Ontario Power Generation

2017 third quarter review

September 30, 2017

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The Audit and Risk Committee of the Board of Directors

October 31, 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 third 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 consolidated 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 the Company.

Our review is performed in accordance with standards in the Assurance Handbook of the Chartered Professional Accountants of Canada. A review of interim consolidated 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 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.

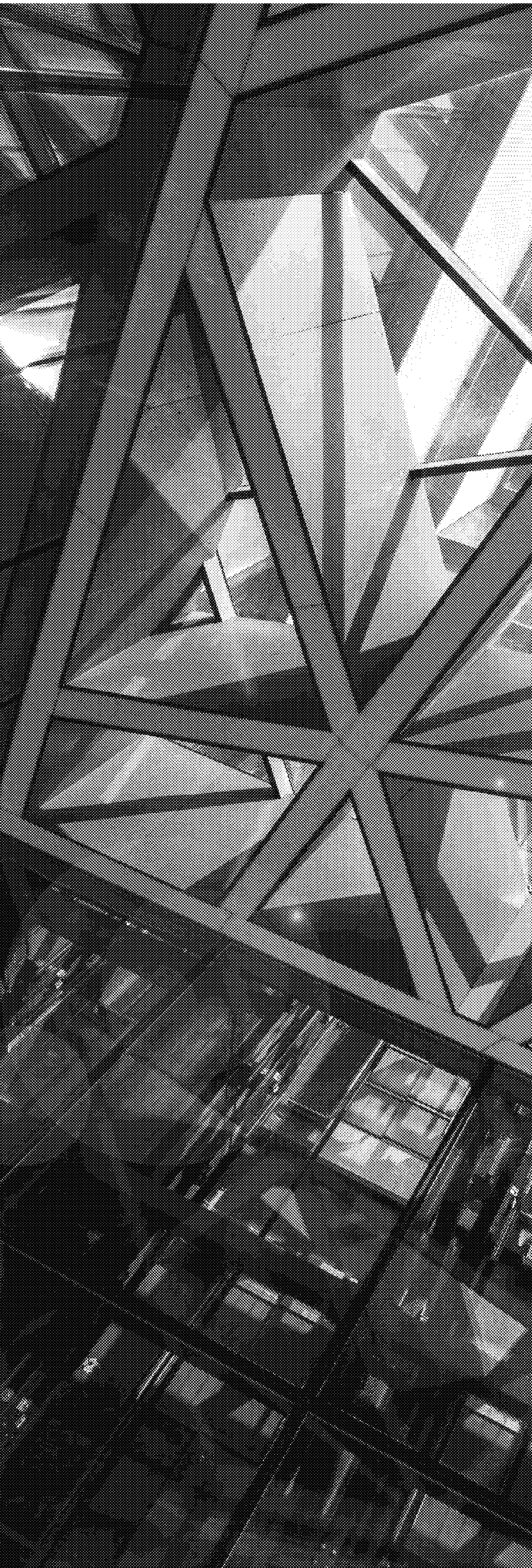
This report is intended solely for the information and use of the Audit and Risk Committee, Board of Directors and management in their review of the interim consolidated financial statements, and to assist the Audit and Risk Committee in discharging its regulatory obligation to review the interim consolidated 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 third quarter consolidated 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,

Tracy Brennan, CPA, CA

Sam Whittaker, CPA, CA



Contents

Executive summary

Status

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

Scope

- Our timely review of Ontario Power Generation Inc.'s (OPG) interim consolidated 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 in Appendix A.

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 uncorrected misstatements were identified that merit the attention of those charged with governance.

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

Areas of emphasis

- Public debt offering
- Update on Fair Hydro Plan
- Revenue recognition ASC 606 – update

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

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 interim consolidated financial statements and notes
- Performance of subsequent event procedures through the date of filing of the interim consolidated financial statements
- Obtain and review meeting minutes during the period between August 9, 2017 and November 9, 2017

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

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:

Area of emphasis	Summary of procedures and findings

Public Debt Offering
 	
On October 2, 2017, OPG issued $500 million of senior notes payable under a Medium Term Note Program. The notes bear a coupon interest rate of 3.32 percent and an effective rate of 3.43 percent, payable semi-annually until maturity on October 4, 2027. The offering was made under OPG's $2 billion short form base shelf prospectus dated September 12, 2017. The net proceeds will be used for general corporate purposes and to fund OPG's subordinated debt investment in the Fair Hydro Trust.
 	
