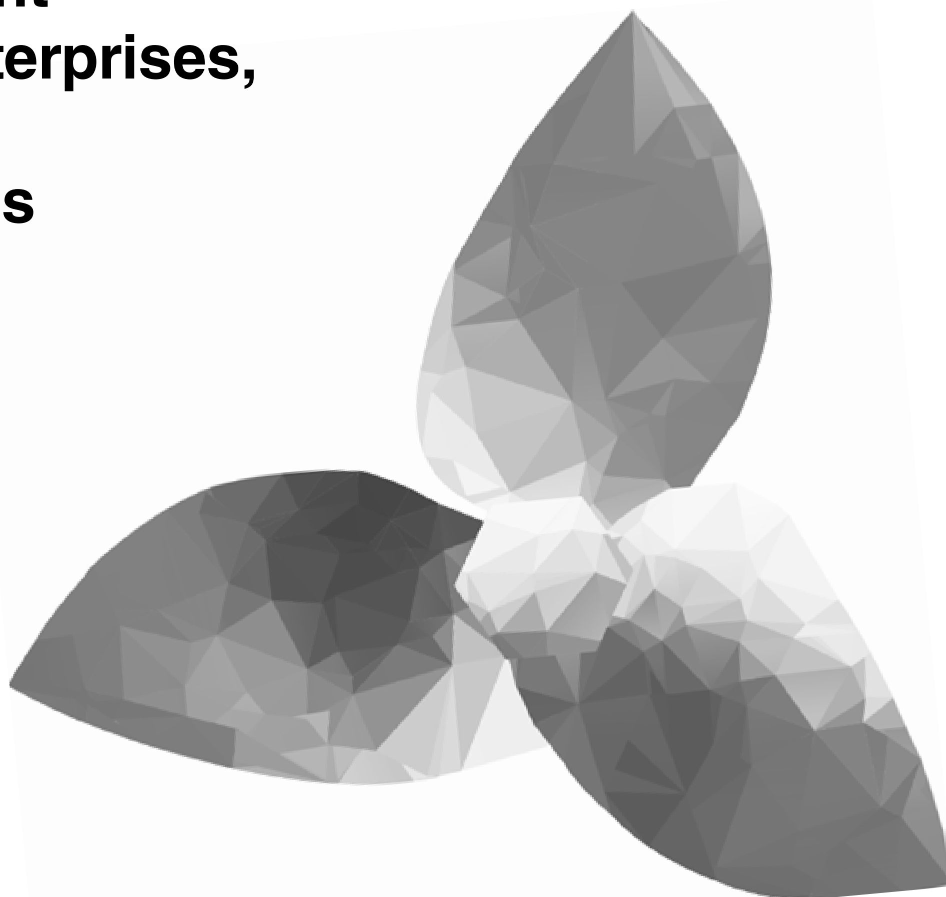
Treasury Board Secretariat

PUBLIC ACCOUNTS OF ONTARIO

Financial Statements of Government Business Enterprises, Trusts and Miscellaneous Statements

VOLUME 2C
2016–2017



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RESPONSIBLE MINISTRY FOR GOVERNMENT BUSINESS ENTERPRISES, ORGANIZATIONS, TRUSTS & MISCELLANEOUS FINANCIAL STATEMENTS

Ministry of Agriculture, Food and Rural Affairs
- AgriCorp
- Agricultural Research Institute of Ontario

Ministry of the Attorney General
- Legal Aid Ontario
- The Public Guardian and Trustee for the Province of Ontario

Ministry of Economic Development, Employment and Infrastructure/Research and Innovation
- General Real Estate Portfolio
- Ontario Capital Growth Corporation
- Ontario Immigrant Investor Corporation
- Ontario Infrastructure and Lands Corporation (Infrastructure Ontario)
- Toronto Waterfront Revitalization Corporation (Waterfront Toronto)

Ministry of Education
- Education Quality and Accountability Office
- Ontario Educational Communications Authority (TV Ontario)
- Ontario French-Language Educational Communications Authority

Ministry of Energy
- Brampton Distribution Holdco Inc.
- Hydro One Limited
- Independent Electricity System Operator
- Ontario Energy Board
- Ontario Power Generation Inc.

Ministry of the Environment and Climate Change
- Ontario Clean Water Agency

Ministry of Finance
- Deposit Insurance Corporation of Ontario
- Liquor Control Board of Ontario
- Losses Deleted from the Accounts
- Motor Vehicle Accident Claims Fund
- Ontario Electricity Financial Corporation
- Ontario Financing Authority
- Ontario Lottery and Gaming Corporation
- Ontario Securities Commission
- Pension Benefits Guarantee Fund
- Provincial Judges Pension Fund
- Revenue Remissions

RESPONSIBLE MINISTRY FOR GOVERNMENT BUSINESS ENTERPRISES, ORGANIZATIONS, TRUSTS & MISCELLANEOUS FINANCIAL STATEMENTS

Ministry of Health and Long-Term Care
- Cancer Care Ontario
- eHealth Ontario
- Local Health Integration Network – Central
- Local Health Integration Network – Central East
- Local Health Integration Network – Central West
- Local Health Integration Network – Champlain
- Local Health Integration Network – Erie St. Clair
- Local Health Integration Network – Hamilton Niagara Haldimand Brant
- Local Health Integration Network – Mississauga Halton
- Local Health Integration Network – North East
- Local Health Integration Network – North Simcoe Muskoka
- Local Health Integration Network – North West
- Local Health Integration Network – South East
- Local Health Integration Network – South West
- Local Health Integration Network – Toronto Central
- Local Health Integration Network – Waterloo Wellington
- Ontario Agency for Health Protection and Promotion (Public Health Ontario)
- Ornge

Ministry of Labour
- Workplace Safety and Insurance Board

Ministry of Municipal Affairs and Housing
- Ontario Mortgage and Housing Corporation

Ministry of Natural Resources and Forestry
- Algonquin Forestry Authority
- Forest Renewal Trust

Ministry of Northern Development and Mines
- Northern Ontario Heritage Fund Corporation
- Ontario Northland Transportation Commission

Ministry of Tourism, Culture and Sport
- The Centennial Centre of Science and Technology (Ontario Science Centre)
- Metropolitan Toronto Convention Centre Corporation
- Niagara Parks Commission
- Ontario Place Corporation
- Ontario Tourism Marketing Partnership Corporation
- Ontario Trillium Foundation
- Ottawa Convention Centre Corporation
- Province of Ontario Council for the Arts (Ontario Arts Council)
- The Royal Ontario Museum
- Toronto Organizing Committee for the 2015 Pan American and Parapan American Games (Toronto 2015)

Ministry of Transportation
- Metrolinx

Treasury Board Secretariat
- Ontario Pension Board

A GUIDE TO THE PUBLIC ACCOUNTS

1. SCOPE OF THE PUBLIC ACCOUNTS

The 2016-2017 Public Accounts of the Province of Ontario comprise the **Annual Report and Consolidated Financial Statements** and three volumes:

Volume 1 contains ministry statements and detailed schedules of debt and other items. The ministry statements reflect the financial activities of the government's ministries on the accrual basis of accounting, providing a comparison of appropriations with actual spending. Ministry expenses include all expenses that are subject to appropriation approved by the Legislative Assembly, but exclude adjustments arising from consolidation of government organizations whose expenses are not appropriated.

Volume 2 contains the financial statements of Government Organizations and Business Enterprises that are part of the government's reporting entity and other miscellaneous financial statements.

Volume 3 contains the details of payments made by ministries to vendors (including sales tax) and transfer payment recipients that are not deemed to be prohibited by the *Freedom of Information and Protection of Privacy Act.*

2. A GUIDE TO VOLUME 2 OF THE PUBLIC ACCOUNTS

The financial statements of the selected crown corporations, boards and commissions are for fiscal periods ending within the Province's own fiscal period April 1, 2016 to March 31, 2017. They are presented in the same detail as the approved, audited financial statements and as nearly as possible in the same form. The statements have been presented in the order shown in the Table of Contents. In addition, a listing is provided which groups the crown corporations, boards and commissions by ministerial responsibility.

GOVERNMENT BUSINESS ENTERPRISES

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Brampton Distribution Holdco Inc.

We have audited the accompanying consolidated financial statements of Brampton Distribution Holdco Inc., which comprise the statement of financial position as at December 31, 2016, the statement of income and comprehensive income, statement of changes in shareholder's equity and cash flow for the year ended December 31, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Brampton Distribution Holdco Inc. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

April 17, 2017

Toronto, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

BRAMPTON DISTRIBUTION HOLDCO INC.
Statement of Income and Other Comprehensive Income

(Canadian dollars in thousands)	**Year ended December 31, 2016**	For the period from incorporation on August 31, 2015 to December 31, 2015
Revenues		
Energy Sales	**525,050**	155,822
Distribution	**71,837**	22,025
Other	**4,632**	1,732
Financing income (Note 5)	**143**	-
	601,662	179,579
Costs		
Purchased power (Note 20)	**520,487**	153,514
Operation, maintenance and administration (Notes 19)	**31,610**	9,339
Depreciation of property, plant and equipment and amortization of intangible assets (Notes 7 and 8)	**17,359**	6,284
	569,456	169,137
Financing costs (Note 5)	**-**	32
Income before taxes	**32,206**	10,410
Income tax expense (Note 6)	**8,712**	2,840
Net income for the year	**23,494**	7,570
Net movement in regulatory balances, net of tax (Note 9)	**(1,642)**	(719)
Net income after net movement in regulatory balances	**21,852**	6,851
Other comprehensive income		
Item that will not be reclassified to income or loss		
Remeasurement of post-retirement benefits, net of tax	**833**	140
Total other comprehensive income	**833**	140
Total income and other comprehensive income for the year	**22,685**	6,991

See accompanying Notes to Financial Statements.

BRAMPTON DISTRIBUTION HOLDCO INC.
Statements of Financial Position

(Canadian dollars in thousands)	**December 31, 2016**	December 31, 2015
Assets		
Non-current assets:		
Property, plant and equipment (Note 7)	**375,134**	361,725
Intangible assets (Note 8)	**20,698**	21,446
Other Long term Assets (Note 10)	**730**	761
	396,562	383,932
Current assets:		
Cash	**55,215**	40,521
Accounts receivable (Note 14)	**88,711**	73,293
Materials and supplies	**1,343**	1,074
	145,269	114,888
Total assets	**541,831**	498,820
Regulatory balances (Note 9)	**11,590**	9,970
Total assets and regulatory balances	**553,421**	508,790

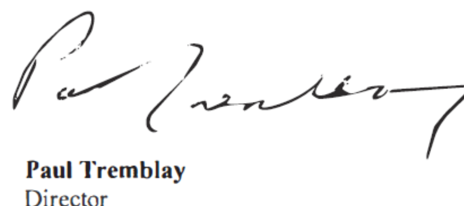
BRAMPTON DISTRIBUTION HOLDCO INC.
Statements of Financial Position (cont'd)

(Canadian dollars in thousands)	**December 31, 2016**	December 31, 2015
Liabilities		
Non-current liabilities:		
Accounts payable and accrued liabilities	**123**	151
Deferred revenue (Note 17)	**38,570**	25,721
Deferred tax liabilities (Note 6)	**2,996**	901
Employee future benefits (Note 15)	**3,751**	4,431
	45,440	31,204
Current liabilities:		
Current tax liabilities	**5,444**	1,531
Accounts payable and accrued liabilities (Note 16)	**72,454**	72,321
Accrued interest	**30**	30
Deferred revenue (Note 17)	**1,510**	1,172
Employee future benefits (Note 15)	**127**	63
	79,565	75,117
Total liabilities	**125,005**	106,321
Shareholder's equity		
Share capital (Note 18)	**0.1**	0.1
Reserve for common control (Note 3a and b)	**388,553**	388,553
Retained earnings	**28,703**	6,851
Accumulated other comprehensive income (Note 15)	**2,920**	2,087
Total shareholder's equity	**420,176**	397,491
Regulatory balances (Note 9)	**8,240**	4,978
Total liabilities, shareholder's equity and regulatory balances	**553,421**	508,790

See accompanying notes to Financial Statements.

On behalf of the Board of Directors:

Serge Imbrogno
Chair



Paul Tremblay
Director

BRAMPTON DISTRIBUTION HOLDCO INC.
Statements of Changes in Shareholder's Equity

Common Control Transactions *(Canadian dollars in thousands)*

	Share Capital	Reserve for Common Control	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at August 31, 2015	0.1	-	-	-	0.1
Non-monetary dividend received (Note 3a)	-	196,045	-	-	196,045
Reserve from common control transaction (Note 3b)	-	192,508	1,947	-	194,455
Other comprehensive income	-	-	140	-	140
Current period income	-	-	-	6,851	6,851
Balance at December 31, 2015	0.1	388,553	2,087	6,851	397,491
Other comprehensive income	-	-	833	-	833
Current period income	-	-	-	21,852	21,852
Balance at December 31, 2016	**0.1**	**388,553**	**2,920**	**28,703**	**420,176**

See accompanying notes to Financial Statements.

BRAMPTON DISTRIBUTION HOLDCO INC.
Statements of Cash Flows

(Canadian dollars in thousands)	**Year ended December 31, 2016**	For the period from incorporation on August 31, 2015 to December 31, 2015
Operating activities		
Net income after net movement in regulatory balances	**21,852**	6,851
Adjustments for non-cash items:		
Depreciation of PP&E and amortization of intangible assets (net of removal costs)	**17,520**	6,101
Amortization of debt costs	**31**	12
Amortization of deferred revenue (Note 17)	**(736)**	(345)
Post-retirement benefits (Note 15)	**217**	86
Net interest expense (income) (Note 5)	**(172)**	22
PILs expense (Note 6)	**5,628**	1,742
	44,340	14,469
Changes in non-cash balances related to operations (Note 21)	**(10,613)**	13,104
PILs paid	**(2,500)**	-
Regulatory balances (Note 9)	**1,642**	719
Net cash from operating activities	**32,869**	28,292
Investing activities		
Interest received (Note 5)	**325**	56
Property, plant and equipment (Note 7)	**(31,806)**	(12,069)
Intangible assets (Note 8)	**(466)**	(394)
Capital contributions received (Note 17)	**13,923**	8,217
Net cash used in investing activities	**(18,024)**	(4,190)
Financing activities		
Interest paid (Note 5)	**(151)**	(78)
Net cash used in financing activities	**(151)**	(78)
Net change in cash and cash equivalents	**14,694**	24,024
Cash and cash equivalents, beginning of year and received through Hydro One Brampton Networks Inc. acquisition on August 31, 2015 (Note 3)	**40,521**	16,497
Cash and cash equivalents, end of year	**55,215**	40,521

See accompanying notes to Financial Statements.

BRAMPTON DISTRIBUTION HOLDCO INC.
Notes to Financial Statements
Year ended December 31, 2016 and the period from incorporation on August 31, 2015 to December 31, 2015

1. DESCRIPTION OF THE BUSINESS

Brampton Distribution Holdco Inc. (the Company) was incorporated on August 31, 2015 under the *Business Corporations Act* (Ontario). Brampton Distribution Holdco is wholly owned by the Province of Ontario (Province). The principal business of Hydro One Brampton Networks Inc. (the Subsidiary) is the ownership, operation and management of electricity distribution systems and facilities located at 175 Sandalwood Parkway West in Brampton, Ontario, L7A 1E8. The Company's business is regulated by the Ontario Energy Board (OEB).

2. BASIS OF PREPARATION

The annual financial statements of Brampton Distribution Holdco as at December 31, 2016 and 2015 and for the year ended December 31, 2016 and the period from incorporation on August 31, 2015 to December 31, 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS). These Financial Statements have been prepared in accordance with the significant accounting policies described in Note 3. Certain prior year amounts have been reclassified to conform to current year groupings.

The Company has evaluated the events and transactions occurring subsequent to the date of the Statement of Financial Position date through to February 22, 2017, when the Company's Financial Statements were approved and authorized for issue by the Company's Board of Directors. This evaluation included the identification of events and transactions requiring recognition in the Financial Statements and/or disclosure in the Notes to the Financial Statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied in the preparation of these financial statements are detailed below:

Business Combinations

Business combinations within the scope of IFRS 3 are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Deferred taxes are recognized for any differences between the fair value and the tax basis of net assets acquired. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred. When a business combination includes a non-controlling interest, the non-controlling interest is initially measured based on either its fair value or its proportionate share of the fair value of identifiable net assets acquired.

The Acquired Business (Hydro One Brampton Networks Inc.) was acquired by the Company from Hydro One Inc. on August 31, 2015. Hydro One Inc. and the Company are wholly owned subsidiaries and controlled by the Province of Ontario. Business combinations involving entities under common control are outside the scope of IFRS 3 "Business Combinations". IFRS provides no guidance on the accounting for these types of transactions. As a result the Company was required to develop an accounting policy. The three most common methods utilized are the purchase method, the predecessor values since inception method, and the predecessor values from date of transaction method. Management determined that the predecessor values from date of transaction method to be the most appropriate. This method requires the financial statements to be prepared using the predecessor carrying values without an adjustment to fair value.

The Company commenced active operations on August 31, 2015 following the completion of the acquisition. The Company is a wholly owned subsidiary and controlled by The Province of Ontario. Consequently the entity was under common control at the time of the acquisition. The acquisition has been accounted for using the predecessor

BRAMPTON DISTRIBUTION HOLDCO INC.
Notes to Financial Statements
Year ended December 31, 2016 and the period from incorporation on August 31, 2015 to December 31, 2015

values at the date of transaction method, whereby the acquired business is transferred to the Company based on the historical carrying value carved out of Hydro One Inc.
The following tables summarize the carrying value of the net assets transferred as at August 31, 2015:

3(a)
Carrying value of debt receivable received from Hydro One Inc.

Consideration paid for debt receivable from Hydro One Brampton Networks Inc.	-
Carrying value of debt receivable from Hydro One Brampton Networks Inc.	196,045
Reserve from common control transaction	(196,045)

3(b)
Carrying value of net assets of Hydro One Brampton Networks Inc. acquired:

Capital Assets, Net	374,699
Net working capital	29,892
Net Regulatory Debit balances	7,998
Employee Future Benefits	(4,509)
Deferred Tax Liabilities	(1,476)
Long Term debt	(193,000)
Deferred revenues	(17,914)
Other long term liabilities	(1,235)
Carrying value of net assets acquired	(194,455)

Share Capital issued for acquisition of net assets	-
Carrying value of net assets acquired	194,455
Reserve from common control transaction	(194,455)

Rate-setting

The Subsidiary's electricity distribution rates are subject to rate regulation by the OEB and are based on an approved revenue requirement that includes a rate of return of 9.3% (2015 – 9.3%). On December 10, 2015, the OEB approved Hydro One Brampton's 2016 rates on the basis of the OEB's Price Cap Incentive rate setting plan (Price Cap IR) option. The revised rates were implemented January 1, 2016. On December 8, 2016, the OEB approved Hydro One Brampton's 2017 rates on the basis of the OEB's Price Cap Incentive rate setting plan (Price Cap IR) option. The revised rates were implemented on January 1, 2017.

In January 2014, the IASB issued IFRS 14 "*Regulatory Deferral Accounts*" as an interim standard giving entities the option to continue with their legacy pre-IFRS accounting policies when adopting IFRS for the first time. Specifically, qualifying entities conducting rate-regulated activities have the option of continuing to recognize regulatory balances according to their previous national GAAP (i.e. CGAAP). As these regulatory balances provide readers with useful information about the Company's financial position, financial performance and cash flows, the Company opted to implement IFRS 14. IFRS 14 will remain in force until either repealed or replaced by permanent guidance on rate regulated accounting expected to result from the IASB's current Rate Regulated Activities Project. IFRS 14 is effective for annual periods beginning on or after January 1, 2016, but early adoption is permitted. The Company elected to early adopt IFRS 14 effective January 1, 2014 for the purpose of preparing its initial Financial Statements under IFRS.

The Company has determined that certain debit and credit balances arising from its rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14. Under the Company's legacy rate-regulated accounting policies, which are continued under IFRS 14, the timing and recognition of

BRAMPTON DISTRIBUTION HOLDCO INC.
Notes to Financial Statements
Year ended December 31, 2016 and the period from incorporation on August 31, 2015 to December 31, 2015

certain expenses, losses revenues and gains may differ from that otherwise expected under IFRS. This has the effect of more appropriately reflecting the economic impact of the regulator's decisions regarding the Company's regulated operations. Amounts arising from such timing differences are recorded as regulatory debit and credit balances on the Company's Statements of Financial Position, and represent existing rights and obligations regarding future cash flows expected to be recovered from, or refunded to customers, based on expected and actual decisions and approvals by the OEB. Regulatory balances are recognized only if the OEB directs the relevant regulatory treatment or if future OEB direction is judged to be probable. In the event that the inclusion of the whole or a part of such balances is assessed to no longer be probable based on management's judgment, the balances will be derecognized with any resulting gain or loss being recorded in the Company's Statement of Income and Other Comprehensive Income in the period when the assessment is made.

Regulatory balances are segregated on the Statement of Financial Position and the net change in these balances is presented on the Statement of Income and Other Comprehensive Income as Net Movements in Regulatory Balances, net of income taxes. The netting of regulatory debit and credit balances is not permitted on the Statement of Financial Position. The measurement of regulatory balances is subject to certain estimates and assumptions by Management, including assumptions made in interpreting the OEB's regulations and decisions.

Revenue Recognition

Energy Sales and Distribution Revenue

Distribution revenues attributable to the sale and delivery of electricity are recognized as electricity is delivered to customers. Distribution revenues reflect actual consumption billed, actual customer consumption yet to be billed, and an estimate for any other unbilled consumption. Actual customer consumption yet to be billed is calculated using smart meter data and actual billing rates and an estimate for the price for energy. Unbilled revenues that relate to energy used by consumers from the last meter reading dates during the period to the end of the year are estimated based on historical actual consumption from smart meters.

Other Revenue

Other revenue includes amortization of customer contributions, government grants and incentives under Conservation and Demand Management (CDM) programs, revenue from billable customer demand activities and other general revenues. Certain items of property, plant and equipment are acquired or constructed with the assistance of contributions from customers or developers (customer contributions). These contributions are usually defined by OEB industry codes and may be received in the form of cash or as in-kind contribution. These customer contributions are recognized as deferred revenue and are amortized to revenue over the lives of the related assets. Government grants under CDM programs are recognized as income when there is reasonable assurance that the grant will be received and all related conditions will be met. Performance incentive payments under CDM programs are recognized by the Company when there is reasonable assurance that the program conditions have been satisfied and the incentive payment will be received. Other revenue related to billable activities is recognized as services are rendered.

Corporate Income Taxes

Under the *Electricity Act*, *1998*, Brampton Distribution Holdco is required to make payments in lieu of corporate income taxes (PILs) to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing taxable income and other relevant amounts contained in the *Income Tax Act (Canada)* and the *Corporations Tax Act (Ontario)* as modified by the Electricity Act, 1998, and related regulations. The provision for PILs is calculated using the liability method.

IFRS 14 requires the recognition of regulatory balances and related deferred tax assets and liabilities representing those deferred tax amounts expected to be refunded to, or recovered from, customers through future electricity distribution rates. Any related gross-up reflecting the income tax benefits associated with reduced revenues resulting from the realization of deferred tax assets, is recorded within Regulatory Balances. Deferred taxes that

BRAMPTON DISTRIBUTION HOLDCO INC.
Notes to Financial Statements
Year ended December 31, 2016 and the period from incorporation on August 31, 2015 to December 31, 2015

are not included in the rate-setting process are charged or credited to the Statements of Income and Other Comprehensive Income.

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be paid to, or recovered from, the OEFC. The tax rates and tax laws used to compute these amounts are those that are enacted or substantively enacted. Management periodically reevaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities. The amount of current tax payable or receivable is Management's best estimate of the tax amounts expected to be paid or received and reflect any uncertainty related to income taxes.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax is measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized using the tax rates and tax laws that have been enacted or substantively enacted, at the reporting date.

Materials and Supplies

Materials and supplies represent consumables, minor spare parts and construction material held for internal construction and maintenance of property, plant and equipment assets (PP&E). These assets are carried at the lower of average cost or net realizable value. The Company classifies all major construction related spares and components of its electricity distribution infrastructure as property, plant and equipment but does not commence depreciation on this material until it is put into service as part of a component of PP&E.

Cash and Cash Equivalents

Cash and cash equivalents include cash in bank accounts and short-term investments with terms to maturity of 90 days or less from their date of acquisition. On the Statement of Cash Flows, cash and cash equivalents may represent bank indebtedness that is repayable on demand.

Accounts Receivable

The carrying amount of accounts receivable and unbilled revenue is reduced through an allowance for doubtful accounts, if applicable. When the Company considers that there are no realistic prospects of recovery of an account receivable, the relevant amount is determined to be impaired and is written off. If the amount of impairment loss subsequently decreases due to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through net income.

Property, Plant and Equipment

Property, plant and equipment is recorded at historical acquisition cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of direct materials and direct labour, directly attributable overheads, and borrowing costs on qualifying assets. Significant parts of PP&E that have different useful lives are accounted for as separate items (major components) of PP&E.

BRAMPTON DISTRIBUTION HOLDCO INC.
Notes to Financial Statements
Year ended December 31, 2016 and the period from incorporation on August 31, 2015 to December 31, 2015

PP&E consist of land, land rights and buildings, distribution assets, vehicles and other tangible assets. In addition, major spare parts and standby equipment are also accounted for as PP&E.

Some of the Company's distribution assets, particularly those located on unowned easements and rights-of-way, may have decommissioning or asset retirement obligations, constructive or otherwise. The majority of the Company's land rights (easements and rights-of-way) are subject to extension or renewal and are expected to be available for a perpetual duration. As the Company expects to use the majority of its installed assets into perpetuity, no removal date can be determined and consequently no reasonable estimate of the fair value of such asset retirement obligations can be made. If, at some future date, it becomes possible to estimate the fair value cost of removing the assets that the Company is legally or constructively required to remove, a related asset retirement obligation will be recognized at that time. The discounted amount is not material.

An item of PP&E is derecognized upon disposal or when no future economic benefits are expected from either use or disposal. Any gain or loss arising on asset derecognition (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Income and Other Comprehensive Income. The cost of replacing an item of PP&E, or a major part thereof, is recorded as an addition to the carrying amount of PP&E and the carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of PP&E assets is recorded in net income as incurred.

Construction in Progress

Construction in progress assets are generally assets that are undergoing active construction or development and which are not currently available for use. Such assets are therefore not depreciated. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use. Management has assessed a substantial period of time to mean six months or more.

Intangible Assets

Intangible assets are measured at cost on an analogous basis as PP&E. Intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over their estimated useful economic lives and are assessed for impairment whenever there is an indication that the carrying value may be impaired. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit (CGU) level.

Any gain or loss arising on asset derecognition (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in net income.

Depreciation and Amortization

The capital costs of PP&E and intangible assets are depreciated on a straight-line basis over their estimated remaining service lives. Remaining lives and methods of depreciation are reviewed by Management at each financial year end. Detailed reviews are performed periodically, generally as preparation for an OEB cost of service application and such reviews may involve inputs from an external depreciation consultant. Any changes arising from such a review are implemented on a remaining service life basis consistent with their inclusion in rates. The OEB approved new depreciation rates as part of the Company's 2015 cost of service rate decision.

BRAMPTON DISTRIBUTION HOLDCO INC.
Notes to Financial Statements
Year ended December 31, 2016 and the period from incorporation on August 31, 2015 to December 31, 2015

The estimated service lives for the principal categories of PP&E and intangibles are, in aggregate, as shown in the table below:

	Years
Land rights	Indefinite
Buildings	25 to 50
Distribution assets:	
Distribution equipment	20 to 75
Transformer stations	10 to 40
Transformers and meters	15 to 40
Vehicles and other:	
Trucks and equipment	7 to 10
Office and computer equipment	5 to 10
Other	5 to 15
Intangible assets:	
Computer software	5
Capital contributions to Hydro One	40

The majority of land rights (including easements) are held in perpetuity and are not depreciated. Depreciation rates for finite life easements are based on contract life.

Where a disposition of a component of PP&E occurs through sale, a gain or loss is calculated based on net proceeds and is presented within depreciation expense. Depreciation expense also includes the costs incurred to remove PP&E where no decommissioning liability has been recognized.

Deferred Revenue

Contributions received towards the cost of property, plant and equipment are recorded as deferred revenue and amortized to revenue on a straight line basis over the estimated economic useful lives of the assets to which they relate.

In addition, amounts are received pursuant to agreements with developers for the estimated costs for the remediation of deficiencies to residential subdivisions (subdivision deficiencies) for which the related services have yet to be performed. These amounts are recorded initially as deferred revenue and are recognized as revenue in the fiscal year the related expenditures are incurred or services performed.

Impairment

Non-Financial Assets

The carrying costs of the Company's PP&E and intangible assets are generally included in rate base where they earn an OEB-approved rate of return. In addition, the capital costs of the Company's assets are generally recoverable in OEB-approved revenue requirements. As such, the Company's assets would only indicate that an impairment trigger exists in the event that the OEB disallows recovery or if such disallowance is judged to be probable.

PP&E and intangible assets are reviewed at each reporting date to determine whether any indication exists of potential impairment. If such an indication exists, the relevant asset's recoverable amount is tested for impairment.

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Financial Assets

A financial asset is considered to be impaired if objective evidence indicates that there has been a negative effect on the recoverable amount (estimated future cash flows to accrue from that asset). If there is evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at original effective interest rate.

An impairment loss related to financial assets is reversed if, and to the extent there has been a change in the estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have existed had no impairment loss been recognized.

Reversals of impairment are recognized in finance costs.

Financial Instruments

All financial assets are classified as Loans and Receivables and all financial liabilities are classified as Other Liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3. The Company does not enter into derivative instruments.

Cash equivalents include cash on hand, short-term investments with maturities of three months or less when purchased.

Employee Future Benefits

Pension

Full-time employees participate in the Ontario Municipal Employees Retirement System Fund (OMERS), a multi-employer, contributory, defined benefit public sector pension fund. OMERS provides retirement pension payments based on a member's length of service and salary. Both participating employers and members are required to make plan contributions. The OMERS plan assets are pooled together to provide benefits to all plan participants and the plan assets are not segregated in separate accounts for each member entity. The OMERS plan has approximately 461,000 members, of whom approximately 208 are current employees of Hydro One Brampton. The Company's future contributions may be increased substantially if other entities withdraw from the plan.

The OMERS plan is accounted for as a defined contribution plan by the Company because it is not practicable to determine the present value of the Company's obligation, the fair value of plan assets or the related current service cost applicable to Company's employees. The Company recognizes its pension expense based on contributions to the OMERS plan, with a portion of these contributions being capitalized. They are capitalized when there is capital project work. The expensed portion is included in operation, maintenance and administration costs in the Statements of Income and Other Comprehensive Income.

Post-Retirement Benefits (OPRB)

The Company provides some or all of its retired employees with life insurance and medical and dental benefits beyond those provided by government sponsored plans. The costs of the Company's unfunded post-retirement benefit plan is recognized over the periods during which employees render service.

The obligations for this plan is actuarially determined using the projected unit credit method, which incorporates Management's best estimate of future salary levels, retirement ages of employees, health care costs, and other actuarial factors. Changes in actuarial assumptions and experience adjustments give rise to actuarial gains and losses which are recognized in OCI as they arise. The measurement date used to determine the present value of

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the benefit obligation is December 31 of the applicable year. The latest actuarial valuation was performed as at December 31, 2016.

All OPRB costs are attributed to labour and recognized in either net income or are capitalized as part of the cost of PP&E and intangible assets.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Dividends

Common share dividends are declared at the sole discretion of the Company's Board of Directors and are recommended by Management based upon results of operations, financial condition, cash requirements and other relevant factors such as industry practice and shareholder expectations. Common share dividends are declared and paid within the same period.

Use of Judgments and Estimates

The preparation of the Company's financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods. Actual results could differ from these estimates including changes as a result of future decisions made by the OEB.

Key judgments and estimates affecting the financial statements are summarized below:

- Estimation of service lives for property, plant and equipment and intangible assets (Note 7 & 8)
- Recognition and measurement of regulatory balances (Note 9)
- Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and loss carryforwards can be used (Note 6)
- Measurement of defined benefit obligations – key actuarial assumptions (Note 15)
- Measurement of unbilled revenue (Note 14)
- Asset impairments and asset retirement obligations
- Allowance for doubtful accounts (Note 14); and
- Recognition and measurement of environmental provisions

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4. FUTURE ACCOUNTING PRONOUNCEMENTS

A number of new accounting standards, amendments and interpretations have been issued by the IASB and are not yet effective for the year ended December 31, 2016. As such they have not been applied in preparing these Financial Statements. The Company continues to analyze these standards and has initially determined that the following could have a significant impact on its financial statements.

IFRS	Date Issued	Description	Effective Date	Impact on Company
IFRS 15	May 2014	IFRS 15 Revenue from Contracts with Customers outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers. It supersedes current revenue recognition guidance including IAS 18 Revenues, IAS 11 Construction Contracts and related interpretations. The new revenue model applies to all contracts with customers except those that are within the scope of other IFRSs, such as leases, insurance contracts and financial instruments. IFRS 15 specifies how and when the entity should recognize revenue and additional disclosure requirements.	January 1, 2018	Under assessment
IFRS 9	July 2014	The final version of IFRS 9 Financial Instruments brings together the classification and measurement, impairment and hedge accounting to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. IFRS 9 has an expected credit loss model for a timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. It also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment.	January 1, 2018	Under assessment
IFRS 16	January 2016	IFRS 16 Leases replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. A company can choose to apply IFRS 16 before January 1, 2019 but only if it also applies IFRS 15 Revenue from Contracts.	January 1, 2019	Under assessment

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5. FINANCING COSTS

(Canadian dollars in thousands)	**Year ended December 31, 2016**	For the period from incorporation on August 31, 2015 to December 31, 2015
Financing costs:		
Interest expense:		
Amortization of deferred debt costs and debt premiums	**31**	10
Other interest expense	**151**	78
Total financing costs	**182**	88
Finance income:		
Interest income:		
Less interest income on short term bank deposits	**325**	56
Total financing income	**325**	56
Net financing costs (income)	**(143)**	32

6. INCOME TAX EXPENSE

A) Amount Recognized in Net Income

(Canadian dollars in thousands)	**Year ended December 31, 2016**	For the period from incorporation on August 31, 2015 to December 31, 2015
Current tax expense		
Current period	**6,500**	1,757
Adjustments for prior year(s)	**118**	97
	6,618	1,854
Deferred tax expense		
Origination and reversal of temporal differences	**(861)**	(112)
Prior period adjustments	**(129)**	-
	(990)	(112)
Total income tax expense	**5,628**	1,742
Income tax recorded in net movement in regulatory balances	**3,084**	1,098
Income tax expense and income tax recorded in net movement in regulatory balances	**8,712**	2,840

The total provision for PILs includes deferred income taxes using the Statement of Financial Position liability method of accounting.

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B) Amount Recognized in Other Comprehensive Income

	Year ended December 31, 2016		
	Before tax	**Tax (expense) benefit**	**Net of tax**
Remeasurement of post-retirement benefit obligation	**2,920**	**-**	**2,920**
	2,920	**-**	**2,920**

	For the period from incorporation on August 31, 2015 to December 31, 2015		
	Before tax	Tax (expense) benefit	Net of tax
Remeasurement of post-retirement benefit obligation	2,087	-	2,087
	2,087	-	2,087

(Canadian dollars in thousands)	**Year ended December 31, 2016**	For the period from incorporation on August 31, 2015 to December 31, 2015
Net income after net movement in regulatory balances before income tax expense and net movement in regulatory deferred tax balances	**27,479**	8,592
Federal and Ontario statutory tax rate	**26.5%**	26.5%
Income taxes at statutory rates	**7,282**	2,277
Increase (decrease) resulting from:		
Net temporary differences:		
Capital cost allowance in excess of depreciation and amortization	**(1,648)**	(644)
Employee future benefits expense in excess of cash payments	**3**	3
Other	**(11)**	100
Net temporary differences	**(1,656)**	(541)
Net permanent differences	**2**	6
Current income tax	**5,628**	1,742
Total effective income tax rate	**20.05%**	20.27%

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Deferred Tax Assets and Liabilities

(Canadian dollars in thousands)	**December 31, 2016**	December 31, 2015
Deferred income tax assets (liabilities)		
Post-retirement benefits in excess of cash payments	**1,801**	1,743
Capital cost allowance in excess of depreciation and amortization	**(4,974)**	(2,790)
Other	**177**	146
Total deferred tax assets (liabilities)	**(2,996)**	(901)

Movements in Deferred Tax Balances

(Canadian dollars in thousands)	Net balance January 1, 2016	Recognized in net income	**Net balance, December 31, 2016**
Post-retirement benefits	1,743	58	**1,801**
PP&E and intangibles	(2,790)	(2,184)	**(4,974)**
Other	146	31	**177**
	(901)	(2,095)	**(2,996)**

Movements in Deferred Tax Balances

(Canadian dollars in thousands)	Net balance acquired on August 31, 2015	Recognized in net income	Net balance, December 31, 2015
Post-retirement benefits	1,721	22	1,743
PP&E and intangibles	(2,034)	(756)	(2,790)
Other	410	(264)	146
	97	(998)	(901)

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7. PROPERTY, PLANT AND EQUIPMENT

(Canadian dollars in thousands)	Land, land rights & buildings	Distribution assets	Vehicles & other	Construction in progress	Total
Deemed cost					
Cost acquired on August 31, 2015	32,140	311,213	13,342	16,110	372,805
Additions	262	20,817	1,247	(8,195)	14,131
Retirements	-	(1,404)	(632)	-	(2,036)
At December 31, 2015	32,402	330,626	13,957	7,915	384,900
Additions	181	29,939	629	-	30,749
Retirements	-	(1,666)	(921)	(920)	(3,507)
At December 31, 2016	**32,583**	**358,899**	**13,665**	**6,995**	**412,142**
Accumulated depreciation					
At August 31, 2015	1,373	16,723	1,389	-	19,485
Depreciation	285	4,344	600	-	5,229
Retirements	-	(977)	(562)	-	(1,539)
At December 31, 2015	1,658	20,090	1,427	-	23,175
Depreciation	864	12,980	1,771	-	15,615
Retirements	-	(971)	(811)	-	(1,782)
At December 31, 2016	**2,522**	**32,099**	**2,387**	**-**	**37,008**
Carrying amounts (net book value):					
At August 31, 2015	30,767	294,490	11,953	16,110	353,320
At December 31, 2015	30,744	310,536	12,530	7,915	361,725
At December 31, 2016	**30,061**	**326,800**	**11,278**	**6,995**	**375,134**

Brampton Distribution Holdco Inc. did not have any impairments in the periods presented above.

During 2016 $4,005 thousand (2015 - $3,999 thousand) of future use assets were recognized in distribution assets.

Losses on derecognition of PP&E are presented as an element of depreciation expense on the Statement of Income and Comprehensive Income. These losses amounted to $665 thousand (2015 - $417 thousand).

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8. INTANGIBLE ASSETS

Canadian dollars in thousands	Contributed capital paid	Computer software	Total
Deemed Cost			
Cost acquired on August 31, 2015	21,209	1,889	23,098
Additions	-	528	528
At December 31, 2015	21,209	2,417	23,626
Additions	-	353	353
At December 31, 2016	**21,209**	**2,770**	**23,979**
Accumulated amortization			
At August 31, 2015	626	1,093	1,719
Amortization	210	251	461
At December 31, 2015	836	1,344	2,180
Amortization	410	691	1,101
At December 31, 2016	**1,246**	**2,035**	**3,281**
Carrying amount (net book value):			
At August 31, 2015	20,583	796	21,379
At December 31, 2015	20,373	1,073	21,446
At December 31, 2016	**19,963**	**735**	**20,698**

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9. REGULATORY BALANCES

Regulatory balances arise as a result of the rate-making process. A continuity schedule of the carrying amount of regulatory balances is provided as follows.

(Canadian dollars in thousands)	January1, 2016	Additions	Carrying charges	Recovery	Other movements	December 31, 2016	Remaining recovery period
Regulatory debit balances:							
Accounting changes under CGAAP	3,223	-	-	(1,612)	-	1,611	1 year
Regulatory deferred tax asset	5,628	3,084	-	-	-	8,712	Note [1]
LRAM variance account	521	940	28	-	(901)	588	Note [1]
LV variance account	407	247	6	-	(411)	249	Note [1]
Renewable generation funding adder	127	19	-	-	-	146	Note [1]
Other	64	240	1	(21)	-	284	Note [1]
Total	9,970	4,530	35	(1,633)	(1,312)	11,590	

(Canadian dollars in thousands)	January 1, 2016	Additions	Carrying charges	Repayment	Other movements	December 31, 2016	Remaining recovery period
Regulatory credit balances:							
Retail settlement variance accounts	4,281	4,749	78	-	(4,241)	4,867	Note [1]
Regulatory balances approved for disposition	577	-	(9)	(305)	3,050	3,313	1 year
Other	120	60	1	-	(121)	60	Note [1]
Total	4,978	4,809	70	(305)	(1,312)	8,240	
Net change in regulatory balances	4,992	(279)	(35)	(1,328)	-	3,350	

(Canadian dollars in thousands)	December 31, 2016
Beginning balance, January 1	4,992
Ending balance, December 31	3,350
Net movement in regulatory balances, net of tax	**1,642**

[1] The Company expects to apply for disposition of these regulatory balances at a future date. These balances incur carrying charges at 1.10% per annum (2015 - 1.10%).

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(Canadian dollars in thousands)	Acquired on August 31, 2015	Additions	Carrying charges	Recovery	December 31, 2015	Remaining recovery period
Regulatory debit balances:						
Accounting changes under CGAAP	3,761	-	-	(538)	3,223	1 year
Regulatory deferred tax asset	4,530	1,098	-	-	5,628	Note [2]
LRAM variance account	227	293	1	-	521	Note [1]
LV variance account	321	85	1	-	407	Note [1]
Renewable generation funding adder	23	104	-	-	127	Note [1]
Other	77	5	-	(18)	64	Note [1]
Total	8,939	1,585	2	(556)	9,970	

(Canadian dollars in thousands)	Acquired on August 31, 2015	Additions	Carrying charges	Repayment	December 31, 2015	Remaining recovery period
Regulatory credit balances:						
Retail settlement variance accounts	1,911	2,362	8	-	4,281	Note [1]
Regulatory balances approved for disposition	1,227	-	(3)	(647)	577	2 years
Other	90	30	-	-	120	Note [1]
Total	3,228	2,392	5	(647)	4,978	
Net Change in Regulatory Balances	5,711	(807)	(3)	91	4,992	

(Canadian dollars in thousands)	December 31, 2015
Beginning balance, August 31	5,711
Ending balance, December 31	4,992
Net movement in regulatory balances, net of tax	719

[2] The Company expects to apply for disposition of these regulatory balances at a future date. These balances incur carrying charges at 1.10 % per annum.

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In the absence of IFRS 14, carrying charges would not have been accreted on these regulatory balances, and financing costs would have been lower in 2016 by $35 thousand (2015 - $3 thousand).

The “Additions” column consists of additions to regulatory balances (for both debits and credits). The “Recovery” column refers to amounts collected through rate riders and other adjustments. The “Other movements” column consists of reclassification between regulatory debit and credit balances.

No impairments were recorded in 2016.

The Company is subject to regulatory risks, including the approval by the OEB of rates that permits a reasonable opportunity to recover the estimated costs of providing safe and reliable service on a timely basis and earn the approved rates of return. The OEB approves distribution rates based on projected electricity load and consumption levels. If actual load or consumption materially falls below projected levels, the income could be materially adversely affected. Also, the current revenue requirements for these businesses are based on cost assumptions that may not materialize. There is no assurance that the OEB would allow rate increases sufficient to offset unfavourable financial impacts from unanticipated changes in electricity demand or in costs.

The OEB’s new Renewed Regulatory Framework for Electricity (RRFE) requires that the term of a cost of service rate application (distribution business) be a five-year period. There are risks associated with forecasting over a longer period. Changes in the industry may alter the investment needs or require changes to rate setting that could result in a significant impact on the Company’s capability to execute its plan.

The load could also be negatively affected by successful CDM programs. The Company is also subject to risk of revenue loss from other factors, such as economic trends and weather. The risk exists that the OEB may not allow full recovery of such investments in the future. To the extent possible, the Company aims to mitigate this risk by ensuring prudent expenditures, seeking from the regulator clear policy direction on cost responsibility, and pre-approval of the need for capital expenditures.

While the Company expects that all expenditures would be fully recoverable after OEB review, any future regulatory decision to disallow or limit the recovery of such costs would lead to potential asset impairment and charges to results of operations, which could have a material adverse effect on the Company.

Regulatory debit balances

Accounting Changes under CGAAP

On July 17, 2012 the OEB issued a letter which required electricity distributors that had yet to adopt IFRS to implement changes to their regulatory capitalization and depreciation expense policies effective January 1, 2013. The OEB required these accounting changes to be implemented consistent with their regulatory accounting policies as set out for Modified IFRS as contained in the Report of the Board, Transition to International Financial Reporting Standards, EB-2008-0408, the Kinectrics Report, and the Revised 2012 Accounting Procedures Handbook for Electricity Distributors (APH). The regulatory policy changes required entities to adopt IFRS-based accounting treatments for costing and depreciating their PP&E and intangible assets, even while retaining CGAAP. A regulatory balance was provided for entities that did not have the ability to adjust rates due to their scheduled rebasing year. Based on the direction in the OEB’s letter, to December 31, 2014 the Company had accumulated $4,836 thousand of adjustments in the regulatory balance. As part of its 2015 Cost of Service application, the OEB approved the Company’s request for the disposition of the balance in this account.

In addition, in its letter dated June 25, 2013, the OEB required that a rate of return component be calculated on the balance in the regulatory account rather than the usual accretion of interest. In the OEB’s decision on the Company’s 2015 Cost of Service application, the OEB approved the recovery of the $4,835 thousand plus a return component of $1,046 thousand for a total recovery of $5,881 thousand over three years. In the absence of IFRS 14 depreciation expense would have been lower by $25 thousand (2015 - $31 thousand).

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Regulatory Deferred Tax Asset (Liability)

Deferred taxes (i.e. PILS) are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. The Company has recognized balances which correspond to the taxes that flow through the rate-making process. In the absence of regulatory accounting, the Company's provision for income tax would have been recognized using the liability method and there would have been no regulatory balances established for taxes to be recovered through future rates. As a result, the 2016 provision for income tax would have been higher by $1,810 thousand (2015 - $542 thousand).

Lost Revenue Adjustment Mechanism (LRAM) Variance Account

The LRAM Variance account represents the difference between the results of actual approved impacts of authorized CDM activities related to the CDM programs which started in 2011 and the level of CDM program activities included in the Company's approved load forecast. In the absence of regulatory accounting, revenue would have been lower by $940 thousand in 2016 (2015 - $293 thousand). In December 2016, Hydro One Brampton received approval to recover $901 thousand of the December 31, 2015 balance of debit regulatory balance. Amounts are to be collected from customers over a one year period commencing January 1, 2017.

Low Voltage (LV) Variance Account

The Company records the variance arising from LV transactions which are not part of the electricity wholesale market. In December 2014, the OEB approved the disposition of the amounts accumulated in this account from January 1 to December 31, 2013, including accrued carrying charges, to be disposed over a 12-month period from January 1 to December 31, 2015 in the Regulatory Balances Approved for Disposition Account. The approved rates are applicable to electricity consumption for the respective year. The customer bills were issued in the subsequent year for all consumption up to and including December 31st. Customer payments would then follow the normal timeline. In the absence of rate-regulated accounting, cost of purchased power would have been lower by $247 thousand in 2016 (2015 - $84 thousand). In December 2016, Hydro One Brampton received approval to recover $411 thousand of the December 31, 2015 balance of debit regulatory balance. Amounts are to be collected from customers over a one year period commencing January 1, 2017.

Renewable Generation Funding Adder

In December 2014 the OEB approved the disposition of the balance in this account accumulated from January 2011 to December 2013, including accrued carrying charges, to be disposed over a 12-month period from January 1 to December 31, 2015. The approved rates are applicable to electricity consumption for the respective year. The customer bills were issued in the subsequent year for all consumption up to and including December 31st. Customer payments would then follow the normal timeline. In the absence of regulatory accounting, revenue would have been lower by $19 thousand in 2016 (2015 - $104 thousand).

Regulatory credit balances

Retail Settlement Variance Accounts

The Company has recognized RSVA's under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. In December 2014, the OEB approved the disposition of the total RSVA balance accumulated from January 1 to December 31, 2013 to be disposed over a 24-month period from January 2014 to December 2015. The approved rates are applicable to electricity consumption for the respective year. The customer bills were issued in the subsequent year for all consumption up to and including December 31st. Customer payments would then follow the normal timeline. In the absence of regulatory accounting, distribution revenues would have been higher by $4,749 thousand (2015 - $2,362 higher). In December 2016, Hydro One Brampton received approval to refund

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$4,241 thousand of the December 31, 2015 balance of credit regulatory balance. Amounts are to be repaid to customers over a one year period commencing January 1, 2017.

Regulatory Balances Approved for Disposition

In 2014, the OEB approved the Company's request to refund regulatory balances of $2,064 thousand over a 12-month period commencing January 1, 2015. The balances consisted of RSVA regulatory debit balances and refundable variances for previous rate riders since the Company's Cost of Service application in 2011. In December 2016, Hydro One Brampton received approval to refund $3,050 thousand of the December 31, 2015 balance of credit regulatory balance. Amounts are to be repaid to customers over a one year period commencing January 1, 2017.

10. Other Long-term Assets

(Canadian dollars in thousands)	**December 31, 2016**	December 31, 2015
Unamortized balance of transaction costs	**730**	761
Other Long-term Assets (deferred transaction costs)	**730**	761

The long-term debt is receivable from Hydro One Brampton Networks Inc. and consists of four promissory notes, subject to redemption or repurchase in whole or in part, by the Company before maturity.

Brampton Distribution Holdco Inc. does not have any Long-term Debt. The subsidiary has $730 thousand (2015 - $761 thousand) of unamortized costs related to the Long-term debt receivable that was transferred from Hydro One Inc.

11. CARRYING AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. These are described below:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means.
- Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. There were no transfers between different levels in 2016 and 2015.

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Valuation Technique and Assumptions for Measuring Fair Value

Other financial assets and liabilities

The carrying amounts of cash and cash equivalents, bank overdraft, accounts receivable, and accounts payable and accrued liabilities, approximate fair value due to the short maturity of these instruments.

12. FINANCIAL RISK MANAGEMENT

Brampton Distribution Holdco is subject to interest rate risk, credit risk and liquidity risk that arises in the normal course of the Company’s business.

Interest Rate Risk

Brampton Distribution Holdco is exposed to fluctuations in interest rates as the regulated rate of return for the Company’s subsidiary distribution business is derived using a formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields and the spread in 30 year “A” rated Canadian utility bonds, over the 30 year benchmark Government of Canada bond yield. The Company estimates that a 1% reduction in the deemed rate of return on equity would reduce its results of operations by approximately $1,600 thousand (2015 - $1,600 thousand) based on the 2015 cost of service application. In 2016, Hydro One Brampton’s distribution rates were updated based on the OEB’s third generation Incentive Regulation Mechanism (IRM) policies.

Credit Risk

Financial assets create credit risk that a counter-party will fail to discharge an obligation, causing a financial loss. The Company incurs credit risk in respect of accounts receivable transactions in the normal course of business. The maximum exposure to credit risk is represented by the carrying value of financial assets.

As at December 31, 2016, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company’s revenue is earned from a broad base of customers. As a result, the Company did not earn a significant amount of revenue from any individual customer. As at December 31, 2016 and December 31, 2015, there were no significant balances of accounts receivable due from any single customer.

Overdue accounts receivables are regularly monitored. Customers are assessed at each reporting date in order to determine impairment. Based on customer credit risk assessment, a certain percentage of the overdue receivables are recognized as an allowance for credit losses at each reporting period. The Company’s maximum exposure to credit risk for accounts receivable is limited to the carrying amount on the Statement of Financial Position. In the year, the Company’s allowance for accounts receivable remained relatively unchanged at $1,081 thousand as at December 31, 2016 (2015 - $1,184 thousand). Minor adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. As of December 31, 2016, 1.6% of accounts receivable were due for more than 90 days (2015 - 1.8%).

Liquidity Risk

Liquidity risk refers to the Company’s ability to meet its financial obligations as they come due by delivering cash or another financial asset. Short-term liquidity is provided through cash and cash equivalents, funds from operations, and an established revolving credit facility of $25,000 thousand (2015 - $50,000 thousand), if required. The short-term liquidity available to the Company should be sufficient to fund normal operating requirements. The Company monitors the level of expected cash inflows related to accounts receivable together with expected cash outflows on accounts payable.

BRAMPTON DISTRIBUTION HOLDCO INC.
Notes to Financial Statements
Year ended December 31, 2016 and the period from incorporation on August 31, 2015 to December 31, 2015

The following are the remaining contractual maturities of the financial liabilities at the reporting date:

December 31, 2016 (*Canadian dollars in thousands):*

Financial Liabilities	Due within 1 year $	Due within 2 years $	Due within 3 years $	Due within 4 years $	Due within 5 years $	Due after 5 years $
Current accounts payable and accrued liabilities	72,454	-	-	-	-	-
Non-current accounts payable and accrued liabilities	-	14	14	14	14	67
Current employee future benefits	127	-	-	-	-	-
Non-current employee future benefits	-	132	137	143	149	3,190
	72,581	**146**	**151**	**157**	**163**	**3,257**

December 31, 2015 (*Canadian dollars in thousands):*

Financial Liabilities	Due within 1 year $	Due within 2 years $	Due within 3 years $	Due within 4 years $	Due within 5 years $	Due after 5 years $
Current accounts payable and accrued liabilities	72,321	-	-	-	-	-
Non-current accounts payable and accrued liabilities	-	16	16	16	16	87
Current employee future benefits	63	-	-	-	-	-
Non-current employee future benefits	-	66	68	71	74	4,152
	72,384	**82**	**84**	**87**	**90**	**4,239**

13. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of shareholder's equity, long-term debt, and cash and bank indebtedness. The Company's capital structure was as follows:

(Canadian dollars in thousands)	**December 31, 2016**	December 31, 2015
(Cash)	**(55,215)**	(40,521)
	(55,215)	(40,521)
Share capital	**0.1**	0.1
Reserve for common control	**388,553**	388,553
Retained earnings	**28,703**	6,851
Accumulated other comprehensive income	**2,920**	2,087
	420,176	397,491
Total capital	**364,961**	356,970

BRAMPTON DISTRIBUTION HOLDCO INC.
Notes to Financial Statements
Year ended December 31, 2016 and the period from incorporation on August 31, 2015 to December 31, 2015

14. ACCOUNTS RECEIVABLE

(Canadian dollars in thousands)	**December 31, 2016**	December 31, 2015
Current assets:		
Accounts receivable	**89,256**	73,574
Less: Allowance for doubtful accounts	**(1,081)**	(1,184)
Accounts receivable, net	**88,175**	72,390
Receivables due from related parties (Note 20)	**536**	903
Total accounts receivable	**88,711**	73,293

Which consists of:

(Canadian dollars in thousands)	**December 31, 2016**	December 31, 2015
Unbilled revenue	**52,206**	46,933
Customer receivables		
Current	**33,340**	23,150
30 - 60 days	**1,833**	2,430
61 - 90 days	**1,003**	673
Over 90 days	**1,410**	1,291
Less: Allowance for doubtful accounts	**(1,081)**	(1,184)
Total accounts receivable	**88,711**	73,293

15. EMPLOYEE FUTURE BENEFITS

The Subsidiary accounts for its participation in OMERS as a defined contribution plan. During 2016, the Company contributed $2,019 thousand (2015 - $684 thousand) to the plan. The Company also provides certain medical, dental and life insurance benefits to its retired employees and their dependents. The Company recognizes these post-retirement costs in the period in which the employees render services. Costs are determined by independent actuaries using the projected benefit method pro-rated on service and based on assumptions that reflect Management's best estimates.

The Company recognizes the unfunded status of its post-retirement plan (Plan) as a liability on its Statement of Financial Position. Actuarial gains and losses are recognized in accumulated other comprehensive income (AOCI). For the twelve months ended December 31, 2016, the measurement date for the Plan was December 31.

Information about the Company's post-retirement benefit plan is as follows:

(Canadian dollars in thousands)	**2016**	2015
Change in defined benefit obligation		
Defined benefit obligation, beginning of the year and as at August 31, 2015	**4,494**	4,548
Current service cost	**167**	63
Interest cost	**177**	64
Benefits paid	**(127)**	(41)
Net actuarial gain recognized in AOCI	**(833)**	(140)
Defined benefit obligation, end of the year	**3,878**	4,494

BRAMPTON DISTRIBUTION HOLDCO INC.
Notes to Financial Statements
Year ended December 31, 2016 and the period from incorporation on August 31, 2015 to December 31, 2015

The Company presents its benefit obligations on its Statement of Financial Position within the following line items:

(Canadian dollars in thousands)	**December 31, 2016**	December 31, 2015
Employee future benefits – non-current	**3,751**	4,431
Employee future benefits – current	**127**	63
Unfunded status	**3,878**	4,494

The following table provides the components of the net periodic benefit costs for the year ended December 31, 2016:

(Canadian dollars in thousands)	**Year ended December 31, 2016**	For the period from incorporation on August 31, 2015 to December 31, 2015
Current service cost	**167**	63
Interest cost	**177**	64
Net period benefit cost	**344**	127

Assumptions

The measurement of the obligations of the Plan and costs of providing benefits under the Plan involves various factors, including the development of valuation assumptions and accounting policy elections. When developing the required assumptions, the Company considers historical information as well as future expectations. The measurement of benefit obligations and costs is impacted by several assumptions including the discount rate applied to benefit obligations, the incidence of mortality, the level of compensation and rate of compensation increases, employee age, length of service, and the anticipated rate of increase of health care costs, among other factors. The impact of changes in assumptions used to measure the obligations of the Plan is recognized in AOCI.

The following weighted average assumptions were used to determine the benefit obligations and benefit expense at December 31, 2016 and December 31, 2015. Assumptions used to determine current year-end benefit obligations are the assumptions used to estimate the subsequent year's net periodic benefit costs.

BRAMPTON DISTRIBUTION HOLDCO INC.
Notes to Financial Statements
Year ended December 31, 2016 and the period from incorporation on August 31, 2015 to December 31, 2015

The significant actuarial assumptions used in measuring the defined benefit obligation are as follows:

	December 31, 2016	December 31, 2015
Discount rate for the expense	**4.00%**	4.00%
Discount rate for the defined benefit obligation	**3.75%**	4.00%
Rate of compensation scale escalation (without merit)	**3.00%**	3.00%
Rate of increase of long-term supplementary medical costs[1]	**7.61%**	7.82%
Rate of increase of prescription drugs[1]	**7.61%**	7.82%
Rate of increase of dental costs	**4.50%**	4.50%

[1] 7.61% in 2016, grading down to 4.50% per annum after 2031 (2015 - 7.82% per annum).

Sensitivity Analysis

The effect of 1% change in health care cost trends on the post-retirement benefits is as follows:

Year ended December 31 (Canadian dollars in thousands)	**2016**	2015
Effect of 1% increase in health care cost trends on:		
Defined benefit obligation	**153**	221
Service and interest costs	**29**	32
Effect of 1% decrease in health care cost trends on:		
Defined benefit obligation	**(134)**	(196)
Service and interest costs	**(27)**	(26)

BRAMPTON DISTRIBUTION HOLDCO INC.
Notes to Financial Statements
Year ended December 31, 2016 and the period from incorporation on August 31, 2015 to December 31, 2015

16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(Canadian dollars in thousands)	**December 31, 2016**	December 31, 2015
Accounts payable - energy purchases	**42,665**	37,338
Customer deposits	**11,899**	10,860
Developers liability	**6,463**	10,562
CDM programs payable	**2,605**	4,656
Payroll payable	**1,719**	1,978
Debt retirement charge payable	**1,391**	2,043
Commodity taxes payable	**1,060**	940
Other payables and accrued liabilities	**4,652**	3,944
Total current accounts payable and accrued liabilities	**72,454**	72,321
Legal claims provision	**103**	110
Environmental liability	**20**	41
Total non-current accounts payable and accrued liabilities	**123**	151
Total accounts payable and accrued liabilities	**72,577**	72,472

17. DEFERRED REVENUE

(Canadian dollars in thousands)	**December 31, 2016**	December 31, 2015
Capital contributions, net of amortization	**38,925**	25,786
Subdivision deficiencies	**1,155**	1,107
Total deferred revenue	**40,080**	26,893
Less: current portion of capital contributions	**1,510**	1,172
Non-current portion of deferred revenue	**38,570**	25,721

The reconciliation between the opening and closing capital contribution balances is as follows:

(Canadian dollars in thousands)	**December 31, 2016**	December 31, 2015
Balance, beginning of the year and as at August 31, 2015	**25,786**	17,914
Receipt of capital contributions	**13,875**	8,217
Amortization	**(736)**	(345)
Balance, end of the year	**38,925**	25,786

BRAMPTON DISTRIBUTION HOLDCO INC.
Notes to Financial Statements
Year ended December 31, 2016 and the period from incorporation on August 31, 2015 to December 31, 2015

18. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. 100 (2015 - 100) common shares are held by the Province of Ontario with a subscription value of $1 per share.

19. OPERATING, MAINTENANCE AND ADMINISTRATION

Operating, maintenance and administration expenses comprise:

(Canadian dollars in thousands)	**Year ended December 31, 2016**	For the period from incorporation on August 31, 2015 to December 31, 2015
Labour	**16,393**	4,945
Supplies and external services	**10,528**	3,375
Vehicles	**1,203**	294
Materials	**356**	151
Other	**3,130**	574
	31,610	9,339

20. RELATED PARTY TRANSACTIONS

The Company had transactions with the following related parties and companies under Province's common control:

Name of the Company	Relationship	Country of Incorporation
Province of Ontario	Owner of Brampton Distribution Holdco Inc.	Canada
Hydro One Brampton Networks Inc.	Subsidiary	Canada
Hydro One Inc. (Hydro One)	Under Province's Common Control	Canada
Hydro One Networks Inc.	Under Province's Common Control	Canada
Hydro One Remote Communities Inc.	Under Province's Common Control	Canada
Hydro One Telecom Inc.	Under Province's Common Control	Canada
IESO	Under Province's Common Control	Canada
Ontario Electricity Financial Corporation (OEFC)	Under Province's Common Control	Canada
Ontario Energy Board (OEB)	Under Province's Common Control	Canada

Transactions with the Province and entities under its common control

Brampton Distribution Holdco is wholly owned by the Province of Ontario. Hence, Hydro One Brampton Networks Inc., Hydro One and its subsidiaries, IESO, and OEB are related parties to Brampton Distribution Holdco because they are also controlled or significantly influenced by the Province of Ontario. Transactions with these parties were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the parties.

BRAMPTON DISTRIBUTION HOLDCO INC.
Notes to Financial Statements
Year ended December 31, 2016 and the period from incorporation on August 31, 2015 to December 31, 2015

Transactions between these parties and Brampton Distribution Holdco were as follows:

For the year ended December 31, 2016, Hydro One Brampton Networks Inc. purchased power from the IESO-administered spot market in the amount of $499,152 thousand (2015 - $138,913 thousand).

The IESO is responsible for funding some of the Hydro One Brampton's CDM programs. The funding includes program costs, incentives and management fees and bonuses. For the year ended December 31, 2016, the Subsidiary received $8,053 thousand (2015 - $3,783 thousand) from the IESO in respect of the CDM programs and had a net accounts receivable of $337 thousand (2015 - $304 thousand).

Under the Ontario Energy Board Act, 1998, the OEB is required to recover all of its annual operating costs from gas and electricity distributors and electricity transmitters by way of fees. For the year ended December 31, 2016, the Subsidiary incurred $631 thousand in OEB fees (2015 - $158 thousand).

The provision for PILs was paid or payable to the OEFC.

Brampton Distribution Holdco and Subsidiaries

The Subsidiary purchased certain transmission, connection, and administrative services from Hydro One Networks Inc. and Hydro One Inc. totaling $3,183 thousand (2015 - $1,106 thousand) and Hydro One Telecom Inc. totaling $187 thousand (2015 - $130 thousand). In 2016, the Subsidiary provided transmission and connection services to Hydro One Networks Inc. totaling $nil (2015 - $353 thousand). The Subsidiary recorded other rental revenues from Hydro One Networks Inc. of $17 thousand (2015 - $6 thousand) and from Hydro One Telecom Networks Inc. of $164 thousand (2015 - $149 thousand).

The amounts due to or from related parties as a result of the transactions referred to above are as follows:

December 31 (Canadian dollars in thousands)	**2016**	2015
Due from related parties	**536**	903
Due to related parties[1]	**(50,531)**	(39,651)

[1] Included in due to related parties at December 31, 2016 are amounts owing to the IESO in respect of power purchases of $42,543 thousand (2015 - $37,345 thousand).

Sales to and purchases from related parties occur at normal market prices or at a proxy for fair value based on the requirements of the OEB's Affiliate Relationship Code. Outstanding balances at period end are unsecured, interest free and settled in cash.

Key management personnel are comprised of the company's senior management team. The following compensation has been provided to key management personnel and members of the Board of Directors who have the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly:

(Canadian dollars in thousands)	**Year ended December 31, 2016**	For the period from incorporation on August 31, 2015 to December 31, 2015
Salaries and short term employee benefits	**755**	320
Retirement OMERS & OPRB contributions	**94**	41
Compensation paid for contract management personnel	**821**	255
Directors' Honorarium	**76**	3
	1,746	619

BRAMPTON DISTRIBUTION HOLDCO INC.
Notes to Financial Statements
Year ended December 31, 2016 and the period from incorporation on August 31, 2015 to December 31, 2015

21. NET CHANGE IN NON-CASH BALANCES RELATED TO OPERATIONS

The changes in non-cash balances related to operations consist of the following:

(Canadian dollars in thousands)	**Year ended December 31, 2016**	For the period from incorporation on August 31, 2015 to December 31, 2015
Accounts receivable	**(15,418)**	19,162
Income tax receivable	**-**	229
Materials and supplies	**(269)**	265
Deferred tax assets	**-**	56
Current accounts payable and accrued liabilities	**2,223**	(7,320)
Income tax payable	**3,911**	1,531
Non-current accounts payable and accrued liabilities	**(3,155)**	(1,742)
Deferred tax liabilities	**2,095**	942
Other	**-**	(19)
Total	**(10,613)**	13,104

22. CONTINGENCIES

Legal Proceedings

The Company is involved in various lawsuits, claims and regulatory proceedings in the normal course of business. In the opinion of Management, the outcome of such matters, except as noted below, will not have a materially adverse effect on the Company's financial position, results of operations or cash flows.

23. COMMITMENTS

Prudential Support

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on this security if the Company fails to make the payment required by a default notice issued by the IESO. In August 2016 Hydro One Brampton posted a letter of credit as security in the amount of $5,500 thousand (2015 - $5,500 thousand).

24. SUBSEQUENT EVENT

On January 31, 2017, Enersource Holdings Inc., PowerStream Holdings Inc. and Horizon Holdings Inc. amalgamated to form Alectra Inc. On March 2, 2017, Alectra Utilities Corporation, a subsidiary of Alectra Inc., will purchase the shares of Hydro One Brampton Networks Inc. for a purchase price of $607 million plus any closing adjustments. Alectra Inc. will serve almost a million customers in Mississauga, Brampton, Hamilton, St. Catharines, Markham, Vaughan, Aurora and Simcoe County. Alectra Inc. is owned by seven shareholders, the municipalities of Mississauga, Barrie, Hamilton, Markham, St. Catharines, Vaughan, and Borealis, a division of the Ontario Municipal Employees Retirement System. The transaction will enable a larger utility to use its collective resources to reduce upward pressure on distribution rates and deliver more efficient services and innovative technologies for customers, while providing significant benefits for communities and shareholders.

HYDRO ONE LIMITED
MANAGEMENT'S REPORT

The Consolidated Financial Statements, Management's Discussion and Analysis (MD&A) and related financial information have been prepared by the management of Hydro One Limited (Hydro One or the Company). Management is responsible for the integrity, consistency and reliability of all such information presented. The Consolidated Financial Statements have been prepared in accordance with United States Generally Accepted Accounting Principles and applicable securities legislation. The MD&A has been prepared in accordance with National Instrument 51-102.

The preparation of the Consolidated Financial Statements and information in the MD&A involves the use of estimates and assumptions based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Company as described in Note 2 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements and the MD&A includes information regarding the estimated impact of future events and transactions. The MD&A also includes information regarding sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The Consolidated Financial Statements and MD&A have been properly prepared within reasonable limits of materiality and in light of information up to February 9, 2017.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal control and internal audit. The system of internal control includes a written corporate conduct policy; implementation of a risk management framework; effective segregation of duties and delegation of authorities; and sound accounting policies that are regularly reviewed. This structure is designed to provide reasonable assurance that assets are safeguarded and that reliable information is available on a timely basis. In addition, management has assessed the design and operating effectiveness of the Company's internal control over financial reporting in accordance with the criteria set forth in Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2016. The effectiveness of these internal controls is reported to the Audit Committee of the Hydro One Board of Directors, as required.

The Consolidated Financial Statements have been audited by KPMG LLP, independent external auditors appointed by the shareholders of the Company. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with United States Generally Accepted Accounting Principles. The Independent Auditors' Report outlines the scope of their examination and their opinion.

The Hydro One Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee of Hydro One met periodically with management, the internal auditors and the external auditors to satisfy itself that each group had properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit findings.

The President and Chief Executive Officer and the Chief Financial Officer have certified Hydro One's annual Consolidated Financial Statements and annual MD&A, related disclosure controls and procedures and the design and effectiveness of related internal controls over financial reporting.

On behalf of Hydro One's management:

Mayo Schmidt
President and Chief Executive Officer

Michael Vels
Chief Financial Officer

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HYDRO ONE LIMITED
INDEPENDENT AUDITORS' REPORT

To the Shareholders of Hydro One Limited

We have audited the accompanying Consolidated Financial Statements of Hydro One Limited, which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015, the consolidated statements of operations and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with United States Generally Accepted Accounting Principles, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the Consolidated Financial Statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of Hydro One Limited as at December 31, 2016 and December 31, 2015, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with United States Generally Accepted Accounting Principles.

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
February 9, 2017

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HYDRO ONE LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31, 2016 and 2015

Year ended December 31 (millions of Canadian dollars, except per share amounts)	2016	2015
Revenues		
Distribution (includes $160 related party revenues; 2015 – $159) (Note 26)	4,915	4,949
Transmission (includes $1,553 related party revenues; 2015 – $1,554) (Note 26)	1,584	1,536
Other	53	53
	6,552	6,538
Costs		
Purchased power (includes $2,103 related party costs; 2015 – $2,335) (Note 26)	3,427	3,450
Operation, maintenance and administration (Note 26)	1,069	1,135
Depreciation and amortization (Note 5)	778	759
	5,274	5,344
Income before financing charges and income taxes	1,278	1,194
Financing charges (Note 6)	393	376
Income before income taxes	885	818
Income taxes (Notes 7, 26)	139	105
Net income	**746**	**713**
Other comprehensive income	–	1
Comprehensive income	**746**	**714**
Net income attributable to:		
Noncontrolling interest (Note 25)	6	10
Preferred shareholders	19	13
Common shareholders	721	690
	746	**713**
Comprehensive income attributable to:		
Noncontrolling interest (Note 25)	6	10
Preferred shareholders	19	13
Common shareholders	721	691
	746	**714**
Earnings per common share (Note 23)		
Basic	$1.21	$1.39
Diluted	$1.21	$1.39
Dividends per common share declared (Note 22)	$0.97	$1.83

See accompanying notes to Consolidated Financial Statements.

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HYDRO ONE LIMITED
CONSOLIDATED BALANCE SHEETS
At December 31, 2016 and 2015

December 31 (millions of Canadian dollars)	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	50	94
Accounts receivable (Note 8)	838	776
Due from related parties (Note 26)	158	191
Other current assets (Note 9)	102	105
	1,148	1,166
Property, plant and equipment (Note 10)	19,140	17,968
Other long-term assets:		
Regulatory assets (Note 12)	3,145	3,015
Deferred income tax assets (Note 7)	1,235	1,636
Intangible assets (Note 11)	349	336
Goodwill (Note 4)	327	163
Other assets	7	10
	5,063	5,160
Total assets	**25,351**	**24,294**
Liabilities		
Current liabilities:		
Short-term notes payable (Note 15)	469	1,491
Long-term debt payable within one year (Note 15)	602	500
Accounts payable and other current liabilities (Note 13)	945	868
Due to related parties (Note 26)	147	138
	2,163	2,997
Long-term liabilities:		
Long-term debt (includes $548 measured at fair value; 2015 – $51) (Notes 15, 16)	10,078	8,207
Regulatory liabilities (Note 12)	209	236
Deferred income tax liabilities (Note 7)	60	207
Other long-term liabilities (Note 14)	2,752	2,723
	13,099	11,373
Total liabilities	**15,262**	**14,370**
Contingencies and Commitments (Notes 28, 29)		
Subsequent Events (Note 31)		
Noncontrolling interest subject to redemption (Note 25)	22	23
Equity		
Common shares (Notes 21, 22)	5,623	5,623
Preferred shares (Notes 21, 22)	418	418
Additional paid-in capital (Note 24)	34	10
Retained earnings	3,950	3,806
Accumulated other comprehensive loss	(8)	(8)
Hydro One shareholders' equity	10,017	9,849
Noncontrolling interest (Note 25)	50	52
Total equity	**10,067**	**9,901**
	25,351	**24,294**

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board of Directors:

David Denison
Chair

Philip Orsino
Chair, Audit Committee

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HYDRO ONE LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2016 and 2015

Year ended December 31, 2016 (millions of Canadian dollars)	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Hydro One Shareholders' Equity	Non-controlling Interest (Note 25)	Total Equity
January 1, 2016	5,623	418	10	3,806	(8)	9,849	52	9,901
Net income	–	–	–	740	–	740	4	744
Other comprehensive income	–	–	–	–	–	–	–	–
Distributions to noncontrolling interest	–	–	–	–	–	–	(6)	(6)
Dividends on preferred shares	–	–	–	(19)	–	(19)	–	(19)
Dividends on common shares	–	–	–	(577)	–	(577)	–	(577)
Stock-based compensation (Note 24)	–	–	24	–	–	24	–	24
December 31, 2016	**5,623**	**418**	**34**	**3,950**	**(8)**	**10,017**	**50**	**10,067**

Year ended December 31, 2015 (millions of Canadian dollars)	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Hydro One Shareholders' Equity	Non-controlling Interest (Note 25)	Total Equity
January 1, 2015	3,314	–	–	4,249	(9)	7,554	49	7,603
Net income	–	–	–	703	–	703	7	710
Other comprehensive income	–	–	–	–	1	1	–	1
Distributions to noncontrolling interest	–	–	–	–	–	–	(4)	(4)
Dividends on preferred shares	–	–	–	(13)	–	(13)	–	(13)
Dividends on common shares	–	–	–	(875)	–	(875)	–	(875)
Hydro One Brampton spin-off (Note 4)	(196)	–	–	(258)	–	(454)	–	(454)
Pre-IPO Transactions (Note 21)	2,505	418	–	–	–	2,923	–	2,923
Stock-based compensation (Note 24)	–	–	10	–	–	10	–	10
December 31, 2015	**5,623**	**418**	**10**	**3,806**	**(8)**	**9,849**	**52**	**9,901**

See accompanying notes to Consolidated Financial Statements.

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HYDRO ONE LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2016 and 2015

Year ended December 31 (millions of Canadian dollars)	2016	2015
Operating activities		
Net income	746	713
Environmental expenditures	(20)	(19)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	688	668
Regulatory assets and liabilities	(16)	(3)
Deferred income taxes (Note 7)	114	(2,844)
Other	10	24
Changes in non-cash balances related to operations (Note 27)	134	213
Net cash from (used in) operating activities	1,656	(1,248)
Financing activities		
Long-term debt issued	2,300	350
Long-term debt repaid	(502)	(585)
Short-term notes issued	3,031	2,891
Short-term notes repaid	(4,053)	(1,400)
Common shares issued	–	2,600
Dividends paid	(596)	(888)
Distributions paid to noncontrolling interest	(9)	(5)
Change in bank indebtedness	–	(2)
Other	(10)	(7)
Net cash from financing activities	161	2,954
Investing activities		
Capital expenditures (Note 27)		
Property, plant and equipment	(1,600)	(1,595)
Intangible assets	(61)	(37)
Capital contributions received (Note 27)	21	57
Acquisitions (Note 4)	(224)	(90)
Investment in Hydro One Brampton (Note 4)	–	(53)
Other	3	6
Net cash used in investing activities	(1,861)	(1,712)
Net change in cash and cash equivalents	(44)	(6)
Cash and cash equivalents, beginning of year	94	100
Cash and cash equivalents, end of year	**50**	**94**

See accompanying notes to Consolidated Financial Statements.

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HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015

1. DESCRIPTION OF THE BUSINESS

Hydro One Limited (Hydro One or the Company) was incorporated on August 31, 2015, under the *Business Corporations Act* (Ontario). On October 31, 2015, the Company acquired Hydro One Inc., a company previously wholly owned by the Province of Ontario (Province). The acquisition of Hydro One Inc. by Hydro One was accounted for as a common control transaction and Hydro One is a continuation of business operations of Hydro One Inc. At December 31, 2016, the Province holds approximately 70.1% (2015 – 84%) of the common shares of Hydro One. See note 21 for further details regarding the reorganization of Hydro One.

The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation and Preparation

These Consolidated Financial Statements include the accounts of the Company and its subsidiaries. Intercompany transactions and balances have been eliminated.

The comparative information to these Consolidated Financial Statements has been presented in a manner similar to the pooling-of-interests method. The comparative information consists of the results of operations of Hydro One Inc. prior to October 31, 2015, and the consolidated results of operations of Hydro One from the date of incorporation on August 31, 2015 to December 31, 2015, which include the results of Hydro One Inc. subsequent to its acquisition on October 31, 2015. The comparative information has been combined using historical amounts. In addition, Hydro One's issued and outstanding common shares prior to October 31, 2015 have been retroactively adjusted for the purposes of presentation to reflect the effects of the acquisition of Hydro One Inc. using the exchange ratio established for the acquisition. The Consolidated Financial Statements are referred to as "consolidated" for all periods presented.

On August 31, 2015, Hydro One Inc. completed the spin-off of its subsidiary, Hydro One Brampton Networks Inc. (Hydro One Brampton) to the Province (see note 4). The comparative information to these Consolidated Financial Statements includes the results of Hydro One Brampton up to August 31, 2015.

Basis of Accounting

These Consolidated Financial Statements are prepared and presented in accordance with United States (US) Generally Accepted Accounting Principles (GAAP) and in Canadian dollars.

Use of Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting periods. Management evaluates these estimates on an ongoing basis based upon historical experience, current conditions, and assumptions believed to be reasonable at the time the assumptions are made, with any adjustments being recognized in results of operations in the period they arise. Significant estimates relate to regulatory assets and regulatory liabilities, environmental liabilities, pension benefits, post-retirement and post-employment benefits, asset retirement obligations, goodwill and asset impairments, contingencies, unbilled revenues, allowance for doubtful accounts, derivative instruments, and deferred income tax assets and liabilities. Actual results may differ significantly from these estimates.

Rate Setting

The Company's Transmission Business consists of the transmission business of Hydro One Inc., which includes the transmission business of Hydro One Networks Inc. (Hydro One Networks), Hydro One Sault Ste. Marie LP (previously Great Lakes Power Transmission LP (Great Lakes Power)), and its 66% interest in B2M Limited Partnership (B2M LP). The Company's Distribution Business consists of the distribution business of Hydro One Inc., which includes the distribution businesses of Hydro One Networks, as well as Hydro One Remote Communities Inc. (Hydro One Remote Communities).

Transmission

In November 2015, the OEB approved Hydro One Networks' 2016 transmission rates revenue requirement of $1,480 million.

In December 2015, the OEB approved B2M LP's 2015-2019 rates revenue requirements of $39 million, $36 million, $37 million, $38 million and $37 million for the respective years. On January 14, 2016, the OEB approved the B2M LP revenue requirement recovery through the 2016 Uniform Transmission Rates, and the establishment of a deferral account to capture costs of Tax Rate and Rule changes.

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2016 and 2015

Distribution

In March 2015, the OEB approved Hydro One Networks' distribution revenue requirements of $1,326 million for 2015, $1,430 million for 2016 and $1,486 million for 2017. The OEB has subsequently approved updated revenue requirements of $1,410 million for 2016 and $1,415 million for 2017.

On March 17, 2016, the OEB approved an increase of 2.10% to Hydro One Remote Communities' basic rates for the distribution and generation of electricity, with an effective date of May 1, 2016.

Regulatory Accounting

The OEB has the general power to include or exclude revenues, costs, gains or losses in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been applied in an unregulated company. Such change in timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Company has recorded regulatory liabilities that generally represent amounts that are refundable to future customers. The Company continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will include its regulatory assets and liabilities in setting of future rates. If, at some future date, the Company judges that it is no longer probable that the OEB will include a regulatory asset or liability in setting future rates, the appropriate carrying amount would be reflected in results of operations in the period that the assessment is made.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with an original maturity of three months or less.

Revenue Recognition

Transmission revenues are collected through OEB-approved rates, which are based on an approved revenue requirement that includes a rate of return. Such revenue is recognized as electricity is transmitted and delivered to customers.

Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized on an accrual basis and include billed and unbilled revenues. Billed revenues are based on electricity delivered as measured from customer meters. At the end of each month, electricity delivered to customers since the date of the last billed meter reading is estimated, and the corresponding unbilled revenue is recorded. The unbilled revenue estimate is affected by energy consumption, weather, and changes in the composition of customer classes.

Distribution revenue also includes an amount relating to rate protection for rural, residential, and remote customers, which is received from the Independent Electricity System Operator (IESO) based on a standardized customer rate that is approved by the OEB.

Revenues also include amounts related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered.

Revenues are recorded net of indirect taxes.

Accounts Receivable and Allowance for Doubtful Accounts

Billed accounts receivable are recorded at the invoiced amount, net of allowance for doubtful accounts. Unbilled accounts receivable are recorded at their estimated value. Overdue amounts related to regulated billings bear interest at OEB-approved rates. The allowance for doubtful accounts reflects the Company's best estimate of losses on billed accounts receivable balances. The Company estimates the allowance for doubtful accounts on billed accounts receivable by applying internally developed loss rates to the outstanding receivable balances by aging category. Loss rates applied to the billed accounts receivable balances are based on historical overdue balances, customer payments and write-offs. Accounts receivable are written-off against the allowance when they are deemed uncollectible. The allowance for doubtful accounts is affected by changes in volume, prices and economic conditions.

Noncontrolling interest

Noncontrolling interest represents the portion of equity ownership in subsidiaries that is not attributable to shareholders of Hydro One. Noncontrolling interest is initially recorded at fair value and subsequently the amount is adjusted for the proportionate share of net income and other comprehensive income attributable to the noncontrolling interest and any dividends or distributions paid to the noncontrolling interest.

If a transaction results in the acquisition of all, or part, of a noncontrolling interest in a subsidiary, the acquisition of the noncontrolling interest is accounted for as an equity transaction. No gain or loss is recognized in consolidated net income or

comprehensive income as a result of changes in the noncontrolling interest, unless a change results in the loss of control by the Company.

Income Taxes

Prior to the IPO, Hydro One was exempt from tax under the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) (Federal Tax Regime). However, under the *Electricity Act*, Hydro One was required to make payments in lieu of tax (PILs) to the Ontario Electricity Financial Corporation (OEFC) (PILs Regime). The PILs were, in general, based on the amount of tax that Hydro One would otherwise be liable to pay under the Federal Tax Regime if it was not exempt from taxes under those statutes. In connection with the IPO of Hydro One, Hydro One's exemption from tax under the Federal Tax Regime ceased to apply. Upon exiting the PILs Regime, Hydro One is required to make corporate income tax payments to the Canada Revenue Agency (CRA) under the Federal Tax Regime.

Current and deferred income taxes are computed based on the tax rates and tax laws enacted as at the balance sheet date. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the "more-likely-than-not" recognition threshold is satisfied and are measured at the largest amount of benefit that has a greater than 50% likelihood of being realized upon settlement. Management evaluates each position based solely on the technical merits and facts and circumstances of the position, assuming the position will be examined by a taxing authority having full knowledge of all relevant information. Significant management judgment is required to determine recognition thresholds and the related amount of tax benefits to be recognized in the Consolidated Financial Statements. Management re-evaluates tax positions each period using new information about recognition or measurement as it becomes available.

Deferred Income Taxes

Deferred income taxes are provided for using the liability method. Deferred income taxes are recognized based on the estimated future tax consequences attributable to temporary differences between the carrying amount of assets and liabilities in the Consolidated Financial Statements and their corresponding tax bases.

Deferred income tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognized to the extent that it is more-likely-than-not that these assets will be realized from taxable income available against which deductible temporary differences can be utilized.

Deferred income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates and tax laws that have been enacted as at the balance sheet date. Deferred income taxes that are not included in the rate-setting process are charged or credited to the Consolidated Statements of Operations and Comprehensive Income.

If management determines that it is more-likely-than-not that some or all of a deferred income tax asset will not be realized, a valuation allowance is recorded against the deferred income tax asset to report the net balance at the amount expected to be realized. Previously unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more-likely-than-not that the tax benefit will be realized.

The Company records regulatory assets and liabilities associated with deferred income taxes that will be included in the rate-setting process.

The Company uses the flow-through method to account for investment tax credits (ITCs) earned on eligible scientific research and experimental development expenditures, and apprenticeship job creation. Under this method, only non-refundable ITCs are recognized as a reduction to income tax expense.

Materials and Supplies

Materials and supplies represent consumables, small spare parts and construction materials held for internal construction and maintenance of property, plant and equipment. These assets are carried at average cost less any impairments recorded.

Property, Plant and Equipment

Property, plant and equipment is recorded at original cost, net of customer contributions, and any accumulated impairment losses. The cost of additions, including betterments and replacement asset components, is included on the Consolidated Balance Sheets as property, plant and equipment.

The original cost of property, plant and equipment includes direct materials, direct labour (including employee benefits), contracted services, attributable capitalized financing costs, asset retirement costs, and direct and indirect overheads that are related to the capital project or program. Indirect overheads include a portion of corporate costs such as finance, treasury, human resources, information technology and executive costs. Overhead costs, including corporate functions and field services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology.

Property, plant and equipment in service consists of transmission, distribution, communication, administration and service assets and land easements. Property, plant and equipment also includes future use assets, such as land, major components and spare parts, and capitalized project development costs associated with deferred capital projects.

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2016 and 2015

Transmission

Transmission assets include assets used for the transmission of high-voltage electricity, such as transmission lines, support structures, foundations, insulators, connecting hardware and grounding systems, and assets used to step up the voltage of electricity from generating stations for transmission and to step down voltages for distribution, including transformers, circuit breakers and switches.

Distribution

Distribution assets include assets related to the distribution of low-voltage electricity, including lines, poles, switches, transformers, protective devices and metering systems.

Communication

Communication assets include fibre optic and microwave radio systems, optical ground wire, towers, telephone equipment and associated buildings.

Administration and Service

Administration and service assets include administrative buildings, personal computers, transport and work equipment, tools and other minor assets.

Easements

Easements include statutory rights of use for transmission corridors and abutting lands granted under the *Reliable Energy and Consumer Protection Act, 2002*, as well as other land access rights.

Intangible Assets

Intangible assets separately acquired or internally developed are measured on initial recognition at cost, which comprises purchased software, direct labour (including employee benefits), consulting, engineering, overheads and attributable capitalized financing charges. Following initial recognition, intangible assets are carried at cost, net of any accumulated amortization and accumulated impairment losses. The Company's intangible assets primarily represent major computer applications.

Capitalized Financing Costs

Capitalized financing costs represent interest costs attributable to the construction of property, plant and equipment or development of intangible assets. The financing cost of attributable borrowed funds is capitalized as part of the acquisition cost of such assets. The capitalized financing costs are a reduction of financing charges recognized in the Consolidated Statements of Operations and Comprehensive Income. Capitalized financing costs are calculated using the Company's weighted average effective cost of debt.

Construction and Development in Progress

Construction and development in progress consists of the capitalized cost of constructed assets that are not yet complete and which have not yet been placed in service.

Depreciation and Amortization

The cost of property, plant and equipment and intangible assets is depreciated or amortized on a straight-line basis based on the estimated remaining service life of each asset category, except for transport and work equipment, which is depreciated on a declining balance basis.

The Company periodically initiates an external independent review of its property, plant and equipment and intangible asset depreciation and amortization rates, as required by the OEB. Any changes arising from OEB approval of such a review are implemented on a remaining service life basis, consistent with their inclusion in electricity rates. The last review resulted in changes to rates effective January 1, 2015. A summary of average service lives and depreciation and amortization rates for the various classes of assets is included below:

	Average Service Life	Rate	
		Range	Average
Property, plant and equipment:			
Transmission	56 years	1% – 3%	2%
Distribution	46 years	1% – 7%	2%
Communication	16 years	1% – 15%	6%
Administration and service	18 years	1% – 20%	7%
Intangible assets	10 years	10%	10%

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HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2016 and 2015

In accordance with group depreciation practices, the original cost of property, plant and equipment, or major components thereof, and intangible assets that are normally retired, is charged to accumulated depreciation, with no gain or loss being reflected in results of operations. Where a disposition of property, plant and equipment occurs through sale, a gain or loss is calculated based on proceeds and such gain or loss is included in depreciation expense.

Acquisitions and Goodwill

The Company accounts for business acquisitions using the acquisition method of accounting and, accordingly, the assets and liabilities of the acquired entities are primarily measured at their estimated fair value at the date of acquisition. Goodwill represents the cost of acquired companies that is in excess of the fair value of the net identifiable assets acquired at the acquisition date. Goodwill is not included in rate base.

Goodwill is evaluated for impairment on an annual basis, or more frequently if circumstances require. The Company performs a qualitative assessment to determine whether it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount. If the Company determines, as a result of its qualitative assessment, that it is not more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, no further testing is required. If the Company determines, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, a goodwill impairment assessment is performed using a two-step, fair value-based test. The first step compares the fair value of the applicable reporting unit to its carrying amount, including goodwill. If the carrying amount of the applicable reporting unit exceeds its fair value, a second step is performed. The second step requires an allocation of fair value to the individual assets and liabilities using purchase price allocation in order to determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss is recorded as a reduction to goodwill and as a charge to results of operations.

For the year ended December 31, 2016, based on the qualitative assessment performed as at September 30, 2016, the Company has determined that it is not more-likely-than-not that the fair value of each applicable reporting unit assessed is less than its carrying amount. As a result, no further testing was performed, and the Company has concluded that goodwill was not impaired at December 31, 2016.

Long-Lived Asset Impairment

When circumstances indicate the carrying value of long-lived assets may not be recoverable, the Company evaluates whether the carrying value of such assets, excluding goodwill, has been impaired. For such long-lived assets, the Company evaluates whether impairment may exist by estimating future estimated undiscounted cash flows expected to result from the use and eventual disposition of the asset. When alternative courses of action to recover the carrying amount of a long-lived asset are under consideration, a probability-weighted approach is used to develop estimates of future undiscounted cash flows. If the carrying value of the long-lived asset is not recoverable based on the estimated future undiscounted cash flows, an impairment loss is recorded, measured as the excess of the carrying value of the asset over its fair value. As a result, the asset's carrying value is adjusted to its estimated fair value.

Within its regulated business, the carrying costs of most of Hydro One's long-lived assets are included in rate base where they earn an OEB-approved rate of return. Asset carrying values and the related return are recovered through approved rates. As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is judged to be probable.

Hydro One regularly monitors the assets of its unregulated Hydro One Telecom subsidiary for indications of impairment. Management assesses the fair value of such long-lived assets using commonly accepted techniques. Techniques used to determine fair value include, but are not limited to, the use of recent third-party comparable sales for reference and internally developed discounted cash flow analysis. Significant changes in market conditions, changes to the condition of an asset, or a change in management's intent to utilize the asset are generally viewed by management as triggering events to reassess the cash flows related to these long-lived assets. As at December 31, 2016 and 2015, no asset impairment had been recorded for assets within either the Company's regulated or unregulated businesses.

Costs of Arranging Debt Financing

For financial liabilities classified as other than held-for-trading, the Company defers the external transaction costs related to obtaining debt financing and presents such amounts net of related debt on the Consolidated Balance Sheets. Deferred debt issuance costs are amortized over the contractual life of the related debt on an effective-interest basis and the amortization is included within financing charges in the Consolidated Statements of Operations and Comprehensive Income. Transaction costs for items classified as held-for-trading are expensed immediately.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (OCI). Hydro One presents net income and OCI in a single continuous Consolidated Statement of Operations and Comprehensive Income.

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2016 and 2015

Financial Assets and Liabilities

All financial assets and liabilities are classified into one of the following five categories: held-to-maturity; loans and receivables; held-for-trading; other liabilities; or available-for-sale. Financial assets and liabilities classified as held-for-trading are measured at fair value. All other financial assets and liabilities are measured at amortized cost, except accounts receivable and amounts due from related parties, which are measured at the lower of cost or fair value. Accounts receivable and amounts due from related parties are classified as loans and receivables. The Company considers the carrying amounts of accounts receivable and amounts due from related parties to be reasonable estimates of fair value because of the short time to maturity of these instruments. Provisions for impaired accounts receivable are recognized as adjustments to the allowance for doubtful accounts and are recognized when there is objective evidence that the Company will not be able to collect amounts according to the original terms. All financial instrument transactions are recorded at trade date.

Derivative instruments are measured at fair value. Gains and losses from fair valuation are included within financing charges in the period in which they arise. The Company determines the classification of its financial assets and liabilities at the date of initial recognition. The Company designates certain of its financial assets and liabilities to be held at fair value, when it is consistent with the Company's risk management policy disclosed in Note 16 – Fair Value of Financial Instruments and Risk Management.

