informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.	During the first quarter of fiscal 2017, OPG did not adopt any accounting policies resulting from newly issued or updated standards which would have a material effect on the financial statements.
Summary of uncorrected misstatements	
	During the course of our review, we did not identify any uncorrected differences above our nominal amount between amounts recorded by the Company and amounts that we believe are required under United States generally accepted accounting principles.
Our judgments about the quality, not just acceptability, of the Company's accounting policies	
	We are not aware of matters that require communication.

Appendix A

Quarterly review procedures

Appendix

Quarterly interim review procedures and results

Summary of procedures

Summary of procedures	
Inquiries	▸ Inquiring of and discussing with executive management significant changes in the business activities, accounting principles and practices, interim accounting systems, and internal control over financial reporting to consider the effects of the changes on the financial information subject to our review procedures ▸ Inquiring of and discussing with executive management unusual or significant events or transactions (including obtaining an understanding of their business purpose (or lack thereof)), especially those occurring near the end of the period and those where there is significant judgment and complexity, and unusual or significant journal entries and other adjustments recorded during the quarter or in connection with the preparation of the interim financial information ▸ Inquiring of and discussing with executive management their knowledge of allegations of financial improprieties, including fraud or suspected fraud where such allegations could result in the misstatement of the financial statements or otherwise affect the financial reporting of the Company ▸ Inquiring of and discussing with executive management any significant deficiencies in the design or operation of internal control that could adversely affect the Company's ability to record, process, summarize and report financial information ▸ Inquiring of management about the status of differences identified during the previous audit ▸ Inquiring of management whether there were any events subsequent to the date of the interim financial information that could have a material effect on the presentation of such information
Limited review procedures	▸ Performing analytical review procedures, including comparing quarterly results with prior quarters and anticipated results, and obtaining explanations for significant fluctuations ▸ Tracing and agreeing financial statement amounts to the Company's general ledger or other supporting records ▸ Performing limited review procedures related to the Company's accounting for income taxes, such as considering the tax implications of significant transactions during the quarter ▸ Performing a high-level review of significant non-standard journal entries made outside of the normal course of business, and any client adjustments made solely to prepare the financial statements

Quarterly interim review procedures and results

Summary of procedures

Summary of procedures	
Review of company information	► Reading the minutes of the board of directors, shareholders and important committees conducted during the quarter ► Reading the financial information included in the quarterly report for compliance with United States generally accepted accounting principles and regulatory rules and regulations ► Reading other information, such as management's discussion and analysis, included in the quarterly report and considering whether such information, or the manner of its presentation, is materially inconsistent with the financial statements ► Reading internal audit reports issued during the quarter and discussing internal audits in process
Communications	► Communicating results to the Audit and Risk Committee, including matters required by professional standards ► Obtaining a letter of representations from management ► Issuing a written report on the interim financial information regarding its conformity with United States generally accepted accounting principles

Appendix B

Financial reporting developments

Appendix

Clarifying the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets (ASU 2017-05)

What's new

- The final guidance clarifies the scope and application of ASC 610-20 on the sale or transfer of nonfinancial assets and in substance nonfinancial assets to noncustomers, including partial sales.
  - ASU 2017-05 defines an in substance nonfinancial asset as a financial asset that is promised to a counterparty in a contract in which substantially all of the fair value of the assets (recognized and unrecognized) promised in the contract is concentrated in nonfinancial assets.
- The ASU clarifies that ASC 610-20 applies to all nonfinancial assets unless another scope exception applies or the sale is to a customer. The ASU also clarifies that all businesses are derecognized using the guidance in ASC 810.
- When determining whether to derecognize the asset, the selling entity will need to consider the guidance in ASC 810 and ASC 606 to conclude whether control of the asset has transferred.
- The selling entity will recognize a full gain or loss (i.e., the difference between the consideration received and the carrying amount of the asset transferred) when the derecognition criteria are met. A noncontrolling interest received or retained by the seller will be measured at fair value under ASC 606. Contingent consideration is also measured in accordance with ASC 606 using the guidance on variable consideration.

Background

- The ASU applies to nonfinancial assets, including real estate (e.g., buildings, land, windmills, solar farms), ships and intellectual property.

Effective date: Like the new revenue guidance, ASU 2017-05 is effective for public entities for annual reporting periods beginning after 15 December 2017, and interim periods therein. For nonpublic entities, it is effective for annual reporting periods beginning after 15 December 2018, and interim periods within annual reporting periods beginning after 15 December 2019.