In the interim consolidated financial statements for the third quarter of 2017, management has appropriately disclosed the offering as a subsequent event. The debt issuance will be recognized in the consolidated financial statements for the fourth quarter of 2017.
	• EY inspected the pricing supplement for the Medium Term Notes issued and the First Supplemental Trust Indenture between OPG and BNY Trust Company of Canada:
	    • To verify the terms of the senior notes payable
	    • To determine the pricing and issue date of the senior notes payable, in order to assess the appropriateness of the offering as a subsequent event to the Q3 consolidated financial statements
	• EY vouched the net proceeds for the cash settlement made to OPG to the bank statements dated October 2, 2017
	• EY reviewed the supporting journal entry for the recognition of the medium term notes in Q4 2017
	• EY reviewed the disclosure in the notes to the interim consolidated financial statements for the third quarter of 2017 regarding the public debt offering
	• EY assessed the appropriateness of the accounting for debt issuance costs associated with the senior notes issued
	• Based on the review procedures performed, we believe the Company's accounting and disclosure for the public debt offering in the consolidated financial statements as at and for the period ended September 30, 2017, are appropriate and in accordance with US GAAP.

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:

Area of emphasis	Summary of procedures and findings

Update on Ontario's Fair Hydro Plan
 	
The *Ontario Fair Hydro Plan Act* 2017 received Royal Assent on June 1, 2017 and its attendant regulations came into force in June, July and October 2017. The regulations clarify operational and financial aspects of the program logistics required for OPG, as the Financial Services Manager of the Fair Hydro Plan, to refinance a portion of the Global Adjustment through the Fair Hydro Trust.
 	
OPG continues to work with the Province to finalize its involvement as the Financial Services Manager on a commercial basis.
 	
The Fair Hydro Trust is expected to be established following the execution of the constating documents.
 	
The majority unitholder and beneficiary of the Trust is expected to be a wholly-owned subsidiary of OPG. Through this ownership and OPG's expected control over the key activities of the Trust, OPG expects to consolidate the Trust for accounting purposes commencing in the fourth quarter of 2017.
	• EY continues to review the drafts of the program and constating documents to evaluate the ability of OPG to consolidate the Trust entity. Our review has included the following areas of focus, aligned with management's accounting memo which summarizes the terms required to be able to consolidate the Trust:
	  ◦ Base and variable fee structure
	  ◦ Provincial guarantee
	  ◦ Interest and expense payments
	• EY will continue to work with management on the accounting implications of the program and constating documentation.
	• EY will review management's final accounting memos which summarize the accounting for the Trust as well as the ongoing accounting for the assets and liabilities acquired by the Trust. This analysis is being performed under both US GAAP and IFRS.
	• As a result of the review procedures performed, we are not aware of any adjustments required to the accounting or disclosures as at September 30, 2017.

Revenue recognition – update

Status of management's implementation

Topic summary

The 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.

Status of management's implementation

- OPG has developed and commenced its project plan.
- OPG has completed the scoping of revenue streams, which include:
  - Generation revenue from base regulated prices
  - 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, and 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 1 March 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 completed by the effective date.

Summary of planned audit procedures over implementation

- Gather evidence to support the company's training program related to the new standard, understanding and obtaining evidence of the company's revised risk assessments, including reassessing any fraud risks in the revenue process and the planned modifications to controls that are necessary to address these new risks.
- Obtain and document our understanding of the entity's process for implementing Accounting Standards Codification ("ASC") 606, including: the entity's governance structure; project plan, including timeline; plan for revenue stream identification and scoping and contract reviews; review and approval plan for the entity's final accounting policy and the entity's plan for computing the transition-related adjustments.
- Identify and assess risks of material misstatement related to adoption, if any.
- Perform substantive testing related to the amounts disclosed, including estimated cumulative catch-up, anticipated retrospective revisions and/or expected prospective accounting changes.
- Perform substantive testing over the entity's contract reviews and perform some independent testing.
- Read management's new accounting policy and determine if it appropriately meets the requirements of the standard.
- Review draft disclosures made by the entity on the impact of the adoption of the new standard.