Derivative Instruments and Hedge Accounting

The Company closely monitors the risks associated with changes in interest rates on its operations and, where appropriate, uses various instruments to hedge these risks. Certain of these derivative instruments qualify for hedge accounting and are designated as accounting hedges, while others either do not qualify as hedges or have not been designated as hedges (hereinafter referred to as undesignated contracts) as they are part of economic hedging relationships.

The accounting guidance for derivative instruments requires the recognition of all derivative instruments not identified as meeting the normal purchase and sale exemption as either assets or liabilities recorded at fair value on the Consolidated Balance Sheets. For derivative instruments that qualify for hedge accounting, the Company may elect to designate such derivative instruments as either cash flow hedges or fair value hedges. The Company offsets fair value amounts recognized on its Consolidated Balance Sheets related to derivative instruments executed with the same counterparty under the same master netting agreement.

For derivative instruments that qualify for hedge accounting and which are designated as cash flow hedges, the effective portion of any gain or loss, net of tax, is reported as a component of accumulated OCI (AOCI) and is reclassified to results of operations in the same period or periods during which the hedged transaction affects results of operations. Any gains or losses on the derivative instrument that represent either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in results of operations. For fair value hedges, changes in fair value of both the derivative instrument and the underlying hedged exposure are recognized in the Consolidated Statements of Operations and Comprehensive Income in the current period. The gain or loss on the derivative instrument is included in the same line item as the offsetting gain or loss on the hedged item in the Consolidated Statements of Operations and Comprehensive Income. The changes in fair value of the undesignated derivative instruments are reflected in results of operations.

Embedded derivative instruments are separated from their host contracts and are carried at fair value on the Consolidated Balance Sheets when: (a) the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract; (b) the hybrid instrument is not measured at fair value, with changes in fair value recognized in results of operations each period; and (c) the embedded derivative itself meets the definition of a derivative. The Company does not engage in derivative trading or speculative activities and had no embedded derivatives at December 31, 2016 or 2015.

Hydro One periodically develops hedging strategies taking into account risk management objectives. At the inception of a hedging relationship where the Company has elected to apply hedge accounting, Hydro One formally documents the relationship between the hedged item and the hedging instrument, the related risk management objective, the nature of the specific risk exposure being hedged, and the method for assessing the effectiveness of the hedging relationship. The Company also assesses, both at the inception of the hedge and on a quarterly basis, whether the hedging instruments are effective in offsetting changes in fair values or cash flows of the hedged items.

Employee Future Benefits

Employee future benefits provided by Hydro One include pension, post-retirement and post-employment benefits. The costs of the Company's pension, post-retirement and post-employment benefit plans are recorded over the periods during which employees render service.

The Company recognizes the funded status of its defined benefit pension, post-retirement and post-employment plans on its Consolidated Balance Sheets and subsequently recognizes the changes in funded status at the end of each reporting year. Defined benefit pension, post-retirement and post-employment plans are considered to be underfunded when the projected benefit obligation exceeds the fair value of the plan assets. Liabilities are recognized on the Consolidated Balance Sheets for any net underfunded projected benefit obligation. The net underfunded projected benefit obligation may be disclosed as a

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2016 and 2015

current liability, long-term liability, or both. The current portion is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months exceeds the fair value of plan assets. If the fair value of plan assets exceeds the projected benefit obligation of the plan, an asset is recognized equal to the net overfunded projected benefit obligation. The post-retirement and post-employment benefit plans are unfunded because there are no related plan assets.

Hydro One recognizes its contributions to the defined contribution pension plan as pension expense, with a portion being capitalized as part of labour costs included in capital expenditures. The expensed amount is included in operation, maintenance and administration costs in the Consolidated Statements of Operations and Comprehensive Income.

Defined Benefit Pension

Defined benefit pension costs are recorded on an accrual basis for financial reporting purposes. Pension costs are actuarially determined using the projected benefit method prorated on service and are based on assumptions that reflect management's best estimate of the effect of future events, including future compensation increases. Past service costs from plan amendments and all actuarial gains and losses are amortized on a straight-line basis over the expected average remaining service period of active employees in the plan, and over the estimated remaining life expectancy of inactive employees in the plan. Pension plan assets, consisting primarily of listed equity securities as well as corporate and government debt securities, are fair valued at the end of each year. Hydro One records a regulatory asset equal to the net underfunded projected benefit obligation for its pension plan.

Post-retirement and Post-employment Benefits

Post-retirement and post-employment benefits are recorded and included in rates on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. Past service costs from plan amendments are amortized to results of operations based on the expected average remaining service period.

For post-retirement benefits, all actuarial gains or losses are deferred using the "corridor" approach. The amount calculated above the "corridor" is amortized to results of operations on a straight-line basis over the expected average remaining service life of active employees in the plan and over the remaining life expectancy of inactive employees in the plan. The post-retirement benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

For post-employment obligations, the associated regulatory liabilities representing actuarial gains on transition to US GAAP are amortized to results of operations based on the "corridor" approach. The actuarial gains and losses on post-employment obligations that are incurred during the year are recognized immediately to results of operations. The post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

All post-retirement and post-employment future benefit costs are attributed to labour and are either charged to results of operations or capitalized as part of the cost of property, plant and equipment and intangible assets.

Stock-Based Compensation

Share Grant Plans

Hydro One measures share grant plans based on fair value of share grants as estimated based on the grant date share price. The costs are recognized in the financial statements using the graded-vesting attribution method for share grant plans that have both a performance condition and a service condition. The Company records a regulatory asset equal to the accrued costs of share grant plans recognized in each period. Forfeitures are recognized as they occur (see note 3).

Directors' Deferred Share Unit (DSU) Plan

The Company records the liabilities associated with its Directors' DSU Plan at fair value at each reporting date until settlement, recognizing compensation expense over the vesting period on a straight-line basis. The fair value of the DSU liability is based on the Company's common share closing price at the end of each reporting period.

Long-term Incentive Plan (LTIP)

The Company measures its LTIP at fair value based on the grant date share price. The related compensation expense is recognized over the vesting period on a straight-line basis. Forfeitures are recognized as they occur.

Loss Contingencies

Hydro One is involved in certain legal and environmental matters that arise in the normal course of business. In the preparation of its Consolidated Financial Statements, management makes judgments regarding the future outcome of contingent events and records a loss for a contingency based on its best estimate when it is determined that such loss is probable and the amount of the loss can be reasonably estimated. Where the loss amount is recoverable in future rates, a

regulatory asset is also recorded. When a range estimate for the probable loss exists and no amount within the range is a better estimate than any other amount, the Company records a loss at the minimum amount within the range.

Management regularly reviews current information available to determine whether recorded provisions should be adjusted and whether new provisions are required. Estimating probable losses may require analysis of multiple forecasts and scenarios that often depend on judgments about potential actions by third parties, such as federal, provincial and local courts or regulators. Contingent liabilities are often resolved over long periods of time. Amounts recorded in the Consolidated Financial Statements may differ from the actual outcome once the contingency is resolved. Such differences could have a material impact on future results of operations, financial position and cash flows of the Company.

Provisions are based upon current estimates and are subject to greater uncertainty where the projection period is lengthy. A significant upward or downward trend in the number of claims filed, the nature of the alleged injuries, and the average cost of resolving each claim could change the estimated provision, as could any substantial adverse or favourable verdict at trial. A federal or provincial legislative outcome or structured settlement could also change the estimated liability. Legal fees are expensed as incurred.

Environmental Liabilities

Environmental liabilities are recorded in respect of past contamination when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated. Hydro One records a liability for the estimated future expenditures associated with contaminated land assessment and remediation and for the phase-out and destruction of polychlorinated biphenyl (PCB)-contaminated mineral oil removed from electrical equipment, based on the present value of these estimated future expenditures. The Company determines the present value with a discount rate equal to its credit-adjusted risk-free interest rate on financial instruments with comparable maturities to the pattern of future environmental expenditures. As the Company anticipates that the future expenditures will continue to be recoverable in future rates, an offsetting regulatory asset has been recorded to reflect the future recovery of these environmental expenditures from customers. Hydro One reviews its estimates of future environmental expenditures annually, or more frequently if there are indications that circumstances have changed.

Asset Retirement Obligations

Asset retirement obligations are recorded for legal obligations associated with the future removal and disposal of long-lived assets. Such obligations may result from the acquisition, construction, development and/or normal use of the asset. Conditional asset retirement obligations are recorded when there is a legal obligation to perform a future asset retirement activity but where the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. In such a case, the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement.

When recording an asset retirement obligation, the present value of the estimated future expenditures required to complete the asset retirement activity is recorded in the period in which the obligation is incurred, if a reasonable estimate can be made. In general, the present value of the estimated future expenditures is added to the carrying amount of the associated asset and the resulting asset retirement cost is depreciated over the estimated useful life of the asset. Where an asset is no longer in service when an asset retirement obligation is recorded, the asset retirement cost is recorded in results of operations.

Some of the Company's transmission and distribution assets, particularly those located on unowned easements and rights-of-way, may have asset retirement obligations, conditional or otherwise. The majority of the Company's easements and rights-of-way are either of perpetual duration or are automatically renewed annually. Land rights with finite terms are generally subject to extension or renewal. As the Company expects to use the majority of its facilities in perpetuity, no asset retirement obligations have been recorded for these assets. If, at some future date, a particular facility is shown not to meet the perpetuity assumption, it will be reviewed to determine whether an estimable asset retirement obligation exists. In such a case, an asset retirement obligation would be recorded at that time.

The Company's asset retirement obligations recorded to date relate to estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities and with the decommissioning of specific switching stations located on unowned sites.

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For the years ended December 31, 2016 and 2015

3. NEW ACCOUNTING PRONOUNCEMENTS

The following tables present Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board (FASB) that are applicable to Hydro One:

Recently Adopted Accounting Guidance

ASU	Date issued	Description	Effective date	Impact on Hydro One
2014-16	November 2014	This update clarifies that all relevant terms and features should be considered in evaluating the nature of a host contract for hybrid financial instruments issued in the form of a share. The nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument.	January 1, 2016	No material impact upon adoption
2015-01	January 2015	Extraordinary items are no longer required to be presented separately in the income statement.	January 1, 2016	No material impact upon adoption
2015-02	February 2015	Guidance on analysis to be performed to determine whether certain types of legal entities should be consolidated.	January 1, 2016	No material impact upon adoption
2015-03	April 2015	Debt issuance costs are required to be presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability consistent with debt discounts or premiums.	January 1, 2016	Reclassification of deferred debt issuance costs and net unamortized debt premiums as an offset to long-term debt. Applied retrospectively (see note 15).
2015-05	April 2015	Cloud computing arrangements that have been assessed to contain a software licence should be accounted for as internal-use software.	January 1, 2016	No material impact upon adoption
2015-16	September 2015	Adjustments to provisional amounts that are identified during the measurement period of a business combination in the reporting period in which the adjustment amount is determined are required to be recognized. The amount recorded in current period earnings are required to be presented separately on the face of the income statement or disclosed in the notes by line item.	January 1, 2016	No material impact upon adoption
2015-17	November 2015	All deferred tax assets and liabilities are required to be classified as noncurrent on the balance sheet.	January 1, 2017	This ASU was early adopted as of April 1, 2016 and was applied prospectively. As a result, the current portions of the Company's deferred income tax assets are reclassified as noncurrent assets on the consolidated Balance Sheet. Prior periods were not retrospectively adjusted (see note 7).
2016-09	March 2016	Several aspects of the accounting for share-based payment transactions were simplified, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows.	January 1, 2017	This ASU was early adopted as of October 1, 2016 and was applied retrospectively. As a result, the Company accounts for forfeitures as they occur. There were no other material impacts upon adoption.

Recently Issued Accounting Guidance Not Yet Adopted

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2014-09 2015-14 2016-08 2016-10 2016-12 2016-20	May 2014 – December 2016	ASU 2014-09 was issued in May 2014 and provides guidance on revenue recognition relating to the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASU 2015-14 deferred the effective date of ASU 2014-09 by one year. Additional ASUs were issued in 2016 that simplify transition and provide clarity on certain aspects of the new standard.	January 1, 2018	Hydro One has completed its initial assessment and has identified relevant revenue streams. No quantitative determination has been made as a detailed assessment is now underway and will continue through to the third quarter of 2017, with the end result being a determination of the financial impact of this standard. The Company is on track for implementation of this standard by the effective date.

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2016-01	January 2016	This update requires equity investments to be measured at fair value with changes in fair value recognized in net income, and requires enhanced disclosures and presentation of financial assets and liabilities in the financial statements. This ASU also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment.	January 1, 2018	Under assessment
2016-02	February 2016	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet.	January 1, 2019	An initial assessment is currently underway encompassing a review of all existing leases, which will be followed by a detailed review of relevant contracts. No quantitative determination has been made at this time. The Company is on track for implementation of this standard by the effective date.
2016-05	March 2016	The amendments clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met.	January 1, 2018	Under assessment
2016-06	March 2016	Contingent call (put) options that are assessed to accelerate the payment of principal on debt instruments need to meet the criteria of being “clearly and closely related” to their debt hosts.	January 1, 2017	No material impact
2016-07	March 2016	The requirement to retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence has been eliminated.	January 1, 2017	No material impact
2016-11	May 2016	This amendment covers the SEC Staff’s rescinding of certain SEC Staff observer comments that are codified in Topic 605 and Topic 932, effective upon the adoption of Topic 606 and Topic 815, effective to coincide with the effective date of Update 2014-16.	January 1, 2019	No material impact
2016-13	June 2016	The amendment provides users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date.	January 1, 2019	Under assessment
2016-15	August 2016	The amendments provide guidance for eight specific cash flow issues with the objective of reducing the existing diversity in practice.	January 1, 2018	Under assessment
2016-16	October 2016	The amendment eliminates the prohibition of recognizing current and deferred income taxes for an intra-entity asset transfer, other than inventory, until the asset has been sold to an outside party. The amendment will permit income tax consequences of such transfers to be recognized when the transfer occurs.	January 1, 2018	Under assessment
2016-18	November 2016	The amendment requires that restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning and end-of-period balances in the statement of cash flows.	January 1, 2018	Under assessment
2017-01	January 2017	The amendment clarifies the definition of a business and provides additional guidance on evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses.	January 1, 2018	Under assessment

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4. BUSINESS COMBINATIONS

Acquisition of Great Lakes Power

On October 31, 2016, Hydro One acquired Great Lakes Power, an Ontario regulated electricity transmission business operating along the eastern shore of Lake Superior, north and east of Sault Ste. Marie, Ontario from Brookfield Infrastructure Holdings Inc. The total purchase price for Great Lakes Power was approximately $376 million, including the assumption of approximately $150 million in outstanding indebtedness. The following table summarizes the determination of the final fair value of the assets acquired and liabilities assumed:

(millions of dollars)	
Cash and cash equivalents	5
Property, plant and equipment	221
Intangible assets	1
Regulatory assets	50
Goodwill	159
Working capital	(2)
Long-term debt	(186)
Pension and post-employment benefit liabilities, net	(5)
Deferred income taxes	(17)
	226

Goodwill of approximately $159 million arising from the Great Lakes Power acquisition consists largely of the synergies and economies of scale expected from combining the operations of Hydro One and Great Lakes Power. Great Lakes Power contributed revenues of $6 million and less than $1 million of net income to the Company's consolidated financial results for the year ended December 31, 2016. All costs related to the acquisition have been expensed through the Consolidated Statements of Operations and Comprehensive Income. Great Lakes Power's financial information is not material to the Company's consolidated financial results for the year ended December 31, 2016 and therefore, has not been disclosed on a pro forma basis. On January 16, 2017, the name of Great Lakes Power was changed to Hydro One Sault Ste. Marie LP.

Agreement to Purchase Orillia Power

On August 15, 2016, the Company reached an agreement to acquire Orillia Power Distribution Corporation (Orillia Power), an electricity distribution company located in Simcoe County, Ontario, from the City of Orillia for approximately $41 million, including the assumption of approximately $15 million in outstanding indebtedness and regulatory liabilities, subject to closing adjustments. The acquisition is subject to regulatory approval by the OEB.

Acquisition of Woodstock Hydro

On October 31, 2015, Hydro One acquired Woodstock Hydro Holdings Inc. (Woodstock Hydro), an electricity distribution company located in southwestern Ontario. The total purchase price for Woodstock Hydro was approximately $32 million. The purchase price was finalized and the Company made the final purchase price payment of $3 million in 2016. The following table summarizes the determination of the fair value of the assets acquired and liabilities assumed:

(millions of dollars)	
Working capital	4
Property, plant and equipment	27
Intangible assets	1
Deferred income tax assets	2
Goodwill	22
Long-term debt	(17)
Derivative instruments	(3)
Post-retirement and post-employment benefit liability	(1)
Regulatory liabilities	(1)
Other long-term liabilities	(2)
	32

Goodwill of approximately $22 million arising from the Woodstock Hydro acquisition consists largely of the synergies and economies of scale expected from combining the operations of Hydro One and Woodstock Hydro. All of the goodwill was assigned to Hydro One's Distribution Business segment. Woodstock Hydro contributed revenues of $12 million and net income of $2 million to the Company's consolidated financial results for the year ended December 31, 2015. All costs related to the acquisition have been expensed through the Consolidated Statements of Operations and Comprehensive Income. Woodstock Hydro's financial information is not material to the Company's consolidated financial results for the year ended December 31, 2015 and therefore, has not been disclosed on a pro forma basis.

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Acquisition of Haldimand Hydro

On June 30, 2015, Hydro One acquired Haldimand County Utilities Inc. (Haldimand Hydro), an electricity distribution company located in southwestern Ontario. The total purchase price for Haldimand Hydro was approximately $73 million. The purchase price was finalized in 2016. The following table summarizes the determination of the fair value of the assets acquired and liabilities assumed:

(millions of dollars)	
Cash and cash equivalents	3
Working capital	5
Property, plant and equipment	52
Deferred income tax assets	1
Goodwill	33
Long-term debt	(18)
Regulatory liabilities	(3)
	73

Goodwill of approximately $33 million arising from the Haldimand Hydro acquisition consists largely of the synergies and economies of scale expected from combining the operations of Hydro One and Haldimand Hydro. All of the goodwill was assigned to Hydro One's Distribution Business segment. Haldimand Hydro contributed revenues of $32 million and net income of $6 million to the Company's consolidated financial results for the year ended December 31, 2015. All costs related to the acquisition have been expensed through the Consolidated Statements of Operations and Comprehensive Income. Haldimand Hydro's financial information is not material to the Company's consolidated financial results for the year ended December 31, 2015 and therefore, has not been disclosed on a pro forma basis.

Hydro One Brampton Spin-off

On August 31, 2015, Hydro One completed the spin-off of its subsidiary, Hydro One Brampton. The spin-off was accounted as a non-monetary, nonreciprocal transfer with the Province, based on its carrying values at August 31, 2015. Transactions that immediately preceded the spin-off as well as the spin-off were as follows:

- Hydro One subscribed for 357 common shares of Hydro One Brampton for an aggregate subscription price of $53 million; and
- Hydro One transferred to a company wholly owned by the Province all the issued and outstanding shares of Hydro One Brampton as a dividend-in-kind; and all of the long-term intercompany debt in aggregate principal amount of $193 million plus accrued interest of $3 million owed by Hydro One Brampton to Hydro One as a return of stated capital of $196 million on its common shares.

As a result of the spin-off, goodwill related to Hydro One Brampton of $60 million was eliminated from the Consolidated Balance Sheet.

5. DEPRECIATION AND AMORTIZATION

Year ended December 31 (millions of dollars)	2016	2015
Depreciation of property, plant and equipment	612	595
Asset removal costs	90	91
Amortization of intangible assets	56	54
Amortization of regulatory assets	20	19
	778	759

6. FINANCING CHARGES

Year ended December 31 (millions of dollars)	2016	2015
Interest on long-term debt	424	417
Interest on short-term notes	9	2
Other	16	14
Less: Interest capitalized on construction and development in progress	(54)	(52)
Interest earned on investments	(2)	(3)
Gain on interest-rate swap agreements	–	(2)
	393	376

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7. INCOME TAXES

Income taxes / provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and the effective tax rates is provided as follows:

Year ended December 31 (millions of dollars)	2016	2015
Income taxes / provision for PILs at statutory rate	235	217
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(53)	(37)
Pension contributions in excess of pension expense	(16)	(25)
Overheads capitalized for accounting but deducted for tax purposes	(16)	(15)
Interest capitalized for accounting but deducted for tax purposes	(14)	(13)
Environmental expenditures	(5)	(5)
Other	5	(6)
Net temporary differences	(99)	(101)
Net tax benefit resulting from transition from PILs Regime to Federal Tax Regime	–	(19)
Hydro One Brampton spin-off	–	7
Net permanent differences	3	1
Total income taxes / provision for PILs	139	105

The major components of income tax expense are as follows:

Year ended December 31 (millions of dollars)	2016	2015
Current income taxes / provision for PILs	25	2,949
Deferred income taxes / provision for (recovery of) PILs	114	(2,844)
Total income taxes / provision for PILs	139	105
Effective income tax rate	15.7%	12.8%

The provision for current income taxes / PILs is remitted to the CRA (Federal Tax Regime) and the OEFC (PILs Regime). At December 31, 2016, $14 million (2015 – $1 million) receivable from the CRA was included in other current assets and $6 million (2015 – $12 million) receivable from the OEFC was included in due from related parties on the Consolidated Balance Sheet.

In connection with the IPO in 2015, Hydro One's exemption from tax under the Federal Tax Regime ceased to apply. Under the PILs Regime, Hydro One was deemed to have disposed of its assets immediately before it lost its tax exempt status under the Federal Tax Regime, resulting in Hydro One making payments in lieu of tax (Departure Tax) totalling $2.6 billion. To enable Hydro One to make the Departure Tax payment, the Province subscribed for common shares of Hydro One for $2.6 billion in 2015 (see note 21). Hydro One used the proceeds of this share subscription to pay the Departure Tax.

The 2015 total income taxes / provision for PILs included a current provision of $2,600 million and a deferred recovery of $2,810 million resulting from the transition from the PILs Regime to the Federal Tax Regime. The deferred recovery was not included in the rate-setting process. Deferred income tax balances expected to be included in the rate-setting process are offset by regulatory assets and liabilities to reflect the anticipated recovery or disposition of these balances within future electricity rates.

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Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities arise from differences between the carrying amounts and tax basis of the Company's assets and liabilities. At December 31, 2016 and 2015, deferred income tax assets and liabilities consisted of the following:

December 31 (millions of dollars)	2016	2015
Deferred income tax assets		
Depreciation and amortization in excess of capital cost allowance	495	937
Non-depreciable capital property	271	271
Post-retirement and post-employment benefits expense in excess of cash payments	607	578
Environmental expenditures	74	75
Non-capital losses	213	62
Investment in subsidiaries	75	55
Other	30	10
	1,765	1,988
Less: valuation allowance	(352)	(333)
Total deferred income tax assets	1,413	1,655
Less: current portion	–	19
	1,413	1,636

December 31 (millions of dollars)	2016	2015
Deferred income tax liabilities		
Regulatory amounts that are not recognized for tax purposes	(153)	(153)
Goodwill	(10)	(10)
Capital cost allowance in excess of depreciation and amortization	(64)	(42)
Other	(11)	(2)
Total deferred income tax liabilities	(238)	(207)
Less: current portion	–	–
	(238)	(207)
Net deferred income tax assets	1,175	1,448

The net deferred income tax assets are presented on the Consolidated Balance Sheets as follows:

December 31 (millions of dollars)	2016	2015
Current:		
Other current assets	–	19
Long-term:		
Deferred income tax assets	1,235	1,636
Deferred income tax liabilities	(60)	(207)
Net deferred income tax assets	1,175	1,448

The valuation allowance for deferred tax assets as at December 31, 2016 was $352 million (2015 – $333 million). The valuation allowance primarily relates to temporary differences for non-depreciable assets and investments in subsidiaries. As of December 31, 2016, the Company had non-capital losses carried forward available to reduce future years' taxable income, which expire as follows:

Year of expiry (millions of dollars)	2016	2015
2034	2	2
2035	222	232
2036	580	–
Total losses	804	234

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8. ACCOUNTS RECEIVABLE

December 31 (millions of dollars)	2016	2015
Accounts receivable – billed	431	379
Accounts receivable – unbilled	442	458
Accounts receivable, gross	873	837
Allowance for doubtful accounts	(35)	(61)
Accounts receivable, net	838	776

The following table shows the movements in the allowance for doubtful accounts for the years ended December 31, 2016 and 2015:

Year ended December 31 (millions of dollars)	2016	2015
Allowance for doubtful accounts – January 1	(61)	(66)
Write-offs	37	37
Additions to allowance for doubtful accounts	(11)	(32)
Allowance for doubtful accounts – December 31	(35)	(61)

9. OTHER CURRENT ASSETS

December 31 (millions of dollars)	2016	2015
Regulatory assets *(Note 12)*	37	36
Materials and supplies	19	21
Deferred income tax assets *(Notes 3, 7)*	–	19
Prepaid expenses and other assets	46	29
	102	105

10. PROPERTY, PLANT AND EQUIPMENT

December 31, 2016 (millions of dollars)	Property, Plant and Equipment	Accumulated Depreciation	Construction in Progress	Total
Transmission	14,692	4,862	910	10,740
Distribution	9,656	3,305	243	6,594
Communication	1,233	777	20	476
Administration and service	1,632	924	61	769
Easements	628	67	–	561
	27,841	9,935	1,234	19,140

December 31, 2015 (millions of dollars)	Property, Plant and Equipment	Accumulated Depreciation	Construction in Progress	Total
Transmission	13,704	4,621	853	9,936
Distribution	9,205	3,177	238	6,266
Communication	1,165	704	28	489
Administration and service	1,531	848	36	719
Easements	622	64	–	558
	26,227	9,414	1,155	17,968

Financing charges capitalized on property, plant and equipment under construction were $52 million in 2016 (2015 – $50 million).

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11. INTANGIBLE ASSETS

December 31, 2016 (millions of dollars)	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	621	326	53	348
Other	5	4	–	1
	626	330	53	349

December 31, 2015 (millions of dollars)	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	579	270	24	333
Other	7	4	–	3
	586	274	24	336

Financing charges capitalized to intangible assets under development were $2 million in 2016 (2015 – $1 million). The estimated annual amortization expense for intangible assets is as follows: 2017 – $54 million; 2018 – $54 million; 2019 – $45 million; 2020 – $27 million; and 2021 – $26 million.

12. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-setting process. Hydro One has recorded the following regulatory assets and liabilities:

December 31 (millions of dollars)	2016	2015
Regulatory assets:		
Deferred income tax regulatory asset	1,587	1,445
Pension benefit regulatory asset	900	952
Post-retirement and post-employment benefits	243	240
Environmental	204	207
Retail settlement variance account	145	110
Debt premium	32	–
Share-based compensation	31	10
Distribution system code exemption	10	10
2015-2017 rate rider	7	20
B2M LP start-up costs	5	8
Pension cost variance	4	37
Other	14	12
Total regulatory assets	3,182	3,051
Less: current portion	37	36
	3,145	3,015
Regulatory liabilities:		
Green Energy expenditure variance	69	76
External revenue variance	64	87
CDM deferral variance	54	53
Deferred income tax regulatory liability	4	23
Other	18	16
Total regulatory liabilities	209	255
Less: current portion	–	19
	209	236

Deferred Income Tax Regulatory Asset and Liability

Deferred income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. The Company has recognized regulatory assets and liabilities that correspond to deferred income taxes that flow through the rate-setting process. In the absence of rate-regulated accounting, the Company's income tax expense would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be recovered through future rates. As a result, the 2016 income tax expense would have been higher by approximately $104 million (2015 – $101 million).

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Pension Benefit Regulatory Asset

In accordance with OEB rate orders, pension costs are recovered on a cash basis as employer contributions are paid to the pension fund in accordance with the *Pension Benefits Act* (Ontario). The Company recognizes the net unfunded status of pension obligations on the Consolidated Balance Sheets with an offset to the associated regulatory asset. A regulatory asset is recognized because management considers it to be probable that pension benefit costs will be recovered in the future through the rate-setting process. The pension benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2016 OCI would have been higher by $52 million (2015 – $284 million).

Post-Retirement and Post-Employment Benefits

The Company recognizes the net unfunded status of post-retirement and post-employment obligations on the Consolidated Balance Sheets with an incremental offset to the associated regulatory assets. A regulatory asset is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process. The post-retirement and post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the re-measurement adjustment. In the absence of rate-regulated accounting, 2016 OCI would have been lower by $3 million (2015 – higher by $33 million).

Environmental

Hydro One records a liability for the estimated future expenditures required to remediate environmental contamination. Because such expenditures are expected to be recoverable in future rates, the Company has recorded an equivalent amount as a regulatory asset. In 2016, the environmental regulatory asset decreased by $1 million (2015 – $24 million) to reflect related changes in the Company's PCB liability, and increased by $10 million (2015 – $1 million) due to changes in the land assessment and remediation liability. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred and charged to environmental liabilities. The OEB has the discretion to examine and assess the prudency and the timing of recovery of all of Hydro One's actual environmental expenditures. In the absence of rate-regulated accounting, 2016 operation, maintenance and administration expenses would have been higher by $9 million (2015 – lower by $23 million). In addition, 2016 amortization expense would have been lower by $20 million (2015 – $19 million), and 2016 financing charges would have been higher by $8 million (2015 – $10 million).

Retail Settlement Variance Account (RSVA)

Hydro One has deferred certain retail settlement variance amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. In March 2015, the OEB approved the disposition of the total RSVA balance accumulated from January 2012 to December 2013, including accrued interest, to be recovered through the 2015-2017 Rate Rider.

Debt Premium

The value of debt assumed in the acquisition of Great Lakes Power has been recorded at fair value in accordance with US GAAP – Business Combinations. The OEB allows for recovery of interest at the coupon rate of the Senior Secured Bonds and a regulatory asset has been recorded for the difference between the fair value and face value of this debt. The debt premium is recovered over the remaining term of the debt (see note 15).

Share-based Compensation

The Company recognizes costs associated with share grant plans in a regulatory asset as management considers it probable that share grant plans costs will be recovered in the future through the rate-setting process. In the absence of rate-regulated accounting, 2016 operation, maintenance and administration expenses would have been higher by $9 million (2015 – $5 million).

Distribution System Code (DSC) Exemption

In June 2010, Hydro One Networks filed an application with the OEB regarding the OEB's new cost responsibility rules contained in the OEB's October 2009 Notice of Amendment to the DSC, with respect to the connection of certain renewable generators that were already connected or that had received a connection impact assessment prior to October 21, 2009. The application sought approval to record and defer the unanticipated costs incurred by Hydro One Networks that resulted from the connection of certain renewable generation facilities. The OEB ruled that identified specific expenditures can be recorded in a deferral account subject to the OEB's review in subsequent Hydro One Network distribution applications. In March 2015, the OEB approved the disposition of the DSC exemption deferral account at December 31, 2013, including accrued interest, which is being recovered through the 2015-2017 Rate Rider. In addition, the OEB also approved Hydro One's request to discontinue this deferral account. There were no additions to this regulatory account in 2015 or 2016.

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2015-2017 Rate Rider

In March 2015, as part of its decision on Hydro One Networks' distribution rate application for 2015-2019, the OEB approved the disposition of certain deferral and variance accounts, including RSVAs and accrued interest. The 2015-2017 Rate Rider account includes the balances approved for disposition by the OEB and is being disposed in accordance with the OEB decision over a 32-month period ending on December 31, 2017.

B2M LP Start-up Costs

In December 2015, OEB issued its decision on B2M LP's application for 2015-2019 and as part of the decision approved the recovery of $8 million of start-up costs relating to B2M LP. The costs are being recovered over a four-year period which began in 2016, in accordance with the OEB decision.

Pension Cost Variance

A pension cost variance account was established for Hydro One Networks' transmission and distribution businesses to track the difference between the actual pension expenses incurred and estimated pension costs approved by the OEB. The balance in this regulatory account reflects the excess of pension costs paid as compared to OEB-approved amounts. In March 2015, the OEB approved the disposition of the distribution business portion of the total pension cost variance account at December 31, 2013, including accrued interest, which is being recovered through the 2015-2017 Rate Rider. In the absence of rate-regulated accounting, 2016 revenue would have been higher by $25 million (2015 – lower by $6 million).

Green Energy Expenditure Variance

In April 2010, the OEB requested the establishment of deferral accounts which capture the difference between the revenue recorded on the basis of Green Energy Plan expenditures incurred and the actual recoveries received.

External Revenue Variance

In May 2009, the OEB approved forecasted amounts related to export service revenue, external revenue from secondary land use, and external revenue from station maintenance and engineering and construction work. In November 2012, the OEB again approved forecasted amounts related to these revenue categories and extended the scope to encompass all other external revenues. The external revenue variance account balance reflects the excess of actual external revenues compared to the OEB-approved forecasted amounts.

CDM Deferral Variance Account

As part of Hydro One Networks' application for 2013 and 2014 transmission rates, Hydro One agreed to establish a new regulatory deferral variance account to track the impact of actual Conservation and Demand Management (CDM) and demand response results on the load forecast compared to the estimated load forecast included in the revenue requirement. The balance in the CDM deferral variance account relates to the actual 2013 and 2014 CDM compared to the amounts included in 2013 and 2014 revenue requirements, respectively. There were no additions to this regulatory account in 2016.

13. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

December 31 (millions of dollars)	2016	2015
Accounts payable	181	155
Accrued liabilities	659	598
Accrued interest	105	96
Regulatory liabilities (Note 12)	–	19
	945	868

14. OTHER LONG-TERM LIABILITIES

December 31 (millions of dollars)	2016	2015
Post-retirement and post-employment benefit liability (Note 18)	1,641	1,560
Pension benefit liability (Note 18)	900	952
Environmental liabilities (Note 19)	177	185
Asset retirement obligations (Note 20)	9	9
Long-term accounts payable and other liabilities	25	17
	2,752	2,723

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15. DEBT AND CREDIT AGREEMENTS

Short-Term Notes and Credit Facilities

Hydro One meets its short-term liquidity requirements in part through the issuance of commercial paper under Hydro One Inc.'s Commercial Paper Program which has a maximum authorized amount of $1.5 billion. These short-term notes are denominated in Canadian dollars with varying maturities up to 365 days. The Commercial Paper Program is supported by Hydro One Inc.'s committed revolving credit facilities totalling $2.3 billion.

On August 15, 2016, Hydro One Inc. terminated its $1.5 billion revolving standby credit facility maturing in June 2020 and its $800 million three-year senior, revolving term credit facility maturing in October 2018 (collectively Prior Credit Facilities). On the same date, Hydro One Inc. entered into a new credit agreement for a $2.3 billion revolving credit facility maturing in June 2021 (New Credit Facility). The New Credit Facility ranks equally with any existing and future senior debt of Hydro One Inc., and has customary covenants substantially similar to the covenants under the Prior Credit Facilities. In addition, on November 7, 2016, the maturity date of Hydro One's $250 million credit facility was extended from November 2020 to November 2021.

At December 31, 2016, Hydro One's consolidated committed, unsecured and undrawn credit facilities totalling $2,550 million consisted of the following:

(millions of dollars)	Maturity	Amount
Hydro One Inc.		
Revolving standby credit facility	June 2021	2,300
Hydro One		
Five-year senior, revolving term credit facility	November 2021	250
Total		2,550

The Company may use the credit facilities for working capital and general corporate purposes. If used, interest on the credit facilities would apply based on Canadian benchmark rates. The obligation of each lender to make any credit extension under its credit facility is subject to various conditions including that no event of default has occurred or would result from such credit extension.

Long-Term Debt

At December 31, 2016, $10,523 million long-term debt was issued by Hydro One Inc. under Hydro One Inc.'s Medium-Term Note (MTN) Program. The maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in December 2015 is $3.5 billion. At December 31, 2016, $1.2 billion remained available for issuance until January 2018. In addition, at December 31, 2016, the Company had long-term debt of $184 million assumed as part of the Great Lakes Power acquisition.

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The following table presents outstanding long-term debt at December 31, 2016 and 2015:

December 31 (millions of dollars)	2016	2015
4.64% Series 10 notes due 2016	–	450
Floating-rate Series 27 notes due 2016[1]	–	50
5.18% Series 13 notes due 2017	600	600
2.78% Series 28 notes due 2018	750	750
Floating-rate Series 31 notes due 2019[1]	228	228
1.48% Series 37 notes due 2019[2]	500	–
4.40% Series 20 notes due 2020	300	300
1.62% Series 33 notes due 2020[2]	350	350
1.84% Series 34 notes due 2021	500	–
3.20% Series 25 notes due 2022	600	600
2.77% Series 35 notes due 2026	500	–
7.35% Debentures due 2030	400	400
6.93% Series 2 notes due 2032	500	500
6.35% Series 4 notes due 2034	385	385
5.36% Series 9 notes due 2036	600	600
4.89% Series 12 notes due 2037	400	400
6.03% Series 17 notes due 2039	300	300
5.49% Series 18 notes due 2040	500	500
4.39% Series 23 notes due 2041	300	300
6.59% Series 5 notes due 2043	315	315
4.59% Series 29 notes due 2043	435	435
4.17% Series 32 notes due 2044	350	350
5.00% Series 11 notes due 2046	325	325
3.91% Series 36 notes due 2046	350	–
3.72% Series 38 notes due 2047	450	–
4.00% Series 24 notes due 2051	225	225
3.79% Series 26 notes due 2062	310	310
4.29% Series 30 notes due 2064	50	50
Hydro One Inc. long-term debt	10,523	8,723
6.6% Senior Secured Bonds due 2023 (Face value – $112 million)	144	–
4.6% Note Payable due 2023 (Face value – $36 million)	40	–
Great Lakes Power long-term debt	184	–
	10,707	8,723
Add: Net unamortized debt premiums[3]	15	17
Add: Unrealized mark-to-market loss (gain)[2]	(2)	1
Less: Deferred debt issuance costs[3]	(40)	(34)
Total long-term debt	10,680	8,707

[1] The interest rates of the floating-rate notes are referenced to the 3-month Canadian dollar bankers' acceptance rate, plus a margin.

[2] The unrealized mark-to-market net gain relates to $50 million of the Series 33 notes due 2020 and $500 million Series 37 notes due 2019 (2015 – loss relates to $50 million of the Series 33 notes due 2020). The unrealized mark-to-market net gain is offset by a $2 million (2015 – $1 million) unrealized mark-to-market net loss (2015 – gain) on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges. See note 16 – Fair Value of Financial Instruments and Risk Management for details of fair value hedges.

[3] Effective January 1, 2016, deferred debt issuance costs and net unamortized debt premiums were reclassified from other long-term assets and other long-term liabilities, respectively, as an offset to long-term debt upon adoption of ASU 2015-03 (see note 3). Balances as at December 31, 2015 were updated to reflect the retrospective adoption of ASU 2015-03.

The total long-term debt is presented on the consolidated balance sheets as follows:

December 31 (millions of dollars)	2016	2015
Current liabilities:		
Long-term debt payable within one year	602	500
Long-term liabilities:		
Long-term debt	10,078	8,207
Total long-term debt	10,680	8,707

In 2016, Hydro One issued $2,300 million (2015 – $350 million) of long-term debt under the MTN Program, and repaid $502 million (2015 – $550 million) of total long-term debt.

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Principal repayments and related weighted average interest rates are summarized by the number of years to maturity in the following table:

Years to Maturity	Long-term Debt Principal Repayments (millions of dollars)	Weighted Average Interest Rate (%)
1 year	602	5.2
2 years	753	2.8
3 years	731	1.4
4 years	653	2.9
5 years	503	1.9
	3,242	2.8
6 – 10 years	1,234	3.3
Over 10 years	6,195	5.2
	10,671	4.3

Interest payment obligations related to long-term debt are summarized by year in the following table:

Year	Interest Payments (millions of dollars)
2017	456
2018	425
2019	402
2020	384
2021	370
	2,037
2022-2026	1,703
2027+	4,405
	8,145

16. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition focuses on an exit price, which is the price that would be received in the sale of an asset or the amount that would be paid to transfer a liability.

Hydro One classifies its fair value measurements based on the following hierarchy, as prescribed by the accounting guidance for fair value, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that Hydro One has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.

Level 2 inputs are those other than quoted market prices that are observable, either directly or indirectly, for an asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest-rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates. A Level 2 measurement cannot have more than an insignificant portion of the valuation based on unobservable inputs.

Level 3 inputs are any fair value measurements that include unobservable inputs for the asset or liability for more than an insignificant portion of the valuation. A Level 3 measurement may be based primarily on Level 2 inputs.

Non-Derivative Financial Assets and Liabilities

At December 31, 2016 and 2015, the Company's carrying amounts of cash and cash equivalents, accounts receivable, due from related parties, short-term notes payable, accounts payable, and due to related parties are representative of fair value because of the short-term nature of these instruments.

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Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Company's long-term debt at December 31, 2016 and 2015 are as follows:

December 31 (millions of dollars)	2016 Carrying Value	2016 Fair Value	2015 Carrying Value	2015 Fair Value
Long-term debt				
$50 million of MTN Series 33 notes	50	50	51	51
$500 million of MTN Series 37 notes	498	498	–	–
Other notes and debentures	10,132	11,462	8,656	9,942
	10,680	12,010	8,707	9,993

Fair Value Measurements of Derivative Instruments

At December 31, 2016, Hydro One Inc. had interest-rate swaps in the amount of $550 million (2015 – $50 million) that was used to convert fixed-rate debt to floating-rate debt. These swaps are classified as a fair value hedges. Hydro One Inc.'s fair value hedge exposure was equal to about 5% (2015 – 1%) of its total long-term debt. At December 31, 2016, Hydro One Inc. had the following interest-rate swaps designated as fair value hedges:

- a $50 million fixed-to-floating interest-rate swap agreement to convert $50 million of the $350 million MTN Series 33 notes maturing April 30, 2020 into three-month variable rate debt; and
- two $125 million and one $250 million fixed-to-floating interest-rate swap agreements to convert the $500 million MTN Series 37 notes maturing November 18, 2019 into three-month variable rate debt.

At December 31, 2016 and 2015, the Company had no interest-rate swaps classified as undesignated contracts.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at December 31, 2016 and 2015 is as follows:

December 31, 2016 (millions of dollars)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	50	50	50	–	–
	50	50	50	–	–
Liabilities:					
Short-term notes payable	469	469	469	–	–
Long-term debt, including current portion	10,680	12,010	–	12,010	–
Derivative instruments					
Fair value hedges – interest-rate swaps	2	2	2	–	–
	11,151	12,481	471	12,010	–

December 31, 2015 (millions of dollars)	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash and cash equivalents	94	94	94	–	–
Derivative instruments					
Fair value hedge – interest-rate swap	1	1	1	–	–
	95	95	95	–	–
Liabilities:					
Short-term notes payable	1,491	1,491	1,491	–	–
Long-term debt, including current portion	8,707	9,993	–	9,993	–
	10,198	11,484	1,491	9,993	–

Cash and cash equivalents include cash and short-term investments. The carrying values are representative of fair value because of the short-term nature of these instruments.

The fair value of the hedged portion of the long-term debt is primarily based on the present value of future cash flows using a swap yield curve to determine the assumption for interest rates. The fair value of the unhedged portion of the long-term debt is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

There were no significant transfers between any of the fair value levels during the years ended December 31, 2016 and 2015.

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Risk Management

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

Market Risk

Market risk refers primarily to the risk of loss that results from changes in costs, foreign exchange rates and interest rates. The Company is exposed to fluctuations in interest rates as its regulated return on equity is derived using a formulaic approach that takes into account anticipated interest rates. The Company is not currently exposed to material commodity price risk or material foreign exchange risk.

The Company uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. The Company also uses derivative financial instruments to manage interest-rate risk. The Company utilizes interest-rate swaps, which are typically designated as fair value hedges, as a means to manage its interest rate exposure to achieve a lower cost of debt. The Company may also utilize interest-rate derivative instruments to lock in interest-rate levels in anticipation of future financing.

A hypothetical 100 basis points increase in interest rates associated with variable-rate debt would not have resulted in a significant decrease in Hydro One's net income for the years ended December 31, 2016 or 2015.

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Consolidated Statements of Operations and Comprehensive Income. The net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the years ended December 31, 2016 and 2015 was not significant.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At December 31, 2016 and 2015, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a significant amount of revenue from any single customer. At December 31, 2016 and 2015, there was no significant accounts receivable balance due from any single customer.

At December 31, 2016, the Company's provision for bad debts was $35 million (2015 – $61 million). Adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. At December 31, 2016, approximately 6% (2015 – 6%) of the Company's net accounts receivable were aged more than 60 days.

Hydro One manages its counterparty credit risk through various techniques including: entering into transactions with highly rated counterparties; limiting total exposure levels with individual counterparties; entering into master agreements which enable net settlement and the contractual right of offset; and monitoring the financial condition of counterparties. The Company monitors current credit exposure to counterparties both on an individual and an aggregate basis. The Company's credit risk for accounts receivable is limited to the carrying amounts on the Consolidated Balance Sheets.

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At December 31, 2016 and 2015, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not significant. At December 31, 2016, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, had a credit rating of investment grade, with four financial institutions as the counterparty.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Hydro One meets its short-term liquidity requirements using cash and cash equivalents on hand, funds from operations, the issuance of commercial paper, and the revolving standby credit facilities. The short-term liquidity under the Commercial Paper Program, revolving standby credit facilities, and anticipated levels of funds from operations are expected to be sufficient to fund normal operating requirements.

At December 31, 2016, accounts payable and accrued liabilities in the amount of $840 million (2015 – $753 million) were expected to be settled in cash at their carrying amounts within the next 12 months.

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17. CAPITAL MANAGEMENT

The Company's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates, and to deliver appropriate financial returns. In order to ensure ongoing access to capital, the Company targets to maintain strong credit quality. At December 31, 2016 and 2015, the Company's capital structure was as follows:

December 31 (millions of dollars)	2016	2015
Long-term debt payable within one year	602	500
Short-term notes payable	469	1,491
Less: cash and cash equivalents	50	94
	1,021	1,897
Long-term debt	10,078	8,207
Preferred shares	418	418
Common shares	5,623	5,623
Retained earnings	3,950	3,806
Total capital	21,090	19,951

Hydro One Inc. and Great Lakes Power have customary covenants typically associated with long-term debt. Hydro One Inc.'s long-term debt and credit facility covenants limit permissible debt to 75% of its total capitalization, limit the ability to sell assets and impose a negative pledge provision, subject to customary exceptions. At December 31, 2016, Hydro One Inc. and Great Lakes Power were in compliance with all covenants and limitations.

18. PENSION AND POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS

Hydro One has a defined benefit pension plan (Pension Plan), a defined contribution pension plan (DC Plan), a supplementary pension plan, and post-retirement and post-employment benefit plans.

Defined Contribution Pension Plan

Hydro One established a DC Plan effective January 1, 2016. The DC Plan is mandatory and covers eligible management employees hired on or after January 1, 2016, as well as management employees hired before January 1, 2016 who were not eligible or had not irrevocably elected to join the Pension Plan as of September 30, 2015. Members of the DC Plan have an option to contribute 4%, 5% or 6% of their pensionable earnings, with matching contributions by Hydro One.

Hydro One contributions to the DC Plan for the year ended December 31, 2016 were less than $1 million (2015 – $nil). At December 31, 2016, Company contributions payable included in accrued liabilities on the Consolidated Balance Sheets were less than $1 million (2015 – $nil).

Defined Benefit Pension Plan, Supplementary Pension Plan, and Post-Retirement and Post-Employment Plans

The Pension Plan is a defined benefit contributory plan which covers all regular employees of Hydro One and its subsidiaries. The Pension Plan provides benefits based on highest three-year average pensionable earnings. For Management employees who commenced employment on or after January 1, 2004, and for Society of Energy Professionals-represented staff hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are indexed to inflation. Membership in the Pension Plan was closed to Management employees who were not eligible or had not irrevocably elected to join the Pension Plan as of September 30, 2015. These employees are eligible to join the DC Plan.

Company and employee contributions to the Pension Plan are based on actuarial valuations performed at least every three years. Annual Pension Plan contributions for 2016 of $108 million (2015 – $177 million) were based on an actuarial valuation effective December 31, 2015 (2015 – based on an actuarial valuation effective December 31, 2013) and the level of pensionable earnings. Estimated annual Pension Plan contributions for 2017 and 2018 are approximately $105 million and $102 million, respectively, based on the actuarial valuation as at December 31, 2015 and projected levels of pensionable earnings. Future minimum contributions beyond 2018 will be based on an actuarial valuation effective no later than December 31, 2018. Contributions are payable one month in arrears. All of the contributions are expected to be in the form of cash.

The Hydro One Supplemental Pension Plan (Supplemental Plan) provides members of the Pension Plan with benefits that would have been earned and payable under the Pension Plan but for limitations imposed by the *Income Tax Act* (Canada). The Supplemental Plan obligation is included with other post-retirement and post-employment benefit obligations on the Consolidated Balance Sheets.

Hydro One recognizes the overfunded or underfunded status of the Pension Plan, and post-retirement and post-employment benefit plans (Plans) as an asset or liability on its Consolidated Balance Sheets, with offsetting regulatory assets and liabilities as appropriate. The underfunded benefit obligations for the Plans, in the absence of regulatory accounting, would be recognized in AOCI. The impact of changes in assumptions used to measure pension, post-retirement and post-employment

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benefit obligations is generally recognized over the expected average remaining service period of the employees. The measurement date for the Plans is December 31.

Year ended December 31 (millions of dollars)	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2016	2015	2016	2015
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	7,683	7,535	1,610	1,582
Current service cost	144	146	42	43
Employee contributions	45	40	–	–
Interest cost	308	302	67	64
Benefits paid	(354)	(334)	(43)	(47)
Net actuarial loss (gain)	(52)	(6)	14	(27)
Change due to Hydro One Brampton spin-off	–	–	–	(5)
Projected benefit obligation, end of year	7,774	7,683	1,690	1,610
Change in plan assets				
Fair value of plan assets, beginning of year	6,731	6,299	–	–
Actual return on plan assets	370	582	–	–
Benefits paid	(354)	(334)	(43)	(47)
Employer contributions	108	177	43	47
Employee contributions	45	40	–	–
Administrative expenses	(26)	(33)	–	–
Fair value of plan assets, end of year	6,874	6,731	–	–
Unfunded status	900	952	1,690	1,610

Hydro One presents its benefit obligations and plan assets net on its Consolidated Balance Sheets as follows:

December 31 (millions of dollars)	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2016	2015	2016	2015
Other assets	1[1]	–	–	–
Accrued liabilities	–	–	56	50
Pension benefit liability	900	952	–	–
Post-retirement and post-employment benefit liability	–	–	1,641[2]	1,560
Net unfunded status	899	952	1,697	1,610

[1] Represents the funded status of Great Lakes Power's defined benefit pension plan.

[2] Includes $7 million (2015 – $nil) relating to Great Lakes Power's post-employment benefit plans.

The funded or unfunded status of the pension, post-retirement and post-employment benefit plans refers to the difference between the fair value of plan assets and the projected benefit obligations for the Plans. The funded/unfunded status changes over time due to several factors, including contribution levels, assumed discount rates and actual returns on plan assets.

The following table provides the projected benefit obligation (PBO), accumulated benefit obligation (ABO) and fair value of plan assets for the Pension Plan:

December 31 (millions of dollars)	2016	2015
PBO	7,774	7,683
ABO	7,094	7,020
Fair value of plan assets	6,874	6,731

On an ABO basis, the Pension Plan was funded at 97% at December 31, 2016 (2015 – 96%). On a PBO basis, the Pension Plan was funded at 88% at December 31, 2016 (2015 – 88%). The ABO differs from the PBO in that the ABO includes no assumption about future compensation levels.

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Components of Net Periodic Benefit Costs

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2016 and 2015 for the Pension Plan:

Year ended December 31 (millions of dollars)	2016	2015
Current service cost, net of employee contributions	144	146
Interest cost	308	302
Expected return on plan assets, net of expenses	(432)	(406)
Amortization of actuarial losses	96	119
Prior service cost amortization	–	2
Net periodic benefit costs	116	163
Charged to results of operations[1]	48	81

[1] The Company follows the cash basis of accounting consistent with the inclusion of pension costs in OEB-approved rates. During the year ended December 31, 2016, pension costs of $108 million (2015 – $177 million) were attributed to labour, of which $48 million (2015 – $81 million) was charged to operations, and $60 million (2015 – $96 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2016 and 2015 for the post-retirement and post-employment benefit plans:

Year ended December 31 (millions of dollars)	2016	2015
Current service cost, net of employee contributions	42	43
Interest cost	67	64
Amortization of actuarial losses	15	14
Prior service cost amortization	–	–
Net periodic benefit costs	124	121
Charged to results of operations	55	55

Assumptions

The measurement of the obligations of the Plans and the costs of providing benefits under the Plans involves various factors, including the development of valuation assumptions and accounting policy elections. When developing the required assumptions, the Company considers historical information as well as future expectations. The measurement of benefit obligations and costs is impacted by several assumptions including the discount rate applied to benefit obligations, the long-term expected rate of return on plan assets, Hydro One's expected level of contributions to the Plans, the incidence of mortality, the expected remaining service period of plan participants, the level of compensation and rate of compensation increases, employee age, length of service, and the anticipated rate of increase of health care costs, among other factors. The impact of changes in assumptions used to measure the obligations of the Plans is generally recognized over the expected average remaining service period of the plan participants. In selecting the expected rate of return on plan assets, Hydro One considers historical economic indicators that impact asset returns, as well as expectations regarding future long-term capital market performance, weighted by target asset class allocations. In general, equity securities, real estate and private equity investments are forecasted to have higher returns than fixed-income securities.

The following weighted average assumptions were used to determine the benefit obligations at December 31, 2016 and 2015:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Year ended December 31	2016	2015	2016	2015
Significant assumptions:				
Weighted average discount rate	3.90%	4.00%	3.90%	4.10%
Rate of compensation scale escalation (long-term)	2.50%	2.50%	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%	2.00%	2.00%
Rate of increase in health care cost trends[1]	–	–	4.36%	4.36%

[1] 6.25% per annum in 2017, grading down to 4.36% per annum in and after 2031 (2015 – 6.38% in 2016, grading down to 4.36% per annum in and after 2031).

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The following weighted average assumptions were used to determine the net periodic benefit costs for the years ended December 31, 2016 and 2015. Assumptions used to determine current year-end benefit obligations are the assumptions used to estimate the subsequent year's net periodic benefit costs.

Year ended December 31	2016	2015
Pension Benefits:		
Weighted average expected rate of return on plan assets	6.50%	6.50%
Weighted average discount rate	4.00%	4.00%
Rate of compensation scale escalation (long-term)	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%
Average remaining service life of employees *(years)*	15	13
Post-Retirement and Post-Employment Benefits:		
Weighted average discount rate	4.10%	4.00%
Rate of compensation scale escalation (long-term)	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%
Average remaining service life of employees *(years)*	15.3	13.8
Rate of increase in health care cost trends[1]	4.36%	4.36%

[1] 6.38% per annum in 2016, grading down to 4.36% per annum in and after 2031 (2015 – 6.52% in 2015, grading down to 4.36% per annum in and after 2031).

The discount rate used to determine the current year pension obligation and the subsequent year's net periodic benefit costs is based on a yield curve approach. Under the yield curve approach, expected future benefit payments for each plan are discounted by a rate on a third-party bond yield curve corresponding to each duration. The yield curve is based on "AA" long-term corporate bonds. A single discount rate is calculated that would yield the same present value as the sum of the discounted cash flows.

The effect of a 1% change in health care cost trends on the projected benefit obligation for the post-retirement and post-employment benefits at December 31, 2016 and 2015 is as follows:

December 31 *(millions of dollars)*	**2016**	**2015**
Projected benefit obligation:		
Effect of a 1% increase in health care cost trends	289	252
Effect of a 1% decrease in health care cost trends	(221)	(196)

The effect of a 1% change in health care cost trends on the service cost and interest cost for the post-retirement and post-employment benefits for the years ended December 31, 2016 and 2015 is as follows:

Year ended December 31 *(millions of dollars)*	**2016**	**2015**
Service cost and interest cost:		
Effect of a 1% increase in health care cost trends	23	22
Effect of a 1% decrease in health care cost trends	(17)	(16)

The following approximate life expectancies were used in the mortality assumptions to determine the projected benefit obligations for the pension and post-retirement and post-employment plans at December 31, 2016 and 2015:

December 31, 2016				December 31, 2015			
Life expectancy at 65 for a member currently at				Life expectancy at 65 for a member currently at			
Age 65		Age 45		Age 65		Age 45	
Male	Female	Male	Female	Male	Female	Male	Female
22	24	23	24	23	25	24	26

Estimated Future Benefit Payments

At December 31, 2016, estimated future benefit payments to the participants of the Plans were:

(millions of dollars)	Pension Benefits	Post-Retirement and Post-Employment Benefits
2017	321	56
2018	331	57
2019	340	60
2020	349	62
2021	358	64
2022 through to 2026	1,910	355
Total estimated future benefit payments through to 2026	3,609	654

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Components of Regulatory Assets

A portion of actuarial gains and losses and prior service costs is recorded within regulatory assets on Hydro One's Consolidated Balance Sheets to reflect the expected regulatory inclusion of these amounts in future rates, which would otherwise be recorded in OCI. The following table provides the actuarial gains and losses and prior service costs recorded within regulatory assets:

Year ended December 31 (millions of dollars)	2016	2015
Pension Benefits:		
Actuarial loss (gain) for the year	35	(181)
Amortization of actuarial losses	(96)	(119)
Prior service cost amortization	–	(2)
	(61)	(302)
Post-Retirement and Post-Employment Benefits:		
Actuarial loss (gain) for the year	14	(27)
Amortization of actuarial losses	(15)	(14)
Prior service cost amortization	–	–
	(1)	(41)

The following table provides the components of regulatory assets that have not been recognized as components of net periodic benefit costs for the years ended December 31, 2016 and 2015:

Year ended December 31 (millions of dollars)	2016	2015
Pension Benefits:		
Prior service cost	–	–
Actuarial loss	900	952
	900	952
Post-Retirement and Post-Employment Benefits:		
Actuarial loss	243	240
	243	240

The following table provides the components of regulatory assets at December 31 that are expected to be amortized as components of net periodic benefit costs in the following year:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
December 31 (millions of dollars)	2016	2015	2016	2015
Prior service cost	–	–	–	–
Actuarial loss	79	96	6	8
	79	96	6	8

Pension Plan Assets

Investment Strategy

On a regular basis, Hydro One evaluates its investment strategy to ensure that Pension Plan assets will be sufficient to pay Pension Plan benefits when due. As part of this ongoing evaluation, Hydro One may make changes to its targeted asset allocation and investment strategy. The Pension Plan is managed at a net asset level. The main objective of the Pension Plan is to sustain a certain level of net assets in order to meet the pension obligations of the Company. The Pension Plan fulfills its primary objective by adhering to specific investment policies outlined in its Summary of Investment Policies and Procedures (SIPP), which is reviewed and approved by the Human Resource Committee of Hydro One's Board of Directors. The Company manages net assets by engaging knowledgeable external investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the approved SIPP. The performance of the managers is monitored through a governance structure. Increases in net assets are a direct result of investment income generated by investments held by the Pension Plan and contributions to the Pension Plan by eligible employees and by the Company. The main use of net assets is for benefit payments to eligible Pension Plan members.

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Pension Plan Asset Mix

At December 31, 2016, the Pension Plan target asset allocations and weighted average asset allocations were as follows:

	Target Allocation (%)	Pension Plan Assets (%)
Equity securities	55.0	58.7
Debt securities	35.0	33.6
Other[1]	10.0	7.7
	100.0	100.0

[1] Other investments include real estate and infrastructure investments.

At December 31, 2016, the Pension Plan held $11 million (2015 – $9 million) Hydro One corporate bonds and $450 million (2015 – $420 million) of debt securities of the Province.

Concentrations of Credit Risk

Hydro One evaluated its Pension Plan's asset portfolio for the existence of significant concentrations of credit risk as at December 31, 2016 and 2015. Concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, concentrations in a type of industry, and concentrations in individual funds. At December 31, 2016 and 2015, there were no significant concentrations (defined as greater than 10% of plan assets) of risk in the Pension Plan's assets.

The Pension Plan manages its counterparty credit risk with respect to bonds by investing in investment-grade and government bonds and with respect to derivative instruments by transacting only with financial institutions rated at least "A+" by Standard & Poor's Rating Services, DBRS Limited, and Fitch Ratings Inc., and "A1" by Moody's Investors Service, and also by utilizing exposure limits to each counterparty and ensuring that exposure is diversified across counterparties. The risk of default on transactions in listed securities is considered minimal, as the trade will fail if either party to the transaction does not meet its obligation.

Fair Value Measurements

The following tables present the Pension Plan assets measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy at December 31, 2016 and 2015:

December 31, 2016 (millions of dollars)	Level 1	Level 2	Level 3	Total
Pooled funds	–	20	425	445
Cash and cash equivalents	146	–	–	146
Short-term securities	–	127	–	127
Corporate shares – Canadian	911	–	–	911
Corporate shares – Foreign	2,985	113	–	3,098
Bonds and debentures – Canadian	–	1,943	–	1,943
Bonds and debentures – Foreign	–	193	–	193
Total fair value of plan assets[1]	4,042	2,396	425	6,863

[1] At December 31, 2016, the total fair value of Pension Plan assets excludes $27 million of interest and dividends receivable, $15 million of purchased investments payable, $9 million of pension administration expenses payable, and $7 million of sold investments receivable.

December 31, 2015 (millions of dollars)	Level 1	Level 2	Level 3	Total
Pooled funds	–	23	301	324
Cash and cash equivalents	191	–	–	191
Short-term securities	–	80	–	80
Corporate shares – Canadian	807	–	–	807
Corporate shares – Foreign	2,931	116	–	3,047
Bonds and debentures – Canadian	–	2,072	–	2,072
Bonds and debentures – Foreign	–	201	–	201
Total fair value of plan assets[1]	3,929	2,492	301	6,722

[1] At December 31, 2015, the total fair value of Pension Plan assets excludes $27 million of interest and dividends receivable, and $18 million relating to accruals for pension administration expense and foreign exchange contracts payable.

See note 16 – Fair Value of Financial Instruments and Risk Management for a description of levels within the fair value hierarchy.

Changes in the Fair Value of Financial Instruments Classified in Level 3

The following table summarizes the changes in fair value of financial instruments classified in Level 3 for the years ended December 31, 2016 and 2015. The Pension Plan classifies financial instruments as Level 3 when the fair value is measured based on at least one significant input that is not observable in the markets or due to lack of liquidity in certain markets. The

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gains and losses presented in the table below may include changes in fair value based on both observable and unobservable inputs.

Year ended December 31 (millions of dollars)	2016	2015
Fair value, beginning of year	301	144
Realized and unrealized gains	23	51
Purchases	151	106
Sales and disbursements	(50)	–
Fair value, end of year	425	301

There were no significant transfers between any of the fair value levels during the years ended December 31, 2016 and 2015.

The Company performs sensitivity analysis for fair value measurements classified in Level 3, substituting the unobservable inputs with one or more reasonably possible alternative assumptions. These sensitivity analyses resulted in negligible changes in the fair value of financial instruments classified in this level.

Valuation Techniques Used to Determine Fair Value

Pooled funds mainly consist of private equity, real estate and infrastructure investments. Private equity investments represent private equity funds that invest in operating companies that are not publicly traded on a stock exchange. Investment strategies in private equity include limited partnerships in businesses that are characterized by high internal growth and operational efficiencies, venture capital, leveraged buyouts and special situations such as distressed investments. Real estate and infrastructure investments represent funds that invest in real assets which are not publicly traded on a stock exchange. Investment strategies in real estate include limited partnerships that seek to generate a total return through income and capital growth by investing primarily in global and Canadian limited partnerships. Investment strategies in infrastructure include limited partnerships in core infrastructure assets focusing on assets that generate stable, long-term cash flows and deliver incremental returns relative to conventional fixed-income investments. Private equity, real estate and infrastructure valuations are reported by the fund manager and are based on the valuation of the underlying investments which includes inputs such as cost, operating results, discounted future cash flows and market-based comparable data. Since these valuation inputs are not highly observable, private equity and infrastructure investments have been categorized as Level 3 within pooled funds.

Cash equivalents consist of demand cash deposits held with banks and cash held by the investment managers. Cash equivalents are categorized as Level 1.

Short-term securities are valued at cost plus accrued interest, which approximates fair value due to their short-term nature. Short-term securities are categorized as Level 2.

Corporate shares are valued based on quoted prices in active markets and are categorized as Level 1. Investments denominated in foreign currencies are translated into Canadian currency at year-end rates of exchange.

Bonds and debentures are presented at published closing trade quotations, and are categorized as Level 2.

19. ENVIRONMENTAL LIABILITIES

The following tables show the movements in environmental liabilities for the years ended December 31, 2016 and 2015:

Year ended December 31, 2016 (millions of dollars)	PCB	Land Assessment and Remediation	Total
Environmental liabilities, January 1	148	59	207
Interest accretion	7	1	8
Expenditures	(11)	(9)	(20)
Revaluation adjustment	(1)	10	9
Environmental liabilities, December 31	143	61	204
Less: current portion	18	9	27
	125	52	177

Year ended December 31, 2015 (millions of dollars)	PCB	Land Assessment and Remediation	Total
Environmental liabilities, January 1	172	67	239
Interest accretion	8	2	10
Expenditures	(8)	(11)	(19)
Revaluation adjustment	(24)	1	(23)
Environmental liabilities, December 31	148	59	207
Less: current portion	12	10	22
	136	49	185

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The following tables show the reconciliation between the undiscounted basis of the environmental liabilities and the amount recognized on the Consolidated Balance Sheets after factoring in the discount rate:

December 31, 2016 (millions of dollars)	PCB	Land Assessment and Remediation	Total
Undiscounted environmental liabilities	158	66	224
Less: discounting accumulated liabilities to present value	15	5	20
Discounted environmental liabilities	143	61	204

December 31, 2015 (millions of dollars)	PCB	Land Assessment and Remediation	Total
Undiscounted environmental liabilities	168	61	229
Less: discounting accumulated liabilities to present value	20	2	22
Discounted environmental liabilities	148	59	207

At December 31, 2016, the estimated future environmental expenditures were as follows:

(millions of dollars)	
2017	27
2018	26
2019	25
2020	29
2021	36
Thereafter	81
	224

Hydro One records a liability for the estimated future expenditures for land assessment and remediation and for the phase-out and destruction of PCB-contaminated mineral oil removed from electrical equipment when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated.

There are uncertainties in estimating future environmental costs due to potential external events such as changes in legislation or regulations, and advances in remediation technologies. In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation rate assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 2.0% to 6.3%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Company's environmental liabilities represent management's best estimates of the present value of costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. In addition, with respect to the PCB environmental liability, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures.

PCBs

The Environment Canada regulations, enacted under the *Canadian Environmental Protection Act, 1999*, govern the management, storage and disposal of PCBs based on certain criteria, including type of equipment, in-use status, and PCB-contamination thresholds. Under current regulations, Hydro One's PCBs have to be disposed of by the end of 2025, with the exception of specifically exempted equipment. Contaminated equipment will generally be replaced, or will be decontaminated by removing PCB-contaminated insulating oil and retro filling with replacement oil that contains PCBs in concentrations of less than 2 ppm.

The Company's best estimate of the total estimated future expenditures to comply with current PCB regulations is $158 million (2015 – $168 million). These expenditures are expected to be incurred over the period from 2017 to 2025. As a result of its annual review of environmental liabilities, the Company recorded a revaluation adjustment in 2016 to reduce the PCB environmental liability by $1 million (2015 – $24 million).

Land Assessment and Remediation

The Company's best estimate of the total estimated future expenditures to complete its land assessment and remediation program is $66 million (2015 – $61 million). These expenditures are expected to be incurred over the period from 2017 to 2032. As a result of its annual review of environmental liabilities, the Company recorded a revaluation adjustment in 2016 to increase the land assessment and remediation environmental liability by $10 million (2015 – $1 million).

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20. ASSET RETIREMENT OBLIGATIONS

Hydro One records a liability for the estimated future expenditures for the removal and disposal of asbestos-containing materials installed in some of its facilities and for the decommissioning of specific switching stations located on unowned sites. Asset retirement obligations, which represent legal obligations associated with the retirement of certain tangible long-lived assets, are computed as the present value of the projected expenditures for the future retirement of specific assets and are recognized in the period in which the liability is incurred, if a reasonable estimate of fair value can be made. If the asset remains in service at the recognition date, the present value of the liability is added to the carrying amount of the associated asset in the period the liability is incurred and this additional carrying amount is depreciated over the remaining life of the asset. If an asset retirement obligation is recorded in respect of an out-of-service asset, the asset retirement cost is charged to results of operations. Subsequent to the initial recognition, the liability is adjusted for any revisions to the estimated future cash flows associated with the asset retirement obligation, which can occur due to a number of factors including, but not limited to, cost escalation, changes in technology applicable to the assets to be retired, changes in legislation or regulations, as well as for accretion of the liability due to the passage of time until the obligation is settled. Depreciation expense is adjusted prospectively for any increases or decreases to the carrying amount of the associated asset.

In determining the amounts to be recorded as asset retirement obligations, the Company estimates the current fair value for completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 3.0% to 5.0%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Company's asset retirement obligations represent management's best estimates of the cost required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. Asset retirement obligations are reviewed annually or more frequently if significant changes in regulations or other relevant factors occur. Estimate changes are accounted for prospectively.

At December 31, 2016, Hydro One had recorded asset retirement obligations of $9 million (2015 – $9 million), primarily consisting of the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities. The amount of interest recorded is nominal.

21. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At December 31, 2016 and 2015, the Company had 595 million common shares issued and outstanding.

The amount and timing of any dividends payable by Hydro One is at the discretion of the Hydro One Board of Directors and is established on the basis of Hydro One's results of operations, maintenance of its deemed regulatory capital structure, financial condition, cash requirements, the satisfaction of solvency tests imposed by corporate laws for the declaration and payment of dividends and other factors that the Board of Directors may consider relevant.

Common Share Offerings

In November 2015, Hydro One and the Province completed an initial public offering (IPO) on the Toronto Stock Exchange of approximately 15% of its 595 million outstanding common shares. In April 2016, the Province completed a secondary offering of approximately 83.3 million or 14% common shares of Hydro One on the Toronto Stock Exchange. Hydro One did not receive any of the proceeds from the sale of the common shares by the Province.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At December 31, 2016, two series of preferred shares are authorized for issuance: the Series 1 preferred shares and the Series 2 preferred shares. At December 31, 2016, the Company had 16,720,000 Series 1 preferred shares and no Series 2 preferred shares issued and outstanding.

Hydro One may from time to time issue preferred shares in one or more series. Prior to issuing shares in a series, the Hydro One Board of Directors is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of preferred shares. Holders of Hydro One's preferred shares are not entitled to receive notice of, to attend or to vote at any meeting of the shareholders of Hydro One except that votes may be granted to a series of preferred shares when dividends have not been paid on any one or more series as determined by the applicable series provisions. Each series of preferred shares ranks on parity with every other series of preferred shares, and are entitled to a preference over the common shares and any other shares ranking junior to the preferred shares, with respect

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to dividends and the distribution of assets and return of capital in the event of the liquidation, dissolution or winding up of Hydro One.

For the period commencing from the date of issue of the Series 1 preferred shares and ending on and including November 19, 2020, the holders of Series 1 preferred shares are entitled to receive fixed cumulative preferential dividends of $1.0625 per share per year, if and when declared by the Board of Directors, payable quarterly. The dividend rate will reset on November 20, 2020 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 3.53%. The Series 1 preferred shares will not be redeemable by Hydro One prior to November 20, 2020, but will be redeemable by Hydro One on November 20, 2020 and on November 20 of every fifth year thereafter at a redemption price equal to $25.00 for each Series 1 preferred share redeemed, plus any accrued or unpaid dividends. The holders of Series 1 preferred shares will have the right, at their option, on November 20, 2020 and on November 20 of every fifth year thereafter, to convert all or any of their Series 1 preferred shares into Series 2 preferred shares on a one-for-one basis, subject to certain restrictions on conversion. At December 31, 2016, no preferred share dividends were in arrears.

The holders of Series 2 preferred shares will be entitled to receive quarterly floating rate cumulative dividends, if and when declared by the Board of Directors, at a rate equal to the sum of the then three-month Government of Canada treasury bill rate and 3.53% as reset quarterly. The Series 2 preferred shares will not be redeemable by Hydro One prior to November 20, 2020, but will be redeemable by Hydro One at a redemption price equal to $25.00 for each Series 2 preferred share redeemed, if redeemed on November 20, 2025 or on November 20 of every fifth year thereafter, or $25.50 for each Series 2 preferred share redeemed, if redeemed on any other date after November 20, 2020, in each case plus any accrued or unpaid dividends. The holders of Series 2 preferred shares will have the right, at their option, on November 20, 2025 and on November 20 of every fifth year thereafter, to convert all or any of their Series 2 preferred shares into Series 1 preferred shares on a one-for-one basis, subject to certain restrictions on conversion.

Reorganization

Prior to the completion of the IPO, Hydro One and Hydro One Inc. completed a series of transactions (Pre-IPO Transactions) that resulted in, among other things, on October 31, 2015, Hydro One acquiring all of the issued and outstanding shares of Hydro One Inc. from the Province and issuing new common shares and preferred shares to the Province.

The following tables present the changes to common and preferred shares as a result of Pre-IPO Transactions, as well as the movement in the number of common and preferred shares during the year ended December 31, 2015. There was no movement in common or preferred shares during the year ended December 31, 2016.

		Preferred Shares	
(millions of dollars)	Common Shares	Equity	Temporary Equity
Common shares issued – purchase and cancellation of preferred shares *(c)*	323	–	(323)
Acquisition of Hydro One Inc. *(d)*			
Common shares of Hydro One Inc. acquired by Hydro One	(3,441)	–	–
Common shares of Hydro One issued to Province	3,023	–	–
Preferred shares of Hydro One issued to Province	–	418	–
Common shares issued *(e)*	2,600	–	–
Total Pre-IPO Transactions adjustment	2,505	418	(323)

		Preferred Shares	
(number of shares)	Common Shares	Equity	Temporary Equity
Number of shares – January 1, 2015 *(a)*	100,000	–	12,920,000
Common shares issued *(b)*	100,000	–	–
Pre-IPO Transactions:			
Common shares issued – purchase and cancellation of preferred shares *(c)*	2,640	–	(12,920,000)
Acquisition of Hydro One Inc. *(d)*			
Common shares of Hydro One Inc. acquired by Hydro One	(102,640)	–	–
Common shares of Hydro One issued to Province	12,197,500,000	–	–
Preferred shares of Hydro One issued to Province	–	16,720,000	–
Common shares issued *(e)*	2,600,000,000	–	–
Common shares consolidation *(f)*	(14,202,600,000)	–	–
Number of shares – December 31, 2015	595,000,000	16,720,000	–

(a) At January 1, 2015, all common and preferred shares represent the shares of Hydro One Inc.

(b) On August 31, 2015, Hydro One was incorporated under the *Business Corporations Act* (Ontario) and issued 100,000 common shares to the Province for proceeds of $100,000.

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(c) On October 31, 2015, Hydro One Inc. purchased and cancelled 12,920,000 preferred shares of Hydro One Inc. previously held by the Province for cancellation at a price equal to the redemption price of the preferred shares totalling $323 million, which was satisfied by the issuance to the Province of 2,640 common shares of Hydro One Inc.

(d) On October 31, 2015, all of the issued and outstanding common shares of Hydro One Inc. were acquired by Hydro One from the Province in return for 12,197,500,000 common shares of Hydro One and 16,720,000 Series 1 preferred shares of Hydro One.

(e) On November 4, 2015, Hydro One issued 2.6 billion common shares to the Province for proceeds of $2.6 billion.

(f) On November 4, 2015, the common shares of Hydro One were consolidated by way of articles of amendment approved by the Province as sole shareholder so that, after such consolidation, 595,000,000 common shares of Hydro One were issued and outstanding.

Share Ownership Restrictions

The *Electricity Act* imposes share ownership restrictions on securities of Hydro One carrying a voting right (Voting Securities). These restrictions provide that no person or company (or combination of persons or companies acting jointly or in concert) may beneficially own or exercise control or direction over more than 10% of any class or series of Voting Securities, including common shares of the Company (Share Ownership Restrictions). The Share Ownership Restrictions do not apply to Voting Securities held by the Province, nor to an underwriter who holds Voting Securities solely for the purpose of distributing those securities to purchasers who comply with the Share Ownership Restrictions.

22. DIVIDENDS

In 2016, preferred share dividends in the amount of $19 million (2015 – $13 million) and common share dividends in the amount of $577 million (2015 – $875 million) were declared. The 2016 common share dividends include $77 million for the post-IPO period from November 5 to December 31, 2015, and $500 million for the year ended December 31, 2016.

In August 2015, Hydro One declared a dividend in-kind on its common shares payable in all of the issued and outstanding shares of Hydro One Brampton (see note 4).

23. EARNINGS PER SHARE

Basic earnings per common share (EPS) is calculated by dividing net income attributable to common shareholders of Hydro One by the weighted average number of common shares outstanding. Diluted EPS is calculated by dividing net income attributable to common shareholders of Hydro One by the weighted average number of common shares outstanding adjusted for the effects of potentially dilutive stock-based compensation plans, including the share grant plans and the Long-term Incentive Plan, which are calculated using the treasury stock method.

Year ended December 31	2016	2015
Net income attributable to common shareholders (millions of dollars)	721	690
Weighted average number of shares		
Basic	595,000,000	496,272,733
Effect of dilutive stock-based compensation plans (Note 24)	1,700,823	94,691
Diluted	596,700,823	496,367,424
EPS		
Basic	$1.21	$1.39
Diluted	$1.21	$1.39

Pro forma Adjusted non-GAAP Basic and Diluted EPS

The following pro forma adjusted non-GAAP basic and diluted EPS has been prepared by management on a supplementary basis which assumes that the total number of common shares outstanding was 595,000,000 in each of the years ended December 31, 2016 and 2015. The supplementary pro forma disclosure is used internally by management subsequent to the IPO of Hydro One to assess the Company's performance and is considered useful because it eliminates the impact of a different number of shares outstanding and held by the Province prior to the IPO. EPS is considered an important measure and management believes that presenting it for all periods based on the number of outstanding shares on, and subsequent to, the IPO provides users with a comparable basis to evaluate the operations of the Company.

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Year ended December 31 (unaudited)	2016	2015
Net income attributable to common shareholders (millions of dollars)	721	690
Pro forma weighted average number of common shares		
Basic	595,000,000	595,000,000
Effect of dilutive stock-based compensation plans (Note 24)	1,700,823	94,691
Diluted	596,700,823	595,094,691
Pro forma adjusted non-GAAP EPS		
Basic	$1.21	$1.16
Diluted	$1.21	$1.16

The above pro forma adjusted non-GAAP basic and diluted EPS does not have any standardized meaning in US GAAP.

24. STOCK-BASED COMPENSATION

Share Grant Plans

At December 31, 2016, Hydro One had two share grant plans (Share Grant Plans), one for the benefit of certain members of the Power Workers' Union (the PWU Share Grant Plan) and one for the benefit of certain members of The Society of Energy Professionals (the Society Share Grant Plan).

The PWU Share Grant Plan provides for the issuance of common shares of Hydro One from treasury to certain eligible members of the Power Workers' Union annually, commencing on April 1, 2017 and continuing until the earlier of April 1, 2028 or the date an eligible employee no longer meets the eligibility criteria of the PWU Share Grant Plan. To be eligible, an employee must be a member of the Pension Plan on April 1, 2015, be employed on the date annual share issuance occurs and continue to have under 35 years of service. The requisite service period for the PWU Share Grant Plan begins on July 3, 2015, which is the date the share grant plan was ratified by the PWU. The number of common shares issued annually to each eligible employee will be equal to 2.7% of such eligible employee's salary as at April 1, 2015, divided by $20.50, being the price of the common shares of Hydro One in the IPO. The aggregate number of common shares issuable under the PWU Share Grant Plan shall not exceed 3,981,763 common shares. In 2015, 3,979,062 common shares were granted under the PWU Share Grant Plan.

The Society Share Grant Plan provides for the issuance of common shares of Hydro One from treasury to certain eligible members of The Society of Energy Professionals annually, commencing on April 1, 2018 and continuing until the earlier of April 1, 2029 or the date an eligible employee no longer meets the eligibility criteria of the Society Share Grant Plan. To be eligible, an employee must be a member of the Pension Plan on September 1, 2015, be employed on the date annual share issuance occurs and continue to have under 35 years of service. Therefore the requisite service period for the Society Share Grant Plan begins on September 1, 2015. The number of common shares issued annually to each eligible employee will be equal to 2.0% of such eligible employee's salary as at September 1, 2015, divided by $20.50, being the price of the common shares of Hydro One in the IPO. The aggregate number of common shares issuable under the Society Share Grant Plan shall not exceed 1,434,686 common shares. In 2015, 1,433,292 common shares were granted under the Society Share Grant Plan.

The fair value of the Hydro One Limited 2015 share grants of $111 million was estimated based on the grant date share price of $20.50 and is recognized using the graded-vesting attribution method as the share grant plans have both a performance condition and a service condition. No shares were granted under the Share Grant Plans in 2016. Total share based compensation recognized during 2016 was $21 million (2015 – $10 million) and was recorded as a regulatory asset.

A summary of share grant activity under the Share Grant Plans during years ended December 31, 2016 and 2015 is presented below:

Year ended December 31, 2016	Share Grants (number of common shares)	Weighted-Average Price
Share grants outstanding – January 1, 2016	5,412,354	$20.50
Granted (non-vested)	–	–
Forfeited	(77,939)	$20.50
Share grants outstanding – December 31, 2016	5,334,415	$20.50

Year ended December 31, 2015	Share Grants (number of common shares)	Weighted-Average Price
Share grants outstanding – January 1, 2015	–	–
Granted (non-vested)	5,412,354	$20.50
Share grants outstanding – December 31, 2015	5,412,354	$20.50

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Directors' DSU Plan

Under the Company's Directors' DSU Plan, directors can elect to receive credit for their annual cash retainer in a notional account of DSUs in lieu of cash. Hydro One's Board of Directors may also determine from time to time that special circumstances exist that would reasonably justify the grant of DSUs to a director as compensation in addition to any regular retainer or fee to which the director is entitled.

Each DSU represents a unit with an underlying value equivalent to the value of one common share of the Company and is entitled to accrue common share dividend equivalents in the form of additional DSUs at the time dividends are paid, subsequent to declaration by Hydro One's Board of Directors.

Year ended December 31 (number of DSUs)	2016	2015
DSUs outstanding – January 1	20,525	–
DSUs granted	78,558	20,525
DSUs outstanding – December 31	99,083	20,525

For the year ended December 31, 2016, an expense of $2 million (2015 – less than $1 million) was recognized in earnings with respect to the DSU Plan. At December 31, 2016, a liability of $2 million (December 31, 2015 – less than $1 million), related to outstanding DSUs has been recorded at the closing price of the Company's common shares of $23.58 and is included in accrued liabilities on the Consolidated Balance Sheets.

Employee Share Ownership Plan

Effective December 15, 2015, Hydro One established an Employee Share Ownership Plan (ESOP). Under the ESOP, certain eligible management and non-represented employees may contribute between 1% and 6% of their base salary towards purchasing common shares of Hydro One. The Company matches 50% of the employee's contributions, up to a maximum Company contribution of $25,000 per calendar year. In 2016, Company contributions made under the ESOP were $2 million (2015 - $nil).

Long-term Incentive Plan

Effective August 31, 2015, the Board of Directors of Hydro One adopted an LTIP. Under the LTIP, long-term incentives are granted to certain executive and management employees of Hydro One and its subsidiaries, and all equity-based awards will be settled in newly issued shares of Hydro One from treasury, consistent with the provisions of the plan. The aggregate number of shares issuable under the LTIP shall not exceed 11,900,000 shares of Hydro One.

The LTIP provides flexibility to award a range of vehicles, including restricted share units (RSUs), performance share units (PSUs), stock options, share appreciation rights, restricted shares, deferred share units and other share-based awards. The mix of vehicles is intended to vary by role to recognize the level of executive accountability for overall business performance.

During 2016, the Company granted awards under its LTIP, consisting of PSUs and RSUs, all of which are equity settled, as follows:

Year ended December 31, 2016	Number of PSUs	Number of RSUs
Units outstanding – January 1, 2016	–	–
Units granted	235,420	258,970
Units forfeited	(4,820)	(4,820)
Units outstanding – December 31, 2016	230,600	254,150

The grant date total fair value of the awards was $12 million (2015 – $nil). The compensation expense recognized by the Company relating to these awards during 2016 was $3 million (2015 – $nil).

25. NONCONTROLLING INTEREST

On December 16, 2014, transmission assets totalling $526 million were transferred from Hydro One Networks to B2M LP. This was financed by 60% debt ($316 million) and 40% equity ($210 million). On December 17, 2014, the Saugeen Ojibway Nation (SON) acquired a 34.2% equity interest in B2M LP for consideration of $72 million, representing the fair value of the equity interest acquired. The SON's initial investment in B2M LP consists of $50 million of Class A units and $22 million of Class B units.

The Class B units have a mandatory put option which requires that upon the occurrence of an enforcement event (i.e. an event of default such as a debt default by the SON or insolvency event), Hydro One purchase the Class B units of B2M LP for net book value on the redemption date. The noncontrolling interest relating to the Class B units is classified on the Consolidated Balance

hydroOne

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2016 and 2015

Sheet as temporary equity because the redemption feature is outside the control of the Company. The balance of the noncontrolling interest is classified within equity.

The following tables show the movements in noncontrolling interest for the years ended December 31, 2016 and 2015:

Year ended December 31, 2016 (millions of dollars)	Temporary Equity	Equity	Total
Noncontrolling interest – January 1, 2016	23	52	75
Distributions to noncontrolling interest	(3)	(6)	(9)
Net income attributable to noncontrolling interest	2	4	6
Noncontrolling interest – December 31, 2016	22	50	72

Year ended December 31, 2015 (millions of dollars)	Temporary Equity	Equity	Total
Noncontrolling interest – January 1, 2015	21	49	70
Distributions to noncontrolling interest	(1)	(4)	(5)
Net income attributable to noncontrolling interest	3	7	10
Noncontrolling interest – December 31, 2015	23	52	75

26. RELATED PARTY TRANSACTIONS

The Province is the majority shareholder of Hydro One. The IESO, Ontario Power Generation Inc. (OPG), OEFC, OEB, and Hydro One Brampton are related parties to Hydro One because they are controlled or significantly influenced by the Province.

Related Party	Transaction	Year ended December 31 2016	2015 (millions of dollars)
Province[1]	Dividends paid	451	888
	Common shares issued[2]	–	2,600
	IPO costs subsequently reimbursed by the Province [3]	–	7
IESO	Power purchased	2,096	2,318
	Revenues for transmission services	1,549	1,548
	Distribution revenues related to rural rate protection	125	127
	Distribution revenues related to the supply of electricity to remote northern communities	32	32
	Funding received related to Conservation and Demand Management programs	63	70
OPG	Power purchased	6	11
	Revenues related to provision of construction and equipment maintenance services	5	7
	Costs expensed related to the purchase of services	1	1
OEFC	Payments in lieu of corporate income taxes[4]	–	2,933
	Power purchased from power contracts administered by the OEFC	1	6
	Indemnification fee paid (terminated effective October 31, 2015)	–	8
OEB	OEB fees	11	12
Hydro One Brampton[1]	Revenues from management, administrative and smart meter network services	3	1

[1] On August 31, 2015, Hydro One Inc. completed the spin-off of its subsidiary, Hydro One Brampton, to the Province.

[2] On November 4, 2015, Hydro One issued common shares to the Province for proceeds of $2.6 billion.

[3] In 2015, Hydro One incurred certain IPO related expenses totalling $7 million, which were subsequently reimbursed to the Company by the Province.

[4] In 2015, Hydro One made PILs to the OEFC totalling $2.9 billion, including Departure Tax of $2.6 billion.

Sales to and purchases from related parties are based on the requirements of the OEB's Affiliate Relationships Code. Outstanding balances at period end are interest free and settled in cash.

The amounts due to and from related parties as a result of the transactions referred to above are as follows:

December 31 (millions of dollars)	2016	2015
Due from related parties	158	191
Due to related parties[1]	(147)	(138)

[1] Included in due to related parties at December 31, 2016 are amounts owing to the IESO in respect of power purchases of $143 million (2015 – $134 million).

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2016 and 2015

27. CONSOLIDATED STATEMENTS OF CASH FLOWS

The changes in non-cash balances related to operations consist of the following:

Year ended December 31 (millions of dollars)	2016	2015
Accounts receivable	(60)	245
Due from related parties	33	33
Materials and supplies	2	2
Prepaid expenses and other assets	(15)	4
Accounts payable	19	(23)
Accrued liabilities	53	(15)
Due to related parties	9	(89)
Accrued interest	9	(4)
Long-term accounts payable and other liabilities	6	–
Post-retirement and post-employment benefit liability	78	60
	134	213

Capital Expenditures

The following table reconciles between investments in property, plant and equipment and the amount presented in the Consolidated Statements of Cash Flows after accounting for capitalized depreciation and the net change in related accruals:

Year ended December 31 (millions of dollars)	2016	2015
Capital investments in property, plant and equipment	(1,630)	(1, 623)
Capitalized depreciation and net change in accruals included in capital investments in property, plant and equipment	30	28
Capital expenditures – property, plant and equipment	(1,600)	(1, 595)

The following table reconciles between investments in intangible assets and the amount presented in the Consolidated Statements of Cash Flows after accounting for the net change in related accruals:

Year ended December 31 (millions of dollars)	2016	2015
Capital investments in intangible assets	(67)	(40)
Net change in accruals included in capital investments in intangible assets	6	3
Capital expenditures – intangible assets	(61)	(37)

Capital Contributions

Hydro One enters into contracts governed by the OEB Transmission System Code when a transmission customer requests a new or upgraded transmission connection. The customer is required to make a capital contribution to Hydro One based on the shortfall between the present value of the costs of the connection facility and the present value of revenues. The present value of revenues is based on an estimate of load forecast for the period of the contract with Hydro One. Once the connection facility is commissioned, in accordance with the OEB Transmission System Code, Hydro One will periodically reassess the estimated of load forecast which will lead to a decrease, or an increase in the capital contributions from the customer. The increase or decrease in capital contributions is recorded directly to fixed assets in service. In 2016, capital contributions from these reassessments totalled $21 million (2015 – $57 million), which represents the difference between the revised load forecast of electricity transmitted compared to the load forecast in the original contract, subject to certain adjustments.

Supplementary Information

Year ended December 31 (millions of dollars)	2016	2015
Net interest paid	418	416
Income taxes / PILs paid	32	2,933

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2016 and 2015

28. CONTINGENCIES

Legal Proceedings

Hydro One is involved in various lawsuits, claims and regulatory proceedings in the normal course of business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Hydro One Inc., Hydro One Networks, Hydro One Remote Communities, and Norfolk Power Distribution Inc. are defendants in a class action suit in which the representative plaintiff is seeking up to $125 million in damages related to allegations of improper billing practices. A certification motion in the class action is pending. Due to the preliminary stage of legal proceedings, an estimate of a possible loss related to this claim cannot be made.

Transfer of Assets

The transfer orders by which the Company acquired certain of Ontario Hydro's businesses as of April 1, 1999 did not transfer title to some assets located on Reserves (as defined in the *Indian Act* (Canada)). Currently, the OEFC holds these assets. Under the terms of the transfer orders, the Company is required to manage these assets until it has obtained all consents necessary to complete the transfer of title of these assets to itself. The Company cannot predict the aggregate amount that it may have to pay, either on an annual or one-time basis, to obtain the required consents. In 2016, the Company paid approximately $1 million (2015 – $1 million) in respect of consents obtained. If the Company cannot obtain the required consents, the OEFC will continue to hold these assets for an indefinite period of time. If the Company cannot reach a satisfactory settlement, it may have to relocate these assets to other locations at a cost that could be substantial or, in a limited number of cases, to abandon a line and replace it with diesel-generation facilities. The costs relating to these assets could have a material adverse effect on the Company's results of operations if the Company is not able to recover them in future rate orders.

29. COMMITMENTS

The following table presents a summary of Hydro One's commitments under leases, outsourcing and other agreements due in the next 5 years and thereafter.

December 31, 2016 (millions of dollars)	2017	2018	2019	2020	2021	Thereafter
Outsourcing agreements	165	102	94	2	2	9
Long-term software/meter agreement	17	17	16	17	1	5
Operating lease commitments	11	10	6	10	3	2

Outsourcing Agreements

Inergi LP (Inergi), an affiliate of Capgemini Canada Inc., provides services to Hydro One, including settlements, source to pay services, pay operations services, information technology, finance and accounting services. The agreement with Inergi for these services expires in December 2019. In addition, Inergi provides customer service operations outsourcing services to Hydro One. The agreement for these services expires in February 2018.

Brookfield Global Integrated Solutions (formerly Brookfield Johnson Controls Canada LP) (Brookfield) provides services to Hydro One, including facilities management and execution of certain capital projects as deemed required by the Company. The agreement with Brookfield for these services expires in December 2024.

Long-term software/meter agreement

Trilliant Holdings Inc. and Trilliant Networks (Canada) Inc. (collectively Trilliant) provide services to Hydro One for the supply, maintenance and support services for smart meters and related hardware and software, including additional software licences, as well as certain professional services.The agreement with Trilliant for these services expires in December 2025, but Hydro One has the option to renew for an additional term of five years at its sole discretion.

Operating Leases

Hydro One is committed as lessee to irrevocable operating lease contracts for buildings used in administrative and service-related functions and storing telecommunications equipment. These leases have typical terms of between three and five years, but several leases have lesser or greater terms to address special circumstances and/or opportunities. Renewal options, which are generally prevalent in most leases, have similar terms of three to five years. All leases include a clause to enable upward revision of the rental charge on an annual basis or on renewal according to prevailing market conditions or pre-established rents. There are no restrictions placed upon Hydro One by entering into these leases. During the year ended December 31, 2016, the Company made lease payments totalling $11 million (2015 – $7 million).