Entities will be required to adopt the guidance in ASC 610-20 either (1) retrospectively to each period presented in the financial statements or (2) retrospectively with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. An entity may elect to apply a different transition method to ASC 610-20 than the entity does to ASC 606. ASC 606 and ASC 610-20 have to be adopted concurrently.

Early adoption is permitted.

How we see it

- Today, an entity that derecognizes real estate (or in substance real estate) applies ASC 360-20, regardless of whether the transferred asset is a business or the counterparty is a customer. Under the new guidance, an entity will account for the sale of real estate in a transaction that is not with a customer under ASC 810 if it is a business, or under ASC 610-20 if it isn't a business.
- The ASU generally aligns the measurement of a retained noncontrolling interest in a subsidiary that holds nonfinancial assets with that of a retained interest in a business. It also eliminates the use of carryover basis for most nonmonetary exchanges. These are major changes and could result in larger gains, especially for entities that sell real estate or contribute assets to equity method investees or joint ventures and use carryover basis under ASC 360-20. The requirement to use the model in ASC 606 for estimating variable consideration may also be a significant change in practice.
- Entities should carefully select a transition method for adopting ASC 610-20, giving consideration to the effect of the revised definition of a business (ASU 2017-01).

Effect on OPG

- There is no impact on OPG's Q1 interim consolidated financial statements. The company will continue to monitor any changes to the amendments and evaluate the impact on the entity's financial statements.

Accounting standards adopted
Early adopters

Clarifying the definition of a business (ASU 2017-01)

What's new

- The FASB issued new guidance changing the definition of a business in an effort to assist entities with evaluating when a set of transferred assets and activities is a business.
- The guidance requires an entity to determine whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the set of transferred assets and activities is not a business.
- The guidance also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in the new revenue recognition guidance.

Background

- The FASB developed the guidance in response to constituents' concerns that the definition of a business in today's guidance is too broad and challenging to apply.
- The definition of a business is significant because it affects the accounting for acquisitions, the identification of reporting units, consolidation evaluations and the accounting for dispositions.

Effective date: For PBEs, the guidance is effective for annual reporting periods beginning after 15 December 2017, including interim periods therein. For other entities, it is effective for annual reporting periods beginning after 15 December 2018 and interim reporting periods beginning after 15 December 2019. Early adoption is permitted.

How we see it

- Adding the "substantially all" threshold to the definition of a business in ASC 805 provides a practical approach to determining when a set does not constitute a business. However, the determination of which assets can be combined into a group of similar identifiable assets for purposes of applying the threshold may require significant judgment.
- In practice today, if revenues are generated immediately before and after a transaction, the set is typically considered a business. Requiring entities to further assess the substance of the processes they acquire will likely reduce the number of transactions accounted for as business combinations. However, this evaluation will likely require more judgment.

Effect on OPG

- There is no impact on OPG's Q1 interim consolidated financial statements. The company will continue to monitor any changes to the amendments and evaluate the impact on the entity's financial statements.

Income taxes: Intra-entity transfers of assets other than inventory (ASU 2016-16)

What's new	Background
‣ In 2018, the Company will adopt ASU 2016-16.	‣ The FASB issued final guidance that requires companies to account for the income tax effects of intercompany sales and transfers of assets other than inventory when the transfer occurs. ‣ That's a change from today's guidance, which requires companies to defer the income tax effects of intercompany transfers of assets until the asset has been sold to an outside party or otherwise recognized (e.g., depreciated, amortized, impaired). ‣ The new guidance will require companies to defer only the income tax effects of intercompany transfers of inventory. **Effective date**: For PBEs, the guidance is effective for annual periods beginning after 15 December 2017, including interim periods therein. For other entities, it is effective for annual periods beginning after 15 December 2018, and interim periods within annual periods beginning after 15 December 2019. Early adoption is only permitted as of the beginning of an annual period. This means the first quarter of 2017 is the only opportunity for calendar-year PBEs to early adopt.
How we see it	**Effect on OPG**
‣ Entities should begin identifying non-inventory intra-entity transactions for which the asset will remain in the consolidated group at the adoption date. ‣ The new standard will likely increase volatility in income tax expense and effective rates for companies with certain types of intercompany transactions. ‣ Entities should begin considering whether any changes are needed to processes and controls to track and record temporary differences arising from intra-entity transfers after adoption.	‣ OPG is required to adopt ASU 2016-16 on 1 January 2018. OPG has assessed the impact of the modified retrospective application of this ASU and noted that the cumulative downward adjustment to 2018 opening retained earnings of $7 million will be recognized. OPG disclosed this impact in the notes to the 2016 consolidated financial statements.