Detailed discussion of management's status compared to expectations

- We evaluate the status of each of our clients compared to their competitors and the benchmark timeline expected for effective implementation of the new revenue standard. OPG's progress is in line with the majority of its peers, however, this is behind the benchmark timeline. We understand management has implemented a plan that will allow them to meet their original timeline, which is aligned with the benchmark.
- Management has made progress on the majority of their key revenue streams and expects to reach conclusions on accounting implications and the transition of all revenue streams in Q4 2017. Management has provided EY with a number of position papers by revenue stream as outlined above, which EY is in the process of reviewing.
- Within the Power & Utilities industry, many companies have indicated that they will be at the stage to disclose quantitative impact, if any, of the adoption of the new revenue standard in Q4 2017, and the majority are planning on adopting the modified retrospective approach.

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 August 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 and Risk 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 consolidated 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 consolidated financial statements.	During the third 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 consolidated 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.

Preapproval of EY services

Fair and transparent fees

- Please refer to the management's fee schedule in the Board materials.

Appendix

Appendix A

Summary of quarterly interim review procedures

Summary of quarterly interim review procedures

Summary of procedures	
Inquiries	• Inquiring of and discussing with 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 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 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 misstatements identified during the previous audit and preceding interim review of the current year • 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
Review of company information	• Reading recent filings and other correspondence with the securities regulatory authorities of the provinces of Canada • 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 US GAAP 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 US GAAP

Appendix

Appendix B

Financial reporting developments

Financial instruments — hedging

What's new

- The FASB issued final guidance amending its hedge accounting model to enable entities to better portray their risk management activities in the financial statements. The amendments also simplify the application of hedge accounting in certain situations.
- The new guidance expands an entity's ability to hedge risk components by permitting it to designate contractually specified components as the hedged risk in cash flow hedges of variable-rate financial instruments and forecasted purchases or sales of nonfinancial assets. While component hedging of interest rate risk for fixed-rate financial instruments will continue to be limited to benchmark interest rates, the guidance adds the Securities Industry and Financial Markets Association municipal swap rate as an eligible benchmark interest rate.
- The guidance also makes the application of the long-haul method for fair value hedges of benchmark interest rate risk less complex by providing entities with additional flexibility in determining how the change in the fair value of the hedged item can be measured.
- The guidance eliminates the requirement for entities to separately measure and report hedge ineffectiveness.
  - For qualifying cash flow and net investment hedges, the entire change in the fair value of the hedging instrument included in the assessment of hedge effectiveness will be recorded in accumulated other comprehensive income (OCI) and reclassified to earnings in the same income statement line item that is used to present the earnings effect of the hedged item when the hedged item affects earnings.
  - For qualifying fair value hedges, the change in the fair value of the hedged item attributable to the hedged risk and the change in the fair value of the hedging instrument that is included in the assessment of hedge effectiveness will be recognized in earnings and presented in the same income statement line item.

Overview and summary

- The amendments to the hedge accounting model will increase the number of strategies that qualify for hedge accounting and reduce some of the operational complexity in applying current strategies.

Effective date: The guidance is effective for public business entities in fiscal years beginning after 15 December 2018, including interim periods within those years. For all other entities, it will be effective in fiscal years beginning after 15 December 2019 and interim periods in fiscal years beginning after 15 December 2020. Early adoption is permitted in any interim period or fiscal year before the effective date of the standard.

Entities will apply the amendments to cash flow and net investment hedge relationships that exist on the date of adoption using a modified retrospective approach (i.e., with a cumulative effect adjustment recorded to the opening balance of retained earnings as of the initial application date).

The guidance also provides transition relief to make it easier for entities to apply certain amendments to existing hedges (including fair value hedges) where the hedge documentation needs to be modified.

The presentation and disclosure requirements apply prospectively.