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2016 and 2015

Other Commitments

Prudential Support

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. As at December 31, 2016, Hydro One Inc. provided prudential support to the IESO on behalf of its subsidiaries using parental guarantees of $329 million (2015 – $329 million), and on behalf of a distributor using guarantees of $1 million (2015 – $1 million). In addition, as at December 31, 2016, Hydro One Inc. provided letters of credit in the amount of $24 million (2015 – $15 million), including $17 million (2015 – $15 million) to the IESO. The IESO could draw on these guarantees and/or letters of credit if these subsidiaries or distributor fail to make a payment required by a default notice issued by the IESO. The maximum potential payment is the face value of any letters of credit plus the amount of the parental guarantees.

Retirement Compensation Arrangements

Bank letters of credit have been issued to provide security for Hydro One Inc.'s liability under the terms of a trust fund established pursuant to the supplementary pension plan for eligible employees of Hydro One Inc. The supplementary pension plan trustee is required to draw upon these letters of credit if Hydro One Inc. is in default of its obligations under the terms of this plan. Such obligations include the requirement to provide the trustee with an annual actuarial report as well as letters of credit sufficient to secure Hydro One Inc.'s liability under the plan, to pay benefits payable under the plan and to pay the letter of credit fee. The maximum potential payment is the face value of the letters of credit. At December 31, 2016, Hydro One Inc. had letters of credit of $150 million (2015 – $139 million) outstanding relating to retirement compensation arrangements.

30. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Business, which comprises the transmission of high voltage electricity across the province, interconnecting more than 70 local distribution companies and certain large directly connected industrial customers throughout the Ontario electricity grid;
- The Distribution Business, which comprises the delivery of electricity to end customers and certain other municipal electricity distributors; and
- Other Business, which includes certain corporate activities and the operations of the Company's telecommunications business.

The designation of segments has been based on a combination of regulatory status and the nature of the services provided. Operating segments of the Company are determined based on information used by the chief operating decision maker in deciding how to allocate resources and evaluate the performance of each of the segments. The Company evaluates segment performance based on income before financing charges and income taxes from continuing operations (excluding certain allocated corporate governance costs).

The accounting policies followed by the segments are the same as those described in the summary of significant accounting policies (see note 2).

Year ended December 31, 2016 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	1,584	4,915	53	6,552
Purchased power	–	3,427	–	3,427
Operation, maintenance and administration	382	608	79	1,069
Depreciation and amortization	390	379	9	778
Income (loss) before financing charges and income taxes	812	501	(35)	1,278
Capital investments	988	703	6	1,697

Year ended December 31, 2015 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	1,536	4,949	53	6,538
Purchased power	–	3,450	–	3,450
Operation, maintenance and administration	414	633	88	1,135
Depreciation and amortization	374	380	5	759
Income (loss) before financing charges and income taxes	748	486	(40)	1,194
Capital investments	943	711	9	1,663

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2016 and 2015

Total Assets by Segment:

December 31 (millions of dollars)	2016	2015
Transmission	13,007	12,045
Distribution	9,337	9,200
Other	3,007	3,049
Total assets	25,351	24,294

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

31. SUBSEQUENT EVENTS

Dividends

On February 9, 2017, preferred share dividends in the amount of $4 million and common share dividends in the amount of $125 million ($0.21 per common share) were declared.

LIQUOR CONTROL BOARD OF ONTARIO

Responsibility for Financial Reporting

The preparation, presentation and integrity of the financial statements are the responsibility of management. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the estimates, judgments and assumptions necessary to prepare the financial statements in accordance with International Financial Reporting Standards. The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with International Financial Reporting Standards and include amounts that are based on management's best estimates and judgment.

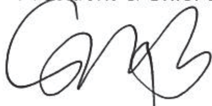
Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, composed of three Members who are not employees/officers of the LCBO, generally meets periodically with management, the internal auditors and the Office of the Auditor General of Ontario to satisfy itself that each group has properly discharged its respective responsibility. Also, the Office of the Auditor General of Ontario meets with the Audit Committee without management present.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards. The Independent Auditor's Report outlines the scope of the Auditor's examination and opinion.

On behalf of management:

George Soleas
President & Chief Executive Officer



Beili Wong
Acting Senior Vice President, Finance & Administration, and Chief Financial Officer
June 29, 2017

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Liquor Control Board of Ontario
and to the Minister of Finance

I have audited the accompanying financial statements of the Liquor Control Board of Ontario, which comprise the statement of financial position as at March 31, 2017, and the statement of income and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Liquor Control Board of Ontario as at March 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Toronto, Ontario
June 29, 2017

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

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LIQUOR CONTROL BOARD OF ONTARIO

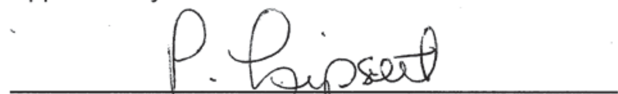
Statement of Financial Position

(thousands of Canadian dollars)

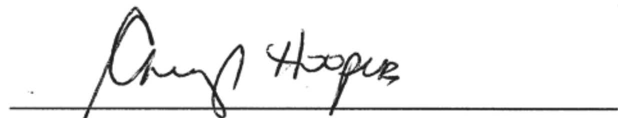
	Note	March 31 2017	March 31 2016
ASSETS			
Current Assets			
Cash and cash equivalents	5	324,586	273,125
Trade and other receivables	6	75,732	60,881
Inventories	7	477,104	432,852
Prepaid expenses and other assets	8	27,540	9,410
Assets held for sale	19	-	10,249
Total Current Assets		904,962	786,517
Property, plant and equipment and intangible assets	9	396,739	387,646
Total Assets		**1,301,701**	**1,174,163**
LIABILITIES & EQUITY			
Current Liabilities			
Trade and other payables	10	677,132	588,725
Provisions	12	25,705	18,932
Current portion of non-pension employee benefits	13	11,889	15,356
Total Current Liabilities		714,726	623,013
Non-pension employee benefits	13	108,036	105,241
Total Liabilities		**822,762**	**728,254**
Equity			
Retained earnings		480,681	447,199
Accumulated other comprehensive loss		(1,742)	(1,290)
Total Equity		478,939	445,909
Total Liabilities and Equity		**1,301,701**	**1,174,163**

See accompanying notes to the financial statements.

Approved By:



Acting Chair, Board of Directors



Board Member, Chair, Audit Committee

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Income and Other Comprehensive Income

(thousands of Canadian dollars)

For the year ended	Note	March 31 2017	March 31 2016
Revenue	18	5,892,497	5,571,765
Cost of sales	7	(2,943,420)	(2,784,913)
Gross margin		2,949,077	2,786,852
Other income		65,425	53,877
Selling, general and administrative expenses	20	(944,977)	(870,385)
Income from operations		2,069,525	1,970,344
Gain on sale of Head Office	19	271,762	-
Finance income	22	2,349	1,458
Finance costs	13, 22	(3,939)	(3,966)
Net income		2,339,697	1,967,836
Other comprehensive (loss) income:			
Actuarial (losses) gains on non-pension employee benefits	13	(452)	1,515
Total other comprehensive (loss) income		(452)	1,515
Total comprehensive income		2,339,245	1,969,351

See accompanying notes to the financial statements.

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Changes in Equity

(thousands of Canadian dollars)

	Note	Retained Earnings	Accumulated other comprehensive income (loss)	Total Equity
Balance at April 1, 2016		447,199	(1,290)	445,909
Net income		2,339,697	-	2,339,697
Other comprehensive loss		-	(452)	(452)
Dividends paid to province		(2,060,000)	-	(2,060,000)
Sale of Head Office transfer	19, 23	(246,215)	-	(246,215)
Balance at March 31, 2017		480,681	(1,742)	478,939
Balance at April 1, 2015		414,363	(2,805)	411,558
Net income		1,967,836	-	1,967,836
Other comprehensive income		-	1,515	1,515
Dividends paid to province		(1,935,000)	-	(1,935,000)
Balance at March 31, 2016		447,199	(1,290)	445,909

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Cash Flows

(thousands of Canadian dollars)

For the year ended	March 31 2017	March 31 2016
Operating activities:		
Net income	2,339,697	1,967,836
Depreciation, amortization and impairment	67,502	64,541
Gain on sale of property, plant and equipment and intangible assets	(4,366)	(358)
Gain on sale of Head Office	(271,762)	-
Non-pension employee benefit expenses	17,590	8,120
Non-pension employee benefit payments	(18,714)	(14,344)
	(209,750)	57,959
Change in non-cash balances related to operations:		
Trade and other receivables	(14,851)	(16,018)
Inventories	(44,252)	(18,634)
Prepaid expenses and other assets	5,134	87
Trade and other payables	88,407	34,108
Provisions	6,773	194
	41,211	(263)
Net cash provided by operating activities	2,171,158	2,025,532
Investing activities:		
Purchase of property, plant and equipment, intangible assets and assets held for sale	(78,599)	(76,034)
Proceeds from sale of property, plant and equipment and intangible assets	6,370	1,435
Net monetary proceeds from sale of Head Office	258,747	-
Net cash provided by (used in) investing activities	186,518	(74,599)
Financing activities:		
Dividend paid to the Province of Ontario	(2,060,000)	(1,935,000)
Sale of Head Office transfer	(246,215)	-
Net cash used in financing activities	(2,306,215)	(1,935,000)
Increase in cash	51,461	15,933
Cash and cash equivalents, beginning of year	273,125	257,192
Cash and cash equivalents, end of year	324,586	273,125

Supplemental cash flow information

Non-monetary proceeds from sale of Head Office included in Prepaid expenses and other assets	23,264	-

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2017 and 2016

(thousands of Canadian dollars)

1. General information and statement of compliance

1.1 General information

The Liquor Control Board of Ontario ("LCBO") is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. LCBO is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario ("Province").

As an Ontario Crown Corporation, LCBO is exempt from income taxes. LCBO transfers most of its earnings to the Province's Consolidated Revenue Fund in the form of a dividend.

LCBO's head office is located at 55 Lake Shore Blvd East, Toronto, Ontario, Canada, M5E 1A4.

1.2 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The financial statements are presented in Canadian dollars ("C$"), LCBO's functional currency.

The audited financial statements were approved by the Board of Directors and authorized for issue on June 29, 2017.

2. Adoption of new and amended standards and interpretations

2.1 Accounting standards and amendments adopted in the current year

The IASB has issued the following relevant standards and amendments that have been applied in preparing our March 31, 2017 financial statements as their effective dates fall in the current financial reporting period. The standards and amendments did not have any impact on LCBO's financial statements.

Standards and amendments	Description	LCBO Effective Date	Assessed impact
IAS 16 & IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization	IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* have been revised to incorporate amendments issued by the IASB in May 2014. The amendments to IAS 16 clarify the use of revenue-based methods to determine the depreciation of an asset is not appropriate. The amendments to IAS 38 clarify that an amortization method based on revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible. The amendments are effective for annual periods beginning on or after January 1, 2016.	April 1, 2016	No impact

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2.1 Accounting standards and amendments adopted in the current year (continued)

Standards and amendments	Description	LCBO Effective Date	Assessed impact
Disclosure Initiative (Amendments to IAS 1 *Presentation of Financial Statements*)	IAS 1 *Presentation of Financial Statements* has been revised to incorporate amendments issued by the IASB in December 2014. The amendments clarify the existing presentation and disclosure requirements in IAS 1, including the presentation of line items, subtotals and notes. They also provide guidance to assist entities to apply judgment in determining what information to disclose, and how that information is presented in their financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016.	April 1, 2016	No impact
Annual Improvements to IFRSs – 2012-2014 Cycle	The following standards have been revised to incorporate amendments issued by the IASB in September 2014: • IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* has been amended to clarify the application of the guidance in the standard in circumstances in which an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa), and the circumstances in which an asset no longer meets the criteria for held for distribution. • IFRS 7 *Financial Instruments: Disclosures* has been amended to clarify guidance on servicing contracts and the applicability of the amendments to IFRS 7 regarding offsetting financial assets and financial liabilities, to interim financial statements. • IAS 19 *Employee Benefits* has been amended to clarify the application of the discount rate requirements for currencies for which there is no deep market in high quality corporate bonds. • IAS 34 *Interim Financial Reporting* has been amended to clarify the meaning of disclosure of information “elsewhere in the interim financial report.” The amendments are effective for annual periods beginning on or after January 1, 2016.	April 1, 2016	No impact

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2.1 Accounting standards and amendments adopted in the current year (continued)

The IASB also issued the following standards and amendments with effective dates beginning on or after January 1, 2016 and fall in the current financial reporting period, but were not applicable to LCBO.

- IFRS 11 *Joint Arrangements*: standard revised to incorporate amendments on how to account for the acquisition of an interest in a joint operation that constitutes a business.
- IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures*: amendments to clarify issues associated with investment entities.
- IFRS 14 *Regulatory Deferral Accounts*: new standard issued by the IASB in January 2014, to provide interim guidance on rate-regulated activities.

2.2 Accounting standards and amendments not yet effective

The following relevant standards and amendments issued by the IASB have not been applied in preparing our March 31, 2017 financial statements as their effective dates fall in periods beginning subsequent to the current financial reporting period.

Proposed standards and amendments	Description	LCBO Effective Date	Estimated impact
Disclosure initiative (Amendments to IAS 7 *Cash Flows*)	IAS 7 *Statement of Cash Flows* has been revised to incorporate amendments issued by the IASB in January 2016. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017.	April 1, 2017	LCBO is assessing the potential impact
IFRS 9 *Financial Instruments*	Previous standards and interpretations: • IAS 39 *Financial Instruments*: Recognition and Measurement • IFRIC 9 *Reassessment of Embedded Derivatives* Finalized version issued in July 2014 incorporating the classification and measurement requirements and new hedge accounting model included in earlier versions. This version introduces a single forward-looking expected credit loss impairment model. IFRS 9 also resulted in consequential amendments to IFRS 7 *Financial Instruments: Disclosures* to include disclosures about an entity's risk management strategy and the effect of hedge accounting on the financial statements. The standard is effective for annual periods beginning on or after January 1, 2018.	April 1, 2018	LCBO is assessing the potential impact

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2.2 Accounting standards and amendments not yet effective (continued)

Proposed standards and amendments	Description	LCBO Effective Date	Estimated impact
Annual improvement - 2014-2016 cycle	The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle on 8 December 2016, amending the following standards:		No anticipated impact
	• *IFRS 1 First-time Adoption of International Financial Reporting Standards* deleted the short-term exemptions.	April 1, 2018	
	• *IFRS 12 Disclosure of Interests in Other Entities* has clarified the scope of the standard by specifying that the disclosure requirements in the standard apply to an entity's interests that are classified as held for sale, as held for distribution or as discontinued operations in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.*	April 1, 2017	
	• *IAS 28 Investments in Associates and Joint Ventures* has clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.	April 1, 2018	
	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018, the amendment to IFRS 12 for annual periods beginning on or after January 1, 2017.		

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2.2 Accounting standards and amendments not yet effective (continued)

Proposed standards and amendments	Description	LCBO Effective Date	Estimated impact
IFRS 15 *Revenue from Contracts with Customers*	Previous standards and interpretations: • IAS 11 *Construction Contracts*; • IAS 18 *Revenue*; • IFRIC 13 *Customer Loyalty Programmes*; • IFRIC 15 *Agreements for the Construction of Real Estate*; • IFRIC 18 *Transfer of Assets from Customers*; • SIC-31 *Revenue – Barter Transactions Involving Advertising Services* IFRS 15 establishes a comprehensive framework for the recognition, measurement and disclosure of revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments).The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard is effective for annual periods beginning on or after January 1, 2018.	April 1, 2018	LCBO is assessing the potential impact
IFRS 16 *Leases*	Previous standard(s): • IAS 17 *Leases* • IFRIC 4 *Determining Whether an Arrangement Contains a Lease* • SIC-15 *Operating Leases – Incentives* • SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The new standard is effective for annual periods beginning on for after January 1, 2019.	April 1, 2019	LCBO is assessing the potential impact

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2.2 Accounting standards and amendments not yet effective (continued)

The IASB also issued the following standards and amendments with effective dates that fall subsequent to March 31, 2017, but are not applicable to LCBO.

- IAS 12 *Income Taxes* Recognition of Deferred Tax Assets for Unrealized Losses: amendments to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.
- IFRS 2 *Share-based Payment* Classification and Measurement of Share-based Payment Transactions: narrow-scope amendments to clarify how to account for certain types of share-based payment transactions.
- IFRS 4 *Insurance Contracts*: amendments regarding the interaction of IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments, providing two options for entities that issue insurance contracts within the scope of IFRS 4.
- IAS 40 *Investment Property* Transfers of Investment Property: amendments to clarify transfers of property to, or from, investment property.

3. Significant Accounting Policies

These financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value through profit or loss (“FVTPL”).

3.1 Cash & Cash Equivalents

Cash and cash equivalents comprise of cash, deposits held in trust and highly liquid investments with original maturity dates of 90 days or less from the date of acquisition.

LCBO’s investment policy restricts short-term investments to highly liquid, high-grade money market instruments such as federal/provincial treasury bills, bankers’ acceptances and term deposits. The resulting disclosures are presented in Note 5.

3.2 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost less an allowance for impairment, if any. Almost all of LCBO’s receivables are due within 30 days.

The carrying amount of account receivables are reduced through the use of an allowance account where there is objective evidence that LCBO will not be able to collect all amounts due according to the original terms of the receivables. LCBO establishes an allowance taking into consideration customer credit worthiness, current economic trends and past experience. When receivables are deemed to be uncollectible after recording an allowance, they are written off against the allowance. The loss is recognized as a selling, general and administrative expense in the Statement of income and other comprehensive income. The resulting disclosures are presented in Note 6.

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3.3 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined by the weighted average cost or landed cost method. Landed cost includes the supplier quote, rebate, excise, import duties and inbound freight. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of inventories comprises all cost of purchase net of vendor allowances and includes other direct costs, such as transportation and direct warehouse handling costs that are incurred to bring inventories to their present location and condition. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable. The resulting disclosures are presented in Note 7.

3.4 Assets classified as held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, and it should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets classified as held for sale are measured at the lower of the carrying amount or fair value less costs to sell. An asset that is classified as held for sale is no longer depreciated. The resulting disclosures are presented in Note 19.

3.5 Property, plant and equipment

Major capital expenditures with a future useful life beyond the current year are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition, construction or development of the asset.

Depreciation is recognized in the Statement of income and other comprehensive income over the expected useful lives of each major component of property, plant and equipment, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The estimated useful lives for property, plant and equipment are as follows:

Buildings	5 to 40 years
Leasehold Improvements	5 to 20 years
Furniture and Equipment	5 to 20 years
Computer Equipment	4 years

Land assets are carried at cost, less any recognized impairment losses and are not depreciated.

Property, plant and equipment under construction and not available for use, are carried at cost, less any recognized impairment loss. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

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3.5 Property, plant and equipment (continued)

The cost of subsequently replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits related to the part will flow to LCBO, and its cost can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognized, if any. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Statement of income and other comprehensive income as incurred. The resulting disclosures are presented in Note 9.

3.6 Intangible assets

i. **Acquired intangible assets**

Acquired intangible assets, such as software, are measured initially at cost and are amortized on a straight-line basis over their estimated useful lives.

The estimated useful lives for intangible assets are as follows:

Computer software	4 years

The resulting disclosures are presented in Note 9.

ii. **Internally generated intangible assets – research and development costs**

Expenditures related to research activities are recognized as an expense in the period in which they are incurred.

Development expenditures incurred are capitalized only if LCBO can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale as intended by management;
(b) its intention to complete the intangible asset and use or sell it;
(c) its ability to use or sell the intangible asset;
(d) how the intangible asset will generate probable future economic benefits;
(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Software under development and not available for use, are carried at cost, less any recognized impairment loss. When completed and ready for intended use these assets are amortized on the same basis as other acquired intangible assets. The resulting disclosures are presented in Note 9.

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3.7 Impairment of property, plant and equipment and intangible assets

Annually LCBO reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication of an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, LCBO estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. For property, plant and equipment and intangible assets, the CGU is deemed to be each retail store. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Any impairment charge is recognized in the Statement of income and other comprehensive income in the year in which it occurs. The resulting disclosures are presented in Note 9.

3.8 Trade and other payables

Trade and other payables are classified as other financial liabilities and are generally short term in nature and due within one year of the Statement of financial position date. Trade payables are non-interest-bearing and are initially measured at fair value and subsequently remeasured at amortized cost. The resulting disclosures are presented in Note 10.

3.9 Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation. The resulting disclosures are presented in Note 12.

3.10 Financial instruments

Financial assets and financial liabilities are recognized when LCBO becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Their measurement in subsequent periods and the recognition of changes in fair value depend on the category in which they are classified.

The LCBO has classified its financial instruments as follows:

Financial Asset / Financial Liability	Category	Measurement
Cash and cash equivalents	Loans and receivables or available for sale ("AFS")	Loans and receivables are measured at amortized cost. AFS is measured at fair value through other comprehensive income.
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Provisions	Other financial liabilities	Amortized cost
Derivatives and foreign exchange spot contracts	Fair value through profit or loss ("FVTPL")	Fair value through profit or loss ("FVTPL")

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3.10 Financial instruments (continued)

Financial instruments measured at fair value must be classified according to a three-level hierarchy based on the type of inputs used to make the measurements. This hierarchy is as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than the Level 1 quoted prices that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market inputs (unobservable inputs).

At the end of each reporting period, the LCBO determines whether there is any indication that a financial asset may be impaired. It does so for all financial assets except for those recognized at fair value through profit or loss. A financial asset or group of financial assets is impaired when there is objective evidence of impairment. In instances of impairment, the recognized impairment loss is the difference between the carrying amount of the asset and the present value of estimated future cash flows.

LCBO's financial assets and liabilities are generally classified and measured as follows:

i. **Financial assets**

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' ("FVTPL"), 'available-for-sale' ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or designated as such upon initial recognition. Financial assets are classified as held for trading if acquired principally for the purpose of selling in the near future or it has been part of an identified portfolio of financial instruments that LCBO manages together and has a recent actual pattern of short-term profit-making. Derivatives are also categorized as held for trading.

Financial assets classified as FVTPL are measured at fair value, with changes in fair value recorded in the Statement of income and other comprehensive income in the period in which they arise.

Available for sale ("AFS")

Financial instruments classified as AFS financial assets are measured at fair value with changes in fair value recognized in other comprehensive income ("OCI") until realized through disposal or impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

3.10 Financial instruments (continued)

ii. Financial liabilities

Financial liabilities are classified as 'other financial liabilities', which are subsequently measured at amortized cost using the effective interest method.

iii. Derivatives

Derivative financial instruments are classified as FVTPL. Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at fair value, with changes recognized in the Statement of income and other comprehensive income. The resulting disclosures are presented in Note 16.

3.11 Revenue recognition

Revenue consists of the fair value of consideration received or receivable for the sale of goods in the ordinary course of LCBO's activities less any sales taxes. Sales taxes on the sale of goods are recorded as a liability in the period the sales taxes are deemed to be owed and are excluded from revenues. Revenue is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer and the amount of revenue can be measured reliably. For goods delivered to customers, revenue is recognized at the time the customer receives the product or upon estimated receipt by the customer. Revenue is recorded net of returns, trade discounts, volume rebates, applicable taxes and container deposits, in the Statement of income and other comprehensive income.

i. Gift Cards

Revenue generated from gift cards is recognized when gift cards are redeemed. LCBO also recognizes revenue from unredeemed gift cards if the likelihood of gift card redemption by the customer is considered to be remote.

ii. Air Miles®[1]

Income from the Air Miles®[1] "program" is recognized in the period in which it is earned, in accordance with the terms of the contract. The program is split into two distinct components:

(1) Base – LCBO pays LoyaltyOne a fee for each Base Air Miles®[1] issued to customers. Base Air Miles®[1] are treated as a sales incentive to customers, therefore the associated costs of the Base are accounted for as a reduction to revenues in the Statement of income and other comprehensive income.

(2) Bonus – LCBO charges vendors a fee whose products are participating in the Bonus Air Miles®[1] program. The associated income net of costs of the Bonus is accounted for as a reduction to cost of sales in the Statement of income and other comprehensive income.

[1] AIR MILES® is a trademark of AIR MILES International Trading B.V. Used under license by LoyaltyOne

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3.12 Other income

i. **Services rendered**

Income from services rendered is recognized when the services are provided and the income can be measured reliably. Such services consist of border point levies and fees generated from special occasion permits such as those required by an individual or organization, who plan to serve alcohol at an event or location other than a private place.

ii. **Unredeemed Ontario Deposit Return Program container deposits**

LCBO recognizes income from estimated unredeemed Ontario Deposit Return Program (“ODRP”) container deposits as not all customers return the container for their deposit. LCBO determines its ODRP container redemption rate based on historical redemption data and estimates the unredeemed ODRP container deposit income. The resulting income is recognized based on historical redemption patterns, commencing when the container deposits are collected. The resulting disclosures are presented in Note 25.

3.13 Vendor allowances

LCBO receives allowances from certain suppliers whose product it purchases for resale. The allowances are received for a variety of promotional activities, including allowances received for in store promotion of the supplier’s product, advertising the launch of a new product and labeling and shelf space provided on limited time product offers. LCBO recognizes consideration received from vendors as a reduction in the price of the vendors’ products and reflects it as a reduction to cost of sales when recognized in the Statement of income and other comprehensive income. Certain exceptions apply where the cash consideration received is a direct reimbursement of specific, incremental and identifiable costs incurred by LCBO for assets or services delivered to the vendor or reimbursement of selling costs incurred to promote the vendor’s product. In these particular instances, the consideration is reflected as a reduction in selling, general and administrative expenses.

3.14 Employee benefits

i. **Short-term employee benefits**

Short-term employee benefit obligations are expensed as the related service is provided. LCBO recognizes a liability and an expense for short-term benefits such as performance pay, unused vacation entitlements and other employee benefits if LCBO has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reasonably. The resulting disclosures are presented in Note 21.

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3.14 Employee benefits (continued)

ii. **Pension Benefit Costs**

LCBO provides defined pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund). The Province, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU Pension Fund, determines LCBO's annual contribution to the funds. As the sponsors are responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of LCBO.

LCBO's contributions to both plans are accounted for on a defined contribution basis with LCBO's contribution charged to the Statement of income and other comprehensive income in the period the contributions become payable. The resulting disclosures are presented in Note 13.

iii. **Non-pension employee benefits**

Employee benefits other than those provided by the Province include accrued contractual severance payments ("CSP"), executive compensation time banking ("ECTB"), unfunded workers compensation obligation ("WCB") and benefits extended to employees on long-term income protection ("LTIP"). These plans provide benefits to employees when they are no longer providing active service. Other non-pension employee benefit obligations of the LCBO include accumulating non-vesting sick leave ("NVSL") and Service Awards. LCBO accrues these employee benefits over the periods in which the employees earn the benefits or upon absence. The cost of other post-retirement, non-pension employee benefits is paid by the Province and is not included in the Statement of income and other comprehensive income.

The liability of the CSP, ECTB, LTIP, NVSL and Service Awards was actuarially determined by using the Projected Unit Credit Method and management's best estimate. The WCB liability was actuarially determined by calculating the present value of the projected future payments. The annual benefit cost is the sum of the service cost and one year's interest cost plus remeasurements of the defined benefit obligation.

LCBO recognizes all actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the CSP and ECTB benefits immediately in other comprehensive income, and reports them in accumulated other comprehensive income in the Statement of financial position, as these benefits are accrued over an employee's years of service. Any actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the LTIP, WCB, NVSL and Service Awards benefits are recognized in the Statement of income and other comprehensive income in the period in which they arise, as these benefits are defined as Other Long-Term Employee Benefits which do not have remeasurements that can be recognized in Other comprehensive income. The resulting disclosures are presented in Note 13.

3.15 Finance income

Finance income comprises of interest income on funds invested. Interest income is recognized as it accrues in the Statement of income and other comprehensive income, using the effective interest method. The resulting disclosures are presented in Note 22.

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3.16 Finance costs

Finance costs consist of interest expense on the non-pension employee benefits obligation and financing charges on capital leases. The resulting disclosures are presented in Notes 13 and 22.

3.17 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. LCBO has very few finance leases which are immaterial.

All other leases are classified as operating leases. Operating lease payments, including scheduled escalations, are recognized as an expense on a straight-line basis over the term of the lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability and amortized over the lease term. The aggregate benefit of incentives is recognized as a reduction of selling, general and administrative expenses on a straight-line basis. The resulting disclosures are presented in Note 11.

3.18 Foreign currencies

Transactions in currencies other than LCBO's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. Items denominated in foreign currencies, comprised of US bank accounts and liabilities are translated at the prevailing rates at the end of each reporting period. Exchange gains and losses are recognized immediately in the Statement of income and other comprehensive income.

4. Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the carrying amount of assets and liabilities, and disclosures of contingent assets and liabilities as at the date of the financial statements, and the carrying amount of revenues and expenses for the reporting period. These estimates are changed periodically, and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

The judgments and key sources of estimation uncertainty that have a significant effect on the amounts recognized in the financial statements are discussed below.

i. **Non-pension employee benefits**

The present value of the non-pension employee benefits obligation depends on a number of factors that are determined using an actuarial estimate based on numerous assumptions, including the discount rate, wage escalation, inflation rates, mortality rate and employee turnover. Any changes in these assumptions will impact the carrying amount of non-pension employee benefits obligations.

LCBO determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, LCBO uses the interest rates of high-quality corporate bonds that are denominated in the Canadian dollars in which the benefits will be paid. Other key assumptions for employee benefit obligations are based in part on current market conditions. Additional disclosures are presented in Note 13.

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4. Use of estimates and judgments (continued)

ii. **Impairment of property, plant and equipment and intangible assets**

LCBO has determined each store as a separate cash-generating unit ("CGU"). When there are indicators for impairment, LCBO performs an impairment test.

Intangible assets and property, plant and equipment are subject to impairment reviews based on whether current circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount for CGUs are based on a calculation of expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance. Additional disclosures are presented in Note 9.

iii. **Inventories**

LCBO makes estimates on the warehouse handling costs that directly relate to bringing inventories to their selling location and condition. Accordingly, LCBO includes the direct warehouse handling costs within inventories and they are expensed to cost of sales in the period the inventories are sold. Additional disclosures are presented in Note 7.

iv. **Leases**

LCBO leases a significant number of retail store locations as part of its operations as well as other assets. In determining the classification of a lease as either a finance or an operating lease, judgment is required in assessing whether substantially all of the risks and rewards incidental to ownership are transferred. LCBO analyzes each lease independently, considering various factors such as whether there is a bargain purchase and/or renewal option included in the lease, the economic life of the asset when compared to the term of the lease, and the minimum lease payments when compared to the fair value of the leased asset.

In respect of finance leases, judgment is required in determining the appropriate discount rate implicit in the lease to discount minimum lease payments. For leases where it is not practical to determine the implicit discount rate, LCBO estimates an appropriate discount rate based on the Ontario government borrowing rate.

v. **Provisions**

Provisions have been made for certain employee benefits, sales returns and store closing costs. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Additional disclosures are presented in Note 12.

vi. **ODRP unredeemed container deposit income**

LCBO has determined that not all deposits paid by customers for the ODRP containers will be redeemed. Estimates have been made for the redemption rate on ODRP containers based on past history. The estimated unredeemed ODRP container deposits are treated as other income in the period the likelihood of redemption is considered to be remote. Additional disclosures are presented in Note 25.

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4. Use of estimates and judgments (continued)

vii. **Unredeemed Gift cards**

LCBO has determined that not all gift cards purchased will be redeemed in full by customers. Estimates have been made for the redemption rate on gift cards based on past history and industry trends. LCBO had previously estimated the unredeemed percentage to be 3%. For the year ended March 31, 2017, LCBO estimated the unredeemed percentage to be 2% based on historical data and redemption patterns.

5. Cash and Cash Equivalents

Cash and cash equivalents include both cash on hand and in transit, deposits held in trust, and short term investments (such as term deposits and bankers' acceptances), as follows:

	March 31, 2017	March 31, 2016
Cash on hand and in transit	113,160	109,195
Deposits Held in Trust	-	5,000
Bankers' acceptances	211,426	158,930
	324,586	273,125

The deposit held in trust for the year ended March 31, 2016 was received from the buyer as a deposit for the sale of LCBO's Head Office facility, warehouse facility, retail store and adjacent lands located in downtown Toronto. See Note 19 for more details relating to the sale.

6. Trade and Other Receivables

	March 31, 2017	March 31, 2016
Trade and other receivables	76,501	61,233
Allowance for doubtful accounts	(769)	(352)
	75,732	60,881

Trade and other receivables arise primarily from sales billed to independent businesses, agents and other debtors.

The carrying amount of trade and other receivables is reduced through the use of an allowance for doubtful accounts at levels LCBO considered adequate to absorb credit losses. Subsequent recoveries of receivables previously provisioned are credited to the Statement of income and other comprehensive income.

7. Inventories

The cost of inventories sold and recognized as cost of sales during the year ended March 31, 2017 was $2,943 million (2016 - $2,785 million). There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2017 and 2016.

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8. Prepaid Expenses and Other Assets

Included in Prepaid expenses and other assets is the non-monetary incentive from the sale of LCBO Head Office Lands, which closed June 2016. The proceeds from the sale consisted of a monetary cash payment of approximately $260.0 million and a non-monetary incentive of approximately $23.3 million for the leaseback of a portion of the Head Office Lands in the interim. The non-monetary incentive for the leaseback will be amortized over the interim occupancy period, until the new office building and retail space is ready for occupancy by LCBO expected in late 2021. The unamortized balance of the non-monetary incentive as of March 31, 2017 is $19.8 million (2016 – nil). Refer to Note 19 for further details regarding the sale.

9. Property, Plant & Equipment and Intangible Assets

Net book value of property, plant & equipment and intangible assets	March 31, 2017	March 31, 2016
Land	9,963	10,381
Buildings	102,511	100,608
Furniture and equipment	43,106	40,317
Leasehold improvements	175,958	169,870
Computer equipment	15,594	18,185
Computer software	26,080	19,290
Software/construction in progress	23,527	28,995
	396,739	387,646

The following table presents the changes in the cost and accumulated depreciation and impairment on the LCBO's property, plant and equipment and intangible assets:

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2017

	Land	Buildings	Furniture and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2016	10,381	365,103	148,127	494,647	57,090	94,419	28,995	1,198,762
Additions	-	12,812	12,023	34,756	5,756	18,646	(5,394)	78,599
Disposals/Retirements	(418)	(4,230)	(6,717)	(4,114)	(6,158)	(3,108)	-	(24,745)
Impairment	-	-	-	-	-	-	(74)	(74)
Balance at March 31, 2017	9,963	373,685	153,433	525,289	56,688	109,957	23,527	1,252,542
Accumulated depreciation and impairment								
Balance at April 1, 2016	-	264,495	107,810	324,777	38,905	75,129	-	811,116
Depreciation for the year	-	9,707	9,082	28,520	8,263	11,856	-	67,428
Impairment losses	-	-	-	-	-	-	-	-
Disposals/Retirements	-	(3,028)	(6,565)	(3,966)	(6,074)	(3,108)	-	(22,741)
Balance at March 31, 2017	-	271,174	110,327	349,331	41,094	83,877	-	855,803
Net book value at March 31, 2017	9,963	102,511	43,106	175,958	15,594	26,080	23,527	396,739

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For the years ended March 31, 2017 and 2016

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9. Property, Plant & Equipment and Intangible Assets (continued)

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2016

	Land	Buildings	Furniture and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2015	10,437	351,602	141,524	460,721	54,333	84,453	27,299	1,130,369
Additions	-	15,501	8,087	34,205	5,506	10,074	1,696	75,069
Disposals/Retirements	(56)	(2,000)	(1,484)	(279)	(2,749)	(108)	-	(6,676)
Impairment	-	-	-	-	-	-	-	-
Balance at March 31, 2016	10,381	365,103	148,127	494,647	57,090	94,419	28,995	1,198,762
Accumulated depreciation and impairment								
Balance at April 1, 2015	-	256,521	100,108	297,790	32,417	65,338	-	752,174
Depreciation for the year	-	9,205	9,015	27,266	9,232	9,823	-	64,541
Impairment losses	-	-	-	-	-	-	-	-
Disposals/Retirements	-	(1,231)	(1,313)	(279)	(2,744)	(32)	-	(5,599)
Balance at March 31, 2016	-	264,495	107,810	324,777	38,905	75,129	-	811,116
Net book value at March 31, 2016	10,381	100,608	40,317	169,870	18,185	19,290	28,995	387,646

10. Trade and Other Payables

	March 31, 2017	March 31, 2016
Trade payables	364,053	301,446
Accruals and other payables	313,079	287,279
	677,132	588,725

Trade payables consist of amounts outstanding for purchases of alcohol products, freight and federal taxes. Accruals and other payables include amounts relating to harmonized sales tax, unredeemed gift cards, ODRP container deposits collected and other miscellaneous accruals and purchases.

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For the years ended March 31, 2017 and 2016

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11. Operating Lease Arrangement

LCBO enters into operating leases in the ordinary course of business, primarily for retail stores. The leases have varying terms, escalation clauses, renewal rights and do not contain any contingent rental payments.

Minimum lease payments recognized as an expense in 2017 were $86.2 million (2016 – $82.6 million). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	March 31, 2017
Fiscal 2018	86,722
Fiscal 2019 to 2022	311,272
Beyond fiscal 2022	502,745
	900,739

12. Provisions

The following table represents the changes to LCBO's provisions:

Provisions continuity for the year end March 31, 2017

	Short term employee benefits	**Other**	**Total**
Balance at April 1, 2016	18,364	568	18,932
Charges recognized during the year	18,821	6,884	25,705
Utilization of provision	(18,364)	(568)	(18,932)
Balance at March 31, 2017	18,821	6,884	25,705

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Notes to Financial Statements

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12. Provisions (continued)

Provisions continuity for the year end March 31, 2016

	Short term employee benefits	Other	Total
Balance at April 1, 2015	17,927	811	18,738
Charges recognized during the year	18,364	568	18,932
Utilization of provision	(17,927)	(811)	(18,738)
Balance at March 31, 2016	18,364	568	18,932

Disclosed as:	March 31, 2017	March 31, 2016
Current	25,705	18,932
Non-current	-	-
	25,705	18,932

The employee benefits provision includes vacation entitlements earned by employees and performance bonus payments expected to be paid in the following year.

Other provisions include store closure provisions, which arise when LCBO agrees to restore a leased property to a specified condition at the completion of the lease period. These lease retirement provisions relate primarily to leases which expire over the next year. Other provisions also include a sales returns allowance for future returns on goods sold in the current period. The estimate has been made on the basis of historical sales returns trends. Included in this year's provision is an amount to compensate certain retail store Customer Service Representatives ("CSRs") for wage increases that may have been given to them as a result of their placement on the common wage grid for retail store CSRs, retroactive to November 1, 2016. The amount is expected to be paid out early next fiscal year. Refer to Note 14 for further details.

13. Employee Benefits

a. Pension plan

For the year ended March 31, 2017, the expense was $29.1 million (2016 – $28.3 million) and is included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

b. Non-pension employee benefits

The non-pension employee benefits obligation ("benefit obligation") include accruals for contractual severance payments ("CSP"), executive compensation time banking ("ECTB"), benefits extended to employees on long-term income protection ("LTIP"), unfunded workers compensation obligation ("WCB"), non-vesting sick leave plan ("NVSL") and service awards.

LCBO measures its benefit obligation for accounting purposes as at March 31st of each year.

As of March 31, 2017, the weighted average duration of the plans obligations are 7.1 years (2016 – 7.3 years).

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2017 and 2016

(thousands of Canadian dollars)

13. Employee Benefits (continued)

i. **Statement of financial position**

The non-pension employee benefits recognized in the Statement of financial position is as follows:

	March 31, 2017	March 31, 2016
Current	11,889	15,356
Non-current	108,036	105,241
Total non-pension employee benefit obligation	119,925	120,597

The current portion represents LCBO's estimated contribution to non-pension employee benefits for fiscal 2017/2018.

ii. **Statement of income and other comprehensive income**

The non-pension employee benefit costs recognized in the Statement of income and other comprehensive income is as follows:

	March 31, 2017	March 31, 2016
Current service cost	10,895	10,826
Actuarial losses (gains) on non-vesting benefits	2,822	(6,616)
Total costs included in expenses	13,717	4,210
Interest costs	3,873	3,910
Total costs included in finance costs	3,873	3,910
Total non-pension employee benefit expenses	17,590	8,120

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Notes to Financial Statements

For the years ended March 31, 2017 and 2016

(thousands of Canadian dollars)

13. Employee Benefits (continued)

iii. Accumulated other comprehensive income

The non-pension employee benefits recognized in accumulated other comprehensive income are as follows:

	March 31, 2017	March 31, 2016
Opening cumulative actuarial losses recognized	(1,290)	(2,805)
Net actuarial (losses) gains recognized	(452)	1,515
Closing cumulative actuarial losses recognized	(1,742)	(1,290)

iv. Movement in the obligation

The movements in the non-pension employee benefit obligation are as follows:

	March 31, 2017	March 31, 2016
Opening benefit obligation	120,597	128,336
Current service cost	10,895	10,826
Interest on obligation	3,873	3,910
Actuarial losses (gains) from changes in demographic assumptions	2,103	(1,538)
Actuarial (gains) losses from changes in financial assumptions	(838)	(5,062)
Actuarial losses (gains) from other	2,009	(1,531)
Benefits paid	(18,714)	(14,344)
Closing benefit obligation	119,925	120,597

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2017 and 2016

(thousands of Canadian dollars)

13. Employee Benefits (continued)

v. **Significant assumptions**

The significant assumptions used are as follows:

<table>
<tr><th rowspan="2"></th><th colspan="2">CSP, ECTB & NVSL</th><th colspan="2">Service Awards</th><th colspan="2">WCB</th><th colspan="2">LTIP</th></tr>
<tr><th>2017</th><th>2016</th><th>2017</th><th>2016</th><th>2017</th><th>2016</th><th>2017</th><th>2016</th></tr>
<tr><td>Discount rate to determine the benefit obligation</td><td>3.20%</td><td>3.20%</td><td>3.20%</td><td>3.20%</td><td>3.20%</td><td>3.20%</td><td>3.20%</td><td>3.20%</td></tr>
<tr><td>Discount rate to determine the benefit cost</td><td>3.20%</td><td>3.00%</td><td>3.20%</td><td>3.00%</td><td>3.20%</td><td>3.00%</td><td>3.20%</td><td>3.00%</td></tr>
<tr><td>Salary rate increase
• Bargaining Unit</td><td>2.0% inflation for FY 2017 and 1.4% thereafter for COLA, plus OPT Promotional Scale</td><td>2.0% inflation for COLA, plus OPT Promotional Scale</td><td>2.0% per annum</td><td>2.0% per annum</td><td>n/a</td><td>n/a</td><td>n/a</td><td>n/a</td></tr>
<tr><td>• Management and Executive</td><td>FY2017: 1.4% COLA + 2% merit
FY2018+: 0% COLA + 2% merit</td><td>FY2015: 0% COLA + 2% merit
FY2016: 1.95% COLA + 2% merit
FY2017: 0% COLA + 2% merit</td><td>2.0% per annum</td><td>2.0% per annum</td><td>n/a</td><td>n/a</td><td>n/a</td><td>n/a</td></tr>
<tr><td>Benefit index</td><td>1.4% Inflation for CSP</td><td>2.0% Inflation for CSP</td><td>2.0% per annum</td><td>2.0% per annum</td><td>2.5% for fully indexed benefits and 0.5% for partially indexed benefits</td><td>2.5% for fully indexed benefit and 0.5% for partially indexed benefits</td><td>1.4% Inflation</td><td>2.0% Inflation</td></tr>
<tr><td>Health cost rate increase</td><td>n/a</td><td>n/a</td><td>n/a</td><td>n/a</td><td>8.0% per annum in 2017 reducing to 4.5% per annum in and after 2027</td><td>6.6% per annum in 2016 reducing to 4.5% per annum in and after 2023</td><td>8.0% per annum in 2017 reducing to 4.5% per annum in and after 2027</td><td>6.6% per annum in 2016 reducing to 4.5% per annum in and after 2023</td></tr>
</table>

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2017 and 2016

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13. Employee Benefits (continued)

vi. **Sensitivity analysis**

The sensitivity of the non-pension employee benefit obligation to changes in assumptions is set out below.

Assumption	Impact on total non-pension employee benefit obligation	
	0.5% increase in assumption	0.5% decrease in assumption
Discount rate	(4,055)	4,330
Health care trend rate	743	(726)
Salary Scale	2,750	(2,598)
Benefit Indexation	428	(398)

Excluding the assumption that is being tested, the sensitivity analysis was conducted using the same membership data, assumptions, and methods used to determine the fiscal 2017 year-end disclosures. For the sensitivity analysis, each main assumption was increased and decreased by 0.5 per cent from the assumption used to determine the defined benefit obligation at March 31, 2017, to determine the sensitivity impact on the March 31, 2017 defined benefit obligation.

14. Contingent Liabilities

LCBO is involved in various legal actions arising out of the ordinary course and conduct of business. In view of the inherent difficulty of predicting the outcome on such matters, LCBO cannot state what the eventual outcome on such matters will be. However, based upon legal assessment and information presently available, LCBO does not believe that liabilities, if any, arising from pending litigation will have a material effect on the financial statements, with the exception of the following items.

In January 2015, LCBO was served with a proposed class proceeding seeking damages in the amount of $1.4 billion against LCBO, Brewers Retail Inc. (“BRI”) and BRI’s 3 corporate owners. The claim is commenced by an individual and a corporation who intend to represent a class composed of those individuals and businesses who purchased beer in Ontario since June 1, 2000 under the Framework for Improved Cooperation & Planning between Brewers Retail Inc. and the Government of Ontario (through the LCBO), dated June 1, 2000. The statement of claim alleges conspiracies regarding beer market allocation, pricing and licensee fees. The claim is being defended vigorously. At this point in time it is not possible to estimate the amounts, if any, that LCBO may have to pay in the future regarding the claim.

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Notes to Financial Statements

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14. Contingent Liabilities (continued)

In May 2013, during collective bargaining, OPSEU filed an Application with the Human Rights Tribunal against LCBO and Ministry of Finance alleging systemic gender discrimination. Amongst other things, the Application alleged that by not compensating CSRs at the same rates as Permanent Full Time CSRs, LCBO was discriminating on the basis of sex, which was alleged to impose significant disadvantages on workers in the predominantly female job classification of Casual CSR. However, the LCBO's Permanent Full Time CSR job classification is also predominantly female dominated. The LCBO vigorously defended the Human Rights Application and the hearing was scheduled to commence in October 2016. Just prior to the commencement of the hearing, the LCBO and OPSEU agreed to settle the Application in favour of a negotiation and arbitration process to address, amongst other things, a single wage grid for retail store CSRs (Casual, Permanent Part-time and Permanent Full-time) and the Sunday premium set out in the Collective Agreement. Negotiations were unsuccessful so the matter proceeded to arbitration. In two (2) arbitration awards, Arbitrator Kaplan, amongst other things, awarded a single wage grid and ended the Sunday premium. LCBO has included a provision amount related to the arbitration award which is expected to be paid out early next fiscal year, refer to Note 12.

The Application also addressed matters related to the revised Pay Equity Plan required for OPSEU Employees, that LCBO and OPSEU are in the process of developing. The revised Pay Equity Plan may have a financial liability attached to it. At this point in time it is not possible to reasonably estimate the value of the liability, if any, that may be arise from the updated Pay Equity Plan.

15. Financial Risk Management

The LCBO's Treasury policies regarding financial risk management are clearly defined and consistently applied. They are a fundamental part of the long-term strategy covering areas such as credit risk, liquidity risk and market risk (foreign exchange risk and interest rate risk). LCBO's financial risk management approach is to minimize the potential adverse effects from these risks on its financial performance. Financial risk management is carried out by LCBO, under the direction of the Board of Directors through its Governance Committee, in accordance with its Treasury Risk Management Policy. This Policy sets out the prudential framework for the identification, measurement, management and control of financial risks. Treasury operates as a centralized service and does not engage in speculative activities. Strict limits on the size and type of transaction permitted as well as authorized counterparties are set by the Board of Directors and are subject to rigorous internal controls.

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15. Financial Risk Management (continued)

a. Credit Risk

Credit risk is the risk of financial loss due to a financial counter party or another third party failing to meet its financial or contractual obligations to the LCBO. It arises from cash and cash equivalents, derivative financial instruments, and outstanding accounts receivable. LCBO minimizes credit risk associated with the various instruments as follows:

Derivative financial instruments and cash and cash equivalents are placed only with approved counterparties. At March 31, 2017, all derivative instruments and cash and cash equivalents were held with regulated Canadian financial institutions that met minimum credit rating requirements.

Trade and others receivables arise primarily from sales invoiced to independent businesses, agents and other debtors. LCBO does not consider its exposure to credit risk associated with trade and other receivables to be material. As at March 31, 2017, approximately 56% (2016 – 58%) of LCBO's receivable is due from one customer whose account is in good standing.

Where there is objective evidence that the total balance of an accounts receivable is unlikely to be recovered, an allowance for impairment is made to reduce the carrying amount of the accounts receivable to the recoverable amount. See Note 6 for additional disclosures.

b. Liquidity Risk

Liquidity risk is the risk that LCBO may not have cash available to satisfy financial liabilities as they fall due. LCBO seeks to limit its liquidity risk by actively monitoring and managing its available cash reserves to ensure that it has sufficient access to liquidity at all times to meet financial obligations when due as well as those relating to unforeseen events. Cash that is surplus to working capital requirements is managed by LCBO and may be invested in federal/provincial treasury bills, bankers' acceptances, bearer deposit notes, term deposits and guaranteed income certificates, choosing maturities which are aligned with expected cash needs. It may also be held in a bank account if the interest rate is more favourable than the aforementioned investment instruments.

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15. Financial Risk Management (continued)

c. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market price. Market risk typically comprises four main types of risk: foreign exchange risk, interest rate risk, equity risk and commodity risk. Currently, LCBO is exposed only to foreign exchange risk and interest rate risk.

i. Foreign Exchange Risk

LCBO is exposed to foreign exchange risk with respect to inventory purchases denominated in currencies other than the Canadian dollar. To mitigate the impact of fluctuating foreign exchange rates on the cost of these purchases, the LCBO has an established non-speculative risk management program that governs the committed and reasonably anticipated foreign currency exposures in significant currencies that must be hedged through permitted hedging instruments. For the year ended March 31, 2017, LCBO hedged its exposure in identified significant currencies (USD, EUR and AUD) through the purchase of foreign exchange forward contracts.

In LCBO's assessment, the impact of fluctuations of foreign exchange rates would not have a significant impact on net income as majority of inventory purchases are in Canadian currency.

ii. Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instruments will fluctuate due to changes in market interest rates. LCBO is exposed to interest rate risk on its cash and cash equivalents of short-term investments with maturity dates of less than 90 days and to a lesser extent on its financial lease obligations (which have fixed interest rates over their entire lease term). In LCBO's assessment, the impact of changes in interest rates would not have a significant impact on net income.

16. Financial Instruments

LCBO uses foreign exchange forward contracts to manage foreign exchange risk on the purchase of inventory in a currency other than the Canadian dollar. LCBO has elected not to use hedge accounting on these derivative financial instruments. The forward contracts are classified as fair value through profit and loss ("FVTPL") and the fair value is estimated by using the difference between the contractual forward price and the forward price at reporting date.

LCBO purchases foreign exchange spot contracts for unhedged foreign currency transactions. The foreign exchange spot contracts are designated as FVTPL and the fair value is estimated by using the difference between the contractual rate and the Bank of Canada closing rate as at March 31, 2017.

For the year ended March 31, 2017 and 2016, LCBO reviewed these contracts and determined that it does not have significant fair values that require separate accounting and disclosures.

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17. Capital Management

LCBO is a corporation without share capital. Its capital structure consists of cash and cash equivalents and retained earnings.

LCBO's objectives in managing its capital are first to preserve capital and maintain sufficient liquidity to meet future financial commitments and second to maximize the earnings of such capital. By achieving these objectives, LCBO is able to fund its future growth and provide continuous dividends to the Province.

The Board of Directors is responsible for oversight of management including policies related to financial risk management. LCBO management is responsible for overseeing its capital structure and mitigating financial risk in response to changing economic conditions.

18. Revenue

Virtually all revenue is from the sale of goods. In late fiscal 2016, under the recommendation of the Premier's Advisory Council of Government Assets, LCBO began the sale of beer in grocery stores where LCBO acts as a wholesaler to authorized grocery stores. In fiscal 2017, the program expanded to include cider and wine sales to grocery stores. Included in revenue is $64.7 million (2016 – $7.9 million) related to the sale of beer, cider and wine to grocery stores.

19. Head Office Sale

In February 2012, the Minister of Finance announced the Province's intention to sell the LCBO's Head Office facility, warehouse facility, retail store and adjacent lands located in downtown Toronto (collectively LCBO Head Office Lands). A Request for Proposal ("RFP") in connection with the disposition of the LCBO Head Office Lands and for the provision of new LCBO Head Office and retail facility was issued in September 2014 by Infrastructure Ontario ("IO"), on behalf of LCBO. In fiscal 2016, the net assets of the LCBO Head Office Lands were classified as assets held for sale in the Statement of financial position.

It was announced on May 5, 2016 by the Minister of Finance that the LCBO had a firm and binding agreement with Menkes Developments Ltd., on behalf of a partnership comprised of Menkes, Greystone Managed Investments and Triovest Realty Advisors for the sale of LCBO Head Office Lands. The sale closed on June 8, 2016 and generated a gain of $271.8 million, calculated as proceeds less closing costs and net book value of LCBO Head Office Lands. The proceeds consisted of a monetary cash payment of approximately $260.0 million and a non-monetary incentive of approximately $23.3 million for the leaseback of a portion of the LCBO Head Office Lands in the interim, until the new office building and retail space is ready for occupancy by LCBO expected in late 2021. The net book value at the time of closing was $10.2 million and closing costs were approximately $1.3 million. The non-monetary incentive of $23.3 million has been included in Prepaid expenses and other assets, refer to Note 8 for more details.

The leases of the yet-to-be constructed office and retail space is expected to commence in late 2021, subject to changes depending on the completion of the project development by the landlord. The initial term for the office lease is twenty years, with the option to extend four further terms of five years. The initial term of the retail lease is ten years with the option to extend four further terms of five years.

As determined under section 4 of the Trillium Trust Act, from the proceeds of disposition for LCBO Head Office Lands, LCBO transferred $246.2 million to the Consolidated Revenue Fund.

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20. Selling, General and Administrative Expenses by Nature

The components of selling, general and administration expenses include the following:

	March 31, 2017	March 31, 2016
Employee costs (Note 21)	491,536	451,869
Occupancy costs	193,175	182,563
Depreciation and amortization	67,502	64,541
Debit/credit charges	41,975	38,645
Environmental initiatives	43,978	42,950
Other	106,811	89,817
	944,977	870,385

21. Employee Costs

Employee costs for LCBO for the year ended amounts to the following:

	March 31, 2017	March 31, 2016
Salaries & wages	398,109	372,302
Short-term employee benefits	93,427	79,567
	491,536	451,869

22. Finance Income and Finance Costs

Finance income and costs recognized by LCBO for the year ended amounts to the following:

	March 31, 2017	March 31, 2016
Finance income		
Interest earned	2,349	1,458
Total finance income	2,349	1,458
Finance costs		
Interest on non-pension employee benefits	3,873	3,910
Financing charges on capital leases	66	56
Total finance costs	3,939	3,966

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Notes to Financial Statements

For the years ended March 31, 2017 and 2016

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23. Related Parties

Related parties of the LCBO include the Province of Ontario, Stewardship Ontario and key management personnel. For the year ended March 31, 2017, LCBO transferred a total of $2.306 billion (2016 – $1.935 billion) to the Province. The transfer included a dividend of $2.060 billion and $246.2 million for the sale of LCBO Head Office Lands, which is presented in the Statement of changes in equity. LCBO also provides an annual contribution to the Province for the defined benefit plan which is discussed in Notes 3 and 13. Refer to Note 24 for disclosure surrounding the payment to Stewardship Ontario.

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of LCBO. Key management personnel include members of the Board of Directors, President and Chief Executive Officer, Chief Financial Officer and the top senior officers. The Board members receive a per diem remuneration for attending regularly scheduled meetings and for serving on either the Audit Committee or the Governance and Compensation Committee.

Key management personnel compensation, including directors' fees comprise of:

	March 31, 2017	**March 31, 2016**
Salaries and short-term employee benefits	4,869	4,173
Post-employment benefits	299	254
Other long term benefits	86	70
Termination benefits	925	130
	6,179	4,627

24. Waste Diversion

LCBO is responsible under the *Waste Diversion Act*, 2002 to pay municipalities through Stewardship Ontario, an industry funded waste diversion organization for costs associated with container waste and non-container waste recycled through municipal Blue Box systems. For the year ended March 31, 2017, LCBO contributed $2.1 million (2016 - $1.9 million) and these expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2017 and 2016

(thousands of Canadian dollars)

25. Ontario Deposit Return Program

On November 6, 2006, the Province entered into an agreement with Brewers Retail Inc. for management of a province-wide container deposit return program (“the program”) on wine, liquor and non-common beer containers sold through LCBO, Winery, on-site Microbrewery and Distillery Retail Stores. Brewers Retail Inc. was appointed the exclusive service provider for a period of five years effective February 5, 2007. In October 2015, the Province extended the contract with Brewers Retail Inc. as part of the Master Framework Agreement which ends on September 30, 2025.

Under the program, LCBO collects a deposit of 10 or 20 cents on wine, liquor and most beer containers. LCBO reimburses Brewers Retail Inc. for deposits it pays to customers who return containers to locations it operates, plus a service fee.

For the year ended March 31, 2017, LCBO collected $69.1 million (2016 – $66.9 million) of deposits on containers and was invoiced $54.2 million (2016 - $52.7 million) for refunds to the customers. The net amounts are included in trade and other payables in the Statement of financial position.

In connection with the program, expenditures related to service fees paid to Brewers Retail Inc. for the year ended March 31, 2017, amounted to $41.8 million (2016 – $41.0 million), inclusive of $4.8 million (2016 – $4.7 million) of harmonized sales tax which is unrecoverable by LCBO, but is recoverable by the Province. These expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

LCBO’s experience indicates that not all container deposits collected would be redeemed based upon its redemption data. Based on historical redemption patterns, for the year ended March 31, 2017, LCBO recognized $16.7 million (2016 - $18.4 million) of unredeemed deposits as other income as LCBO has determined the likelihood of redemption to be remote. The remaining reserve for unredeemed container deposits reflects the ODRP program to-date redemption rate.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2017 and 2016

(thousands of Canadian dollars)

26. The Beer Store (TBS) common product deposit return program

LCBO participates in a separate deposit-refund system, TBS common product program, managed and administered by Brewers Retail Inc. for containers that are not within the scope of the Ontario Deposit Return Program. Containers fall under the TBS program if:

(1) the product is available for sale at both the LCBO and TBS; or
(2) the product is an Industry Standard Bottle (ISB) regardless of whether or not the product is available at TBS

The TBS program is not mandated by government regulations; however, the TBS program is a requirement in dealing with Brewers Retail Inc.

Under the program, LCBO purchases imported and domestic beer products from various suppliers including some domestic beer products from TBS. Payment to these suppliers includes the container deposit in addition to the product cost. The container deposit is only paid to the suppliers if the products meet the program criterions above. If the products do not meet either criterion, they are excluded from the TBS common product program and will follow the Ontario Deposit Return Program as described in Note 25.

When LCBO sells TBS common products to customers including imported beer to TBS, the container deposit is collected as part of the sale proceeds.

TBS common product program deposits paid and collected are offset and included in trade and other receivables in the Statement of financial position.

For the year ended March 31, 2017, $3.3 million (2016 – $2.6 million) is included in trade and other receivables related to the TBS common product deposits.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2017 and 2016

(thousands of Canadian dollars)

27. Other Matters

In April 2015, the Premier's Advisory Council of Government Assets (the "Council") released a report to government entitled "Striking the Right Balance: Modernizing Beer Retailing and Distribution in Ontario", which recommended changes to the beer distribution and retailing system in Ontario. At government's direction, LCBO began to work with the Ministry of Finance and the Council on implementing certain of those recommendations relating to the sale of beer in grocery stores. Up to 450 grocery stores across the province will be allowed to sell beer, including up to 150 stores by May 2017. Following a competitive process, the first 60 grocery stores were authorized by the Alcohol and Gaming Commission ("AGCO") to sell beer in late 2015, with cider added in June 2016, and the LCBO now acts as the wholesaler of beer and cider to those authorized stores.

In February 2016, the Council released a follow up report to government entitled "Striking the Right Balance: Modernizing Wine and Spirits Retailing and Distribution in Ontario", which recommended substantive changes to the wine retailing system in Ontario. Once again, at government's direction, LCBO worked with the Ministry of Finance and the Council on implementing certain of the recommendations relating to the sale of imported and domestic wine, beer and cider in grocery stores. Following a new competitive process, in late 2016, 70 additional grocery stores have been authorized by the AGCO to sell beer, cider and wine. The LCBO acts as wholesaler of beer, cider and wine to those authorized stores.

At government's direction, the LCBO conducted another competitive process in the spring of 2017 and it is anticipated that 80 additional grocery stores will be authorized to sell beer and cider by early summer 2017.

All authorized grocers purchase all beer, wine and cider for sale in grocery stores from the LCBO at a wholesale discount determined through the applicable competitive process.

In addition, up to 70 existing winery retail stores located next to grocery stores will be able to move inside grocery stores and offer an expanded selection of products. Ontario wine not produced by the owners of such outlets will be purchased from the LCBO. Grocers that sign agreements with winery retail stores to have an outlet operated within their store will receive an authorization to sell beer and cider purchased from the LCBO.

28. Subsequent Events

LCBO commenced collective bargaining with the Ontario Public Service Employees Union ("OPSEU") Liquor Board Employees Division ("LBED") to renew the collective agreement that expired on March 31, 2017; the expired contract covered approximately 88 per cent of LCBO's workforce as at March 31, 2017.

In April 2017, the union requested conciliation assistance from the Ministry of Labour and a conciliation officer was appointed to assist LCBO and the Union in their negotiations. On June 5, 2017, the Union requested a No Board Report from the Ministry of Labour and the report was issued on June 9, 2017.

On June 26, 2017, LCBO and the OPSEU LBED reached a tentative memorandum of agreement, which is subject to ratification by LCBO bargaining employees, followed by ratification by the LCBO's Board of Directors and the Province by way of an order in council. The results of ratification are expected by late August 2017.

ONTARIO LOTTERY AND GAMING CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR ANNUAL REPORTING

The accompanying consolidated financial statements of the Ontario Lottery and Gaming Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. Where required, management has made informed judgements and estimates in accordance with International Financial Reporting Standards.

The Board of Directors oversees management's responsibilities for financial reporting through its Audit and Risk Management Committee, which is composed entirely of directors who are neither officers nor employees of the Corporation. The Audit and Risk Management Committee reviews the financial statements and recommends them to the Board for approval. This Committee meets periodically with management, internal audit and the external auditors.

To discharge its responsibility, management maintains an appropriate system of internal control to provide reasonable assurance that relevant and reliable consolidated financial statements are produced and that the Corporation's assets are properly safeguarded. The Corporation maintains a staff of internal auditors whose functions include reviewing internal controls and their applications, on an ongoing basis. The reports prepared by the internal auditors are reviewed by the Committee. The Vice President, Audit Services, responsible for Internal Audit, reports directly to the President and Chief Executive Officer with unrestricted access to the Audit and Risk Management Committee.

KPMG LLP, the independent auditor appointed by the Board of Directors upon the recommendation of the Audit and Risk Management Committee, has examined the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements. The independent auditor has full and unrestricted access to the Committee.

Stephen Rigby
President and Chief Executive Officer

Barbara Anderson
Senior Vice President and
Chief Financial Officer

June 29, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Ontario Lottery and Gaming Corporation and
the Minister of Finance of Ontario

We have audited the accompanying consolidated financial statements of Ontario Lottery and Gaming Corporation, which comprise the consolidated statements of financial position as at March 31, 2017 and 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements 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 Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent
member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ontario Lottery and Gaming Corporation as at March 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 29, 2017
Toronto, Canada

Ontario Lottery and Gaming Corporation
Consolidated Statements of Financial Position
As at March 31, 2017 and 2016
(in thousands of dollars)

	Notes	March 31, 2017	March 31, 2016
Assets			
Current assets			
Cash and cash equivalents		$ 307,224	$ 325,034
Restricted cash	6	62,124	56,942
Trade and other receivables	7	150,931	159,140
Prepaid expenses		47,164	54,975
Inventories	8	31,258	28,048
Assets held for sale	10,27	112,606	
Total current assets		711,307	624,139
Non-current assets			
Restricted cash	6	121,301	118,957
Property, plant and equipment	9	1,105,676	1,224,027
Other asset	11	140,613	
Goodwill		1,776	1,776
Total non-current assets		1,369,366	1,344,760
Total assets		**$ 2,080,673**	**$ 1,968,899**
Liabilities and Equity			
Current liabilities			
Trade and other payables	12	$ 354,357	$ 316,186
Provisions	13	6,784	5,823
Due to operators and service provider	16	47,857	40,694
Due to Rama First Nation	17	2,500	2,118
Due to the Government of Canada	19	16,178	17,509
Deferred revenues		11,160	16,331
Current portion of long-term debt	21	21,397	18,810
Liabilities held for sale	10,27	1,007	
Total current liabilities		461,240	417,471
Non-current liabilities			
Due to operators and service provider	16	145,834	143,476
Due to the Government of Canada	19	16,042	15,783
Long-term debt	21	200,227	66,096
Employee benefits	23	17,674	15,515
Total non-current liabilities		379,777	240,870
Total liabilities		**841,017**	**658,341**
Equity			
Retained earnings		1,056,010	1,129,256
Contributed surplus		62,345	62,345
Reserves	6	121,301	118,957
Total equity		1,239,656	1,310,558
Total liabilities and equity		**$ 2,080,673**	**$ 1,968,899**

Related party transactions (Note 15)
Commitments (Notes 16, 17 and 24)
Contingencies (Note 25)
Subsequent events (Note 27)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board

George L. Cooke, Chair

Lori O'Neill, Director

Ontario Lottery and Gaming Corporation
Consolidated Statements of Comprehensive Income
For the years ended March 31, 2017 and 2016
(in thousands of dollars)

	Notes	March 31, 2017	March 31, 2016
Revenues			
Gaming		$ 7,352,500	$ 7,332,490
Non-gaming		122,373	112,791
		7,474,873	**7,445,281**
Direct expenses			
Prizes		2,035,482	2,118,488
Commissions and fees		603,873	568,934
Win contribution	18	289,707	272,447
Food, beverage and other purchases		104,252	103,584
Ticket printing		40,659	37,114
		3,073,973	**3,100,567**
Contribution margin		**4,400,900**	**4,344,714**
Indirect expenses			
Personnel		933,843	903,811
Marketing and promotion		286,778	280,822
Other	20	144,826	254,518
Amortization	9,11	155,957	157,481
Payments to the Government of Canada		315,725	305,608
Cost of premises and equipment		315,620	323,347
Regulatory fees		41,103	42,313
Gaming Revenue Sharing Payment	24.d	137,349	122,057
Finance income	14	(10,934)	(9,019)
Finance costs	14	9,430	5,288
		2,329,697	**2,386,226**
Net Income and comprehensive income		**$ 2,071,203**	**$ 1,958,488**

Other information (Note 26)

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Lottery and Gaming Corporation
Consolidated Statements of Changes in Equity
For the years ended March 31, 2017 and 2016
(in thousands of dollars)

	Retained earnings	Contributed surplus	Capital renewals reserves	Operating reserves	Severance reserves	Total
Balance at March 31, 2015	**$ 1,282,147**	**$ 62,345**	**25,979**	**$ 53,916**	**$ 45,794**	**$ 1,470,181**
Net income and comprehensive income	1,958,488	-	-	-	-	1,958,488
Contributions or distributions						
Transfers to (from) reserves	6,732	-	(7,476)	392	352	-
Payments to the Province of Ontario	(2,118,111)	-	-	-	-	(2,118,111)
Balance at March 31, 2016	**$ 1,129,256**	**$ 62,345**	**18,503**	**$ 54,308**	**$ 46,146**	**$ 1,310,558**
Net income and comprehensive income	2,071,203	-	-	-	-	2,071,203
Contributions or distributions						
Transfers to reserves	(2,344)	-	764	1,208	372	-
Payments to the Province of Ontario	(2,142,105)	-	-	-	-	(2,142,105)
Balance at March 31, 2017	**$ 1,056,010**	**$ 62,345**	**19,267**	**$ 55,516**	**$ 46,518**	**$ 1,239,656**

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Lottery and Gaming Corporation

Consolidated Statements of Cash Flows

For the years ended March 31, 2017 and 2016

(in thousands of dollars)

	Notes	March 31, 2017	March 31, 2016
Cash flows from operating activities			
Net income and comprehensive income		$ 2,071,203	$ 1,958,488
Adjustments to reconcile profit for the period to net cash from operating activities:			
Amortization	9,11	155,957	157,481
Loss on disposal of property, plant and equipment, net	20	2,593	1,360
Net finance (income) costs		(1,504)	3,085
Impairment loss on property, plant and equipment	9	2,831	6,496
Operator non-extension costs	20	-	159,259
Other long-term employee benefits	23.c	2,159	(3,367)
Operating cash flows before change in non-cash working capital		2,233,239	2,282,802
Changes in non-cash working capital and current restricted cash:			
(Increase) in current restricted cash		(5,182)	(1,868)
Decrease (increase) in trade and other receivables		8,209	(55,503)
Decrease (increase) in prepaid expenses		7,811	(8,029)
(Increase) in inventories		(3,210)	(2,574)
Increase (decrease) in trade and other payables		35,863	(2,886)
Increase in provisions		961	560
Increase in due to operators and service provider		7,163	5,965
Increase in due to Rama First Nation		382	113
(Decrease) increase in due to the Government of Canada		(1,331)	1,755
(Decrease) increase in deferred revenues		(5,171)	2,240
Net cash from operating activities		2,278,734	2,222,575
Cash flows used in investing activities			
Interest received		10,934	2,203
Capital expenditures		(116,067)	(133,975)
(Increase) in net assets held for sale		(30,161)	-
Proceeds on disposal of property, plant and equipment		103	38,444
(Increase) decrease in non-current restricted cash		(2,344)	6,732
Net cash used in investing activities		(137,535)	(86,596)
Cash flows used in financing activities			
Interest paid		(6,814)	(5,288)
Increase in long-term debt		8,250	14,750
Repayments of long-term debt		(18,340)	(18,636)
Payments to the Province of Ontario		(2,142,105)	(2,118,111)
Net cash used in financing activities		(2,159,009)	(2,127,285)
(Decrease) increase in cash and cash equivalents		(17,810)	8,694
Cash and cash equivalents, beginning of year		325,034	316,340
Cash and cash equivalents, end of year		**$ 307,224**	**$ 325,034**
Supplemental disclosure relating to non-cash financing and investing activities:			
Acquisition of property, plant and equipment through finance leases		$ 2,249	$ 2,645
Acquisition of property, plant and equipment not yet paid for		$ 11,139	$ 8,344

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016
(tabular amounts in thousands of Canadian dollars)

1. Reporting entity

Ontario Lottery and Gaming Corporation (OLG or the Corporation) was established without share capital on April 1, 2000 pursuant to the *Ontario Lottery and Gaming Corporation Act, 1999*. The Corporation is classified as an Operational Enterprise Agency of the Ontario government and is responsible for conducting and managing lottery games, Charitable Gaming (cGaming), Internet Gaming (iGaming), seven Casinos, 14 slot operations at racetracks and four Resort Casinos; Caesars Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort (Fallsview) in the Province of Ontario.

The Corporation has entered into operating agreements with Caesars Entertainment Windsor Limited (CEWL), CHC Casinos Canada Limited, Falls Management Group, L.P. and Great Blue Heron Gaming Company for the operation of Caesars Windsor, Casino Rama, Casino Niagara and Fallsview and the Great Blue Heron Casino, respectively. The Corporation consolidates the financial positions and results of the Resort Casinos and Great Blue Heron Casino but not those of their respective operators. In addition, the Corporation entered into a Casino Operating Services Agreement (COSA) with Ontario Gaming East Limited Partnership (OGELP) on January 11, 2016 to operate the East Gaming Bundle, which consists of Casino Thousand Islands, Slots at Kawartha Downs and Casino Belleville which opened January 11, 2017. The Corporation does not control OGELP and therefore does not consolidate its financial position and results.

The Corporation's head office and corporate office, respectively, are located at:

- 70 Foster Drive, Suite 800, Sault Ste. Marie, Ontario, P6A 6V2
- 4120 Yonge Street, Suite 402, Toronto, Ontario, M2P 2B8

These Consolidated Financial Statements were authorized for issue by the Board of Directors of the Corporation on June 29, 2017.

2. Modernizing Lottery and Gaming in Ontario

On March 12, 2012, the Minister of Finance accepted a report from OLG entitled *Modernizing Lottery and Gaming in Ontario: Strategic Business Review / Advice to Government*. This report was the culmination of an evidence-based strategic business review that examined the state of the Corporation's current operations in the context of a changing market. The report included three recommendations for the Corporation to achieve greater sustainability and increase Net Profit to the Province (Note 26.a):

1) become more customer-focused

2) expand regulated private sector delivery of lottery and gaming

3) renew OLG's role in oversight of lottery and gaming

On the approval of the Government of Ontario, the Corporation embarked on a series of initiatives to pursue these objectives and modernize its operations.

i) Land-based Gaming Initiatives: As part of the modernization process, the Corporation has bundled all slots at racetracks and casino operations into eight gaming bundles and, following a successful procurement process, will transfer these bundles to private sector service providers (each, a Service Provider). Once the Request for Proposal (RFP) stage is completed, OLG selects the successful Service Provider and the Transition and Asset Purchase Agreement (TAPA) is signed which commits the Service Provider to acquire certain assets and assume certain liabilities related to the sites in the bundle and, upon signing the long-term Casino Operating and Services Agreement (COSA), to operate the site. OLG will continue to conduct and manage the land-based gaming sites for the duration of the agreement and the Service Provider will take on the day-to-day operations.

All of OLG's planned procurement opportunities for existing and proposed gaming facilities either have been completed or RFPs have been released, as outlined in the chart below:

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016
(tabular amounts in thousands of Canadian dollars)

2. Modernizing Lottery and Gaming in Ontario (continued)

OLG Gaming Bundle	Sites	Service Provider	Status of Bundle	COSA Effective Date
East	Casino Thousand Islands Slots at Kawartha Downs Casino Belleville	OGELP	TAPA signed on September 8, 2015 COSA signed on January 11, 2016	January 11, 2016
Southwest	Casino Point Edward Slots at Western Fair Slots at Clinton Slots at Dresden Slots at Hanover Slots at Woodstock Racetrack	Gateway Casinos & Entertainment Limited (Gateway)	TAPA signed on December 13, 2016 COSA signed on May 9, 2017 (Note 27)	May 9, 2017
North	Casino Sault Ste. Marie Casino Thunder Bay Slots at Sudbury Downs North Bay (New Build) Kenora (New Build)	Gateway Casinos & Entertainment Limited (Gateway)	TAPA signed on December 13, 2016 COSA signed on May 30, 2017 (Note 27)	May 30, 2017
Ottawa	Slots at Rideau Carleton	Hard Rock Casino Ottawa Limited Partnership (Hard Rock)	TAPA signed on May 15, 2017 (Note 27)	To be determined (TBD)
Greater Toronto Area	Slots at Woodbine Slots at Ajax Great Blue Heron Casino	TBD	RFP issued February 11, 2016	TBD
West Greater Toronto Area	Casino Brantford Slots at Flamboro Slots at Mohawk Slots at Grand River	TBD	RFP issued October 20, 2016	TBD
Central	Slots at Georgian Casino Rama Resort Simcoe County (New Build)	TBD	RFP issued March 31, 2017	TBD
Niagara	Casino Niagara Fallsview Casino Resort	TBD	RFP issued April 10, 2017	TBD

On September 8, 2016, OLG assumed ownership of the Great Blue Heron table facility upon the signing of the Asset Purchase Agreement and various other long-term arrangements (Note 4.f(iv) and 16). With the transfer of table facility ownership, OLG will conduct and manage both slots and table games at Great Blue Heron Casino. Great Blue Heron Gaming Company will operate Great Blue Heron Casino until the GTA Service Provider is selected to acquire certain assets and assume certain liabilities of Great Blue Heron Casino and to take over the day-to-day operations.

ii) Lottery Initiatives: On September 23, 2016, OLG cancelled the RFP for the lottery business. After a period of due diligence and consultation with proponents, OLG determined that the selection of a single service provider for the lottery business would not provide sufficient value for the Province. Instead, OLG will leverage its existing lottery operations and seek to enhance capabilities in technology and innovation through partnerships with the private sector.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements
Years ended March 31, 2017 and 2016
(tabular amounts in thousands of Canadian dollars)

2. Modernizing Lottery and Gaming in Ontario (continued)

iii) Horse Racing Initiatives: The Corporation is helping to build a more sustainable horse racing industry in Ontario by:

- helping the industry build the capacity and structure needed for self-governance
- increasing the public profile of horse racing via brand building and focused communications and sponsorships
- sharing expertise and helping the industry adopt its own Responsible Gambling program
- administering the Transfer Payment Agreements the provincial Government has in place with racetracks until 2021 by acting as a flow-through intermediary for the provincial funding

3. Basis of preparation

a. Statement of compliance

These Consolidated Financial Statements include the accounts of the Corporation and the wholly owned subsidiary, Ontario Gaming Assets Corporation, and have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

b. Basis of measurement

These Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments classified as financial assets through profit and loss that are measured at fair value (Note 4.k).

c. Functional and presentation currency

These Consolidated Financial Statements are presented in Canadian dollars. The Canadian dollar is the Corporation's functional currency and the currency of the primary economic environment in which the Corporation operates.

d. Use of estimates and judgments

The preparation of these Consolidated Financial Statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Consolidated Financial Statements are included in the following notes:

- Leases (Note 4.o)
- Consolidation (Note 4.a)

Areas of significant estimation and uncertainty that have a significant effect on the amounts recognized in the Consolidated Financial Statements, and could result in a material adjustment within the next fiscal year, are discussed in the following notes:

- Property, plant and equipment – useful lives and residual values (Note 4.l)
- Recoverability of property, plant and equipment (Note 9)
- Provisions (Note 13)
- Valuation of financial instruments (Note 22)
- Employee benefits (Note 23)
- Contingencies (Note 25)

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies

The following accounting policies have been applied consistently by the Corporation and its wholly owned subsidiary to the Consolidated Financial Statements as at and for the years ended March 31, 2017 and March 31, 2016.

a. Basis of consolidation

The Consolidated Financial Statements include the accounts of the Corporation, and the wholly owned subsidiary which it controls, the Resort Casinos and Great Blue Heron Casino. The Corporation does not control OGELP and therefore does not consolidate its financial position and results. Control is achieved when the Corporation is exposed to, or has rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated on consolidation.

b. Foreign currency

Monetary assets and liabilities denominated in foreign currencies at the reporting date are converted to the Corporation's functional currency at the exchange rates at that date. Non-monetary assets and liabilities in foreign currencies measured in terms of historical cost are converted at historical exchange rates at the date of the transaction. Transactions in foreign currencies are converted to the Corporation's functional currency using the exchange rates at the date of the transactions. The Consolidated Statements of Comprehensive Income items are converted at the rate of exchange in effect at the transaction date. Foreign currency transaction gains and losses are recognized within finance income in the Consolidated Statements of Comprehensive Income in the period in which they arise. The Corporation does not have any foreign operations.

c. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognized for the following major business activities:

(i) Lottery

Lottery products are sold to the public by contracted lottery retailers, with LOTTOMAX, LOTTO 6/49 and ENCORE products also available for purchase over the Internet at PlayOLG. Revenue from tickets sold to customers for lottery games, for which results are determined based on a draw, is recognized when the related draw occurs. Revenue from INSTANT games is recognized when retailers make them available for sale to the public, as indicated by the retailers' activation of tickets. Revenue from Sports wagering games is recognized when the ticket is sold to the customer. Tickets issued as a result of the redemption of free ticket prizes are not recorded as revenue.

(ii) cGaming

cGaming products are sold to the public by cGaming Centre service providers and not-for-profit foundations. Revenue for all cGaming products is recognized in the same period the game is played, net of prizes paid.

(iii) Resort Casinos and Slots and Casinos

Gaming revenue from OLG-operated sites and Resort Casinos:

Gaming revenue includes revenue from slot and table game operations at Slots and Casinos facilities operated by OLG and Resort Casinos. This is recognized in the same period the game is played, net of prizes paid. Gaming revenue is recorded net of the change in accrued jackpot liabilities and liabilities under customer loyalty incentive programs.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

c. Revenue recognition (continued)

(iii) Resort Casinos and Slots and Casinos (continued)

Gaming revenue from land-based gaming Service Provider operated sites:

Gaming revenue includes OLG's share, pursuant to the COSA, of the gaming revenue generated at the Casino or Slot facility operated by the Service Provider and is recognized in the same period the game is played. OLG's share of revenue reflects the fixed fee, a variable fee (calculated as a percentage of gaming revenue above a set revenue threshold) and an amount for permitted capital expenditures paid to the Service Provider.

Non-gaming revenue from OLG-operated sites and Resort Casinos:

Non-gaming revenue includes revenue earned from accommodations, food and beverage, entertainment centres and other services excluding the retail value of accommodations, food and beverage and other goods and services provided to customers on a complimentary basis at Slots and Casinos operated by OLG and at Resort Casinos. Non-gaming revenue is recorded at the retail value and is recognized as goods are delivered and services performed.

(iv) iGaming

iGaming revenue includes revenue earned from casino-style games available over the Internet at PlayOLG. This is recognized in the same period the game is played, net of prizes paid.

d. Customer loyalty incentive programs

The Corporation has customer loyalty incentive programs whereby customers have the choice to receive free or discounted goods and services and, in many cases, the right to receive cash. Some of these customer loyalty incentive programs allow customers to earn points based on the volume of play during gaming transactions. These points are recorded as a separate deliverable in the revenue transaction.

If the customer has the right to receive free or discounted goods and services and/or the option of receiving cash, a financial liability is recognized when the points are granted and a corresponding amount equal to the cash value is recorded as a reduction to revenue. The customer's point balance will be forfeited if the customer does not earn additional points over the subsequent six- to 12-month period. If the points expire or are forfeited, the financial liability is derecognized.

For programs that provide customers the right to receive free or discounted goods and services, the revenue, as determined by the fair value of the undelivered goods and services related to the customer loyalty award, is deferred until the award is provided or expires.

e. Lottery prizes

Prize expense for Lottery is recognized based on the predetermined prize structure for each game in the period revenue is recognized as described below:

- Prize expense for tickets sold to customers for lottery games, for which results are determined based on a draw, is recognized when the related draw occurs and is based on actual prize liability.
- Prize expense for INSTANT games is recognized when retailers make them available for sale to the public, as indicated by the retailers' activation of tickets, and is based on the prize structure.
- Prize expense for Sports wagering games is recognized when the last wagered event occurs and is based on actual prize liability.
- Prize expense for annuity-based top prizes is based on the cost of the annuity purchased by the Corporation from a third party.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

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4. Significant accounting policies (continued)

e. Lottery prizes (continued)

Unclaimed prizes on national Lotto games are returned to players through guaranteed jackpots and bonus draws. Unclaimed prizes on regional Lotto games are returned to the Province of Ontario through distributions to the province. Unclaimed regional Lotto game prizes are recorded as a reduction to the prize liability included in trade and other payables as well as a reduction to the prize expense. National Lotto games are administered by the Interprovincial Lottery Corporation and sold throughout Canada, while regional Lotto games are administered by the Corporation and sold only in Ontario.

f. Commissions and bonuses

Commissions and bonuses are recognized in the Consolidated Statements of Comprehensive Income in the period in which they are incurred.

(i) Lottery

Commissions paid to lottery retailers are based on revenue earned by OLG, ticket redemptions or sales of major prize-winning tickets. OLG recognizes the commission expenses as revenue is earned.

(ii) cGaming

cGaming service providers receive a commission based on percentages of net win (gaming revenue net of prizes paid) or adjusted net win (net win after the payment of applicable marketing expenses).

Charities and not-for-profit agencies receive a commission based on percentages of net win, adjusted net win or non-gaming revenue.

(iii) Municipalities

Municipalities that host a Casino or Slots at Racetracks facility, including the City of Niagara Falls and the City of Windsor, receive a percentage of Electronic Games Revenue and Live Table Game Revenue as defined in the Municipal Contribution Agreements.

Municipalities that host cGaming Centres receive a commission based on either a percentage of non-gaming revenue and net win or a percentage of adjusted net win, as defined in the cGaming Centre Municipality Agreements.

(iv) Mississaugas of Scugog Island First Nation

As the host community of the Great Blue Heron Casino, the Mississaugas of Scugog Island First Nation (MSIFN) received a percentage of Gross Revenues, as defined, from the slot machines up until September 7, 2016. On and after September 8, 2016 (Note 2), the MSIFN receive a Revenue Sharing Payment and Contribution Agreement Payment from slots and table games as defined in their respective agreements.

g. Cash and cash equivalents

Cash and cash equivalents include cash and liquid investments that have a term to maturity at the time of purchase of less than 90 days.

h. Restricted cash

Restricted cash consists of cash and liquid investments that have a term to maturity at the time of purchase of less than 90 days. Cash is restricted for the purposes of funding reserves and also includes prize funds on deposit, horse racing program funds, unused proceeds received from term loans and funds held on behalf of Internet Gaming patrons.

Ontario Lottery and Gaming Corporation
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4. Significant accounting policies (continued)

i. Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost, less an allowance for impairment. Trade and other receivables are due for settlement no more than 30 days from the date of recognition.

j. Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to complete the sale.

k. Financial instruments

(i) Non-derivative financial assets recognition

The Corporation has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables. The Corporation does not have available-for-sale or held-to-maturity financial assets.

The Corporation initially recognizes loans and receivables on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date on which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

(ii) Non-derivative financial assets measurement

Financial assets at fair value through profit or loss	Comprised of all cash and cash equivalents and restricted cash	A financial asset is classified at fair value through profit or loss if it is classified as held for trading or designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized as incurred in the Consolidated Statements of Comprehensive Income. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in the Consolidated Statements of Comprehensive Income.
Loans and receivables	Comprised of trade and other receivables	Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

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4. Significant accounting policies (continued)

k. Financial instruments (continued)

(iii) Non-derivative financial liabilities recognition

The Corporation has the following non-derivative financial liabilities: financial liabilities measured at amortized cost. The Corporation has no non-derivative liabilities classified at fair value through profit or loss.

The Corporation initially recognizes financial liabilities on the date that they originated.

All other financial liabilities (designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. Any transaction costs that are directly attributable to these financial liabilities are expensed as incurred.

The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or have expired.

(iv) Non-derivative financial liabilities measurement

Financial liabilities at amortized cost	Comprised of trade and other payables, provisions, due to operators and service provider, due to Rama First Nation, due to the Government of Canada and long-term debt	Non-derivative financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(v) Non-derivative financial assets and liabilities offsetting

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statements of Financial Position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

l. Property, plant and equipment

(i) Recognition and measurement

The Corporation capitalizes any major capital purchase that has a useful life beyond the current year.

Property, plant and equipment are measured at cost less accumulated amortization and accumulated impairment losses.

Cost includes an expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and other costs directly attributable to bring the assets to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs on qualifying assets. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within Other in the Consolidated Statements of Comprehensive Income.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

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4. Significant accounting policies (continued)

l. Property, plant and equipment (continued)

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of property, plant and equipment is recognized as incurred in the Consolidated Statements of Comprehensive Income.

(iii) Amortization

Amortization is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in the Consolidated Statements of Comprehensive Income on a straight-line basis over the estimated useful life of each component of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are amortized over the shorter of the lease term and their estimated useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the term of the lease.

The estimated useful lives for the current and comparative periods are as follows:

Asset	Rate
Buildings	10 to 50 years
Furniture, fixtures and equipment	2 to 10 years
Leasehold improvements	Lesser of useful life or term of lease
Lottery gaming assets	5 to 7 years
Slots and Casinos and Resort Casinos gaming assets	2 to 10 years

Property, plant and equipment are amortized when ready for their intended use. Construction in progress and assets not in use are stated at cost, less any recognized impairment loss. Amortization of these assets, determined on the same basis as other property assets, commences when the assets are ready for their intended use.

Amortization methods, useful lives and residual values are reviewed at each fiscal year end and adjusted if appropriate.

Borrowing costs incurred during the construction and development of qualifying property, plant and equipment are capitalized and amortized over the estimated useful life of the associated property, plant and equipment.

m. Disposal group held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through a sale rather than continuing use. Such assets, or disposal groups, are measured at the lower of the carrying amount or fair value less costs to sell. Any impairment loss on a disposal group is allocated among the related assets and liabilities on a pro rata basis, except that no loss is allocated to inventories and financial assets that continue to be measured in accordance with the Corporation's other accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the Consolidated Statements of Comprehensive Income. Once classified as held for sale, property, plant and equipment are no longer amortized or depreciated.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

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4. Significant accounting policies (continued)

n. Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Corporation considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in the Consolidated Statements of Comprehensive Income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed in the Consolidated Statements of Comprehensive Income.

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or Cash Generating Unit (CGU) is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets. For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The Corporation's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset is allocated.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in Other in the Consolidated Statements of Comprehensive Income. Impairment losses recognized in respect of CGUs are first allocated to reduce the carrying amount of any goodwill allocated to the units and then to reduce, on a pro rata basis, the carrying amounts of the other assets in the unit or group of units.

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4. Significant accounting policies (continued)

n. Impairment (continued)

(ii) Non-financial assets (continued)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

o. Leases

At the inception of an arrangement, the Corporation determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the Corporation has the right to control the use of the underlying asset.

At the inception or upon the reassessment of the arrangement, the Corporation separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Corporation concludes that it is impracticable to separate the payments reliably under a finance lease, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Corporation's incremental borrowing rate.

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. On a lease-by-lease basis, the Corporation estimates whether substantially all of the risks and rewards of ownership are assumed, taking into account the length of the lease, the present value of the minimum lease payments compared to the fair value of the leased asset and other terms contained within the lease. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the term of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases other than finance leases are classified as operating leases and are not recognized in the Corporation's Consolidated Statements of Financial Position. Operating lease payments are recognized as an expense on a straight-line basis over the term of the lease, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

p. Deferred revenue

Funds collected from retailers for lottery games for which results are determined based on a draw, and for which tickets are sold in advance of the game draw, are recorded as deferred revenue and recognized as revenue once the related draw occurs.

q. Trade and other payables

These amounts represent liabilities for unpaid goods and services provided to the Corporation prior to the end of the financial year. Such liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at their amortized cost using the effective interest method. The amounts are short term in nature.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

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4. Significant accounting policies (continued)

r. Provisions

Provisions are liabilities of uncertain timing and amount. A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Provisions are reviewed at each reporting date and adjusted to reflect current best estimates.

(i) Legal claims

The Corporation recognizes obligations for the settlement of current legal claims against the Corporation. The provision is measured based on the best estimate of the expenditure required to settle the matter. Each claim is individually reviewed for the likelihood of settlement and the expected settlement amount.

(ii) Other provisions

The Corporation recognizes decommissioning obligations for the retirement of certain tangible property, plant and equipment, which result from the acquisition, construction, development and/or normal use of the assets. The provision is measured based on the net present value of Management's best estimate of the expenditures that will be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the estimated useful life. The increase to the provision resulting from unwinding the discount is recognized as a finance cost.

The decommissioning provision is measured each period and subsequent changes in the provision are capitalized as part of the cost of the long-lived asset and amortized prospectively over the remaining life of the item to which the costs relate. A gain or loss may be incurred upon settlement of the liability.

The Corporation recognizes a provision for insurance claims that the Corporation's insurance provider has indicated are more than likely to be settled. The provision is measured based on the amounts for each claim where settlement is probable or the amount of the deductible related to the claim.

s. Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the Consolidated Statements of Comprehensive Income in the periods during which services are rendered by the employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan, which are due more than 12 months after the end of the period in which the employees render the service, are discounted to their present value.

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4. Significant accounting policies (continued)

s. Employee benefits (continued)

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan that requires entities to record their net obligation in respect of the plan and is not a defined contribution plan. The Corporation provides defined benefit pension plans through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees Union Pension Fund (OPSEU Pension Fund). The Corporation does not have a net obligation in respect of defined benefit pension plans as the plans are sole-sponsored defined benefit plans established by the Province of Ontario. The Province of Ontario controls all entities included in the pension plans. The Corporation has classified these plans as state plans whereby there is no contractual agreement or stated policy for charging the net defined benefit cost of the plans to the Corporation. As such, the Corporation records these post-employment benefits as defined contribution plan.

(iii) Other long-term employee benefits

The Corporation's net obligation with respect to long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Corporation's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in the Consolidated Statements of Comprehensive Income in the period in which they arise.

(iv) Termination benefits

Termination benefits are recognized as an expense at the earlier of when the Corporation can no longer withdraw the offer of those benefits and when the Corporation recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, they are discounted to their present value.

(v) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be settled wholly within 12 months of the end of the reporting period if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

t. Finance income and finance costs

Finance income consists of interest income on funds invested and changes in the fair value of financial assets at fair value through profit or loss, loans and receivables and foreign currency transaction gains or losses. Interest income is recognized as it accrues in the Consolidated Statements of Comprehensive Income using the effective interest method.