Accounting standards adopted
Early adopters

Leases (ASU 2016-02)

What's new	Background
‣ The Company is in the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.	‣ The new leases guidance affects all companies that lease property, plant or equipment and results in key changes to current lease accounting guidance in US GAAP, including the following: – Lessees will recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets but recognize expenses on their income statements in a manner similar to today's accounting. – For lessors, the guidance modifies what qualifies as a sales-type and direct financing lease, as well as the related accounting. – The guidance eliminates today's real estate-specific provisions and changes the sale and leaseback guidance for all entities. – Lessees and lessors will classify most leases using criteria similar to those in ASC 840 but without the use of bright lines. – Only costs that wouldn't be incurred if a lease hadn't been obtained qualify as initial direct costs (e.g., commissions) for both lessees and lessors. – New presentation and disclosures are required. ‣ The FASB issued the guidance after joint deliberations with the IASB. However, there are significant differences between the FASB and IASB standards (e.g., lessees do not classify leases under IFRS and can elect to account for leases of low-value assets under a model similar to today's operating leases). These differences will result in certain transactions being accounted for differently under US GAAP and IFRS. ‣ The SEC staff confirmed that registrants that adopt the new leases standard do not revise the earliest two years in their five-year selected financial data table. **Effective date**: The new US GAAP standard is effective for PBEs for annual periods beginning after 15 December 2018, and interim periods within that year. That effective date also applies to not for-profit entities that have issued or are conduit bond obligors for securities that are traded, listed or quoted on an exchange or over-the-counter market and employee benefit plans that file or furnish financial statements with or to the SEC. For all other entities, the effective date is annual periods beginning after 15 December 2019, and interim periods within annual periods beginning after 15 December 2020. Early adoption is permitted for all entities.

Accounting standards adopted
Early adopters

Leases (ASU 2016-02)

How we see it	Effect on OPG
• Entities will need to focus on whether an arrangement is or contains a lease or a service agreement because there are significant differences in accounting. Judgment may be required in applying the definition of a lease to certain arrangements, particularly those that include significant services. • The new standard requires entities to do more than simply convert their footnote disclosure on existing operating lease commitments to reflect lease assets and liabilities. Implementing the standard will likely require changes to the policies, processes, controls and IT systems that support lease procurement, accounting and administration. • The new standard could have significant financial reporting and business implications for lessees. For example, key balance sheet metrics could change, which may affect how entities negotiate contracts that are, or may contain, leases. • Public entities need to provide the disclosures discussed in SAB Topic 11.M of the potential effects of ASU 2016-02. The SEC staff's views on these disclosures were codified by ASU 2017-03.	• During 2016, the Company implemented a comprehensive project governance framework, which comprises a Steering Committee, Implementation & Stakeholder Committee, Project Management Office, and various working groups. The working groups are represented by cross functional finance and non-finance stakeholders who will support the financial and operational implementation of the new accounting standard. The Company is in the process of evaluating the impact of the new standard on its consolidated financial statements.

FASB developments

Balance sheet classification of debt

What's new	Background
▸ Debt would be classified as noncurrent only when it is contractually due to be settled more than one year (or operating cycle, if longer) after the balance sheet date or when the entity has a contractual right to defer settlement for at least one year (or operating cycle, if longer) after the balance sheet date. – While this approach would require entities to classify debt based on legal rights existing at the balance sheet date, an exception would be provided for waivers of debt covenant violations received after the balance sheet date but before the financial statements are issued. ▸ Entities would no longer be able to consider their intent and ability to refinance short-term obligations after the balance sheet date on a long-term basis to support noncurrent classification. ▸ Comments are due by 5 May 2017.	▸ The FASB proposed replacing today's rules-based guidance for determining whether to classify debt as current or noncurrent on the balance sheet with a principles-based approach.
How we see it	**Effect on OPG**
▸ Requiring entities to only consider rights that exist as of the balance sheet date would simplify how they determine whether to classify debt as current or noncurrent because the assessment would no longer require judgment. ▸ If the proposal is finalized, entities that now rely on long-term refinancing after the balance sheet date but before the financial statements are issued to support the classification of the debt as noncurrent would need to refinance short-term obligations earlier (i.e., before the balance sheet date) to classify them as noncurrent.	▸ When the guidance is finalized by the FASB, OPG would need to assess the impact, if any, that the proposed changes will have on its consolidated financial statements.