Financial reporting developments

Financial instruments —hedging

What's new

- Under the new guidance, entities may choose to exclude the portion of the change in fair value of the hedging instrument attributable to a cross-currency basis spread from the assessment of hedge effectiveness. Under current US GAAP, they can exclude only the change in fair value of the hedging instrument related to time value. The amendments also modify the recognition model for all excluded components, allowing the initial value of any excluded components to be amortized into earnings using a systematic and rational method. Any difference between the change in fair value of the excluded component and the amount amortized into earnings during the period will be recognized in OCI (even for fair value hedges).
- The guidance also eases certain hedge documentation and effectiveness assessment requirements and significantly reduces restatement risk associated with an entity's misapplication of the shortcut method.

Overview and summary

How we see it

- We believe the new guidance represents a significant improvement to the existing hedge accounting model. The amendments serve to enhance the transparency and understandability of an entity's hedge results by better aligning the accounting treatment of hedging relationships with the entity's risk management activities.

Effect on OPG

- OPG's preliminary assessment is that the implementation of the hedge accounting model will not have a significant financial impact to its operating results.
- OPG will continue to monitor developments on the associated structure of the Ontario Fair Hydro Plan and will consider any impact of the new hedge accounting standard once the nature of OPG's involvement with the implementation of the Ontario Fair Hydro Plan has been confirmed.

Appendix

Appendix C

Draft interim review engagement report

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 an interim review of the consolidated balance sheet of Ontario Power Generation Inc. as at September 30, 2017, the consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2017, and the consolidated statements of cash flows and changes in equity for the nine-month period ended September 30, 2017. These consolidated financial statements are the responsibility of Ontario Power Generation Inc.'s management.

We performed our interim review 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 review, 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
November 9, 2017

Chartered Professional Accountants
Licensed Public Accountants

Appendix

Appendix D

Draft 2018 engagement letter

Appendix

Appendix E

Adoption of new auditor's reports

Adoption of new auditor's reports

AASB and PCAOB approve new standards

July 2017

What you need to know

- The Auditing and Assurance Standards Board (AASB) approved a package of standards, effective in 2018, dealing with auditor reporting, and reporting and responsibilities relating to other information.
- The new audit report is required for December 2018 year-ends, with earlier adoption permitted.
- Key audit matter (KAM) reporting is optional unless required by law or regulation.
- The AASB is currently considering the PCAOB final auditor reporting standard and monitoring SEC approval status. An announcement following SEC approval is expected.
- Work is currently progressing to draft a single auditor's report that will aim to comply with both Canadian and PCAOB auditing standards.

Overview

In April 2017, the AASB adopted International Auditing Standards (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) as Canadian Auditing Standards (CAS) dealing with:

- Auditor reporting
- Changes to performance standards with respect to going concern
- Changes to address the audit of financial statement disclosures
- Reporting and other responsibilities relating to other information included in an entity's annual report

Adopted by more than 110 countries, the new auditor's report represents a step change in the information content of the report. It better describes what an audit is and what an auditor does, including an ability to provide transparency in the reporting of key audit matters (KAM).

The new auditor's report will be effective for all audits for periods ending on or after 15 December 2018, with earlier adoption permitted. The IAASB's effective date for these standards was for periods ending on or after 15 December 2016. Accordingly, auditors conducting audits of financial statements in accordance with the CAS for periods ending on or after 15 December 2016 should not represent compliance with the ISA unless they have complied with the respective ISA issued by the IAASB.

In June 2017, the U.S. Public Company Accounting Oversight Board (PCAOB) also announced the adoption of a final auditing standard to significantly change the auditor's report. Key differences between the new AASB audit reporting standard and the PCAOB standard are highlighted on page 3.

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Enhancements to the auditor's report under the Canadian standard

All entities

Enhancements made to the new auditor's report, which are applicable for all entities:

- The format of the report has changed, with the opinion presented at the beginning of the report, followed by the basis for opinion.
- The new auditor's report contains an affirmative statement of independence and fulfillment of relevant ethical responsibilities.
- A description of management's and auditor's responsibilities relating to going concern is required, and a separate dedicated section related to material uncertainty is required when a material uncertainty exists.
- The new auditor's report discloses identification of those charged with governance (TCWG) within the management's responsibilities section.
- There is an expanded description of auditor's responsibilities, including key features of an audit.
- For all entities with "other information," such as an annual report, disclosure of other information that the auditor is required to read but which the auditor has not yet received at the date of the auditor's report is required.