Finance costs consist of interest expense on borrowings, unwinding of the discount on provisions and changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the Consolidated Statements of Comprehensive Income using the effective interest method.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements
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4. Significant accounting policies (continued)

u. Income taxes

As the Corporation is an agent of the Crown, it is not subject to federal or provincial corporate income taxes or corporate capital taxes.

v. Consolidated statements of comprehensive income presentation

In fiscal 2016–17, the Corporation changed the presentation of the Consolidated Statements of Comprehensive Income for the current and comparative periods to better align external and internal reporting. The new presentation classifies expenses by nature, is based on the Corporation's definitions of direct and indirect expenses versus function in the past. Finance costs remain unchanged, while Finance income and Foreign exchange gain have been combined to form Finance income. Other income and Other charges have been combined to form Other.

Direct expenses are costs that are directly associated with current fiscal gaming or non-gaming revenue and vary as revenue changes. Indirect expenses are costs that do not directly vary with current fiscal revenue levels. Contribution margin is total gaming and non-gaming revenue net of direct expenses.

w. Initial application of standards, interpretation and amendments

The Corporation did not adopt any new or amended accounting pronouncements that had a material impact on the Consolidated Financial Statements.

x. Accounting standards issued but not yet effective

A number of new accounting standards and amendments to standards are not yet effective as at March 31, 2017 and have not been applied in preparing these Consolidated Financial Statements.

(i) IFRS 15, Revenue from Contracts with Customers (IFRS 15)

In May 2014, the IASB issued IFRS 15, replacing IAS 11, Construction Contracts, IAS 18, Revenue and IFRIC 13, Customer Loyalty Programmes. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. New estimates and judgmental thresholds have been introduced which may affect the amount and/or timing of revenue recognized. In April 2016, clarifications to IFRS 15 were issued to provide additional guidance with respect to the five-step analysis, transition and the application of the standard to licences of intellectual property. IFRS 15 and the clarifications are mandatorily effective for annual periods beginning on or after January 1, 2018. The Corporation is assessing the impact of this standard on the Consolidated Financial Statements.

(ii) IFRS 9, Financial Instruments (IFRS 9)

In July 2014, the IASB issued the complete IFRS 9 which replaces IAS 39, Financial Instruments: Recognition and Measurement. The new standard provides guidance on the classification and measurement of financial assets and introduces a new expected credit loss model for calculating impairment. It also incorporates general hedge accounting requirements. IFRS 9 is mandatorily effective for annual periods beginning on or after January 1, 2018. The Corporation is assessing the impact of this standard on its Consolidated Financial Statements.

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4. Significant accounting policies (continued)

x. Accounting standards issued but not yet effective (continued)

(iii) IFRS 16, Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16, replacing IAS 17, Leases and IFRIC 4, Determining whether an arrangement contains a lease. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The accounting treatment for lessors will remain largely the same as under IAS 17. IFRS 16 is mandatorily effective for annual periods beginning on or after January 1, 2019. The Corporation is assessing the impact of this new standard on its Consolidated Financial Statements.

5. Capital risk management

The capital structure of the Corporation consists of cash and cash equivalents, long-term debt and equity, comprising retained earnings, contributed surplus and reserves.

The Corporation is required to finance certain capital expenditures with debt obtained from the Ontario Financing Authority (OFA). The approval of the Minister of Finance is required for the Corporation to borrow funds for major capital expenditures.

The Corporation's objectives in managing capital are to ensure sufficient resources are available for it to continue to fund future development and growth of its operations and to provide returns to the Province of Ontario.

The Board of Directors is responsible for the oversight of Management, including policies related to financial and risk management. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Operating agreements require the Resort Casinos to establish reserve funds. The Corporation is not subject to any externally imposed capital requirements. Refer to Note 22 for further details on the Corporation's financial risk management and financial instruments.

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6. Restricted cash

Restricted cash, consisting of the following items and respective amounts, is held in separate bank accounts.

	March 31, 2017	March 31, 2016
Current		
Prize funds on deposit (a)	$50,135	$45,264
Horse racing funds (b)	4,034	3,734
Other (c)	7,955	7,944
	$62,124	$56,942
Non-current		
Reserves (d)		
Capital renewals	$19,267	$18,503
Operating	55,516	54,308
Severance	46,518	46,146
	$121,301	$118,957
Restricted cash	$183,425	$175,899

a. Prize funds on deposit of $50,135,000 (March 31, 2016 – $45,264,000) are funds set aside representing the estimate of gross prizes outstanding of $86,221,000 (March 31, 2016 – $82,333,000) less an estimate for prizes not expected to be claimed by customers of $36,086,000 (March 31, 2016 – $37,069,000).

b. Standardbred Horsepeople's Purse Funds of $4,034,000 (March 31, 2016 – $3,734,000) were received from the Ontario Racing Commission to fund activities that will provide benefits to horsepeople.

c. Other restricted cash represents loan proceeds for the Gaming Management System project, funds held on behalf of Internet Gaming patrons and interest earned and received.

d. The Corporation has established reserves at the Resort Casinos in accordance with their respective operating agreements, or on other terms as otherwise agreed to, for the following purposes:

(i) Capital renewals reserves – for property, plant and equipment additions, other than normal repairs, and to satisfy specified obligations in the event that cash flows are insufficient to meet such obligations

(ii) Operating reserves – to satisfy specified operating obligations in the event that cash flows are insufficient to meet such obligations

(iii) Severance reserves – to satisfy certain obligations of the Corporation arising from the termination or layoff of employees of an operator in connection with the termination of an operator

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7. Trade and other receivables

	March 31, 2017	March 31, 2016
Trade receivables	$144,412	$152,282
Less: allowance for impairment	(5,019)	(5,159)
Trade receivables, net	139,393	147,123
Other receivables	11,538	12,017
Trade and other receivables	$150,931	$159,140

The Corporation's exposure to credit risks and impairment losses related to trade and other receivables is disclosed in Note 22.

8. Inventories

	March 31, 2017	March 31, 2016
Slot machine and table game parts	$2,285	$3,086
Lottery and charitable gaming tickets and paper	21,408	17,620
Security and surveillance parts	1,047	1,435
Food and beverage	2,690	2,693
Retail	941	815
Other	2,887	2,399
Inventories	$31,258	$28,048

Inventory costs, included in expenses, for the year ended March 31, 2017 were $117,480,000 (March 31, 2016 – $110,963,000). During fiscal 2016–17, the Corporation recorded nil inventory write-downs (fiscal 2015–16 – $285,000 of inventory write-downs in expenses).

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9. Property, plant and equipment

Cost

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	Slots and Casinos and Resort Casinos gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at April 1, 2015	$ 137,824	$1,905,317	$ 603,044	$ 646,696	$ 85,699	$ 613,091	$ 68,608	$ 56,561	$ 4,116,840
Additions and assets put into use	-	11,143	52,142	12,761	8,237	60,365	2,645	(13,868)	133,425
Disposals and retirements	(763)	(34,012)	(29,760)	(10,875)	(10,107)	(73,823)	-	(20,624)	(179,964)
Balance at March 31, 2016	**$ 137,061**	**$1,882,448**	**$ 625,426**	**$ 648,582**	**$ 83,829**	**$ 599,633**	**$ 71,253**	**$ 22,069**	**$ 4,070,301**

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	Slots and Casinos and Resort Casinos gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at April 1, 2016	$137,061	$1,882,448	$ 625,426	$ 648,582	$ 83,829	$ 599,633	$ 71,253	$ 22,069	$ 4,070,301
Additions and assets put into use	-	7,576	20,911	7,317	11,690	60,857	2,252	10,508	121,111
Disposals and retirements	-	(1,090)	(24,960)	(10,820)	-	(41,383)	(417)	(529)	(79,199)
Transfers to held for sale (Note 10)	(7,410)	(118,382)	(46,162)	(32,517)	-	(64,469)	-	-	(268,940)
Balance at March 31, 2017	**$ 129,651**	**$1,770,552**	**$ 575,215**	**$ 612,562**	**$ 95,519**	**$ 554,638**	**$ 73,088**	**$ 32,048**	**$ 3,843,273**

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9. Property, plant and equipment (continued)

Accumulated amortization and accumulated impairment losses

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	Slots and Casinos and Resort Casinos gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at April 1, 2015	$ 41,091	$1,116,512	$ 520,917	$ 542,885	$ 83,615	$ 474,197	$ 43,240	-	$ 2,822,457
Amortization for the period	-	39,351	34,608	21,134	1,623	57,928	2,837	-	157,481
Impairment loss	-	-	3,852	-	-	-	2,644	-	6,496
Disposal and retirements	-	(20,725)	(28,502)	(10,552)	(10,074)	(70,307)	-	-	(140,160)
Balance at March 31, 2016	**$ 41,091**	**$1,135,138**	**$ 530,875**	**$ 553,467**	**$ 75,164**	**$ 461,818**	**$ 48,721**	**-**	**$ 2,846,274**

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	Slots and Casinos and Resort Casinos gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at April 1, 2016	$ 41,091	$1,135,138	$ 530,875	$ 553,467	$ 75,164	$ 461,818	$ 48,721	-	$ 2,846,274
Amortization for the period	-	36,638	35,416	20,522	3,118	54,098	2,705	-	152,497
Impairment loss	-	-	579	-	-	-	2,252	-	2,831
Disposal and retirements	-	(752)	(24,845)	(9,804)	-	(40,686)	(416)	-	(76,503)
Transfers to held for sale (Note 10)	-	(71,097)	(39,801)	(29,746)	-	(46,858)	-	-	(187,502)
Balance at March 31, 2017	**$ 41,091**	**$1,099,927**	**$ 502,224**	**$ 534,439**	**$ 78,282**	**$ 428,372**	**$ 53,262**	**-**	**$ 2,737,597**

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9. Property, plant and equipment (continued)

Carrying amounts

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	Slots and Casinos and Resort Casinos gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at March 31, 2016	$ 95,970	$ 747,310	$ 94,551	$ 95,115	$ 8,665	$ 137,815	$ 22,532	$ 22,069	$ 1,224,027
Balance at March 31, 2017	**$ 88,560**	**$ 670,625**	**$ 72,991**	**$ 78,123**	**$ 17,237**	**$ 126,266**	**$ 19,826**	**$ 32,048**	**$ 1,105,676**

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9. Property, plant and equipment (continued)

The Corporation leases certain items of property, plant and equipment under finance lease agreements. At March 31, 2017, the net carrying amount of leased property, plant and equipment was $19,826,000 (March 31, 2016 – $22,532,000).

Impairment

As a result of the economic performance of the cGaming CGUs, made up of the individual cGaming Centres, Management performed an impairment analysis.

The recoverable amounts of the CGUs were based on fair value less costs of disposal, which was greater than the value in use. Management performed the fair value analysis utilizing discounted cash flows based on its best estimates and using the market information currently available. The valuation technique used Level 3 inputs which are unobservable inputs supported by little or no market activity for the assets (Note 22.f). Cash flow projections were based on annual approved budgets and Management's projections thereafter. The cash flows are Management's best estimate of future events taking into account past experience and future economic assumptions. A discount rate of 7.0 per cent that was applied to the cash flow projections was derived from Management's consideration of current market assessments and the risks specific to the CGUs.

Management determined that the recoverable amount of the CGUs of $nil was less than their carrying value and, as a result, an impairment loss of $2,831,000 (fiscal 2015–16 – $6,496,000) was recognized in Other in the Consolidated Statements of Comprehensive Income. The impairment loss relates to the cGaming line of business in Note 26.

Management did not identify any further impairment indicators at any of the Corporation's other CGUs and, therefore, has not recognized any additional impairment losses at March 31, 2017.

10. Disposal group held for sale

On December 13, 2016, OLG announced the selection of Gateway as the Service Provider for the North and Southwest Gaming Bundles. Under the terms of the TAPAs, OLG committed to sell certain assets and Gateway agreed to assume certain liabilities related to the sites in the bundles (Note 27). Accordingly, at March 31, 2017, these assets and liabilities met the criteria to be classified as a disposal group held for sale and stated at their carrying values comprised the following:

	March 31, 2017
Cash	$29,458
Property, plant and equipment	81,438
Other	1,710
Assets held for sale	$112,606
Trade payables and other	$1,007
Liabilities held for sale	$1,007

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11. Other asset

On September 8, 2016, the Corporation entered into a lease agreement for 22 years plus a stump period, as defined, with the Mississaugas of Scugog Island First Nation to lease the premises that situate the Great Blue Heron Casino (Note 2). This agreement is considered to be a finance lease for accounting purposes. The total remaining obligation under the finance lease is $142,871,000 at March 31, 2017 (Note 21). The related asset as at March 31, 2017 was $140,613,000, which is amortized over the life of the lease agreement. The amortization expense recognized during fiscal 2016–17 was $3,460,000.

12. Trade and other payables

	March 31, 2017	March 31, 2016
Trade payables and accruals	$103,263	$82,387
Prizes payable	50,135	45,264
Short-term employee benefits	51,434	56,225
Gaming liability	72,851	68,258
Commissions payable	27,031	25,105
Horse racing liability	3,261	3,734
Other payables and accruals	46,382	35,213
Trade and other payables	$354,357	$316,186

Prizes payable comprise unclaimed and estimated Lottery prizes.

Short-term employee benefits include salaries payable, incentive accruals, long-term service awards, vacation pay accrual and other short-term employee-related liabilities.

Gaming liability consists of progressive jackpots, unredeemed chips, customer loyalty incentive points and other gaming-related payables. Progressive jackpots are measured based on the anticipated payout of the progressive jackpots. Unredeemed chips are funds deposited by customers for chips before gaming play occurs where the chips remain in the customers' possession. Customer loyalty incentive points that are earned based on the volume of play and redeemable for complimentary goods and services and/or cash are recognized as a liability and measured at the amount payable on demand.

Commissions payable include amounts payable to lottery retailers and cGaming Centre service providers, municipalities and First Nations that host a Casino, a cGaming Centre or a Slots at Racetracks facility, including the City of Niagara Falls and the City of Windsor.

Horse racing liability represents the Standardbred Horsepeople's Purse Funds received from the Ontario Racing Commission to fund activities that will provide benefits to horsepeople.

Other payables and accruals include accrued win contribution, casino customer deposits, security deposits, corporate marketing and other miscellaneous amounts.

The Corporation's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 22.

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13. Provisions

All provisions are included in current liabilities. The carrying amount was as follows:

	Legal claims	Other provisions	Total
Balance at April 1, 2016	$1,966	$3,857	$5,823
Increases and additional provisions	2,549	1,266	3,815
Amounts paid	(814)	(639)	(1,453)
Amounts reversed	(928)	(473)	(1,401)
Balance at March 31, 2017	$2,773	$4,011	$6,784

Legal claims

During fiscal 2016–17, an additional $2,549,000 of potential legal claims was accrued, with an offsetting reduction of $814,000 in payments to claimants. The $928,000 of legal claims reversed in fiscal 2016–17 was due to the likelihood of the obligations becoming remote. The ultimate outcome or actual cost of settlement may vary significantly from the original estimates. Material obligations that have not been recognized as provisions, as the outcome is not probable or the amount cannot be reliably estimated, are disclosed as contingent liabilities, unless the likelihood of the outcome is remote (Note 25).

Other provisions

Other provisions include provisions for decommissioning obligations and insurance claims.

The decommissioning provision is associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development and/or normal use of the assets. During fiscal 2016–17, an additional $99,000 of decommissioning obligations was accrued.

During fiscal 2016–17, an additional $1,167,000 of insurance claims was accrued, $639,000 of insurance claims was settled and $473,000 of accrued claims were reversed as the likelihood was remote that the claims would be incurred.

14. Finance income (costs)

	March 31, 2017	March 31, 2016
Interest income on financial assets at fair value through profit and loss and loans and receivables	$2,163	$2,203
Foreign exchange gain	8,771	6,816
Finance income	$10,934	$9,019
Interest on bank overdraft and loans	$(381)	$(505)
Interest on obligations under finance leases	(6,392)	(4,693)
Other interest expense	(2,657)	(90)
Total interest expense for financial liabilities not classified at fair value through profit and loss	(9,430)	(5,288)
Finance costs	$(9,430)	$(5,288)

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15. Related parties

The Corporation is related to various other government agencies, ministries and Crown corporations. Related party transactions include loan agreements with the OFA (Note 21), post-employment benefit plans with the Ontario Pension Board (Note 23.b), other long-term employee benefits with the Workplace Safety and Insurance Board (Note 23.c) and restricted intermediary funding arrangements with the Province of Ontario related to horse racing (Note 6).

All transactions with these related parties are in the normal course of operations and are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

Transactions with key management personnel

Key management personnel compensation

The Corporation's key management personnel, consisting of the Corporation's Board of Directors and the Executive Committee, have authority and responsibility for overseeing, planning, directing and controlling the activities of the Corporation.

Key management personnel compensation was comprised of the following:

	March 31, 2017	March 31, 2016
Short-term employee benefits	$3,944	$4,201
Post-employment benefits	239	227
	$4,183	$4,428

Short-term employee benefits include salaries and benefits and other short-term compensation.

Post-employment benefits include the employer's portion of pension and other post-retirement benefits.

16. Due to operators and service provider

	March 31, 2017	March 31, 2016
Due to operators (a)	$186,511	$184,170
Due to service provider (b)	7,180	-
	193,691	184,170
Less: current portion	47,857	40,694
Due to operators and service provider non-current	$145,834	$143,476

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16. Due to operators and service provider (continued)

a) Under the terms of the operating agreements for each of the Resort Casinos and the Great Blue Heron Casino, each operator is entitled to receive an operator's fee calculated as a percentage of Gross Revenue and as a percentage of Net Operating Margin, both as defined in each of the related operating agreements. The total amount accrued with respect to the operator's fees at March 31, 2017 was $38,668,000 (March 31, 2016 – $38,000,000). The Resort Casinos, including Great Blue Heron Casino, and their respective operators are as follows:

Site	Operator	Operating Agreement Term Expiration
Casino Niagara and Fallsview	Falls Management Group, L.P.	June 10, 2019
Casino Rama	CHC Casinos Canada Limited	Month-to-month until September 30, 2018
Caesars Windsor	Caesars Entertainment Windsor Limited (CEWL)	July 31, 2020
Great Blue Heron Casino	Great Blue Heron Gaming Company	Earlier of (a) June 30, 2020, (b) date successor operator takes over, or (c) OLG providing 90 days' prior notice

Also included in amounts due to operators are:

i. Casino Niagara and Fallsview

During fiscal 2015–16, the Corporation exercised an option to not extend the Permanent Casino Operating Agreement, which is set to expire June 10, 2019, resulting in non-extension costs and HST being incurred as disclosed in Note 20. As at March 31, 2017, the non-current amount due to the operator was $145,834,000 (March 31, 2016 – $143,476,000) with payment due on or before June 10, 2019.

Under the terms of the Permanent Casino Operating Agreement, in a Competitive Environment, as defined in the operating agreement, the operator is entitled to receive additional operator services fees and an attractor fee. As a result, at March 31, 2017, the Corporation has included $1,705,000 (March 31, 2016 – $2,411,000) in due to operators and has a remaining commitment as at March 31, 2017 is $5,317,000.

ii. Caesars Windsor

Under the terms of a trademark licence agreement for the rebranding of Caesars Windsor, the Corporation pays a licence fee calculated as a percentage of the revenue and operating results, as defined, of Caesars Windsor. The trademark licence agreement is with a parent company of CEWL and will terminate on July 31, 2020. As at March 31, 2017, the amount included in due to operators in respect of the trademark licence agreement was $304,000 (March 31, 2016 – $283,000).

As at March 31, 2017, the current and non-current amount due to operators was $186,511,000 (March 31, 2016 – $184,170,000).

At each of the Resort Casinos and the Great Blue Heron Casino, the operator is the employer, either directly or indirectly, of the employees working at that facility. All payroll and payroll-related costs are charged to the Corporation on a monthly basis and expensed in the Corporation's Consolidated Statements of Comprehensive Income.

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16. Due to operators and service provider (continued)

b) Under the terms of the COSA of the East Gaming Bundle, OGELP is entitled to receive a share of the gaming revenue, as defined, generated at the Casinos and Slot facility it operates. The amount due to Service Provider represents the accrued Service Provider's share of revenue which reflects the fixed fee, a variable fee (calculated as a percentage of gaming revenue above a set revenue threshold) and an amount for permitted capital expenditures. The Service Provider operated gaming bundle and sites is as follows:

OLG Gaming Bundle	Sites	Service Provider	Operating Agreement Term Expiration
East	Casino Thousand Islands Slots at Kawartha Downs Casino Belleville	OGELP	March 31, 2036

17. Due to Rama First Nation

Casino Rama is located on reserve lands of Rama First Nation (RFN). The Corporation has entered into various contractual agreements with RFN regarding the Corporation's occupation and operation of the Casino Rama Complex and the provision of community services.

The RFN Agreements expire July 31, 2031 with options to extend for periods of ten and five years respectively in the Corporation's sole discretion.

The key agreements include:

a. **Complex Sublease** – A sublease to OLG from RFN covering the land on which the Casino Rama Complex is located. The Complex Sublease includes Casino Rama, parking, a warehouse and office space.

b. **Amended and Restated Post-2011 Contract relating to Casino Rama** Under this agreement, RFN is entitled to receive an annual fee for each successive 12-month period commencing August 1, 2011 in an amount equal to the greater of 1.9 percent of the Gross Revenues of the Casino Rama Complex, as defined, and $5,500,000. Under this agreement, OLG has also agreed to retain the services of RFN for fire protection, police protection and other community services.

   At March 31, 2017, $2,500,000 (March 31, 2016 – $2,118,000) was due to RFN. In fiscal 2016–17, $26,168,000 was expensed (fiscal 2015–16 – $26,163,000) and is included in Cost of premises and equipment and Other in Note 26.

18. Win contribution

The Corporation remits a contribution to the Province of Ontario equal to 20 per cent of gaming revenue from the Resort Casinos and the Great Blue Heron Casino in accordance with the *Ontario Lottery and Gaming Corporation Act, 1999*, which amounted to $289,707,000 for fiscal 2016–17 (fiscal 2015–16 – $272,447,000) and was recorded as a direct expense.

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19. Due to the Government of Canada

As at March 31, 2017, the amount due to the Government of Canada was $32,220,000 (March 31, 2016 – $33,292,000), of which $16,042,000 (March 31, 2016 – $15,783,000) is included in the non-current amount due to the Government of Canada related to the Falls Management Group, L.P. non-extension (Note 16). The recognition of this obligation requires Management to make certain estimates regarding the nature, timing and amounts associated with the Due to the Government of Canada.

a. Payments on behalf of the Province of Ontario

The provincial lottery corporations make payments to the Government of Canada under an agreement dated August 1979 between the provincial governments and the Government of Canada. The agreement stipulates that the Government of Canada will not participate in the sale of lottery tickets.

b. Goods and Services Tax / Harmonized Sales Tax (GST/HST)

As a prescribed registrant, the Corporation makes GST/HST remittances to the Government of Canada pursuant to the Games of Chance (GST/HST) Regulations of the *Excise Tax Act*. The Corporation's net tax for a reporting period is calculated using net tax attributable to both gaming and non-gaming activities.

The net tax attributable to non-gaming activities is calculated in the same way as it is for any other GST/HST registrant in Canada. The non-recoverable GST/HST payable to suppliers and the additional imputed tax payable to the Government of Canada on gaming-related expenses were recognized as payments to the Government of Canada.

The net tax attributable to gaming activities results in a 26 per cent tax burden on most taxable gaming expenditures incurred by the Corporation.

20. Other

	March 31, 2017	March 31, 2016
Operator non-extension (a)	$ -	$159,259
General and administration (b)	190,270	138,359
ATM fees	(40,201)	(41,003)
Impairment charge (c)	2,831	6,496
Losses on disposal of property, plant and equipment, net (d)	2,593	1,360
Miscellaneous income	(10,667)	(9,953)
Other	$144,826	$254,518

a. Operator non-extension

In fiscal 2015–16, the Corporation incurred one-time operator non-extension costs of $159,259,000, including HST of $15,783,000, in relation to exercising its option to not extend the Permanent Casino Operating Agreement with Falls Management Group, L.P. The costs represent the present value of the future payments to be made on or before June 10, 2019. The future undiscounted payments comprise $151,143,000 to the operator and $16,626,000 to the Government of Canada. The amount payable to the operator is included in Due to operators and service provider in Note 16 and the amount Due to the Government of Canada is included in Note 19.

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20. Other (continued)

b. General and administration

General and administration expenses are primarily comprised of office supplies and consumables, legal and consulting, research and development, travel, telecommunication, information technology and other miscellaneous expenses.

c. Impairment charge

The Corporation recognized an impairment loss for the year ended March 31, 2017 of $2,831,000 (March 31, 2016 – $6,496,000), as disclosed in Note 9.

d. Losses on disposal of property, plant and equipment, net

During fiscal 2016–17, the Corporation realized net losses on disposal of property, plant and equipment of $2,593,000 (fiscal 2015–16 – $1,360,000). The prior year net losses amount included a gain of $19,548,000 related to the sale of East Gaming Bundle assets (Note 2) offset by losses associated with the discontinuation of capital projects of $20,908,000.

21. Long-term debt

	March 31, 2017	March 31, 2016
Woodbine loan (a)	$5,069	$11,819
Gaming Management System loan (b)	29,097	20,593
Internet Gaming loan (c)	-	1,880
Obligations under finance leases (d)	187,458	50,614
	221,624	84,906
Less: current portion	(21,397)	(18,810)
Long-term debt	$200,227	$66,096

On June 1, 2012, the Province of Ontario amended the *Ontario Lottery and Gaming Corporation Act, 1999* to require the Corporation to finance certain capital expenditures with debt obtained from the OFA. The approval of the Minister of Finance is required for the Corporation to borrow funds for major capital expenditures.

a. Woodbine loan

In October 2010, the Corporation entered into a loan agreement with the OFA for purposes of financing the renovation and expansion of the slots facility at Woodbine Racetrack.

The loan balance of $33,802,000, plus interest, was repayable over five years in equal monthly payments of $597,222 until fiscal 2014–15 when the equal monthly payment changed to $514,690 due to a lump sum payment made in fiscal 2013–14. The loan bears interest at a rate of 2.320 per cent per annum and is unsecured. The loan expires in January 2018.

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21. Long-term debt (continued)

b. Gaming Management System loan

In July 2014, the Corporation entered into a loan agreement with the OFA, involving two facilities, to borrow an amount up to $35,200,000 to finance the implementation of its Gaming Management System. This system will replace infrastructure that tracks and records gaming activity and accounting, as well as data and security events, at all of the slot machines. During fiscal 2016–17, the Corporation drew $8,250,000 (prior cumulative advances to March 31, 2016 – $20,450,000), plus accrued interest, on facility one bringing the total cumulative loan balance to $29,097,000 (March 31, 2016 – $20,593,000) which is repayable, inclusive of interest accrued, at the earlier of the project completion date or September 2017, at which time the advance from facility two will be utilized to repay facility one. Facility one bears interest at the rate of OFA's cost of funds as of the facility advance date plus 0.325 per cent per annum, compounded quarterly. Facility two is a non-revolving five-year term and bears interest at the rate of OFA's five-year benchmark interest rate plus 0.325 per cent per annum, compounded semi-annually, and is repayable in semi-annual instalments of interest and principal commencing six months after the facility two advance date. The loan is unsecured.

c. Internet Gaming loan

In August 2014, the Corporation entered into a loan agreement with the OFA to borrow an amount up to $1,833,000 to finance the capital costs of the PlayOLG website. The full loan balance of $1,833,000 was advanced on September 9, 2014. The loan bore interest at the rate of 1.643 per cent per annum, compounded quarterly. The loan was unsecured. The loan was repaid on September 9, 2016.

d. Obligations under finance leases

Effective March 2010, the Corporation entered into an amending agreement for an additional 15-year term with Maple Leaf Entertainment Inc., Canadian Niagara Hotels Inc., 1032514 Ontario Limited and Greenberg International Inc. to lease the facility that houses Casino Niagara and to license the adjacent parking facilities. The amending agreement extends the term of the original lease and licence agreements by 15 years from March 10, 2010 to March 9, 2025. This agreement is considered to be a finance lease for accounting purposes and has an implicit interest rate of 8.2 per cent. The total remaining obligation under the finance lease is $33,412,000 at March 31, 2017 (March 31, 2016 – $36,129,000).

The Corporation entered into a master services agreement on August 22, 2012 to lease TapTix, formerly known as BOT dispensers. This agreement is considered to be a finance lease for accounting purposes and has an implicit interest rate of 9.0 per cent. The total remaining obligation under the finance lease is $11,175,000 at March 31, 2017 (March 31, 2016 – $14,485,000).

Effective September 8, 2016, the Corporation entered into a lease agreement for 22 years plus a stump period, as defined, with the Mississaugas of Scugog Island First Nation to lease the premises that situate the Great Blue Heron Casino (Note 2). This agreement is considered to be a finance lease for accounting purposes and a discount rate of 2.75 per cent was used to calculate the present value of future lease payments. The total remaining obligation under the finance lease as at March 31, 2017 is $142,871,000.

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21. Long-term debt (continued)

e. Payments over the next five years and thereafter

Payments related to long-term debt and obligations under finance leases that are expected to be made over the next five years and thereafter are approximately as follows:

March 31	Long-term debt	Obligations under finance leases		Total
	Repayments	Principal	Interest	
2018	$10,607	$10,790	$7,411	$28,808
2019	5,663	9,987	6,684	22,334
2020	5,816	9,213	6,046	21,075
2021	5,964	8,501	5,463	19,928
2022	6,116	8,620	4,959	19,695
Thereafter	-	140,347	36,292	176,639
	$34,166	**$187,458**	**$66,855**	**$288,479**

22. Financial risk management and financial instruments

a. Overview

The Corporation has exposure to credit risk, liquidity risk and market risk from its use of financial instruments. This note presents information about the Corporation's exposure to each of these risks and the Corporation's objectives, policies and processes for measuring and managing them.

b. Risk management framework

The Board of Directors, through its Audit and Risk Management Committee (ARMC), provides oversight with respect to the identification and management of risk along with adherence to internal risk management policies and procedures.

The Corporation's financial risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

During fiscal 2016–17, the ARMC oversaw how Management monitored compliance with the Corporation's risk management policies and procedures and reviewed the adequacy of the risk management framework in relation to the risks faced by the Corporation. The ARMC was assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the ARMC.

The Corporation has a formal Enterprise Risk Management Program (Program), which is aligned with ISO 31000 and in conformity with the Ontario Public Service risk management guidance and requirements. This Program supports the Corporation in the identification, assessment and management of risks.

Ontario Lottery and Gaming Corporation
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22. Financial risk management and financial instruments (continued)

c. Credit risk

Credit risk is the risk that the Corporation will suffer a financial loss due to a third party failing to meet its financial or contractual obligations to the Corporation. The Corporation has financial instruments that potentially expose it to a concentration of credit risk. The instruments consist of trade and other receivables and liquid investments.

Trade and other receivables

Trade and other receivables include credit provided to retailers of lottery products, cGaming service providers and customers of Resort Casinos which meet the standards set by the AGCO. The Corporation performs initial credit or similar evaluations of retailers, cGaming service providers and customers and maintains reserves for potential credit losses on accounts receivable balances. The carrying amount of these financial assets represents the maximum credit exposure.

The amounts disclosed in the Consolidated Statements of Financial Position are net of allowances for impairment, which consist of a specific provision that relates to individually significant exposures, estimated by Management based on prior experience and its assessment of the current economic environment. The Corporation establishes an allowance for impairment that represents its estimate of potential credit losses. Historically, the Corporation has not experienced any significant losses. As at March 31, 2017, the Corporation had an allowance for impairment of $5,019,000 (March 31, 2016 – $5,159,000), which represented approximately 3.2 per cent (March 31, 2016 – 3.1 per cent) of the Corporation's consolidated accounts receivable. The Corporation believes that its allowance for impairment is sufficient to reflect the related credit risk.

Liquid investments

The Corporation limits its exposure to credit risk by investing only in short-term debt securities with high credit ratings and minimal market risk. The Corporation has a formal policy for short-term investments that provides direction for Management to minimize risk. All investments held by the Corporation are low risk and have a term to maturity of less than 90 days. As a result, this risk is considered minimal.

d. Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The Corporation currently settles its financial obligations using cash provided by operations. The Corporation has established reserves at the Resort Casinos in accordance with their respective operating agreements or on other terms as otherwise agreed to. In addition, all investments held by the Corporation are low risk and have a term to maturity of less than 90 days, further reducing liquidity risk.

The Corporation manages its liquidity risk by performing regular reviews of net income and cash flows from operations and continuously monitoring the forecast against future liquidity needs. Given the Corporation's line of business, which historically has generated positive cash flows, liquidity risk is considered minimal.

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22. Financial risk management and financial instruments (continued)

d. Liquidity risk (continued)

The undiscounted contractual maturities of the financial liabilities are as follows:

March 31, 2017	Carrying amount	Contractual cash flows	< 1 year	1 – 2 years	3 – 5 years	> 5 years
Trade and other payables	$354,357	$354,357	$354,357	$ -	$ -	$ -
Provisions	6,784	6,784	6,784	-	-	-
Due to operators and service provider	193,691	199,000	47,857	-	151,143	-
Due to Rama First Nation	2,500	2,500	2,500	-	-	-
Due to the Government of Canada	32,220	32,804	16,178	-	16,626	-
Long-term debt, including obligations under finance leases	221,624	290,605	29,564	22,903	61,499	176,639
	$811,176	$886,050	$457,240	$22,903	$229,268	$176,639

March 31, 2016	Carrying amount	Contractual cash flows	< 1 year	1 – 2 years	3 – 5 years	> 5 years
Trade and other payables	$316,186	$316,186	$316,186	$ -	$ -	$ -
Provisions	5,823	5,823	5,823	-	-	-
Due to operators and service provider	184,170	191,837	40,694	-	151,143	-
Due to Rama First Nation	2,118	2,118	2,118	-	-	-
Due to the Government of Canada	33,292	34,135	17,509	-	16,626	-
Long-term debt, including obligations under finance leases	84,906	104,335	23,322	20,707	34,850	25,456
	$626,495	$654,434	$405,652	$20,707	$202,619	$25,456

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22. Financial risk management and financial instruments (continued)

e. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, foreign currency risk and other market price risk.

(i) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Corporation has financial assets and liabilities that potentially expose it to interest rate risk.

The Corporation is subject to interest rate risk on its cash and cash equivalents, including short-term investments with maturity dates of less than 90 days and long-term debt.

Long-term debt currently consists of two loan agreements with the OFA and obligations under finance leases. The obligations under finance leases (Note 21.d) and one of the loan agreements have fixed interest rates for their entire terms, while the other loan agreement is subject to variable interest rates. Each of the long-term debt instruments is currently subject to limited interest rate risk.

At March 31, 2017, the Corporation had cash and cash equivalents of $307,224,000 (March 31, 2016 – $325,034,000). The impact of fluctuations in interest rates is not significant and, accordingly, a sensitivity analysis of the impact of fluctuations in interest rates on net income has not been provided.

(ii) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation is exposed to foreign currency risk by settling certain obligations in foreign currencies, primarily in U.S. dollars (USD), and by holding bank accounts and investments in USD.

The majority of the Corporation's suppliers and customers are based in Canada and, therefore, transact in Canadian dollars (CAD). Some suppliers and customers are based outside of Canada. The suppliers located outside of Canada typically transact in USD. The Corporation's border properties attract U.S. players who are required to exchange their USD for CAD prior to play. The Corporation exchanges USD using the daily market exchange rate and utilizes both a 'buy' and 'sell' rate. The Corporation holds USD cash and bank accounts for the purposes of transacting in USD with customers, as well as paying its U.S. suppliers. The balances held in USD are closely monitored to ensure future USD requirements are met. The Corporation's foreign exchange gain for the year ended March 31, 2017 was $8,771,000 (March 31, 2016 – $6,816,000).

The Corporation does not enter into financial instruments for trading or speculative purposes.

(ii) Foreign currency risk (continued)

The Corporation's exposure to currency risk, based on the carrying amounts, is as follows:

USD	March 31, 2017	March 31, 2016
Cash and cash equivalents	$29,251	$21,036
Trade and other payables	(4,667)	(3,435)
Obligations under finance leases	(11,175)	(14,485)
Net exposure	$13,409	$3,116

All USD balances are shown in CAD equivalents.

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22. Financial risk management and financial instruments (continued)

e. Market risk (continued)

Sensitivity analysis

A 10 per cent increase in the value of the USD at March 31, 2017 would have increased net income by $1,341,000. A 10 per cent decrease in the value of the USD at March 31, 2017 would have decreased net income by $1,341,000. This analysis assumes that all other variables, including interest rates, remain constant.

(iii) Other market price risk

The Corporation offers sports-based lottery products in the marketplace. The Corporation manages risks associated with these products by setting odds for each event within a short time frame before the actual event, by establishing sales liability thresholds by sport, by providing credit management controls, by posting conditions and prize structure statements on OLG.ca and by limiting the aggregate amount of prizes that may be won on any given day for all sports-based products. The Corporation also has the authority to suppress sales of any game at any time when liability risk is a concern.

f. Fair values measurement

Financial instruments are measured subsequent to initial recognition at fair value and grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The Corporation has determined the fair value of its financial instruments as follows:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

The Corporation's financial instruments carried at fair value in the Consolidated Statements of Financial Position, which consist of cash and cash equivalents and restricted cash, are valued using quoted market prices that are included in Level 1.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices).

In the Consolidated Statements of Financial Position, the carrying amounts of trade and other payables, current due to operators and service provider, due to Rama First Nation and due to the Government of Canada approximate fair values because of the short-term nature of these financial instruments or because they are payable on demand.

Trade and other receivables are carried at amortized cost using the effective interest method.

The fair value of the Corporation's long-term debt, excluding obligations under finance leases, is not determinable given its related party nature, and there is no observable market for the Corporation's long-term debt. Obligations under finance leases and non-current due to operators and service provider and due to the Government of Canada are carried at amortized cost using the effective interest method which approximates fair value.

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

There were no financial statement categories in Level 3 (valuation techniques using non-observable data) for the years ended March 31, 2017 or March 31, 2016.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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23. Employee benefits

a. Defined contribution plans

The operators of the Resort Casinos and the Great Blue Heron Casino have created defined contribution pension plans for their employees. The pension expense for fiscal 2016–17 amounted to $21,598,000 (fiscal 2015–16 – $20,286,000).

b. Other post-employment benefit plans

The Corporation provides pension benefits for all its permanent employees and for non-permanent employees who elect to participate through the PSPF and the OPSEU Pension Fund, which are sole-sponsored defined benefit pension plans established by the Province of Ontario. The Province of Ontario controls all entities included in the PSPF and OPSEU Pension Fund. Contribution rates are set by the *Public Service Pension Act*, whereby the Corporation matches all regular contributions made by the member. The Corporation classified these plans as state plans whereby there is no contractual agreement or stated policy for charging the net defined benefit cost of the plans to the Corporation. As such, the Corporation accounts for these post-employment benefits as defined contribution plans and has recorded no additional liability for the plan deficit. The annual contributions made by the Corporation are recorded as an expense in the Consolidated Statements of Comprehensive Income. The Corporation's contribution and pension expense for fiscal 2016–17 was $19,602,000 (fiscal 2015–16 – $20,269,000).

c. Other long-term employee benefits

As a Schedule 2 employer under the *Workplace Safety and Insurance Act, 1997*, (the Act), the Corporation is individually responsible for the full cost of accident claims filed by its workers. The Workplace Safety and Insurance Board (WSIB) maintains full authority over the claims entitlement process and administers and processes claims payments on the Corporation's behalf. WSIB liabilities for self-insured employers are reported in the Consolidated Statements of Financial Position.

The WSIB accrual at March 31, 2017 was $19,004,000 (March 31, 2016 – $16,683,000), of which $17,674,000 (March 31, 2016 – $15,515,000) is included in non-current employee benefits liability and $1,330,000 (March 31, 2016 – $1,168,000) is included in trade and other payables in Note 12. The accrued benefit costs are based on actuarial assumptions.

The operators of the Resort Casinos and the Great Blue Heron Casino are Schedule 1 employers under the Act and are not subject to the financial reporting requirements of self-insured employers.

24. Commitments

a. Obligations under operating leases

The Corporation has entered into several operating leases for facilities, property and equipment with a typical range of five to seven years. The future minimum lease payments are, approximately, as follows:

2018	$ 87,256
2019	42,501
2020	38,428
2021	24,502
2022	14,102
	$206,789
Thereafter	22,006
	$228,795

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24. Commitments (continued)

b. HST on lease commitments

The Corporation and the Resort Casinos have entered into several agreements to lease property, plant and equipment from the Corporation's subsidiary and other external parties. The non-recoverable HST and the additional imputed tax on the gaming-related assets payable to the Government of Canada, as described in Note 19.b, on the future lease payments are, approximately, as follows:

2018	$ 31,874
2019	27,095
2020	22,051
2021	17,716
2022	13,157
	111,893
Thereafter	196,550
	$308,443

c. Suppliers

The Corporation has computer hardware maintenance agreements with future payments as at March 31, 2017 of approximately:

2018	$21,051
2019	426
	$21,477

d. Ontario First Nations (2008) Limited Partnership

On February 19, 2008, Her Majesty the Queen in Right of Ontario, the Corporation, the Ontario First Nations Limited Partnership and Ontario First Nations (2008) Limited Partnership entered into the Gaming Revenue Sharing and Financial Agreement (GRSFA). Pursuant to the terms of the GRSFA and an Order-in-Council, the Corporation was directed to pay the Ontario First Nations (2008) Limited Partnership, commencing in fiscal 2011–12 and in each fiscal year for the remainder thereafter of the 20-year term, an amount equal to 1.7 per cent of the prior year's Gross Revenues of the Corporation, as defined (Gaming Revenue Sharing Payment). Pursuant to the GRSFA, during fiscal 2016–17, $137,349,000 was expensed (fiscal 2015–16 – $122,057,000) as Gaming Revenue Sharing Payment.

25. Contingencies

The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. The Corporation believes that the outcome of these outstanding claims will not have a material impact on its Consolidated Statements of Financial Position or the possibility of an outflow of resources is remote. Estimates, where appropriate, have been included in the Consolidated Statements of Financial Position (Note 13); however, additional settlements, if any, concerning these contingencies will be accounted for as a charge in the Consolidated Statements of Comprehensive Income in the period in which the settlement occurs.

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26. Other information

The Corporation has five lines of business and a Corporate Services division. The five lines of business are distinct revenue-generating business units that offer different products and services and are managed separately because they require different technologies and marketing strategies. The Corporate Services division provides support services to all of the revenue-generating lines of business. The following summary describes the operations in each line of business:

- Lottery derives its revenue from the sale of lottery products, which include Lotto, INSTANT and Sports products. Lotto products are also available for purchase over the Internet at PlayOLG.
- Charitable Gaming (cGaming) derives its revenue from the sale of Charitable Gaming products.
- Resort Casinos are full-service casinos that offer customers a variety of amenities, including accommodations, entertainment and food and beverage services, in addition to slot and table games.
- Slots and Casinos are gaming facilities including sites operated by OLG or a Service Provider.

  OLG Casinos, including Great Blue Heron Casino, offer slot and table games, as well as food and beverage services. OLG Slots are located at racetrack sites and include only slot games. Food and beverage services are also offered at the racetrack sites; however, at most of the locations, OLG is not the entity providing these services. At the Service Provider operated sites, OLG receives a share of the gaming revenue generated. The non-gaming revenue is earned and retained by the Service Provider.
- Internet Gaming (iGaming) derives its revenue from casino-style games available over the Internet at PlayOLG.

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26. Other information (continued)

March 31, 2017	Lottery	cGaming	Resort Casinos	Slots and Casinos	iGaming	Corporate Services	Total
Revenues							
Gaming	$3,680,753	$153,044	$1,329,523	$2,130,815	$58,365	$ -	$7,352,500
Non-gaming	-	-	103,782	18,591	-	-	122,373
	3,680,753	**153,044**	**1,433,305**	**2,149,406**	**58,365**	**-**	**7,474,873**
Direct expenses							
Prizes	2,035,482	-	-	-	-	-	2,035,482
Commissions and fees	266,161	120,426	112,600	94,737	9,949	-	603,873
Win contribution (Note 18)	-	-	265,860	23,847	-	-	289,707
Food, beverage, and other purchases	-	-	92,334	11,918	-	-	104,252
Ticket printing	35,062	5,597	-	-	-	-	40,659
	2,336,705	**126,023**	**470,794**	**130,502**	**9,949**	**-**	**3,073,973**
Contribution margin	**1,344,048**	**27,021**	**962,511**	**2,018,904**	**48,416**	**-**	**4,400,900**
Indirect expenses							
Personnel	33,534	4,129	469,253	294,586	4,242	128,099	933,843
Marketing and promotion	63,064	235	123,983	71,612	3,613	24,271	286,778
Other	23,119	6,922	53,303	(6,793)	3,768	64,507	144,826
Amortization	4,918	-	97,978	45,177	201	7,683	155,957
Payments to the Government of Canada	101,251	17,567	86,854	79,121	4,718	26,214	315,725
Cost of premises and equipment	24,710	4,780	96,601	169,004	398	20,127	315,620
Regulatory fees	11,974	2,597	8,003	14,430	4,099	-	41,103
Gaming Revenue Sharing Payment	-	-	-	-	-	137,349	137,349
Net finance (income) costs	38	1,402	(6,961)	1,788	(1)	2,230	(1,504)
	262,608	**37,632**	**929,014**	**668,925**	**21,038**	**410,480**	**2,329,697**
Net income (loss)	**$1,081,440**	**$(10,611)**	**$33,497**	**$1,349,979**	**$27,378**	**$(410,480)**	**$2,071,203**
Add: Win contribution (Note 18)	-	-	265,860	23,847	-	-	289,707
Net Profit (loss) to the Province (a)	**$1,081,440**	**$(10,611)**	**$299,357**	**$1,373,826**	**$27,378**	**$(410,480)**	**$2,360,910**

(a) Net Profit to the Province (NPP) is the amount the Corporation returns to the Province of Ontario after stakeholder and other payments. NPP is calculated by adding back win contribution to net income (loss).

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26. Other information (continued)

March 31, 2016	Lottery	cGaming	Resort Casinos	Slots and Casinos	iGaming	Corporate Services	Total
Revenues							
Gaming	$3,785,596	$165,953	$1,285,964	$2,045,807	$49,170	$ -	$7,332,490
Non-gaming	-	-	96,632	16,159	-	-	112,791
	3,785,596	**165,953**	**1,382,596**	**2,061,966**	**49,170**	**-**	**7,445,281**
Direct expenses							
Prizes	2,080,496	37,992	-	-	-	-	2,118,488
Commissions and fees	269,841	100,997	106,474	82,850	8,772	-	568,934
Win contribution (Note 18)	-	-	257,145	15,302	-	-	272,447
Food, beverage, and other purchases	-	-	92,248	11,336	-	-	103,584
Ticket printing	32,407	4,707	-	-	-	-	37,114
	2,382,744	**143,696**	**455,867**	**109,488**	**8,772**	**-**	**3,100,567**
Contribution margin	**1,402,852**	**22,257**	**926,729**	**1,952,478**	**40,398**	**-**	**4,344,714**
Indirect expenses							
Personnel	31,393	3,402	460,537	292,443	4,300	111,736	903,811
Marketing and promotion	56,301	33	121,458	78,967	5,399	18,664	280,822
Other	9,519	10,619	63,446	(27,790)	4,653	194,071	254,518
Amortization	3,807	-	99,118	45,991	201	8,364	157,481
Payments to the Government of Canada	96,649	16,354	89,282	75,773	5,299	22,251	305,608
Cost of premises and equipment	22,409	4,286	101,737	174,675	405	19,835	323,347
Regulatory fees	11,974	2,556	8,075	14,420	5,288	-	42,313
Gaming Revenue Sharing Payment	-	-	-	-	-	122,057	122,057
Net finance (income) costs	92	1,927	(5,862)	335	4	(227)	(3,731)
	232,144	**39,177**	**937,791**	**654,814**	**25,549**	**496,751**	**2,386,226**
Net income (loss)	**$1,170,708**	**$(16,920)**	**$(11,062)**	**$1,297,664**	**$14,849**	**$(496,751)**	**1,958,488**
Add: Win contribution (Note 18)	-	-	257,145	15,302	-	-	272,447
Net Profit (loss) to the Province (a)	**$1,170,708**	**$(16,920)**	**$246,083**	**$1,312,966**	**$14,849**	**$(496,751)**	**$2,230,935**

27. Subsequent events

On May 9, 2017 and May 30, 2017, OLG and Gateway entered into 20-year COSAs for the Southwest and North Gaming Bundles, respectively. Gateway purchased the net assets of both Gaming Bundles for $174,069,000, which included an estimate for working capital of $29,717,000, resulting in a gain on sale of net assets of $63,202,000 and took over day-to-day operations of the sites from OLG. Gateway is entitled to receive a share of the gaming revenue, as defined, generated at the Casinos and Slot facilities it operates. The share of revenue owed to Gateway reflects the fixed fee, a variable fee (calculated as a percentage of gaming revenue above a set revenue threshold) and an amount for permitted capital expenditures. On the respective sale dates, OLG will derecognize all held for sale assets and liabilities – including property, plant and equipment – related to the sites in the North and Southwest Gaming Bundles.

On May 15, 2017, OLG announced the selection of Hard Rock as the Service Provider for the Ottawa Gaming Bundle. On the selection date, OLG and Hard Rock signed a TAPA committing Hard Rock to acquire certain assets and liabilities.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Ontario Power Generation Inc.'s (OPG) management is responsible for the presentation and preparation of the annual consolidated financial statements and Management's Discussion and Analysis (MD&A).

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (US GAAP) and the rules and regulations of the United States Securities and Exchange Commission for annual financial statements. The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators and its related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. Something is considered material if it is reasonably expected to have a significant impact on the Company's earnings, cash flow, value of an asset or liability, or reputation. In addition, in preparing the financial information, we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect the reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, and risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

In meeting our responsibility for the reliability of the financial information, we maintain and rely on a comprehensive system of internal controls and internal audits, including organizational and procedural controls and internal controls over financial reporting. Our system of internal controls includes: written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and accounting policies, which we regularly update. This structure ensures appropriate internal controls over transactions, assets and records. We also regularly test internal controls. These controls and testing are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements.

Management, including the President and Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), is responsible for maintaining disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICOFR). DC&P is designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. ICOFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with US GAAP.

An evaluation of the effectiveness of the design and operation of OPG's DC&P and ICOFR was conducted as of December 31, 2016. Accordingly, we, as OPG's President and CEO and CFO, will certify OPG's annual disclosure documents filed with the Ontario Securities Commission, which includes attesting to the design and effectiveness of OPG's DC&P and ICOFR.

The Board of Directors, based on recommendations from its Audit and Risk Committee, reviews and approves the consolidated financial statements and the MD&A, and oversees management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major areas of financial risk, and assessment of significant and related party transactions.

The consolidated financial statements have been audited by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The Independent Auditors' Report outlines the auditors' responsibilities and the scope of their examination and their opinion on OPG's consolidated financial statements. The independent external auditors, as confirmed by the Audit and Risk Committee, had direct and full access to the Audit and Risk Committee, with and without the presence of management, to discuss their audit and their findings therefrom, as to the integrity of OPG's financial reporting and the effectiveness of the system of internal controls.

Jeff Lyash
President and Chief Executive Officer

Ken Hartwick
Chief Financial Officer and Senior Vice President – Finance

March 10, 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Ontario Power Generation Inc.

We have audited the accompanying consolidated financial statements of Ontario Power Generation Inc., which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of income, comprehensive income, cash flows, and changes in shareholder's equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with United States generally accepted accounting principles, and for such internal controls 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ontario Power Generation Inc. as at December 31, 2016 and 2015 and the results of its operations and its cash flows for the years then ended in accordance with United States generally accepted accounting principles.

Toronto, Canada

March 10, 2017

Ernst & Young LLP

Chartered Professional Accountants,
Licensed Public Accountants

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31 *(millions of dollars except where noted)*	**2016**	**2015**
Revenue *(Note 16)*	**5,653**	5,476
Fuel expense *(Note 16)*	**727**	687
Gross margin	**4,926**	4,789
Expenses *(Note 16)*		
Operations, maintenance and administration	**2,747**	2,783
Depreciation and amortization *(Note 4)*	**1,257**	1,100
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 8)*	**929**	895
Earnings on nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**(746)**	(704)
Income from investments subject to significant influence	**(37)**	(39)
Property taxes	**46**	45
Restructuring	**6**	6
	4,202	4,086
Income before other (gains) losses, interest and income taxes	**724**	703
Other (gains) losses *(Note 16)*	**(17)**	14
Income before interest and income taxes	**741**	689
Net interest expense *(Note 7)*	**120**	180
Income before income taxes	**621**	509
Income tax expense *(Note 9)*	**168**	92
Net income	**453**	417
Net income attributable to the Shareholder	**436**	402
Net income attributable to non-controlling interest	**17**	15
Basic and diluted net income per common share *(dollars)*	**1.70**	1.57
Common shares outstanding *(millions)*	**256.3**	256.3

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31 *(millions of dollars)*	**2016**	**2015**
Net income	**453**	417
Other comprehensive income, net of income taxes *(Note 10)*		
Actuarial (loss) gain and past service costs on re-measurement of liabilities for pension and other post-employment benefits [1]	**(6)**	148
Reclassification to income of amounts related to pension and other post-employment benefits [2]	**12**	18
Net loss on derivatives designated as cash flow hedges [3]	**-**	(5)
Reclassification to income of losses on derivatives designated as cash flow hedges [4]	**19**	16
Unrealized loss on available-for-sale securities [5]	**(1)**	-
Other comprehensive income	**24**	177
Comprehensive income	**477**	594
Comprehensive income attributable to the Shareholder	**460**	579
Comprehensive income attributable to non-controlling interest	**17**	15

[1] Net of income tax recovery of $2 million and income tax expense of $49 million for 2016 and 2015, respectively.
[2] Net of income tax expenses of $4 million and $7 million for 2016 and 2015, respectively.
[3] Net of income tax recoveries of nil and $2 million for 2016 and 2015, respectively.
[4] Net of income tax expenses of $2 million for each of 2016 and 2015.
[5] Net of income tax expenses of nil for each of 2016 and 2015.

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 *(millions of dollars)*	**2016**	**2015**
Operating activities		
Net income	**453**	417
Adjust for non-cash items:		
Depreciation and amortization *(Note 4)*	**1,257**	1,100
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 8)*	**929**	895
Earnings on nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**(746)**	(704)
Pension and other post-employment benefit costs *(Note 11)*	**464**	483
Deferred income taxes *(Note 9)*	**(36)**	33
Mark-to-market on derivative instruments	**3**	(218)
Provision for used nuclear fuel and low and intermediate level nuclear waste	**118**	117
Regulatory assets and liabilities	**(170)**	170
Provision for materials and supplies	**42**	28
Other	**(25)**	9
	2,289	2,330
Contributions to nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**(150)**	(143)
Expenditures on fixed asset removal and nuclear waste management *(Note 8)*	**(275)**	(218)
Reimbursement of eligible expenditures on nuclear fixed asset removal and nuclear waste management *(Note 8)*	**70**	76
Contributions to pension funds and expenditures on other post-employment benefits and supplementary pension plans *(Note 11)*	**(363)**	(480)
Expenditures on restructuring	**(6)**	(16)
Distributions received from investments subject to significant influence	**52**	51
Net changes to other long-term assets and liabilities	**20**	(6)
Net changes to non-cash working capital balances *(Note 17)*	**68**	(129)
Cash flow provided by operating activities	**1,705**	1,465
Investing activities		
Purchase of available-for-sale securities	**(213)**	-
Investment in deposit note *(Note 6)*	**-**	(180)
Proceeds from deposit note *(Note 6)*	**110**	-
Net proceeds from sale of property, plant and equipment	**-**	3
Investment in property, plant and equipment and intangible assets *(Note 16)*	**(1,704)**	(1,376)
Cash flow used in investing activities	**(1,807)**	(1,553)
Financing activities		
Issuance of long-term debt *(Note 6)*	**334**	245
Repayment of long-term debt *(Note 6)*	**(273)**	(503)
Settlement of cash flow hedges	**-**	(9)
Distribution to non-controlling interest	**(14)**	(16)
Issuance of short-term notes *(Note 7)*	**3,108**	2,628
Repayment of short-term notes *(Note 7)*	**(3,331)**	(2,403)
Cash flow used in financing activities	**(176)**	(58)
Net decrease in cash and cash equivalents	**(278)**	(146)
Cash and cash equivalents, beginning of year	**464**	610
Cash and cash equivalents, end of year	**186**	464

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	2016	2015
Assets		
Current assets		
Cash and cash equivalents	**186**	464
Available-for-sale securities *(Note 18)*	**212**	-
Receivables from related parties *(Note 18)*	**429**	545
Nuclear fixed asset removal and nuclear waste management funds *(Notes 8 and 16)*	**24**	15
Fuel inventory *(Note 16)*	**310**	344
Materials and supplies *(Note 16)*	**100**	96
Regulatory assets *(Note 5)*	**-**	628
Prepaid expenses	**200**	92
Other current assets *(Notes 4 and 6)*	**286**	206
	1,747	2,390
Property, plant and equipment *(Notes 4, 15, and 16)*	**29,315**	29,469
Less: accumulated depreciation	**9,317**	8,874
	19,998	20,595
Intangible assets *(Notes 4 and 16)*	**503**	476
Less: accumulated amortization	**404**	378
	99	98
Other assets		
Nuclear fixed asset removal and nuclear waste management funds *(Notes 8 and 16)*	**15,960**	15,121
Long-term materials and supplies *(Note 16)*	**345**	337
Regulatory assets *(Note 5)*	**5,855**	5,240
Investments subject to significant influence *(Note 19)*	**321**	336
Other long-term assets *(Note 6)*	**47**	133
	22,528	21,167
	44,372	44,250

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	2016	2015
Liabilities		
Current liabilities		
Accounts payable and accrued charges *(Note 18)*	**1,164**	1,199
Short-term debt *(Note 7)*	**2**	225
Deferred revenue due within one year	**12**	12
Long-term debt due within one year *(Note 6)*	**1,103**	273
Income taxes payable	**123**	66
Regulatory liabilities *(Note 5)*	**-**	26
	2,404	1,801
Long-term debt *(Notes 6 and 18)*	**4,417**	5,186
Other liabilities		
Fixed asset removal and nuclear waste management liabilities *(Notes 8 and 16)*	**19,484**	20,169
Pension liabilities *(Note 11)*	**3,012**	2,597
Other post-employment benefit liabilities *(Note 11)*	**2,897**	3,085
Long-term accounts payable and accrued charges	**213**	207
Deferred revenue	**298**	246
Deferred income taxes *(Note 9)*	**829**	880
Regulatory liabilities *(Note 5)*	**310**	34
	27,043	27,218
Equity		
Common shares *(Note 14)* [1]	**5,126**	5,126
Retained earnings	**5,534**	5,098
Accumulated other comprehensive loss *(Note 10)*	**(295)**	(319)
Equity attributable to the Shareholder	**10,365**	9,905
Equity attributable to non-controlling interest *(Note 21)*	**143**	140
Total equity	**10,508**	10,045
	44,372	44,250

[1] 256,300,010 common shares outstanding at a stated value of $5,126 million as at December 31, 2016 and 2015.

Commitments and Contingencies *(Notes 6, 9, 11, and 15)*

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

Bernard Lord
Board Chair

M. George Lewis
Director

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

Years Ended December 31 *(millions of dollars)*	**2016**	**2015**
Common shares *(Note 14)*	**5,126**	5,126
Retained earnings		
Balance at beginning of year	**5,098**	4,696
Net income attributable to the Shareholder	**436**	402
Balance, end of year	**5,534**	5,098
Accumulated other comprehensive loss, net of income taxes *(Note 10)*		
Balance at beginning of year	**(319)**	(496)
Other comprehensive income	**24**	177
Balance, end of year	**(295)**	(319)
Equity attributable to the Shareholder	**10,365**	9,905
Equity attributable to non-controlling interest *(Note 21)*		
Balance at beginning of year	**140**	141
Distribution to non-controlling interest	**(14)**	(16)
Net income attributable to non-controlling interest	**17**	15
Balance, end of year	**143**	140
Total equity	**10,508**	10,045

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

1. DESCRIPTION OF BUSINESS

Ontario Power Generation Inc. (OPG or the Company) was incorporated on December 1, 1998 pursuant to the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the Province or the Shareholder). OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared and presented in accordance with United States generally accepted accounting principles (US GAAP) and the rules and regulations of the United States (US) Securities and Exchange Commission for annual financial statements.

As required by *Ontario Regulation 395/11,* as amended, under the *Financial Administration Act* (Ontario), OPG adopted US GAAP for the presentation of its consolidated financial statements, effective January 1, 2012. Since January 1, 2012, OPG also has received exemptive relief from the Ontario Securities Commission (OSC) from the requirements of section 3.2 of National Instrument 52-107 *Acceptable Accounting Policies and Auditing Standards*. The exemption allows OPG to file consolidated financial statements based on US GAAP, rather than International Financial Reporting Standards (IFRS), without becoming a US Securities and Exchange Commission registrant, or issuing public debt.

The current OSC exemption, received in 2014, will terminate on the earliest of the following:

- January 1, 2019
- The financial year that commences after OPG ceases to have activities subject to rate regulation
- The effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within IFRS specific to entities with rate-regulated activities.

All dollar amounts are presented in Canadian dollars, except in tabular format where noted. Certain of the 2015 comparative amounts have been reclassified from financial statements previously presented to conform to the 2016 consolidated financial statement presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements of the Company include the accounts of OPG and its majority-owned subsidiaries, and variable interest entities (VIEs) where OPG is the primary beneficiary. All significant intercompany balances and intercompany transactions have been eliminated on consolidation.

Where OPG does not control an investment, but has significant influence over operating and financing policies of the investee, the investment is accounted for under the equity method. OPG co-owns the Portlands Energy Centre (PEC) gas-fired combined cycle generating station (GS) with TransCanada Energy Ltd. and co-owns the Brighton Beach gas-fired combined cycle GS (Brighton Beach) with ATCO Power Canada Ltd. OPG accounts for its 50 percent ownership interest in each of these jointly controlled entities using the equity method.

Variable Interest Entities

OPG performs ongoing analysis to assess whether it holds any VIEs. VIEs of which OPG is deemed to be the primary beneficiary are consolidated. The primary beneficiary of a VIE has both the power to direct the activities of the entity that most significantly impact its economic performance and the obligation to absorb losses of the entity that could potentially be significant to the Company. In circumstances where OPG is not deemed to be the primary beneficiary, the VIE is not recorded in OPG's consolidated financial statements.

In 2002, OPG and other Canadian nuclear waste producers established a separately incorporated Nuclear Waste Management Organization (NWMO) in accordance with the *Nuclear Fuel Waste Act* (Canada) (NFWA). The primary long-term mandate of the NWMO is to implement an approach to address the long-term management of used nuclear fuel in Canada. In addition to the above mandate, the NWMO currently provides project management services for OPG's proposed Deep Geologic Repository (DGR) for the long-term management of low and intermediate level waste (L&ILW) and certain other nuclear life cycle liability management services. OPG has the majority of voting rights at the NWMO Board of Directors' and members' level. The NFWA requires the nuclear fuel waste owners to establish and make payments into trust funds for the purpose of funding the implementation of the long-term nuclear used fuel management plan in accordance with the NFWA. OPG provides over 90 percent of NWMO's funding, primarily towards the design and implementation of Canada's Adaptive Phased Management plan for the long-term management of nuclear used fuel. As a result, OPG is expected to absorb a majority of the NWMO's expected losses through future funding in the event of any shortfall. Therefore, OPG holds a variable interest in the NWMO, of which it is the primary beneficiary. Accordingly, the applicable amounts in the accounts of the NWMO, after elimination of all significant intercompany transactions, are consolidated.

As at December 31, 2016, PSS Generating Station Limited Partnership (PSS or the Partnership) also was classified as a VIE, as it did not meet the criteria of having sufficient equity at risk to finance its activities. Since OPG is the primary beneficiary of PSS, it continues to consolidate the Partnership.

Use of Management Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses for the reporting periods. Management evaluates these estimates on an ongoing basis based upon historical experience, current conditions, and assumptions believed to be reasonable at the time the assumption is made, with any adjustments recognized in the period incurred. Significant estimates are included in the determination of pension and other post-employment benefit (OPEB) balances, asset retirement obligations (AROs) and associated asset retirement costs capitalized as part of property, plant and equipment (PP&E), income taxes (including deferred income taxes), contingencies, regulatory assets and liabilities, valuation of derivative instruments and investments in segregated funds, depreciation and amortization expenses, and inventories. Actual results may differ significantly from these estimates.

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash on deposit and money market securities with a maturity of less than 90 days on the date of purchase. All other money market securities with a maturity on the date of purchase that is greater than 90 days, but less than one year, are recorded as short-term investments and classified as current assets. These securities are valued at the lower of cost and market.

Inventories

Inventories, consisting of fuel and materials and supplies, are measured at the lower of cost and net realizable value. Cost is determined as weighted average cost for fuel inventory and average cost for materials and supplies.

Property, Plant and Equipment, Intangible Assets and Depreciation and Amortization

PP&E and intangible assets are recorded at cost. Interest costs incurred during construction and development are capitalized as part of the cost of the asset based on the interest rates on OPG's long-term debt. Expenditures for replacements of major components are capitalized.

Depreciation and amortization rates for the various classes of assets are based on their estimated service lives. Asset removal costs that have not been specifically provided for in current or previous periods are charged to operations, maintenance and administration (OM&A) expenses when incurred. Repairs and maintenance costs also are expensed when incurred.

PP&E are depreciated on a straight-line basis, except for computers, which are depreciated on a declining balance basis. Intangible assets, which consist of major application software, are amortized on a straight-line basis. As at December 31, 2016, the amortization periods of PP&E and intangible assets are as follows:

Nuclear generating stations and major components	15 to 74 years [1]
Thermal generating stations and major components	5 to 50 years
Hydroelectric generating stations and major components	10 to 100 years
Administration and service facilities	10 to 50 years
Computers – declining balance	12% to 40% per year
Major application software	5 years
Service equipment	5 to 10 years

[1] As at December 31, 2016, the end of station life for depreciation purposes for the Darlington, Pickering, Bruce A and Bruce B nuclear generating stations ranged between 2020 and 2061. Major components are depreciated over the lesser of the station life and the life of the components.

Asset Impairment

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The review is based on the presence of impairment indicators such as the future economic benefit of the assets and external market conditions. The net carrying amount of assets is considered impaired if it exceeds the sum of the estimated undiscounted cash flows expected to result from the asset's use and eventual disposition. In cases where the sum of the undiscounted expected future cash flows is less than the carrying amount, an impairment loss is recognized. This loss equals the amount by which the carrying amount exceeds the fair value. Fair value is determined using expected discounted cash flows when quoted market prices are not available. The impairment is recognized in income in the period in which it is identified.

The carrying value of investments accounted for under the equity method are reviewed annually for the presence of any indicators of impairment. If an impairment exists and is determined to be other-than-temporary, an impairment charge is recognized. This charge equals the amount by which the carrying value exceeds the investment's fair value.

Rate Regulated Accounting

The *Ontario Energy Board Act, 1998* and *Ontario Regulation 53/05* provide that OPG receives regulated prices for electricity generated from the Sir Adam Beck 1, 2 and Pump hydroelectric generating stations, the DeCew Falls 1 and 2 hydroelectric generating stations, the R.H. Saunders Hydroelectric GS, the 48 hydroelectric generating stations prescribed for rate regulation effective in 2014, and the Pickering and Darlington nuclear generating stations (collectively, prescribed facilities or regulated facilities). OPG's regulated prices for these facilities are determined by the Ontario Energy Board (OEB).

The OEB is a self-funding Crown corporation. Its mandate and authority come from the *Ontario Energy Board Act, 1998,* the *Electricity Act, 1998*, and a number of other provincial statutes. The OEB is an independent, quasi-judicial tribunal that reports to the Legislature of the Province through the Ontario Ministry of Energy. It regulates market

participants in Ontario's natural gas and electricity industries. The OEB carries out its regulatory functions through public hearings and other more informal processes such as consultations.

US GAAP recognizes that rate regulation can create economic benefits and obligations that are required by the regulator to be obtained from, or settled with, the customers. When the Company assesses that there is sufficient assurance that incurred costs in respect of the regulated facilities will be recovered in the future, those costs are deferred and reported as a regulatory asset. When the Company is required to refund amounts to customers in the future in respect of the regulated facilities, including amounts related to costs that have not been incurred but for which the OEB has provided recovery through regulated prices, the Company records a regulatory liability.

Certain of the regulatory assets and liabilities recognized by the Company relate to variance and deferral accounts authorized by the OEB, including those authorized pursuant to *Ontario Regulation 53/05*. Variance and deferral accounts typically capture differences between actual costs and revenues and the corresponding forecast amounts approved by the OEB in setting regulated prices, or record the impact of items not reflected in the approved regulated prices. The measurement of these regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of *Ontario Regulation 53/05* and the OEB's decisions. The estimates and assumptions made in the interpretation of the regulation and the OEB's decisions are reviewed as part of the OEB's regulatory process.

Regulatory assets and liabilities for variance and deferral account balances approved by the OEB for inclusion in regulated prices are amortized based on approved recovery or repayment periods. Disallowed balances are charged to operations in the period that the corresponding OEB decision is issued.

Regulatory assets and liabilities for variance and deferral account balances approved by the OEB are classified as current if they are expected to be recovered from, or refunded to, customers within 12 months of the end of the reporting period, based on recovery or repayment periods authorized by the OEB. All other regulatory asset and liability balances are classified as non-current on the consolidated balance sheets.

In addition to regulatory assets and liabilities for variance and deferral accounts, OPG recognizes regulatory assets and liabilities for unamortized amounts recorded in accumulated other comprehensive income (AOCI) in respect of pension and OPEB obligations, and deferred income taxes, in order to reflect the expected recovery or repayment of these amounts through future regulated prices charged to customers. There are measurement uncertainties related to these balances due to the assumptions made in the determination of pension and OPEB obligations and deferred income taxes that are attributed to rate regulated business segments.

The regulatory asset for unamortized pension and OPEB amounts recorded in AOCI has reflected the OEB's use, since April 1, 2008, of the accrual basis of accounting for including pension and OPEB amounts in approved regulated prices for OPG. This is also the manner in which these costs are recognized in OPG's consolidated financial statements. Therefore, unamortized amounts in respect of OPG's pension and OPEB plans recognized in AOCI generally would not be reflected in regulated prices until they have been reclassified from AOCI and recognized as amortization components of the benefit costs for these plans. The regulatory asset is reversed as underlying unamortized balances are amortized as components of the benefit cost.

In setting OPG's regulated prices effective November 1, 2014, the OEB limited amounts for pension and OPEB costs allowed in the approved revenue requirements to the regulated business portion of the Company's cash expenditures on its pension and OPEB plans. It is the Company's position that this decision by the OEB does not constitute a change in the basis of rate recovery for OPG's of pension and OPEB costs. This position is based on the OEB's establishment of the Pension & OPEB Cash Versus Accrual Differential Deferral Account pursuant to its November 2014 decision, and the expectation expressed by the OEB in that decision that a transition from the accrual basis of recovery for OPG, if required, would be addressed in a future OPG rate proceeding, informed by the outcome of an OEB generic proceeding related to the regulatory treatment and recovery of pension and OPEB costs. Effective November 1, 2014, the Pension & OPEB Cash Versus Accrual Differential Deferral Account records the difference

between OPG's actual pension and OPEB costs for the regulated business determined using the accrual method applied in OPG's audited consolidated financial statements and OPG's corresponding actual cash expenditures for these plans. The OEB's November 2014 decision indicated that the future recovery, if any, of amounts recorded in the deferral account would be subject to the outcome of an OEB generic proceeding on the regulatory treatment and recovery of pension and OPEB costs. In May 2015, the OEB began a consultation process to develop standard principles to guide its future review of pension and OPEB costs of rate regulated utilities in the electricity and natural gas sectors, including establishing appropriate regulatory mechanisms for cost recovery. The consultation is continuing. OPG is participating in the consultation and has advanced its position in support of the appropriateness of using the accrual basis for cost recovery purposes.

In consideration of the above factors, the Company continues to believe that there is sufficient likelihood that unamortized pension and OPEB amounts that have not yet been reclassified from AOCI will be included in future regulated prices or in an OEB-authorized deferral or variance account for future recovery, as they are recognized in benefit costs. Therefore, the Company continues to recognize a regulatory asset for these unamortized amounts and also has recognized a regulatory asset for the balance of the Pension & OPEB Cash Versus Accrual Differential Deferral Account discussed in Note 5.

If, as part of the above noted consultation process or in a future proceeding, the OEB decides that the recovery basis for OPG's pension and OPEB amounts should be changed from the accrual basis, OPG may be required to adjust the regulatory assets for unamortized pension and OPEB amounts recorded in AOCI and for the Pension & OPEB Cash Versus Accrual Differential Deferral Account.

See Notes 5, 8, 9, and 11 for additional disclosures related to the OEB's decisions, regulatory assets and liabilities, and rate regulated accounting.

Revenue Recognition

All of OPG's electricity generation is offered into the real-time energy spot market administered by the Independent Electricity System Operator (IESO). Revenue is recognized as electricity is generated and metered to the IESO.

Revenue Recognition – Regulated Generation

Energy revenue generated from OPG's regulated facilities is based on regulated prices determined by the OEB that include a base regulated price and, as applicable, rate riders for the recovery or repayment of approved variance and deferral account balances.

The base regulated prices in effect during 2016 and 2015 were established by the OEB's November 2014 decision and December 2014 order, effective November 1, 2014, using a forecast cost-of-service rate-setting methodology based on the OEB-approved revenue requirements, taking into account the OEB-approved forecasts of production and operating costs for the regulated facilities for 2014 and 2015 and a return on rate base. Rate base is a regulatory construct that, for OPG, represents the average net level of investment in regulated fixed and intangible assets in-service and an allowance for working capital. The revenues from the regulated hydroelectric facilities are also subject to the OEB-approved hydroelectric incentive mechanism. The mechanism provides a pricing incentive to OPG to shift hydroelectric production from lower market price periods to higher market price periods, reducing the overall costs to customers.

The rate riders in effect during 2016 were established by the OEB in its October 2015 order on OPG's application to recover balances in most of the Company's authorized variance and deferral accounts as at December 31, 2014. The rate riders in effect during 2015 included those established by the OEB in 2014 in conjunction with the base regulated prices in effect since November 1, 2014 and those authorized by the OEB's October 2015 order. The OEB-authorized variance and deferral accounts are discussed in Note 5.

In May 2016, OPG filed an application with the OEB for new base regulated prices and rate riders for production from its regulated hydroelectric and nuclear facilities for the 2017-2021 period, with a proposed effective date of January 1, 2017. The application was made using an incentive regulation ratemaking methodology for the hydroelectric operations and a custom incentive regulation framework for the nuclear operations. Rate-setting under incentive regulation is typically more formulaic and involves greater de-coupling of a regulated entity's allowed revenues or prices from its costs than under a cost-of-service rate-setting methodology. Consistent with the requirements of *Ontario Regulation 53/05*, the application incorporates a rate smoothing proposal, which would result in OPG deferring a portion of the approved nuclear revenue requirements in a deferral account for future collection.

In December 2016, the OEB issued an order granting OPG's request to declare the existing base regulated prices interim, effective January 1, 2017. This preserves the OEB's ability to make the new regulated prices effective as early as January 1, 2017, which would allow OPG to recover the difference between the approved new regulated prices and the existing prices for the period between the effective date of the new prices and their implementation date based on the OEB's order. The final decision on the application will be made by the OEB following a public proceeding, which commenced in 2016 and is continuing. See Note 5 for further information on OPG's May 2016 application.

Revenue Recognition – Non-regulated Generation and Other Revenue

The electricity generation from OPG's non-regulated assets receives the Ontario electricity spot market price, except where an energy supply agreement (ESA) with the IESO or another contractual agreement is in place. As at December 31, 2016, most of OPG's operating non-regulated assets are subject to an ESA. Revenue from the generating stations subject to an ESA is recognized in accordance with the terms of the agreement. Effective January 1, 2015, the Ontario Power Authority (OPA) merged with the IESO. The new entity continued under the name Independent Electricity System Operator. As such, the IESO is substituted as the counterparty of the ESAs or other agreements that were previously executed with the OPA.

OPG also sells into, and purchases from, interconnected markets of other provinces and the northeast and midwest regions of the US. All contracts that are not designated as hedges are recorded on the consolidated balance sheets at market value, with gains or losses recorded in the consolidated statements of income. Gains and losses on energy trading contracts (including those to be physically settled) are recorded on a net basis in the consolidated statements of income. Accordingly, power purchases of $19 million were netted against revenue in 2016 (2015 – $75 million).

OPG derives non-energy revenue under the terms of a lease arrangement and associated agreements with Bruce Power L.P. (Bruce Power) related to the Bruce nuclear generating stations. This includes lease revenue and revenue from heavy water sales, detritiation services and waste management services. OPG's net revenues from the lease of these stations and related agreements, including a portion of heavy water sales, are credited to customers and therefore have reduced regulated prices for the generation from the nuclear facilities owned and operated by OPG. The minimum lease payments are recognized in revenue on a straight-line basis over the term of the lease.

In addition, non-energy revenue includes isotope sales, real estate rentals and other service revenues. Revenues from these activities are recognized as services are provided, or as products are delivered.

Fixed Asset Removal and Nuclear Waste Management Liabilities

OPG recognizes AROs for fixed asset removal and nuclear waste management, discounted for the time value of money. OPG estimates both the amount and timing of future cash expenditures based on the plans for fixed asset removal and nuclear waste management. The liabilities are initially recorded at their estimated fair value, which is based on a discounted value of the expected costs to be paid.

On an ongoing basis, the liabilities for nuclear fixed asset removal and nuclear waste management (Nuclear Liabilities) are increased by the present value of the incremental (variable) cost portion for the nuclear waste generated each year, with the corresponding amounts charged to operating expenses. Variable expenses relating to

L&ILW are charged to OM&A expenses. Variable expenses relating to the management and storage of nuclear used fuel are charged to fuel expense. The liabilities may also be adjusted due to changes in the estimated amount or timing of the underlying future cash flows, with resulting changes in the related asset retirement costs capitalized as part of the carrying amount of the related fixed assets in service. A comprehensive reassessment of all underlying assumptions and baseline cost estimates for the Nuclear Liabilities is performed periodically. Changes in the Nuclear Liabilities resulting from changes in assumptions or estimates that impact the amount or timing of the originally estimated undiscounted future cash flows are recorded as an adjustment to the liabilities. Upward revisions in the Nuclear Liabilities represent the present value of increases in future undiscounted cash flows determined using a current credit-adjusted risk-free rate. Downward revisions in the Nuclear Liabilities represent the present value of decreases in future undiscounted cash flows determined using the weighted average discount rate reflected in the existing liability. Upon settlement of the liabilities, a gain or loss would be recorded.

Accretion arises because the fixed asset removal and nuclear waste management liabilities are reported on a net present value basis. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time.

The asset retirement cost is capitalized by increasing the carrying value of the related fixed assets in service. The capitalized cost is depreciated over the remaining service life of the related fixed assets and is included in depreciation and amortization expenses.

OPG has no legal obligation associated with the decommissioning of its hydroelectric generating facilities and the costs cannot be reasonably estimated because of the long service life of these assets. With either maintenance efforts or rebuilding, the water control structures are assumed to be used for the foreseeable future. Accordingly, OPG has not recognized a liability for the decommissioning of its hydroelectric generating facilities.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Pursuant to the Ontario Nuclear Funds Agreement (ONFA) between OPG and the Province, OPG has established and sets aside funds in a Used Fuel Segregated Fund and a Decommissioning Segregated Fund (together the Nuclear Segregated Funds). The Used Fuel Segregated Fund is intended to fund expenditures associated with the long-term management of radioactive used nuclear fuel bundles and certain costs of used fuel storage incurred after the nuclear stations are shut down, while the Decommissioning Segregated Fund was established to fund the costs of nuclear fixed asset removal and long-term L&ILW management, and certain costs of used fuel storage incurred after the nuclear stations are shut down. OPG's funding obligations and resulting contributions to the Nuclear Segregated Funds are determined based on periodically updated reference plans approved by the Province under the ONFA. OPG maintains the Nuclear Segregated Funds in third-party custodial and trust accounts that are segregated from the rest of OPG's assets.

OPG's investments in the Nuclear Segregated Funds and the corresponding amounts payable to/receivable from the Province are classified as held-for-trading. The Nuclear Segregated Funds are measured at fair value based on the bid prices of the underlying equity and fixed income securities, and, in the case of the alternative investment portfolio, using appropriate valuation techniques as outlined in Note 13, with realized and unrealized gains and losses recognized in OPG's consolidated statements of income.

Derivatives

All derivatives, including embedded derivatives that must be separately accounted for, generally are classified as held-for-trading and recorded at fair value in the consolidated balance sheets. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading.

Derivatives qualify for hedge accounting if they meet stringent documentation requirements, and if the derivative instrument that is designated as a hedge is expected to effectively hedge the identified risk throughout the life of the hedged item. At the inception of a hedging relationship, OPG documents the relationship between the hedging

instrument and the hedged item, its risk management objective, and its strategy for undertaking the hedge. A documented assessment is made, both at the inception of a hedge and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

All derivative contracts not designated as hedges are recorded on the consolidated balance sheets as derivative assets or liabilities at fair value, with changes in the fair value recorded in the revenue of the Services, Trading, and Other Non-Generation segment. Refer to Note 12 for a discussion of OPG's risk exposures and the derivative instruments used to manage these risks.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly arm's-length transaction between market participants at the measurement date. Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. OPG uses a fair value hierarchy, grouping assets and liabilities into three levels based on the relative objectivity of the inputs used to measure fair value, with Level 1 representing the most objective. Refer to Note 13 for a discussion of fair value measurements and the fair value hierarchy.

Available-for-Sale Securities

Available-for-sale (AFS) securities are measured at fair value, with unrealized gains and losses due to changes in fair value recognized in other comprehensive income (OCI). Gains and losses are realized and included in net income when the securities are sold or awarded. Related transaction costs are expensed as incurred, and dividend income is included in net income in the period dividends are declared. Equity securities are initially measured at the transaction price.

Research and Development

Research and development costs are expensed as incurred. Research and development costs incurred to discharge long-term obligations for which specific provisions have already been made, such as the Nuclear Liabilities, are charged to the related liability.

Leases

Leases are evaluated and classified as either operating or capital leases for financial reporting purposes. Capital leases, which transfer substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Capital leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits incidental to ownership of the asset are classified as operating leases. Operating lease payments, other than contingent rentals, are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term. Where the amount of rent expense recognized is different from the actual operating lease payment, other than contingent rentals, the difference is deferred and included as assets or liabilities on the consolidated balance sheets.

Pension and Other Post-Employment Benefits

OPG's post-employment benefit programs consist of a contributory defined benefit registered pension plan, a defined benefit supplementary pension plan, and other post-retirement benefits (OPRB) including group life insurance and health care benefits, and long-term disability (LTD) benefits. Post-employment benefit programs are also provided by

the NWMO, which is consolidated into OPG's financial results. Unless otherwise noted, information on the Company's post-employment benefit programs is presented on a consolidated basis.

OPG accrues its obligations under pension and OPEB plans in accordance with US GAAP. The obligations for pension and OPRB are determined using the projected benefit method pro-rated on service. The obligation for LTD benefits is determined using the projected benefit method on a terminal basis. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, demographic assumptions, experience gains or losses, salary levels, inflation, and health care cost escalation assumptions. Pension and OPEB costs and obligations are determined annually by independent actuaries using management's best estimate assumptions.

Assumptions are significant inputs to actuarial models that measure pension and OPEB obligations and related effects on operations. Discount rate, inflation rate, and changes in salary levels are three critical assumptions in the determination of benefit costs and obligations. In addition, the expected long-term rate of return on plan assets is a critical assumption in the determination of registered pension plan cost and the health care cost trend rate is a critical assumption in the determination of OPEB cost and obligations. These assumptions, as well as other assumptions involving demographic factors such as retirement age, mortality, and employee turnover, are evaluated periodically by management in consultation with independent actuaries. During the evaluation process, the assumptions are updated to reflect past experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors giving rise to actuarial gains and losses. In accordance with US GAAP, for pension and OPRB, the impact of these updates and differences on the respective benefit obligations is accumulated and amortized over future periods. For LTD benefits, the impact of these updates and differences is immediately recognized as OPEB costs in the period incurred.

The discount rates, which are representative of AA corporate bond yields, are used to calculate the present value of the expected future cash flows on the measurement date in order to determine the projected benefit obligations for the Company's employee benefit plans. A lower discount rate increases the benefit obligations and increases benefit costs. The expected rate of return on plan assets is based on the pension fund's asset allocation and the expected return considering long-term risks and returns associated with each asset class within the plan portfolio. A lower expected rate of return on plan assets increases pension cost.

Pension fund assets include equity securities, corporate and government debt securities, pooled funds, real estate, infrastructure, and other investments. These assets are managed by professional investment managers. The pension fund does not invest in equity or debt securities issued by OPG. Pension fund assets are valued using market-related values for purposes of determining the amortization of actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six percent assumed real return over a five-year period.

Pension and OPEB costs include current service costs, interest costs on the obligations, the expected return on pension plan assets, adjustments for plan amendments, and adjustments for actuarial gains or losses, which result from changes in assumptions and experience gains and losses. Past service costs or credits arising from pension and OPRB plan amendments are amortized on a straight-line basis over the expected average remaining service life to full eligibility of the employees covered by the corresponding plan. Past service costs or credits arising from amendments to LTD benefits are immediately recognized as OPEB costs in the period incurred. Due to the long-term nature of pension and OPRB liabilities, the excess of the net cumulative unamortized gain or loss, over 10 percent of the greater of the benefit obligation and the market-related value of the plan assets (the corridor), is amortized over the expected average remaining service life of the employees, which represents the period during which the associated economic benefits are expected to be realized by the Company. Actuarial gains or losses for LTD benefits are immediately recognized as OPEB costs in the period incurred.

OPG recognizes the funded status of its defined benefit plans on the consolidated balance sheets. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation, on a plan-by-plan basis.

Actuarial gains or losses and past service costs or credits arising during the year that are not recognized immediately as components of benefit costs are recognized as increases or decreases in OCI, net of income taxes. These unamortized amounts in AOCI are subsequently reclassified and recognized as components of pension and OPRB costs as described above.

OPG records an offsetting regulatory asset or liability for the portion of the adjustments to AOCI that is attributable to the regulated operations in order to reflect the expected recovery or refund of these amounts through future regulated prices charged to customers. For the recoverable or refundable portion attributable to regulated operations, OPG records a corresponding change in this regulatory asset or liability for the amount of the increases or decreases in OCI and for the amounts reclassified from AOCI into benefit costs during the period.

When the recognition of the transfer of employees and employee-related benefits gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's liability.

Income Taxes and Investment Tax Credits

OPG is exempt from income tax under the *Income Tax Act* (Canada). However, under the *Electricity Act, 1998*, OPG is required to make payments in lieu of corporate income taxes to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario), as modified by the *Electricity Act, 1998* and related regulations. This results in OPG paying taxes similar to those imposed under the federal and Ontario tax acts.

OPG's operations are complex and the computation of the provision for income taxes involves interpretation of the various tax statutes and regulations. OPG has taken certain filing positions in calculating the amount of its income tax provision. These filing positions may be challenged on audit by the Ontario Ministry of Finance and some of them possibly disallowed, resulting in a potential significant change in OPG's tax provision upon reassessment. A change in the tax provision upon reassessment impacting regulated operations may be recoverable from or refundable to customers through the Income and Other Taxes Variance Account authorized by the OEB.

OPG follows the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities. Deferred amounts are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in tax rates on deferred income tax assets and liabilities is included in income in the period the change is enacted.

If management determines that it is more likely than not that some, or all, of a deferred income tax asset will not be realized, a valuation allowance is recorded to report the balance at the amount expected to be realized.

OPG recognizes deferred income taxes associated with its regulated operations and records an offsetting regulatory asset or liability for the deferred income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return and investment tax credits are recorded only when the more likely than not recognition threshold is satisfied. Tax benefits and investment tax credits recognized are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement.

Investment tax credits are recorded as a reduction to income tax expense. OPG classifies interest and penalties associated with unrecognized income tax benefits as income tax expense.

Changes in Accounting Policies and Estimates

Change in Nuclear Liabilities Estimate

In the fourth quarter of 2016, a comprehensive update of the estimate for OPG's obligations for nuclear waste management and nuclear decommissioning was finalized as part of the required process to update the ONFA reference plan. The update resulted in a decrease of approximately $1,570 million in the Nuclear Liabilities as at December 31, 2016, with a corresponding decrease to the asset retirement costs capitalized as part of the nuclear generating stations to which the liabilities relate. OPG undertakes to perform a comprehensive review of the underlying assumptions and baseline cost estimates for nuclear waste management and nuclear facilities decommissioning at least once every five years, in line with the required ONFA reference plan update process.

The decrease in the Nuclear Liabilities and associated capitalized asset retirement costs recognized as of December 31, 2016 did not impact OPG's income for 2016. The estimated impact of these changes on 2017 expenses, before the impact of regulatory variance and deferrals accounts, includes a decrease to depreciation expense of approximately $8 million, a decrease to accretion expense of approximately $78 million, and a decrease in used fuel and L&ILW variable expenses of approximately $20 million. Under the current OEB-approved cost recovery methodology for OPG's nuclear waste management and nuclear facilities decommissioning obligations, these 2017 impacts are expected to be largely offset by the Nuclear Liability Deferral Account and the Bruce Lease Net Revenues Variance Account, authorized by the OEB pursuant to *Ontario Regulation 53/05,* or corresponding changes to OPG's nuclear regulated prices.

In the fourth quarter of 2016, OPG recorded a reduction of $88 million to the Nuclear Segregated Funds assets on the consolidated balance sheet as a result of the updated ONFA reference plan, through a reduction in earnings from the Nuclear Segregated Funds and an associated increase in the amount due to the Province. This accounting adjustment represented the incremental overfunded position of the Used Fuel Segregated Fund and the Decommissioning Segregated Fund as at December 31, 2016 resulting from the reduction in the life cycle liabilities per the updated ONFA reference plan. This excess amount was recorded as due to the Province, because OPG does not have the right to withdraw the amount from the Nuclear Segregated Funds and because any excess funding in the funds accrues to the Province upon termination of the ONFA. Of the $88 million reduction in the Nuclear Segregated Funds assets, $43 million was offset by the impact of the Bruce Lease Net Revenues Variance Account. The Bruce Lease Net Revenues Variance Account is discussed in Note 5.

Pension and Other Post-Employment Benefits

A new actuarial valuation of the OPG registered pension plan was filed with the Financial Services Commission of Ontario (FSCO) in September 2016 with an effective date of January 1, 2016. The annual funding requirements in accordance with the new actuarial valuation are outlined in Note 15. OPG also conducted a comprehensive actuarial valuation for accounting purposes of its pension and OPEB plans in 2016, using demographic data as at January 1, 2016 consistent with the new funding valuation, and assumptions as at December 31, 2016. As part of the valuation, the plan's demographic and other assumptions were reviewed and revised, as necessary, by independent actuaries.

The weighted average discount rate used to determine the projected pension benefit obligations and the projected benefit obligations for OPEB as at December 31, 2016 was 3.9 percent. This represents a decrease, compared to the 4.1 percent discount rate that was used to determine the obligations as at December 31, 2015.

The deficit for the registered pension plan increased, for accounting purposes, from $2,315 million as at December 31, 2015 to $2,693 million as at December 31, 2016. This increase was largely due to a re-measurement of the liabilities at the end of 2016 reflecting lower discount rates, as well as current service and interest costs for the year, partially offset by the impact of the updated membership data as part of the 2016 actuarial valuation and employer contributions to the pension plan during the year.

The projected benefit obligations for OPEB decreased from $3,188 million at December 31, 2015 to $2,992 million as at December 31, 2016. This decrease was largely due to the updated, lower per capita health care claims costs assumption as part of the 2016 actuarial valuation, partially offset by the re-measurement of the liabilities at the end of 2016 reflecting a decrease in the discount rates.

As at December 31, 2016, the unamortized net actuarial loss and unamortized past service costs for the pension and OPEB plans totalled $3,668 million (2015 – $3,646 million). Details of the unamortized net actuarial loss and unamortized past service costs as at December 31, 2016 and 2015 are as follows:

(millions of dollars)	**Registered Pension Plans**		**Supplementary Pension Plans**		**Other Post-Employment Benefits**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Net actuarial gain not yet subject to amortization due to use of market-related values	**(570)**	(809)	**-**	-	**-**	-
Net actuarial loss not subject to amortization due to use of the corridor	**1,619**	1,544	**34**	30	**267**	293
Net actuarial loss subject to amortization	**2,238**	2,288	**72**	47	**3**	247
Unamortized net actuarial loss	**3,287**	3,023	**106**	77	**270**	540
Unamortized past service costs	**-**	-	**-**	-	**5**	6

A change in the following assumptions, holding all other assumptions constant, would increase (decrease) pension and OPEB costs for the year ended December 31, 2016 as follows:

(millions of dollars)	**Registered Pension Plans** [1]	**Supplementary Pension Plans** [1]	**Other Post-Employment Benefits** [1]
Expected long-term rate of return			
0.25% increase	(30)	n/a	n/a
0.25% decrease	30	n/a	n/a
Discount rate			
0.25% increase	(57)	(1)	(12)
0.25% decrease	60	1	16
Inflation			
0.25% increase	103	1	1
0.25% decrease	(97)	(1)	(1)
Salary increases			
0.25% increase	20	3	1
0.25% decrease	(20)	(2)	(1)
Health care cost trend rate			
1% increase	n/a	n/a	86
1% decrease	n/a	n/a	(52)

n/a – change in assumption not applicable.

[1] Excludes the impact of regulatory variance and deferral accounts.

