INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Oshawa Power and Utilities Corporation

We have audited the accompanying consolidated financial statements of **Oshawa Power and Utilities Corporation** as at December 31, 2013, which comprise the consolidated balance sheet, the consolidated statements of income and retained earnings, comprehensive income and cash flows for the year 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 Canadian 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 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 in our audit 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 **Oshawa Power and Utilities Corporation** as at December 31, 2013 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
April 17, 2014.

Oshawa Power and Utilities Corporation

CONSOLIDATED BALANCE SHEET

[in thousands of dollars]

As at December 31

	2013 $	2012 $
ASSETS		
Current		
Cash [including customer deposits in 2013 - $2,574; 2012 - $2,613]	**6,932**	12,342
Restricted cash *[note 9]*	**120**	120
Accounts receivable *[note 11]*	**10,457**	8,345
Payments in lieu of corporate income taxes	**471**	216
Unbilled revenue	**13,081**	12,357
Inventory	**61**	249
Prepaid expenses and other	**103**	153
Current portion of regulatory assets *[note 4]*	**586**	586
Total current assets	**31,811**	34,368
Property, plant and equipment, net *[note 3]*	**86,266**	78,391
Deferred IRU leases *[note 15]*	**101**	111
Future income tax assets *[note 6]*	**7,993**	9,292
Other assets	**91**	207
Total non-current assets	**94,451**	88,001
Total assets	**126,262**	122,369
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable for power - IESO *[note 16]*	**11,728**	7,552
Accounts payable and accrued liabilities	**7,124**	6,487
Customer advance payments	**2,511**	2,812
Current portion of long-term liabilities *[note 5]*	**3,424**	3,547
Total current liabilities	**24,787**	20,398
Long-term debt *[note 9]*	**34,394**	34,609
Unrealized loss on interest rate swaps *[note 14]*	**282**	1,423
Customer advance deposits	**1,664**	1,689
Deferred revenue	**261**	329
Post-employment non-pension retirement benefits *[note 8]*	**11,649**	11,380
Future income tax liabilities *[note 6]*	**329**	243
Regulatory liabilities *[note 4]*	**5,135**	7,963
Total long-term liabilities	**53,714**	57,636
Total liabilities	**78,501**	78,034
Shareholder's equity		
Capital stock *[note 10]*	**23,064**	23,064
Retained earnings	**24,905**	22,317
Accumulated comprehensive loss on interest rate swaps	**(208)**	(1,046)
Total shareholder's equity	**47,761**	44,335
Total liabilities and shareholder's equity	**126,262**	122,369
Commitments and contingencies *[notes 12 and 13]*		

See accompanying notes

On behalf of the Board:

Director Director

Oshawa Power and Utilities Corporation

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

[in thousands of dollars]

Year ended December 31

	2013 $	2012 $
REVENUE		
Sale of electrical energy	**120,085**	114,136
Cost of electrical energy	**101,934**	96,100
Net revenue from sale of electrical energy	**18,151**	18,036
Other revenue		
CHP, net	**986**	969
Regulated service	**1,427**	1,495
Service	**232**	207
Fibre optic	**1,120**	1,153
Other	**468**	87
Total other revenue	**4,233**	3,911
Net revenue	**22,384**	21,947
EXPENSES		
Operations, maintenance and administrative	**15,899**	15,567
Allocated to property, plant and equipment and billable jobs	**(3,849)**	(3,537)
Net operations, maintenance and administrative expenses	**12,050**	12,030
Income before the following:	**10,334**	9,917
Depreciation - property, plant and equipment	**(4,072)**	(3,392)
Amortization - deferred IRU/leases	**(10)**	(10)
Loss on disposal of property, plant and equipment	**(208)**	(75)
Interest income	**110**	145
Interest expense *[note 9]*	**(1,165)**	(1,657)
Income before payments in lieu of corporate income taxes	**4,989**	4,928
Provision for payments in lieu of corporate income taxes *[note 6]*	**701**	424
Net income for the year	**4,288**	4,504
Retained earnings, beginning of year	**22,317**	19,513
Dividends paid	**(1,700)**	(1,700)
Retained earnings, end of year	**24,905**	22,317

See accompanying notes

Oshawa Power and Utilities Corporation

CONSOLIDATED STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended December 31