Listed entities

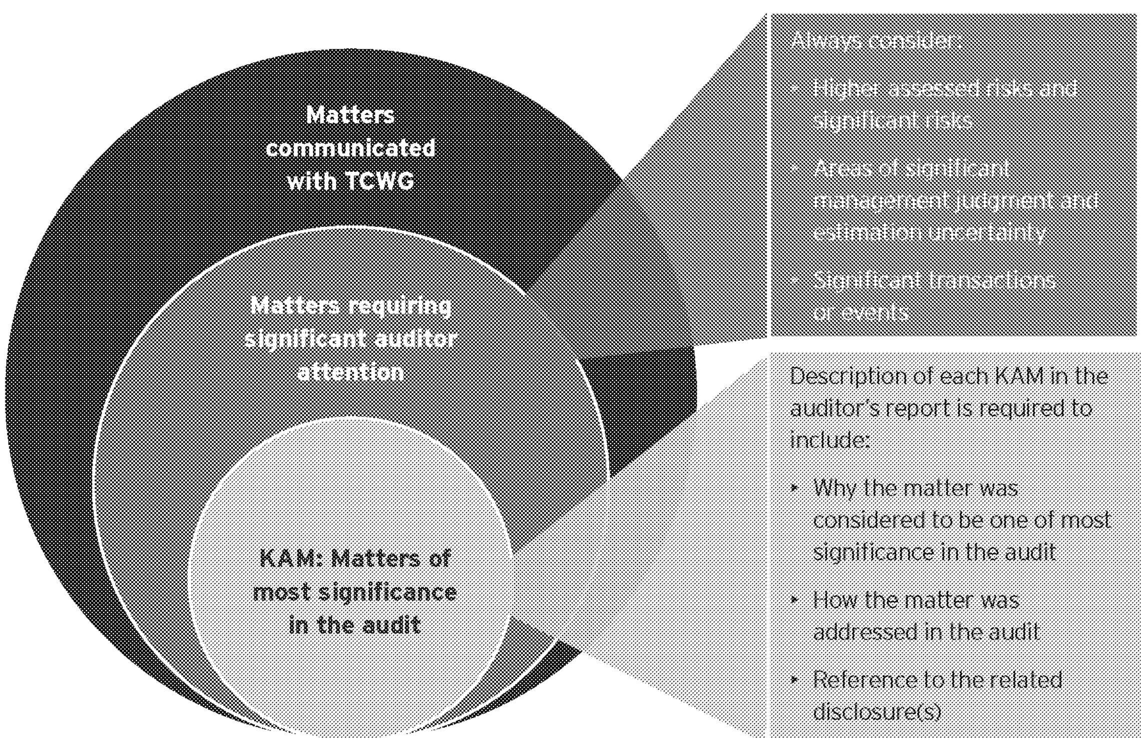
Beyond those enhancements noted for all entities, the following are enhancements applicable to listed entities:

- Disclosure of the name of the engagement partner is required.
- There is a new section in the auditor reporting standard addressing KAM, which are those matters that were considered to be of most significance in the audit of the current period. Disclosure of KAM will be optional under the Canadian standard unless required by law or regulation.

Key audit matters *[Optional]*

A significant change that introduces a new level of transparency into the audit process in the new standards is the introduction of KAM. The final reporting standards, as adopted, do not contain a KAM reporting requirement at this time. However, they do allow for law or regulation to require reporting of KAM and for the auditor to decide to do so.

KAM are defined as: "Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. KAM are selected from matters communicated with those charged with governance."



Key differences between auditing standards adopted by the AASB and the PCAOB

On 1 June 2017, the PCAOB adopted a new auditor reporting standard: *The Auditor's Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion*. This new auditing standard is subject to approval by the U.S. Securities and Exchange Commission (SEC).