OEB's Decision on OPG's December 2014 Motion

In January 2016, OEB issued its decision on OPG's December 2014 motion that requested the OEB to review and vary parts of its November 2014 decision, including the disallowed Niagara Tunnel project capital costs. In its January 2016 decision, the OEB reversed a portion of the November 2014 Niagara Tunnel capital cost disallowance and established a new variance account, the Niagara Tunnel Project Pre-December 2008 Disallowance Variance Account, to record the revenue requirement impact of the reversed disallowance effective November 1, 2014. The November 2014 disallowance resulted in a write off of capital costs of $77 million in the fourth quarter of 2014. To recognize the expected future recovery of the reversed portion of the disallowance, OPG recorded an increase to PP&E and a corresponding gain of $22 million in 2016 in accordance with Accounting Standards Codification (ASC) Topic 980, *Regulated Operations*. During 2016, OPG also recorded a regulatory asset of $3 million for the balance in the Niagara Tunnel Project Pre-December 2008 Disallowance Variance Account.

Recent Accounting Pronouncements Not Yet Adopted

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes nearly all existing revenue recognition guidance, including industry-specific guidance, under US GAAP. The core principle of Topic 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018, including interim periods within that year. Early adoption is permitted.

OPG currently expects to apply the new revenue standard in its 2018 first quarter interim financial statements. 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. Targeted technical updates and training have been provided to financial controllers and working group members corresponding to their responsibilities during 2016.

The Company is in the process of concluding on the method of adoption, as well as evaluating the impact of the new standard on its consolidated financial statements.

Lease Accounting

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). The update includes comprehensive changes to existing guidance for lease accounting, particularly for lessees, and aims to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet. The standard is effective for annual periods beginning after December 15, 2018, including interim periods within that year. Entities are required to use a modified retrospective approach for leases that exist, or are entered into, after the beginning of the earliest comparative period presented in the financial statements for the period of adoption. Full retrospective application is prohibited. Early adoption is permitted.

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.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. Under the updated guidance, entities will have to measure equity investments at fair value and recognize any changes in fair value in net income. The update will be effective for OPG's 2018 fiscal year, including interim periods. As a result of this update, effective January 1, 2018, the AFS classification for securities will no longer be available, with any unrealized gains and losses related to such securities recognized in net income instead of other comprehensive income. Any unrealized gains and losses for AFS securities reported by OPG in AOCI as of the end of 2017 will be reclassified to retained earnings as of January 1, 2018. OPG's Hydro One Limited (Hydro One) share holdings are currently the Company's only AFS securities. As at December 31, 2016, these shares were valued on the consolidated balance sheet at $212 million, of which a loss of $1 million was recorded in AOCI. OPG will continue to evaluate this ASU to determine if there is any further impact on its consolidated financial statements.

Intra-Entity Transfers of Assets Other than Inventory

In October 2016, the FASB issued ASU No. 2016-16, *Income* Taxes, where entities will be required to recognize the income tax effects of certain intercompany transfers of assets as an income tax expense or benefit in the period the transaction occurs. This is different from existing guidance that requires entities to defer such income tax effects until the transferred asset has been sold to a third party or otherwise recognized. OPG is required to adopt this ASU on January 1, 2018. The amendments in this ASU are required to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. OPG expects to record a cumulative-effect downward adjustment of $7 million to the 2018 opening retained earnings.

Significant Accounting Standards Update Adopted

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820) – Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. Under the new guidance, investments measured at net asset value (NAV), which have been elected under the guidance as a practical expedient for fair value, are excluded from the fair value hierarchy. Removing investments measured using the practical expedient from the fair value hierarchy is intended to eliminate the diversity in practice that has existed with respect to the categorization of these investments. The only criterion for categorizing investments in the fair value hierarchy is the observability of the inputs. OPG has adopted these updates to ASC Topic 820, *Fair Value Measurement* in 2016. The changes in disclosures required under this update are reflected in Notes 11 and 13.

4. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses, including amounts recognized in regulatory variance and deferral accounts authorized by the OEB, for the years ended December 31 consist of the following:

(millions of dollars)	**2016**	**2015**
Depreciation	**602**	617
Amortization of intangible assets	**27**	20
Amounts recognized in regulatory variance and deferral accounts	**26**	(1)
Amortization of regulatory assets and liabilities *(Note 5)*	**602**	464
	1,257	1,100

Property, plant and equipment as at December 31 consist of the following:

(millions of dollars)	**2016**	**2015**
Nuclear generating stations	**11,057**	11,999
Regulated hydroelectric generating stations	**9,430**	9,351
Contracted generation portfolio generating stations	**3,751**	3,713
Other property, plant and equipment	**1,595**	1,839
Construction in progress	**3,482**	2,567
	29,315	29,469
Less: accumulated depreciation		
Generating stations	**7,948**	7,359
Other property, plant and equipment	**1,369**	1,515
	9,317	8,874
	19,998	20,595

In December 2015, OPG received a Shareholder Declaration and a Shareholder Resolution that requires the Company to sell its head office premises and associated parking facility located at 700 University Avenue and 40 Murray Street in Toronto, Ontario. An active program to locate a buyer was initiated in October 2016. As such, in the fourth quarter of 2016, OPG reclassified the net book value of $96 million (December 31, 2015 – $96 million) for these assets out of PP&E of the Services, Trading, and Other Non-Generation segment into Other current assets. Depreciation on the assets ceased in the fourth quarter of 2016. In December 2016, a purchase and sale agreement was executed, and the sale is expected to be completed during the second quarter of 2017. An estimated after-tax gain on sale in excess of $200 million is expected to be recognized upon completion of the transaction. Pursuant to the December 2015 Shareholder Declaration and Shareholder Resolution, and as prescribed in the *Trillium Trust Act 2014*, OPG is required to transfer the proceeds, net of prescribed deductions under the act, from this disposition into the Province's Consolidated Revenue Fund.

Construction in progress as at December 31 consists of the following:

(millions of dollars)	**2016**	**2015**
Darlington Refurbishment	**2,563**	1,868
Peter Sutherland Sr. GS	**236**	95
Other	**683**	604
	3,482	2,567

Interest capitalized to construction and development in progress at an average rate of five percent during 2016 (2015 – five percent) was $141 million (2015 – $102 million).

Intangible assets as at December 31 consist of the following:

(millions of dollars)	**2016**	**2015**
Nuclear generating stations	**122**	118
Regulated hydroelectric generating stations	**7**	4
Contracted generation portfolio generating stations	**4**	5
Computer software and other intangible assets	**350**	321
Development in progress	**20**	28
	503	476
Less: accumulated amortization		
Generating stations	**120**	115
Computer software and other intangible assets	**284**	263
	404	378
	99	98

The estimated aggregate amortization expense for each of the five succeeding years for intangible assets in service as at December 31, 2016 is as follows:

(millions of dollars)	**2017**	**2018**	**2019**	**2020**	**2021**
Amortization expense	24	21	20	8	2

5. REGULATORY ASSETS AND LIABILITIES

In December 2014, OPG filed an application with the OEB to recover approximately $1.8 billion in December 31, 2014 balances in most of its authorized regulatory variance and deferral accounts. These amounts were approved by the OEB in 2015, without adjustments. In October 2015, the OEB issued an order implementing its 2015 decisions on this application that authorized OPG to recover $933 million over the period from October 1, 2015 to December 31, 2016, through rate riders for generation from OPG's regulated nuclear and regulated hydroelectric facilities during this period. The remaining approved balances are subject to recovery after 2016.

In 2016, OPG recorded amortization of regulatory assets and liabilities for the variance and deferral account balances approved for disposition, on a straight-line basis, based on recovery or repayment periods authorized by the OEB's October 2015 order. In 2015, OPG recorded such amortization on a straight-line basis based on account balances and recovery or repayment periods authorized by the OEB's December 2014 and October 2015 orders applicable to that period.

Any shortfall or over-recovery of the approved balances due to differences between actual and forecast production is recorded in the authorized Nuclear Deferral and Variance Over/Under Recovery Variance Account and the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account to be collected from, or refunded to, customers in the future.

The OEB's December 2014 and October 2015 orders also approved the continuation of previously authorized variance and deferral accounts, including those authorized pursuant to *Ontario Regulation 53/05*. During the period from January 1, 2015 to December 31, 2016, OPG recorded additions to the variance and deferral accounts as authorized by these orders, relative to the forecast amounts reflected in the cost-of-service regulated prices in effect during that period, where applicable. Where authorized by the OEB, OPG recorded interest on the unamortized balances in the applicable variance and deferral accounts at the OEB-prescribed rates of 1.10 percent per annum for the period from April 1, 2015 to December 31, 2016 and 1.47 percent per annum for the period from January 1, 2015 to March 31, 2015.

OPG's May 2016 application with the OEB for new regulated prices included a request for new rate riders to recover or repay the December 31, 2015 balances in all of the Company's OEB-authorized variance and deferral accounts, with the exception of the Pension & OPEB Cash Versus Accrual Differential Deferral Account, less amounts previously approved for recovery or repayment for these accounts in 2016 through rate riders in effect to December 31, 2016. Additions recorded to these accounts during 2016 would be subject to OEB's review and approval in a future application. OPG's May 2016 application also requested the continuation of all applicable existing variance and deferral accounts.

In January 2017, OPG and the intervenors reached a proposed settlement agreement on a limited set of issues in OPG's application (Proposed Settlement Agreement). The Proposed Settlement Agreement was submitted to the OEB for approval. Among the settled issues, the Proposed Settlement Agreement provides for the continuation of all applicable existing variance and deferral accounts and accepts a number of variance and deferral account balances for recovery, as requested by OPG. In addition, the proposed agreement would result in approval of OPG's proposed adjustments to the existing regulated hydroelectric base regulated prices for the purposes of determining the starting point for an incentive regulation formula for the 2017 to 2021 period. The balances of the Nuclear Liability Deferral Account, the Bruce Lease Net Revenues Variance Account, and the Capacity Refurbishment Variance Account are excluded from the scope of the Proposed Settlement Agreement. The periods of recovery or repayment for the accepted variance and deferral account balances also are excluded. The Proposed Settlement Agreement did not impact OPG's 2016 financial results.

The regulatory assets and liabilities recorded as at December 31 are as follows:

(millions of dollars)	**2016**	**2015**
Regulatory assets		
Variance and deferral accounts authorized by the OEB		
Pension and OPEB Cost Variance Account	**716**	865
Pension & OPEB Cash Versus Accrual Differential Deferral Account *(Note 11)*	**497**	315
Hydroelectric Surplus Baseload Generation Variance Account	**210**	114
Bruce Lease Net Revenues Variance Account	**95**	95
Nuclear Deferral and Variance Over/Under Recovery Variance Account	**74**	82
Other variance and deferral accounts	**33**	243
	1,625	1,714
Pension and OPEB Regulatory Asset *(Note 11)*	**3,392**	3,362
Deferred Income Taxes *(Note 9)*	**838**	792
Total regulatory assets	**5,855**	5,868
Less: current portion	**-**	628
Non-current regulatory assets	**5,855**	5,240
Regulatory liabilities		
Variance and deferral accounts authorized by the OEB		
Capacity Refurbishment Variance Account	**102**	-
Other variance and deferral accounts	**208**	60
Total regulatory liabilities	**310**	60
Less: current portion	**-**	26
Non-current regulatory liabilities	**310**	34

The changes in the regulatory assets and liabilities during 2016 and 2015 are as follows:

(millions of dollars)	Pension and OPEB Cost Variance	Pension & OPEB Cash vs Accrual Differential Deferral	Hydro-electric Surplus Baseload Generation Variance	Bruce Lease Net Revenues Variance	Nuclear Deferral and Variance Over/Under Recovery Variance	Capacity Refurb-ishment Variance	Other Variance and Deferral (net)	Pension and OPEB Regula-tory Asset	Deferred Income Taxes
Net regulatory assets January 1, 2015	939	36	67	315	56	190	320	4,363	861
Increase (decrease)	-	279	82	(149)	44	(68)	3	(1,001)	(69)
Interest	-	-	-	-	1	2	1	-	-
Amortization	(74)	-	(35)	(71)	(19)	(124)	(141)	-	-
Net regulatory assets December 31, 2015	865	315	114	95	82	-	183	3,362	792
Increase (decrease)	**-**	**182**	**126**	**143**	**29**	**(36)**	**(184)**	**30**	**46**
Interest	**-**	**-**	**2**	**-**	**1**	**-**	**-**	**-**	**-**
Amortization	**(149)**	**-**	**(32)**	**(143)**	**(38)**	**(66)**	**(174)**	**-**	**-**
Net regulatory assets December 31, 2016	**716**	**497**	**210**	**95**	**74**	**(102)**	**(175)**	**3,392**	**838**

Pension and OPEB Cost Variance Account

As authorized by the OEB, for the period from March 1, 2011 to October 30, 2014, the Pension and OPEB Cost Variance Account recorded the differences between OPG's actual pension and OPEB costs for the regulated business determined on an accrual basis and related tax impacts, and corresponding forecast amounts reflected in the regulated prices then in effect. In its November 2014 decision, the OEB determined that the pension and OPEB amounts reflected in OPG's regulated prices established by that decision effective November 1, 2014 would be limited to the Company's estimated minimum contributions to its registered pension plan and a forecast of OPG's expenditures on the OPEB and supplementary pension plans. As such, the OEB ordered the Pension and OPEB Cost Variance Account to record only amortization beginning on November 1, 2014.

In its October 2015 order, the OEB approved the continuation of the previously authorized recovery of 10/12 of the account balance as at December 31, 2012 over a 144-month period to December 31, 2024. Amounts recorded in the account in 2013 and 2014 were approved for recovery over a 72-month period to June 30, 2021 by the OEB's October 2015 order. OPG's May 2016 application for new regulated prices has requested the continuation of these recovery schedules.

Pension & OPEB Cash Versus Accrual Differential Deferral Account

In its November 2014 decision and December 2014 order, the OEB established the Pension & OPEB Cash Versus Accrual Differential Deferral Account. Effective November 1, 2014, this deferral account records the difference between OPG's actual pension and OPEB costs for the regulated business determined on an accrual basis under US GAAP and OPG's corresponding actual cash expenditures for these plans. The balance in the account as at December 31, 2016 represents the excess of costs calculated using the accrual basis over the cash basis for the period from November 1, 2014 to December 31, 2016. The Company has recognized the amount set aside in the deferral account as a regulatory asset.

The OEB's November 2014 decision indicated that the future recovery, if any, of amounts recorded in the deferral account would be subject to the outcome of the OEB generic proceeding on the regulatory treatment and recovery of

pension and OPEB costs. The OEB's consultation process to develop standard principles to guide its review of pension and OPEB costs of rate regulated utilities in the electricity and natural gas sectors, including establishing appropriate regulatory mechanisms for cost recovery, began in May 2015 and is continuing.

In its May 2016 application for new regulated prices, OPG has proposed to continue recording the difference between actual pension and OPEB costs for the regulated business determined on an accrual basis and OPG's corresponding actual cash expenditures for these plans in the Pension & OPEB Cash Versus Accrual Differential Deferral Account, pending the outcome of the OEB's consultation process.

Hydroelectric Surplus Baseload Generation Variance Account

The Hydroelectric Surplus Baseload Generation Variance Account records the impact of forgone production at OPG's regulated hydroelectric facilities due to surplus baseload generation conditions.

The OEB's October 2015 order provided for the recovery of amounts recorded in the account during 2014 over an 18-month period from July 1, 2015 to December 31, 2016. The regulatory asset balance for this account as at December 31, 2016 represents amounts recorded in the account during 2015 and 2016.

Bruce Lease Net Revenues Variance Account

In accordance with *Ontario Regulation 53/05*, the OEB is required to include the difference between OPG's revenues and costs associated with the two nuclear generating stations on lease to Bruce Power in the determination of the regulated prices for production from OPG's regulated nuclear facilities. Based on *Ontario Regulation 53/05* requirements, the OEB has established a variance account that captures differences between OPG's actual revenues and costs related to these stations and the corresponding forecasts included in approved nuclear regulated prices, including the costs associated with OPG's Nuclear Liabilities and the earnings from the portion of the Nuclear Segregated Funds related to the Bruce stations.

In 2013, the OEB ordered the portion of the balance in the Bruce Lease Net Revenues Variance Account related to the impact of the derivative liability embedded in the terms of the lease agreement between OPG and Bruce Power related to the Bruce nuclear generating stations (Bruce Lease) in effect prior to December 2015 to be recovered on the basis of OPG's expected rent rebate payments to Bruce Power and associated income tax impacts. The OEB's October 2015 order reaffirmed this approach and included, in amounts authorized for recovery over the period to the end of 2016, amounts for the derivative liability. In December 2015, as a result of amendments to the Bruce Lease, OPG reversed the derivative liability, with a corresponding reduction to the regulatory asset for the Bruce Lease Net Revenue Variance Account. Amounts collected from customers for the derivative liability for periods after its reversal are subject to refund in the future and have been recognized as a regulatory liability as part of the variance account balance.

In its October 2015 order, the OEB approved the continuation of the previously authorized recovery of the non-derivative portion of the account balance as at December 31, 2012 over a 48-month period ending December 31, 2016, and the recovery of the non-derivative portion of amounts recorded in the account in 2013 and 2014 over an 18-month period ending December 31, 2016.

The regulatory asset balance for the Bruce Lease Net Revenues Variance Account as at December 31, 2016 reflects a net amount of $164 million recoverable from customers for non-derivative variances recorded in 2015 and 2016, partially offset by a liability of $69 million to customers for amounts recovered for the derivative liability since its reversal in December 2015. Non-derivative amounts recorded during 2016 included those arising from the adjustment to the Nuclear Liabilities and related changes to the estimated service lives of OPG's nuclear stations, for accounting purposes, effective December 31, 2015.

Nuclear Deferral and Variance Over/Under Recovery Variance Account

The Nuclear Deferral and Variance Over/Under Recovery Variance Account records any shortfall or over-recovery of the approved variance and deferral account balances due to differences between actual and forecast nuclear production. It also captures the transfer of balances remaining in other variance and deferral accounts as they expire, from time to time.

The OEB's October 2015 order provided for the recovery of amounts recorded in the account in 2013 and 2014 over an 18-month period from July 1, 2015 to December 31, 2016. The regulatory asset balance for this account as at December 31, 2016 represents amounts recorded during 2015 and 2016.

Capacity Refurbishment Variance Account

Pursuant to *Ontario Regulation 53/05*, the OEB has authorized the Capacity Refurbishment Variance Account (CRVA). The account captures variances from the forecasts reflected in the regulated prices for capital and non-capital costs incurred to increase the output of, refurbish, or add operating capacity to one or more of the regulated facilities. The balance in the account as at December 31, 2016 includes variances related to the refurbishment of the Darlington nuclear generating station, life extension initiatives at the Pickering nuclear generation station, and other projects.

OPG determines amounts to be recovered from, or refunded to, customers with respect to variances in capital costs as the difference from forecast depreciation expense and cost of capital associated with the in-service capital reflected in the regulated prices and associated income tax effects. The cost of capital amount in the account is calculated using the weighted average cost of capital, including a return on equity, as approved by the OEB in determining the regulated prices. In accordance with US GAAP, in recognizing a regulatory asset for these amounts, OPG limits the portion of cost of capital additions to amounts calculated using the average rate of capitalized interest applied to construction and development in progress. Upon approval of recovery by the OEB, the amortization of these balances is recorded in the consolidated financial statements on the basis of amounts recognized as a regulatory asset. This can result in a net income impact upon recovery of these balances, as the amortization of the regulatory asset for cost of capital additions recorded at the average rate of capitalized interest would be lower than the corresponding amounts recovered, as revenue, based on OEB-approved balances calculated using the weighted average cost of capital.

The OEB's October 2015 order provided for the recovery of amounts recorded in the account in 2013 and 2014 over an 18-month period from July 1, 2015 to December 31, 2016. The regulatory liability balance for this account as at December 31, 2016 represents amounts recorded during 2015 and 2016.

Impact Resulting from Changes in Station End-of-Life Dates Deferral Account

In December 2015, as required by the OEB's previous decisions and orders, OPG applied to the OEB for an accounting order to establish a new deferral account to record the revenue requirement impact on the Pickering and Darlington nuclear generating stations of changes to the Nuclear Liabilities and depreciation expense arising from extensions in the estimated useful lives of OPG's nuclear stations, for accounting purposes, effective December 31, 2015. These impacts were not reflected in the existing regulated prices. In March 2016, the OEB issued its final decision and order establishing the requested account, the Impact Resulting from Changes in Station End-of-Life Dates Deferral Account, effective January 1, 2016. As at December 31, 2016, OPG recognized a regulatory liability of $71 million related to the balance in the deferral account. The deferral account will record these impacts until such time as new regulated prices reflecting the above changes come into effect.

The extensions to the estimated useful lives of OPG's nuclear generating stations effective December 31, 2015, for accounting purposes, included those of the Bruce A GS and the Bruce B GS to reflect the estimated end-of-life dates per the updated refurbishment agreement between the IESO and Bruce Power announced in December 2015, a one-year extension for the Darlington GS to reflect the approval of the refurbishment schedule in 2015, and an extension

of less than one year for the Pickering GS. To reflect these changes, OPG recognized a total increase of $2,330 million in the Nuclear Liabilities and a corresponding increase in the related asset retirement costs capitalized to PP&E, effective December 31, 2015.

Other Variance and Deferral Accounts

Regulatory assets

As at December 31, 2016 and 2015, regulatory assets for Other variance and deferral accounts included amounts for the Nuclear Liability Deferral Account, the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account, the Nuclear Development Variance Account, and the Pickering Life Extension Depreciation Variance Account.

Pursuant to *Ontario Regulation 53/05*, the Nuclear Liability Deferral Account has been authorized by the OEB in connection with changes to OPG's liabilities for nuclear used fuel management and nuclear decommissioning and L&ILW management associated with the nuclear facilities owned and operated by OPG, which are comprised of the Pickering and Darlington nuclear generating stations. The deferral account records the revenue requirement impact associated with the changes in these liabilities arising from an approved reference plan, in accordance with the terms of the ONFA.

The Nuclear Development Variance Account records variances between the actual non-capital costs incurred and firm financial commitments made in the course of planning and preparation for the development of proposed new nuclear generation facilities and the corresponding forecasts reflected in the regulated prices approved by the OEB.

The Pickering Life Extension Depreciation Variance Account balance was recorded wholly during the period from November 1, 2014 to December 31, 2014 and was fully amortized during the year ended December 31, 2016 based on the recovery period authorized in the OEB's October 2015 order.

As at December 31, 2016, regulatory assets for Other variance and deferral accounts also included the Niagara Tunnel Project Pre-December 2008 Disallowance Variance Account, which is discussed in Note 3.

As at December 31, 2015, regulatory assets for Other variance and deferral accounts also included the Pension & OPEB Cash Payment Variance Account. This account records, effective November 1, 2014, the difference between OPG's actual contributions to its registered pension plan and expenditures on its OPEB and supplementary pension plans for the regulated business, and the corresponding amounts reflected in the regulated prices.

Regulatory liabilities

As at December 31, 2016 and 2015, regulatory liabilities for Other variance and deferral accounts included amounts for the Hydroelectric Water Conditions Variance Account, the Ancillary Services Net Revenue Variance Account, the Income and Other Taxes Variance Account, and the Hydroelectric Incentive Mechanism Variance Account.

The Hydroelectric Water Conditions Variance Account captures the impact of differences in regulated hydroelectric electricity production due to differences between forecast water conditions underlying the production forecast approved by the OEB in setting regulated hydroelectric prices, and the actual water conditions.

The Ancillary Services Net Revenue Variance Account has been authorized by the OEB to capture differences between actual nuclear and regulated hydroelectric ancillary services net revenue and the forecast amounts of such revenue approved by the OEB in setting regulated prices.

The Income and Other Taxes Variance Account includes deviations in income taxes for the regulated business, from those approved by the OEB in setting regulated prices, caused by changes in tax rates and rules, as well as reassessments.

The Hydroelectric Incentive Mechanism Variance Account records a credit to customers equal to 50 percent of OPG's hydroelectric incentive mechanism revenues above a specified threshold for the regulated hydroelectric facilities.

As at December 31, 2016, regulatory liabilities for Other variance and deferral accounts also included the Pension & OPEB Cash Payment Variance Account and the Impact Resulting from Changes in Station-End-of-Life Dates Deferral Account.

In its October 2015 order, the OEB approved the recovery or repayment of the majority of the account balances of the Other variance and deferral accounts as at December 31, 2014, less amounts approved in the December 2014 order, over an 18-month period from July 1, 2015 to December 31, 2016.

Pension and OPEB Regulatory Asset

The Pension and OPEB Regulatory Asset represents unamortized amounts in respect of OPG's pension and OPEB plans that have been recognized in OCI and not yet reclassified into the amortization component of the benefit costs in respect of these plans. These amounts are expected to be recovered from customers through future regulated prices. The regulatory asset is reversed as underlying unamortized balances are amortized as components of benefit costs. For further details, refer to Note 3 under the heading, *Rate Regulated Accounting*. The AOCI amounts related to pension and OPEB plans are presented in Note 11.

Deferred Income Taxes

OPG is required to record a regulatory asset or liability for the deferred income taxes that are expected to be recovered or refunded through future regulated prices charged to customers for generation from OPG's regulated facilities. In addition, OPG is required to recognize a deferred income tax liability or asset for the regulatory asset or liability for the amount of deferred income taxes expected to be included in future regulated prices and paid to, or recovered, from customers. Income taxes are discussed in Note 9.

6. LONG-TERM DEBT

Long-term debt consists of the following as at December 31: [1]

(millions of dollars)	**2016**	**2015**
Notes payable to the OEFC		
Senior Notes [2]		
4.91% due 2016	**-**	270
5.35% due 2017	**900**	900
5.27% due 2018	**395**	395
5.44% due 2019	**365**	365
4.56% due 2020	**660**	660
4.28% due 2021	**185**	185
3.30% due 2022	**150**	150
3.12% due 2023	**40**	40
3.04% due 2026	**50**	-
5.07% due 2041	**300**	300
4.36% due 2042	**200**	200
4.03% due 2046	**50**	-
UMH Energy Partnership [3]		
Senior Notes		
7.86% due to 2041	**184**	187
PSS Generating Station Limited Partnership [4]		
Senior Notes		
4.90% due to 2067	**245**	245
Lower Mattagami Energy Limited Partnership [5]		
Senior Notes		
2.35% due 2017	**200**	200
4.46% due 2021	**225**	225
3.53% due 2024	**200**	200
2.40% due 2026	**220**	-
5.26% due 2041	**250**	250
5.05% due 2043	**200**	200
4.26% due 2046	**275**	275
4.26% due 2052	**225**	225
Other	**15**	-
	5,534	5,472
Less: bond issuance fees	**(14)**	(13)
Less: due within one year	**(1,103)**	(273)
Long-term debt	**4,417**	5,186

[1] The interest rates disclosed reflect the effective interest rate of the debt.

[2] OEFC senior debt is entitled to receive, in full, amounts owing in respect of the senior debt and is pari passu to the Lower Mattagami Energy Limited Partnership senior notes.

[3] These notes are secured by the assets of the Upper Mattagami and Hound Chute project. Principal repayments of $3 million per year are made on a semi-annual basis until maturity in 2041, at which time the remaining principal balance of $116 million becomes due.

[4] These notes are secured by the assets of the Peter Sutherland Sr. GS project. The notes have an interest-only feature until 2025 and will be amortized with blended semi-annual principal and interest payments thereafter until maturity in 2067, at which time the remaining principal balance of $49 million becomes due.

[5] These notes are secured by the assets of the Lower Mattagami River project, including existing and new operating facilities, and are recourse to OPG until the recourse release date. These notes rank pari passu to the OEFC senior notes.

In December 2014, OPG entered into an $800 million general corporate credit facility with the OEFC in support of its financing requirements for 2015 and 2016. As at December 31, 2016, there were outstanding long-term borrowings of $100 million under this credit facility, which are included in the table above. The balance of the credit facility

expired on December 31, 2016. In June 2016, OPG entered into a $700 million general corporate credit facility agreement with the OEFC, which expires on December 31, 2017. There were no outstanding borrowings under this credit facility as of December 31, 2016.

Interest paid in 2016 was $269 million (2015 – $269 million), of which $261 million (2015 – $261 million) relates to interest paid on long-term debt.

In the fourth quarter of 2015, PSS, a subsidiary of OPG, issued long-term debt totalling $245 million in support of the Peter Sutherland Sr. GS project. The majority of the debt proceeds, totalling $180 million, were invested in a structured deposit note with staggered maturity dates ranging from January 2016 to April 2017. As at December 31, 2016, the remaining deposit note balance of $70 million was reported as Other current assets on the consolidated balance sheets, based on the terms of the deposit note. As at December 31, 2015, $110 million was reported as Other current assets and $70 million as Other long-term assets in respect of the deposit note.

In October 2016, Lower Mattagami Energy Limited Partnership (LME) issued senior notes totalling $220 million maturing in October 2026. The effective interest rate and coupon interest rate of these notes were 2.40 percent and 2.31 percent, respectively.

In February 2017, OPG issued senior notes payable to the OEFC totalling $200 million and maturing in February 2047. The effective interest rate and coupon interest rate of these notes was 4.12 percent.

A summary of the contractual maturities of all long-term borrowings outstanding as at December 31, 2016, by year, is as follows:

(millions of dollars)	
2017	**1,103**
2018	**398**
2019	**368**
2020	**663**
2021	**413**
Thereafter	**2,589**
	5,534

The net book value of the pledged assets as at December 31, 2016 was $3,510 million (2015 – $3,520 million).

7. SHORT-TERM DEBT AND NET INTEREST EXPENSE

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two $500 million multi-year term tranches. In the second quarter of 2016, OPG renewed and extended both tranches to May 2021. As at December 31, 2016 and 2015, there were no outstanding borrowings under the bank credit facility.

As at December 31, 2016, the LME maintained a $500 million bank credit facility to support the funding requirements for the Lower Mattagami River project including support for the LME’s commercial paper program. The facility consists of a $300 million tranche maturing in August 2021 and a $200 million tranche maturing in August 2017. As at December 31, 2016, there was no external commercial paper outstanding under LME’s commercial paper program (2015 – $225 million). There were also no amounts outstanding under LME’s bank credit facility as at December 31, 2016 and 2015.

As at December 31, 2016, OPG maintained $25 million of short-term, uncommitted overdraft facilities and $460 million of short-term, uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other general corporate purposes. As at

December 31, 2016, a total of $386 million of Letters of Credit had been issued under these facilities. This included $349 million for the supplementary pension plans, $36 million for general corporate purposes, and $1 million related to the operation of the PEC.

The Company has an agreement to sell an undivided co-ownership interest in its current and future accounts receivable to an independent trust. The maximum amount of co-ownership interest that can be sold under this agreement is $150 million. In October 2016, the expiry date of the agreement was extended from November 30, 2016 to November 30, 2018. As at December 31, 2016 and 2015, there were Letters of Credit outstanding under this agreement of $150 million which were issued in support of OPG's supplementary pension plans.

In October 2014, UMH Energy Partnership entered into an $8 million short-term, uncommitted overdraft facility and $16 million of irrevocable, standby Letters of Credit facilities in support of its operations. As at December 31, 2016, total Letters of Credit of $14 million had been issued under these facilities.

The following table summarizes the net interest expense for the years ended December 31:

(millions of dollars)	**2016**	**2015**
Interest on long-term debt	**290**	285
Interest on short-term debt	**8**	8
Interest income	**(7)**	(9)
Interest capitalized to property, plant and equipment and intangible assets	**(141)**	(102)
Interest related to regulatory assets and liabilities [1]	**(30)**	(2)
Net interest expense	**120**	180

[1] Includes interest to recognize the cost of financing related to regulatory variance and deferral accounts, as authorized by the OEB, and interest deferred in the Bruce Lease Net Revenues Variance Account, the Capacity Refurbishment Variance Account, and the Niagara Tunnel Project Pre-December 2008 Disallowance Variance Account.

8. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT LIABILITIES AND FUNDS

The liabilities for fixed asset removal and nuclear waste management on a present value basis consist of the following as at December 31:

(millions of dollars)	**2016**	**2015**
Liability for nuclear used fuel management	**11,292**	12,793
Liability for nuclear decommissioning and nuclear L&ILW waste management	**7,811**	6,999
Liability for non-nuclear fixed asset removal	**381**	377
Fixed asset removal and nuclear waste management liabilities	**19,484**	20,169

The changes in the fixed asset removal and nuclear waste management liabilities for the years ended December 31 are as follows:

(millions of dollars)	**2016**	**2015**
Liabilities, beginning of year	**20,169**	17,028
Increase in liabilities due to accretion [1]	**1,024**	906
Decrease in liabilities resulting from the ONFA reference plan update process *(Note 3)*	**(1,567)**	-
Increase in liabilities reflecting changes to the estimated useful lives of nuclear generating stations	**-**	2,330
Increase in liabilities due to nuclear used fuel and nuclear waste management expenses and other expenses [1]	**133**	123
Liabilities settled by expenditures on fixed asset removal and nuclear waste management	**(275)**	(218)
Liabilities, end of year	**19,484**	20,169

[1] Amounts shown exclude the impact of regulatory variance and deferral accounts.

OPG's fixed asset removal and nuclear waste management liabilities are comprised of expected costs to be incurred up to and beyond termination of operations and the closure of nuclear and thermal generating facilities, and other facilities. Costs will be incurred for activities such as preparation for safe storage and safe storage of the nuclear stations, dismantlement, demolition and disposal of facilities and equipment, remediation and restoration of sites, and the ongoing and long-term management of nuclear used fuel and L&ILW material.

The determination of the accrual for fixed asset removal and nuclear waste management costs requires significant assumptions since these programs are long-term in nature. The most recent comprehensive update of the cost estimates for the Nuclear Liabilities is contained in the 2017-2021 ONFA reference plan, which was finalized and approved by the Province in the fourth quarter of 2016 (2017 ONFA Reference Plan). As discussed in Note 3, effective December 31, 2016, OPG recognized a decrease in the Nuclear Liabilities of approximately $1,570 million and a corresponding decrease in asset retirement costs capitalized as part of the carrying value of nuclear PP&E to reflect the changes in cost estimates arising from the 2017 ONFA Reference Plan update process. The reduction in the liabilities as at December 31, 2016 was determined by discounting the net decrease in future undiscounted cash flows using the weighted average discount rate of 4.95 percent reflected in the existing liability. The cost escalation rates used to determine the future undiscounted cash flows reflected in the December 31, 2016 adjustment to the Nuclear Liabilities ranged from 2.0 percent to 3.4 percent.

For the purposes of calculating OPG's Nuclear Liabilities, as at December 31, 2016, consistent with the current accounting end-of-life assumptions, nuclear station decommissioning activities are projected to occur over approximately the next 80 years. The estimates for the Nuclear Liabilities include cash flow estimates for decommissioning the nuclear stations for approximately 40 years after stations are shut down and to 2088 for placement of used fuel into the assumed long-term disposal repository, followed by extended monitoring.

The significant assumptions underlying operational, technical, and economic factors used in the calculation of the accrued Nuclear Liabilities are subject to periodic review. Changes to these assumptions, including changes to assumptions on the timing of the nuclear waste programs including construction of waste disposal facilities, station end-of-life dates, waste disposal methods, financial indicators, or the technology employed, may result in significant changes to the value of the accrued liabilities. With programs of this long-term duration and the evolving technology to handle the nuclear waste, there is a significant degree of inherent uncertainty surrounding the measurement of the costs for these programs. These costs may increase or decrease over time.

Liability for Nuclear Used Fuel Management Costs

The liability for nuclear used fuel management represents the cost of managing the highly radioactive used nuclear fuel bundles. The federal NFWA, proclaimed into force in 2002, required that Canada's nuclear fuel waste owners form a nuclear waste management organization, and that each waste owner establish a trust fund for used fuel management costs as specified in the NFWA. This organization, the NWMO, is responsible for the design and implementation of Canada's plan for the long-term management of nuclear used fuel waste. To estimate its liability for nuclear used fuel management costs, OPG has adopted a conservative approach consistent with the Adaptive Phased Management concept approved by the Government of Canada, which assumes a deep geologic repository as part of the long-term management of nuclear used fuel, with an in-service date of 2043 at the earliest.

Liability for Nuclear Decommissioning and L&ILW Management Costs

The liability for nuclear decommissioning and L&ILW management represents the estimated costs of decommissioning the nuclear generating stations after the end of their service lives, as well as the cost of managing L&ILW generated by the stations. The significant assumptions used in estimating future nuclear fixed asset removal costs include a deferred dismantlement basis for decommissioning of the stations, whereby the reactors will be de-watered and de-fueled immediately after the station has ceased operations and thereafter will remain in a safe state condition for a 30-year period, prior to an approximate 10-year dismantlement period.

The life cycle costs of L&ILW management include the costs of processing and storage of such radioactive wastes during and following the operation of the nuclear stations, as well as the costs of the ultimate long-term management of these wastes. The current assumptions used to establish the accrued costs for the management of L&ILW include an L&ILW DGR to be owned and operated by OPG. Agreement was previously reached with local municipalities for OPG to develop a deep geologic repository for the long-term management of L&ILW adjacent to OPG's Western Waste Management Facility in Kincardine, Ontario. OPG has suspended design activities for the L&ILW DGR, pending receipt of the site preparation and construction licence.

Liability for Non-Nuclear Fixed Asset Removal Costs

The liability for non-nuclear fixed asset removal primarily represents the estimated costs of decommissioning OPG's thermal generating stations at the end of their services lives. The liability is based on third-party cost estimates based on an in-depth review of plant sites and an assessment of required clean-up and restoration activities completed in 2011 for most of the thermal generating stations. For the purpose of measuring the liability, asset removal activities are estimated to take place over the next one to 15 years.

Ontario Nuclear Funds Agreement

In accordance with the ONFA, OPG sets aside and invests funds that are held in segregated custodian and trustee accounts specifically for discharging its life cycle obligation for nuclear decommissioning and long-term nuclear waste management. The Used Fuel Segregated Fund and the Decommissioning Segregated Fund were established under the ONFA for this purpose. OPG makes contributions to the Nuclear Segregated Funds based on the approved ONFA reference plan in effect. ONFA reference plans are subject to approval by the Province.

Since inception, OPG has been making quarterly payments to the Used Fuel Segregated Fund over the assumed lives of its nuclear generating stations, as specified in the ONFA, including contributions to the NFWA Trust (the Trust) established by OPG pursuant to the NFWA. The Trust forms part of the Used Fuel Segregated Fund, with any OPG contributions to the Used Fuel Segregated Fund, as well as any portion of the fund currently not in the trust, being able to be applied towards the Trust's annual contribution requirements pursuant to the NFWA. Required funding of the Used Fuel Segregated Fund for 2016 was $150 million (2015 – $143 million). ONFA requirements have resulted in the majority of the underlying used fuel management obligation being funded through OPG contributions over the initial estimated useful lives of the nuclear generating stations assumed in the ONFA, which did not reflect subsequent extensions to the nuclear station lives to reflect refurbishment and life extension decisions.

OPG has not been required to make contributions to the Decommissioning Segregated Fund, which was fully funded at its inception through an initial contribution made by the Province and, taking into account asset performance and changes in underlying funding obligation over time, at the time of every subsequent approved ONFA reference plan.

The 2017 ONFA Reference Plan was approved by the Province in December 2016, with an effective date of January 1, 2017. Based on the funded status of the Used Fuel Segregated Fund and the Decommissioning Segregated Fund reflecting the life cycle liability estimates per the 2017 ONFA Reference Plan, no overall contributions to either fund are currently required starting in 2017. Contributions may be required in the future should either or both of the funds be in an underfunded position when a new reference plan is prepared.

The *Nuclear Safety and Control Act* (Canada) requires OPG to have sufficient funds available to discharge its existing nuclear waste management and nuclear facilities decommissioning obligations. As required by the terms of the ONFA, the Province has provided a Provincial Guarantee to the Canadian Nuclear Safety Commission (CNSC) since 2003, on behalf of OPG. The Provincial Guarantee provides for any shortfall between the CNSC consolidated financial guarantee requirement and the value of the Nuclear Segregated Funds. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount of the Provincial Guarantee. The current value of the Provincial Guarantee amount of $1,551 million is in effect through to the end of 2017. Based on this guarantee amount, OPG paid a guarantee fee of $8 million to the Province for each of 2015 and 2016.

The investments in the Nuclear Segregated Funds include a diversified portfolio of equities and fixed income securities that are invested across geographic markets, as well as investments in infrastructure, real estate, and agriculture. The Nuclear Segregated Funds are invested to fund long-term liability requirements and, as such, the portfolio asset mix is structured to achieve the required return over a long-term horizon. While short-term fluctuations in market value will occur, managing the long-term return of the Nuclear Segregated Funds remains the primary goal. OPG jointly oversees the investment management of the Nuclear Segregated Funds with the Province.

Decommissioning Segregated Fund

Under the ONFA, OPG is wholly responsible for cost estimate changes and investment returns in the Decommissioning Segregated Fund. As at December 31, 2016 and 2015, the Decommissioning Segregated Fund was in an overfunded position.

Upon termination of the ONFA, the Province has the sole right to any excess funds in the Decommissioning Segregated Fund, which is the excess of the fair market value of the fund's assets over the underlying estimated future costs, as per the most recently approved ONFA reference plan. Accordingly, when the Decommissioning Segregated Fund is overfunded, OPG limits the fund earnings recognized in the consolidated financial statements by recording an amount due to the Province, such that the asset recognized for the fund on the consolidated balance sheet is equal to the cost estimate of the liability based on the most recently approved ONFA reference plan. Additionally, OPG recognizes the portion of the surplus that it may direct to the Used Fuel Segregated Fund, which is possible when the surplus in the Decommissioning Segregated Fund is such that the underlying liabilities, as defined by the most recently approved ONFA reference plan, are at least 120 percent funded. In those circumstances, OPG may direct, at the time a new reference plan is approved, up to 50 percent of the surplus over 120 percent to the

Used Fuel Segregated Fund, with the OEFC entitled to a distribution of an equal amount. Therefore, when the Decommissioning Segregated Fund is at least 120 percent funded, OPG recognizes 50 percent of the excess greater than 120 percent in income, up to the amount by which the Used Fuel Segregated Fund is underfunded. Based on the 2017 ONFA Reference Plan, the Used Fuel Segregated Fund was in a marginally overfunded position as at December 31, 2016, for the first time since inception. As a result, OPG recognized a due to the Province amount such that the Decommissioning Segregated Fund asset on the consolidated balance sheet as at December 31, 2016 was limited to the value of the underlying liability per the 2017 ONFA Reference Plan. The payable to the Province may be reduced in subsequent periods in the event that the Decommissioning Segregated Fund earns less than its target rate of return, a new ONFA reference plan is approved with a higher underlying funding liability, or the Used Fuel Segregated Fund changes to an underfunded status. When the Decommissioning Segregated Fund is underfunded, the earnings on the fund reflect actual fund returns based on the market value of the assets.

When the Decommissioning Segregated Fund is in an overfunded status at less than 120 percent, OPG recognized its annual earnings on the fund at 3.25 percent plus the long-term Ontario Consumer Price Index (CPI) specified in the most recently approved ONFA reference plan, which is the rate of growth in the underlying funding liability. The same treatment is applied to the Decommissioning Segregated Fund when it is in an overfunded status at greater than 120 percent, if the Used Fuel Segregated Fund is fully funded.

Used Fuel Segregated Fund

OPG is responsible for cost increases in the funding liability for used fuel waste management under the ONFA, subject to specified graduated liability thresholds, pursuant to which the Province limits OPG's total financial exposure for the first 2.23 million nuclear used fuel bundles at approximately $15 billion in present value dollars as at December 31, 2016. The graduated liability thresholds do not apply to used fuel bundles beyond the 2.23 million threshold.

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Segregated Fund at 3.25 percent plus the change in the Ontario CPI, as defined by ONFA, for funding related to the first 2.23 million used fuel bundles, ("committed return"). OPG recognizes the committed return on the Used Fuel Segregated Fund as earnings on the Nuclear Segregated Funds. The difference between the committed return and the actual market return determined based on the fair value of the fund assets related to the first 2.23 million used fuel bundles is recorded as due to or due from the Province. This amount due to or due from the Province represents the amount that would be paid to or received from the Province if the committed return were to be settled as of the consolidated balance sheet date. The 2.23 million threshold represents the estimated total life cycle fuel bundles based on the initial estimated useful lives of the nuclear stations assumed in the ONFA.

As prescribed under the ONFA, OPG's contributions for fuel bundles in excess of 2.23 million are not subject to the Province's guaranteed rate of return, and earn a return based on changes in the market value of the assets of the Used Fuel Segregated Fund.

If there is a surplus in the Used Fuel Segregated Fund such that the liabilities, as defined by the most recently approved ONFA reference plan, are at least 110 percent funded, the Province, has the right, at any time, to access the excess amount greater than 110 percent. Upon termination of the ONFA, the Province is entitled to any surplus in the fund, which is the excess of the fair market value of the Used Fuel Segregated Fund assets over the estimated future costs, as per the most recently approved ONFA reference plan. Neither OPG nor the Province has a right to direct any amounts from the Used Fuel Segregated Fund to the Decommissioning Segregated Fund. Therefore, when the Used Fuel Fund is overfunded, OPG limits the earnings it recognizes by recording an amount due to the Province, such that the asset recognized for the fund on the consolidated balance sheet is equal to the cost estimate of the liability per the most recently approved ONFA reference plan. This results in OPG recognizing annual earnings on the fund at 3.25 percent plus the long-term Ontario CPI specified in the most recently approved ONFA reference plan, which is the rate of growth in the underlying funding liability, when the fund is overfunded.

As at December 31, 2016, the Used Fuel Segregated Fund was marginally overfunded in accordance with the 2017 ONFA Reference Plan, and OPG recognized a due to the Province amount of $25 million such that the asset recognized for the fund was limited to the value of the underlying funding liability. This payable to the Province may be reduced in subsequent periods in the event that the Used Fuel Segregated Fund earns less than its target rate of return or in the event that a new ONFA reference plan is approved with a higher underlying funding liability.

Nuclear Segregated Funds

The nuclear fixed asset removal and nuclear waste management funds as at December 31 consist of the following:

	Fair Value	
(millions of dollars)	**2016**	**2015**
Decommissioning Segregated Fund	**8,317**	7,834
Due to Province – Decommissioning Segregated Fund	**(1,477)**	(1,285)
	6,840	6,549
Used Fuel Segregated Fund [1]	**11,082**	10,290
Due to Province – Used Fuel Segregated Fund	**(1,938)**	(1,703)
	9,144	8,587
Total Nuclear Segregated Funds	**15,984**	15,136
Less: current portion	**24**	15
Non-current Nuclear Segregated Funds	**15,960**	15,121

[1] The Ontario NFWA Trust represents $3,688 million as at December 31, 2016 (2015 – $3,409 million) of the Used Fuel Segregated Fund on a fair value basis.

The fair value of the securities invested in the Nuclear Segregated Funds as at December 31 is as follows:

	Fair Value	
(millions of dollars)	**2016**	**2015**
Cash and cash equivalents and short-term investments	**354**	343
Alternative investments	**1,989**	1,620
Pooled funds	**1,329**	1,311
Marketable equity securities	**9,503**	8,621
Fixed income securities	**6,181**	6,219
Net receivables/payables	**43**	10
	19,399	18,124
Due to Province	**(3,415)**	(2,988)
	15,984	15,136

The historical cost, gross unrealized aggregate appreciation and depreciation of investment, gross unrealized foreign exchange gains, and fair value of the Nuclear Segregated Funds as at December 31, 2016 and 2015 are summarized as follows:

	2016		
(millions of dollars)	**Decommissioning Segregated Fund**	**Used Fuel Segregated Fund**	**Total**
Historical cost	**6,896**	**9,385**	**16,281**
Gross unrealized gains (losses)			
Aggregate appreciation	**1,326**	**1,564**	**2,890**
Aggregate depreciation	**(165)**	**(222)**	**(387)**
Foreign exchange	**260**	**355**	**615**
	8,317	**11,082**	**19,399**
Due to Province	**(1,477)**	**(1,938)**	**(3,415)**
Total fair value	**6,840**	**9,144**	**15,984**
Less: current portion	**8**	**16**	**24**
Non-current fair value	**6,832**	**9,128**	**15,960**

	2015		
(millions of dollars)	**Decommissioning Segregated Fund**	**Used Fuel Segregated Fund**	**Total**
Historical cost	6,608	8,819	15,427
Gross unrealized gains (losses)			
Aggregate appreciation	1,098	1,283	2,381
Aggregate depreciation	(297)	(383)	(680)
Foreign exchange	425	571	996
	7,834	10,290	18,124
Due to Province	(1,285)	(1,703)	(2,988)
Total fair value	6,549	8,587	15,136
Less: current portion	5	10	15
Non-current fair value	6,544	8,577	15,121

Net realized and unrealized gains or losses from investments for the years ended December 31, 2016 and 2015 are summarized as follows:

	2016		
(millions of dollars)	**Decommissioning Segregated Fund**	**Used Fuel Segregated Fund**	**Total**
Net realized gains			
Realized gains excluding foreign exchange	**84**	**180**	**264**
Realized foreign exchange gains	**30**	**41**	**71**
Net realized gains	**114**	**221**	**335**
Net unrealized gains			
Unrealized gains excluding foreign exchange	**360**	**442**	**802**
Unrealized foreign exchange losses	**(165)**	**(216)**	**(381)**
Net unrealized gains	**195**	**226**	**421**

	2015		
(millions of dollars)	**Decommissioning Segregated Fund**	**Used Fuel Segregated Fund**	**Total**
Net realized gains			
Realized gains excluding foreign exchange	159	221	380
Realized foreign exchange gains	56	71	127
Net realized gains	215	292	507
Net unrealized gains			
Unrealized losses excluding foreign exchange	(267)	(367)	(634)
Unrealized foreign exchange gains	335	439	774
Net unrealized gains	68	72	140

The change in the Nuclear Segregated Funds for the years ended December 31 is as follows:

(millions of dollars)	Fair Value 2016	2015
Decommissioning Segregated Fund, beginning of year	**6,549**	6,246
Increase in fund due to return on investments	**505**	507
Decrease in fund due to reimbursement of eligible expenditures	**(22)**	(19)
Increase in due to Province	**(192)**	(185)
Decommissioning Segregated Fund, end of year	**6,840**	6,549
Used Fuel Segregated Fund, beginning of year	**8,587**	8,133
Increase in fund due to contributions made	**150**	143
Increase in fund due to return on investments	**690**	642
Decrease in fund due to reimbursement of eligible expenditures	**(48)**	(57)
Increase in due to Province	**(235)**	(274)
Used Fuel Segregated Fund, end of year	**9,144**	8,587

The earnings from the Nuclear Segregated Funds during 2016 and 2015 were impacted by the Bruce Lease Net Revenues Variance Account authorized by the OEB. The earnings on the Nuclear Segregated Funds for the years ended December 31 are as follows:

(millions of dollars)	2016	2015
Decommissioning Segregated Fund	**313**	322
Used Fuel Segregated Fund	**455**	368
Bruce Lease Net Revenues Variance Account	**(22)**	14
Total earnings	**746**	704

9. INCOME TAXES

OPG follows the liability method of accounting for income taxes. The Company records an offsetting regulatory asset or liability for the deferred income taxes that are expected to be recovered or refunded through future regulated prices charged to customers for generation from OPG's regulated facilities.

A reconciliation between the statutory and the effective rate of income taxes is as follows:

(millions of dollars)	**2016**	**2015**
Income before income taxes	**621**	509
Combined Canadian federal and provincial statutory enacted income tax rates	**26.5%**	26.5%
Statutory income tax rates applied to accounting income	**165**	135
Increase (decrease) in income taxes resulting from:		
Income tax expense deferred in regulatory assets and liabilities	**65**	29
Scientific Research and Experimental Development investment tax credits	**(48)**	(44)
Manufacturing and processing credit	**(9)**	(8)
Other	**(5)**	(20)
	3	(43)
Income tax expense	**168**	92
Effective rate of income taxes	**27.0%**	18.1%

Significant components of the income tax expense are presented in the table below:

(millions of dollars)	**2016**	**2015**
Current income tax expense	**204**	59
Deferred income tax (recovery) expense	**(36)**	33
Income tax expense	**168**	92

The income tax effects of temporary differences that give rise to deferred income tax assets and liabilities as at December 31 are as follows:

(millions of dollars)	**2016**	**2015**
Deferred income tax assets:		
Fixed asset removal and nuclear waste management liabilities	**4,861**	5,032
Other assets and liabilities	**1,813**	1,699
	6,674	6,731
Deferred income tax liabilities:		
Property, plant and equipment and intangible assets	**(1,807)**	(2,119)
Nuclear fixed asset removal and nuclear waste management funds	**(3,996)**	(3,784)
Other assets and liabilities	**(1,700)**	(1,708)
	(7,503)	(7,611)
Net deferred income tax liabilities	**(829)**	(880)

During 2016, OPG recorded an increase in the deferred income tax liability for the income taxes that are expected to be recovered or refunded through regulated prices charged to customers of $46 million (2015 – a decrease of $69 million). Since these deferred income taxes are expected to be refunded through future regulated prices, OPG recorded a corresponding increase to the regulatory asset for deferred income taxes. As a result, the deferred income tax expense for 2016 and 2015 was not impacted.

The following table summarizes the deferred income tax liabilities recorded for the rate regulated operations that are expected to be recovered through future regulated prices:

(millions of dollars)	**2016**	**2015**
January 1:		
Deferred income tax liabilities on temporary differences related to regulated operations	**592**	644
Deferred income tax liabilities on temporary differences related to the regulatory asset for the deferred income tax liabilities	**200**	217
	792	861
Changes during the year:		
Increase (decrease) in deferred income tax liabilities on temporary differences related to regulated operations	**35**	(52)
Increase (decrease) in deferred income tax liabilities on temporary differences related to the regulatory asset for the deferred income tax liabilities	**11**	(17)
Balance as at December 31	**838**	792

The tax benefit associated with an income tax position is recognized only when it is more likely than not that such a position will be sustained upon examination by the taxing authorities based on the technical merits of the position. The current and deferred income tax benefit is equal to the largest amount, considering possible settlement outcomes, that is greater than 50 percent likely of being realized upon settlement with the taxing authorities.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(millions of dollars)	**2016**	**2015**
Unrecognized tax benefits, beginning of year	**72**	79
Additions based on tax positions related to the current year	**19**	16
Additions for tax positions of prior years	**2**	7
Reductions for tax positions of prior years	**(16)**	(14)
Other	**-**	(16)
Unrecognized tax benefits, end of year	**77**	72

As at December 31, 2016, OPG's unrecognized tax benefits were $77 million (2015 – $72 million), excluding interest and penalties, all of which, if recognized, would affect OPG's effective tax rate. Changes in unrecognized tax benefits over the next 12 months cannot be predicted with certainty.

OPG recognizes interest and penalties related to unrecognized tax benefits as income tax expense. As at December 31, 2016, OPG had recorded interest on unrecognized tax benefits of $8 million (2015 – $7 million). OPG considers its significant tax jurisdiction to be Canada. OPG remains subject to income tax examination for years after 2012.

OPG paid $98 million in income taxes (net of tax refunds) during 2016 (2015 – $47 million).

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in the balance of each component of accumulated other comprehensive loss (AOCL), net of income taxes, during the years December 31, 2016 and 2015 are as follows:

	2016			
(millions of dollars)	**Unrealized Gains and Losses on Cash Flow Hedges [1]**	**Pension and OPEB [1]**	**Available-for-sale Securities [1]**	**Total [1]**
AOCL, beginning of year	**(106)**	**(213)**	**-**	**(319)**
Actuarial loss on re-measurement of liabilities for pension and OPEB	**-**	**(6)**	**-**	**(6)**
Unrealized loss on available-for-sale securities	**-**	**-**	**(1)**	**(1)**
Amounts reclassified from AOCL	**19**	**12**	**-**	**31**
OCI for the year	**19**	**6**	**(1)**	**24**
AOCL, end of year	**(87)**	**(207)**	**(1)**	**(295)**

[1] All amounts are net of income taxes.

	2015		
(millions of dollars)	**Unrealized Gains and Losses on Cash Flow Hedges [1]**	**Pension and OPEB [1]**	**Total [1]**
AOCL, beginning of year	(117)	(379)	(496)
Net loss on cash flow hedges	(5)	-	(5)
Actuarial gain on re-measurement of liabilities for pension and OPEB	-	148	148
Amounts reclassified from AOCL	16	18	34
OCI for the year	11	166	177
AOCL, end of year	(106)	(213)	(319)

[1] All amounts are net of income taxes.

The significant amounts reclassified out of each component of AOCL, net of income taxes, during the years ended December 31, 2016 and 2015 are as follows:

	Amount Reclassified from AOCL		
(millions of dollars)	**2016**	**2015**	**Statement of Income Line Item**
Amortization of losses from cash flow hedges			
Losses	**21**	18	Net interest expense and fuel expense
Income tax recovery	**(2)**	(2)	Income tax expense
	19	16	
Amortization of amounts related to pension and OPEB			
Actuarial losses and past service costs	**16**	25	See (1) below
Income tax recovery	**(4)**	(7)	Income tax expense
	12	18	
Total reclassifications for the year	**31**	34	

[1] These AOCL components are included in the computation of pension and OPEB costs (see Note 11 for additional details).

11. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Fund Assets

The OPG registered pension fund investment guidelines are stated in an approved Statement of Investment Policies and Procedures (SIPP). The SIPP is reviewed and approved by the Audit and Risk Committee of OPG's Board of Directors at least annually and includes a discussion of investment objectives and expectations, asset mix and rebalancing, and the basis for measuring the performance of the pension fund assets.

In accordance with the SIPP, investment allocation decisions are made with a view to achieve OPG's objective of meeting obligations of the plan as they come due. The pension fund assets are invested in four categories of asset classes. The first category is liability hedging assets which are intended to hedge the inflation and interest rate sensitivity of the plan liabilities. The second category is return enhancing assets which are intended to obtain higher investment returns compared to the returns expected for liability hedging assets. The third category is real assets which offer exposure to the combined characteristics of liability hedging and return enhancing assets. The fourth category is return diversifying strategies, which are intended to improve the overall return of the pension fund while mitigating the downside market risk.

To achieve the above objective, OPG has adopted the following target strategic asset allocation:

	Target
Asset Class	
Liability Hedging Assets	34%
Return Enhancing Assets	31%
Real Assets	20%
Return Diversifying Assets	15%

The plan may enter into derivative securities, such as interest rate swaps and forward foreign exchange contracts, for risk management purposes, where such activity is consistent with the plan's investment objectives.

Significant Concentrations of Risk in Fund Assets

The assets of the pension fund are diversified to limit the impact of any individual investment. The pension fund is diversified across multiple asset classes. Fixed income securities are diversified among Canadian government bonds, government agency bonds, real return bonds, corporate bonds, and an interest rate overlay hedging program, which is disclosed under pooled funds. Equity securities are diversified across Canadian, US, and Global stocks. There are also real estate, infrastructure, and agriculture portfolios that represent approximately 12 percent of the total pension fund assets as at December 31, 2016. Investments in the above asset classes are further diversified across funds, investment managers, strategies, vintages, sectors and geographies, depending on the specific characteristics of each asset class.

Credit risk with respect to the pension fund's fixed income securities is managed by risk tolerance guidelines, which requires that fixed income securities comply with various investment constraints that ensure prudent diversification and prescribed minimum required credit rating quality. Credit risk, as it relates to the pension fund's derivatives, is managed through the use of International Swap and Derivatives Association documentation and counterparty management performed by the fund's investment managers.

Risk Management

Risk management oversight with respect to the pension fund includes, but is not limited to, the following activities:

- Periodic asset/liability management and strategic asset allocation studies
- Monitoring of funding levels and funding ratios
- Monitoring compliance with asset allocation guidelines and investment management agreements
- Monitoring asset class performance against asset class benchmarks

- Monitoring investment manager performance against benchmarks
- Monitoring of risk tolerance guidelines

Expected Rate of Return on Plan Assets

The expected rate of return on plan assets is based on the fund's asset allocation, as well as the return expectations considering long-term risks and returns associated with each asset class within the plan portfolio. The asset management decisions consider the economic liabilities of the plan.

Fair Value Measurements

OPG is required to classify fair value measurements using a fair value hierarchy. This hierarchy groups financial instruments into three levels, based on the significance of inputs used in measuring the fair value of the assets and liabilities. Refer to Note 13 for a detailed discussion of fair value measurements and the fair value hierarchy.

The following tables present pension plan assets measured at fair value in accordance with the fair value hierarchy:

	December 31, 2016			
(millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**690**	**-**	**-**	**690**
Fixed income				
Corporate debt securities	**-**	**407**	**-**	**407**
Government bonds	**-**	**3,483**	**-**	**3,483**
Equities				
Canadian	**1,451**	**291**	**-**	**1,742**
US	**1,495**	**-**	**-**	**1,495**
Global	**1,643**	**-**	**-**	**1,643**
Pooled funds	**118**	**413**	**-**	**531**
Other	**(2)**	**-**	**-**	**(2)**
	5,395	**4,594**	**-**	**9,989**
Investments measured at NAV [1]				**3,504**
				13,493 [2]

[1] Represents investments measured at fair value using NAV as a practical expedient, which have not been classified in the fair value hierarchy. The fair value amounts for these investments presented in this table are intended to permit the reconciliation of the fair value hierarchy to the total fair value of plan assets presented in tables following.
[2] The table above excludes pension fund receivables and payables.

	December 31, 2015			
(millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	374	-	-	374
Short-term investments	-	1	-	1
Fixed income				
Corporate debt securities	-	392	-	392
Government bonds	-	3,794	-	3,794
Equities				
Canadian	1,547	-	-	1,547
US	1,786	-	-	1,786
Global	1,992	-	-	1,992
Pooled funds	37	147	-	184
Other	1	-	-	1
	5,737	4,334	-	10,071
Investments measured at NAV [1]				3,079
				13,150 [2]

[1] Represents investments measured at fair value using NAV as a practical expedient, which have not been classified in the fair value hierarchy. The fair value amounts for these investments presented in this table are intended to permit the reconciliation of the fair value hierarchy to the total fair value of plan assets presented in tables following.
[2] The table above excludes pension fund receivables and payables.

During the years ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2.

Plan Costs and Liabilities

Details of OPG's pension and OPEB obligations, pension fund assets and costs are presented in the following tables:

	Registered and Supplementary Pension Plans		Other Post-Employment Benefits	
	2016	2015	2016	2015
Weighted Average Assumptions – Benefit Obligations at Year-End				
Rate used to discount future benefits	**3.90%**	4.10%	**3.94%**	4.13%
Salary schedule escalation rate - initial rate [1]	**1.80%**	1.60%	**1.80%**	1.60%
- thereafter	**2.50%**	2.50%	**2.50%**	2.50%
Rate of cost of living increase to pensions	**2.00%**	2.00%	**n/a**	n/a
Initial health care trend rate	**n/a**	n/a	**5.90%**	6.00%
Ultimate health care trend rate	**n/a**	n/a	**4.32%**	4.33%
Year ultimate health care trend rate reached	**n/a**	n/a	**2030**	2030
Rate of increase in disability benefits	**n/a**	n/a	**2.00%**	2.00%

[1] Per year to December 31, 2021.

	Registered and Supplementary Pension Plans		Other Post-Employment Benefits	
	2016	2015	2016	2015
Weighted Average Assumptions – Costs for the Year				
Expected return on plan assets, net of expenses	**6.00%**	6.25%	**n/a**	n/a
Rate used to discount future benefits	**4.10%**	4.00%	**4.13%**	4.03%
Salary schedule escalation rate - initial rate [1]	**1.60%**	2.00%	**1.60%**	2.00%
- thereafter	**2.50%**	2.50%	**2.50%**	2.50%
Rate of cost of living increase to pensions	**2.00%**	2.00%	**n/a**	n/a
Initial health care trend rate	**n/a**	n/a	**6.00%**	6.09%
Ultimate health care trend rate	**n/a**	n/a	**4.33%**	4.33%
Year ultimate health care trend rate reached	**n/a**	n/a	**2030**	2030
Rate of increase in disability benefits	**n/a**	n/a	**2.00%**	2.00%
Expected average remaining service life for employees (years)	**12**	12	**13**	13

[1] For 2016, per year to December 31, 2021. For 2015, per year to December 31, 2020.

(millions of dollars)	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
	2016	2015	2016	2015	2016	2015
Components of Cost Recognized for the Year						
Current service costs	**277**	320	**7**	7	**67**	71
Interest on projected benefit obligation	**634**	630	**12**	13	**133**	127
Expected return on plan assets, net of expenses	**(734)**	(717)	**-**	-	**-**	-
Amortization of past service costs [1]	**-**	-	**-**	-	**1**	-
Amortization of net actuarial loss [1]	**192**	292	**4**	6	**19**	27
Recognition of LTD net actuarial (gain) loss	**-**	-	**-**	-	**(52)**	7
Costs recognized [2]	**369**	525	**23**	26	**168**	232

[1] The amortization of past service costs and net actuarial loss was recognized as an increase to OCI. This increase was partially offset by the impact of the Pension and OPEB Regulatory Asset discussed in Note 5.

[2] Excludes the impact of regulatory variance and deferral accounts discussed in Note 5.

Total benefit costs, including the impact of the Pension & OPEB Cash Payment Variance Account and the Pension & OPEB Cash Versus Accrual Differential Deferral Account, for the years ended December 31 are as follows:

(millions of dollars)	**2016**	**2015**
Registered pension plans	**369**	525
Supplementary pension plans	**23**	26
Other post-employment benefits	**168**	232
Pension & OPEB Cash Payment Variance Account *(Note 5)*	**86**	(21)
Pension & OPEB Cash Versus Accrual Differential Deferral Account *(Note 5)*	**(182)**	(279)
Pension and other post-employment benefit costs	**464**	483

The pension and OPEB obligations and the pension fund assets measured as at December 31 are as follows:

	Registered Pension Plans		**Supplementary Pension Plans**		**Other Post-Employment Benefits**	
(millions of dollars)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Change in Plan Assets						
Fair value of plan assets at beginning of year	**13,160**	12,407	**-**	-	**-**	-
Contributions by employer	**255**	362	**15**	24	**93**	94
Contributions by employees	**85**	72	**-**	-	**-**	-
Actual return on plan assets, net of expenses	**714**	1,151	**-**	-	**-**	-
Benefit payments	**(708)**	(832)	**(15)**	(24)	**(93)**	(94)
Fair value of plan assets at end of year	**13,506**	13,160	**-**	-	**-**	-
Change in Projected Benefit Obligations						
Projected benefit obligations at beginning of year	**15,475**	15,669	**299**	317	**3,188**	3,143
Employer current service costs	**277**	320	**7**	7	**67**	71
Contributions by employees	**85**	72	**-**	-	**-**	-
Interest on projected benefit obligation	**634**	630	**12**	13	**133**	127
Benefit payments	**(708)**	(832)	**(15)**	(24)	**(93)**	(94)
Past service costs	**-**	-	**-**	-	**-**	5
Net actuarial loss (gain)	**436**	(384)	**33**	(14)	**(303)**	(64)
Projected benefit obligations at end of year	**16,199**	15,475	**336**	299	**2,992**	3,188
Funded status – deficit at end of year	**(2,693)**	(2,315)	**(336)**	(299)	**(2,992)**	(3,188)

The following table provides the pension and OPEB liabilities and their classification on the consolidated balance sheets as at December 31:

	Registered Pension Plans		**Supplementary Pension Plans**		**Other Post-Employment Benefits**	
(millions of dollars)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Current liabilities	**-**	-	**(17)**	(17)	**(95)**	(103)
Non-current liabilities	**(2,693)**	(2,315)	**(319)**	(282)	**(2,897)**	(3,085)
Total liabilities	**(2,693)**	(2,315)	**(336)**	(299)	**(2,992)**	(3,188)

The accumulated benefit obligations for the registered pension plans and supplementary pension plans as at December 31, 2016 are $14,909 million and $293 million, respectively (2015 – $14,327 million and $267 million, respectively). The accumulated benefit obligation differs from the projected benefit obligation in that the accumulated benefit obligation includes no assumption about future compensation levels.

The following table provides the components of OPG's OCI related to pension and OPEB plans and the offsetting Pension and OPEB Regulatory Asset, discussed in Note 5, for the years ended December 31, on a pre-tax basis:

(millions of dollars)	Registered Pension Plans 2016	Registered Pension Plans 2015	Supplementary Pension Plans 2016	Supplementary Pension Plans 2015	Other Post-Employment Benefits 2016	Other Post-Employment Benefits 2015
Changes in plan assets and benefit obligations recognized in OCI						
Current year net actuarial loss (gain)	**456**	(818)	**33**	(14)	**(251)**	(71)
Current year past service costs	**-**	-	**-**	-	**-**	5
Amortization of net actuarial loss	**(192)**	(292)	**(4)**	(6)	**(19)**	(27)
Amortization of past service costs	**-**	-	**-**	-	**(1)**	-
Total decrease (increase) in OCI	**264**	(1,110)	**29**	(20)	**(271)**	(93)
Less: Increase (decrease) in Pension and OPEB Regulatory Asset *(Note 5)*	**253**	(916)	**27**	(15)	**(250)**	(70)
Net decrease (increase) in OCI (pre-tax)	**11**	(194)	**2**	(5)	**(21)**	(23)

The following table provides the components of OPG's AOCL and the offsetting Pension and OPEB Regulatory Asset that have not yet been recognized as components of benefit costs as at December 31, on a pre-tax basis:

(millions of dollars)	Registered Pension Plans 2016	Registered Pension Plans 2015	Supplementary Pension Plans 2016	Supplementary Pension Plans 2015	Other Post-Employment Benefits 2016	Other Post-Employment Benefits 2015
Unamortized amounts recognized in AOCL						
Past service costs	**-**	-	**-**	-	**5**	6
Net actuarial loss	**3,287**	3,023	**106**	77	**270**	540
Total recognized in AOCL	**3,287**	3,023	**106**	77	**275**	546
Less: Pension and OPEB Regulatory Asset *(Note 5)*	**3,039**	2,786	**100**	73	**253**	503
Net recognized in AOCL (pre-tax)	**248**	237	**6**	4	**22**	43

The following table provides the components of OPG's AOCL and the offsetting Pension and OPEB Regulatory Asset as at December 31 (included in the table above) that are expected to be amortized as components of benefit costs and recognized as increases to OCI and reductions in the Pension and OPEB Regulatory Asset in 2017, on a pre-tax basis:

(millions of dollars)	Registered Pension Plans	Supplementary Pension Plans	Other Post-Employment Benefits
Past service costs	**-**	**-**	**1**
Net actuarial loss	**183**	**6**	**-**
Total increase in OCI	**183**	**6**	**1**
Less: Estimated decrease in Pension and OPEB Regulatory Asset	**170**	**6**	**1**
Net increase in OCI (pre-tax)	**13**	**-**	**-**

The most recently filed actuarial valuation, for funding purposes, of the OPG registered pension plan, as at January 1, 2016, was filed with the FSCO in September 2016. The next filed funding valuation must have an effective date no later than January 1, 2019. For 2017, OPG's required contribution to its registered pension plan is expected to be

$248 million. The amount of OPG's additional, voluntary contribution, if any, is revisited from time to time. OPG will continue to assess the requirements for contributions to the pension plan.

The supplementary pension plans are not funded, but are secured by Letters of Credit totalling $349 million as at December 31, 2016 (2015 – $345 million).

Estimated future benefit payments to participants in the pension and OPEB plans based on the assumptions used to measure the benefit obligations as at December 31, 2016 are as follows:

(millions of dollars)	Registered Pension Plans	Supplementary Pension Plans	Other Post-Employment Benefits
2017	687	18	95
2018	759	18	98
2019	750	18	101
2020	767	19	105
2021	795	19	108
2022 through 2026	4,218	102	613

A one percent increase or decrease in the health care trend rate would result in an increase in the current service and interest components of the 2016 OPEB costs of $45 million (2015 – $45 million) or a decrease in the service and interest components of the 2016 OPEB costs of $33 million (2015 – $33 million). A one percent increase or decrease in the health care trend rate would result in an increase in the projected OPEB obligation as at December 31, 2016 of $560 million (2015 – $584 million) or a decrease in the projected OPEB obligation as at December 31, 2016 of $426 million (2015 – $446 million).

12. RISK MANAGEMENT AND DERIVATIVES

OPG is exposed to risks related to changes in market interest rates on debt expected to be issued in the future and movements in foreign currency that affect the Company's assets, liabilities, and forecasted transactions. Select derivative instruments are used to manage such risks. Derivatives are used as hedging instruments, as well as for trading purposes.

Interest rate risk is the risk that the value of assets and liabilities can change due to movements in related interest rates. Interest rate risk for OPG arises with the need to refinance existing debt and/or undertake new financing. The management of these risks includes using derivatives to hedge the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated financing.

OPG's financial results are exposed to volatility in the Canadian/US foreign exchange rate as fuels and certain supplies and services purchased for generating stations and major development projects are primarily denominated in, or tied to, US dollars. OPG enters into foreign exchange derivatives and agreements with major financial institutions, when appropriate, in order to manage the Company's exposure to foreign currency movements.

The majority of OPG's revenues are derived from sales through the IESO-administered spot market. Market participants in the IESO spot market provide collateral in accordance with the IESO prudential support requirements to cover funds that they might owe to the market. Although the credit exposure to the IESO represents a significant portion of OPG's accounts receivable, the Company's management accepts this risk due to the IESO's primary role in the Ontario electricity market. The remaining receivables exposure is to a diverse group of generally high quality counterparties. OPG's allowance for doubtful accounts as at December 31, 2016 was less than $1 million. OPG's fair value derivatives totalled a net liability of $24 million as at December 31, 2016 (2015 – $2 million). During 2015, OPG reversed a derivative liability of $299 million embedded in the Bruce Lease, with a corresponding reduction in

the regulatory asset for the Bruce Lease Net Revenues Variance Account, following amendments to the Bruce Lease that removed the provision of the agreement giving rise to the derivative.

The following table shows the pre-tax amounts related to derivatives recorded in AOCL and net income for the years ended December 31:

(millions of dollars)	**2016**	**2015**
Cash flow hedges (recorded in AOCL)		
Losses in OCI	**-**	(7)
Reclassification of losses to net interest expense	**21**	20
Reclassification of gains to fuel expense	**-**	(2)
Commodity derivatives (recorded in net income)		
Realized losses in revenue	**(12)**	(16)
Unrealized losses in revenue	**(3)**	(7)
Embedded derivative (recorded in net income)		
Unrealized gains in revenue [1]	**-**	225

[1] Excludes the impact of the Bruce Lease Net Revenues Variance Account.

Existing net losses of $20 million deferred in AOCL as at December 31, 2016 are expected to be reclassified to net income within the next 12 months.

13. FAIR VALUE MEASUREMENTS

OPG is required to classify fair value measurements using a fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels, based on the inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: Valuation of inputs is based on unadjusted quoted market prices observed in active markets for identical assets or liabilities.
- Level 2: Valuation is based on inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Valuation is based on inputs for the asset or liability that are not based on observable market data.

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated balance sheet dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by OPG is the current bid price. These instruments are included in Level 1 and are comprised primarily of equity investments and fund investments.

For financial instruments for which quoted market prices are not directly available, fair values are estimated using forward price curves developed from observable market prices or rates. The estimation of fair value may include the use of valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing at the consolidated balance sheet dates. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and fund investments. Pooled fund investments are valued at the unit values supplied by the pooled fund administrators. The unit values represent the underlying net assets at fair values, determined using closing market prices. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques are used to value these instruments. Significant Level 3 inputs include: recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors.

Transfers into, out of, or between levels are deemed to have occurred on the date of the event or change in circumstances that caused the transfer to occur.

The Company is required to determine the fair value of all its financial instruments. The following is a summary of OPG's financial instruments as at December 31:

	Fair Value		**Carrying Value** [1]		
(millions of dollars)	**2016**	**2015**	**2016**	**2015**	**Balance Sheet Line Item**
Nuclear Segregated Funds (includes current portion)	**15,984**	15,136	**15,984**	15,136	Nuclear fixed asset removal and nuclear waste management funds
Investment in Hydro One shares	**212**	-	**212**	-	Available-for-sale securities
Payable related to cash flow hedges	**(48)**	(56)	**(48)**	(56)	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	**(6,033)**	(5,978)	**(5,520)**	(5,459)	Long-term debt
Other financial instruments	**(18)**	6	**(18)**	6	Various

[1] The carrying values of other financial instruments included in cash and cash equivalents, receivables from related parties, Other current assets, short-term debt, and accounts payable and accrued charges approximate their fair values due to the immediate or short-term maturity of these financial instruments.

The fair value of long-term debt instruments is determined based on a conventional pricing model, which is a function of future cash flows, the current market yield curve and term to maturity. These inputs are considered Level 2 inputs.

The following tables present financial assets and financial liabilities measured at fair value in accordance with the fair value hierarchy as at December 31, 2016 and 2015:

	December 31, 2016			
(millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Used Fuel Segregated Fund				
Investments measured at fair value, excluding investments measured at NAV	**5,602**	**4,394**	**-**	**9,996**
Investments measured at NAV [1]				**1,086**
				11,082
Due to Province				**(1,938)**
Used Fuel Segregated Fund, net				**9,144**
Decommissioning Segregated Fund				
Investments measured at fair value, excluding investments measured at NAV	**4,171**	**3,243**	**-**	**7,414**
Investments measured at NAV [1]				**903**
				8,317
Due to Province				**(1,477)**
Decommissioning Segregated Fund, net				**6,840**
Investment in available-for-sale securities	**212**	**-**	**-**	**212**
Other financial assets	**6**	**2**	**9**	**17**
Liabilities				
Other financial liabilities	**(29)**	**(6)**	**-**	**(35)**

[1] Represents investments measured at fair value using NAV as a practical expedient, which have not been classified in the fair value hierarchy. The fair value amounts for these investments presented in this table are intended to permit the reconciliation of the fair value hierarchy to amounts presented on the consolidated balance sheets.

	December 31, 2015			
(millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Used Fuel Segregated Fund				
Investments measured at fair value, excluding investments measured at NAV	5,114	4,293	-	9,407
Investments measured at NAV [1]				883
				10,290
Due to Province				(1,703)
Used Fuel Segregated Fund, net				8,587
Decommissioning Segregated Fund				
Investments measured at fair value, excluding investments measured at NAV	3,870	3,227	-	7,097
Investments measured at NAV [1]				737
				7,834
Due to Province				(1,285)
Decommissioning Segregated Fund, net				6,549
Other financial assets	14	4	16	34
Liabilities				
Other financial liabilities	(18)	(8)	(2)	(28)

[1] Represents investments measured at fair value using NAV as a practical expedient, which have not been classified in the fair value hierarchy. The fair value amounts for these investments presented in this table are intended to permit the reconciliation of the fair value hierarchy to amounts presented on the consolidated balance sheets.

During the year ended December 31, 2016, there were no transfers between Level 1 and Level 2. In addition, there were no transfers into and out of Level 3.

The following table presents the changes in OPG's net assets measured at fair value that are classified as Level 3:

(millions of dollars)	**Other financial instruments**
Opening balance, January 1, 2016	**14**
Unrealized gains included in revenue	**1**
Realized losses included in revenue	**(12)**
Purchases	**6**
Closing balance, December 31, 2016	**9**

Nuclear Segregated Funds

The fair value of the investments within the Nuclear Segregated Funds' alternative investment portfolio is determined using appropriate valuation techniques, such as recent arm's length market transactions, references to current fair values of other instruments that are substantially the same, discounted cash flow analyses, third-party independent appraisals, valuation multiples, or other valuation methods. Any control, size, liquidity or other discount premiums on the investments are considered in the determination of fair value. Alternative investments are measured at fair value using NAV as a practical expedient.

The process of valuing investments for which no published market price exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for these investments. The values may also differ from the prices at which the investments may be sold.

The following are the classes of investments within the Nuclear Segregated Funds that are reported on the basis of NAV as at December 31, 2016:

(millions of dollars except where noted)	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice**
Alternative Investments				
Infrastructure	**1,205**	**648**	**n/a**	**n/a**
Real Estate	**713**	**406**	**n/a**	**n/a**
Agriculture	**71**	**128**	**n/a**	**n/a**
Pooled Funds				
Short-term Investments	**34**	**n/a**	**Daily**	**1 - 5 Days**
Fixed Income	**553**	**n/a**	**Daily**	**1 - 5 Days**
Equity	**742**	**n/a**	**Daily**	**1 - 5 Days**
Total	**3,318**	**1,182**		

The fair value of the pooled funds is classified as Level 2.

Infrastructure

This class includes investments in funds whose investment objective is to generate a combination of long-term capital appreciation and current income, generally through investments such as energy, transportation and utilities. The fair values of investments in this class have been estimated using NAV of the Nuclear Segregated Funds' ownership interest in partners' capital and/or underlying investments held by subsidiaries of an infrastructure fund. The investments in the respective infrastructure funds are not redeemable. However, the Nuclear Segregated Funds may transfer any of its partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each infrastructure fund will be received based on the operations of the underlying investments and/or as the underlying investments of the infrastructure funds are liquidated. It is not

possible to estimate when the underlying assets of the infrastructure funds will be liquidated. However, the infrastructure funds have a maturity end period ranging from 2019 to 2025.

Real Estate

This class includes investments in institutional-grade real estate property. The investment objective is to provide a stable level of income with the opportunity for long-term capital appreciation. The fair values of the investments in this class have been estimated using NAV of the Nuclear Segregated Funds' ownership interest in these investments. The partnership investments are not redeemable. However, the Nuclear Segregated Funds may transfer any of its partnership interests to another party, as stipulated in the partnership agreement. For investments in private real estate corporations, shares may be redeemed through a pre-established redemption process. It is not possible to estimate when the underlying assets in this class will be liquidated.

Agriculture

This class includes a diversified portfolio of global farmland and timberland investments. The investment objective is to provide a differentiated return source, income yield, and inflation protection. The fair values of the investments in this class have been estimated using NAV of the Nuclear Segregated Funds' ownership interest in these investments. The investments are not redeemable. However, the Nuclear Segregated Funds may transfer any of its partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements.

Pooled Funds

This class represents investments in pooled funds, which primarily include a diversified portfolio of fixed income securities, issued mainly by Canadian corporations, and diversified portfolios of Emerging Market listed equity. The investment objective of the pooled funds is to achieve capital appreciation and income through professionally managed portfolios. The fair value of the investments in this class has been estimated using NAV per share of the investments. There are no significant restrictions on the ability to sell the investments in this class.

14. COMMON SHARES

As at December 31, 2016 and 2015, OPG had 256,300,010 common shares issued and outstanding at a stated value of $5,126 million. OPG is authorized to issue an unlimited number of common shares without nominal or par value. Any issue of new shares is subject to the consent of OPG's shareholder.

15. COMMITMENTS AND CONTINGENCIES

Litigation

On August 9, 2006, a Notice of Action and Statement of Claim filed with the Ontario Superior Court of Justice in the amount of $500 million was served against OPG and Bruce Power by British Energy Limited and British Energy International Holdings Limited (together British Energy). The action is for contribution and indemnity of any amounts British Energy was liable for in an arbitration against it by some of the owners of Bruce Power regarding an alleged breach of British Energy's representations and warranties to the claimants when they purchased British Energy's interest in Bruce Power (the Arbitration). Both the action and the Arbitration relate to corrosion to a steam generator unit discovered after OPG leased the Bruce nuclear generating stations to Bruce Power.

In 2012, the arbitrator found that British Energy was liable to the claimants for some of the damages they claimed. The final settlement amount was valued by British Energy at $71 million. In September 2014, British Energy amended its Statement of Claim (Amended Claim) to reduce the claim amount to $100 million to reflect that the purchasers of British Energy's interest in Bruce Power did not receive the full damages they originally claimed in the

Arbitration. British Energy also added an allegation to its Amended Claim that OPG breached a covenant to maintain the steam generator between the time of the initial agreement to lease and the effective date of the lease in accordance with “Good Utility Practices”.

In November 2016, British Energy obtained consent to a timetable for the remaining steps in the litigation, pursuant to which the matter must be set down for trial by December 31, 2018. OPG is preparing a statement of defence to be delivered by June 30, 2017, as required by the timetable.

Various other legal proceedings are pending against OPG or its subsidiaries covering a wide range of matters that arise in the ordinary course of business activities.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably. While it is not possible to determine the ultimate outcome of the various pending actions, it is the Company’s belief that their resolution is not likely to have a material adverse impact on its financial position.

Guarantees

The Company and its joint venture partners have jointly guaranteed the financial performance of jointly owned entities related primarily to the payment of liabilities. As at December 31, 2016, the total amount of guarantees OPG provided to these entities was $83 million (2015 – $81 million). OPG may terminate some of these guarantees within a short time frame by providing written notice to the counterparties at any time. Other guarantees have terms ending between 2019 and 2029. As at December 31, 2016, the potential impact of the fair value of these guarantees to income has been estimated to be negligible and OPG does not expect to make any payments associated with these guarantees.

Contractual and Commercial Commitments

OPG’s contractual obligations and commercial commitments as at December 31, 2016, are as follows:

(millions of dollars)	2017	2018	2019	2020	2021	Thereafter	Total
Fuel supply agreements	186	169	96	76	61	102	690
Contributions to the OPG registered pension plan [1]	248	251	-	-	-	-	499
Long-term debt repayment	1,103	398	368	663	413	2,589	5,534
Interest on long-term debt	252	196	177	155	125	2,241	3,146
Commitments related to Darlington Refurbishment project [2]	473	-	-	-	-	-	473
Commitments related to Peter Sutherland Sr. GS project	46	-	-	-	-	-	46
Operating licences	43	37	23	24	28	114	269
Operating lease obligations [3]	24	27	25	25	23	92	216
Unconditional purchase obligations	65	58	57	55	4	-	239
Accounts payable and accrued charges	916	-	-	-	-	18	934
Other	52	6	1	2	1	65	127
Total	3,408	1,142	747	1,000	655	5,221	12,173

[1] The pension contributions include ongoing funding requirements and additional funding requirements towards the deficit, in accordance with the actuarial valuation of the OPG registered pension plan as at January 1, 2016, filed with the FSCO in September 2016. The next actuarial valuation of the OPG registered pension plan must have an effective date no later than January 1, 2019. The pension contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, changes in the pension regulatory environment, and the timing of funding valuations. Funding requirements after 2018 are excluded due to significant variability in the assumptions required to project the timing of future cash flows. The amount of OPG’s additional, voluntary contribution, if any, is revisited from time to time.

[2] Represents estimated currently committed costs to close the project, including accruals for completed work, demobilization of project staff and cancellation of existing contracts and material orders.

[3] Includes office lease commitments subsequent to the closing of the sale of the Company’s head office premises expected in the second quarter of 2017.

Contractual and commercial commitments as noted exclude certain purchase orders, as they represent purchase authorizations rather than legally binding contracts, and are subject to change without significant penalties.

Lease Commitments

The Company leases the Bruce A and Bruce B nuclear generating stations to Bruce Power. Under the lease agreement, as amended in December 2015, Bruce Power has options to renew the lease up to the end of 2064. As per *Ontario Regulation 53/05* pursuant to the *Ontario Energy Board Act, 1998*, the difference between OPG's revenues and costs associated with the Bruce A and Bruce B nuclear generating stations is included in the determination of OPG's nuclear regulated prices established by the OEB. The OEB has determined that, since the Bruce nuclear generating stations are not prescribed under *Ontario Regulation 53/05*, these revenues, including lease revenues, and costs, including depreciation expense, are to be calculated on the basis of the manner in which they are recognized in OPG's consolidated financial statements, without the application of regulatory constructs. As such, the net book value of the assets for these stations is not included in the regulated rate base.

The net book value of property, plant and equipment on lease to Bruce Power as at December 31, 2016 was $2,986 million (2015 – $4,400 million). The net book value largely comprises asset retirement costs, which decreased effective December 31, 2016 as a result of the change in the estimate for the ARO. Refer to Note 3 for further details on the change in the estimate for the ARO.

Collective Bargaining Agreements

As at December 31, 2016, the Power Workers' Union (PWU) represented approximately 5,070 OPG regular employees or approximately 55 percent of OPG's regular workforce. The previous collective agreement between OPG and the PWU expired on March 31, 2015. In May 2015, the parties agreed to renew the collective agreement for a three-year term, expiring on March 31, 2018. The changes to the collective agreement included increases to employee pension plan contributions in each year of the agreement.

As at December 31, 2016, The Society of Energy Professionals (The Society) represented approximately 3,140 OPG employees or approximately 34 percent of OPG's regular workforce. The previous collective agreement between OPG and The Society expired on December 31, 2015. In November 2015, the parties agreed to renew the collective agreement for a three-year term, expiring on December 31, 2018. The changes to the collective agreement included increases to employee pension plan contributions in each of the first two years of the agreement.

The changes to both collective agreements provide existing employees with lump-sum payments for each of the first two years of the contract and eligibility to annually receive shares in Hydro One for up to 15 years starting in year three of the contract, as long as these employees continue to make contributions to the OPG pension plan and have less than 35 years of pensionable service.

16. BUSINESS SEGMENTS

OPG has the following five reportable business segments:

- Regulated – Nuclear Generation
- Regulated – Nuclear Waste Management
- Regulated – Hydroelectric
- Contracted Generation Portfolio
- Services, Trading, and Other Non-Generation

Regulated – Nuclear Generation Segment

The Regulated – Nuclear Generation business segment operates in Ontario, generating and selling electricity from the Pickering GS and the Darlington GS, both owned and operated by OPG. The business segment also includes revenue under the terms of a long-term lease arrangement and related agreements with Bruce Power related to the Bruce nuclear generating stations. This revenue includes lease revenue, fees for nuclear waste management, and revenue from heavy water sales and detritiation services. The segment also earns revenue from isotope sales and ancillary services supplied by OPG-operated nuclear stations. Ancillary revenues are earned through voltage control and reactive support. Revenues under the agreements with Bruce Power, including a portion of heavy water sales, and from isotope sales and ancillary services are included by the OEB as a credit to customers in the determination of the regulated prices for production from OPG's nuclear facilities, which has had the effect of reducing these prices.

Regulated – Nuclear Waste Management Segment

OPG's Regulated – Nuclear Waste Management segment reports the results of the Company's operations associated with the management of nuclear used fuel and L&ILW, the decommissioning of OPG's nuclear generating stations including the stations on lease to Bruce Power and other waste management facilities, the management of the Nuclear Segregated Funds, and related activities including the inspection and maintenance of the waste storage facilities. Accordingly, accretion expense, which is the increase in the Nuclear Liabilities carried on the consolidated balance sheets in present value terms due to passage of time, and earnings from the Nuclear Segregated Funds are reported under this segment.

As the nuclear generating stations operate over time, OPG incurs incremental costs related to used nuclear fuel and low and intermediate level wastes, which increase the Nuclear Liabilities. OPG charges these incremental costs to current operations in the Regulated – Nuclear Generation segment to reflect the cost of producing energy from the Pickering and Darlington nuclear generating stations and earning revenue under the Bruce Lease and related agreements. Since the incremental costs increase the Nuclear Liabilities in the Regulated – Nuclear Waste Management segment, OPG records an inter-segment charge between the Regulated – Nuclear Generation and the Regulated – Nuclear Waste Management segments. The impact of the inter-segment charge is eliminated in the consolidated statements of income and balance sheets.

The Regulated – Nuclear Waste Management segment is considered rate regulated because OPG's costs associated with the Nuclear Liabilities have been included in the determination of regulated prices for production from the Pickering and Darlington nuclear generating stations, in accordance with the methodology applied by the OEB since its 2008 decision on OPG's first application for regulated prices.

Regulated – Hydroelectric Segment

OPG's Regulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from most of the Company's hydroelectric generating stations. The business segment includes the results of the Sir Adam Beck 1, 2 and Pump generating stations, the DeCew Falls 1 and 2 generating stations, and the R.H. Saunders GS that were prescribed for rate regulation prior to 2014, and the 48 hydroelectric stations prescribed for rate regulation effective in 2014.

In addition, the business segment includes ancillary and other revenues from OPG's regulated hydroelectric stations. Ancillary revenues are earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control and reactive support, certified black start facilities, regulation service, and other services. These ancillary revenues and other revenues are included by the OEB as a credit to ratepayers in the determination of the regulated prices for production from OPG's prescribed hydroelectric facilities, which has had the effect of reducing these prices.

Contracted Generation Portfolio Segment

The Contracted Generation Portfolio business segment operates in Ontario, generating and selling electricity from the Company's generating stations that are not prescribed for rate regulation. The segment primarily includes generating facilities that are under an ESA with the IESO or other long-term contracts.

The Contracted Generation Portfolio segment also includes OPG's share of equity income from its 50 percent ownership interests in the PEC and Brighton Beach stations.

The business segment also includes ancillary revenues and other revenues from the stations included in the segment, which are earned through offering available generating capacity as operating reserve, and the supply of other ancillary services including voltage control and reactive support, certified black start facilities, regulation service, and other services.

Services, Trading, and Other Non-Generation Segment

The Services, Trading, and Other Non-Generation segment is a non-generation segment that is not subject to rate regulation. It includes the revenue and expenses related to OPG's trading and other non-hedging activities. As part of these activities, OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate to electricity that is purchased and sold at the Ontario border, financial energy trades, financial risk management energy product revenues, and sales of energy-related products. In addition, OPG has a wholly owned trading subsidiary that transacts solely in the US market. The results of this subsidiary are reported in this segment. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value on the consolidated balance sheets with changes in fair value recorded in the revenue of this segment. In addition, the segment includes revenue from real estate rentals and non-regulated services, non-regulated business development activities, and, prior to OPG's decision to decommission the stations, preservation costs related to the former coal-fired Lambton GS and the Nanticoke GS sites.

OM&A expenses of the generation business segments include an inter-segment service fee for the use of certain PP&E and intangible assets held within Service, Trading, and Other Non-Generation segment. The total service fee is recorded as a reduction to the segment's OM&A expenses.