FASB developments

Disclosure Framework

What's new	Background
▸ As part of the disclosure framework project, the FASB is reviewing the disclosure requirements for several ASC topics. The FASB also is evaluating the disclosure requirements for interim financial reporting. – The FASB proposed requiring all entities to make additional disclosures about changes in inventory outside the normal purchase, manufacture or sale of inventory and the composition of inventory. The proposal also would require all entities to make certain inventory disclosures currently required by the SEC. It would also require additional disclosures by entities that report segment information and those that apply the retail inventory method. Comments are due by 13 March 2017. ▸ The Board scheduled public roundtable meetings in March 2017 to discuss (1) the effectiveness of the concepts used as part of the Board's decision process in identifying relevant disclosures and (2) materiality's role in the notes to the financial statements. The disclosure reviews of the four topics (i.e., defined benefit plans, fair value measurement, income taxes and inventory) will help inform those discussions.	▸ The disclosure framework project is aimed at improving the effectiveness of disclosures in the notes to financial statements by clearly communicating the information that is most important to users of the financial statements. The FASB has said that while its goal isn't to reduce the volume of notes to financial statements, it hopes that sharpening the focus on important information will result in fewer disclosures in most cases. The SEC and the IASB also are reviewing disclosure requirements.

FASB developments

Disclosure Framework

How we see it	Effect on OPG
▸ In our comment letters on the FASB's two proposals on materiality, we continue to support the FASB's objective in its disclosure framework project to improve disclosure effectiveness in the notes to the financial statements. However, we have concerns that the proposed evaluation of materiality of omitted disclosures is not sufficiently clear to be applied consistently by preparers, auditors and regulators. Also, we are concerned that focusing on materiality solely as a legal concept could lead to auditors requiring legal opinions when making materiality determinations. ▸ In our comment letter on the FASB's proposal on fair value measurement disclosures, we support the proposed elimination of certain fair value disclosure requirements, including the relief that would be provided to private companies. However, we highlight the cost of implementing some of the additional requirements the FASB proposed, including the disclosures of the amount of changes in unrealized gains and losses for recurring Level 1 and Level 2 measurements disaggregated by class. ▸ In our comment letter on the FASB's proposal on defined benefit plan disclosures, we support the proposed elimination of certain disclosure requirements that are not consistent with the proposed additions to the Conceptual Framework but have concerns about how entities would apply the materiality assessments under the FASB's proposed ASU on materiality. We also are concerned that certain proposed disclosure requirements, together with current ones required by ASC 715, *Compensation — Retirement Benefits*, could further reduce disclosure effectiveness.	▸ When the recommendations are finalized by the FASB, OPG would need to determine which disclosures, if any, will be impacted and need to be adjusted.

Appendix C

Draft interim review engagement report

Appendix

Draft interim review engagement report

To the Audit and Risk Committee of
Ontario Power Generation Inc.

In accordance with our engagement letter dated November 10, 2016, we have performed interim reviews of the consolidated balance sheet of **Ontario Power Generation Inc.** as at March 31, 2017, and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the three-month periods ended March 31, 2017 and 2016. These consolidated financial statements are the responsibility of **Ontario Power Generation Inc.** management.

We performed our interim reviews in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor (an "interim review") .

An interim review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements. Accordingly, we do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

Based on our interim reviews, we are not aware of any material modification that needs to be made for these interim consolidated financial statements to be in accordance with United States generally accepted accounting principles.

We have previously audited, in accordance with Canadian generally accepted auditing standards, the consolidated balance sheet of **Ontario Power Generation Inc.** as at December 31, 2016, and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended (not presented herein). In our report dated March 10, 2017, we expressed an unmodified audit opinion on those financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as at December 31, 2016, is fairly stated, in all material respects, in relation to the financial statements from which it has been derived.

This report is solely for the use of the Audit and Risk Committee of **Ontario Power Generation Inc.** to assist it in discharging its regulatory obligation to review these financial statements, and should not be used for any other purpose.

Toronto, Canada
May 12, 2017

Chartered Professional Accountants
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