The standard requires auditors to add information about auditor tenure, clarify the language about the auditor's responsibilities, and change the organization and format of the auditor's report. Those requirements are effective for annual periods ending on or after 15 December 2017. In 2015, the PCAOB approved a standard that requires the disclosure of the audit engagement partner and certain other participants in the audit in a new form (Form AP). The disclosure of the engagement partner is required for reports issued on or after 31 January 2017, while the disclosure of other participants is required in reports issued on or after 30 June 2017.

The standard also requires auditors to include in the auditor's report information about matters that they communicated or were required to communicate to the audit committee that relate to material accounts or disclosures and involved especially challenging, subjective or complex auditor judgment. These are known as critical audit matters (CAM). The framework for determining CAM is substantially similar to the framework for determining KAM and starts with those matters communicated or required to be communicated to the audit committee.

CAM reporting requirements are effective for annual periods ending on or after 30 June 2019 for large accelerated filers and on or after 15 December 2020 for all other filers (with certain exceptions, such as securities brokers and dealers that are not issuers, certain investment companies, employee stock purchase, savings and similar plans, and emerging growth companies).

The key differences between the AASB reporting standards and the PCAOB standards are:

- **The PCAOB standard will require all entities that conduct their audits under PCAOB standards to report CAM in their auditor's report, whereas KAM are optional under the final AASB standard unless required by law or regulation.**
- **Except for the CAM reporting requirement, the PCAOB standard is effective for entities for periods ending on or after 15 December 2017 and the AASB reporting standard is effective on or after 15 December 2018.**
- **The PCAOB standard requires the auditor's report to disclose the tenure of the audit firm, which is not a requirement under the AASB reporting standard.**
- **The AASB standard requires the auditor's report to disclose the name of the audit engagement partner for audits of listed entities, whereas the PCAOB requires audit firms to file a Form AP with the PCAOB that names the audit engagement partner (i.e., the partner with primary responsibility for the audit) and discloses information about certain accounting firms that participated in the audit. The form is available to the public on the PCAOB website.**

What's next?

Significant efforts will be required to implement the enhanced auditor's reporting standards. Management, TCWG, and the auditors should align their goal of improving communications so as to ensure smooth implementation in 2018 calendar-year audits. For those entities that are subject to the PCAOB standard or ISA, the auditors, management, and TCWG should consider the unique requirements that are in effect for their upcoming audits.

The AASB is considering the final PCAOB standard and monitoring SEC approval status. Given the AASB objective of adopting the ISA, we expect that the AASB will take some action following SEC approval of the PCAOB standard, expected in fall 2017. We expect that this will entail the auditors of some population of larger Canadian listed entities being required to apply KAM reporting on a similar timeline as the CAM reporting requirement under the PCAOB standards.

The AASB has indicated that it will continue to study the issue of the applicability and timing of KAM reporting applying to the smallest listed entities. The AASB has communicated that it will take additional time to further assess this.

At the same time, there is a task force working on how the current and future Canadian auditor's report can be harmonized with the new US auditor's report to allow companies to continue to issue a single auditor's report meeting Canadian and US standards.

While this process has not been concluded, companies that have issued a report under Canadian and US standards in the past should plan to continue to do so as the working group works to bring this process to conclusion.

The AASB is working directly with the Australian standard setter to study their experience in implementing the new auditor reporting standards, particularly with respect to smaller listed entities. They will review experience gained in Canada by those who apply KAM reporting in accordance with law or regulation, as well as those who apply this reporting voluntarily. The IAASB is also scheduled to conduct a post-implementation review on auditor reporting.

Insights gained from these activities will guide the AASB in future deliberations on this additional level of transparency in the auditor's report.

[This illustration of the revised auditor's report is extracted from CAS 700, *Forming An Opinion and Reporting on Financial Statements*]

Enhancements to the Auditor's Report

Independent auditor's report

To the Shareholders of
ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **ABC Company** and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20x1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at December 31, 20x1, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Opinion first. The auditor's opinion – the "pass/fail" statement that users have said they continue to value – is required to be positioned at the beginning of the report, followed by the Basis for Opinion.