The service fee included in OM&A expenses by segment in 2016 and 2015 was as follows:

(millions of dollars)	**2016**	**2015**
Regulated – Nuclear Generation	**34**	33
Regulated – Hydroelectric	**7**	6
Contracted Generation Portfolio	**4**	4
Reduction to Services, Trading, and Other Non-Generation	**45**	43

Segment Income (Loss) for the Year Ended December 31, 2016 *(millions of dollars)*	Nuclear Generation	Regulated Nuclear Waste Manage-ment	Hydro-electric	Unregulated Contracted Generation Portfolio	Unregulated Services, Trading, and Other Non-Generation	Elimination	Total
Revenue	**3,481**	**138**	**1,527**	**573**	**68**	**(134)**	**5,653**
Fuel expense	**315**	**-**	**353**	**58**	**1**	**-**	**727**
Gross margin	**3,166**	**138**	**1,174**	**515**	**67**	**(134)**	**4,926**
Operations, maintenance and administration	**2,210**	**146**	**325**	**178**	**22**	**(134)**	**2,747**
Depreciation and amortization	**925**	**-**	**225**	**75**	**32**	**-**	**1,257**
Accretion on fixed asset removal and nuclear waste management liabilities	**-**	**912**	**-**	**9**	**8**	**-**	**929**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**-**	**(746)**	**-**	**-**	**-**	**-**	**(746)**
Income from investments subject to significant influence	**-**	**-**	**-**	**(37)**	**-**	**-**	**(37)**
Property taxes	**26**	**-**	**1**	**7**	**12**	**-**	**46**
Restructuring	**-**	**-**	**-**	**-**	**6**	**-**	**6**
Other losses (gains)	**1**	**-**	**(19)**	**1**	**-**	**-**	**(17)**
Income (loss) before interest and income taxes	**4**	**(174)**	**642**	**282**	**(13)**	**-**	**741**

Segment Income (Loss) for the Year Ended December 31, 2015 *(millions of dollars)*	**Nuclear Generation**	**Regulated Nuclear Waste Manage-ment**	**Hydro-electric**	**Unregulated Contracted Generation Portfolio**	**Services, Trading, and Other Non-Generation**	**Elimination**	**Total**
Revenue	3,245	122	1,619	535	73	(118)	5,476
Fuel expense	301	-	345	39	2	-	687
Gross margin	2,944	122	1,274	496	71	(118)	4,789
Operations, maintenance and administration	2,196	132	340	185	48	(118)	2,783
Depreciation and amortization	717	-	282	72	29	-	1,100
Accretion on fixed asset removal and nuclear waste management liabilities	-	880	-	8	7	-	895
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(704)	-	-	-	-	(704)
Income from investments subject to significant influence	-	-	-	(39)	-	-	(39)
Property taxes	26	-	1	7	11	-	45
Restructuring	-	-	-	-	6	-	6
Other losses	3	-	3	1	7	-	14
Income (loss) before interest and income taxes	2	(186)	648	262	(37)	-	689

Selected Consolidated Balance Sheet Information as at December 31, 2016 (millions of dollars)	Nuclear Generation	Regulated Nuclear Waste Manage-ment	Hydro-electric	Unregulated Contracted Generation Portfolio	Services, Trading, and Other Non-Generation	Total
Segment property, plant and equipment in-service, net	5,653	-	7,355	3,282	226	16,516
Segment construction in progress	2,988	-	166	301	27	3,482
Segment property, plant and equipment, net	8,641	-	7,521	3,583	253	19,998
Segment intangible assets in-service, net	7	-	2	4	66	79
Segment development in progress	3	-	-	1	16	20
Segment intangible assets, net	10	-	2	5	82	99
Segment fuel inventory	276	-	-	34	-	310
Segment materials and supplies inventory, net:						
Current	99	-	-	1	-	100
Long-term	340	-	1	4	-	345
Nuclear fixed asset removal and nuclear waste management funds (current and non-current portions)	-	15,984	-	-	-	15,984
Fixed asset removal and nuclear waste management liabilities	-	(19,103)	-	(160)	(221)	(19,484)

Selected Consolidated Balance Sheet Information as at December 31, 2015 *(millions of dollars)*	Nuclear Generation	Regulated Nuclear Waste Manage-ment	Hydro-electric	Contracted Generation Portfolio	Unregulated Services, Trading, and Other Non-Generation	Total
Segment property, plant and equipment in-service, net	6,972	-	7,413	3,319	324	18,028
Segment construction in progress	2,289	-	99	141	38	2,567
Segment property, plant and equipment, net	9,261	-	7,512	3,460	362	20,595
Segment intangible assets in-service, net	8	-	1	3	58	70
Segment development in progress	-	-	4	-	24	28
Segment intangible assets, net	8	-	5	3	82	98
Segment fuel inventory	304	-	-	40	-	344
Segment materials and supplies inventory, net:						
Current	95	-	-	1	-	96
Long-term	333	-	1	3	-	337
Nuclear fixed asset removal and nuclear waste management funds (current and non-current portions)	-	15,136	-	-	-	15,136
Fixed asset removal and nuclear waste management liabilities	-	(19,792)	-	(151)	(226)	(20,169)

Selected Consolidated Cash Flow Information *(millions of dollars)*	Nuclear Generation	Regulated Nuclear Waste Management	Hydro-electric	Contracted Generation Portfolio	Unregulated Services, Trading, and Other Non-Generation	Total
Year ended December 31, 2016 Investment in property, plant and equipment, and intangible assets	**1,338**	**-**	**132**	**198**	**36**	**1,704**
Year ended December 31, 2015 Investment in property, plant and equipment, and intangible assets	1,023	-	89	222	42	1,376

17. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	2016	2015
Receivables from related parties	**116**	(63)
Prepaid expenses	**(108)**	(35)
Other current assets [1]	**(32)**	(12)
Fuel inventory	**34**	(10)
Materials and supplies	**(4)**	(2)
Income taxes payable	**57**	42
Accounts payable and accrued charges	**5**	(49)
	68	(129)

[1] Represents other accounts receivable.

18. RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province and other entities controlled by the Province.

The related party transactions summarized below include transactions with the Province and the principal successors to the former Ontario Hydro's integrated electricity business, including Hydro One, the IESO and the OEFC. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. As one of several wholly-owned government business enterprises of the Province, OPG also has transactions in the normal course of business with various government ministries and organizations in Ontario that fall under the purview of the Province.

The related party transactions for the years ended December 31 are summarized below:

	2016		2015	
(millions of dollars)	Revenue	Expense	Revenue	Expense
Hydro One				
Electricity sales	**6**	**-**	12	-
Services	**1**	**5**	1	6
Dividends	**6**	**-**	-	-
Province of Ontario				
Change in Decommissioning Segregated Fund amount due to Province [1]	**-**	**192**	-	185
Change in Used Fuel Segregated Fund amount due to Province [1]	**-**	**235**	-	274
Hydroelectric gross revenue charge	**-**	**120**	-	121
ONFA guarantee fee	**-**	**8**	-	8
OEFC				
Gross revenue charge	**-**	**203**	-	207
Interest expense on long-term notes	**-**	**169**	-	177
Income taxes, net of investment tax credits	**-**	**104**	-	80
Contingency support agreement	**-**	**-**	8	-
IESO				
Electricity related revenue	**5,105**	**24**	4,903	65
	5,118	**1,060**	4,924	1,123

[1] The Nuclear Segregated Funds are reported on the consolidated balance sheets net of amounts recognized as due to the Province in respect of excess funding and, for the Used Fuel Segregated Fund, the Province's rate of return guarantee. As at December 31, 2016 and December 31, 2015, the Nuclear Segregated Funds were reported net of amounts due to the Province of $3,415 million and $2,988 million, respectively.

The receivable, available-for-sale securities, payable and long-term debt balances between OPG and its related parties are summarized below:

(millions of dollars)	**2016**	**2015**
Receivables from related parties		
Hydro One	**1**	1
IESO	**421**	531
OEFC	**1**	9
PEC	**4**	3
Province of Ontario	**2**	1
Available-for-sale securities		
Hydro One shares	**212**	-
Accounts payable and accrued charges		
Hydro One	**-**	1
OEFC	**61**	51
Province of Ontario	**2**	20
IESO	**2**	18
Long-term debt (including current portion)		
Notes payable to OEFC	**3,295**	3,465

OPG holds interest-bearing Province of Ontario bonds in the Nuclear Segregated Funds and the OPG registered pension fund. As at December 31, 2016, the Nuclear Segregated Funds and the registered pension fund held $1,652 million and $284 million of interest-bearing Province of Ontario bonds, respectively. As at December 31, 2015, the Nuclear Segregated Funds and the registered pension fund held $1,597 million and $288 million of interest-bearing Province of Ontario bonds, respectively. These bonds are publicly traded securities and are measured at fair value. OPG jointly oversees the investment management of the Nuclear Segregated Funds with the Province.

Hydro One Limited Shares

During 2015, OPG entered into renewed three-year collective bargaining agreements with the PWU and The Society. Changes to the respective collective agreements included increases to employee pension plan contributions and provided existing employees represented by the PWU and The Society with eligibility to annually receive common shares of Hydro One for up to 15 years starting in the third year of the respective agreements. In April 2016, OPG acquired nine million common shares of Hydro One at $23.65 per share as part of a secondary share offering by the Province through a syndicate of underwriters. The acquisition, totalling $213 million, was made for investment purposes to mitigate the risk of future price volatility related to OPG's future share delivery obligations under the collective agreements. The shares acquired in this transaction represent the substantial majority of OPG's currently anticipated purchases of Hydro One shares.

OPG classified the Hydro One shares as AFS securities.

For the year ended December 31, 2016, unrealized losses recognized in accumulated AOCL related to the changes in the fair value of the Hydro One shares were $1 million, net of income taxes. The fair value of the shares was $212 million as at December 31, 2016. Refer to Notes 10 and 13 for the required disclosures related to the AFS securities.

19. INVESTMENTS SUBJECT TO SIGNIFICANT INFLUENCE

Investments subject to significant influence consist of OPG's 50 percent ownership interest in the jointly controlled entities of PEC and Brighton Beach, which are accounted for using the equity method, as described in Note 3. The details of the balance included in the consolidated balance sheets as at December 31 are as follows:

(millions of dollars)	**2016**	**2015**
PEC		
Current assets	**18**	14
Long-term assets	**256**	270
Current liabilities	**(8)**	(4)
Long-term liabilities	**(5)**	(5)
Brighton Beach		
Current assets	**5**	9
Long-term assets	**168**	177
Current liabilities	**(16)**	(15)
Long-term liabilities	**(7)**	(6)
Long-term debt	**(90)**	(104)
Investments subject to significant influence	**321**	336

20. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2016, research and development expenses of $82 million (2015 – $91 million) were charged to operations.

21. NON-CONTROLLING INTEREST

Lower Mattagami Limited Partnership (LMLP) is an Ontario limited partnership between OPG and Amisk-oo-Skow Finance Corporation (AFC), a corporation wholly owned by the Moose Cree First Nation. The principal business of LMLP is the development, construction, ownership, operation and maintenance of hydroelectric generating facilities located on the Lower Mattagami River.

During 2014, all six new units constructed as part of the Lower Mattagami River project were declared in-service. Subsequent to the units' in-service dates, the AFC made contributions of $141 million to acquire their equity interest in LMLP, through the settlement of existing liabilities, including long-term debt. As of December 31, 2016, the AFC had a 25 percent interest in LMLP. OPG consolidates the results of LMLP in its consolidated financial statements. The non-controlling interest reported in OPG's consolidated financial statements represents the AFC's equity interest in LMLP.

TRUSTS AND MISCELLANEOUS STATEMENTS

Deposit Insurance Corporation of Ontario

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

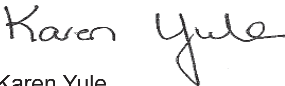
The Deposit Insurance Corporation of Ontario's management is responsible for the integrity and fair presentation of the annual financial statements and all other information included in the annual report. The financial statements have been prepared in conformity with International Financial Reporting Standards.

The Corporation maintains systems of internal accounting controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that the Corporation's assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed by the Corporation's Audit and Finance Committee and have been approved by its Board of Directors. In addition, the financial statements have been audited by KPMG LLP, whose report follows.

Guy Hubert
President & CEO (Acting)

Richard Dale
Vice President, Corporate Affairs



Karen Yule
Vice President, Finance and Chief Financial Officer

Toronto, Canada
March 30, 2017

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Deposit Insurance Corporation of Ontario

We have audited the accompanying financial statements of Deposit Insurance Corporation of Ontario, which comprise the statement of financial position as at December 31, 2016, the statements of operations and changes in the deposit insurance reserve fund, comprehensive income, accumulated other comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Deposit Insurance Corporation of Ontario as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

KPMG LLP
Chartered Professional Accountants,
Licensed Public Accountants

March 30, 2017
Toronto, Canada

Deposit Insurance Corporation of Ontario

STATEMENT OF FINANCIAL POSITION

(in thousands of dollars)	*Notes*	As at December 31, 2016	2015
ASSETS			
Current assets			
Cash and cash equivalents		**$ 1,216**	**$ 1,970**
Investments	*5*	**182,168**	**162,413**
Premiums receivable		**637**	**1,081**
Prepaid expenses and other receivables		**399**	**391**
Total current assets		**184,420**	**165,855**
Non-current assets			
Investments	*5*	**47,222**	**41,944**
Deposit insurance advances recoverable	*6*	**6,255**	**10,145**
Property, plant and equipment	*7*	**252**	**403**
Intangible assets	*8*	**-**	**377**
Total non-current assets		**53,729**	**52,869**
Total Assets		**$ 238,149**	**$ 218,724**
LIABILITIES			
Current liabilities			
Payables and accruals		**$ 1,273**	**$ 1,279**
Deferred premium income	*4*	**781**	**2,053**
Total current liabilities		**2,054**	**3,332**
Non-current liabilities			
Payables and accruals		**979**	**954**
Employee benefits	*9*	**6,243**	**5,838**
Accrual for deposit insurance claims	*6*	**3,000**	**3,000**
Total non-current liabilities		**10,222**	**9,792**
Total Liabilities		**$ 12,276**	**$ 13,124**
EQUITY			
Accumulated other comprehensive income (loss)		**$ (175)**	**$ 41**
Deposit Insurance Reserve Fund		**226,048**	**205,559**
Total Equity		**$ 225,873**	**$ 205,600**
Total Liabilities and Equity		**$ 238,149**	**$ 218,724**

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

Deposit Insurance Corporation of Ontario

STATEMENT OF OPERATIONS AND CHANGES IN THE DEPOSIT INSURANCE RESERVE FUND

(in thousands of dollars)		Year ended December 31,	
	Notes	**2016**	**2015**
INCOME			
Premium income	*4*	**$ 27,134**	**$ 26,623**
Other income		**1,807**	**1,708**
		28,941	**28,331**
EXPENSES			
Salaries and benefits		**6,478**	**6,592**
Operating expenses		**2,253**	**1,988**
Recovery of operating expenses		**(261)**	**(446)**
		8,470	**8,134**
Excess of income over operating expenses		**20,471**	**20,197**
Net (recovery) for insurance losses	*6*	**(18)**	**(249)**
Excess of income over total expenses		**20,489**	**20,446**
Deposit Insurance Reserve Fund, beginning of year		**205,559**	**185,113**
Deposit Insurance Reserve Fund, end of year		**$ 226,048**	**$ 205,559**

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of dollars)	Year ended December 31, 2016	2015
Excess of income over total expenses	**$ 20,489**	**$ 20,446**
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale investments arising during the year	**(127)**	**195**
Unrealized gains (losses) on available-for-sale investments acquired from liquidated credit unions arising during the year	**(41)**	**21**
Actuarial gains (losses) on post-employment, non-pension benefits arising during the year	**(48)**	**54**
Total other comprehensive income (loss)	**(216)**	**270**
Comprehensive income	**$ 20,273**	**$ 20,716**

STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(in thousands of dollars)	Year ended December 31, 2016	2015
Accumulated other comprehensive income (loss), beginning of year	**$ 41**	**$ (229)**
Sale of available-for-sale investments from opening balance of accumulated other comprehensive income	**(146)**	**(125)**
Unrealized gains on available-for-sale investments arising during the year	**19**	**320**
Unrealized gains (losses) on available-for-sale investments acquired from liquidated credit unions arising during the year	**(41)**	**21**
Actuarial gains (losses) on post-employment, non-pension benefits arising during the year	**(48)**	**54**
Net change during the year	**(216)**	**270**
Accumulated other comprehensive income (loss), end of year	**$ (175)**	**$ 41**

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

STATEMENT OF CHANGES IN EQUITY

(in thousands of dollars)	Year ended December 31,	
	2016	**2015**
Deposit Insurance Reserve Fund		
Balance at beginning of year	**$ 205,559**	**$ 185,113**
Excess of income over total expenses during the year	**20,489**	**20,446**
Balance at end of year	**226,048**	**205,559**
Accumulated other comprehensive income on available-for-sale investments		
Balance at beginning of year	**431**	**215**
Unrealized gains (losses) on available-for-sale investments arising during the year	**(168)**	**216**
Balance at end of year	**263**	**431**
Accumulated other comprehensive income on post-employment, non-pension benefits		
Balance at beginning of year	**(390)**	**(444)**
Actuarial gains (losses) on remeasurement of post-employment, non-pension benefits arising during the year	**(48)**	**54**
Balance at end of year	**(438)**	**(390)**
Total accumulated other comprehensive income, end of year	**(175)**	**41**
Total Equity	**$ 225,873**	**$ 205,600**

Deposit Insurance Corporation of Ontario

STATEMENT OF CASH FLOWS

(in thousands of dollars)

	Notes	Year ended December 31, 2016	2015
Cash flows from / (used in) operating activities:			
Excess of income over total expenses		$ 20,489	$ 20,446
Adjustments for:			
Recovery of losses		(18)	(249)
Loss on disposal of property, plant and equipment		2	-
Unrealized gains (losses) on available-for-sale investments arising during the year		(168)	216
Actuarial gains (losses) on post-employment, non-pension benefits arising during the year		(48)	54
Depreciation of property, plant and equipment	*7*	199	169
Amortization of intangible assets	*8*	377	150
		20,833	20,786
Changes in:			
Premiums receivable		444	146
Prepaid expenses and other receivables		(8)	320
Payables and accruals		19	320
Deferred premium income		(1,272)	(235)
Employee benefits		405	(152)
		(412)	399
Net deposit insurance recoveries	*6*	3,908	6,552
		24,329	27,737
Cash flows from / (used in) investing activities:			
Interest received		1,637	1,851
Purchase of investments held at year end		(229,390)	(204,357)
Proceeds on sale of investments		202,720	174,683
Purchase of property, plant and equipment	*7*	(50)	(168)
		(25,083)	(27,991)
Net decrease in cash and cash equivalents		(754)	(254)
Cash and cash equivalents, beginning of year		1,970	2,224
Cash and cash equivalents, end of year		$ 1,216	$ 1,970

Cash and cash equivalents comprise cash and short-term investments.

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2016

1. REPORTING ENTITY

The Deposit Insurance Corporation of Ontario (DICO or the Corporation) is a “Board-Governed” Agency of the Province of Ontario established without share capital under the provisions of the Credit Unions and Caisses Populaires Act, 1994 (CUCPA).

The statutory objects of the Corporation under the CUCPA are to:

- Provide insurance against the loss of part or all of deposits with credit unions;
- Promote and otherwise contribute to the stability of the credit union sector in Ontario with due regard to the need to allow credit unions to compete effectively while taking reasonable risks;
- Pursue the objects set out in the above clauses for the benefit of persons having deposits with credit unions and in such manner as will minimize the exposure of the Corporation to loss;
- Collect, accumulate and publish such statistics and other information related to credit unions as may be appropriate;
- Perform duties provided under the CUCPA or the regulations or do anything the Corporation is required or authorized to do under the CUCPA or the regulations; and
- Carry out such other objects as the Minister may specify in writing or as may be prescribed.

The CUCPA empowers the Corporation to assess its credit unions deposit insurance premiums to meet the Corporation’s requirements for insurance funding and administrative costs. The premium rates are set out in the regulation to the CUCPA. The Corporation reviews the adequacy of the premium rate annually and advises the Government accordingly.

The Minister of Finance approved a $400 million revolving credit facility agreement with the Ontario Financing Authority (OFA) for the purpose of ensuring the Corporation’s capacity to address systemic difficulties in the credit union system that may require resources above those in the Deposit Insurance Reserve Fund (DIRF). The agreement is effective January 1, 2014 and expires on December 31, 2018. Under the revolving credit facility arrangement, interest cost on any outstanding debt obligation is charged at an annual rate equal to the province’s cost of funds for borrowings with a three month term, determined by the OFA at the time of the borrowing, plus an additional 0.575 percent per annum.

DICO Mandate Review

In November 2016, the Government announced it will be moving forward with the creation of the Financial Services Regulatory Authority of Ontario (FSRA) resulting from the review of a three-member Expert Advisory Panel of the mandates of DICO, Financial Services Commission of Ontario and the Financial Services Tribunal. Subsequent to the announcement, the Government introduced and passed legislation establishing the initial parameters for FSRA, demonstrating its commitment to modernizing and strengthening the regulation of financial services and pensions, and to improving consumer, investor and pension plan beneficiary protection. In December 2016 the Ministry of Finance established the Financial Services Regulation Modernization Secretariat (Secretariat). The head of the Secretariat, who was appointed in January 2017, and her team is tasked with managing/supporting the multi-phased transition to FSRA, including any possible changes to DICO’s mandate which may have significant impact on DICO’s regulatory prudential solvency responsibilities and activities. The timing and nature of the implementation is currently unknown.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and were approved by the Board of Directors on March 30, 2017.

(b) Basis of measurement

The Corporation's financial statements have been prepared on the historical cost basis, except for the financial instruments classified as available-for-sale, which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in the Corporation's functional currency which is the Canadian dollar. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The most significant areas of assumptions and judgments are disclosed in provisions for losses (note 6) and measurements of accrued benefit obligations in relation to future non-pension post-employment benefits (note 9).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

To facilitate a better understanding of our financial statements, the Corporation has disclosed its significant accounting policies as summarized below. These policies have been applied consistently to all periods presented in the financial statements unless otherwise indicated.

(a) Premium income:

Premiums are based on the Differential Premium Score Determination System, as defined by regulation, and applied to insured deposits held by credit unions. Premium income is calculated based on the Annual Information Return submitted by each credit union which is due 75 days after its fiscal year end. Premium income is recognized when earned.

(b) Provision for losses:

The provision for losses includes specific allowances against deposit insurance advances to credit unions in liquidation, which have been offset against the advances recoverable, and an accrual for losses for which advances have not been made at the date of the Statement of Financial Position, which is shown as a liability.

Funds advanced in respect of deposit insurance and loans to credit unions are initially recorded at cost. Deposit insurance advances recoverable are presented on the Statement of Financial Position, net of specific allowances thereon.

The accrual for deposit insurance claims includes both provisions for specific losses and a general accrual for losses. Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation.

The general accrual for loss reflects management's best estimate of losses on insured deposits arising from the inherent risk in credit unions. The provision is established by assessing the aggregate risk in credit unions based on current market and economic conditions, the likelihood of losses and the application of historic loss experience. Future economic conditions are not predictable with certainty and actual losses may vary, perhaps substantially, from management's estimates. Management applied the methodology which evaluates all credit unions with the highest risk score under our current prospective risk rating system.

The methodology incorporates various iterations and key assumptions, such as historical probabilities of failures (from the Deposit Insurance Reserve Fund model) and actual probabilities of failure when possible. The model also categorizes the credit unions based on asset size and discounts the estimated loss to the next 12 month period. Model results are then considered along with the level of the existing allowance, as well as management's judgment regarding economic and market conditions to come to a final determination of what the general accrual for loss should be.

Changes in the provision for insurance losses that result from quarterly reviews are recognized as an adjustment to the provision for insurance losses in the period in which the estimated changes occur.

(c) Employee benefits:

(i) Defined contribution pension plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into an independent entity and will have no legal or constructive obligation to pay further amounts. DICO's defined contribution pension plan covers all of DICO's regular, non-contractual employees. As well, there are supplemental arrangements which provide pension benefits for income in excess of registered pension plan limits. Earnings are charged with the cost of pension benefits earned by employees as service is rendered. Pension expense is determined by a fixed percentage of the employees' income plus the matching of the employees' contribution to a maximum of 4%. The Corporation assumes no actuarial or investment risk.

(ii) Defined non-pension post-employment benefits

The Corporation provides future non-pension post-employment benefits which are related to DICO's extended health, dental and life benefits for both active employees for whom a full eligibility date was determined and existing qualified retirees. The Corporation accrues obligations under these plans as the employees render the service necessary to earn the future benefits and the benefit is discounted to determine its present value. There are no assets set aside to fund the benefits. The accrued benefits obligation is calculated annually by a qualified actuary using the Projected Unit Credit method. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation are recognized in full in the Statement of Other Comprehensive Income (OCI), and all projected defined benefit costs are expensed in the Statement of Operations. Additional disclosures are provided in Note 9(ii).

(iii) Other long-term employee benefits

The Corporation's other obligation in respect of long-term employee benefits is the amount of retention benefits accrued for some key employees. The plans are designed to ensure the retention of key personnel to provide sufficient time for effective succession planning. Acceptance of the benefits is voluntary and the probabilities of acceptance are estimated at the end of the reporting period. The benefits are discounted to their present value if they are payable more than 12 months after the reporting period. All existing plans have been accepted and recorded.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Corporation recognizes the unused entitlement of compensated vacations that has accumulated at the end of the reporting period as accrued short-term benefits.

(d) Financial instruments:

DICO's investments are non-derivative financial assets and are classified, based on management's intentions, as available-for-sale. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in OCI and presented within equity. When an investment is derecognized/sold, the cumulative gain or loss in OCI is transferred to the Statement of Operations.

(e) Property, plant and equipment:

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated amortization and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the assets to a working condition for their intended use, including the borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized on a net basis within the other income category. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(ii) Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset less its residual value, if any. Depreciation of furniture and equipment is calculated using the diminishing-balance method at the rate of 20% per annum. Computer and related equipment and software are amortized over three years on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(f) Intangible assets:

Definite-life intangible assets are amortized to income on either a straight-line or an accelerated basis over a period not exceeding 7 years. When certain events or changes in operating conditions occur, an impairment assessment is performed and lives of intangible assets with determinable lives may be adjusted.

(g) Lease payments:

Payments made under operating leases are recognized in the Statement of Operations on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(h) Income taxes:

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in the Statement of Operations and Changes in the Deposit Insurance Reserve Fund except for items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the intent to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Corporation's main source of income is premiums received from credit unions which are not taxable pursuant to subsection 137.1(2) of the Income Tax Act. As a result the Corporation has been generating non-capital losses for tax purposes since its inception.

(i) Standards issued but not yet mandatorily effective:

The Corporation is assessing the potential impact of the following new and revised IFRS amendments on its financial statements. The impact is not determined at this time.

IFRS 9 Financial Instruments

In July 2014 the IASB issued the complete IFRS 9 *Financial Instruments* (IFRS 9). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 introduces new requirements for the classification and measurement of financial assets.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The Corporation intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018.

IFRS 15 Revenue from Contracts with Customers

In May 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers* (IFRS 15). The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 *Leases* (IFRS 16), which replaces IAS 17 – Leases (IAS 17) and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12-months or less or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained. IFRS 16 will be applied retrospectively for annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 has also been applied.

4. PREMIUM INCOME

($000)	**2016**	2015
	27,134	26,623

Differential premiums are calculated based on the amount of each credit union's insured deposits at the end of its fiscal year and on various risk criteria which generate a risk rating based on a points system. Effective January 1 2015, the Corporation implemented a new differential premium score determination system (DPSD). The system determines a DPSD score based on a credit union's reported regulatory capital level (64% weighting) and its corporate governance score as determined by the results of its most recent on-site examination (36% weighting). The score is measured on a continuous scale based on the existing premium rate range ($1.00 to $3.00 per $1,000 of insured deposits). The effective rates (per $1,000 of insured deposits) are determined as follows:

DPSD Score	Premium Calculation
Greater than or equal to 90 points	$1.00
Greater than 0 points and less than 90 points	$1.75 -(DPS Score/90 x $0.75)
0 points	$3.00

At December 31, 2016 DICO has deferred premium income of $781,000 (2015 - $2,053,000), which represents the balance of pro-rated premiums for the credit unions whose fiscal year straddles DICO's fiscal year end.

5. INVESTMENTS

The Corporation's current and non-current investments are classified as available-for-sale and are measured at fair value with unrealized gains and losses recorded in the Statement of Accumulated Other Comprehensive Income until the investment is sold. As of December 31, 2016, the current, highly liquid investments have a weighted-average yield of 0.67% (2015: 0.67%). The non-current investments are primarily laddered Government bonds with a remaining weighted average term to maturity of greater than one year. The weighted average yield of these investments was 1.13% (2015: 1.20%). The Corporation has contracted with the OFA to manage its investment portfolio. The composition of DICO's investments reflects the nature of the Corporation's potential insurance obligations and is structured to comply with the requirements under both the Income Tax Act, the CUCPA and Regulation 237/09.

	December 31, 2016			December 31, 2015		
	Amount ($ thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount ($ thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity
Bankers' acceptances / Bank deposit notes	73,847	0.81%	59	64,553	0.81%	40
Treasury bills - Canada and Provincial	59,993	0.50%	87	55,600	0.53%	96
Canada Housing Trust floating rate bond	38,288	0.70%	103	32,212	0.79%	75
Province of Ontario floating rate bond	10,040	0.72%	265	10,047	0.73%	148
Total current investments	**182,168**	**0.67%**	**89**	**162,413**	**0.67%**	**73**
Laddered Government bonds	46,908	1.13%	604	41,589	1.20%	607
CUCO Co-op Class B investment shares (acquired from liquidated credit unions)	314			355		
Total non-current investments	**47,222**			**41,944**		
Total Investments	**229,390**			**204,357**		

Included in the total non-current investments are the CUCO Co-op Class B shares purchased from 19 credit unions in liquidation, mainly for the purpose of winding down their business. As of December 31, 2016, these investments were valued at $314,000 (2015: $355,000). During the year, a total of $48,000 (2015: $0) of return of capital distributions were received from the CUCO Cooperative Association.

Fair value hierarchy:

The Corporation uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. As of December 31, 2016 and 2015, the Corporation's financial instruments were valued as follows:

Available-for-sale financial assets

($ thousands)	**2016**	2015
Level 1	229,076	204,002
Level 2	314	355
Level 3	-	-
Total	229,390	204,357

The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

No investments have moved between hierarchy levels during the year.

6. DEPOSIT INSURANCE ADVANCES RECOVERABLE AND ACCRUAL FOR DEPOSIT INSURANCE CLAIMS

The provision for losses includes specific provisions for known or likely losses resulting from specific credit union failures and a general accrual for losses not identified with specific credit unions. That portion of the provision for losses recorded in the year and in previous years which has not yet required payment by the Corporation is shown in liabilities on the Statement of Financial Position as “Accrual for deposit insurance claims”. When funds advanced in respect of deposit insurance claims are in excess of the estimated loss provision at the end of the reporting period, the balance is reported as “Deposit insurance advances recoverable” on the Statement of Financial Position. Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management’s opinion, that will likely result in losses to the Corporation.

The general accrual for losses included in “Accrual for deposit insurance claims” remains at $3,000,000 at December 31, 2016 (2015 - $3,000,000) and is calculated in accordance with the methodology as described in note 3(b).

	2016			2015		
($ thousands)	Deposit Insurance Advances Recoverable	Accrual for deposit insurance claims	Net	Deposit Insurance Advances Recoverable	Accrual for deposit insurance claims	Net
Balance at beginning of year	**10,145**	**(3,000)**	**7,145**	**16,688**	**(3,240)**	**13,448**
Reduction in general accrual for the year	-	-	-	-	-	-
Net change in specific recoveries for prior years’ losses booked and advanced	18	-	18	9	240	249
Total net recovery for insurance	**18**	**-**	**18**	**9**	**240**	**249**
Total cash paid in connection with loans purchased from liquidated credit unions	337	-	337	321	-	321
Total cash recoveries for prior years’ losses	(4,245)	-	(4,245)	(6,873)	-	(6,873)
Net deposit insurance (recoveries)	**(3,908)**	**-**	**(3,908)**	**(6,552)**	**-**	**(6,552)**
Total net change	**(3,890)**	**-**	**(3,890)**	**(6,543)**	**240**	**(6,303)**
Balance at end of year	**6,255**	**(3,000)**	**3,255**	**10,145**	**(3,000)**	**7,145**

7. PROPERTY, PLANT AND EQUIPMENT

($ thousands)	Furniture and Fixture	Office Equipment	Computer and Related Equipment	Software	Leasehold Improvement	Total
Cost or deemed cost						
Balance at January 1, 2015	**538**	**69**	**1,918**	**826**	**528**	**3,879**
Additions	4	-	147	17	-	168
Disposals	(2)	-	(14)	-	-	(16)
Balance at December 31, 2015	**540**	**69**	**2,051**	**843**	**528**	**4,031**
Balance at January 1, 2016	540	69	2,051	843	528	4,031
Additions	-	-	37	14	-	51
Disposals	(11)	-	(15)	-	-	(26)
Balance at December 31, 2016	**529**	**69**	**2,073**	**857**	**528**	**4,056**
Depreciation						
Balance at January 1, 2015	**464**	**58**	**1,819**	**752**	**381**	**3,474**
Depreciation for the year	14	2	59	36	57	169
Disposals	(2)	-	(13)	-	-	(15)
Balance at December 31, 2015	**477**	**60**	**1,865**	**788**	**438**	**3,628**
Balance at January 1, 2016	477	60	1,865	788	438	3,628
Depreciation for the year	12	2	93	35	57	199
Disposals	(9)	-	(14)	-	-	(23)
Balance at December 31, 2016	**480**	**62**	**1,944**	**823**	**495**	**3,804**
Carrying amount						
At January 1, 2015	74	11	98	74	147	404
At December 31, 2015	63	9	185	56	90	403
At December 31, 2016	**49**	**7**	**129**	**34**	**33**	**252**

8. INTANGIBLE ASSETS

($ thousands)	Development Costs
Cost	
Balance at January 1, 2015	1,050
Additions	-
Disposals	-
Balance at December 31, 2015	**1,050**
Balance at January 1, 2016	1,050
Additions	-
Disposals	-
Balance at December 31, 2016	**1,050**
Amortization	
Balance at January 1, 2015	524
Amortization for the year	150
Balance at December 31, 2015	**674**
Balance at January 1, 2016	674
Amortization for the year	376
Balance at December 31, 2016	**1,050**
Carrying amounts	
At January 1, 2015	527
At December 31, 2015	377
At December 31, 2016	-

Prior to 2016 the internally developed web-based software tool for electronic filing of financial data by the credit unions was recorded as an intangible asset. The capitalized development expenditure was measured at cost less accumulated amortization and any accumulated impairment losses. Amortization was recognized in the Statement of Operations on a straight-line basis over the estimated useful life of the asset.

The amortization of the software was accelerated during the year to reduce the net book value to zero as at December 31, 2016 as the software tool was replaced by another web-based reporting system designed to improve the robustness and flexibility of the Corporation's on-line reporting solution. The new reporting tool was developed by internal staff and the cost was fully recognized in the Statement of Operations in the year.

9. EMPLOYEE BENEFITS

(i) Pension plan

The Corporation operates a defined contribution pension plan for all eligible employees. In addition, DICO accrues benefits to a Supplemental Pension Plan and an Auxiliary Pension Plan (both non-registered). The Supplemental Pension Plan provides the same benefit as the registered plan on that portion of an employee's income in excess of the registered plan limits. The Auxiliary Pension Plan provides an additional defined contribution amount for the former CEO on his base salary. The total pension expense for the Corporation charged to the Statement of Operations and Changes in the DIRF in 2016 was $501,000 (2015 - $519,000). Total accrued pension plan benefits as at December 31, 2016 amounted to $1,790,000 (2015 - $1,683,000).

(ii) Future non-pension post-employment benefits

The Corporation accounts for the current value of future non-pension post-employment benefits which relate to DICO's extended health, dental and life benefits plan. The most recent full actuarial valuation of the defined benefit plan was completed as of December 31, 2014, by an independent actuary. A full triennial valuation will be undertaken later in 2017 for fiscal 2017 year-end reporting. The valuation of the benefit obligations are estimated using the Projected Unit Credit method. The accrued benefit liability as at December 31, 2016, as actuarially determined, is $3,409,000 (2015 - $3,184,000). The annual benefit cost, including current service cost and interest cost amounted to $252,000 (2015 - $242,000).

The assumptions used in the actuarial valuation of the future benefits obligations consisted of: discount rate of 4.00% (2015 - 4.10%), rate of compensation increase of 3.0% (2015 - 3.0%) and immediate trend rate in health care costs of 4.97% (2015 - 5.00%), grading down to 4.5 % per annum by 2032. The Corporation measures its accrued benefit obligations as at December 31st.

Change in non-pension post-employment benefit obligation ($ thousands)	December 31, 2016	December 31, 2015
Benefit obligation at beginning of year	3,184	3,056
Current service cost	124	120
Interest cost	129	122
Benefit payments	(76)	(60)
Re-measurements of effect of changes in assumptions included in OCI	48	(54)
Benefit obligation at end of year	3,409	3,184

Sensitivity analysis: ($ thousands)	December 31, 2016	December 31, 2015
1. Present value of defined benefit obligation		
Discount rate - 25 basis points	3,567	3,331
Discount rate + 25 basis points	3,261	3,047
Health care cost trend rates - 100 basis points	2,843	2,684
Health care cost trend rates + 100 basis points	4,140	3,827
Mortality assumption - 1 year life expectancy	3,241	3,033
Mortality assumption + 1 year life expectancy	3,582	3,341
2. % impact on the defined benefit obligation		
Discount rate - 25 basis points	4.64%	4.61%
Discount rate + 25 basis points	-4.34%	-4.31%
Health care cost trend rates - 100 basis points	-16.61%	-15.71%
Health care cost trend rates +100 basis points	21.46%	20.17%
Mortality assumption - 1 year life expectancy	-4.93%	-4.76%
Mortality assumption + 1 year life expectancy	5.1%	4.92%
3. Change in the defined benefit obligation		
Discount rate - 25 basis points	158	147
Discount rate + 25 basis points	(148)	(137)
Health care cost trend rates - 100 basis points	(566)	(500)
Health care cost trend rates + 100 basis points	732	642
Mortality assumption - 1 year life expectancy	(168)	(152)
Mortality assumption + 1 year life expectancy	174	157
4. Weighted average duration of defined benefit obligation (in years)		
Discount rate - 25 basis points	18.16	18.03
Discount rate + 25 basis points	17.77	17.65

The Corporation has also implemented a human resources retention plan for key management personnel for the purpose of ensuring effective transition and succession planning. Total accrued retention benefits were $1,044,000 at December 31, 2016 (2015 - $971,000).

Summary of employees accrued benefit liabilities (non-current):

($ thousands)	**December 31, 2016**	December 31, 2015
Employee pension benefits	**1,790**	1,683
Employee future non-pension post-employment benefits	**3,409**	3,184
Retention benefits for key management personnel	**1,044**	971
Total	**6,243**	5,838

10. OPERATING LEASES

The non-cancellable annual operating lease payments for the Corporation are summarized as follows:

($ thousands)	**2016**	2015
Less than 1 year	**71**	-
Between 1 and 5 years	**223**	306
More than 5 years	**-**	-

Under the operating lease for its premises the Corporation is required to pay property taxes and common area maintenance costs which are currently approximately $340,000 per annum.

The current occupancy lease of the main office is due to expire on August 5, 2018 with an option to renew for 1 year with the same terms and conditions.

11. INCOME TAXES

Income tax expense reported in the Statement of Operations and Changes in the Deposit Insurance Reserve Fund is as follows:

Recognition of effective tax rate

($ thousands)	**2016**	2015
Profit before income tax	**20,489**	20,446
Income tax using the combined statutory rate 26.5%	**5,430**	5,418
Income not included for tax purposes	**(7,260)**	(7,157)
Current year losses for which no deferred tax asset was recognized	**1,636**	1,741
Other, net	**194**	(2)
Provision (recovery)	**-**	-

Deferred tax assets and liabilities
Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

($ thousands)	**2016**	2015
Deductible temporary differences	**4,180**	3,979
Tax benefit of loss carry-forwards	**14,130**	12,473
	18,310	16,452

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Corporation can utilize the benefits.

At December 31, 2016, $53,321 of income tax losses included with the above unrecognized deferred tax assets will expire between 2027 and 2036 (2015 - $47,066 between 2026 and 2035).

12. RELATED PARTIES

Transactions with key management personnel

Directors and key management personnel compensation

During the year the Directors received an aggregate remuneration of $157,000 (2015 - $120,000). Total Directors' expense claims were approximately $30,000 (2015 - $41,000).

Under the public Sector Salary Disclosure Act 1996, DICO publishes the name, title, salary and taxable benefits for all employees who earned $100,000 or more during 2016. The information is available on the Ministry of Finance website at www.fin.gov.on.ca/en/publications/salarydisclosure.

In addition to their salaries, the Corporation provides human resources retention plans for key management personnel for the purpose of ensuring effective transition and succession planning. The terms of the plans vary with individuals and the acceptance is voluntary. Other benefits include DICO's contributions to the pension plan and future non-pension post-employment benefits in which all employees of DICO are entitled to participate when they meet the qualification criteria.

Key management personnel compensation included:

($ thousands)	**2016**	2015
Short-term benefits	**32**	43
Post-employment benefits	**161**	178
Other long-term and termination benefits	**55**	265
Total	**248**	486

13. CONTINGENCY

When acting in the capacity of administrator or liquidator of a credit union, the Corporation may be exposed to various legal actions in the normal course of business. As of December 31, 2016, there were no legal claims pending against the Corporation.

14. RISKS ARISING FROM FINANCIAL INSTRUMENTS

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investment securities. The Corporation minimizes its credit risk by investing in high quality financial instruments and by limiting the amount invested in any one counter party. All investments in the DIRF are limited to those permitted by legislation, by the terms of the line of credit agreement with the OFA and to any limits made by the Corporation's investment policy. For details of the composition and credit risks of investments, please refer to note 5 Investments. As a deposit insurer under the CUCPA, the Corporation may at times obligated to make payments to insured depositors in the event of a credit union failure which results in deposit insurance advances recoverable by the Corporation. Realization on its claims is largely dependent on the credit quality or value of assets held within the estates of failed credit unions. DICO is directly involved in the asset realization process of these credit unions in liquidation in order to mitigate credit risk and minimize any potential loss to the Corporation.

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations to depositors as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations, if any; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, 80 percent of the Corporation's investments are held in highly liquid short-term instruments. Further, the Corporation maintains a line of credit approved by the Minister of Finance of $400 million that can be drawn down to provide liquidity to DICO as deposit insurer of credit unions in the Province of Ontario. The terms of the line of credit require DICO to liquidate its DIRF investments before it can borrow above $20 million. The revolving credit facility has a 5-year term effective from January 1, 2014 to December 31, 2018. Interest would be payable at an annual rate equal to the province's cost of funds for borrowings for a three month term, plus an additional 0.575 percent, as determined by the OFA at the commencement of each three month period.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect income or the value of the holdings of financial instruments. The Corporation does not have any dealings with foreign currency. Investments in equity are limited to $314,000 in CUCO Co-op Class B shares. DICO's primary investment objective is to preserve capital and provide necessary liquidity to pay claims and ongoing operating expenses.

(d) Fair value sensitivity analysis for fixed rate instruments

The Corporation accounts for its fixed rate financial assets as available-for-sale. Therefore, a change in interest rates at the reporting date would not affect net income with respect to these fixed rate instruments. A change of 1 percent in interest rates for the investments at December 31 would have increased or decreased equity by $2,107,000 (2015 - $1,974,000).

(e) Capital management

One of the Corporation's mandates is to enhance the financial soundness of the credit union sector. As of December 31, 2016, the Corporation has a DIRF of $226.0 million, which represents 79 basis points of the sector's estimated insured deposits. The Corporation will continue to build the DIRF to its target of 100 basis points in 2022 in order to ensure that it continues to be adequate to enable the Corporation to protect depositors.

15. FAIR VALUE DISCLOSURE

The fair value of financial assets and liabilities which include cash and cash equivalents, premiums receivable, payables and accruals, employee benefits and accrual for deposit insurance claims, approximate their carrying amounts.

Financial Services Commission of Ontario

Commission des services financiers de l'Ontario

June 29, 2017

Motor Vehicle Accident Claims Fund

Management Responsibility for Financial Information

Management is responsible for the financial statements and all other information presented in the financial statements. Management in accordance with Canadian public sector accounting standards has prepared the financial statements and where appropriate included amounts based on Management's best estimates and judgements.

Management agrees with the work of the specialists in evaluating the Unpaid Claims amount and has adequately considered the qualifications of the specialist in determining amounts and disclosures used in the notes to financial statements. Management did not give any, nor cause any, instructions to be given to specialists with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the specialists.

The Motor Vehicle Accident Claims Fund is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and that the assets were safeguarded. Internal audits are conducted to assess management systems and practices and reports are issued to the CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario (the "FSCO") and the FSCO Audit and Risk Committee.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian public sector accounting standards. The auditor's report outlines the scope of the auditor's examination and report.

Javier Aramayo, CPA, CMA
Senior Manager
Motor Vehicle Accident Claims Fund

Kwan Lee, CPA, CA, MAcc
Chief Accountant
Financial Services Commission of Ontario

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Motor Vehicle Accident Claims Fund
and the Minister of Finance

I have audited the accompanying financial statements of the Motor Vehicle Accident Claims Fund, which comprise the statement of financial position as at March 31, 2017, the statements of operations and MVACF deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

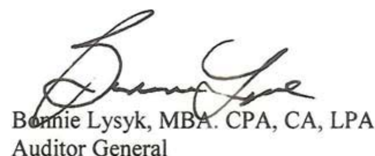
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Motor Vehicle Accident Claims Fund as at March 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Toronto, Ontario
June 29, 2017

Bonnie Lysyk, MBA. CPA, CA, LPA
Auditor General

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MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31

	2017	2016
ASSETS		
Current		
Funds on deposit with the Ministry of Finance	$ 50,369,203	$ 52,077,287
Accounts receivable - driver's licence fees (note 3b)	636,064	573,162
Accounts receivable - debtors (note 3c)	42,053,656	42,719,666
Less: allowance for doubtful accounts	32,232,020	32,124,897
	9,821,636	10,594,769
Total current assets	60,826,903	63,245,218
Capital assets (note 4)	553,975	553,975
Less: accumulated amortization	553,975	553,975
	-	-
Unpaid claims recoverable (note 5)	263,168	286,076
Total assets	**$ 61,090,071**	**$ 63,531,294**
LIABILITIES AND MVACF DEFICIT		
Current		
Accounts payable and accrued expenses	$ 1,345,332	$ 719,194
Unpaid claims and adjustment expenses - current (note 5)	30,563,586	29,046,151
Total current liabilities	31,908,918	29,765,345
Employee future benefits obligation (note 3g)	491,598	485,456
Deferred revenue	74,812,114	74,164,348
Unpaid claims and adjustment expenses - long term (note 5)	120,897,539	125,636,026
Total liabilities	228,110,169	230,051,175
MVACF deficit (note 3)	(167,020,098)	(166,519,881)
Total liabilities and MVACF deficit	**$ 61,090,071**	**$ 63,531,294**

See accompanying notes.

APPROVED:

Brian Mills
Chief Executive Officer and
Superintendent of Financial Services
Financial Services Commission of Ontario

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF OPERATIONS AND MVACF DEFICIT
FOR THE YEAR ENDED MARCH 31

	2017	2016
REVENUE		
Fees on issue or renewal of driver's licences	$ 29,986,421	$ 29,584,357
Prior year recoveries	1,736,929	1,455,682
Other revenue	5,997	26,842
Total revenue	31,729,347	31,066,881
EXPENSES		
Change in net unpaid claims and adjustment expenses	(3,198,144)	1,525,921
Accident benefit claims payments	21,200,572	21,283,351
Administrative expenses		
Salaries and wages	1,887,374	1,761,823
Employees' benefits	304,368	298,550
Transportation and communication	18,983	21,053
Claims (solicitors' fees, etc.)	2,855,703	2,520,550
Accident benefit claims expense	2,768,963	2,496,296
Other services	2,048,679	1,312,908
Bad debts expense	4,337,891	5,467,028
Supplies and equipment	5,175	19,851
Amortization expense	-	1,492
Total expenses	32,229,564	36,708,823
Deficit of expenses over revenue	500,217	5,641,942
MVACF deficit, beginning of year (note 3)	166,519,881	160,877,939
MVACF deficit, end of year	**$ 167,020,098**	**$ 166,519,881**

See accompanying notes.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31

	2017	2016
OPERATING ACTIVITIES		
Cash inflows		
Fees on issue or renewal of driver's licences	$ 30,571,285	$ 30,358,448
Repayment by debtors	1,046,000	845,788
Prior year recoveries	1,736,929	1,455,682
Other revenue	5,997	26,842
	33,360,211	32,686,760
Cash outflows		
Statutory payments	(25,531,740)	(26 073,126)
Payments to employees	(2,171,487)	(2 031,240)
Administrative expenses	(7,365,068)	(6,212,321)
	(35,068,295)	(34,316,687)
Net cash used in operating activities	(1,708,084)	(1,629,927)
Funds on deposit with the Ministry of Finance, beginning of year	52,077,287	53,707,214
Funds on deposit with the Ministry of Finance, end of year	**$ 50,369,203**	**$ 52,077,287**

See accompanying notes.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2017

1. STATUTORY AUTHORITY

The Motor Vehicle Accident Claims Fund (MVACF) operates under the authority of the *Motor Vehicle Accident Claims Act* (the *Act*), R.S.O. 1990, Chapter M.41 as amended.

2. MVACF OPERATIONS

MVACF is a program that was created on July 1, 1947 as the Unsatisfied Judgment Fund. Initially, MVACF was required to respond to victims of uninsured motorists and hit-and-run drivers who could not recover damages awarded by the courts from an automobile insurance company. MVACF legislation was amended in the early 1960s, in 1979 with the *Compulsory Automobile Insurance Act*, and in 1990 by the *Insurance Statute Law Amendment Act* which required MVACF to include in its statutory payments, accident benefits on a no-fault basis for the first time. Currently, MVACF responds to claims in the same fashion and with the same exclusions as automobile insurers in Ontario, and provides for two types of coverage: third-party bodily injury and property damage liability (collectively referred to as TPL), and statutory accident benefits or SABS in accordance with legislated requirements. MVACF provides compensation for these types of coverage in claims resulting from automobile accidents involving uninsured or unidentified drivers, when there is no available policy of insurance.

The coverage provided by MVACF is analogous to the minimum required coverage under the standard automobile policy (OAP 1) approved by the provincial regulator. Unlike insurance companies, MVACF does not cover claims where the accidents occur outside of Ontario, except in the case of accident benefits where the Ontario insurer is insolvent. In the cases of insurance company insolvencies where MVACF pays claims for accident benefits, MVACF has powers to assess the industry to recover for claims and adjustment expenses and also has claimant rights against the estate of the insolvent insurer.

MVACF operates administratively under the direction of the Financial Services Commission of Ontario (FSCO) and reimburses FSCO for the costs of the services it provides to MVACF.

The Lieutenant Governor in Council, having regard to the condition of MVACF and the amount paid out of MVACF during any period, may direct payment out of the Province's Consolidated Revenue Fund of such an amount as may be considered necessary or advisable to subsidize and fund MVACF's operations.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements in accordance with Canadian Public Sector Accounting Standards for government not-for-profit organizations (PSA-GNFPO) as issued by the Public Sector Accounting Board (PSAB) are summarized as follows:

a) Driver's Licence Fees and Deferred Revenue

MVACF earns a fee of $15.00 on the issuance or renewal of each driver's five-year licence. The income is earned on a pro-rata basis over the five-year term of the licence and the unearned portion is reflected as deferred revenue.

b) Accounts Receivable – Driver's Licence Fees

Under the *Act*, MVACF receives from the Ministry of Transportation and Plenary a monthly internal transfer and payment representing the driver's licence fee prescribed by *Ontario Regulation 800*. Accordingly, unremitted licence fees are reported as accounts receivable.

c) Accounts Receivable – Debtors

MVACF maintains an accounts receivable portfolio, accumulated over the years as a result of judgments and claims assigned to the Minister of Finance. MVACF will pay damages to injured, not-at- fault victims who have no recourse to liability insurance, on behalf of defendant uninsured motorists. In accordance with the *Act*, these amounts are recoverable from the uninsured motorists. Expected recoverable amounts of $4.6 million (2016 - $4.8 million) increase the accounts receivable – debtors accordingly.

The allowance for doubtful accounts is determined through a process that considers: the age of defendant/debtor, the defendant/debtor's current monthly installment required under the regulations, the amount paid out of MVACF, the activity on the account since the date of the judgment, and the financial status of the defendant/debtor.

The write-off process depends on established criteria that parallel the criteria established by the Ministry of Finance. Criteria would include writing off amounts related to unidentified drivers, uninsured motorists killed at the time of the accident or deceased subsequent to accident, debtor that declared bankruptcy, debts with balances under $50, accounts with no repayments after 3 years with collections efforts exhausted/debtor deported, etc. These criteria are used to select a block of accounts that is reviewed annually by the enforcement and collections staff. The Ministry of Finance, Internal Audit Section audits the identified accounts for potential write-off and provides a certificate of assurance verifying that the established criteria for the write-off have been met. The write-off transaction is authorized by an Order-In-Council (OIC) under the authority set out in the *Financial Administration Act*.

For March 31, 2017, a write-off of $4.3 million was submitted to the Ministry of Finance but has not yet been approved. A write-off of $4.4 million for March 31, 2016 was approved during the year, through an OIC. This write-off is recorded in the current year's financial statements and represents a reduction of the account receivable debtors and allowance for doubtful accounts. There is no impact in the current year statement of operations.

Accounts receivables-debtors and the allowance for doubtful accounts are adjusted on receipt of the OIC approving the write off.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Prior Year Recoveries

Prior year recoveries are generated from three main sources: insurance recoveries, reversionary interest (note 6) and recoveries of court costs. MVACF is required under the Statutory Accident Benefits Schedule (SABS) to satisfy the payment of accident benefits claims within specified periods. The timeframe does not allow for a complete investigation into available insurance coverage and in some instances information is withheld by police because of criminal investigations. Accordingly, when new information is available, MVACF may be required to pursue private insurers for recoveries.

From time to time MVACF may also be involved in the defense of uninsured motorists or the Superintendent of the FSCO, where the legal proceedings are deemed frivolous and MVACF is awarded costs by the courts.

Prior year recoveries are recorded in the period they are determined. In the current year, $1.7 million (2016 - $1.5 million) recoveries were recorded but related to prior year claims.

e) Unpaid Claims and Adjustment Expenses

Unpaid claims and adjustment expenses represents the estimated amounts required to settle all unpaid claims, including an amount for unreported claims and claim expenses, and is gross of estimated recoveries and subrogation. Claim liabilities are established according to accepted actuarial practice in Canada as applied to public personal injury compensation plans. They do not reflect the time value of money, because MVACF reports no investment income.

The provision for unpaid claims and adjustment expenses consists of estimates that are necessarily subject to uncertainty, and the variability could be material in the near term. The estimates are selected from a range of possible outcomes and are adjusted up or down, as additional information becomes known during the course of loss settlement proceedings. The estimates are principally based on historical experience but variability can be caused by changes in judicial interpretations of contracts or significant changes in severity and frequency of claims from historical trends. All changes in estimates are recorded in the current period.

MVACF has obligations to pay certain fixed amounts to claimants on a recurring basis and has purchased annuities from life insurers to provide for those payments in the form of structured settlements. Note 6 contains additional analysis related to structured settlements.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Unpaid Claims and Adjustment Expenses (continued)

Settlements occur when there is an irrevocable direction from MVACF to the life insurer to make all payments directly to the claimants. There are no rights under the non-commutable, non-assignable, non-transferable contract that would provide any current or future benefit to MVACF. MVACF remains liable to make payments only in the event that the life insurer fails and only to the extent that Assuris, the life insurance industry's insolvency compensation fund, will not cover payments due. The net risk to MVACF is any credit risk related to the life insurers. This credit risk is deemed nil at March 31, 2017 (2016 – nil) as all insurers are rated AA- or above by Standard & Poor's Rating. There exists the possibility of contingent gains based on the fact that MVACF has purchased insurance on some of the measured lives. Such amounts are described in note 6 – Contingent Gains.

f) Use of Estimates

The preparation of financial statements in accordance with Canadian PSA-GNFPO requires that MVACF's management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates. The most significant estimates relate to the provision for unpaid claims and adjustment expenses, unpaid claims recoverable, contingent liabilities, allowance for doubtful accounts and employee future benefits.

g) Employee Future Benefits Obligation

MVACF's employees are entitled to benefits that have been negotiated centrally for Ontario Public Service employees or required by the Management Board of Cabinet's Compensation Directive. The future liability for benefits earned by MVACF's employees is recognized in the Province of Ontario's (the Province) consolidated financial statements.

While the Province continues to accrue for these costs each year and fund them annually when due, MVACF also recognizes the liabilities pertaining to a basic severance entitlement and compensated absences components of its employee future benefits costs in these financial statements. When these costs are funded by the Province when due, MVACF derecognizes these liabilities in the year.

The cost of other non-pension post-employment benefits is determined and funded on an ongoing basis by the Province and accordingly is not included in these financial statements.

h) Financial Instruments

MVACF follows PSA-GNFPO pertaining to financial instruments. Under these standards, all financial instruments are included on the statement of financial position and are measured either at fair value or at cost or amortized cost. MVACF's accounts receivable, and the accounts payable and accrued liabilities are recorded at cost in the financial statements.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2017

4. CAPITAL ASSETS

Leasehold improvements, computer equipment, furniture and fixtures, and office equipment are carried at cost less accumulated amortization. MVACF provides for amortization on a straight-line basis over the term of the lease (for leasehold improvements) or over the useful life of the asset. Accordingly, leasehold improvements and furniture and fixtures are amortized over 5 years, while computer equipment and office equipment are amortized over 3 years.

(in dollars)	2017		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 30,153	$ 30,153	$ -
Office equipment	7,406	7,406	-
Furniture and fixtures	16,416	16,416	-
Leasehold improvements	500,000	500,000	-
	$ 553,975	$ 553,975	$ -

(in dollars)	2016		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 30,153	$ 30,153	$ -
Office equipment	7,406	7,406	-
Furniture and fixtures	16,416	16,416	-
Leasehold improvements	500,000	500,000	-
	$ 553,975	$ 553,975	$ -

5. UNPAID CLAIMS AND ADJUSTMENT EXPENSES

a) MVACF's unpaid claims and adjustment expenses and unpaid claims recoverable consist of the following:

	2017		2016	
(in thousands of dollars)	Gross	Recoverable	Gross	Recoverable
ACCIDENT BENEFITS				
Statutory accident benefits	$114,954	-	$ 116,323	-
THIRD-PARTY LIABILITY (TPL)				
Property damage	697	4	631	4
Bodily injury	35,810	259	37,728	282
Total TPL	36,507	263	38,359	286
Totals	$151,461	263	$154,682	286

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2017

5. UNPAID CLAIMS AND ADJUSTMENT EXPENSES (continued)

b) The change in gross provision for unpaid claims and adjustment expenses is as follows:

(in thousands of dollars)	2017	2016
Balance, beginning of year	$ 154,682	$ 153,534
Increase in provision for losses that occurred in prior years	535	2,727
Amounts paid during the year on claims of prior years		
Statutory payments	(23,690)	(24,537)
Claims expenses	(8,365)	(7,291)
Amounts paid during the year on claims of the current year		
Statutory payments	(481)	(494)
Claims expenses	(170)	(147)
Provision for losses on claims that occurred in the current year	28,950	30,890
Balance, end of year	$ 151,461	$ 154,682

6. CONTINGENT GAINS AND LIABILITIES

a) Contingent Gains

Some payments out of MVACF are in the form of structured settlements for accident benefit claims. These claims have guarantee periods ranging from 10 to 30 years and during this period the reversionary interest will be payable to Her Majesty the Queen in right of Ontario, as represented by the Minister of Finance, should the claimant die.

Even though the range of probability that the claimant may die during the guarantee period is slight, MVACF nevertheless has calculated the approximate reversionary interest represented by insurance on the claimant lives as at March 31, 2017 for information purposes.

As at March 31, 2017, the amount paid out of MVACF for accident benefit claims in the form of structured settlements was approximately $68.0 million (2016 - $64.9 million) with applicable reversionary interest of approximately $51.6 million (2016 - $47.0 million).

b) Contingent Liabilities

In accordance with PSA-GNFPO, MVACF makes a provision for a liability when it's both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed annually and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Litigation is inherently unpredictable and it is possible that MVACF's financial position, cash flows or results of operations could be negatively affected by an unfavorable resolution to court decisions.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2017

7. ROLE OF THE ACTUARY AND AUDITOR

FSCO retains an independent actuary who acts as MVACF's actuary. The actuary's responsibility is to carry out an annual valuation of MVACF's liabilities, which include the provision for unpaid claims and adjustment expenses in accordance with accepted actuarial practice in Canada. In performing the valuation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, recoveries, and expenses, taking into consideration the circumstances of MVACF. The actuary's report outlines the scope of his work and opinion.

The Auditor General of Ontario is appointed as the external auditor of the MVACF with the responsibility to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and report thereon to the Audit and Risk Committee of the FSCO. In carrying out her audit, the Auditor General also considers the work of the actuary and his report on the provision for unpaid claims and adjustment expenses. The auditor's report outlines the scope of the audit and her opinion.

8. FINANCIAL INSTRUMENT RISK

Credit risk is the risk that other parties fail to perform as contracted. MVACF is exposed to credit risk in its financial instruments from accounts receivable – debtors. Credit risk on balances receivable arises from the possibility that the entities which owe money to the Funds may not fulfill their obligation. Collectability is reviewed regularly and an allowance for doubtful accounts, if necessary, is established to recognize the impairment risks identified.

Liquidity risk is the risk that MVACF will not be able to meet its cash flow obligations as they fall due. Liquidity risk arises from accounts payable and accrued expenses, employee future benefits obligation, and unpaid claims and adjustment expenses. The risk is mitigated since the Lieutenant Governor in Council, having regard to the condition of MVACF and the amount paid out of MVACF during any period, may direct payment out of the Province's Consolidated Revenue Fund of such an amount as may be considered necessary or advisable to subsidize and fund MVACF's operations.

Ontario Pension Board

Actuaries' Opinion to the Directors of the Ontario Pension Board

Aon Hewitt was retained by the Ontario Pension Board ("OPB") to prepare the following actuarial valuations of the Public Service Pension Plan ("PSPP"):

- An actuarial valuation prepared on a funding basis as at December 31, 2015, as described in Note 6 of these financial statements, prepared in accordance with the *Public Service Pension Act* and applicable pension legislation.
- The actuarial valuation prepared on a funding basis as at December 31, 2015 was then rolled forward to December 31, 2016 to determine the pension obligations as at December 31, 2016 for financial statement purposes.

The actuarial valuation of the PSPP prepared on a funding basis as at December 31, 2015 was based on membership data provided by OPB as at December 31, 2015.

We have prepared a valuation of the liabilities as of December 31, 2015 on the basis of the accounting methodology required by the Chartered Professional Accountants of Canada Handbook, Section 4600, as disclosed in Note 6, and extrapolated the liabilities to December 31, 2016. The valuation as at December 31, 2016 was based on assumptions that reflect OPB's best estimates of future events such as future rates of inflation, future retirement rates and future rates of return on the pension fund. The amounts are set out in the statement of changes in pension obligations.

We hereby certify that, in our opinion:

- The data provided to us by OPB as of December 31, 2015 are sufficient and reliable;
- The actuarial assumptions used are appropriate for the purposes of each valuation; emerging experience differing from the assumptions will result in gains or losses which will be revealed in future valuations; and
- The methods used are appropriate for purposes of each valuation and are consistent with the applicable regulatory requirements.

Our valuations have been prepared, and our opinions given, in accordance with accepted actuarial practice.

AON HEWITT

Allan H. Shapira
Fellow of the Canadian Institute of Actuaries

Andrew Hamilton
Fellow of the Canadian Institute of Actuaries

March 3, 2017

Management's Responsibility for Financial Reporting

The financial statements of the Ontario Pension Board ("OPB") have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these financial statements are in accordance with Canadian accounting standards for pension plans. Of necessity, many amounts in the financial statements must be based on the best estimates and judgment of management with appropriate consideration as to materiality. Financial information presented throughout this annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded against unauthorized use or disposition, and proper records are maintained. The system includes careful hiring and training of staff, the establishment of an organizational structure that provides for a well-defined division of responsibilities and the communication of policies and guidelines of business conduct throughout OPB.

The Board of Directors (the "Board") is ultimately responsible for the financial statements of OPB. OPB's Audit Committee assists in this responsibility by reviewing the financial statements in detail with management and the external auditors before such statements are recommended to the Board for approval. The Audit Committee meets regularly with management and the external auditors to review the scope and timing of audits, to review their findings and suggestions for improvements in internal control, and to satisfy themselves that their responsibilities and those of management have been properly discharged.

Mark J. Fuller
President & CEO

Michel J. Paradis
Chief Financial Officer

March 3, 2017

Independent Auditors' Report to the Directors of the Ontario Pension Board

We have audited the accompanying financial statements of the Ontario Pension Board, which comprise the statement of financial position as at December 31, 2016, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

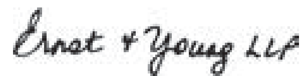
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Pension Board as at December 31, 2016, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.



Toronto, Canada
March 3, 2017

Chartered Professional Accountants
Licensed Public Accountants

Statement of Financial Position

As at December 31 (in thousands of dollars)	2016	2015
Assets		
Investments (Note 4)	$ 24,309,550	$ 23,151,396
Investment-related assets (Note 4)	84,164	84,899
Contributions receivable		
Members	23,581	21,390
Employers	51,810	43,803
Capital assets (Note 5)	1,564	1,962
Total assets	24,470,669	23,303,450
Liabilities		
Investment-related liabilities (Note 4)	44,661	190,383
Accounts payable and accrued charges	43,489	36,852
Contributions payable	1,434	1,020
Total liabilities	89,584	228,255
Net assets available for benefits	24,381,085	23,075,195
Pension obligations (Note 6)	25,176,603	23,509,215
Deficit (Note 7)	$ (795,518)	$ (434,020)

See accompanying notes

On behalf of the Board:

Geri Markvoort
Chair

Lynne Clark
Chair, Audit Committee

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31 (in thousands of dollars)	2016	2015
Investment operations		
Net investment income (Note 8)	$ 1,750,984	$ 1,223,981
Operating expenses – investment operations (Note 10)	(27,095)	(22,563)
Net investment operations	1,723,889	1,201,418
Pension operations		
Contributions (Note 9)		
Members	339,393	318,315
Employers and sponsor	426,013	413,289
Transfer of service from other plans	85,441	111,431
Retirement pension payments	(1,098,805)	(1,038,418)
Termination and other benefits	(145,810)	(137,349)
Operating expenses – pension operations (Note 10)	(24,231)	(24,309)
Net pension operations	(417,999)	(357,041)
Net increase in net assets for the year	1,305,890	844,377
Net assets, at beginning of year	23,075,195	22,230,818
Net assets, at end of year	$ 24,381,085	$ 23,075,195

See accompanying notes

Statement of Changes in Pension Obligations

For the year ended December 31 (in thousands of dollars)	2016	2015
Pension obligations, at beginning of year	**$ 23,509,215**	$ 22,562,386
Increase in pension obligations		
Interest on pension obligations	**1,384,322**	1,329,768
Benefits accrued		
Service accrual	**630,137**	604,304
Transfer of service from other plans	**85,441**	111,431
Past service buybacks	**42,402**	33,357
Changes in actuarial assumptions (Note 6)	**516,624**	–
Experience losses	**253,077**	97,914
Total increase	**2,912,003**	2,176,774
Decrease in pension obligations		
Benefits paid	**1,244,615**	1,175,767
Changes in actuarial assumptions (Note 6)	**–**	54,178
Total decrease	**1,244,615**	1,229,945
Net increase in pension obligations	**1,667,388**	946,829
Pension obligations, at end of year	**$ 25,176,603**	$ 23,509,215

See accompanying notes

Notes to the Financial Statements

Note 1: *Public Service Pension Act*

Effective January 1, 1990, the Province of Ontario (the "Province") enacted the *Public Service Pension Act* (*"PSPAct"*), 1990 to continue the pension plan for the employees of the Province and certain of its agencies. The terms of the Public Service Pension Plan ("PSPP" or the "Plan") are stated in Schedule 1 to the *PSPAct*. Ontario Pension Board ("OPB") is the administrator of the PSPP.

Note 2: Description of PSPP

The following is a brief description of the PSPP. For more complete information, reference should be made to the *PSPAct*.

a) General

The PSPP is a contributory defined benefit pension plan. Membership is mandatory for persons or classes of persons who satisfy the eligibility requirements provided in the *PSPAct*. Persons who are entitled, but not required, to join the Plan, including Deputy Ministers and contract employees, may elect to participate. Under the PSPP, both the members and the employers make contributions. The PSPP is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency (Registration Number 0208777) as a registered pension plan not subject to income taxes.

b) Contributions

The PSPP is integrated with the Canada Pension Plan ("CPP"). Contribution rates are 6.4% of the salary on which contributions are made up to the Year's Maximum Pensionable Earnings ("YMPE") and 9.5% of the salary above the YMPE. Employers contribute matching amounts.

Ontario Provincial Police ("OPP") officers are required to contribute an additional 2% of salary, which is matched by the employer. These additional contributions are used to fund an unreduced early retirement provision available to OPP officers meeting a minimum 50 years of age and 30 years of service. The contribution rates for OPP officers, inclusive of the additional 2% of salary, are 9.2% of the salary on which contributions are made up to the YMPE, and 12.3% of the salary above the YMPE. The contribution rates for OPP civilians are 6.775% of the salary on which contributions are made up to the YMPE, and 9.875% of the salary above the YMPE.

Contributions from members and employers are remitted to OPB. The portion of these contributions that exceeds *Income Tax Act* (Canada) limits is transferred to the Province's Public Service Supplementary Benefits Account ("PSSBA").

c) Pensions

A pension is payable at age 65 based on the number of years of credit in the PSPP multiplied by 2% of the average salary during the best consecutive 60-month period, less an offset for integration with the CPP at age 65. An unreduced pension can be received before age 65 if the member's age and years of credit total 90 ("Factor 90") or when the member reaches age 60 and has 20 or more years of credit.

OPP officers are eligible for a pension payable based on the average salary during the best 36-month period. OPP civilians are eligible for a pension payable based on the average salary during the best 48-month period. In addition, OPP officers are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

d) Death benefits

Upon the death of a member or pensioner, benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or retired member's estate.

e) Disability pensions

Based on meeting all eligibility criteria, a disability pension may be available to members with a minimum of 10 years of credit in the PSPP. The amount of the disability pension is dependent on years of credit and average salary.

f) Termination payments

Members terminating employment before age 55 who are eligible for a deferred pension may be entitled to transfer the commuted value of the pension to a locked-in registered retirement savings arrangement, to transfer to another pension plan, or to purchase a life annuity.

g) Escalation of benefits

Current pensions and deferred pension benefits are increased for inflation based on the Consumer Price Index to a maximum of 8% in any one year. Any inflation above 8% in any one year is applied to increase the pension in subsequent years when the adjustment is less than 8%.

Note 3: Summary of significant accounting policies

Basis of presentation

The financial statements are prepared in accordance with Canadian accounting standards for pension plans and present the position of the PSPP as a separate entity independent of the employers and Plan members.

In accordance with Section 4600, Pension Plans, of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook, Canadian accounting standards for private enterprises in Part II of the CPA Canada Handbook have been chosen for accounting policies that do not relate to the investment portfolio or pension obligations to the extent that those standards do not conflict with the requirements of Section 4600.

All of the entities that OPB has an ownership interest in, regardless of whether OPB can control or exercise significant influence, are considered to be investment assets and are presented on a non-consolidated basis.

a) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts on the statements of changes in net assets available for benefits and changes in pension obligations during the reporting period. Actual results could differ from those estimates. The most significant estimates affecting the financial statements relate to the determination of the pension obligations and the fair values of the Plan's Level 3 investments.

b) Investments and related liabilities

Investments are stated at fair value, including accrued income. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value of financial instruments is determined as follows:

i. Short-term investments are recorded at cost, which, together with accrued interest or discount earned, approximates fair value.

ii. Bonds and OPB Finance Trust debentures are valued at quoted market prices, where available. For those debt instruments for which quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

iii. Equities are valued at quoted market prices at closing where available. Where quoted market prices are not available, other industry pricing conventions that are used by market participants such as ask price are used to estimate the values.

iv. Pooled fund values for publicly traded securities are supplied by the fund managers based upon fair value quotations.

v. Derivative financial instruments such as foreign exchange and bond forwards, equity futures contracts, credit default swaps and options are recorded at fair value using year-end market prices where available. For those instruments for which market prices are not available, estimated fair values are determined using appropriate valuation models based on industry-recognized methodologies.

vi. Real estate, consisting primarily of income-producing properties, and participating mortgages are valued at estimated fair value determined by independent appraisals. The cost of properties acquired during the year may be used as an approximation of their fair value where there has been no significant change in fair value. Non-operating real estate investments such as vacant land and real estate assets under construction are carried at their latest independently appraised values, plus any additional development costs.

vii. Private market and alternative investments, which include infrastructure, private equity, private debt and real estate funds, are valued using the most recently available financial information provided by the fund managers and adjusted for any transactions during the interim period up to the reporting date of these financial statements.

viii. Mortgages and private debt are valued using discounted future cash flows based on year-end market yields and comparable securities, as appropriate.

c) Revenue recognition

Investment transactions are recorded on trade date. Interest is recognized on an accrual basis when earned. Dividend income is recognized on the ex-dividend date. Distributions from investments in pooled funds are recognized when declared by the fund managers. Since real estate is valued on a fair value basis, depreciation and amortization are not recorded. Interest on participating mortgages is accrued at the rate stated in the instrument, and any participation income is accrued based on an estimate of OPB's participation in the increased value of the properties. Transaction costs are expensed as incurred.

Net investment income also includes fair value changes. Fair value changes represent both realized and unrealized gains and losses. Realized gains or losses are recognized when OPB has transferred to the purchaser the significant risks and rewards of ownership of the investment, the purchaser has made a substantial commitment demonstrating its intent to honour its obligation, and the collection of any additional consideration is reasonably assured.

d) Pension obligations

Pension obligations are determined based on an actuarial valuation prepared by an independent firm of actuaries using an actuarial valuation report prepared for funding purposes. This valuation uses the projected benefit cost method pro-rated on service and management's best estimate of various economic and non-economic assumptions.

e) Contributions

Contributions due to the PSPP at year-end are recorded as receivable. Transfers into the Plan and purchases of prior service are recorded after cash is received and the transfer or purchase transaction is completed.

f) Capital assets

Capital assets are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the capital assets as follows:

Computer equipment	3 years
Leasehold improvements	Remaining term of lease
Furniture and fixtures	10 years

g) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The fair values of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end.

Note 4: Investments

Investments before allocating the effect of derivative contracts consist of the following:

As at December 31 (in thousands of dollars)	2016	2015
Cash and short-term investments		
Canada	$ 1,054,549	$ 489,584
Foreign	121,938	179,568
	1,176,487	669,152
Bonds and private debt		
Canada	5,738,077	6,317,419
Foreign	516,459	620,595
	6,254,536	6,938,014
Equities		
Canada	2,262,940	1,813,019
Foreign	8,053,841	7,753,984
	10,316,781	9,567,003
Real estate (net of financing, Note 4(h))	4,375,431	4,247,082
Infrastructure	1,238,661	1,167,558
Private equity	947,654	562,587
Total investments	24,309,550	23,151,396
Investment-related assets		
Pending trades	8,547	10,322
Derivatives receivable (Note 4(d))	75,617	74,577
Total investment-related assets	84,164	84,899
Investment-related liabilities		
Pending trades	9,568	10,978
Derivatives payable (Note 4(d))	35,093	179,405
Total investment-related liabilities	44,661	190,383
Total net investments	$ 24,349,053	$ 23,045,912

a) Investment asset mix

The Plan's actual and target investment asset mix is summarized below as at December 31:

	2016		2015		
	Asset Allocation %		Asset Allocation %		
	Total Plan	Target	Total Plan	Target	SIP&P Range
Asset categories[1]					
Fixed income	**25.4%**	**31.0%**	28.8%	32.5%	10%–45%
Equity	**51.5%**	**45.5%**	47.7%	46.0%	15%–75%
Real assets	**23.1%**	**23.5%**	23.5%	21.5%	20%–45%
Total investments	**100.0%**	**100.0%**	100.0%	100.0%	

1 The asset categories in this Asset Mix table are adjusted to reflect the market exposures after allocating derivatives positions to the asset classes to which they relate, offset by an adjustment to cash and equivalents, included in the Fixed income category.

The Plan approved an updated Strategic Asset Allocation ("SAA") on September 19, 2014, which is summarized in the Statement of Investment Policies and Procedures ("SIP&P") amended and approved on September 23, 2016. There were no significant changes as a result of that amendment. A transition plan to achieve the updated SAA was also approved on September 19, 2014. The transition plan is being phased in over a five-year period. During this period, the asset mix of the Plan's investments may not fall within the SIP&P ranges. However, the ultimate goal of the Plan is to achieve the specified SIP&P ranges of each asset category by the end of the phase-in period.

For purposes of assessing the investment asset mix of the Plan for SIP&P purposes, the investment asset categories reflect the impact of derivative contracts, and investment-related receivables and liabilities. As at December 31, 2016, the asset mix of the Plan's investments was within the acceptable ranges as specified in the SIP&P effective as at the financial statements date.

Subsequent to the year-end, the SAA was updated and the updates were incorporated into a new SIP&P, which was approved on March 3, 2017. The changes to the SIP&P will be effective as of 2017.

b) Financial instruments risk

The Plan is subject to financial risks as a result of its investing activities that could impact its cash flows, income, and assets available to meet benefit obligations. These risks include market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. OPB manages these risks in accordance with its SIP&P, which prescribes the asset mix policy, diversification requirements, performance expectations, limits on individual investments, valuation standards, and guidelines for the management of the Plan.

Market risk – Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market factors. Market risk comprises the following:

(i) Interest rate risk – Interest rate risk refers to the effect on the fair value of the Plan's assets and liabilities due to fluctuations in market interest rates. The value of the Plan's investments is affected by changes in nominal and real interest rates. Pension liabilities are exposed to fluctuations in long-term interest rates and inflation. The Plan has established an asset mix policy that balances interest-rate-sensitive investments with other investments. OPB's fixed income investments have the most significant exposure to interest rate risk. Duration and weighting for the fixed income portfolio are actively managed. Modified duration is a measure of the sensitivity of the price of a fixed income instrument to a change in interest rates. Given the Plan's modified duration of 8 years at December 31, 2016 (2015 – 7.3 years), a parallel shift in the yield curve of +/-1% would result in an approximate impact of $503 million (2015 – $514 million) on net investments with all other variables held constant. In practice, actual results may differ materially from this sensitivity analysis. See the schedule of fixed income maturities for further information.

(ii) Foreign currency risk – Foreign currency exposure arises from the Plan holding foreign currency denominated investments and entering into contracts that provide exposure to currencies other than the Canadian dollar. Fluctuations in the value of the Canadian dollar against these foreign currencies can have an impact on the fair value of investments. In addition to passively hedging a portion of its foreign currency exposure, the Plan also has an active currency hedging strategy in place through the use of foreign exchange forward contracts, which are accounted for at fair value. The total currency exposure, the impact of foreign exchange forward contracts and the net currency exposure are as follows:

As at December 31, 2016 (in thousands of dollars)	Gross Exposure	Foreign Exchange Contracts Receivable	Foreign Exchange Contracts Payable	Net Exposure
U.S. Dollar	$ 5,164,440	$ 773,927	$ (2,771,247)	$ 3,167,120
Hong Kong Dollar	582,987	86,970	(104,600)	565,357
Euro	684,302	368,450	(1,457,110)	(404,358)
Indian Rupee	401,745	2,355	(58)	404,042
South Korean Won	323,312	107	(242)	323,177
Japanese Yen	197,375	226,462	(115,492)	308,345
Chinese Renminbi	303,015	-	-	303,015
Other	2,230,402	407,051	(1,079,126)	1,558,327
Total foreign	9,887,578	1,865,322	(5,527,875)	6,225,025
Canadian Dollar	14,428,841	5,424,639	(1,729,452)	18,124,028
	$ 24,316,419	$ 7,289,961	$ (7,257,327)	$ 24,349,053

As at December 31, 2015 (in thousands of dollars)	Gross Exposure	Foreign Exchange Contracts Receivable	Foreign Exchange Contracts Payable	Net Exposure
U.S. Dollar	$ 4,938,316	$ 1,077,956	$ (3,209,621)	$ 2,806,651
Hong Kong Dollar	569,550	1,220	(187)	570,583
Indian Rupee	408,856	6,044	–	414,900
Chinese Renminbi	356,932	–	–	356,932
British Pound Sterling	446,489	349,787	(1,147,302)	(351,026)
Japanese Yen	130,731	245,080	(90,069)	285,742
South Korean Won	283,070	–	–	283,070
Other	2,130,090	634,644	(1,125,678)	1,639,056
Total foreign	9,264,034	2,314,731	(5,572,857)	6,005,908
Canadian Dollar	13,876,812	5,233,197	(2,070,005)	17,040,004
	$ 23,140,846	$ 7,547,928	$ (7,642,862)	$ 23,045,912

The impact of a 5% absolute change in foreign exchange rates compared to the Canadian dollar, holding all other variables constant, is 5% of the net exposure of the impacted currency, as follows:

		Change in Net Assets Available for Benefits as of	
	Change in Exchange Rates	**December 31, 2016 (in thousands of dollars)**	December 31, 2015 (in thousands of dollars)
U.S. Dollar	+/- 5%	**+/- $ 158,356**	+/- $ 140,333
Hong Kong Dollar	+/- 5%	**+/- 28,268**	+/- 28,529
Euro	+/- 5%	**+/- (20,218)**	+/- 1,657
Indian Rupee	+/- 5%	**+/- 20,202**	+/- 20,745
South Korean Won	+/- 5%	**+/- 16,159**	+/- 14,154
Japanese Yen	+/- 5%	**+/- 15,417**	+/- 14,287
Chinese Renminbi	+/- 5%	**+/- 15,151**	+/- 17,847
Other	+/- 5%	**+/- 77,916**	+/- 62,744
Total	+/- 5%	**+/- $ 311,251**	+/- $ 300,296

(iii) Other price risk – Other price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices other than those arising from foreign currency or interest rate risk, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. An absolute change in the fair value of OPB's investments that are exposed to other price risk will have a direct proportional impact on the fair value of the investments. OPB's investments in equities have the most significant exposure to other price risk. The impact of a 10% absolute change in the price of an investment, holding all other variables constant, is 10% of the net exposure of the impacted investment, as follows:

			Change in Net Assets as of	
Equities	Stock Market Benchmark	Change in Price Index	**December 31, 2016 (in millions of dollars)**	December 31, 2015 (in millions of dollars)
Canadian	S&P/TSX Composite Index	+/- 10%	**+/- $ 284.5**	+/- $ 224.9
Foreign	MSCI World (C$)	+/- 10%	**+/- 499.5**	+/- 472.0
Emerging	MSCI Emerging Equity Index (C$)	+/- 10%	**+/- 375.6**	+/- 347.1
			+/- $ 1,159.6	+/- $ 1,044.0

The sensitivity analysis is performed using the investment asset mix weights summarized in Note 4(a).

Credit risk – The Plan is exposed to the risk of loss through over-the-counter ("OTC") derivative transactions, arising from a default or insolvency of a counterparty. This risk is significantly mitigated by the fact that for any counterparties where the Plan transacts in OTC derivatives of greater than one year in duration, an International Swaps and Derivatives Association ("ISDA") master agreement must be in place accompanied by a Credit Support Annex ("CSA"), which forms part of the ISDA. Under these agreements, collateral is exchanged with counterparties on a daily basis to manage the credit risk arising from any existing OTC derivative contracts with that counterparty. In addition, under the ISDA master agreement for OTC derivatives, the Plan has the right to settle obligations on a net basis in the event of default, insolvency, bankruptcy or other early termination event.

The Plan assumes credit risk exposure through bonds and private debt investments. As at December 31, 2016, the Plan's greatest credit exposure to a securities issuer is with the Government of Canada in the form of interest-bearing securities for $1.4 billion (2015 – with the Government of Canada for $983 million). The credit ratings of the Plan's fixed income and bond investments are as follows:

Credit Rating as of December 31, 2016 (in thousands of dollars)

AAA	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**Not Rated**	**Total**
$1,812,196	**$1,852,846**	**$766,512**	**$639,644**	**$198,928**	**$94,038**	**$4,135**	**$886,237**	**$6,254,536**

Credit Rating as of December 31, 2015 (in thousands of dollars)

AAA	AA	A	BBB	BB	B	CCC	Not Rated	Total
$1,826,884	$2,056,754	$1,085,702	$685,353	$364,499	$181,828	$8,712	$728,282	$6,938,014

The majority of the "not rated" classification in the table above is comprised of fixed income pooled fund and private debt investments.

Liquidity risk – Liquidity risk is the risk that the Plan has insufficient cash flows to meet its pension obligations and operating expenses as they become due. The typical cash requirements of the Plan are in the form of monthly retirement benefit payments as well as periodic termination and other benefit payments and expenses. The Plan also has financial liabilities in the form of derivatives that all mature within one year. The cash requirements and the fulfillment of any financial liabilities are typically met through cash sources such as

investment income, proceeds from the sales of investments, and member and employer contributions. The majority of the Plan's assets are also invested in securities that are traded in active markets and can be divested on a timely basis. The largest sources of cash during the year were the member, employer and sponsor contributions. The maturities of the Plan's fixed income and bond investments are as follows:

Fixed Income Maturities as of December 31, 2016 (in thousands of dollars)

< 1 year	**≥ 1-5 years**	**≥ 5–10 years**	**≥ 10 years**	**Funds**	**Total**
$214,830	**$1,731,323**	**$1,295,498**	**$2,558,146**	**$454,739**	**$6,254,536**

Fixed Income Maturities as of December 31, 2015 (in thousands of dollars)

< 1 year	≥ 1-5 years	≥ 5–10 years	≥ 10 years	Funds	Total
$562,336	$1,819,378	$1,638,002	$2,706,121	$212,177	$6,938,014

c) Cash and short-term investments

As at December 31 (in thousands of dollars)	**2016**	2015
Canada		
Cash	**$ 99,183**	$ 46,569
Short-term notes and treasury funds	**942,205**	426,095
Term deposits	**12,719**	16,550
Accrued interest	**442**	370
	$ 1,054,549	$ 489,584
Foreign		
Cash	**$ 85,308**	$ 162,247
Short-term notes and treasury funds	**36,628**	17,319
Accrued interest	**2**	2
	$ 121,938	$ 179,568

d) Derivative contracts

Derivative contracts are financial contracts whose values change as a result of changes in the values of an underlying asset, index, yield curve or foreign exchange rate.

OPB uses derivatives, either directly with counterparties in the OTC market or on regulated exchanges, to facilitate asset allocation, alter the overall risk-return profile of the Plan, and manage or hedge risk. The Plan utilizes the following types of derivative contracts:

Futures contracts

Futures contracts are standardized agreements that can be purchased or sold on a futures exchange market at a predetermined future date and price specified at origination of the contract, in accordance with terms specified by the regulated futures exchange, and are subject to daily cash margining. These types of derivatives are used to efficiently modify exposures without actually purchasing or selling the underlying assets.

Forward contracts

Foreign exchange forward contracts are negotiated agreements between two parties to exchange a notional amount of one currency for another at an exchange rate specified at origination of the contract, with settlement at a specified future date. Foreign exchange forward contracts are used by OPB to modify currency exposure for both passive and active hedging.

A bond forward is a contractual obligation to either buy or sell an interest-rate-sensitive financial instrument on a predetermined future date at a specified price. Bond forward contracts are used to modify OPB's exposure to interest rate risk, such as hedging a potential new debenture issue.

Credit derivatives

Credit default swaps are a type of credit derivative used to transfer credit risk of an underlying financial instrument or group of securities from one party to another. In a credit default swap, the buyer of the swap pays a regular premium to the seller in return for protection against any loss of the notional amount of the underlying securities if a credit event, such as a default, occurs.

Options

Options are contractual agreements under which the buyer has the right, but not the obligation, either to buy (call option) or sell (put option) an underlying asset at a predetermined price on or before a specified future date.

The following schedule summarizes the notional amounts and fair values of the Plan's derivative contracts held on the indicated dates:

As at December 31, 2016		Fair value	
(in thousands of dollars)	Notional value	Assets	Liabilities
Equity derivatives			
Futures	$ 1,011,195	$ 7,992	$ -
Currency derivatives			
Forwards	7,301,648	67,625	(34,991)
Credit derivatives			
Credit default swaps	1,100	-	(102)
Value of derivative contracts	$ 8,313,943	$ 75,617	$ (35,093)

As at December 31, 2015 (in thousands of dollars)	Notional value	Fair value Assets	 Liabilities
Equity derivatives			
Futures	$ 624,416	$ –	$ (6,744)
Currency derivatives			
Forwards	7,473,626	74,577	(169,511)
Fixed income derivatives			
Bond forwards	266,617	–	(3,150)
Value of derivative contracts	$ 8,364,659	$ 74,577	$ (179,405)

The credit defaults swaps will mature in 2020 and all the other derivative contracts have remaining maturities of less than one year as at December 31, 2016.

e) Securities lending

At year-end, $865 million (2015 – $1.6 billion) of OPB's securities were on loan to third parties. Pursuant to a securities lending agreement, OPB's custodian arranges the loans and OPB earns a fee. The custodian follows strict lending criteria and over-collateralizes the loans with securities that have credit ratings equal to or better than the securities loaned. OPB does not employ cash collateral in its securities lending program. Securities under lending arrangements continue to be recognized as OPB's investments as OPB retains the rewards and risks associated with these securities. At year-end, $910 million (2015 – $1.7 billion) of securities were held as collateral, providing a 5.1% (2015 – 5.5%) cushion against the potential credit risk associated with these securities lending activities.

f) Fair values

Canadian accounting standards for pension plans require disclosure of a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the financial statement date. The three levels are defined as follows:

Level 1: Fair value is based on quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include equity securities traded in an active exchange market.

Level 2: Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of

the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes mutual and pooled funds; hedge funds; Government of Canada, provincial and other government bonds; Canadian corporate bonds; and certain derivative contracts.

Level 3: Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This category generally includes investments in underlying real estate properties, private equity investments and securities that have liquidity restrictions.

The following tables present the level within the fair value hierarchy for investments and derivatives, excluding pending trades.

As at December 31, 2016 (in thousands of dollars)	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Cash and short-term investments				
Canada	$ 99,183	$ 955,366	$ -	$ 1,054,549
Foreign	85,308	36,630	-	121,938
Bonds and private debt				
Canada	-	5,347,555	390,522	5,738,077
Foreign	-	449,669	66,790	516,459
Equities				
Canada	2,262,940	-	-	2,262,940
Foreign	8,053,841	-	-	8,053,841
Real estate	-	-	4,375,431	4,375,431
Private equity	-	-	947,654	947,654
Infrastructure	-	-	1,238,661	1,238,661
Forwards	-	67,625	-	67,625
Futures	7,992	-	-	7,992
	$ 10,509,264	$ 6,856,845	$ 7,019,058	$ 24,385,167
Financial liabilities				
Forwards	$ -	$ (34,991)	$ -	$ (34,991)
Credit default swaps	-	(102)	-	(102)
	$ -	$ (35,093)	$ -	$ (35,093)

As at December 31, 2015 (in thousands of dollars)	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Cash and short-term investments				
Canada	$ 46,569	$ 443,015	$ –	$ 489,584
Foreign	162,247	17,321	–	179,568
Bonds and private debt				
Canada	–	5,954,125	363,294	6,317,419
Foreign	–	593,523	27,072	620,595
Equities				
Canada	1,813,019	–	–	1,813,019
Foreign	7,380,483	373,501	–	7,753,984
Real estate	–	–	4,247,082	4,247,082
Private equity	–	–	562,587	562,587
Infrastructure	–	–	1,167,558	1,167,558
Forwards	–	74,577	–	74,577
	$ 9,402,318	$ 7,456,062	$ 6,367,593	$ 23,225,973

	Level 1	Level 2	Level 3	Total Fair Value
Financial liabilities				
Futures	$ (6,744)	$ –	$ –	$ (6,744)
Forwards	–	(172,661)	–	(172,661)
	$ (6,744)	$ (172,661)	$ –	$ (179,405)

There were no significant transfers between Levels 1, 2 or 3 during the years ended December 31, 2016 and 2015.

The following tables present a reconciliation of all Level 3 assets and liabilities measured at fair value for the years ended December 31, 2016 and 2015.

(in thousands of dollars)	Fair Value as at January 1, 2016	Acquisitions	Dispositions	Issuance of Debt	Fair Value Changes	Fair Value as at December 31, 2016
Financial assets						
Private debt						
Canada	$ 363,294	$ 91,410	$ (68,053)	$ -	$ 3,871	$ 390,522
Foreign	27,072	44,069	-	-	(4,351)	66,790
Real estate	4,247,082	362,193	(103,736)	(250,000)	119,892	4,375,431
Private equity	562,587	406,412	(107,631)	-	86,286	947,654
Infrastructure	1,167,558	133,159	(15,131)	-	(46,925)	1,238,661
	$ 6,367,593	$ 1,037,243	$ (294,551)	$ (250,000)	$ 158,773	$ 7,019,058

(in thousands of dollars)	Fair Value as at January 1, 2015	Acquisitions	Dispositions	Issuance of Debt	Fair Value Changes	Fair Value as at December 31, 2015
Financial assets						
Private debt						
Canada	$ 411,819	$ 31,741	$ (72,122)	$ –	$ (8,144)	$ 363,294
Foreign	24,995	12,083	(14,281)	–	4,275	27,072
Real estate	3,425,640	1,291,555	(129,492)	(500,000)	159,379	4,247,082
Private equity	359,765	150,411	(38,509)	–	90,920	562,587
Infrastructure	754,609	406,727	(94,207)	–	100,429	1,167,558
	$ 4,976,828	$ 1,892,517	$ (348,611)	$ (500,000)	$ 346,859	$ 6,367,593

g) Commitments and guarantees

As at December 31, 2016, OPB has unfunded commitments for certain investments of $2,064 million (2015 – $1,845 million).

OPB has provided a guarantee for the payment of principal and interest on $1,500 million in debentures that were issued by OPB Finance Trust, a trust established for the benefit of OPB and its related entities. Five series of debentures have been issued as at December 31, 2016:

1. $350 million, Series A, 30-year debentures due 2042, with a 3.89% coupon payable semi-annually.
2. $150 million, Series B, 50-year debentures due 2062, with a 3.87% coupon payable semi-annually.
3. $250 million, Series C, 10-year debentures due 2023, with a 2.90% coupon payable semi-annually.
4. $500 million, Series D, 7-year debentures due 2022, with a 1.88% coupon payable semi-annually.
5. $250 million, Series E, 10-year debentures due 2026, with a 2.95% coupon payable semi-annually.

The proceeds from the issuance of the Series A, B, D and E debentures were loaned to a number of OPB real estate subsidiaries. In turn, these real estate companies repaid amounts owed to OPB.

The proceeds from the issuance of the Series C debentures were loaned to a real estate trust established for the benefit of OPB.

Subsequent to year-end, on January 24, 2017, OPB Finance Trust issued $750 million of Series F debentures at an effective yield of 2.986%. The debentures are due on January 25, 2027 with a coupon of 2.98% per annum, calculated and payable semi-annually. The repayment of principal and interest for the Series F debentures is fully guaranteed by OPB. The entire proceeds from

the issuance were loaned to a number of OPB real estate subsidiaries to acquire real estate investments on February 1, 2017 (refer to Note 13 for additional information).

OPB's real estate investments are shown net of the OPB Finance Trust debentures and any other financings specifically assumed by these real estate entities.

In addition to the guarantee on the debentures, $17 million of letters of credit are guaranteed by OPB as at December 31, 2016.

h) Real estate

The following table provides a breakdown of the real estate portfolio by its major components.

As at December 31 (in thousands of dollars)	2016	2015
Assets		
Real estate[1]	$ 2,337,800	$ 2,274,625
Investments[2]	3,582,353	3,276,149
Total assets	5,920,153	5,550,774
Liabilities		
Debentures[3]	1,540,227	1,289,521
Other liabilities, net	4,495	14,171
Total liabilities	1,544,722	1,303,692
Net investment in real estate	$ 4,375,431	$ 4,247,082

1 Real estate investments that are 100% directly owned and held in single-purpose subsidiaries.

2 Investments held through partially owned non-controlling co-ownerships, funds, or similar investment vehicles consist of real estate properties, any related assets and liabilities and participating mortgages. These assets and liabilities are presented on a net basis.

3 The debentures represent securities issued by OPB Finance Trust and are guaranteed by OPB (see Note 4(g)).

Note 5: Capital assets

As at December 31, 2016 (in thousands of dollars)	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	$ 4,866	$ 4,341	$ 525
Furniture and fixtures	2,491	2,032	459
Leasehold improvements	1,732	1,152	580
Total capital assets	$ 9,089	$ 7,525	$ 1,564

As at December 31, 2015 (in thousands of dollars)	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	$ 4,624	$ 3,995	$ 629
Furniture and fixtures	2,483	1,808	675
Leasehold improvements	1,641	983	658
Total capital assets	$ 8,748	$ 6,786	$ 1,962

Note 6: Pension obligations

An actuarial valuation prepared for funding purposes ("funding valuation") is used as the basis for funding, Plan design decisions and the periodic determination of the Plan's pension obligations. This funding valuation is based on methods required under the *PSPAct* and the *Pension Benefits Act* (Ontario) ("*PBA*"). The *PBA* and the *Income Tax Act* (Canada) require that a funding valuation of the PSPP be completed and filed with the regulatory authorities at least every three years.

The most recent regulatory filing of a funding valuation was as at an effective date of December 31, 2013, which disclosed a funding shortfall of $804 million on a going-concern basis. The funding valuation was prepared by Aon Hewitt. The next required funding valuation to be filed with the regulatory authorities will have an effective date no later than December 31, 2016. This required funding valuation would need to be filed in 2017.

A funding valuation was prepared as at December 31, 2015 and finalized in May 2016 by Aon Hewitt. This funding valuation, which was not filed, disclosed a funding shortfall of $667 million on a going-concern basis. For the purposes of these financial statements, Aon Hewitt used the funding valuation as at December 31, 2015 and rolled it forward in order to determine the Plan's pension obligations as at December 31, 2016. The pension obligations as at December 31, 2016 are $25.2 billion (2015 – $23.5 billion).

Actuarial assumptions – The actuarial assumptions used in determining the value of the pension obligations reflect management's best estimate of future economic and non-economic events. The primary economic assumptions as at December 31 are:

	2016	2015
Investment return	**5.7%**	5.95%
Inflation	**2.0%**	2.10%
Real rate of return	**3.7%**	3.85%
Salary increases		
2015	**-**	1.5% + promotional scale
2016	**1.5% + promotional scale**	1.5% + promotional scale
2017	**1.5% + promotional scale**	1.5% + promotional scale
2018	**2.0% + promotional scale**	2.0% + promotional scale
2019	**2.5% + promotional scale**	2.5% + promotional scale
2020 and thereafter	**3.0% + promotional scale**	3.1% + promotional scale

The non-economic assumptions include mortality, withdrawal and retirement rates. During 2016, changes in actuarial assumptions related to the real rate of return, inflation and total investment return resulted in an increase of $517 million to the Plan's pension obligations. The annual expected real rate of return has been lowered based on the long-term investment mix policy and expected returns and volatility for each of the asset classes. During 2015, the changes in actuarial assumptions related to a survivorship adjustment for spouses, offset by lower

mortality assumptions as a result of Plan experience, contributed to a decrease of $54 million to the pension obligations.

Note 7: Deficit

In these financial statements, the amount by which net assets available for benefits is less than the pension obligations is represented by the deficit, which as at December 31, 2016 was $796 million (2015 – $434 million).

Note 8: Net investment income

For the year ended December 31

(in thousands of dollars)	Investment Income[1]	Fair Value Changes	2016 Total	Investment Income[1]	Fair Value Changes	2015 Total
Cash and short-term investments						
Canada	**$ 10,681**	**$ 1,974**	**$ 12,655**	$ 9,520	$ 16,365	$ 25,885
Foreign[2]	**452**	**241,044**	**241,496**	1,788	(615,953)	(614,165)
	11,133	**243,018**	**254,151**	11,308	(599,588)	(588,280)
Bonds and private debt						
Canada	**234,414**	**(12,349)**	**222,065**	242,205	(5,720)	236,485
Foreign	**40,739**	**(6,230)**	**34,509**	45,739	35,309	81,048
	275,153	**(18,579)**	**256,574**	287,944	29,589	317,533
Equities						
Canada	**54,370**	**480,344**	**534,714**	59,804	(273,612)	(213,808)
Foreign	**171,683**	**173,331**	**345,014**	221,159	944,398	1,165,557
	226,053	**653,675**	**879,728**	280,963	670,786	951,749
Real estate	**208,336**	**112,441**	**320,777**	196,493	147,291	343,784
Infrastructure	**50,308**	**(62,642)**	**(12,334)**	41,908	99,303	141,211
Private equity	**40,880**	**86,070**	**126,950**	46,865	90,532	137,397
Total investment income	**$ 811,863**	**$ 1,013,983**	**$ 1,825,846**	$ 865,481	$ 437,913	$ 1,303,394
Investment management and related fees (Note 8(b))			**(74,862)**			(79,413)
Net investment income			**$ 1,750,984**			$ 1,223,981

1 Investment income includes interest on cash and short-term investments, fixed income and participating mortgages, dividend income on equities, real estate distributions and distribution income from various pooled funds.

2 Fair value changes on cash and short-term investments include gains (losses) on foreign exchange contracts.

a) Interest income

For the year ended December 31 (in thousands of dollars)		2016		2015
Cash and short-term investments				
Canada				
Cash	$	7,201	$	5,059
Short-term notes and treasury funds		3,441		4,394
Term deposits		39		67
	$	10,681	$	9,520
Foreign				
Cash	$	429	$	1,784
Short-term notes and treasury funds		23		4
	$	452	$	1,788

Earnings from pooled short-term investment funds are included with short-term notes and treasury funds.

b) Investment management and related fees

For the year ended December 31 (in thousands of dollars)		2016		2015
Portfolio fund management	$	60,363	$	63,104
Transaction costs		8,303		9,659
Custodial		5,425		5,607
Private market		771		1,043
	$	74,862	$	79,413

Transaction costs include commissions and fees on trades.

Note 9: Contributions

For the year ended December 31 (in thousands of dollars)	2016	2015
Members		
Current service required	$ 301,627	$ 289,515
Prior service	37,766	28,800
Total contributions from members	339,393	318,315
Employers		
Current service		
Regular contributions	301,833	289,043
PSSBA transfer	(14,634)	(12,637)
For members receiving Long Term Income Protection benefits	12,791	11,485
Prior service	4,636	4,557
	304,626	292,448
Sponsor payments		
Special payments	98,989	98,989
Additional current service	22,398	21,852
	121,387	120,841
Total contributions from employers and sponsor	426,013	413,289
Total contributions	$ 765,406	$ 731,604

The contribution requirements are set out in the *PSPAct* and summarized in Note 2(b).

Members who are receiving benefits on Long Term Income Protection have their contributions to the PSPP paid by their employers.

The Province, as sponsor of the Plan, contributed $99 million (2015 – $99 million) in Special Payments in 2016 towards the funding shortfall identified in the filed funding valuation as at December 31, 2013. In 2016, the Province made $22 million (2015 – $22 million) in additional employer current service contributions.

For 2016 and 2015, the contributions to the Plan were made in accordance with the funding requirements as specified by the most recently filed actuarial funding valuation.

There were no required contributions past due as at December 31, 2016 and 2015.

Note 10: Operating expenses

Investment operations

For the year ended December 31 (in thousands of dollars)		**2016**		2015
Staffing costs	**$**	**15,891**	$	13,409
Staff development and support		**216**		179
Office premises and operations		**2,823**		2,656
Information technology and project management		**3,225**		3,231
Professional services		**1,878**		1,939
Communication		**132**		124
Depreciation		**309**		315
Board remuneration		**77**		86
Audit		**182**		244
IMCO set-up costs		**2,362**		380
	$	**27,095**	$	22,563

Pension operations

For the year ended December 31 (in thousands of dollars)		**2016**		2015
Staffing costs	**$**	**13,492**	$	12,916
Staff development and support		**121**		99
Office premises and operations		**3,169**		2,894
Information technology and project management		**5,567**		6,486
Professional services		**911**		868
Communication		**308**		288
Depreciation		**429**		457
Board remuneration		**52**		57
Audit		**182**		244
	$	**24,231**	$	24,309

Included in the above operating expenses are:

External audit services

For the year ended December 31 (in thousands of dollars)		**2016**		2015
External audit and related services provided to Ontario Pension Board	**$**	**205**	$	256
External audit and related services provided to and recorded by subsidiary operations		**272**		311
Total fees	**$**	**477**	$	567

Actuarial services

For the year ended December 31 (in thousands of dollars)		2016		2015
Actuarial services provided to Ontario Pension Board	$	457	$	410

IMCO set-up costs

In 2016, the Investment Management Corporation of Ontario Act was proclaimed by the Government of Ontario, creating Investment Management Corporation of Ontario ("IMCO"), a new investment management entity that will provide the day-to-day investment management and advisory services to participating organizations in Ontario's broader public sector with the ownership of the investment assets remaining with the participants. OPB and Workplace Safety and Insurance Board ("WSIB") are IMCO's founding members and IMCO is expected to be fully operational in 2017, at which time IMCO will assume responsibility for OPB's day-to-day investment management functions.

On July 27, 2016, IMCO entered into a funding agreement with OPB and WSIB to provide funding for IMCO's initial set-up costs incurred from the date of the funding agreement to December 31, 2017. As at December 31, 2016, no amounts are owed from IMCO to OPB under this agreement.

During 2016, IMCO charged $1.2 million to OPB, its portion of IMCO's initial set-up costs such as legal and other costs for entering into contracts with service providers. Other set-up costs related to IMCO of approximately $1.2 million (2015 – $0.4 million), such as legal and consulting expenses, were also incurred by OPB during the year.

Note 11: Capital management

The funding surpluses or deficits determined periodically through the funding valuations prepared by the independent actuary are defined as the Plan's capital. The actuary's funding valuation is used to measure the long-term health of the Plan. The last filed actuarial valuation report for funding purposes was prepared by Aon Hewitt as of December 31, 2013, which disclosed a funding shortfall of $804 million on a going-concern basis and a deficit of $871 million on a solvency basis.

The objective of managing the Plan's capital is to ensure the Plan is funded to fully pay out the Plan's benefits. The funding valuation determines the annual minimum contribution levels to eliminate any shortfalls. The Plan's SIP&P also provides guidance with respect to the investment of the Plan's assets (see Note 4(a)) in order to assist with the management of any funding excesses or shortfalls. During the year, the SIP&P was amended on September 23, 2016, resulting in the asset mix targets as shown in Note 4(a). The Plan's rate of return expectation has been set in the SIP&P at a 3.85% real rate of return, net of fees.

Note 12: Comparative financial statements

Certain amounts in the comparative financial statements have been reclassified to conform to the presentation of the 2016 financial statements.

Note 13: Subsequent events

On November 17, 2016, OPB entered into a purchase and sale agreement together with WSIB to acquire a total 50% interest in certain Vancouver properties (the "Purchased Interest") for a total consideration of $1.9 billion. Subsequently on January 11, 2017, the Purchased Interest was assigned and transferred to entities that are equally owned by OPB and WSIB, resulting in each of OPB and WSIB having a 25% ownership interest in the Vancouver properties. The transaction was completed on February 1, 2017.

On January 24, 2017, OPB Finance Trust issued $750 million of Series F debentures (as noted in Note 4(g)) to finance a portion of the Purchased Interest described above.

Supplementary Information

Fixed income maturities

As at December 31 (in thousands of dollars)	2016 Fair Value	2016 Current Yield %	2015 Fair Value	2015 Current Yield %
Bonds				
Canada				
< 1 year	$ 166,124	1.09–7.50	$ 532,406	0.98–12.01
≥ 1–5 years	1,615,253	0.25–12.39	1,646,854	0.25–14.19
≥ 5–10 years	1,113,043	0.52–14.29	1,330,725	0.75–11.16
≥ 10 years	2,455,708	1.03–10.00	2,622,330	1.07–11.37
	5,350,128		6,132,315	
Foreign				
< 1 year	48,706	2.16–8.48	29,930	3.16–7.00
≥ 1–5 years	116,070	0.46–11.35	172,524	2.48–38.10
≥ 5–10 years	182,455	0.32–12.02	307,277	2.04–21.61
≥ 10 years	102,438	1.36–10.84	83,791	1.43–10.12
	449,669		593,522	
Fixed income funds (with no stated maturities)	454,739		212,177	
Total fixed income	$ 6,254,536		$ 6,938,014	

Investments over $200 million

As at December 31, 2016 (in thousands of dollars)	Maturities	Coupon %		Fair Value[1]
Cash and short-term investments				
Government of Canada			$	445,302
Fixed income				
OPB Investments Limited (holding company, 100% owned)			$	210,060
Blackrock Canada Universe Bond Index Class A fund				203,488
Bonds				
Canada				
Government of Canada	2018–2064	0.25–10.50	$	986,424
Province of Ontario	2018–2062	1.16–9.50		814,268
Canada Housing Trust No. 1	2018–2026	1.10–4.10		463,829
Province of Quebec	2018–2055	1.00–9.63		337,007
Real estate, net of financing				
Investment in real estate holdings, comprising OPB Realty Inc. (holding company, 100% owned), OPB (TDC) Inc. (holding company, 100% owned), OPB Real Estate Investments 2 Limited (holding company, 100% owned), OPB (EMTC) Inc. (holding company, 100% owned), OPB (Southgate) Inc. (holding company, 100% owned), OPB (155 Wellington) Inc. (holding company, 100% owned), OPB (Centre 10) Inc. (holding company, 100% owned) and OPB Finance Trust (financing entity, 100% beneficial interest)			$	2,977,547

		Fair Value
Infrastructure		
OPB Infrastructure 2 Limited (holding company, 100% owned)	$	642,820
Private equities		
OPB Private Equity 5 Limited (holding company, 100% owned)	$	303,176

[1] Includes guaranteed instruments issued by subsidiaries/agencies.

Real estate properties – Location and gross leasable area

The following table provides gross leasable area of those real estate properties that are 100% directly owned and those owned through co-ownerships, all of which are held in single-purpose subsidiaries:

As at December 31, 2016 (in thousands of square feet)	Location	Gross Leasable Area[1]
Retail		
Pen Centre	St. Catharines	1,039
Southgate Centre	Edmonton	942
Pickering Town Centre	Pickering	938
St. Vital Centre	Winnipeg	932
Erin Mills Town Centre	Mississauga	867
Erin Mills Town Plaza	Mississauga	59
Woodgrove Centre	Nanaimo	748
Cornwall Centre	Regina	579
Halifax Shopping Centre	Halifax	555
Carlingwood Shopping Centre	Ottawa	520
Halifax Shopping Centre Annex	Halifax	420
Mumford Professional Centre	Halifax	187
		7,786
Office		
TD Centre	Toronto	4,494
155 Wellington Street West	Toronto	1,211
Centre 10	Calgary	368
Pickering Office Tower/Durham College	Pickering	127
Halifax Office Complex	Halifax	52
		6,252
Residential		
Engelhart Apartments	Toronto	85
Total properties		**14,123**

[1] Area shown above reflects 100% of each property's square footage. Southgate Centre and 155 Wellington Street West are 50% owned by Ontario Pension Board through its subsidiaries OPB (Southgate) Inc. and OPB (155 Wellington) Inc. Woodgrove Centre, Cornwall Centre and Engelhart Apartments are 50% owned by Ontario Pension Board through its subsidiary OPB Real Estate Investments 2 Limited. TD Centre is 30% owned by Ontario Pension Board through its subsidiary OPB (TDC) Inc.

Financial Services Commission of Ontario

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June 29, 2017

Pension Benefits Guarantee Fund
Management's Responsibility for Financial Information

The CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario ("FSCO") pursuant to the *Financial Services Commission of Ontario Act, 1997* and specifically, subsection 82(2) of the *Pension Benefits Act,* is responsible for the administration of the Pension Benefits Guarantee Fund.

Under the direction of the Superintendent, FSCO Management (Management) is responsible for the integrity and fair presentation of all information in the financial statements and notes. The financial statements have been prepared by Management in accordance with Canadian Public Sector Accounting Standards. The preparation of financial statements involves the use of Management's judgment and best estimates particularly when transactions affecting the current period cannot be determined with certainty until future periods.

In the administration of the Pension Benefits Guarantee Fund, Management is dedicated to the highest standards of integrity in provision of its services and has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and safeguarding of its assets.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian Public Sector Accounting Standards for Government Not-For-Profit organizations. They have been approved by the Commission's Audit & Risk Committee. The Auditor's report follows.

Lester J. Wong
Deputy Superintendent, Pensions

Kwan Lee, CPA, CA, MAcc
Chief Accountant

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Financial Services Commission of Ontario
and to the Minister of Finance

I have audited the accompanying financial statements of the Pension Benefits Guarantee Fund of the Financial Services Commission of Ontario, which comprise the statement of financial position as at March 31, 2017, and the statements of operations and fund surplus, cash flows and re-measurement gains and losses for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission's Pension Benefits Guarantee Fund as at March 31, 2017, and the results of its operations, its cash flows and its re-measurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
June 29, 2017

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

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FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Financial Position
As at March 31, 2017

	March 31, 2017 ($ '000)	March 31, 2016 ($ '000)
ASSETS		
Current		
Accounts receivable	308,385	72,243
Investments (Note 4)	567,896	528,116
	876,281	600,359
LIABILITIES AND FUND SURPLUS		
Current		
Accounts payable and accrued liabilities	6,539	5,940
Current portion of loan payable to the Province (Note 5)	11,000	11,000
Claims payable	4,670	24,476
	22,209	41,416
Loan payable to the Province (Note 5)	112,674	117,216
	134,883	158,632
Fund surplus from operation	743,150	442,671
Accumulated remeasurement losses	(1,752)	(944)
Fund surplus	741,398	441,727
	876,281	600,359

See accompanying notes to financial statements

Approved by:

Brian Mills
Chief Executive Officer
and Superintendent of Financial Services
Financial Services Commission of Ontario

FINANCIAL SERVICES COMMISSION OF ONTARIO

Statement of Operations and Fund Surplus
For the year ended March 31, 2017

	2017 ($ '000)	2016 ($ '000)
Revenue		
Premium revenue	70,510	70,944
Pension plan recoveries (Note 7)	245,311	16,534
Investment income (Note 4)	5,010	4,881
	320,831	92,359
Expenses		
Claims	10,717	8,491
Amortization of loan discount (Note 5)	6,458	6,676
Pension consulting services (Note 8)	2,416	5,446
Administration fee (Note 9)	577	597
Investment management fees (Note 9)	184	165
	20,352	21,375
Excess of revenue over expenses	300,479	70,984
Fund surplus, beginning of year	442,671	371,687
Fund surplus, end of year	743,150	442,671

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Cash Flows
For the year ended March 31, 2017

	March 31, 2017 ($ '000)	March 31, 2016 ($ '000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess of revenue over expenses	300,479	70,984
Items not affecting cash		
Amortization of loan discount (Note 5)	6,458	6,676
Losses on disposal of investments	989	333
	307,926	77,993
Changes in non cash working capital		
Accounts receivable	(236,142)	(10,229)
Claims payable	(19,806)	(9,364)
Accounts payable and accrued liabilities	599	1,491
	52,577	59,891
Cash flows from investing activities		
Purchases of investments	(2,603,550)	(2,973,205)
Proceeds from sale of investments	2,561,973	2,924,437
	(41,577)	(48,768)
Cash flows from financing activities		
Loan repayments	(11,000)	(11,000)
	(11,000)	(11,000)
Change in cash position	-	123
Cash (overdraft) position, beginning of year	-	(123)
Cash position, end of year	-	-

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Re-measurement Gains and Losses
For the year ended March 31, 2017

	March 31, 2017 ($ '000)	March 31, 2016 ($ '000)
Accumulated re-measurement gains (losses), beginning of year	**(944)**	**143**
Unrealized losses attributed to portfolio investments	(1,797)	(1,420)
Realized losses reclassified to the statement of operations	989	333
Accumulated re-measurement losses, end of year	**(1,752)**	**(944)**

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2017

1. STATUTORY AUTHORITY

The Pension Benefits Guarantee Fund (the "Fund" or "PBGF") is continued under the *Pension Benefits Act, R.S.O. 1990, c. P.8* (the "Act").

2. FUND OPERATIONS

The purpose of the Fund is to guarantee payment of pension benefits of certain defined benefit pension plans that are wound up under conditions specified in the Act and regulations thereto. The regulations also prescribe an assessment payable into the Fund by plan registrants.

The Act provides that if the assets of the Fund are insufficient to meet payments for claims, the Lieutenant Governor in Council may authorize the Minister of Finance of Ontario to make loans or grants on such terms and conditions as the Lieutenant Governor in Council directs. The total liability of the Fund to guarantee pension benefits is limited to the assets of the Fund including any loans or grants received from the Province.

The CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario ("FSCO") pursuant to the *Financial Services Commission of Ontario Act, 1997* and specifically, subsection 82(2) of the *Pension Benefits Act,* is responsible for the administration of the Fund, and the Fund reimburses FSCO for the costs of the services provided to the Fund. The investments of the Fund are managed by the Ontario Financing Authority, on a fee-for-service basis which is paid by the Fund.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund have been prepared by the management of FSCO in accordance with Public Sector Accounting Standards for Government Not-For-Profit organizations (PSA-GNFPO) as issued by the Public Sector Accounting Board (PSAB). Accordingly, management has used the following significant accounting policies in their preparation.

(a) Financial Instruments

The Fund follows PSA-GNFPO accounting standards relating to financial instruments. Under these standards, all financial instruments are included on the balance sheet and are measured either at fair value or at cost or amortized cost as follows:

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2017

- Cash and investments are recorded at fair value, with changes in fair value during the period recognized in the statement of re-measurement gains and losses until realized. Fair value is determined from quoted prices for similar investments.

- Accounts receivable, account payable and accrued liabilities are valued at cost which approximate fair value given their short term maturities.

- The non-interest bearing loan payable is reflected at amortized cost using the effective interest rate method due to the concessionary nature of the loan. The initial valuation was determined by discounting future cash flows using the provincial cost of borrowing. The resulting benefit (the difference between the face value of the loan and the net present value) was accounted for as a grant in the year received and is amortized to loan discount expense over the term of the loan.

(b) Claims Payable

Claims payable are estimates of the liabilities in respect of those defined benefit pension plans prescribed by the Act that are wound up or in the process of being ordered wound up under conditions specified in the Act, and the claim amounts can be reasonably estimated. Liabilities are also recognized when there is a high probability that a company will not emerge from creditor protection and the pension plan will be wound up on a specified date and the claim can be reasonably estimated. Claims payable are based on information provided by appointed pension plan administrators from estimates provided by actuarial consultants. These estimates represent the present value of future payments to settle claims for benefits and expenses by pension plans.

Differences in the liabilities, if any, between the amounts recognized based on estimates and the actual claims made, will be charged or credited to claims expense in the year when the actual amounts are determined.

(c) Premium Revenue

An estimate of the premium revenue due from defined benefit pension plans at rates prescribed by the Act is recorded until receipt of the annual assessment certificate nine months after the plan’s fiscal year end.

Differences in premium revenue, if any, between the estimated amounts recognized and the actual revenues due are charged or credited to premium revenue in the year.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2017

	2017 ($'000)	2016 ($'000)
Estimated revenue	64,000	61,300
Actual revenue related to current and prior years received in current year	67,810	69,144
Less: prior year's estimated revenue	(61,300)	(59,500)
	70,510	**70,944**

(d) Use of Estimates

The preparation of financial statements in accordance with PSA-GNFPO accounting standards requires that FSCO's management make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses for the period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates and the differences could be material. Areas where significant estimates must be made include premium revenue, claims payable and pension plan recoveries receivable.

4. INVESTMENTS

As the administrator, investing the assets of the Fund, FSCO has established a Pension Benefits Guarantee Fund Management Committee. The Committee has developed a Statement of Investment Policies and Guidelines which is reviewed regularly and provides operational objectives, investment principles, policies and guidelines for the management of the investments.

Investments consist of:

	2017 ($'000)		2016 ($'000)	
	Fair Value	Cost	Fair Value	Cost
Discounted notes	338,945	338,945	291,607	291,607
Government bonds	228,951	230,703	236,509	237,453
	567,896	569,648	528,116	529,060

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2017

Investment income includes interest earned from interest bearing securities and realized gains and losses from the sale of securities.

The Fund's investment portfolio is exposed to various risks, which are mitigated by the type of investment and therefore risk is low.

The market value sensitivity of the Money Market Portfolio at the end of the last quarter was $0.94M for a 1.00% change in rates. The market value sensitivity of the Government Bond Laddered Portfolio at the end of the last quarter was $0.81M for a 1.00% change in rates.

Discounted notes with maturities between April 2017 and June 2017 have yields in the range of 0.513% to 0.900% (2016 – maturities between April 2016 and June 2016 had yields in the range of 0.462% to 0.830%).

The government bonds maturing between June 2017 and December 2019 have yields in the range of 1.009 to 1.433% (2016 – maturing between April 2016 and December 2018 have yields in the range of 0.884 to 1.433%).

5. LOAN PAYABLE TO THE PROVINCE

Non-interest Bearing Loan

On March 31, 2004, the Fund obtained a $330M loan from the Province, a related party. The loan is non-interest bearing and repayable to the Province in thirty equal annual installments of $11M. The loan agreement provides for the Minister of Finance to advance any installment payment date depending on the cash position of the Fund. Repayments over the next five years total $55M.

The face value of this non-interest bearing loan has been discounted at an effective interest rate of 5.0368% to reflect its amortized cost outstanding as of March 31, 2017 as follows:

	2017 ($'000)	2016 ($'000)
Face Value	187,000	198,000
Less: Discount	(63,326)	(69,784)
Amortized Cost	123,674	128,216
Classified as:		
Current Portion	11,000	11,000
Long Term Portion	112,674	117,216
Balance	123,674	128,216

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2017

The discount of $63.3M is amortized to loan discount expense over the remaining term of the loan, based on the effective interest rate method. The amortization schedule for the subsequent five fiscal years is as follows:

Fiscal Year	($'000)
2018	6,229
2019	5,989
2020	5,737
2021	5,471
2022	5,193

6. FINANCIAL INSTRUMENTS

The main risks that the Fund's financial instruments are exposed to are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. The Fund is exposed to credit risk relating to the collection of receivables. The Fund considers this risk to be low.

The Fund's accounts receivable consists of premium revenue receivable of $76.3M, investment income receivable of $1.0M, the HST receivable of $0.1M and pension plan recoveries receivable of $231M.

The premium revenue receivable recorded is based on an assessment formula set out in section 37 of Regulation 909 of the Act and is calculated as follows:

- Base assessment of $5 per Ontario plan beneficiary plus specified percentages of the plans PBGF assessment base;
- Maximum assessment of $300 per Ontario plan beneficiary; and
- Minimum assessment of $250 for each plan.

The probability for a pension plan to become insolvent and not pay the premium within a year is very low. In addition, in the event that a pension plan would become insolvent within a year, there are legal options for the Fund that can be exercised to collect the premiums. Historically, the Fund has been able to collect the amounts estimated as premium receivable.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2017

The risk of not collecting the investment income and the HST receivable is considered to be minimal.

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its cash flow obligations as they fall due. The Fund's exposure to liquidity risk is minimal as the Fund has sufficient funds in its investment portfolio to settle all current liabilities and the Fund's exposure is limited to the assets of the Fund including any loans or grants received from the Province. As at March 31, 2017, the Fund has an investment balance of $568M (2016 - $528M) to settle current liabilities of $22M (2016 - $41M). In addition, the Fund has the ability to meet sudden and unexpected claims by converting the investment holdings to cash without delay or significant transaction costs.

Market risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Fund. Short-term financial instruments (receivables, accounts payable) are not subject to significant market risk. The Fund manages its market risk by investing assets in low-risk and liquid securities. The Fund's market risk is considered to be low.

7. PENSION PLAN RECOVERIES

Following the settlement of all benefits, payment of expenses and the submission of the final wind up report, any remaining funds are recovered by the Fund. During fiscal 2017, the Fund had $245.3M (2016 – $16.5M) in recoveries, of which $231M are receivable at year-end. This amount is included in accounts receivable in the statement of financial position as at March 31, 2017. Approximately $4.5M in recoveries is expected in the fiscal year 2018.

8. PENSION CONSULTING SERVICES

The Fund periodically engages the services of external experts to represent the Fund's interests in insolvency proceedings respecting employers who are unable to meet their funding obligations under the *Pension Benefits Act*. For fiscal 2017, $2.4M was paid to such external experts (2016 - $5.4M paid).

9. RELATED PARTY TRANSACTIONS

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2017

For fiscal 2017, an administration fee of $0.6M (2016 - $0.6M) was incurred and has been paid to FSCO for management salaries and benefits, accounting, information technology, legal, pension and other services. The Fund and FSCO are related parties.

Investment Management fees consist mainly of fees paid to the Ontario Financing Authority, a related party.

The costs of processing premium revenue transactions are absorbed by FSCO without charge to the Fund.

Other related party transactions during the year have been disclosed in note 5.

10. CONTINGENT LIABILITIES

There are currently two companies operating under *Companies' Creditors Arrangement Act* (CCAA) protection whose pension plans could make significant claims on the Fund. As these potential claims remain at an early stage, an estimate of the claims which might be incurred, if any, cannot be determined.

Provincial Judges Pension Fund

Management Responsibility for Financial Reporting

The financial statement has been prepared in accordance with the financial reporting provisions prescribed by the Memorandum of Agreement between the Ontario Conference of Judges and the Lieutenant Governor in Council, the then Minister of Government Services and the Provincial Judges Pension Board (the Standstill Agreement) dated December 20, 2013 and of necessity include some amounts that are based on estimates and judgments. The financial statement has been properly prepared within reasonable limits of materiality and in light of information available up to June 14, 2017.

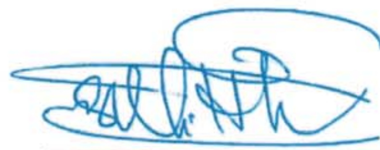
Management is responsible for the integrity of the financial statement and maintains a system of internal control designed to provide reasonable assurance that the financial information is accurate and reliable and the Fund's deposits and payments are adequately accounted for. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The financial statement has been audited by the Office of the Auditor General of Ontario, whose responsibility it is to express an opinion on whether it has been prepared in accordance with the financial reporting provisions prescribed by the Standstill Agreement. The Independent Auditor's Report that appears as part of the financial statement outlines the scope of the Auditors examination and opinion.

On behalf of management

Mark A. Henry
Director, Managed Plans
Ontario Pension Board

Marc Rondeau
Assistant Deputy Minister
Centre for Public Sector Labour Relations and Compensation
Treasury Board Secretariat



Hatem Belhi
Director, Pay & Benefits Support Branch
Pay and Benefits Services Division
Ontario Shared Services
Ministry of Government and Consumer Services

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Provincial Judges Pension Board and to the Minister of Finance

I have audited the accompanying Statement of Changes in Fund Balance of the Provincial Judges Pension Fund as at March 31, 2017, and a summary of significant accounting policies and other explanatory information (together the "financial statement"). The financial statement has been prepared by management in accordance with the financial reporting provisions prescribed by the Memorandum of Agreement between the Ontario Conference of Judges and the Lieutenant Governor in Council, Minister of Government Services and the Provincial Judges Pension Board (the Standstill Agreement) dated December 20, 2013.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation of this financial statement in accordance with the financial reporting provisions prescribed by the Standstill Agreement, and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on this financial statement based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statement 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statement of the Provincial Judges Pension Fund as at March 31, 2017 is prepared in accordance with the financial reporting provisions of the Standstill Agreement.

Emphasis of Matters

Without modifying my opinion, I draw attention to Note 2 and Note 4 to the financial statement.

Note 2 describes the basis of accounting. The financial statement is prepared to assist the Provincial Judges Pension Fund to meet the reporting requirements of the Standstill Agreement, and as a result the financial statement may not be suitable for another purpose.

Note 4 to the financial statement indicates that the Province is responsible for the unfunded liability of the Fund.

Toronto, Ontario
June 14, 2017

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Assistant Auditor General

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Provincial Judges Pension Fund

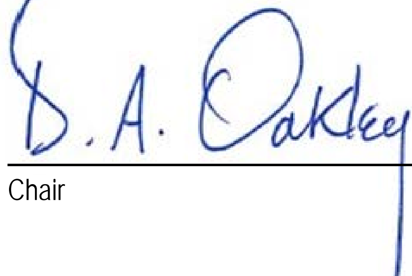
Statement of Changes in Fund Balance

For the Year Ended March 31, 2017

	2017 ($ 000)	2016 ($ 000)
Deposits		
Contributions		
Participants	4,452	4,419
Province of Ontario (Note 4)	34,512	34,512
Interest earned (note 1 (l))	47,798	47,201
	86,762	86,132
Payments		
Pension payments and survivor allowances	40,795	37,837
Refund of contributions	92	13
	40,887	37,850
Net increase in the Fund	45,875	48,282
Fund Balance with the Minister of Finance		
Beginning of year	896,772	848,490
End of year	942,647	896,772

See accompanying notes to the financial statement.

Approved on behalf of the Board:



Chair

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2017

1. Description and Administration of the Fund

The Treasury Board Secretariat is responsible for overall oversight of the Provincial Judges Pension Fund [Fund] including administration of all contributions to the funds and interest earned. The Provincial Judges Pension Board [Board], as originally designated by Ontario Regulation 67/92 of the Courts of Justice Act, is responsible for the administration of pension payments and survivor allowances.

On Oct 31, 2013, Ontario Regulation 67/92 was repealed and was replaced by Ontario Regulation 290/13 under the same legislation. The new Regulation splits the Provincial Judges Pension Fund into two plans, the Provincial Judges Pension Fund and the Provincial Judges Supplementary Pension Account.

The Fund is registered for income tax purposes and provides for pension benefits up to the limit permitted under the Income Tax Act. The Provincial Judges Supplementary Pension Account provides for pension benefits above the limit prescribed by the Income Tax Act for post-1991 service.

On December 20, 2013, a Court Order was issued, based on an agreement among parties to the litigation challenging the constitutionality of the Provincial Judges Supplementary Pension Account, that effectively ordered management to administer the Fund as one plan with the same administrative practices as were in place under Ontario Regulation 67/92, until the litigation is resolved (Memorandum of Agreement called the "Standstill Agreement"). Parties to this process have until June 30, 2017 to resolve the status of the Divisional Court application, seek to schedule the Application or reach an agreement to extend the deadline. Pursuant to the direction of the Canada Revenue Agency, the administrative practices for the Provincial Judges Pension Plan were and continue to be to administer the Plan in a manner consistent with the requirements of the Federal Income Tax Act and related Income Tax Act Regulations.

As a result, this financial statement continues to be presented as one Fund.

The Fund is held within the Consolidated Revenue Fund of the Province of Ontario and is included as an employee future benefit liability within the consolidated financial statements of the Province.

The Fund is not subject to the reporting requirements under the Pension Benefits Act and Regulations.

The following brief description of the Fund is provided for general purposes only. For more complete information, reference should be made to the Regulations.

(A) GENERAL

The purpose of the Fund is to provide pension payments to retired Provincial Judges who are members of the Plan or survivor allowances to the eligible dependents of these Judges.

(B) FUNDING POLICY

Participants are required to contribute 7% of their salary up to the earlier occurrence of either meeting their basic service requirement or attaining age 70 years.

The contribution required from the Province is determined by an actuarial valuation as described in note 4.

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2017

1. Description and Administration of the Fund (Continued)

(C) PENSION PAYMENTS

A pension payment is available based on the age and the number of years of full-time service for which the participant has credit upon ceasing to hold office and is based on the salary of a full-time judge of the highest judicial rank held by the participant while in office. The participant is entitled to these payments during his/her lifetime.

(D) DISABILITY PENSION PAYMENTS

A full pension is available at age 65 for participants with a minimum of five years of full-time service who are unable to serve in office due to injury or chronic illness.

(E) SURVIVOR ALLOWANCES

A survivor allowance equal to 60% of the qualifying judge's pension payment is paid to the spouse during the spouse's lifetime or to children who meet the age, custody, education or disability criteria defined by Regulation.

(F) DEATH REFUNDS

A death refund can be payable to the personal representative of a participant where there is no further entitlement to a survivor allowance. The amount of the refund is equal to the participant's contributions in the Fund plus interest, less entitlements already paid out.

(G) WITHDRAWAL REFUNDS

Upon ceasing to hold office for a reason other than death, participants not eligible to receive pension payments are entitled to receive a refund of their contributions to the Fund plus interest.

(H) ANNUAL INFLATIONARY ESCALATION OF ENTITLEMENTS

Judges Retired Before June 1, 2007:

The annual inflationary increase for judges who retired before June 1, 2007 is based on changes in the Average Weekly Earnings published by Statistics Canada and subject to a maximum of 7% in any one year, and is effective on April 1 in every year. In addition, the pensions are adjusted based on the salary increases of sitting judges as recommended by the Provincial Judges Remuneration Commission.

Judges Retired On Or After June 1, 2007:

The annual inflationary increase for judges who retired on or after June 1, 2007 and elected to be paid under the plan provisions effective on that date is based on changes in the Consumer Price Index, and is effective on January 1 in every year.

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2017

1. Description and Administration of the Fund (Continued)

(I) INTEREST REVENUE

Interest is credited to the account for the Fund, held in the Consolidated Revenue Fund of the Province of Ontario, at the average of the monthly Ontario Borrowing Rates for a 25-year maturity as follows:

on the net monthly increases to the account accumulating during the fiscal year at the interest rate for the fiscal year; and

on the net increases to the account for each of the preceding 25 years at the interest rates applicable to those years, providing the funds remain on deposit with the Consolidated Revenue Fund.

2. Significant Accounting Policy

(A) BASIS OF ACCOUNTING

The financial statement is prepared by management in accordance with the Memorandum of Agreement between the Ontario Conference of Judges and the Lieutenant Governor in Council, the then-Minister of Government Services and the Provincial Judges Pension Board (the Standstill Agreement). The basis of accounting prescribed by the Standstill Agreement is consistent with both the repealed Regulation 67/92 and the current Regulation 290/13 under the Courts of Justice Act and consists of contributions and money paid, transferred or credited to the Fund, less money paid out, except for the fact no Supplementary Pension Account was established.

The Standstill Agreement requires that the Provincial Judges Pension Plan be administered and solely funded through the Provincial Judges Pension Fund as it was on October 30, 2013, notwithstanding that Regulation 290/13 requires that the Provincial Judges Pension Plan be funded through the Provincial Judges Pension Fund and a separate Provincial Judges Supplemental Pension Account.

3. Administrative Expenses

Administrative expenses are paid by the Province of Ontario and are not reflected in this financial statement.

4. Liability for Future Benefits

The Provincial Judges Remuneration Commission (Commission) was established under the *Courts of Justice Act* to conduct an independent review of the salary, pension and benefits for all provincial judges. The Commission's salary and non-pension benefits recommendations are binding; recommendations on pension benefits are non-binding. The most recent report of the Commission was the Eighth Provincial Judges Remuneration Commission released on November 12, 2013, covering the period April 1, 2010 to March 31, 2014. The report did not recommend any salary increases in addition to the annual inflationary increases already received. A new Commission, once appointed, is expected to issue recommendations covering the period from April 1, 2014 to March 31, 2018.

The Province is responsible for the unfunded liability of the Provincial Judges Pension Fund and funds this liability in amounts recommended by periodic actuarial valuations of the Plan. The Provincially determined contribution for fiscal 2017 was $34,512,000, which maintained contributions consistent with recommendations in the March 31, 2011 actuarial

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2017

4. Liability for Future Benefits (Continued)

funding valuation, as a current actuarial valuation had yet to be performed. Any required adjustments to contributions, as a result of performing a current actuarial valuation when the litigation is resolved, will be accounted for in the period the valuation is performed. Management has estimated that the amount of additional government contributions is approximately $52 million as at March 31, 2015. Estimates as at March 31, 2017 are not available due to the ongoing litigation.

Significant assumptions in the March 31, 2011 actuarial funding valuation, the most recent valuation conducted, are as follows:

Assumption	March 2011 Valuation
Expected Return on Plan Assets	4.60%
Discount Rate on Future Cash Inflows	4.60%
Salary Rate Increases	4.00%
Age of Retirement	graduated scale from age 60 to 75
Method of Valuation	Aggregate Cost Method

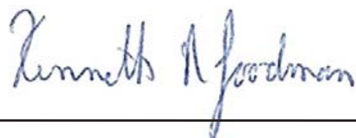
The Public Guardian and Trustee For the Province of Ontario

Management's Responsibility for Financial Information

Management is responsible for the financial statements and all other information presented in the financial statements. The financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS), and, where appropriate, include amounts based on management's best estimates and judgments.

Management is also responsible for developing and maintaining systems of internal control that provide reasonable assurance that financial information is reliable, that all financial transactions are properly authorized, that assets are safeguarded, and that the Public Guardian and Trustee for the Province of Ontario adheres to legislation and regulatory requirements. These systems include the communication of policies and the Public Guardian and Trustee for the Province of Ontario's code of ethics and business conduct throughout the organization. Management continually monitors the systems of internal controls for compliance.

The financial statements have been examined by the Office of the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards (IFRS). The Auditor's Report outlines the scope of the auditor's examination and opinion.



Kenneth R. Goodman
Public Guardian and Trustee

Carolyn Sitler, CPA, CMA
Chief Financial Officer

June 19, 2017

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Public Guardian and Trustee for the Province of Ontario
and to the Attorney General

I have audited the accompanying financial statements of The Public Guardian and Trustee for the Province of Ontario, which comprise the statement of financial position as at March 31, 2017, and the statements of income and comprehensive income, statement of changes in net assets attributable to beneficiaries of estates and trusts administered, statement of changes in equity of the administration fund and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

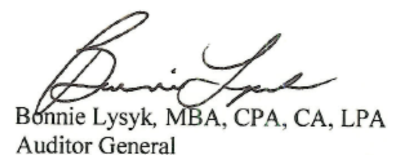
My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of The Public Guardian and Trustee for the Province of Ontario as at March 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Toronto, Ontario
June 19, 2017

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

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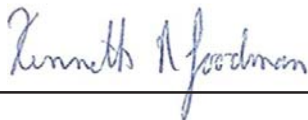
The Public Guardian and Trustee for the Province of Ontario

Statement of Financial Position

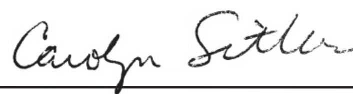
As at March 31, 2017

in thousands of dollars	Note	2017	2016
Estates and Trusts			
Assets			
Cash and cash equivalents	4.1	**$ 88,823**	$ 71,761
Accounts receivable	6	**5,163**	4,449
Investments at fair value through profit or loss:			
Bonds and other debt securities - client owned	4.1	**58,865**	47,323
Diversified fund	4.2	**90,970**	81,455
Canadian income and dividend fund	4.3	**98,000**	89,839
Equity securities - client owned	4.4	**42,152**	33,475
Held to maturity investments:			
Fixed income funds	4.5	**1,273,686**	1,197,685
Real estate		**101,804**	91,493
Other assets	7	**14,219**	14,852
Total assets		**1,773,682**	1,632,332
Liabilities			
Accounts payable and accrued liabilities	8	**60,457**	49,697
Net assets attributable to beneficiaries of Estates and Trusts		**1,713,225**	1,582,635
Total liabilities and net assets attributable to beneficiaries of Estates and Trusts		**$ 1,773,682**	$ 1,632,332
Administration Fund			
Assets			
Cash and cash equivalents		**$ 243**	$ 306
Accounts receivable	6	**2,787**	2,026
Investments at fair value through profit or loss:			
Diversified fund	4.2	**82,933**	73,048
Canadian income and dividend fund	4.3	**25,786**	23,234
Held to maturity investments:			
Fixed income funds	4.5	**5,159**	2,953
Total assets		**116,908**	101,567
Liabilities			
Accounts payable and accrued liabilities	8	**4,597**	4,564
Total liabilities		**4,597**	4,564
Equity			
Funds and reserves		**17,500**	17,500
Unappropriated fund		**94,811**	79,503
Total equity		**112,311**	97,003
Total liabilities and equity		**$ 116,908**	$ 101,567

On behalf of The Public Guardian and Trustee for the Province of Ontario



Public Guardian and Trustee



Chief Financial Officer

The accompanying notes are an integral part of these financial statements.

Statement of income and comprehensive income - Estates and Trusts

For the period ended March 31, 2017

in thousands of dollars	Note	2017	2016
Estates and Trusts			
Income			
Pensions		**$ 96,210**	$ 93,780
Social benefits		**99,350**	94,191
Other income		**35,347**	37,100
		230,907	225,071
Expenses			
Accommodation		**126,989**	121,832
Allowances		**42,809**	42,097
Fees charged by the Public Guardian and Trustee	9	**29,459**	27,823
Living expenses		**11,389**	10,409
Taxes		**10,643**	11,160
Real estate		**9,367**	11,442
Other expenses		**6,666**	7,173
Medical expenses		**6,674**	6,286
Funeral expenses		**5,920**	6,218
Utilities		**5,125**	4,969
Insurance		**2,680**	1,898
Total expenses		**257,721**	251,307
Net investment income			
Interest income from fixed income funds		**23,536**	25,466
Other interest and dividend income	10	**8,291**	8,576
Net realized gain on sale of investments	11.1	**4,885**	4,616
Net realized and unrealized foreign exchange gain		**428**	470
Net change in unrealized gain/(loss) on investments at fair value through profit or loss	11.2	**17,633**	(6,912)
		54,773	32,216
Total income and comprehensive income for the year		**$ 27,959**	$ 5,980

The accompanying notes are an integral part of these financial statements.

Statement of income and comprehensive income - Administration Fund

For the period ended March 31, 2017

in thousands of dollars	Note	2017	2016
Administration Fund			
Revenue			
Fees charged on estates and trusts	9	**$ 29,459**	$ 27,823
Grants received from the Ministry of the Attorney General	15	**18,348**	18,296
		47,807	46,119
Expenses			
Salaries, wages and benefits	13	**35,318**	35,991
General administration	14	**3,262**	3,141
Fees incurred		**1,910**	1,683
Transportation and communication expenses		**958**	1,251
Supplies and equipment expenses		**411**	340
Claims		**323**	431
		42,182	42,837
Net investment income			
Other interest and dividend income	10	**2,876**	2,836
Interest expense from fixed income funds		**(358)**	(126)
Net realized and unrealized foreign exchange gain		**392**	422
Net realized gain on sale of investments	11.1	**2,909**	3,076
Net change in unrealized gain/(loss) on investments at fair value through profit or loss	11.2	**6,260**	(6,921)
		12,079	(713)
Investment expenses	12	**2,396**	2,292
Net investment income/(loss)		**9,683**	(3,005)
Total income and comprehensive income for the year		**$ 15,308**	$ 277

The accompanying notes are an integral part of these financial statements.

The Public Guardian and Trustee for the Province of Ontario

Statement of changes in net assets attributable to beneficiaries of Estates and Trusts Administered

(in thousands of dollars)

	Client Trusts	Minors	Litigants	Deceased Estates	Cemetery Trusts	Forfeited Corporate Assets	Corporate Trusts	Land Titles	Total
Balance at March 31, 2015	$ 638,805	394,545	292,031	147,929	26,543	25,928	237	1,024	$ 1,527,042
Total income/(loss) and comprehensive income/(loss) for the year	1,708	2,781	4,794	(3,493)	(190)	43	308	29	5,980
Other changes in net assets attributable to beneficiaries:									
Contributions during the year	199,003	62,429	152,009	60,045	711	582	-	-	474,779
Distributions during the year	(175,254)	(60,262)	(140,172)	(46,386)	(1,602)	(17)	(1)	(296)	(423,990)
Other adjustments to Client accounts	(188)	(127)	(53)	197	-	-	-	-	(171)
Funds escheated to the Crown (note 16)	-	-	-	(1,005)	-	-	-	-	(1,005)
Total increase/(decrease) in net assets attributable to beneficiaries	25,269	4,821	16,578	9,358	(1,081)	608	307	(267)	55,593
Balance at March 31, 2016	$ 664,074	399,366	308,609	157,287	25,462	26,536	544	757	$ 1,582,635
Total income/(loss) and comprehensive income/(loss) for the year	**7,846**	**18,988**	**4,303**	**(3,320)**	**728**	**(612)**	**4**	**22**	**27,959**
Other changes in net assets attributable to beneficiaries:									
Contributions during the year	**201,040**	**62,475**	**151,380**	**54,668**	**877**	**4,910**	**203**	**3,000**	**478,553**
Distributions during the year	**(160,789)**	**(71,381)**	**(100,559)**	**(36,889)**	**(242)**	**(161)**	**-**	**(232)**	**(370,253)**
Funds escheated to the Crown (note 16)	**-**	**-**	**-**	**(249)**	**-**	**(5,420)**	**-**	**-**	**(5,669)**
Total increase/(decrease) in net assets attributable to beneficiaries	**48,097**	**10,082**	**55,124**	**14,210**	**1,363**	**(1,283)**	**207**	**2,790**	**130,590**
Balance at March 31, 2017	**$ 712,171**	**409,448**	**363,733**	**171,497**	**26,825**	**25,253**	**751**	**3,547**	**$ 1,713,225**

The accompanying notes are an integral part of these financial statements.

The Public Guardian and Trustee for the Province of Ontario

Statement of changes in equity of the Administration Fund

(in thousands of dollars)

	Assurance Fund	Litigation Reserve Fund	Reserve for Doubtful Accounts	Capacity Assessment Fund	Total Funds and Reserves	Unappropriated Fund	Total
Balance at March 31, 2015	$ 14,300	3,000	100	100	17,500	79,226	$ 96,726
Total income for the year	-	-	-	-	-	277	277
Transfers to/(from) reserves							
Transfers made during the year	315	84	-	32	431	(431)	-
Reserves released during the year	(315)	(84)	-	(32)	(431)	431	-
Total increase in equity	-	-	-	-	-	277	277
Balance at March 31, 2016	$ 14,300	3,000	100	100	17,500	79,503	$ 97,003
Total income for the year	**-**	**-**	**-**	**-**	**-**	**15,308**	**15,308**
Transfers to/(from) reserves							
Transfers made during the year	**275**	**63**	**-**	**(15)**	**323**	**(323)**	**-**
Reserves released during the year	**(275)**	**(63)**	**-**	**15**	**(323)**	**323**	**-**
Total increase in equity	**-**	**-**	**-**	**-**	**-**	**15,308**	**15,308**
Balance at March 31, 2017	**$ 14,300**	**3,000**	**100**	**100**	**17,500**	**94,811**	**$ 112,311**

The accompanying notes are an integral part of these financial statements.

Statement of Cash flows

For the period ended March 31 *in thousands of dollars*	Estates and Trusts		Administration Fund	
	2017	2016	**2017**	2016
Cash flows from operating activities				
Income and comprehensive income	**$ 27,959**	$ 5,980	**$ 15,308**	$ 277
Adjustments for:				
Net unrealized (gain)/loss on investments and foreign currency at fair value	**(17,544)**	7,272	**(6,652)**	6,499
Changes in working capital items				
Accounts receivable	**(714)**	917	**(762)**	235
Accounts payable and accrued liabilities	**10,760**	2,121	**33**	(455)
Net cash from operating activities	**20,461**	16,290	**7,927**	6,556
Cash flows from investing activities				
Acquisition of investments	**(1,277,024)**	(1,503,380)	**(7,990)**	(8,864)
Proceeds from sale of investments	**1,214,157**	1,451,377	-	-
Proceeds from sale of real estate	**31,654**	40,538	-	-
Net (increase)/decrease in other assets	**632**	(492)	-	-
Net cash from investing activities	**(30,581)**	(11,957)	**(7,990)**	(8,864)
Cash flows from financing activities				
Client Capital Contributions	**374,413**	264,701	**-**	-
Client Capital Distributions	**(341,562)**	(268,152)	**-**	-
Client Capital Net Other	**(5,669)**	(1,176)	**-**	-
Net cash from financing activities	**27,182**	(4,627)	**-**	-
Increase (decrease) in cash and cash equivalents	**17,062**	(294)	**(63)**	(2,308)
Cash and cash equivalent, beginning of the year	**71,761**	72,055	**306**	2,614
Cash and cash equivalent, end of the year	**$ 88,823**	$ 71,761	**$ 243**	$ 306

The accompanying notes are an integral part of these financial statements.

Notes to financial statements
March 31, 2017 and March 31, 2016

1. Reporting entity

The Office of the Public Guardian and Trustee for the Province of Ontario, Canada ("The Public Guardian and Trustee" or "OPGT") is part of the Province of Ontario's Ministry of the Attorney General. The Public Guardian and Trustee is appointed under *The Public Guardian and Trustee Act* and performs duties under a number of statutes with the following main responsibilities:

- The guardianship of property of incapable adults;
- The administration of estates of persons who have died in Ontario intestate and without next-of-kin;
- The gathering of assets reverting to the Crown under the Escheats Act;
- The management of funds, mortgages and securities paid into or lodged with the Accountant of the Superior Court of Justice on behalf of minors and litigants; and
- A general supervisory role over charitable property.

The Public Guardian and Trustee has perpetual succession and an official seal and may sue and be sued in his or her corporate name. The Office of The Public Guardian and Trustee has close to 400 staff located in six regional offices throughout the Province of Ontario with the main office located in Toronto at 595 Bay Street, Suite 800, Toronto, ON, M5G 2M6.

These financial statements comprise the following:

a) Estates and Trusts: This represents accounts administered by the Public Guardian and Trustee acting as guardian or trustee under the *Substitute Decisions Act*, the *Public Guardian and Trustee Act*, the *Crown Administration of Estates Act*, the *Estates Act* and various other statutes;

b) Administration Fund: This represents the operating account of The Public Guardian and Trustee. The Administration Fund is used to accumulate fees charged to each estate and trust for services as prescribed by the Fee Schedule created pursuant to *The Public Guardian and Trustee Act*. Operating grants are received as required from the Ministry of the Attorney General to fund the operations of OPGT.

Cash balances in the Administration Fund which are not required for operating purposes are invested along with the cash funds of Estates and Trusts. The Administration Fund receives the net interest income of these investment activities, after interest is distributed on the funds of Estates and Trusts in accordance with the interest rates prescribed by *The Public Guardian and Trustee Act.*

The Public Guardian and Trustee in its capacity as Accountant of the Superior Court of Justice also acts as custodian of miscellaneous securities and documents having a face value of $3,489,925 (March 31, 2016: $1,002,580) and mortgages as required. These amounts are not reflected in the financial statements as The Public Guardian and Trustee does not act as trustee of these funds but simply as custodian of the instruments on behalf of the client. The Public Guardian and Trustee as custodian also holds letters of credit, lien bonds, guardianship bonds and performance guarantee bonds for litigants.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These financial statements were authorized for issue by the Public Guardian and Trustee on June 19, 2017.

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

2. Basis of preparation (continued)

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for the investments at fair value through profit or loss in the statement of financial position which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency for both Estates and Trusts and the Administration Fund. Except as otherwise indicated, all financial information presented in Canadian dollars has been rounded to the nearest dollar.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year, as well as critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included in notes 3(c), 3(d) and note 5.

3. Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated into Canadian Dollars using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted to Canadian Dollars at the exchange rate at the reporting period end date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in Canadian Dollars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the reporting period end date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Canadian Dollars at the exchange rate on the reporting period end date. Foreign currency differences arising on translation are recognized in profit or loss on a net basis.

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

3. Significant accounting policies (continued)

(b) Net investment income/(loss)

Net investment income/(loss) comprises interest income on funds invested, dividend income, gains on the disposal of investment securities, changes in the value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets. Income and expenses are presented on a net basis only when permitted under IFRS, for example, gains and losses from financial instruments at fair value through profit or loss.

(i) Interest income and expense

Interest income and expense is recognized on an accrual basis in profit or loss, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the carrying amount of the financial instrument. When calculating the effective interest rate, estimates are made of future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

(ii) Dividend income

Dividend income is recognized in profit or loss on the date that the right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(iii) Net gain/(loss) on investments at fair value through profit or loss

Net gain/(loss) on investments at fair value through profit or loss includes realized and unrealized fair value changes, but excludes interest and dividend income. The net realized gain/(loss) on investments at fair value through profit or loss is calculated using the average cost method.

(c) Financial assets and liabilities

(i) Financial assets

Financial assets in OPGT include the following: financial assets at fair value through profit or loss, held-to-maturity financial assets and loans and receivables.

The Public Guardian and Trustee does not directly enter into derivative financial contracts.

Financial assets at fair value through profit or loss

Financial assets are designated at fair value through profit or loss upon initial recognition when the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund manages, evaluates and reports internally such investments on a fair value basis and makes purchase and sale decisions based on their fair value in accordance with their documented risk management or investment strategies. Upon initial recognition, transaction costs associated with the asset are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Public Guardian and Trustee does not acquire or hold financial instruments for the purpose of trading or short-term profit taking on behalf of the Estates and Trusts and the Administration Fund.

Financial assets at fair value through profit or loss comprise investments in client-owned bonds and other debt securities, the Diversified Fund, the Canadian Income and Dividend fund and client-owned equity securities.

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire, or when the rights to receive the contractual cash flows or when substantially all the risks and rights of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, OPGT has a legal right to offset the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

3. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(i) Financial assets (continued)

Held-to-maturity financial assets

If the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value, which includes any premium or discount, plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent these investment securities from being classified as held-to-maturity for the current and the following two financial years.

Held-to-maturity financial assets comprise investments in fixed income funds. Fixed income funds are funds invested in money-market instruments and in bonds under a laddered buy-and-hold strategy.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Loans and receivables comprise accounts receivable.

Loans and receivables of Estates and Trust clients are recognized initially on the date that the OPGT assumes guardianship of an individual's property or becomes the estate trustee. All other purchases and sales of financial assets (including assets designated at fair value through profit or loss) are recognized on the settlement date, which is the date that the financial assets are delivered to or on behalf of Estates and Trusts.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, current bank balances and short-term deposits with banks. All cash equivalents are highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value.

(ii) Financial liabilities

Financial liabilities are recognized initially on the date at which the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund become a party to the contractual provisions of the instrument. The Public Guardian and Trustee on behalf of the Estates and Trusts and the Administration Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial liabilities comprise accounts payable and accrued liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs.

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

3. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(iii) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction on the measurement date. Fair value does not take into consideration transaction costs expected to be incurred on transfer or disposal of a financial instrument.

The Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Equity and fixed income securities publicly traded are measured at the bid price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counter party where appropriate.

All changes in fair value are recognized in profit or loss as part of net gain from financial instruments at fair value through profit or loss. Other interest and dividend income is recognized in profit and loss separately.

(iv) Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that its value is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired includes significant financial difficulty of the borrower, default or delinquency by a borrower, restructuring of an amount due on terms that the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund would not consider otherwise, indications that a borrower or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

3. Significant accounting policies (continued)

(d) Real estate and other assets

Real estate included within the statement of financial position primarily represents residential properties currently owned by clients of The Public Guardian and Trustee. Other assets comprise jewellery, art, collectibles, nominal assets, vehicles, cash value of insurance policies, prepaid funeral costs and similar items. The IFRS Framework identifies acceptable measurement bases for all assets, which include cost and fair value.

The policy is to measure real estate assets at historic cost and other assets at the fair value determined when the asset is initially recognized.

(e) Operating leases

All the leases entered into by the Public Guardian and Trustee on behalf of the Estates and Trusts and the Administration Fund are classified as operating leases and are not recognized in the statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Contingent lease payments are accounted for in the period in which they are incurred or when they are reasonably estimable and become known.

(f) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term employee benefit plans if the Administration Fund has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Post-employment benefits

Staff of the Public Guardian and Trustee are employees of the Ontario Public Service which provides pension benefits to its employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund. The Province funds the employer's contribution to the Pension Funds. In addition, the cost of post-retirement, non-pension employee benefits are paid by the Province. As such, the Public Guardian and Trustee makes no contributions on these post-employment benefit plans. There is no contractual agreement or stated policy for charging the net benefit cost for the plans as a whole (measured in accordance with IAS 19, *Employee Benefits*) to individual reporting entities of the Government of Ontario. As a result, the costs associated with post-employment benefits are not reflected in the financial statements.

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

3. Significant accounting policies (continued)

(g) Income and expenses

Income from pensions, social benefits and settlements and items of a related nature is recognized when received or receivable. Other income comprising compensation, transaction and service fees are recognized as the related services are performed.

Expenses are recognized as incurred on an accrual basis. Investment management fees, placement and transaction fees that do not qualify for inclusion as part of the initial measurement of an asset are expensed as the services are received.

(h) Government grants

Grants are in the form of funding of the Public Guardian and Trustee operating expenses as the expenses are incurred and are recognized. Grants that compensate the Administration Fund for the operations of The Public Guardian and Trustee by way of amounts recovered from the Ministry of the Attorney General, are recognized in profit or loss as income on a systematic basis in the same periods in which the expenses are recognized.

(i) Income taxes

The Public Guardian and Trustee is exempt from federal and provincial income taxes under the Income Tax Act (Canada).

(j) Funds and reserves – Administration Fund

Assurance Fund

The *Public Guardian and Trustee Act* and the regulations under the Act provide that an Assurance Fund shall be established to meet losses for which The Public Guardian and Trustee might become liable. During the year, the Assurance Fund released and was reimbursed $274,808 (2016: $315,305) by the Unappropriated Fund.

Litigation Reserve Fund

This reserve is used to cover expenses and costs of legal proceedings paid by The Public Guardian and Trustee on behalf of its litigation guardian clients. During the year, legal costs incurred on behalf of clients of $63,323 (2016: $84,143) were released from this reserve and were reimbursed by the Unappropriated Fund.

Reserve for Doubtful Accounts

The intent of this reserve is to provide for all clients' accounts whereby The Public Guardian and Trustee has advanced funds on a client's behalf and has a statutory lien pursuant to section 8.1 of the *Public Guardian and Trustee Act* but may not be able to recover the amount from the client.

Capacity Assessment Fund

This reserve was set up to cover fees of capacity assessors when a client is unable to pay costs of an assessment or re-assessment. During the year, the Capacity Assessment Fund released and was reimbursed $ - 15,078 (2016: $31,718) by the Unappropriated Fund.

Unappropriated Fund

Pursuant to Section 9(5) of the *Public Guardian and Trustee Act*, the Lieutenant Governor in Council may from time to time direct the payment into the Consolidated Revenue Fund of the Province of any balance at the credit of the Administration Fund. No such transfers were made during the year.

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

3. Significant accounting policies (continued)

(k) Provisions

A provision is recognized if, as a result of a past event, the Public Guardian and Trustee has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(l) New standards and interpretations not yet adopted

IFRS 9, Financial Instruments

IFRS 9 deals with recognition, derecognition, classification and measurement of financial assets and financial liabilities. Its requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial asset: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit and loss account (P&L). A financial asset would be measured at amortized cost if it is held within a business model whose object is to hold assets in order to collect contractual cash flows, and the asset's contractual cash terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.

For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual security-by-security basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss. However, dividends on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

The requirements of IFRS 9 relating to derecognition are unchanged from IAS 39.

The required implementation date of IFRS 9 is on or after 1 January 2018 and earlier application is permitted. Although early application is permitted, management does not plan to adopt this standard until necessary for the OPGT. Management expects that the adoption of this standard will not have a significant impact on the measurement of the amounts recognized in the financial statements.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. Management expects that the adoption of this standard will not have a significant impact to the operations of the OPGT.

IFRS 16, Leases

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The standard replaces IAS 17 'Leases' and the distinction between operating and finance leases is retained. The new standard is effective for annual periods beginning on or after January 1, 2019 and earlier application is permitted. Management expects that the adoption of this standard will not have a significant impact to the operations of the OPGT.

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

4. Investments in financial assets

4.1 Estates and Trusts – cash and cash equivalents, bonds and other debt securities – client owned

As at March 31, 2017

(In thousands of dollars)

	2017	2016
Cash and cash equivalents		
Cash	24,426	16,129
Cash equivalents	64,397	55,632
	88,823	71,761
Client owned – Bonds and other debt securities		
Bonds – Federal Government	682	421
Bonds – Provincial Governments	683	782
Bonds – Corporate	13,227	9,817
Other Debt Securities – Financial institutions	44,273	36,303
	58,865	47,323
	147,688	**119,084**

These balances do not include client holdings by way of their investment in Public Guardian and Trustee Funds by virtue of their unit holdings in the various OPGT funds.

Cash equivalents, notes and bonds have an annual interest of between 0.00–11.6% (2016: 0.00–11.7%) and, at the reporting date, have remaining maturity periods ranging between 0–28 years (2016: 0–40 years).

Interest rates on mid term investments (notes and bonds with maturities greater than one year) are as follows:

	2017	2016
Bonds – Federal Government		
1–3 years	0.0–3.5%	0.0–5.5%
3 years +	0.0–1.8%	0.0–1.2%
Bonds – Provincial Governments		
1–3 years	0.0–6.1%	0.1–6.1%
3 years +	3.8–4.3%	0.0–4.4%
Bonds – Corporate		
1–3 years	0.0–11.6%	1.5–5.1%
3 years +	0.0–8.9%	2.6%
Financial institutions		
1–3 years	0.0–5.5%	0.0–11.7%
3 years +	0.0–3.2%	0.0–5.0%

Interest income is distributed to client accounts based on an interest rate as approved by The Public Guardian and Trustee's Investment Advisory Committee. During the year, the approved rate for Canadian funds from April 1, 2016 to March 31, 2017 was 2.00% (April 1, 2015 to February 29, 2016: 2.25%, March 1–31, 2016: 2.00%), and for the United States Dollar funds from April 1, 2016 to March 31, 2017 was 0.30% (2016: 0.30%).

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

4. Investments in financial assets (continued)

4.2 Diversified fund

The Public Guardian and Trustee has a Diversified fund that includes high quality equity and fixed income securities. This fund is a unitized trust and was established in order to provide an alternative for those clients whose investment objectives require a broader, longer range investment strategy. The fund is subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by The Public Guardian and Trustee with emphasis on the need to preserve and enhance capital over the longer term.

As at March 31, 2017 *(In thousands of dollars)*	2017	2016
Cash	1,467	2,650
Short-term notes	1,819	2,226
Bonds	56,384	47,996
Canadian equity securities	66,227	60,186
Foreign equity securities	48,657	42,468
Net other (liabilities)/assets	(651)	(1,023)
	173,903	154,503

The short term notes and bonds yield, on a fair value basis, annual interest of between 0.5–9.9% (2016: 0.75–10.0%) and, at the reporting date, have remaining maturity periods ranging between 122 days to 91 years (2016: 63 days to 92 years). The weighted average yield on investments in Canadian and Foreign equity securities is 2.31% (2016: 0.07%).

The financial assets held in the Diversified fund as at March 31, 2017 are held by:

In thousands of dollars	2017	2016
Estates and Trusts	90,970	81,455
Administration Fund	82,933	73,048
	173,903	154,503

The investment returns on this fund accrue directly to the unit holders.

4.3 Canadian income and dividend fund

The Public Guardian and Trustee has a Canadian income and dividend fund that consists of a balanced portfolio of high quality income-producing Canadian securities. The fund includes dividend-paying common and preferred equities and fixed income securities intended to generate a consistent stream of income and long-term capital appreciation. The fund is subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by The Public Guardian and Trustee.

As at March 31, 2017 *(In thousands of dollars)*	2017	2016
Cash	276	71
Short-term notes	2,766	2,016
Bonds	53,895	48,571
Canadian equity securities	66,849	62,115
Other assets	-	300
	123,786	113,073

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

4. Investments in financial assets (continued)

4.3 Canadian income and dividend fund (continued)

The short term notes and bonds yield, on a fair value basis, annual interest of between 1.04–8.0% (2016: 0.95–11.0%) and, at the reporting date, have remaining maturity periods ranging between 42 days to 92 years (2016: 19 days to 92 years). The average yield on investments in Canadian equity securities is 4.16% (2016: 4.48%).

The financial assets held in the Canadian Income and Dividend Fund as at March 31 are held by:

(In thousands of dollars)	2017	2016
Estates and Trusts	98,000	89,839
Administration Fund	25,786	23,234
	123,786	113,073

The income earned in this fund may be distributed in cash to unit holders monthly or reinvested in this fund.

4.4 Equity securities – client owned

As at March 31, 2017 *(In thousands of dollars)*	2017	2016
Canadian listed securities	37,790	29,962
United States listed securities	1,382	900
Other listed securities	2,908	2,239
Unlisted securities	72	374
	42,152	33,475

These balances do not include indirect client holdings by way of their investment in Public Guardian and Trustee Funds by virtue of unit holdings in the various OPGT funds.

4.5 Fixed Income Funds

As at March 31, 2017 *(In thousands of dollars)*	2017	2016
Bonds – Federal Government	52,785	36,622
Bonds – Provincial and Municipal Governments	464,273	424,237
Bonds – Corporate	751,689	744,967
Cash and Accrued Interest	10,098	9,930
Due to brokers	-	(15,118)
	1,278,845	1,200,638

The bonds yield (at cost) annual interest of between 1.07-5.45% (2016: 1.00–5.45%) and, at the reporting date, have remaining maturity periods ranging between 3 days to 5 years (2016: 1 day to 10 years).

The financial assets held in the fixed income funds as at March 31, 2017 are held by:

In thousands of dollars	2017	2016
Estates and Trusts	1,273,686	1,197,685
Administration Fund	5,159	2,953
	1,278,845	1,200,638

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

5. Financial risk management

The Public Guardian and Trustee has exposure to credit risk, liquidity risk and market risk arising from financial instruments. This note presents information about OPGT's exposure to each of the above risks, and the OPGT's objectives, policies and processes for management of capital and measuring and managing risk.

5.1 Credit risk

Management of credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Public Guardian and Trustee, resulting in a financial loss to the Estates and Trusts and the Administration Fund. It arises principally from debt securities held and accounts receivable.

The Public Guardian and Trustee mitigates this risk by engaging experienced investment managers and structuring their investment policies and goals to minimize the risk to clients' capital. In particular, investments in lower investment grade fixed income instruments (typically a rating of BBB) are minimized. As well, investment managers are required to report immediately adverse changes in the credit ratings of financial instruments.

Client accounts receivable are reviewed on an individual basis; any necessary adjustments to amounts recorded are made at that time.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date for the financial assets of both Estates and Trusts and the Administration Fund was:

As at March 31, 2017 *(In thousands of dollars)*	2017	2016
Cash and cash equivalents	89,066	72,067
Accounts receivable	7,950	6,475
Investments at fair value through profit or loss:		
Bonds and other debt securities– client owned	58,865	47,323
Diversified fund	59,511	51,849
Canadian income and dividend fund	57,580	50,958
Held to maturity investments:		
Fixed income funds	1,278,845	1,200,638
	1,551,817	1,429,310

Credit quality

As at March 31, Estates and Trusts and the Administration Fund hold unit investments in the Public Guardian and Trustee's unit funds that have underlying debt securities with the following credit quality:

Debt Securities	2017	2016
AAA/Aaa	15.07%	18.98%
AA/Aa	83.59%	79.01%
BBB/Baa	1.34%	2.01%

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

5. Financial risk management (continued)

5.1 Credit risk (continued)

Concentration of credit risk

As at March 31, the debt securities of Estates and Trusts and the Administration Fund hold unit investments in the Public Guardian and Trustee's unitized funds that have underlying debt securities that were concentrated in the following sectors:

Debt Securities	2017	2016
Government and public sector	61.50%	64.10%
Banks and financial services	34.10%	29.90%
Other corporate	4.40%	6.00%

Past due and impaired assets

No financial assets carried at amortized cost were past due or impaired at March 31, 2017.

5.2 Liquidity risk

Liquidity risk is the risk that investment managers engaged by the Public Guardian and Trustee will not be able to easily liquidate a financial asset or liability.

The objective of the Public Guardian and Trustee is to ensure that adequate financial resources are available to meet ongoing requirements and to discharge the obligations of Estates and Trusts and the Administration Fund. The Public Guardian and Trustee mitigates liquidity risk by maintaining significant holdings in short-term, liquid, money market instruments within OPGT's fixed income funds.

Maturity analysis for financial instruments

As at March 31, 2017, the financial assets and liabilities of Estates and Trusts and the Administration Fund had the following remaining contractual maturity profile:

2017

In thousands of dollars	Carrying Amount	Less than 3 months	3 to 12 months	>1 year
Financial assets				
Cash and cash equivalents	89,066	89,066	-	-
Accounts receivable	7,950	7,423	-	527
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	58,865	20,159	10,303	28,403
Diversified fund	173,903	116,420	2,789	54,694
Canadian income and dividend fund	123,786	69,860	3,342	50,584
Equity securities – client owned	42,152	42,152	-	-
Held to maturity investments:				
Fixed income funds	1,278,845	187,369	193,123	898,353
	1,774,567	532,449	209,557	1,032,561
Financial liabilities				
Accounts payable and accrued liabilities	65,054	8,079	-	56,975
Net assets attributable to beneficiaries of Estates and Trusts	1,713,225	1,408,803	36,304	268,118
	1,778,279	1,416,882	36,304	325,093

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

5. Financial risk management (continued)

5.2 Liquidity risk (continued)

2016

In thousands of dollars	Carrying Amount	Less than 3 months	3 to 12 months	>1 year
Financial assets				
Cash and cash equivalents	72,067	72,067	-	-
Accounts receivable	6,475	5,887	-	588
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	47,323	15,116	9,757	22,450
Diversified fund	154,503	106,563	747	47,193
Canadian income and dividend fund	113,073	65,352	3,263	44,458
Equity securities – client owned	33,475	33,475	-	-
Held to maturity investments:				
Fixed income funds	1,200,638	191,106	154,774	854,758
	1,627,554	489,566	168,541	969,447
Financial liabilities				
Accounts payable and accrued liabilities	54,261	6,825	-	47,436
Net assets attributable to beneficiaries of Estates and Trusts	1,582,635	1,288,599	40,284	253,752
	1,636,896	1,295,424	40,284	301,188

5.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect investment income or the value of the holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Market risk comprises currency risk, interest rate risk and other price risks (including equity price risk).

5.3.1 Currency risk

Currency risk is the risk that the fair value of investment assets and earnings on those assets will fluctuate as a result of changes in foreign exchange rates. Investments in the Diversified Fund are exposed to this risk which is also part of the return potential in the fund. Hedging foreign currency exposure is considered by management as part of an annual review of investment policies.

At March 31, the carrying value of net financial assets and liabilities held in foreign currencies expressed in Canadian Dollars is as follows:

In thousands of dollars	2017	2016
Estates and Trusts		
United States Dollars	30,755	28,633
Euros	10,269	7,456
Other foreign currencies	8,081	7,045
	49,105	43,134

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

5. Financial risk management (continued)

5.3 Market risk (continued)

5.3.1 Currency risk (continued)

The table below sets out the impact on net financial assets and liabilities from a reasonably possible weakening of the Canadian Dollar against the other currencies by 5% (2016: 5%) at March 31. The analysis assumes that all other variables, in particular interest rates, remain constant.

In thousands of dollars	2017	2016
United States Dollars	1,538	1,432
Euros	513	373
Other foreign currencies	404	352
	2,455	2,157

A strengthening of the Canadian Dollar against the other currencies would have resulted in a proportionate but opposite effect to the amounts shown above.

5.3.2 Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. By adopting a hold to maturity policy on its fixed income funds, the Public Guardian and Trustee has significantly mitigated this risk, particularly for short-term, temporary movements in market interest rates.

The table below sets out the impact on the net financial assets and liabilities from a reasonably possible increase of 50-75 basis points in interest rates as at March 31. The impact of such an increase has been estimated by calculating the fair value changes of the fixed interest debt securities, excluding the fixed income funds which are held to maturity. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

In thousands of dollars	2017	2016
Impact on client (Estates and Trusts) and Administration fund assets	(1,660)	(963)

5.3.3 Equity price risk

Equity price risk is the risk that the fair value of equity securities will fluctuate as a result of changes in the market price of equity instruments whether caused by factors specific to an individual investment or factors affecting all instruments traded in the market which, for international equities, includes changes in currency rates.

The Public Guardian and Trustee has mitigated this risk by engaging experienced investment managers and structuring their investment policies and goals, including limits on the holding of individual securities, limits on the investments in non-government debt, and defining asset component ranges to minimize the risk to clients' capital. As well, investments in financial instruments that are subject to changes in market prices, including equity securities, are undertaken only when the client can invest for a medium to longer term.

Investments are made in funds, namely the Diversified fund and the Canadian income and dividend fund that have the following benchmarks for concentration of asset portfolios:

Diversified fund:

- Equity investments listed on Canadian stock exchanges - 50% of fund assets
- Equity investments listed on US stock exchanges - 25% of fund assets
- Equity investments listed on other stock exchanges - 25% of fund assets
- Unlisted equity investments - none

Canadian income and dividend fund:

- Equity investments listed on Canadian stock exchanges - 100% of fund assets

Investment managers are permitted to vary from these benchmarks within stipulated limits.

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

5. Financial risk management (continued)
5.3 Market risk (continued)
5.3.3 Equity price risk (continued)

Investment managers further monitor concentration of risk based on counterparties and industry sectors. At March 31, equity investments are concentrated in the following sectors:

	2017	2016
Banks and financial services	51%	48%
Information technology	11%	13%
Retail	8%	8%
Industrial and manufacturing	24%	24%
Other	6%	7%
	100%	100%

Investment managers engaged by the Public Guardian and Trustee estimate future reasonably possible equity price fluctuations for equity securities on an individual investment basis. The table below sets out the impact on the net financial assets and liabilities from a reasonably possible decrease of 10% in the price of individual equity securities as at March 31. This analysis assumes that all other variables, in particular interest and foreign currency rates, remain constant.

In thousands of dollars	2017	2016
Impact on value of equity securities	(22,388)	(19,824)

A strengthening in the individual equity market prices of 10% as at March 31 would have resulted in a proportionate but opposite effect to the amounts shown above.

5.4 Fair value disclosures

The accounting policy for fair value measurements is detailed in accounting policy 3c(iii).

5.4.1 Fair values versus carrying amounts

The carrying amounts approximate fair value for all financial assets and liabilities, except for the fixed income funds, which are held to maturity investments, and for real estate whose fair values for the Estates and Trusts administered by OPGT are $1,283,301 (2016: $1,212,586) and $121,720 (2016: $102,866) respectively. As a result, the fair value of net assets attributable to beneficiaries of Estates and Trust clients is $1,742,756 (2016: $1,608,909).

5.4.2 Fair value hierarchy

The fair value measurements used by the Public Guardian and Trustee place the highest priority on observable market inputs and the lowest priority on unobservable internally developed inputs. Accordingly, the Public Guardian and Trustee classifies its assets and liabilities that are measured at fair value, or for which fair value information is disclosed, within a three-level valuation hierarchy that reflects the inputs to valuation techniques used to determine fair value. Level 1 represents valuations based on unadjusted quoted prices in active markets for identical assets or liabilities, level 2 comprises valuations using models or techniques that incorporate observable market information and level 3 comprises valuations based models without observable market information as inputs. The classification determination is based on the lowest level of input that is significant to the valuation.

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

5. Financial risk management (continued)

5.4 Fair value disclosures (continued)

5.4.2 Fair value hierarchy (continued)

The following fair value hierarchy table presents information about financial assets measured or disclosed at fair value on a recurring basis as of March 31, 2017 and March 31, 2016.

Estates and Trusts

As of March 31, 2017 *In thousands of dollars*	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	88,823	-	-	88,823
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	-	58,865	-	58,865
Diversified fund	90,970	-	-	90,970
Canadian income and dividend fund	98,000	-	-	98,000
Equity securities – client owned	42,080	72	-	42,152
Real estate	-	-	121,270	121,720
Accounts payable and accrued liabilities	-	-	(60,457)	(60,457)
	319,873	58,937	61,263	440,073

As of March 31, 2016 *In thousands of dollars*	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	71,761	-	-	71,761
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	-	47,323	-	47,323
Diversified fund	81,455	-	-	81,455
Canadian income and dividend fund	89,839	-	-	89,839
Equity securities – client owned	33,101	374	-	33,475
Real estate	-	-	102,866	102,866
Accounts payable and accrued liabilities	-	-	(49,697)	(49,697)
	276,156	47,697	53,169	377,022

Administration Fund

As of March 31, 2017 *In thousands of dollars*	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	243	-	-	243
Investments at fair value through profit or loss:				
Diversified fund	82,933	-	-	82,933
Canadian income and dividend fund	25,786	-	-	25,786
Accounts payable and accrued liabilities	-	-	(4,597)	(4,597)
	108,962	-	(4,597)	104,365

As of March 31, 2016 *In thousands of dollars*	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	306	-	-	306
Investments at fair value through profit or loss:				
Diversified fund	73,048	-	-	73,048
Canadian income and dividend fund	23,234	-	-	23,234
Accounts payable and accrued liabilities	-	-	(4,564)	(4,564)
	96,588	-	(4,564)	92,024

The following was used to determine the fair value measurements categorized in Level 2:

- The fair value of bonds and equities was determined by obtaining quoted market prices or executable dealer quotes for identical or similar instruments in inactive markets, or other inputs that are observable or can be corroborated by observable market data.

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During 2017 and 2016 there were no significant transfers of financial instruments between Level 1 and Level 2.

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

5. Financial risk management (continued)

5.5 Capital management

The Public Guardian and Trustee's operating capital is shown in the Administration Fund, and consists of various specific purpose funds and an unappropriated fund (detailed in the statement of changes in equity of the Administration Fund). The Public Guardian and Trustee is not subject to externally imposed capital requirements.

The Public Guardian and Trustee's objectives when managing its Administration Fund are to safeguard its ability to continue operations and provide adequate resources to service clients and safeguard clients' interests. The Public Guardian and Trustee expects its current capital (fund) resources, together with future cash flows from operations, to be sufficient to support The Public Guardian and Trustee's ability to operate on an ongoing basis. The objectives have not changed during the year.

The Public Guardian and Trustee has invested part of its Administration Fund in the Diversified and Canadian income and dividend funds. Investment income earned is, in part, used to replenish the various specific purpose funds for expenses incurred.

6. Accounts receivable

As at March 31, 2017

In thousands of dollars

	Estates and Trusts 2017	Estates and Trusts 2016	Administration Fund 2017	Administration Fund 2016
Accrued revenue	-	-	2,760	1,992
Balances due from the Federal and Provincial Government, its Agencies and Crown Corporations	-	-	24	17
Balances due from the Administration Fund	2,107	1,953	-	-
Other receivables	3,056	2,496	3	17
	5,163	4,449	2,787	2,026

7. Other assets

As at March 31, 2017

In thousands of dollars

	Estates and Trusts 2017	Estates and Trusts 2016	Administration Fund 2017	Administration Fund 2016
Life Insurance	6,442	5,955	-	-
Prepaid Funerals, Cemetery plots and burial Instruments	5,018	5,154	-	-
Furniture and Medical Aid Equipment	824	1,534	-	-
Jewellery	1,036	993	-	-
Vehicles	401	691	-	-
Collectibles	206	200	-	-
Art	6	13	-	-
Other	286	312	-	-
	14,219	14,852	-	

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

8. Accounts payable and accrued liabilities

As at March 31, 2017

In thousands of dollars

	Estates and Trusts 2017	Estates and Trusts 2016	Administration Fund 2017	Administration Fund 2016
Accrued expenses	2,678	1,930	2,490	2,611
Balances due to the Federal and Provincial Government, its Agencies and Crown Corporations	14,628	6,614	-	-
Balances due to Estates and Trusts	-	-	2,107	1,953
Other liabilities of Estates and Trust clients	43,151	41,153	-	-
	60,457	49,697	4,597	4,564

Other liabilities of Estates and Trusts include mortgages payable, credit card balances, health facility accommodation fees, and charges for services such as telecommunication and utilities.

9. Fees charged by the Administration Fund to Estates and Trusts

For the period ended March 31, 2017

In thousands of dollars

	Administration Fund 2017	Administration Fund 2016
Client trusts	21,776	20,218
Minors	2,494	2,544
Deceased Estates	2.992	3,004
Litigants	1,942	1,836
Cemetery trusts	201	212
Forfeited corporate assets/corporate trusts	54	9
	29,459	27,823

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

10. Other interest and dividend income

For the period ended March 31, 2017

In thousands of dollars

	Estates and Trusts 2017	Estates and Trusts 2016	Administration Fund 2017	Administration Fund 2016
Earned on investments at fair value through profit or loss				
Bonds and other debt securities – client owned	2,475	2,759		-
Diversified fund	2,233	2,238	2,004	1,992
Canadian income and dividend fund	3,367	3,192	872	844
Earned on loans and receivables				
Accounts receivable	216	387		-
	8,291	8,576	2,876	2,836

11. Gain/loss on investments

11.1 Net realized gain/(loss) on sale of investments at fair value through profit or loss

For the period ended March 31, 2017

In thousands of dollars

	Estates and Trusts 2017	Estates and Trusts 2016	Administration Fund 2017	Administration Fund 2016
Bonds and other debt securities – client owned	27	(69)	-	-
Diversified fund	2,723	2,447	2,909	2,911
Canadian income and dividend fund	-	622	-	165
Equity securities-client owned	2,135	1,616	-	-
	4,885	4,616	2,909	3,076

11.2 Net change in unrealized gain/(loss) on investments at fair value through profit or loss

For the period ended March 31, 2017

In thousands of dollars

	Estates and Trusts 2017	Estates and Trusts 2016	Administration Fund 2017	Administration Fund 2016
Bonds and other debt securities – client owned	70	237	-	-
Diversified fund	5,613	(5,848)	4,581	(5,913)
Canadian income and dividend fund	6,470	(3,742)	1,679	(1,008)
Equity securities-client owned	5,480	2,441	-	-
	17,633	(6,912)	6,260	(6,921)

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

12. Investment expenses

For the period ended March 31, 2017

In thousands of dollars

	Administration Fund 2017	Administration Fund 2016
Investment management fees	1,001	977
Investment dealer fees	711	526
Custodian fees	316	283
Investment counsel fees	52	189
Bank charges	316	317
	2,396	2,292

13. Salaries, wages and benefits

For the period ended March 31, 2017

In thousands of dollars

	Administration Fund 2017	Administration Fund 2016
Salaries and wages	30,994	31,614
Compulsory employer contributions	2,044	2,086
Other benefits	1,406	1,743
Termination benefits	874	548
	35,318	35,991

14. General Administration

For the period ended March 31, 2017

In thousands of dollars

	Administration Fund 2017	Administration Fund 2016
Systems Development and Data Processing	1,718	1,915
Leases and rentals	402	426
Training and education	110	95
Security	160	147
Miscellaneous expenses	872	558
	3,262	3,141

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

15. Related party transactions

The Government of the Province of Ontario, its Agencies and its Crown Corporations are related parties to the Public Guardian and Trustee. Under IFRS, a reporting entity is exempt from the disclosure requirements of IAS 24, *Related Party Disclosures* in relation to related party transactions and outstanding balances, including commitments, with a government that has control, joint control or significant influence over the reporting entity and another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The Public Guardian and Trustee has utilized this exemption in preparing these financial statements.

In the normal course of business, transactions occur with the Government of the Province of Ontario, its Agencies and its crown Corporations and include the following types of transactions and outstanding balances, all of which have been recognized in these financial statements:

a) Investments in certain financial instruments that are issued by these related parties;
b) Expenditure on certain services including information technology and telecommunication costs provided by these related parties; and
c) The Province of Ontario provides funding for the operations of OPGT including expenditures relating to salaries, wages and benefits, transportation and communication costs, supplies, equipment and general administrative costs. In addition, OPGT remits surplus income to the Province of Ontario on a quarterly basis. During the year the Province provided funding amounting to $39,948,875 (2016: $40,723,179) and recovered $21,600,625 (2016: $22,426,749), for a net grant by the Province of $18,348,249 (2016: $18,296,430).

In addition, in the normal course of business, the following transactions are entered into with these related parties at no charge to the Public Guardian and Trustee and therefore are not reflected in the financial statements:

a) Staff of the Public Guardian and Trustee are employees of the Ontario Public Service which provides pension benefits to its employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund. The Province funds the employer's contribution to the Pension Funds;
b) The cost of post-retirement, non-pension employee benefits are paid by the Province;
c) The Public Guardian and Trustee occupies leased premises paid for by the Ministry of the Attorney General; and
d) The Province provides payroll and payment processing for the Public Guardian and Trustee.

Key management personnel compensation

Staff, including key management personnel are employees of the Ministry of the Attorney General, Ontario Public Service (OPS). All management compensation is in accordance with Management Board of Cabinet Compensation Directives and compensation follows approved OPS compensation practices. This includes public disclosure for all individuals earning more than $100,000 in a calendar year.

The benefit costs as set out in the schedule below does not include any specific post–employment, termination or other long term benefits but the cost of these benefits are funded by the Province as set out in Note 3(f) (ii).

In addition to the salaries and mandatory employer contributions to government programs (Canada Pension Plan and Employment Insurance), senior managers also participate in various group life, health and dental plans for which the employer shares the premiums.

Notes to financial statements (continued)
March 31, 2017 and March 31, 2016

15. Related party transactions (continued)

Key management personnel are members of the OPGT's Office management committee. Their compensation comprises the following:

In thousands of dollars	Administration Fund 2017	Administration Fund 2016
Salaries and Wages	922	1,127
Employee benefits	14	23

16. Funds Escheated to the Crown

Deceased Estates include estates administered under the *Crown Administration of Estates Act* and the *Estates Act*. The Public Guardian and Trustee is authorized by the *Escheats Act* to take possession of property reverting to the Crown under the *Succession Law Reform Act*. After a period of ten years, any property so received by the Public Guardian and Trustee which remains unclaimed is required to be transferred to the Consolidated Revenue Fund (CRF) of the Province of Ontario. Such property transfers to the CRF are included in the statement of changes in net assets attributable to beneficiaries of Estates and Trusts. During the year, escheats from Deceased Estates totalling $249, 025 (2016: $1,004,715) were transferred to the CRF.

Under the *Escheats Act*, the Public Guardian and Trustee may take possession of assets of dissolved corporations which have been forfeited to the Crown under various corporate statutes. Such property transfers to the CRF are included in the statement of changes in net assets attributable to beneficiaries of Estates and Trusts. During the year, $5,420,207 (2016: $nil) was transferred to the CRF during the year.

17. Contingencies and commitments

The Public Guardian and Trustee is involved in various legal actions arising in the normal course of business operations, the outcome and ultimate disposition of which are not determinable at this time. Liabilities for any settlements will be recognized if and when the criteria for recognizing provisions is met (see accounting policy note 3 (k)).

The Public Guardian and Trustee is one of several defendants to a multi- million dollar civil lawsuit. The Public Guardian and Trustee, based on information available, believes that it may be found liable for some portion of any settlement that may be forthcoming from the litigation process. However, at this time, because of multiple defendants and the complexities of the litigation, it is not possible to assess a degree of probability concerning any amount of potential liability. As a result, the Public Guardian and Trustee has not included a provision for any potential liability in these financial statements.

The Public Guardian and Trustee estimates that any potential settlement is within financial resources available and will have no adverse effect on the ongoing operations of the Public Guardian and Trustee.