Basis for Opinion

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

Basis for Opinion section is required. Currently only required when the auditor's report was modified.

New affirmative statement about the auditor's fulfilment of independence and other relevant ethical responsibilities and requirements.

(For listed entities) Key Audit Matters *(OPTIONAL)*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter is in accordance with CAS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*]

The new KAM section is currently optional unless required by law or regulation.

Other Information [or another title if appropriate, such as "Information Other than the Consolidated Financial Statements and Auditor's Report Thereon"]

Management is responsible for the other information. The other information comprises the [information included in the "Annual Report" (as defined in CAS 720), but does not include the financial statements and our auditor's report thereon.]

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

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. [We have nothing to report in this regard [or a statement that describes any material misstatement of the other information].

A separate section relating to other information is required under revised CAS 720, *The Auditor's Responsibilities Relating to Other Information*.

Enhancements to the Auditor's Report

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

New description of management's responsibilities relating to going concern. Intended to reflect the requirements of the applicable financial reporting framework.

Identification of TCWG is required when a separate body exists that is responsible for oversight of the financial reporting process (in many cases, the audit committee). When individuals responsible for such oversight are also responsible for the preparation of the financial statements, no reference to oversight responsibilities is required.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 our 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 consolidated financial statements.

(Because of the increased length of this section, CAS 700 includes a provision that certain components of the following description of the auditor's responsibilities section may be presented in an appendix to the auditor's report or, where law, regulation, or national auditing standards expressly permit, by reference to a website of an appropriate authority.)

Expanded description of the auditor's responsibilities, including key features of the audit. The auditor's responsibility section is intended to explain more fully the concept of a risk-based audit, as well as to clarify the meaning of certain audit-technical terms. This approach results in a more lengthy description of the auditor's responsibilities in relation to specific matters, including fraud, internal control, accounting policies and estimates, evaluating the overall presentation, structure and content of the financial statements and disclosures, group audits and communications with TCWG.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 our 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

New descriptions of responsibilities relating to going concern. Reflects responsibilities under CAS 570, which are required regardless of the applicable financial reporting framework.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We 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 we identify during our audit.

(For listed entities) We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

(For listed entities) ***(OPTIONAL UNLESS REQUIRED BY LAW OR REGULATION)***
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements
(The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards. The matters addressed by other law, regulation, or national auditing standards (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the CAS as part of the Report on the Audit of the Consolidated Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the CAS may be combined (i.e., included in the Report on the Audit of the Consolidated Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the CAS where such a difference exists.)

The engagement partner on the audit resulting in this independent auditor's report is [name].

> Disclosure of the name of engagement partner for audits of listed entities.
>
> Already a common practice in many jurisdictions, the name of the engagement partner is now included in auditor's reports under the CAS, but is only required for audits of listed entities.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor address]

[Date]

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Appendix

Appendix F

EY Power and Utilities Thought Leadership: The future of Canadian utilities in a hyper-connected sector

EY Power and Utilities Thought Leadership: The future of Canadian utilities in a hyper-connected sector

We are pleased to share with you our new sector report, *The future of Canadian utilities in a hyper-connected sector*, which explores the impact of digital disruption on the Canadian P&U industry and the opportunities for leading innovation.

The P&U sector globally and in Canada is undergoing a period of significant change. Distributed renewable generation, new digital technologies and changing consumer expectations are turning the traditional industry model upside down. Market trends point to a structural shift in the sector and integration of new technologies is fundamentally changing the value chain.

Far-reaching and disruptive change is transforming the global P&U sector, and Canadian companies aren't immune to this disruption. Our report covers six main themes:

- Asset management and operational excellence
- Emergence of advanced digital technologies like IoT and AI
- Digital transformation of the traditional grid system
- Cybersecurity risks and privacy in a connected infrastructure
- Customer service challenges and opportunities from digital
- New forms of generation capacity such as renewables and batteries

▶ View full report: http://www.ey.com/Publication/vwLUAssets/EY-future-of-Canadian-utilities-2017-en/$FILE/EY-future-of-Canadian-utilities-2017-en.pdf

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