18. Subsequent events

There have not been any events subsequent to March 31, 2017 that would impact the information presented in these financial statements.

RESPONSIBILITY FOR FINANCIAL REPORTING

Role of Management

The accompanying consolidated financial statements are the responsibility of the management of the Workplace Safety and Insurance Board (the "WSIB") and have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements include amounts based on management's best estimates and judgments.

Management is responsible for the preparation and fair presentation of these consolidated financial statements 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. The Board of Directors has established an Audit and Finance Committee to oversee that management fulfills these responsibilities. The Audit and Finance Committee meets periodically with management, internal auditors, and external auditors to oversee that their responsibilities are properly discharged with respect to the application of critical accounting policies, consolidated financial statement presentation, disclosures, and recommendations on internal controls.

Role of the Chief Actuary

With respect to the preparation of the consolidated financial statements, the Chief Actuary works with the WSIB actuarial staff to prepare a valuation, including the selection of appropriate assumptions applicable to the WSIB's benefit liabilities at the consolidated statements of financial position date to determine the valuation of benefit liabilities. Additionally, the Chief Actuary provides an opinion to the Board of Directors regarding the appropriateness of the benefit liabilities recorded by management of the WSIB at the date of the consolidated statements of financial position. The work to form that opinion includes an examination of the sufficiency and reliability of data and a review of the valuation processes. The Chief Actuary is responsible for assessing whether the assumptions and methods used for the valuation of the benefit liabilities are in accordance with accepted actuarial practice, applicable legislation, and associated regulations and directives. In performing the valuation of these liabilities, which are by their very nature inherently variable, the Chief Actuary makes assumptions as to future interest and mortality rates, expenses, related trends, and other contingencies, taking into consideration the circumstances of the WSIB. It is certain that the benefit liabilities will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, the projections make no provision for future claim categories not sufficiently recognized in the claims experience and inventories. The Chief Actuary's report outlines the scope of the valuation and his opinion.

Role of the External Auditors

The external auditors, Ernst & Young LLP, working under the direction of the Auditor General of Ontario, have performed an independent and objective audit of the consolidated financial statements of the WSIB in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors make use of the work of the Chief Actuary and his report on the benefit liabilities of the WSIB. The external auditors have full and unrestricted access to the Board of Directors and the Audit and Finance Committee to discuss audit, financial reporting, and related findings. The external auditors' report outlines the scope of their audit and their opinion on the consolidated financial statements of the WSIB.

Thomas Teahen
President and Chief Executive Officer
April 27, 2017
Toronto, Ontario

Pamela Steer
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Workplace Safety and Insurance Board,
The Minister of Labour and the Auditor General of Ontario

Pursuant to the *Workplace Safety and Insurance Act, 1997 (Ontario)*, which provides that the accounts of the **Workplace Safety and Insurance Board** (the "WSIB") shall be audited by the Auditor General of Ontario or under his direction by an auditor appointed by the Lieutenant Governor in Council for that purpose, we have audited the accompanying consolidated financial statements of the WSIB, which comprise the consolidated statements of financial position as at December 31, 2016, the consolidated statements of comprehensive income, changes in deficiency of assets, and cash flows for the year then ended December 31, 2016, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the WSIB as at December 31, 2016 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 27, 2017

ACTUARIAL OPINION

On the Valuation of the Benefit Liabilities of the Workplace Safety and Insurance Board as at December 31, 2016

I have completed the actuarial valuation of the benefit liabilities of the Workplace Safety and Insurance Board (the "WSIB") for its consolidated statements of financial position as at December 31, 2016 (the "valuation date").

In my opinion, the benefit liabilities of $27,920 million make reasonable provision for future payments for loss of earnings, other short and long-term disability, health care, survivor and retirement income benefits with respect to claims which occurred on or before the valuation date, and for occupational disease claims expected to arise after the valuation date as a result of exposures incurred in the workplace on or before the valuation date in respect of occupational diseases with a long latency period that are recognized by the WSIB. This amount provides for future claim administration costs, but does not include a provision for claims related to workers of Schedule 2 employers.

The valuation was based on the provisions of the *Workplace Safety and Insurance Act*, *1997 (Ontario)* (the "WSIA") and on the WSIB's policies and administrative practices in effect at the time of the valuation. This includes Bill 163 *Supporting Ontario's First Responders Act (Posttraumatic Stress Disorder)*, which was passed by the legislature on April 5, 2016.

The data on which the valuation is based were provided by the WSIB; I applied such checks of reasonableness of the data as I considered appropriate, and have concluded that the data are sufficiently reliable to permit a realistic valuation of the liabilities and are consistent with the WSIB's consolidated financial statements. In my opinion, the data on which the valuation is based are sufficient and reliable for the purpose of the valuation.

The economic assumptions adopted for purposes of computing the liabilities have been selected taking account of the WSIB's strategic plan and investment policies. For this valuation, an annual discount rate of 4.50% (4.75% for the previous valuation) was used to discount expected payments. Other economic assumptions underlying the calculations include annual changes in the Consumer Price Index (CPI) of 2.0% (unchanged from the previous valuation), amounts subject to partial indexing to increase at 1.0% annually for 2017, and 2.0% annually for 2018 and later, annual health care costs and annual wage escalation rates of 4.0% (unchanged from the previous valuation) and 3.0% (unchanged from the previous valuation) respectively. The valuation also incorporates the change as a result of Bill 144 where indexation will be applied to the benefit rate starting in 2018 rather than the gross earnings which is the current practice. In my opinion, the assumptions are appropriate for the purpose of the valuation.

The methods and assumptions employed in the valuation were consistent with those used in the previous valuation, after taking account of changes in claim patterns. Projections of future claim payments and awards have been made using factors developed from the WSIB's claims experience, mortality and other assumptions. In my opinion, the methods employed in the valuation are appropriate for the purpose of the valuation.

Changes to the actuarial basis, in addition to the discount rate mentioned above, include updates to the data, methods and assumptions for the loss of earnings benefit. In addition to these changes, an arrears provision for future economic loss awards was introduced. The impact of the changes in actuarial assumptions and methods on the benefit liabilities is disclosed in note 13 to the consolidated financial statements.

Details of the data, actuarial assumptions, valuation methods and analysis of results are set out in my actuarial report as at the valuation date, of which this statement of opinion forms part.

In my opinion, the amount of the benefit liabilities makes appropriate provision for all personal injury compensation obligations and the consolidated financial statements fairly represent the results of the valuation. This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.

Donald Blue, FSA, FCIA
Vice-President and Chief Actuary
Workplace Safety and Insurance Board
April 27, 2017
Toronto, Ontario

Consolidated Statements of Financial Position
(millions of Canadian dollars)

	Note	December 31 2016	December 31 2015
Assets			
Cash and cash equivalents		2,496	1,581
Receivables	6	1,644	1,614
Public equity securities	7	11,382	10,055
Bonds	7	6,793	6,756
Derivative assets	7	72	68
Other invested assets	7	8,788	7,947
Property, equipment and intangible assets	9	316	284
Total assets		**31,491**	**28,305**
Liabilities			
Payables and accruals		1,112	1,077
Derivative liabilities	7	243	133
Long-term debt	10	132	116
Loss of Retirement Income Fund liability	11	1,790	1,724
Employee benefit plans liability	12	1,290	1,222
Benefit liabilities	13	27,920	27,830
Total liabilities		**32,487**	**32,102**
Deficiency of assets			
Unfunded liability attributable to WSIB stakeholders		(3,925)	(6,599)
Non-controlling interests	17	2,929	2,802
Total deficiency of assets		**(996)**	**(3,797)**
Total liabilities and deficiency of assets		**31,491**	**28,305**

Commitments and contingent liabilities (note 14)

Approved by the Board of Directors

Elizabeth Witmer
Chair
April 27, 2017

Lea Ray
Audit and Finance Committee (Chair)
April 27, 2017

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY & INSURANCE BOARD
2016 ANNUAL REPORT

Consolidated Statements of Comprehensive Income
For the years ended December 31
(millions of Canadian dollars)

	Note	2016	2015
Revenues			
Premiums		5,043	4,846
Net mandatory employer incentive programs		(181)	(162)
		4,862	4,684
Net investment income			
Investment income	7	1,655	1,338
Investment expenses	7	(158)	(139)
Total net investment income		1,497	1,199
Total revenues		**6,359**	**5,883**
Expenses			
Benefit costs			
Benefit payments	13	2,252	2,332
Claim administration costs	13	405	398
Change in actuarial valuation of benefit liabilities	13	90	1,030
		2,747	3,760
Loss of Retirement Income Fund contributions	11	56	56
Administration and other expenses		431	406
Legislated obligations and funding commitments		244	263
Total expenses		**3,478**	**4,485**
Excess of revenues over expenses		**2,881**	**1,398**
Other comprehensive loss (income)			
Remeasurements of employee defined benefit plans	12	35	(45)
Total comprehensive income		**2,846**	**1,443**

		2016	2015
Excess of revenues over expenses attributable to:			
WSIB stakeholders		2,709	1,246
Non-controlling interests	17	172	152
		2,881	**1,398**
Total comprehensive income attributable to:			
WSIB stakeholders		2,674	1,291
Non-controlling interests	17	172	152
		2,846	**1,443**

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY & INSURANCE BOARD
2016 ANNUAL REPORT

Consolidated Statements of Changes in Deficiency of Assets
For the years ended December 31
(millions of Canadian dollars)

		Deficiency of assets		
	Note	**Unfunded liability attributable to WSIB stakeholders**	**Non-controlling interests**	**Total**
Balance at December 31, 2014		(7,890)	2,644	(5,246)
Excess of revenues over expenses		1,246	152	1,398
Remeasurements of employee defined benefit plans	12	45	-	45
Change in ownership share in investments	17	-	6	6
Balance at December 31, 2015		(6,599)	2,802	(3,797)
Excess of revenues over expenses		2,709	172	2,881
Remeasurements of employee defined benefit plans	12	(35)	-	(35)
Change in ownership share in investments	17	-	(45)	(45)
Balance at December 31, 2016		**(3,925)**	**2,929**	**(996)**

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY & INSURANCE BOARD
2016 ANNUAL REPORT

Consolidated Statements of Cash Flows
For the years ended December 31
(millions of Canadian dollars)

	2016	2015
Operating activities:		
Total comprehensive income	2,846	1,443
Adjustments:		
Amortization of net premium on investments	1	3
Depreciation and amortization of property, equipment and intangible assets	22	16
Changes in fair value of investments	(1,118)	(822)
Changes in fair value of investment properties	72	24
Dividend income from public equity securities	(354)	(320)
Income from joint ventures	(60)	(32)
Interest income	(227)	(222)
Interest expense	8	9
Total comprehensive income after adjustments	1,190	99
Changes in non-cash balances related to operations:		
Receivables, excluding those related to investing activities	(75)	55
Payables and accruals, excluding those related to investing and financing activities	25	(17)
Loss of Retirement Income Fund liability	66	61
Employee benefit plans liability	68	(5)
Benefit liabilities	90	1,030
Total changes in non-cash balances related to operations	174	1,124
Net cash provided by operating activities	**1,364**	**1,223**
Investing activities:		
Dividends received from public equity securities and joint ventures	373	348
Interest received	223	222
Purchases of property, equipment and intangible assets	(54)	(66)
Purchases of investments	(13,700)	(10,844)
Proceeds on sales and maturities of investments	12,751	9,463
Net additions to investment properties	(29)	(191)
Acquisitions of joint ventures	(18)	(36)
Proceeds on dispositions of joint ventures	37	3
Net cash required by investing activities	**(417)**	**(1,101)**
Financing activities:		
Proceeds on dispositions of non-controlling interests	132	137
Distributions paid by subsidiaries to non-controlling interests	(177)	(131)
Net issuance (repayment) of debt	20	(11)
Interest paid on debt	(7)	(9)
Net cash required by financing activities	**(32)**	**(14)**
Net increase in cash and cash equivalents	**915**	**108**
Cash and cash equivalents, beginning of year	1,581	1,473
Cash and cash equivalents, end of year	**2,496**	**1,581**

The accompanying notes form an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements
December 31, 2016
(millions of Canadian dollars)

1. Nature of Operations

The Workplace Safety and Insurance Board (the "WSIB") is a statutory corporation created by an Act of the Ontario Legislature in 1914 and domiciled in the Province of Ontario (the "Province"). As a board-governed trust agency, in accordance with the Agency and Appointments Directive, the WSIB is responsible for administering the *Workplace Safety and Insurance Act, 1997 (Ontario)* (the "WSIA"), which establishes a no-fault insurance scheme that provides benefits to workers who experience workplace injuries or illnesses.

The WSIB promotes workplace health and safety in the Province and provides a workplace compensation system for Ontario based employers and workers. The WSIB is funded entirely by employer premiums and does not receive any government funding or assistance. Revenues are also earned from a diversified investment portfolio held to meet future obligations on existing claims.

The WSIB's registered office is located at 200 Front Street West, Toronto, Ontario, M5V 3J1.

2. Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements as at and for the year ended December 31, 2016 were authorized for issuance by the WSIB's Board of Directors on April 27, 2017.

3. Summary of Significant Accounting Policies

Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis, except for the following items:

(a) financial instruments classified as at fair value through profit or loss ("FVTPL"), which are measured at fair value;

(b) investment properties, which are measured at fair value;

(c) Loss of Retirement Income Fund liability, which is measured at an amount equivalent to the fair value of the assets in the Loss of Retirement Income Fund;

(d) liabilities for employee defined benefit plans, which are measured as the present value of the defined benefit obligations less the fair value of plan assets; and

(e) benefit liabilities, which represent the actuarially determined present value of the estimated future payments for reported and unreported claims incurred on or prior to the reporting date.

Notes to Consolidated Financial Statements
December 31, 2016
(millions of Canadian dollars)

Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities controlled by the WSIB.

The financial statements of subsidiaries are included in the WSIB's consolidated financial statements from the date control commences until the date control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to reflect accounting policies consistent with those of the WSIB. All intercompany transactions and balances are eliminated.

The majority of the WSIB's investment portfolio is held in subsidiaries in which the WSIB Employees' Pension Plan is a non-controlling interest (note 17).

(b) Non-controlling interests

Non-controlling interests represent the WSIB Employees' Pension Plan and other investors' proportionate interest of the net assets and total comprehensive income of subsidiaries in which the WSIB directly or indirectly owns less than a 100% interest. Total comprehensive income and the surplus or deficiency of assets related to these subsidiaries are allocated to WSIB stakeholders and non-controlling interests.

(c) Investments in joint ventures

Joint ventures are entities over which the WSIB has joint control and has rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, investments are initially recognized at cost and adjusted for the WSIB's proportionate share of the joint ventures' total comprehensive income.

(d) Joint operations

Joint operations are investments in economic activities or entities over which the WSIB has joint control and has rights to specific assets, and obligations for specific liabilities, relating to the arrangement.

The WSIB's consolidated financial statements include its share of assets, liabilities, revenues and expenses related to the joint operations.

Foreign currency

The WSIB's functional and presentation currency is the Canadian dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the period-end rates of exchange. Non-monetary assets and liabilities that are measured at fair value are also translated at the period-end rates of exchange. Foreign exchange gains and losses are recognized in investment income or administration and other expenses.

Financial instruments

The WSIB recognizes financial assets and financial liabilities when it becomes a party to a contract.

Financial assets and financial liabilities classified as at FVTPL are measured at fair value on initial recognition and transaction costs are expensed when incurred. All other financial assets and financial liabilities are measured at fair value plus transaction costs on initial recognition.

Notes to Consolidated Financial Statements
December 31, 2016
(millions of Canadian dollars)

Measurement in subsequent periods depends on the classification of the financial instrument. The WSIB's financial instruments are classified as follows:

Financial asset or financial liability	Classification
Cash and cash equivalents	FVTPL (a)
Receivables	Loans and receivables (b)
Public equity securities	FVTPL (a)
Bonds	FVTPL (a)
Alternative investments	FVTPL (a)
Derivative assets	FVTPL (a)
Payables and accruals	Other financial liabilities (c)
Derivative liabilities	FVTPL (a)
Long-term debt	Other financial liabilities (c)

(a) Financial assets and financial liabilities at FVTPL

Financial assets and financial liabilities are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management, or if they are derivatives. Financial assets and financial liabilities classified as FVTPL are measured at fair value, with changes recognized in investment income.

Financial assets and financial liabilities that are classified as FVTPL are managed based on their fair value in accordance with the WSIB's documented risk management or investment strategy.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method. Loans and receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

(c) Other financial liabilities

Other financial liabilities are financial liabilities that are not derivative liabilities or classified as FVTPL. Subsequent to initial recognition, other financial liabilities are carried at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all transaction costs and other premiums or discounts) through the expected life of the financial instrument to the net carrying amount on initial recognition.

Other Invested Assets

Other invested assets include investment properties, alternative investments and joint ventures.

Investment properties are properties held to earn rental income or for capital appreciation, or both. Investment properties acquired through an asset purchase are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, investment properties are measured at fair value with changes in fair value recognized as investment income during the period in which they arise.

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Alternative investments consist of investment funds, private market investments and real estate entities. Investment funds are valued on the basis of net asset values provided by investment managers. Private market investments are valued using acceptable industry valuation methods, including discounted cash flow and market comparable approaches.

Property, equipment and intangible assets

Property, equipment and intangible assets are measured at cost less accumulated depreciation and any accumulated impairment losses. When significant components of an item of property and equipment have different useful lives, they are accounted for as separate items.

Intangible assets include both internally developed and acquired software. Development costs associated with internally developed software are recognized as an intangible asset when certain criteria are met. The criteria to capitalize development costs include the WSIB's intention and ability to complete the development of the software from which it is probable the WSIB will generate future economic benefits.

Depreciation of property and equipment, and amortization of intangible assets are included in administration and other expenses on the consolidated statements of comprehensive income. Property, equipment and intangible assets are depreciated and amortized on a straight-line basis over their estimated useful lives as follows:

Land	Not depreciated
Buildings	
Primary structure	60 years
Components with different useful lives	10 - 30 years
Leasehold improvements	Lesser of the lease term or 10 years
Office and computer equipment	3 - 5 years
Intangible assets	3 - 8 years

Premium revenues

Premium revenues are comprised of premiums from Schedule 1 employers and administration fees from Schedule 2 employers.

(a) Schedule 1 employer premiums

Schedule 1 employers are those for which the WSIB is liable to pay benefit compensation for workers' claims. Schedule 1 employer premiums are assessed and are receivable when employers report their insurable earnings for the current year. For employers who have not reported, premiums are estimated and included in the accrued premiums receivable. Premium revenues are recognized over the coverage period.

(b) Schedule 2 employer administration fees

Schedule 2 employers are employers that self-insure the provision of benefits under the WSIA. Schedule 2 employers are liable to pay all benefit compensation and administration costs for their workers' claims.

The WSIB administers the payment of the benefits for workers of Schedule 2 employers and recovers the cost of these benefits plus administration fees from the employers. The administration fees are recognized as the services are provided. The benefits paid on behalf of Schedule 2 employers and the amounts collected to recover the benefits paid are not included in the WSIB's revenues or expenses.

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Investment income

Investment income is comprised of the following:

(a) Realized and changes in unrealized gains and losses on financial instruments are recognized in investment income in the period they arise.

(b) Interest and dividend income

Interest income is recognized in investment income as it accrues. Dividend income is recognized in investment income when the WSIB's right to receive payment has been established.

(c) Income from joint ventures

The WSIB's proportionate share of its joint ventures' total comprehensive income is recognized in investment income in the period it is recognized by the joint venture.

(d) Income from investment properties

Changes in fair value, rental income and service charges from investment properties are recognized in investment income in the period to which they relate.

Mandatory employer incentive programs

Schedule 1 employers participate in mandatory employer incentive programs that may result in adjustments to premium rates. Certain of these programs involve a surcharge to, or refund of, premiums based on the employer's claims experience. An estimate of the surcharges or refunds is recognized in the period to which they relate.

Legislated obligations and funding commitments

(a) Legislated obligations

The WSIB is required to make payments to defray the cost of administering the *Occupational Health and Safety Act* (the "OHSA") and the regulations made under the OHSA. The WSIB is also required to pay for the operating costs of the Workplace Safety and Insurance Appeals Tribunal ("WSIAT") and the costs that may be incurred by the Office of the Worker Adviser, and the Office of the Employer Adviser. The expenses related to these legislated obligations are recognized as an expense in the period to which the funding relates.

(b) Funding commitments

The WSIB provides grant funding to carry on investigations, research and training. The expenses related to these funding commitments are recognized as an expense in the period to which the funding relates.

(c) Voluntary employer incentive programs

The WSIB provides financial incentives to Schedule 1 employers who undertake specific measures to improve health and safety. An estimate of the cost of these incentive programs is recognized as an expense in legislated obligations and funding commitments in the period the measures are undertaken by the employer.

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Loss of Retirement Income Fund liability

The Loss of Retirement Income Fund liability represents an obligation for payments of retirement benefits to certain workers. The WSIB contributes five percent of the loss of earnings benefits to the Loss of Retirement Income Fund for injured workers of Schedule 1 employers who have received loss of earnings benefits for twelve consecutive months. Schedule 2 employers are required to contribute five percent of the loss of earnings benefits for their workers once loss of earnings benefits are received for twelve continuous months. Workers eligible for loss of retirement income benefits can choose to contribute a further five percent from their loss of earnings benefits. For claims incurred prior to January 1, 1998, the contribution from the WSIB and Schedule 2 employers is 10% of every future economic loss payment made to injured workers. Assets attributable to the Loss of Retirement Income Fund are included within the WSIB's investment portfolio.

The WSIB's statutory obligation is to provide retirement benefits equal to the total contributions plus income earned on those contributions. As such, the Loss of Retirement Income Fund liability is measured at an amount equivalent to the fair value of the assets in the Loss of Retirement Income Fund. The WSIB's contributions to the Loss of Retirement Income Fund are recognized as the Loss of Retirement Income Fund contributions expense.

Benefit liabilities

Benefit liabilities represent the actuarially determined present value of the estimated future payments for reported and unreported claims incurred on or prior to the reporting date using best estimate assumptions related to workers of Schedule 1 employers. In addition, an obligation is estimated for claims in respect of occupational diseases currently recognized by the WSIB for which a claim has not yet been reported. The future payments are for estimated obligations for loss of earnings, labour market re-entry costs, short and long-term disability, health care, survivor benefits, retirement income benefits and claim administration costs. The benefit liabilities are determined in accordance with the Standards of Practice of the Canadian Institute of Actuaries, including the standards for Public Personal Injury Compensation Plans, and legislation in effect at the end of the reporting period. Changes in the estimate of future benefit payments are recognized in benefit costs expense.

Benefit liabilities do not include any amounts for claims related to workers of Schedule 2 employers; these claims are ultimately paid by the self-insured Schedule 2 employers.

Employee future benefits

The WSIB sponsors a defined benefit pension plan, a post-retirement benefit program, and other employee defined benefit plans.

The cost of employee benefit plans is recognized as the employees provide service to the WSIB. The obligations for these plans are measured as the present value of the benefit obligation less the fair value of plan assets and are included in the employee benefit plans liability. The employee benefit plans liability represents the combined deficit of the plans at the reporting date.

The cost of the defined benefit plans is actuarially determined using the projected unit credit method and includes management's estimate of compensation increases, health care cost trend rates, mortality, and retirement ages of employees. These estimates are reviewed annually with the WSIB's external actuaries. The discount rate used to value the obligations is based on long-term high quality corporate bonds.

The changes in defined benefit obligations and plan assets are recognized when they occur as follows:

(a) Service costs and the net interest cost are recognized in administration and other expenses; and

(b) Remeasurements, actual experience which differs from assumptions which result in actuarial gains or losses, are recognized in other comprehensive income. Remeasurements are never reclassified to expenses; other comprehensive income related to the remeasurements is immediately transferred to the unfunded liability.

4. Critical Accounting Estimates and Judgments

The WSIB is required to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the consolidated financial statements, and actual results could differ from those estimates. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

In addition, the WSIB has made judgments, aside from those that involve estimates, in the process of applying its accounting policies. These judgments can affect the amounts recognized in the consolidated financial statements.

Benefit liabilities (note 13)

Benefit liabilities represent the actuarially determined present value of estimated future payments for reported and unreported claims incurred on or prior to the reporting date, including claims in respect of occupational diseases currently recognized by the WSIB. The measurement of benefit liabilities requires the actuary to make estimates and assumptions for a number of factors, including those for claim duration, mortality rates, wage and health care escalations, general inflation and discount rates. Changes in these estimates and assumptions could have a significant impact on the measurement of benefit liabilities and benefit costs.

Employee benefit plans (note 12)

The costs and liabilities associated with defined benefit pension plans and other long-term employee benefit plans are determined in accordance with actuarial valuations. The actuarial valuations rely on estimates and assumptions including those for wage escalation, expected return on plan assets, health care and dental cost inflation, retirement ages, life expectancies and discount rates. Changes in these estimates could have an impact on the employee benefit plans liability and total comprehensive income.

Fair value measurement of financial instruments (note 7)

Where possible, the fair value of publicly traded financial instruments is based on quoted prices in active markets. Where quoted prices in active markets are not available, the fair value for financial instruments is based on valuation models that use observable market inputs such as interest rate yield curves, or net asset values provided by independent third party investment managers. Valuation models incorporate prevailing market rates and may require estimates for economic risks and projected cash flows. Note 7 of the consolidated financial statements provides the estimated fair values of financial instruments categorized by the nature of the inputs used in the valuation techniques.

Fair value measurement of investment properties (note 7)

The WSIB's investment properties are owned indirectly through subsidiaries or joint operations. Investment properties are re-measured to fair value at each reporting date, estimated based on the annual valuations performed by independent qualified appraisers. The annual third party appraisals are performed at varying dates throughout the year; at each reporting date the fair value of investment properties is updated based on valuation models incorporating available market evidence. When determining the fair value of investment properties, estimates and assumptions are made that have a significant effect on the reported values of investment properties. Estimates and assumptions used in determining the fair value of the investment properties include discount and terminal capitalization rates, inflation rates, vacancy rates and future net cash flows of the properties.

5. Future Changes in Accounting Standards

The following new or amended accounting standards have been issued by the International Accounting Standards Board ("IASB"). These new or amended standards are not yet effective and the WSIB has not completed its assessment of their impact on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15. The new standard, which replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and various interpretations, establishes a principles-based framework for the recognition and measurement of revenues arising from contracts with customers, except for items such as financial instruments, insurance contracts and leases. The effective date for the WSIB will be January 1, 2018, on a retrospective or a modified retrospective basis. We are currently assessing the impact the adoption of this standard will have on our consolidated financial statements.

Amendments to IFRS 4 Insurance Contracts ("IFRS 4")

In September 2016, the IASB issued amendments to IFRS 4. The amendments introduce two approaches to address differing effective dates of IFRS 9 *Financial Instruments* ("IFRS 9") and the forthcoming new insurance contracts standard: the overlay approach and the deferral approach. Under the deferral approach, insurance entities are provided a temporary exemption for the adoption of IFRS 9 until January 1, 2021. The amendments will be effective for the WSIB beginning on January 1, 2018, and the WSIB expects to defer the adoption of IFRS 9 until January 1, 2021.

IFRS 9 Financial Instruments ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9 which will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting.

A new principles-based model is introduced for classifying and measuring financial assets, based on the business model and the contractual cash flow characteristics of the financial assets held. The classification and measurement for financial liabilities remains generally unchanged; however, for a financial liability designated as at FVTPL, fair value changes attributable to the changes in an entity's own credit risk are reflected in other comprehensive income.

The standard also introduces a new forward-looking expected loss model which replaces the incurred loss model under IAS 39 for the recognition and measurement of impairment on all financial instruments not measured at fair value. In addition, a new model for hedge accounting was introduced to achieve better alignment with risk management activities.

We expect to defer IFRS 9 until January 1, 2021, as allowed under the amendments to IFRS 4. We are currently assessing the impact the adoption of this standard will have on our consolidated financial statements.

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IFRS 16 Leases (“IFRS 16”)

In January 2016, the IASB issued IFRS 16 which will replace IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. For lessees, IFRS 16 requires that all leases be recognized on the statement of financial position, with certain exemptions. The accounting for lessors is substantially unchanged. IFRS 16 will be effective for the WSIB beginning on January 1, 2019 on a retrospective or a modified retrospective basis. We are currently assessing the impact the adoption of this standard will have on our consolidated financial statements.

Amendments to IAS 7 Statement of Cash Flows (“IAS 7”)

In January 2016, the IASB issued amendments to IAS 7, which require disclosure of certain changes in the liabilities arising from financing activities. The amendments will be effective for the WSIB beginning on January 1, 2017 and applied prospectively. We do not expect the adoption of the amendments to have a significant impact on our consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (“IFRIC 22”)

In December 2016, the IASB issued IFRIC 22, which clarifies the accounting for transactions when an entity recognizes a non-monetary asset or liability arising from an advance payment that is received or paid in a foreign currency, prior to recognition of the underlying transaction. The amendments will be effective for the WSIB beginning on January 1, 2018 and may be applied retrospectively or prospectively. We are currently assessing the impact the adoption of this standard will have on our consolidated financial statements.

6. Receivables

Receivables are comprised of the following:

	2016	2015
Premiums receivable	264	250
Less: Allowance for doubtful accounts	(111)	(92)
	153	158
Accrued premiums receivable	539	507
	692	665
Employer incentive programs surcharges	387	353
Other assets	58	44
	1,137	1,062
Investment receivables	507	552
Total receivables	**1,644**	**1,614**

Premiums receivable primarily relates to Schedule 1 employer premiums which are assessed and are receivable when employers report their insurable earnings for the current year. For employers who have not reported, premiums are estimated and included in the accrued premiums receivable.

Employer incentive programs surcharges represent premium increases for Schedule 1 employers based on claims experience.

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7. Invested Assets and Net Investment Income

(a) Invested assets

WSIB's investment portfolio is diversified across various asset classes. The invested assets are currently diversified among five primary investment strategies as follows:

Public equities	Investment in the equity, or securities convertible into equity, of public corporations.
Fixed income	Bonds, debentures and other fixed income investments.
Multi-asset	Investments that seek to provide a diversified source of total return generated from the broad market and from active management. Investments within multi-asset may include derivatives, commodities, currencies, hedge funds, equities and fixed income investments.
Real estate	Real estate debentures, funds and properties in Canada and the United States diversified across office, retail, industrial and mixed-use assets.
Infrastructure	Investments in transportation, utilities, energy and healthcare facilities.

The WSIB's invested assets are held directly or held indirectly through investments in subsidiaries, joint ventures or joint operations.

The following provides a summary of the nature of the invested assets by investment strategy:

	Public equities	Fixed income	Multi-asset	Real estate	Infra-structure	Other	2016[2]	2015
Public equity securities	**10,882**	**-**	**500**	**-**	**-**	**-**	**11,382**	**10,055**
Bonds	**-**	**6,278**	**515**	**-**	**-**	**-**	**6,793**	**6,756**
Derivative assets	**5**	**-**	**66**	**-**	**1**	**-**	**72**	**68**
Alternative investments[1]	-	-	4,312	664	1,844	72	6,892	6,024
Investment properties	-	-	-	1,315	-	-	1,315	1,361
Joint ventures	-	-	-	443	138	-	581	562
Other invested assets	-	-	4,312	2,422	1,982	72	**8,788**	**7,947**

1. Alternative investments include investment funds, private market investments and real estate entities.
2. Assets attributable to the Loss of Retirement Income Fund are included within the WSIB's investment portfolio. See note 7(b) for income attributable to the Loss of Retirement Income Fund, and note 11 for further details.

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(b) Net investment income

Net investment income (loss) by nature of invested assets, including income from cash and cash equivalents and derivatives, for the years ended December 31 is as follows:

	Public equities	Fixed income	Multi-asset	Real estate	Infra-structure	Other	2016	2015
Public equity securities	796	-	38	-	-	-	834	1,308
Bonds	-	103	(16)	-	-	-	87	289
Alternative investments	-	-	20	39	143	7	209	1,076
Investment properties[1]	-	-	-	(4)	-	-	(4)	33
Income from joint ventures	-	-	-	46	14	-	60	32
Derivatives	152	-	323	(3)	90	-	562	(1,314)
Cash and cash equivalents	-	-	-	-	-	6	6	2
Less: Income attributable to Loss of Retirement Income Fund (note 11)	(48)	(6)	(20)	(4)	(13)	(8)	(99)	(88)
Investment income	**900**	**97**	**345**	**74**	**234**	**5**	**1,655**	**1,338**
Less: Investment expenses[2]	(65)	(1)	(43)	(18)	(31)	-	(158)	(139)
Net investment income	**835**	**96**	**302**	**56**	**203**	**5**	**1,497**	**1,199**

1. Investment properties include net losses of $72 (2015 - $24), as well as operating expenses of $59 (2015 - $49), which are offset by rental income and service charges of $127 (2015 - $106).
2. Includes $116 of management fees paid to investment managers (2015 - $100).

Net investment income, including income from cash and cash equivalents and derivatives, for the years ended December 31 is comprised of the following:

	2016	2015
Net gains on financial instruments	1,118	822
Interest and dividend income	580	539
Income (loss) from investment properties	(4)	33
Income from joint ventures	60	32
Less: Income attributable to Loss of Retirement Income Fund (note 11)	(99)	(88)
Investment income	**1,655**	**1,338**
Less: Investment expenses	(158)	(139)
Net investment income	**1,497**	**1,199**

(c) Investments under securities lending program

The WSIB participates in a securities lending program through an intermediary for the purpose of generating fee income. Non-cash collateral, the fair value of which represents at least 102% of the fair value of the loaned securities, is maintained until the underlying securities have been returned to the WSIB. The fair value of the loaned securities is monitored on a daily basis by an intermediary financial institution with additional collateral obtained or refunded as the fair value of the underlying securities fluctuates. While in the possession of the counterparties, the loaned securities may be resold or repledged by such counterparties. The intermediary indemnifies the WSIB against any shortfalls in collateral in the event of default by the counterparty. These transactions are conducted under terms that are usual and customary to security lending activities as well as requirements determined by exchanges where a financial institution acts as an intermediary.

Under the terms of the securities lending program, the WSIB retains substantially all the risks and rewards of ownership of the loaned securities and also retains contractual rights to the cash flows. These securities are not derecognized from the consolidated statements of financial position.

As at December 31, 2016, the fair value of investments loaned under the securities lending program was $3,862 (2015 – $1,238). As at December 31, 2016, the fair value of securities maintained as collateral was approximately $4,179 (2015 – $1,310).

(d) Derivative assets and derivative liabilities

Derivative assets and derivative liabilities include foreign exchange forward contracts, which are utilized to hedge investments denominated in a foreign currency, and for active trading. Equity index, fixed income and commodity futures are held to provide international and asset class diversification. These futures are collateralized with cash and treasury bills and used to replicate the return of the respective equity, fixed income or commodity investments. The foreign exchange derivative assets and derivative liabilities are subject to netting arrangements and in practice are settled on a net basis, but do not meet the criteria to be presented on a net basis. As such, the derivative assets and derivative liabilities are presented separately in the consolidated statements of financial position.

The notional amounts in the table below are not recorded as assets or liabilities in our consolidated financial statements as they represent the face amounts to which a rate or a price is applied to determine the amount of cash flows to be exchanged. Notional amounts do not represent the potential gains or losses associated with market risks and are not indicative of the credit risks associated with derivative financial instruments.

The notional amounts and the fair values of the derivative assets and derivative liabilities as at December 31 are as follows:

	2016			**2015**		
		Fair value			**Fair value**	
	Notional amount	**Assets**	**Liabilities**	**Notional amount**	**Assets**	**Liabilities**
Forward exchange contracts	10,463	31	193	10,585	45	107
Fixed income futures	2,270	10	4	2,625	8	8
Commodity futures	628	16	24	317	3	10
Equity index futures	846	10	5	396	7	2
Options	22	4	9	15	5	3
Swaps	546	1	8	249	-	3
Total	**14,775**	**72**	**243**	**14,187**	**68**	**133**

(e) Joint ventures

The WSIB's ownership in the joint ventures, which hold investment properties, ranges from 38% - 77%. The following provides a summary of the financial position information of the WSIB's joint ventures:

	2016	**2015**
Total assets	1,534	1,498
Total liabilities	(256)	(262)
Net assets	**1,278**	**1,236**
WSIB's share of net assets	**581**	**562**

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The following provides a summary of the net income of the WSIB's joint ventures:

	2016	2015
Revenues	124	121
Expenses	(64)	(67)
Gains from increases in fair value	56	1
Net income	**116**	**55**
WSIB's share of net income	**60**	**32**

(f) Joint operations

The following amounts related to the joint operations are included in the WSIB's consolidated financial statements:

	Simcoe Place	Mississauga Property I	Mississauga Property II	Other	2016	2015
Other assets	9	8	6	1	24	25
Property and equipment	113	-	-	-	113	116
Investment properties	-	79	137	54	270	266
Payables	(5)	(2)	(2)	(10)	(19)	(22)
Long-term debt	(19)	-	(69)	-	(88)	(89)
Net assets	**98**	**85**	**72**	**45**	**300**	**296**
Investment income	-	12	13	-	25	12
Investment expenses	-	(7)	(10)	-	(17)	(8)
Administration and other expenses	(23)	-	-	-	(23)	(25)
Total comprehensive income (loss)	**(23)**	**5**	**3**	**-**	**(15)**	**(21)**

The WSIB's ownership interests in joint operations at December 31, 2016 are as follows:

- The WSIB has a 75% undivided co-ownership interest in an office tower situated at 200 Front Street West, Toronto, Ontario ("Simcoe Place"). The WSIB occupies approximately 77.4% of the premises and recognizes its share of the property within property and equipment and its share of operating expenses in administration and other expenses.

- The WSIB has a 50% undivided co-ownership interest in an office and retail complex of four office buildings and adjoining development lands located in the City of Mississauga, Ontario (the "Mississauga Property I").

- The WSIB has a 50% undivided co-ownership interest in an office building located in the City of Mississauga, Ontario (the "Mississauga Property II").

(g) Fair value measurement and disclosures

Estimates of fair value used for measurement and disclosure are designed to approximate amounts that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants.

The carrying amounts of cash and cash equivalents, public equity securities, bonds, other invested assets, derivative assets and derivative liabilities are their fair values. Due to their short-term nature, the carrying amounts of receivables and payables approximate their fair values.

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Due to the estimation process and the need to use judgment, the aggregate fair value amounts may not be realizable in settlement of assets or liabilities.

Fair value hierarchy

The WSIB uses a fair value hierarchy to categorize the inputs used in valuation techniques to estimate the fair values of assets and liabilities.

The table below provides a general description of the valuation methods used for fair value measurements.

Hierarchy level	Valuation methods
Level 1	Fair value is measured as the closing bid price for identical assets in an active public market at the reporting date.
Level 2	Where bid prices in an active public market are not available, observable inputs are used to estimate fair value using a market approach or an income approach. When using a market approach, fair value is estimated by adjusting the market price of a similar asset or liability, using inputs such as quoted interest or currency rates. Estimated fair value using an income approach is based on fixed future cash flows discounted using market interest rates for similar assets or liabilities.
Level 3	Fair value is measured using significant non-market observable inputs. The fair values of investment funds are determined based on net asset values provided by investment managers. The fair values of private market investments are obtained from independent third parties who develop the quantitative unobservable inputs to the valuations. Private market investments primarily consist of investments in the infrastructure sector. Fair values of real estate entities and investment properties are estimated based on valuations performed by qualified third party appraisers. The valuations of the investment properties are primarily based on discounted expected future cash flows of each property, using discount and terminal capitalization rates reflective of the characteristics, location and market of the property. The future cash flows are based on, among other things, rental income from current leases and assumptions about rental income from future leases reflecting current conditions, less future cash outflows relating to such current and future leases.

Measurements of the fair value of an asset or liability may use multiple inputs that are categorized in different levels of the fair value hierarchy. In these cases, the asset or liability is classified in the hierarchy level of the lowest level input that is significant to the measurement.

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The following table provides the fair value hierarchy classifications for assets and liabilities:

	December 31, 2016				December 31, 2015[3]			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets and liabilities measured at fair value								
Cash and cash equivalents[1]	552	1,944	-	2,496	624	957	-	1,581
Public equity securities	11,293	89	-	11,382	10,011	44	-	10,055
Bonds	-	6,793	-	6,793	-	6,756	-	6,756
Alternative investments	-	339	6,553	6,892	-	72	5,952	6,024
Investment properties	-	-	1,315	1,315	-	-	1,361	1,361
Derivative assets	36	36	-	72	19	49	-	68
Derivative liabilities	(33)	(210)	-	(243)	(20)	(113)	-	(133)
Liabilities for which fair value is disclosed								
Long-term debt[2]	-	(142)	-	(142)	-	(128)	-	(128)

1. Cash and cash equivalents include cash of $552 and short-term money market securities of $1,944 (December 31, 2015 – $624 and $957, respectively).
2. Carrying amount at December 31, 2016 was $132 (December 31, 2015 – $116).
3. For the year ended December 31, 2015, certain amounts have been reclassified to be consistent with the current year's presentation based on more refined policies and procedures in assessing the observability of inputs used in valuing such investments. This resulted in alternative investments with a carrying amount of $5,532 being reclassified from Level 2 to Level 3, derivative assets of $19 reclassified from Level 2 to Level 1, and derivative liabilities of $20 reclassified from Level 2 to Level 1.

Transfers between levels within the hierarchy are recognized at the end of the reporting period.

During the years ended December 31, 2016 and December 31, 2015, there were no transfers between Level 1 and Level 2.

Level 3 fair value measurements

The following tables provide reconciliations of assets included in Level 3 of the fair value hierarchy:

	Alternative investments					
For the year ended December 31, 2016	Investment funds	Private market investments	Real estate entities	**Subtotal**	**Investment properties**	**Total**
Balance as at January 1, 2016	5,304	228	420	5,952	1,361	7,313
Net gains (losses) recognized in net investment income	25	(38)	21	8	(72)	(64)
Purchases or asset acquisitions	1,121	157	259	1,537	29	1,566
Sales or disposals	(903)	(5)	(36)	(944)	(39)	(983)
Capital expenditures	-	-	-	-	36	36
Balance as at December 31, 2016	**5,547**	**342**	**664**	**6,553**	**1,315**	**7,868**

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	Alternative investments					
For the year ended December 31, 2015	Investment funds	Private market investments	Real estate entities	**Subtotal**	**Investment properties**	**Total**
Balance as at January 1, 2015	4,641	153	372	5,166	1,194	6,360
Net gains (losses) recognized in net investment income	953	35	21	1,009	(24)	985
Purchases or asset acquisitions	385	40	68	493	146	639
Sales or disposals	(675)	-	(41)	(716)	(4)	(720)
Capital expenditures	-	-	-	-	49	49
Balance as at December 31, 2015	**5,304**	**228**	**420**	**5,952**	**1,361**	**7,313**

During the years ended December 31, 2016 and December 31, 2015, there were no transfers between Level 2 and Level 3.

The following table summarizes the valuation methods and quantitative information about the significant unobservable inputs used in Level 3 financial assets:

	Valuation methods	**Key unobservable inputs**	**2016 Range of inputs**		**2015 Range of inputs**	
			Low	**High**	**Low**	**High**
Investment funds	Net asset value	Net asset value	n/a	n/a	n/a	n/a
Private market investments	Discounted cash flow and market comparable	Discount rate and expected future cash flows	n/a	n/a	n/a	n/a
Real estate entities and Investment properties	Discounted cash flow	Discount rate	5%	8.3%	5.3%	8.3%
		Terminal capitalization rate	4.3%	7.5%	4.5%	7.5%

Sensitivity of Level 3 financial instruments

Fair values of investment funds are based on net asset values provided by investment managers.

Fair values of private market investments are based on valuations obtained from investment managers. The WSIB assesses the reasonableness of these fair values based on annual appraisals performed by independent qualified appraisers. The valuations of private market investments are based on comparable transactions in the market place and discounted cash flow models using unobservable inputs such as expected future cash flows, terminal values and discount rates. Holding other factors constant, an increase to expected future cash flows or terminal values would tend to increase the fair value, while an increase in the discount rate would have the opposite effect.

Fair values of real estate entities and investment properties are obtained from qualified appraisers who apply a discounted cash flow model to determine property values. Key unobservable inputs include projected rental income and expenses and discount rates. Holding other factors constant, an increase to projected rental income would increase the fair values, while an increase in the inputs for the discount rates and terminal capitalization rates would have the opposite effect.

We have not applied another reasonably possible alternative assumption to the significant Level 3 categories as the net asset values and appraised fair values are provided by the investment managers and other third party appraisers.

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8. Financial Risk Management

The WSIB is exposed to a number of risks and uncertainties related to its financial instruments and benefit liabilities. These risks and the WSIB's risk mitigation policies and techniques are disclosed in Section 16 – Risk Factors of the Management's Discussion and Analysis.

Invested assets

The Board of Directors of the WSIB has established Statements of Investment Policies and Procedures ("SIPPs"), which establish the policies governing the WSIB's investment portfolio. The WSIB's risk governance process and the investment strategies are disclosed in Section 2 – Our Business of the Management's Discussion and Analysis. The SIPPs require that the WSIB's investment portfolio be diversified across certain asset classes and is currently diversified among five primary investment strategies. Refer to note 7 for a summary of the invested assets by investment strategies.

Liquidity risk

As at December 31, 2016, 61.9% (2015 – 63.9%) of the WSIB's investment portfolio was invested in readily marketable fixed income securities and publicly traded equities.

The following provides the carrying values of all financial instruments by contractual maturity or expected cash flow:

	Within 1 year	2 - 5 years	6 - 10 years	Over 10 years	No fixed maturity	2016	2015
Cash and cash equivalents	2,496	-	-	-	-	2,496	1,581
Receivables	1,644	-	-	-	-	1,644	1,614
Public equity securities	-	-	-	-	11,382	11,382	10,055
Bonds	28	2,959	1,620	2,186	-	6,793	6,756
Alternative investments	-	-	-	-	6,892	6,892	6,024
Derivative assets	72	-	-	-	-	72	68
Payables and accruals	(1,112)	-	-	-	-	(1,112)	(1,077)
Derivative liabilities	(243)	-	-	-	-	(243)	(133)
Long-term debt	-	(21)	(78)	(33)	-	(132)	(116)

Credit risk

(a) Bonds

The WSIB's fixed income securities consist primarily of high quality, investment grade debt instruments. An investment grade debt instrument is one that is rated BBB and above. The WSIB manages its credit risk through diversification and a due diligence process, by selecting multiple highly rated counterparties and by setting counterparty exposure limits.

The following provides information regarding the credit rating of the WSIB's bonds:

	2016		2015	
AAA	2,815	41.4%	2,550	37.7%
AA	886	13.0%	782	11.6%
A	2,889	42.6%	3,025	44.8%
BBB	203	3.0%	399	5.9%
	6,793	**100.0%**	**6,756**	**100.0%**

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Credit risk associated with bonds also includes concentration risk. Concentration risk arises from the exposure of investments from one particular issuer, a group of issuers, a geographic region, or an industry sector. These groups share similar characteristics such as type of industry, regulatory compliance, and economic and political conditions, which may impact the issuers' ability to meet their contractual commitments.

The WSIB manages concentration risk through limits on exposure to issuers, regions and industry sectors. Through these limits, not more than five percent of the fair value of the investment portfolio is invested in the securities of a single non-government issuer.

The following provides information regarding the concentration of bonds.

		2016		2015
Provincial and municipal	3,390	49.9%	3,413	50.5%
Federal government and agencies	2,453	36.1%	2,077	30.7%
Financial services	321	4.7%	493	7.3%
Utilities and telecommunications	237	3.5%	352	5.2%
Other corporate	212	3.1%	129	1.9%
Natural resources	87	1.3%	100	1.5%
Real estate	56	0.8%	70	1.0%
Consumer products and merchandising	23	0.3%	74	1.1%
Communications and publishing	6	0.1%	19	0.3%
Asset-backed securities	5	0.1%	25	0.4%
Industrial products	3	0.1%	4	0.1%
	6,793	**100.0%**	**6,756**	**100.0%**

(b) Securities lending program

Counterparty risk relating to the securities lending program, as further described in note 7(c), is managed by an intermediary financial institution in accordance with a written agreement, investment policy and procedures on securities lending. Non-cash collateral is comprised primarily of equities, government bonds and major bank short-term notes. Note 7 of the consolidated financial statements provides the fair value of investments loaned under the securities lending program.

(c) Accounts receivable from Schedule 2 employers

At December 31, 2016, the WSIB held collateral in the form of letters of credit and surety bonds in the total amount of $276 (2015 – $270) with Schedule 2 employers.

Market risk

(a) Currency risk

The WSIB is exposed to a number of foreign currencies in its investment portfolio. The WSIB also uses foreign exchange contracts as an additional source of return, for economic hedging strategies to manage investment risk, to improve liquidity, or to manage exposure to asset classes or strategies.

The WSIB has an investment currency hedging policy which is reviewed and approved at least annually by the Investment Committee. The investment currency hedging policy provides guidelines on currency exposures to be hedged, permitted hedging instruments, hedge adjustments and other currency hedging controls and processes. To manage the currency risk, the WSIB regularly monitors the currency exposure and has established a written investment policy and procedures on currency hedging.

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The following provides a sensitivity analysis of the effect of a one percent increase or decrease in the Canadian dollar compared to the five foreign currencies that represent 83.0% (2015 – 85.8%) of the WSIB's foreign currency exposure in its investment portfolio:

Currency	Total net exposure	Effect of 1% change
United States dollar	4,937	49
Euro	617	6
Hong Kong dollar	292	3
Japanese yen	247	3
British Pound sterling	167	2
	6,260	**63**

(b) Interest rate risk

The WSIB uses effective duration to measure the sensitivity of the fair value of bonds to a change in interest rates. Parallel shifts in the yield curve of one percent, with all other variables held constant, would result in an increase or decrease in the fair value of bonds of approximately $532 (2015 – $513). This information is based on the assumption that the bonds are not impaired and interest rates and equity prices move independently.

(c) Price risk

The WSIB is exposed to price risk through its investments in public equity securities. The WSIB's price risk mitigation strategies are discussed in Section 16 – Risk Factors of the Management's Discussion and Analysis.

The estimated effect on the fair value of public equity securities resulting from a 10% change in market prices, holding all other factors constant, is $1,138 (2015 – $1,006).

Benefit liabilities

The WSIB is exposed to the risk that the actual obligations for benefit payments exceed its estimate of benefit liabilities. Benefit liabilities are influenced by factors such as the discount rate used to value future claims, expected inflation, availability, utilization and cost of health care services, injury severity and duration, availability of return-to-work programs and re-employment opportunities at pre-injury employers, wage growth, new medical findings that affect the recognition of occupational diseases, legislated changes to benefit rates or modification of the recognition of workplace injuries, which are sometimes applied retroactively, and precedents established through various claims appeals processes.

The WSIB mitigates these risks by utilizing both proprietary and commercially available actuarial models and assessing historical loss development patterns and other predictive analytics. These risks are also mitigated by engaging independent actuaries annually to review actuarial assumptions and methodologies in establishing benefit liabilities as well as reviewing actuarial related matters at regular meetings with our Actuarial Advisory Committee.

Note 13 provides further information regarding the nature of benefit liabilities.

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9. Property, Equipment and Intangible Assets

	Property and equipment				Intangible assets		
	Land	**Buildings**	**Leasehold improvements**	**Office and computer equipment**	**Internally developed software**	**Acquired software**	**Total**
Cost							
Balance at December 31, 2014	40	102	69	21	171	9	412
Additions	-	-	2	1	63	-	66
Balance at December 31, 2015	40	102	71	22	234	9	478
Additions	-	-	2	1	48	3	54
Balance at December 31, 2016	**40**	**102**	**73**	**23**	**282**	**12**	**532**
Accumulated depreciation and amortization							
Balance at December 31, 2014	-	22	67	19	63	7	178
Depreciation and amortization	-	3	1	2	9	1	16
Balance at December 31, 2015	-	25	68	21	72	8	194
Depreciation and amortization	-	3	1	1	16	1	22
Balance at December 31, 2016	**-**	**28**	**69**	**22**	**88**	**9**	**216**
Carrying amounts							
At December 31, 2015	40	77	3	1	162	1	284
At December 31, 2016	40	74	4	1	194	3	316

The carrying amount for internally developed software at December 31, 2016 includes $97 of costs for software that was not yet available for use and therefore was not yet subject to amortization (2015 – $87).

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10. Long-term Debt

Long-term debt is comprised of the following:

	2016	2015
Mortgages payable	86	69
Obligations under finance leases	46	47
	132	**116**

Mortgages payable

Mortgages related to investment properties are held with a total principal balance of $86 of which nil was included in payables and accruals (2015 – $74 of which $5 was included in payables and accruals). The mortgages have annual fixed interest rates of 3.0% - 3.6%, and mature between 2017 and 2025. For the year ended December 31, 2016, interest of $3 was included in investment expenses (2015 – $2).

At December 31, 2016, future principal payments on mortgages payable were as follows:

	Principal payments
Not later than one year	-
Later than one year and not later than five years	17
Later than five years	69
	86

Obligations under finance leases

The WSIB has a finance lease related to the land at Simcoe Place (note 7) with minimum annual lease payments of $4 (2015 – $4). The lease expires in 2027, at which point the WSIB has an option to purchase a 75% interest in the land for $2. Management considers this option to be advantageous and expects the option will be exercised, subject to the Lieutenant Governor in Council approval. The effective interest rate on this finance lease is 19.59%.

The WSIB has three operating leases for investment properties. The WSIB has elected to measure these investment properties at fair value and to account for the related operating leases as finance leases. These leases have total annual minimum lease payments of $2 and interest rates ranging from 5.6% - 7.8%. Two of the leases have remaining lease terms of 35 years; the other has a remaining lease term of 71 years.

Future minimum lease payments under finance leases are as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Not later than one year	6	(6)	-
Later than one year and not later than five years	24	(20)	4
Later than five years	102	(60)	42
	132	**(86)**	**46**

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11. Loss of Retirement Income Fund Liability

The reconciliation of carrying amounts for the Loss of Retirement Income Fund liability is set forth below:

	2016	2015
Balance, beginning of year	1,724	1,663
Contributions from the WSIB	56	56
Optional contributions from injured workers	7	7
Contributions from Schedule 2 employers	4	4
Investment income (note 7)	99	88
Benefits paid in cash	(100)	(94)
Balance, end of year	**1,790**	**1,724**

The following provides a summary of the assets by strategy as defined by the Loss of Retirement Income Fund's SIPPs:

	2016		2015	
Public equities	575	32%	554	32%
Fixed income	348	19%	360	21%
Multi-asset	332	19%	347	20%
Real estate	118	7%	115	7%
Infrastructure	102	6%	62	3%
Other	87	5%	78	5%
Included in total invested assets (note 7)	1,562	88%	1,516	88%
Cash and cash equivalents	228	12%	208	12%
	1,790	**100%**	**1,724**	**100%**

12. Employee Benefit Plans

The WSIB sponsors a registered defined benefit pension plan, supplemental defined benefit pension plans, and other defined benefit plans. Other defined benefit plans provide benefits such as disability income benefits, vacation and attendance programs, and post-employment dental, health and life insurance benefits.

The registered pension plan and the post-retirement benefit program represent approximately 81% and 15%, or a combined 96%, of the total employee benefit obligation.

The Employees' Pension Plan

The Employees' Pension Plan provides for partially indexed pensions based on years of service and the best five consecutive years' average earnings in the last 10 years of employment. The Employees' Pension Plan is a registered pension plan under the *Ontario Pension Benefits Act* ("PBA") and the Canada Revenue Agency.

Minimum funding requirements under the PBA are determined based on actuarial valuations on a going concern basis that are required at a minimum of every three years. Deficits under the going concern basis may be funded over up to 15 years, beginning one year from the valuation date. In addition, solvency valuations must be performed which simulate a plan wind-up. Deficiencies established on a solvency basis may be funded over up to five years, beginning one year from the valuation date.

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The WSIB's general practice is to contribute the minimum required under the PBA, but additional contributions may be made for tactical purposes, such as to meet a particular funding threshold. The Employees' Pension Plan is open to new entrants, and employees pay contributions based on a fixed formula (as percentages of payroll), with the WSIB responsible for the balance of the cost.

The WSIB is participating in the Broader Public Sector Temporary Solvency Relief Program as published in Regulation 178/11 under the PBA, amended by Regulation 350/16. The temporary solvency relief provisions allow the WSIB to make solvency special payments on an interest only basis until December 31, 2018.

The Post-Retirement Benefit Plan

The Post-Retirement Benefit Plan provides extended health, dental, vision, and life insurance benefits for employees who meet the eligibility requirements. Employees must be in receipt of a WSIB pension and either be at least age 65 at the time of retirement or have 10 years of pensionable service to qualify for benefits. The plan is funded on a pay as you go basis.

Governance of defined benefit plans

The Board of Directors of the WSIB oversees the administration of the employee benefit plans in accordance with applicable legislation and approves the governance structure, including the mandates of those to whom administrative duties and responsibilities were delegated. The Board of Directors approves actuarial valuation reports and establishes employer contributions, approves audited plan financial statements, appoints and terminates key service providers and monitors plan funded status and regulatory, legislative and governance compliance.

The Board of Directors receives assistance in the fulfilment of its responsibilities related to the employee benefit plans through various committees, including the Audit and Finance Committee, the Human Resources and Compensation Committee, and the Investment Committee.

Risks

Given that employee contributions to the employee benefit plans (if any) are fixed, the WSIB generally bears the risks associated with the defined benefit plans. The most significant sources of risk for the WSIB include:

(a) A decline in discount rates that increases the obligation and expense;

(b) Investment returns which are lower than expected;

(c) Lower than expected rates of mortality; and

(d) Health care cost inflation being higher than assumed.

In general, the WSIB manages the risks through plan design reviews and, in relation to investment risks, through risk control mechanisms in the Employees' Pension Plan's SIPP. The SIPP requires that the plan assets be diversified across certain asset classes and investment strategies. Measurement, assessment and management of risk is conducted using tools and analysis, including asset-liability studies, measures of standard deviation and tracking error, and sensitivity analysis. Other risks, such as operational risks, are managed through internal controls or other risk control mechanisms.

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Employee benefit plans expense

The cost of the employee benefit plans recognized in administration and other expenses is as follows:

	2016	2015
Current service cost	102	101
Net interest on the employee benefit plans liability	52	51
Plan amendments	(7)	-
Long-term employee benefit gains	(4)	-
	143	**152**

Remeasurements of the employee defined benefit plans recognized in other comprehensive loss (income) are as follows:

	2016	2015
Actuarial losses (gains) from changes in financial assumptions	85	(33)
Actuarial losses from changes in demographic assumptions	-	4
Actuarial losses from plan experience	15	31
Return in excess of interest income on plan assets	(65)	(47)
Total remeasurements of employee defined benefit plans	**35**	**(45)**

Employee benefit plans liability

The employee benefit plans liability is comprised of the following:

	2016	2015
Present value of wholly or partly funded obligations	3,478	3,243
Present value of unfunded obligations	749	736
Total present value of obligations	4,227	3,979
Fair value of plan assets	(2,937)	(2,757)
Employee benefit plans liability	**1,290**	**1,222**

The movement in the total present value of defined benefit obligations is as follows:

	2016	2015
Balance, beginning of year	3,979	3,826
Current service cost	102	101
Employee contributions	33	23
Interest expense on the defined benefit obligations	163	155
Plan amendments	(7)	-
Actuarial losses (gains) from changes in financial assumptions	84	(33)
Actuarial losses from changes in demographic assumptions	-	4
Actuarial losses from plan experience	12	31
Benefits paid	(139)	(128)
Balance, end of year	**4,227**	**3,979**

Benefits to be paid during 2017 are projected to be $147, and the Employer's contributions to the plans are estimated to be $110.

The weighted average duration of the total long-term benefit plans obligation at December 31, 2016 is 17.0 years (2015 – 17.0 years).

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Fair value of plan assets

The movement in the total fair value of plan assets is as follows:

	2016	2015
Balance, beginning of year	2,757	2,599
Interest income on plan assets	111	104
Return in excess of interest income on plan assets	65	47
Employer contributions	110	112
Employee contributions	33	23
Benefits paid	(139)	(128)
Balance, end of year	**2,937**	**2,757**

Plan assets are comprised of the following:

	2016		2015	
Plan assets by major category				
Public equities	1,115	38%	1,035	38%
Fixed income	734	25%	700	25%
Real estate	229	8%	214	8%
Infrastructure	197	7%	115	4%
Multi-asset and other	662	22%	693	25%
Total	**2,937**	**100%**	**2,757**	**100%**

Actuarial assumptions

The significant actuarial assumptions used in the determination of the present value of the defined benefit obligations are as follows:

	2016	2015
Discount rate[1]		
Benefit plan expense	4.05%	4.00%
Accrued benefit obligation at end of year	3.90%	4.05%
Inflation	1.75%	1.75%
Rate of compensation[2]	3.25%	3.25%
Health care trends at end of year		
Initial trend rate	6.00%	6.00%
Ultimate trend rate	4.50%	4.50%
Year ultimate trend rate is reached	2023	2023
Dental care trend rate at end of year	4.00%	4.00%

1. Weighted average based on obligation.
2. This is an approximation. Actual assumption is based on inflation plus productivity gains of 1% plus an age related merit scale.

The 2016 and 2015 assumptions for mortality rates are based on 104% of CPM 2014 (Private) table projected generationally using Scale B.

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Sensitivity of actuarial assumptions

Changes in the actuarial assumptions used have a significant effect on the employee benefit plans obligation. The following provides an estimate of the potential impact of a change in the more significant assumptions:

Sensitivity in assumptions	Increase (decrease) in the obligations 2016
Discount rate	
1% increase in assumption	(626)
1% decrease in assumption	811
Rate of compensation, indexation, government benefit changes	
1% increase in assumption	472
1% decrease in assumption	(393)
Health and dental care trend rates	
1% increase in assumption	132
1% decrease in assumption	(102)

The sensitivities above assume all other assumptions are held constant.

The measurement of the defined benefit obligations is also sensitive to the mortality assumptions. The current longevities underlying the measurement of the defined benefit obligations as at December 31 are as follows:

	2016
Longevity for those currently age 65	
Males	21.4 years
Females	23.8 years
Longevity at age 65 for those currently age 45	
Males	22.4 years
Females	24.8 years

If the mortality rates were to be reduced proportionately such that the average life expectancy for a 65 year-old female was increased by two years, and the mortality rate was adjusted proportionately for all other plan members, the defined benefit obligations for the Employees' Pension Plan and the Post-Retirement Benefit Plan would increase by $178 and $48, respectively.

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13. Benefit Liabilities and Benefit Costs

Benefit liabilities

Benefit liabilities are based on the level and nature of entitlement under the WSIA and adjudication practices in effect at that date.

Benefit liabilities are comprised of the following:

	2016	2015
Loss of earnings	8,934	9,096
Workers' pensions	6,462	6,587
Health care	4,082	3,938
Survivor benefits	2,947	2,860
Future economic loss	1,421	1,502
External providers	136	184
Non-economic loss	283	291
Long latency occupational diseases	2,321	2,137
Posttraumatic stress disorder	35	-
Claim administration costs	1,299	1,235
Benefit liabilities	**27,920**	**27,830**

A summary of the changes in benefit liabilities is as follows:

	2016	2015
Benefit liabilities, beginning of year	27,830	26,800
Benefit costs	2,747	3,760
Benefit costs paid during the year	(2,657)	(2,730)
Benefit liabilities, end of year	**27,920**	**27,830**

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Further details of the changes in benefit liabilities are as follows:

	Benefit liabilities, beginning of year	Claim costs recognized during the year	Payments processed during the year	Interest expense on the liability	Impact of legislative change	Impact of actuarial remeasure-ment	Changes in claims experience	**Benefit liabilities, end of year**
Loss of earnings	8,662	664	(854)	398	-	24	(386)	**8,508**
Workers' pensions	6,587	-	(542)	295	-	149	(27)	**6,462**
Future economic loss	1,362	-	(205)	62	-	64	9	**1,292**
Health care	3,938	465	(395)	173	-	98	(197)	**4,082**
Non-economic loss	291	36	(40)	8	-	6	(18)	**283**
External providers	184	38	(29)	6	-	-	(63)	**136**
Survivor benefits	2,860	102	(187)	131	-	84	(43)	**2,947**
Claim administration costs	1,235	408	(405)	56	-	21	(16)	**1,299**
Occupational diseases	2,137	-	-	101	-	112	(29)	**2,321**
Posttraumatic stress disorder	-	-	-	-	35	-	-	**35**
Loss of Retirement Income Fund	574	30	(56)	23	-	4	(20)	**555**
Total for 2016	**27,830**	**1,743**	**(2,713)**	**1,253**	**35**	**562**	**(790)**	**27,920**
Total for 2015	26,800	1,773	(2,786)	1,211	948	881	(997)	27,830

Benefit costs

Benefit costs are comprised of the following:

	2016	**2015**
Benefit payments	**2,252**	**2,332**
Claim administration costs		
Allocation from administration and other expenses	382	378
Allocation from legislated obligations and funding commitments	23	20
	405	**398**
Change in actuarial valuation of benefit liabilities	**90**	**1,030**
Benefit costs	**2,747**	**3,760**

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Benefit payments represent cash paid during the year to or on behalf of injured workers. Benefit payments are comprised of the following:

	2016	2015
Loss of earnings	854	839
Workers' pensions	557	577
Health care	395	446
Survivor benefits	187	189
Future economic loss	200	213
External providers	29	34
Non-economic loss	40	43
Other	(10)	(9)
Benefit costs paid to or on behalf of injured workers	**2,252**	**2,332**
Claim administration costs	405	398
Benefit costs paid during the year	**2,657**	**2,730**

Change in actuarial valuation

The change in actuarial valuation of benefit liabilities is comprised of the following:

	2016	2015
Changes in estimate of cost of claims	(1,760)	(2,010)
Changes in actuarial assumptions and methods	562	881
Changes in legislation[1]	35	948
Accretion[2]	1,253	1,211
	90	**1,030**

1. Impact of legislative amendment includes an increase of $35 million relating to Posttraumatic stress disorder ("PTSD"). On April 5, 2016, Bill 163, *Supporting Ontario's First Responders Act (Posttraumatic Stress Disorder), 2016* was passed by the Legislature. This amends the *Workplace Safety and Insurance Act, 1997 (Ontario)* with respect to first responders and other designated workers diagnosed with PTSD. The amendments provide that if a first responder or other designated worker is diagnosed with PTSD and meets specific employment and diagnostic criteria, that first responder or other designated worker's PTSD is presumed to have arisen out of and in the course of his or her employment, unless the contrary is shown. In specific circumstances, the presumption will apply to first responders or other designated workers diagnosed with PTSD up to 24 months before the coming-in-force date, as well as those claims for which a decision is pending from either the WSIB or the WSIAT on the date the legislation comes into force.
2. Accretion represents the estimated interest cost of the benefits liability, considering the discount rate, benefit liabilities at the beginning of the year and payments during the year.

The changes in actuarial assumptions and methods are comprised of the following:

	2016	2015
Changes in discount rate	634	1,026
Changes in methods and assumptions for loss of earnings benefits	(125)	(154)
Changes in methodology for future awards	-	(1)
Changes in average awards	-	10
Changes in methods and assumptions for future economic loss	53	-
	562	**881**

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Actuarial assumptions and methods

The actuarial present value of future benefit payments depends on actuarial assumptions, including economic assumptions, which are based on past experience modified for current trends and expected development. Actuarial assumptions are reviewed annually when the actuarial valuation is performed. Management believes the valuation methods and assumptions are, in aggregate, appropriate for the valuation of benefit liabilities. The following table summarizes the main underlying actuarial assumptions used in estimating the categories of benefit liabilities:

Actuarial Assumption	Note	Loss of earnings	Workers' pensions	Health care	Survivor benefits	Future economic loss	External providers	Non-economic loss	Long latency occupational diseases (e)
Discount rate	(a)	√	√	√	√	√	√	√	√
Indexation	(a)	√	√	-	√	√	-	√	√
Wage escalation	(a)	√	√	-	√	√	√	√	√
Health care escalation	(a)	-	-	√	-	-	-	-	√
Wage loss	(b)	√	-	-	-	√	-	-	√
Mortality	(c)	√	√	√	√	√	-	√	√
Claims incidence	(d)	√	-	-	-	-	-	-	√
Termination	(d)	√	-	-	-	-	-	-	√
Exposure index	(d)	√	√	√	√	√	√	√	√
Expenses	(f)	√	√	√	√	√	√	√	√

(a) Economic assumptions

The following provides a summary of the primary economic assumptions used in the actuarial valuation of benefit liabilities:

	2016	**2015**
Discount rate	2017 and thereafter – 4.5%	2016 and thereafter – 4.75%
Indexation of benefits rate[1]:		
Fully indexed to inflation	2.0%	2.0%
Partially indexed	2017 – 1.0% 2018 and thereafter – 2.0%	2016 – 0.5% 2017 – 1.0% 2018 and thereafter – 2.0%
Wage escalation rate	3.0%	3.0%
Health care costs escalation rate	4.0%	4.0%

1. On December 10, 2015, the Ontario government passed the *Budget Measures Act, 2015,* which amended *Chapter 38, Schedule 23, Sections 49, 50 and 51* under the WSIA. Effective January 1, 2018, the alternate and prescribed temporary indexing factors will be replaced by one indexing factor. The new indexing factor will be based on the percentage change over a 12-month period in the Consumer Price Index measured at the previous October and will be directly applied to the benefit amount. In the interim, *Ontario Regulation 454/09* prescribes temporary indexing factors of 0.5% for 2016 and 1.0% for 2017 with the current indexing methodology.

(b) Wage loss

Wage loss refers to the proportion of a worker's wages that is lost due to an injury. Most benefits influenced by wage loss are based on historical experience and limits in the WSIA.

(c) Mortality

The assumptions for the mortality rates were the same as the rates used in 2015 except adjusted for an additional year of mortality improvement. The base mortality rates were updated in 2013 to reflect recent experience. Mortality rates are used to estimate the duration for which the WSIB will continue to be required to make payments to injured workers or survivors receiving monthly pension amounts. The mortality assumptions are determined separately for injured workers and survivors as follows:

(i) the mortality assumption for injured workers is based on an actuarial study of the mortality levels by age and gender experienced by WSIB disability income recipients from 2006 to 2010, adjusted to reflect any prevailing improvements (or otherwise) in the experience of WSIB injured workers up to and including 2016;

(ii) the mortality assumption for those receiving survivor benefits is based on an actuarial study of mortality levels experienced by WSIB survivors, and the 2009-2011 Province of Ontario population mortality table developed by Statistics Canada, adjusted to reflect any prevailing improvements (or otherwise) in the experience of WSIB survivors up to and including 2016; and

(iii) the mortality rates for both injured workers and survivors are projected for future years using the Canada Pension Plan's mortality improvement factors. As such, future mortality rates are reduced to allow for greater future longevity expected for injured workers and survivors.

(d) Claims incidence, termination and exposure index

Claims incidence refers to the number of claims incurred during the year and requires actuarial assumptions for the number of claims expected to have been incurred but not reported at December 31, 2016. Termination refers to the actuarial assumptions regarding the future duration of claims. Exposure index refers to the indicator used to assist in predicting certain future costs for different injury years and represents, on a relative basis, the level of risk insured by the WSIB.

The assumptions regarding claims incidence are determined based on the number of claims incurred in past years. The termination assumption is determined using average termination experience of the WSIB from five recent injury years and modified for the existing claims expected to be of longer duration. The exposure index has been developed using the number of claims incurred up to injury year 1998, and for subsequent years, the number of workers covered by the WSIB, adjusted by the variation in the average risk associated with these workers. The termination rates and loss of earnings future lock-in claim profile has been updated in 2016 to reflect recent experience.

(e) Occupational diseases

Occupational diseases refer to future occupational disease claims arising from exposures up to the valuation date to hazardous substances or conditions, such as asbestos and excessive noise. An in-depth study was performed in 2014 to estimate the number of latent occupational disease claims, the latency periods and their expected costs. In 2014, the expected cost was updated to reflect most recent experience. These costs are for loss of earnings, labour market re-entry, future economic loss, health care, survivor benefits, retirement income benefits, and claim administration costs. The assumptions used for the determination of benefit liabilities were primarily based on the historical experience of the WSIB.

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(f) Expenses

Ratios of claim administration costs to the amounts of claims paid are used to estimate the future costs of claim administration for current claims. These ratios had been developed in analyzing claims administration and other claims related management costs for all cost centers at the WSIB by claim type, duration and amount.

Sensitivity of actuarial assumptions

Changes in the actuarial assumptions used have a significant effect on the benefit costs recognized. The following provides an estimate of the potential impact of a change in the more significant assumptions:

Change in assumption	Increase in benefit costs 2016
100 basis point decrease in the discount rate	3,062
100 basis point increase in the inflation rate:	
Impact of benefits indexation rate	1,972
Impact of wage growth	437
Impact of health care cost escalation	634

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Claims development

Benefit liabilities include the current estimate of future payments related to claims incurred during 2016 and prior years. Each reporting period, benefit liabilities are adjusted for changes in the estimate of the future payments, and the change in estimate is recognized in benefit costs. The table below provides the development of the estimates related to claims incurred from 2007 to 2016.

	Year of injury										
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Year of estimate											
2007	2,488										
2008	2,458	2,393									
2009	2,786	2,620	2,164								
2010	3,105	3,052	2,418	2,361							
2011	3,286	3,065	2,207	2,744	2,760						
2012	3,423	3,241	2,518	2,270	2,363	2,815					
2013	3,135	3,077	2,340	2,065	2,019	2,274	2,627				
2014	3,094	2,794	2,270	1,955	1,897	2,000	2,296	2,453			
2015	3,147	2,826	2,069	1,840	1,764	1,843	1,981	2,145	2,317		
2016	3,039	2,731	1,998	1,698	1,699	1,751	1,877	1,933	2,071	2,210	
Current estimate of cumulative claims costs	3,039	2,731	1,998	1,698	1,699	1,751	1,877	1,933	2,071	2,210	21,007
Cumulative payments made	(1,605)	(1,377)	(885)	(653)	(535)	(494)	(458)	(399)	(335)	(170)	(6,911)
Outstanding claims (undiscounted)	1,434	1,354	1,113	1,045	1,164	1,257	1,419	1,534	1,736	2,040	14,096
Effect of discounting	(558)	(538)	(466)	(459)	(516)	(569)	(661)	(711)	(798)	(875)	(6,151)
Discounted outstanding claims	876	816	647	586	648	688	758	823	938	1,165	7,945
Discounted outstanding claims prior to 2007 injury year											16,320
Claim administration costs											1,299
Long latency occupational diseases											2,321
Posttraumatic stress disorder											35
Total outstanding claims											**27,920**

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Rate setting

In accordance with the WSIA, the WSIB's obligations are satisfied by charging annual premiums to all Schedule 1 employers. The premiums are determined based on a percentage of insurable earnings of each Schedule 1 employer. Schedule 1 employers are classified within specific rate groups, which are based on the nature of the employer's business. The premium rate applicable to particular rate groups and Schedule 1 employers within that group is determined as the sum of four main components:

(a) the cost of new claims, which is based on the expected number of claims and benefit payment costs of that rate group;

(b) administration costs, which are based on the rate group's share of expected administration costs and legislative obligations of the WSIB;

(c) the cost of old claims, which is based on the amortization of the shortfall between the costs of old claims and the accumulated assets supporting those claims; and

(d) experience rating, which, depending on the size and class of the employer, is based on relative historical cost performance of the employer relative to other employers in the same rate group.

Concentration of risks

The WSIB provides workplace injury insurance for all Schedule 1 employers with workers in the Province. In this respect, the WSIB's risks are concentrated among the workplace risks associated with the various industries in the Province. The insurable earnings by industry for the year ended December 31, 2016 are provided below.

Industry	Insurable earnings	% of total
Agriculture	2,003	1.2%
Automotive	7,246	4.2%
Construction	18,431	10.7%
Education	6,773	3.9%
Electrical	5,249	3.1%
Food	4,738	2.8%
Forestry	427	0.2%
Health care	22,701	13.2%
Manufacturing	36,877	21.5%
Mining	1,874	1.1%
Municipal	2,051	1.2%
Primary metals	1,583	0.9%
Process and chemicals	4,417	2.6%
Pulp and paper	713	0.4%
Services	46,773	27.3%
Transportation	9,764	5.7%
Total	**171,620**	**100.0%**

In addition, the WSIB's risks are concentrated among the workplace injuries and diseases that result in disabilities or deaths to injured workers. The WSIA does not provide the WSIB with the ability to diversify away from these risks. Additional risks can arise from appeals or legislative changes, which can produce an immediate increase in benefit liabilities.

Premium rates are the only means to mitigate these risks, other than investment income. Premium rates are adjusted annually as benefit liabilities and risks are reviewed and then differentiated by rate group in order to reflect the higher or lower expected costs and loss frequency associated with particular rate groups. In addition, the rates charged to larger employers in the same rate group are further adjusted based on the historical claims experience of that employer relative to the rate group as a whole.

Liquidity of benefit liabilities risks

The following table provides an estimate of the expected timing of undiscounted cash flows for benefit payments for claims:

	2016	**2015**
Up to one year	5%	5%
Over one year and up to five years	17%	17%
Over five years and up to ten years	18%	18%
Over ten years and up to fifteen years	15%	15%
Over fifteen years	45%	45%
	100%	**100%**

14. Commitments and Contingent Liabilities

Operating leases

The WSIB is the lessee to a number of operating leases for office space and computer equipment, with lease terms up to 10 years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Minimum lease payments
Not later than one year	9
Later than one year and not later than five years	33
Later than five years	33
	75

During the year ended December 31, 2016, operating lease payments of $16 (2015 – $15) were recognized in administration and other expenses. The payments included charges for operating expenses related to the leases of office space and other items.

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Leases of investment properties

The WSIB is the lessor of a number of operating leases of its investment properties. These leases typically have a term of 5 to 15 years, with an option to renew. The future minimum lease payments to be received under non-cancellable operating leases are as follows:

	Minimum lease payments
Not later than one year	65
Later than one year and not later than five years	196
Later than five years	180
	441

Investment commitments

The WSIB had the following commitments related to its investment portfolio:

	2016	2015
Real estate, multi-asset and infrastructure investments	1,748	1,322
Investments in joint ventures	97	110
Purchases or development of investment properties	45	7
	1,890	**1,439**

Legislated obligations and funding commitments

Known commitments related to legislated obligations and funding commitments as at December 31, 2016 were approximately $254 for 2017 (2015 – $254 for 2016).

Other commitments

At December 31, 2016, the WSIB has additional commitments going forward under non-cancellable contracts for purchases of goods and services with future minimum payments of approximately $149 (2015 – $126).

Legal actions

The WSIB is engaged in various legal proceedings and claims that have arisen in the ordinary course of business, the outcome of which is subject to future resolution. Based on information currently known to the WSIB, management believes the probable ultimate resolution of all existing legal proceedings and claims will not have a material effect on the WSIB's financial position.

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15. Funding and Capital Management

As the board-governed trust agency under the Agencies and Appointments Directive for administering the Province's compensation system, the WSIB's capital management objective is to ensure sufficient funding to provide compensation and other benefits to workers and to the survivors of deceased workers. The WSIA requires the WSIB to make payments for current benefits as they come due and to provide for future benefits. Further, the WSIA requires the WSIB to maintain sufficient funding so as not to burden unduly or unfairly any class of Schedule 1 employers with payments, in any year in respect of current benefits, or in future years in respect of future benefits.

The capital resources available to the WSIB are comprised of its total assets less total liabilities, excluding those attributable to non-controlling interests. At December 31, 2016, the WSIB's capital is represented by the unfunded liability attributable to WSIB stakeholders of $3,925 (2015 – $6,599).

Ontario Regulation 141/12 ("Regulation 141"), which came into force January 1, 2013, requires the WSIB to meet prescribed Sufficiency Ratios by certain dates over the next 15 years. This regulation was amended by *Ontario Regulation 338/13* ("Regulation 338"), which came into force January 1, 2014 and further clarifies the measurement of assets and liabilities included in the Sufficiency Ratio. The Sufficiency Ratio is calculated by comparing total assets to total liabilities, with certain assets and liabilities measured on a different basis than that required under IFRS. The WSIB is required to meet the following Sufficiency Ratios, as defined by regulation:

December 31, 2017	60%
December 31, 2022	80%
December 31, 2027	100%

On August 8, 2013, the Minister of Labour (the "Minister") formally accepted the WSIB's Sufficiency Plan describing the measures being taken by the WSIB to improve the Sufficiency Ratio and how these measures will achieve the prescribed targets. The WSIB prepares a quarterly Sufficiency Report to Stakeholders to report on its progress towards meeting the legislated funding requirements.

As at December 31, 2016, the Sufficiency Ratio, as defined in Regulation 141 and amended by Regulation 338, was 87.4% (2015 – 77.9%).

16. Related Party Transactions

Government of Ontario and related entities

The WSIB is a board-governed trust agency under the Agencies and Appointments Directive, responsible for administering the WSIA. As such, the WSIB is considered a government-related entity and is provided partial exemptions under IFRS from its disclosure of transactions with the Government of Ontario and various ministries, agencies, and Crown corporations over which the Government of Ontario has control.

The WSIB is required to make payments to defray the cost of administering the OHSA and the regulations made under the OHSA. The WSIB is also required to pay for the operating costs of the WSIAT and the costs that may be incurred by the Office of the Worker Adviser, and the Office of the Employer Adviser. The WSIB also provides various grants funding to carry on investigations, research and training. The total funding provided under these legislated obligations and funding commitments for the year ended December 31, 2016 was $246 (2015 – $243).

The WSIB is required to reimburse the Ministry of Health and Long-Term Care ("MOHLTC") for physicians' fees for services to injured workers, as well as an administrative fee to the MOHLTC. Amounts paid to the MOHLTC for physicians' fees and administrative services for the year ended December 31, 2016 were $32 (2015 – $36).

In addition to legislated obligations and workplace health and safety expenses, which the WSIB collectively presents in legislated obligations and funding commitments expenses, the consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various ministries, agencies and Crown corporations over which the Government of Ontario has control.

Included in investments are $1,562 of marketable fixed income securities issued by the Government of Ontario and related entities (2015 – $1,515).

Key management remuneration

The remuneration of key management, which includes the Board of Directors, is included in administration and other expenses.

	2016	2015
Salaries and short-term benefits	4.7	4.4
Long-term employee benefit plans	0.6	0.4
	5.3	**4.8**

Post-employment benefit plans

The WSIB's two employee defined benefit pension plans and other long-term employee benefit plans, which include life insurance, dental and extended health coverage, are considered related parties. Note 12 provides details of transactions with these post-employment benefit plans.

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17. Interests in Other Entities

Interests in subsidiaries

The WSIB's consolidated financial statements include the financial statements of all its subsidiaries.

(a) Directly owned subsidiaries

The majority of the WSIB's assets are held directly or indirectly by the following subsidiaries:

	WSIB's ownership		Country of incorporation and operation
	2016	2015	
Wholly owned subsidiary			
799549 Ontario Inc.	100.0%	100.0%	Canada
WSIB Investments (International Realty (Non-Pension)) Limited[1]	100.0%	N/A	Canada
Partly-owned subsidiaries			
Absolute Return (2012) Pooled Fund Trust	90.0%	90.7%	Canada
Diversified Markets (2010) Pooled Fund Trust	90.0%	89.5%	Canada
Diversified Markets (2009) Pooled Fund Trust	90.0%	89.5%	Canada
WSIB Investments (Fixed Income) Pooled Fund Trust	90.0%	89.5%	Canada
WSIB Investments (Infrastructure) Pooled Fund Trust	90.0%	89.5%	Canada
WSIB Investments (International Realty) Limited	90.0%	89.5%	Canada
WSIB Investments (Public Equities) Pooled Fund Trust	90.0%	89.5%	Canada
WSIB Investments (Realty) Limited	90.0%	89.5%	Canada
WSIB Investments (Total Return) Pooled Fund Trust	90.0%	89.5%	Canada
Simcoe Pacific Pooled Fund Trust	90.0%	89.5%	Canada

1. WSIB Investments (International Realty (Non-Pension)) Limited was incorporated on March 4, 2016 and commenced operations in March 2016.

The WSIB Employees' Pension Plan is the non-controlling interest in each of the partly-owned subsidiaries listed above; its non-controlling ownership was 10.0%. The following provides aggregated summary financial information for the partly-owned subsidiaries, before intercompany eliminations:

Summary information from statements of financial position	2016	2015
Total assets	28,465	25,970
Total liabilities	(275)	(164)
Surplus of assets	**28,190**	**25,806**
Attributable to the WSIB Employees' Pension Plan	**2,828**	**2,699**

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Summary information from statements of comprehensive income	2016	2015
Investment income	1,727	1,417
Investment expenses	(33)	(30)
Net investment income, net income and comprehensive income	**1,694**	**1,387**
Attributable to the WSIB Employees' Pension Plan	**174**	**151**

Details of the nature of investments held by the partly-owned subsidiaries are included in note 7.

(b) Other subsidiaries

WSIB Investments (Realty) Limited and WSIB Investments (Infrastructure) Pooled Fund Trust hold invested assets in a number of wholly and partly-owned subsidiaries. The surplus of assets of WSIB Investments (Realty) Limited that is attributable to non-controlling interests at December 31, 2016 is $101 (2015 – $103).

(c) Reconciliation of non-controlling interests

The following provides a reconciliation of the unfunded liability attributable to WSIB stakeholders and non-controlling interests, including the effect of changes in ownership:

	Unfunded liability attributable to WSIB stakeholders	Non-controlling interests		
		Partly-owned subsidiaries	Other subsidiaries	Total
Balance at December 31, 2014	(7,890)	2,551	93	2,644
Total comprehensive income	1,291	151	1	152
Distributions paid by subsidiaries to non-controlling interests	-	(127)	(4)	(131)
Disposition of non-controlling interests[1]	-	124	13	137
Balance at December 31, 2015	(6,599)	2,699	103	2,802
Total comprehensive income	2,674	174	(2)	172
Distributions paid by subsidiaries to non-controlling interests	-	(173)	(4)	(177)
Disposition of non-controlling interests[1]	-	128	4	132
Balance at December 31, 2016	**(3,925)**	**2,828**	**101**	**2,929**

1. Disposition of non-controlling interests represent net contributions by non-controlling interests and resulted in changes in the WSIB's ownership share in the partly-owned subsidiaries; however, there was no effect on the unfunded liability attributable to WSIB stakeholders. The net contributions by non-controlling interests in other subsidiaries did not result in any changes in the WSIB's ownership share.

Interests in joint ventures

WSIB Investments (Realty) Limited and WSIB Investments (Infrastructure) Pooled Fund Trust hold invested assets in a number of joint ventures. Summary financial information for the joint ventures in aggregate is provided in note 7.

Interests in joint operations

799549 Ontario Inc. and WSIB Investments (Realty) Limited hold invested assets in a number of joint operations. Summary financial information for the joint operations in aggregate is provided in note 7.

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18. Subsequent Event

On December 16, 2016, the WSIB entered into agreements with a third party investment partner to jointly purchase a 50% interest in a portfolio of retail and office properties in downtown Vancouver (the "properties") from a third party in an arm's length transaction. Through the joint arrangement, the WSIB obtained a 25% interest in the properties, which represents approximately 3.5% of the total investment portfolio. The transaction closed on February 1, 2017.

The seller retained the remaining 50% interest on the properties and will continue to act as the asset and property manager.

Losses Deleted From the Accounts

(Under the *Financial Administration Act*)

For the fiscal year ended March 31, 2017

Ministry	2016-2017
FINANCE……………………………………………………………	$138,818,406.60
ADVANCED EDUCATION AND SKILLS DEVELOPMENT………	54,677,124.91
COMMUNITY AND SOCIAL SERVICES…………………………..	45,886,186.45
ATTORNEY GENERAL………………………………………………	21,642,494.26
TRANSPORTATION…………………………………………………	3,771,415.55
CHILDREN AND YOUTH SERVICES………………………………	898,957.06
NATURAL RESOURCES AND FORESTRY……………………….	847,762.62
HEALTH AND LONG-TERM CARE……………………………..	340,142.56
COMMUNITY SAFETY AND CORRECTIONAL SERVICES…….	98,367.09
TOURISM, CULTURE AND SPORT……………………………..	73,937.72
OFFICE OF THE ASSEMBLY………………………………………	30,471.10
EDUCATION………………………………………………………	19,896.26
INFRASTRUCTURE…………………………………………………..	17,548.77
AGRICULTURE, FOOD AND RURAL AFFAIRS…………………	16,685.11
GOVERNMENT AND CONSUMER SERVICES…………………..	12,472.33
HOUSING…………………………………………………………..	7,038.04
NORTHERN DEVELOPMENT AND MINES……………………….	6,939.84
LABOUR……………………………………………………………	5,189.48
TOTAL………………………………………………………………	$267,171,035.75

REVENUE REMISSIONS

Details of Remissions granted under the *Financial Administration Act*
for Revenue and Other Debt for the year ended March 31, 2017

Description of the Order-in-Council	Amount
O.C. 846/2013: In June 2013, remission was granted to the City of Toronto for the principal sum outstanding and the accrued interest owing under a 2004 Debenture, Asset Identification and Transfer Process Agreement between the Ministry of Municipal Affairs and Housing and the City of Toronto. As of June 1, 2013, the principal amount outstanding was $170,171,125 and the accrued interest owing was $43,969,479. The amount remitted under this Order is determined for each fiscal year of the Province of Ontario, commencing with the 2013-14 fiscal year. The remission is equal to the amount by which the Greater Toronto Area Pooling Compensation transfer payments for the fiscal year were less than the payments for the corresponding year set out in the order. For fiscal year 2016-17, the Greater Toronto Area Pooling Compensation total transfer payment was nil while the payment set out in the Order in Council was $127,075,000. The amount remitted each fiscal year is allocated first to the remission of the outstanding principal amount and any remainder to the remission of the accrued interest owing.	$70,995,301.69
O.C. 524/2015: Remission was granted to Amsterdam Brewing Co. Limited ("Amsterdam") in April 2015 for the period, April 1, 2015 to February 29, 2016, to the purchasers of draft and non-draft beer manufactured by Amsterdam, in an amount equal to the difference between the basic tax rate under the *Alcohol and Gaming Regulation and Public Protection Act, 1996* and the rate that would have applied if Amsterdam had been a microbrewer under the Act (total estimated amount of $550,000). This OIC also provides for a remission of penalty and interest payable by Amsterdam for failure to collect or remit in a timely fashion the full amount of tax in March, 2015.	$550,000

O.C. 525/2015: Remission was granted to Spearhead Brewing Company Ltd. ("Spearhead") in April 2015 the period June 1, 2015 to February 29, 2016, to the purchasers of draft and non-draft beer manufactured by Spearhead, in an amount equal to the difference between the basic tax rate under the *Alcohol and Gaming Regulation and Public Protection Act, 1996* and the rate that would have applied if Spearhead had been a microbrewer under the Act.	$35,500
O.C. 1270/2016: Remission was granted to the Ontario Retirement Pension Plan Administration Corporation (the "Corporation") with respect to the Corporation's obligation to pay the Province of Ontario the principal amount outstanding and accrued interest owing under the Loan Agreement entered into by the Province with the Corporation, less any surplus funds in the Corporation's possession after its operations have been wound up. The Corporation's operations wound up when an agreement in principle to enhance the Canada Pension Plan was reached by the Ministers of Finance of Canada, British Columbia, Alberta, Saskatchewan, Ontario, New Brunswick, Prince Edward Island, Nova Scotia, and Newfoundland and Labrador, with Quebec and Manitoba agreeing to remain part of the discussions moving forward.	$25,598,032.45
O.C. 1728/2016: Remission was granted to The District of Thunder Bay Social Services Administration Board (the "Board") with respect to the land transfer tax that is payable under the *Land Transfer Tax Act*. On October 16, 2015, the Thunder Bay District Housing Corporation transferred the majority of its housing portfolio to the Board under the *Housing Services Act, 2011* as part of a broader restructuring to realize administrative and cost efficiencies. The first and second portions of the Portfolio transferred were exempt from the payment of land transfer tax. The third portion of the portfolio was intended to be exempt from the payment of land transfer tax by O.Reg 415/15 but was not captured by the regulation.	$66,829.88

Description of the Remission by the President of Treasury Board

Pursuant to subsection 5.1(3) of the *Financial Administration Act*, remission of an amount not exceeding $10,000 was granted on August 4, 2016 for the fees for replacement of Birth Certificates, Certified Copies of Birth Registrations, Driver's Licenses and Ontario Photo Cards, up to and including December 31, 2016 for the occupants of residences impacted by an explosion of a residence located on Hickory Drive in the City of Mississauga on June 28, 2016.	$10,000
Pursuant to subsection 5.1(3) of the *Financial Administration Act*, remission of an amount not exceeding $10,000 was granted on August 4, 2016 for the fees for replacement of Birth Certificates, Certified Copies of Birth Registrations, Driver's Licenses and Ontario Photo Cards, up to and including December 31, 2016, for the individuals impacted by the wildfires in Fort McMurray, Alberta that began on May 1, 2016.	$10,000

Details of Remission granted under the *Electricity Act, 1998* for the year ended March 31, 2017

Description of the Remission by the Minister of Finance

Pursuant to section 50.3 of the *Electricity Act, 1998*, the Minister of Finance granted remission of the Ontario Electricity Financial Corporation's ("OEFC") obligation to repay $172,236,963 of the principal amount due on August 10, 2016 to Her Majesty in right of Ontario. The remission was in respect of the common shares of Hydro One Limited sold in November 2015. Under section 50.3 of the *Electricity Act, 1998*, the Minister of Finance is required to pay the OEFC an amount equal to the proceeds payable to the Crown in respect of the disposition of common shares of Hydro One Limited, less the amount of any costs incurred by the Crown in disposing of the securities, and less any amount that the Minister of Finance considers advisable in connection with the securities. Under the *Electricity Act, 1998*, the Minister of Finance is explicitly authorized to make such payment by granting a remission of all or part of a debt owed by the OEFC to Her Majesty in right of Ontario.	$172,236,963