	2013 $	2012 $
OPERATING ACTIVITIES		
Net income for the year	**4,288**	4,504
Add (deduct) items not involving cash		
Depreciation - property, plant and equipment	**4,072**	3,392
Future income taxes	**1,385**	892
Unrealized gain on interest rate swaps	**(1,141)**	(649)
Accumulated other comprehensive income	**838**	482
Loss on disposal of property, plant and equipment	**208**	75
Amortization - deferred IRU/leases	**10**	10
Post-employment non-pension retirement benefits, net of cash payments	**269**	624
	9,929	9,330
Changes in non-cash working capital balances related to operations		
Increase in accounts receivable	**(2,112)**	(55)
(Increase) decrease in payments in lieu of corporate income taxes	**(255)**	730
Increase in unbilled revenue	**(724)**	(1,151)
Decrease (increase) in inventory	**188**	(49)
Decrease in prepaid expenses and other	**50**	87
Decrease in other assets	**116**	27
Increase in accounts payable and accrued liabilities and accounts payable for power - IESO	**4,813**	2,970
Increase (decrease) in regulatory liabilities, net of regulatory assets	**(2,828)**	318
Increase (decrease) in deferred revenue and customer advance payments	**(414)**	463
Cash provided by operating activities	**8,763**	12,670
INVESTING ACTIVITIES		
Additions to property, plant and equipment, net	**(13,838)**	(13,654)
Developer contributions in aid of construction	**1,683**	1,271
Proceeds from disposal of property, plant and equipment	—	151
Government of Canada Treasury bill	—	5,566
Increase (decrease) in upstream capital improvement liability	**(77)**	467
Cash used in investing activities	**(12,232)**	(6,199)
FINANCING ACTIVITIES		
Dividends paid	**(1,700)**	(1,700)
Increase (decrease) in customer advance deposits	**(38)**	6
Decrease in long-term debt	**(203)**	(192)
Cash used in financing activities	**(1,941)**	(1,886)
Net increase (decrease) in cash and cash equivalents during the year	**(5,410)**	4,585
Cash and cash equivalents, beginning of year	**12,462**	7,877
Cash and cash equivalents, end of year	**7,052**	12,462
Cash and cash equivalents are comprised of		
Cash and cash equivalents	**6,932**	12,342
Restricted cash	**120**	120
Cash and cash equivalents, end of year	**7,052**	12,462
Supplemental cash flow information		
Interest paid [prior to capitalization of interest]	**1,272**	1,747
Payments in lieu of corporate income taxes	**606**	933

See accompanying notes

Oshawa Power and Utilities Corporation

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

[in thousands of dollars]

Year ended December 31

	2013 $	2012 $
Net income for the year	**4,288**	4,504
Unrealized gain (loss) in fair value of derivatives designated as cash flow hedges, net of income taxes	**527**	(190)
Gain in fair value of derivatives designated as cash flow hedges transferred to net income for the year, net of income taxes	**311**	672
Comprehensive income	**5,126**	4,986

See accompanying notes

Oshawa Power and Utilities Corporation

CONSOLIDATED SCHEDULE OF SUMMARY OF NET INCOME

[in thousands of dollars]

Year ended December 31

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	$	$	$	$	$	$	$	$	$	$
REVENUE										
Sale of electrical energy	**120,085**	114,136	114,440	110,135	104,383	101,275	102,206	99,044	99,903	98,627
Cost of electrical energy	**101,934**	96,100	94,110	90,975	85,808	83,068	84,573	81,724	83,185	81,987
Net revenue from sale of electrical energy	**18,151**	18,036	20,330	19,160	18,575	18,207	17,633	17,320	16,718	16,640
Other revenue										
CHP net revenue	**986**	969	919	838	854	661	—	—	—	—
Regulated service	**1,427**	1,495	1,293	1,553	1,432	1,387	1,245	823	394	367
Service	**232**	207	184	134	244	493	380	319	299	831
Fibre optic	**1,120**	1,153	1,181	1,178	1,045	842	421	156	33	27
Other	**468**	87	51	184	74	73	162	114	68	193
Total other revenue	**4,233**	3,911	3,628	3,887	3,649	3,456	2,208	1,412	794	1,418
Net revenue	**22,384**	21,947	23,958	23,047	22,224	21,663	19,841	18,732	17,512	18,058
EXPENSES										
Operations, maintenance and administrative	**15,899**	15,567	14,926	13,971	13,706	14,802	14,256	13,225	12,838	12,342
Allocated to property, plant and equipment and billable jobs	**(3,849)**	(3,537)	(3,765)	(4,122)	(4,135)	(4,657)	(4,439)	(4,408)	(4,182)	(3,736)
Net operations, maintenance and administrative expenses	**12,050**	12,030	11,161	9,849	9,571	10,145	9,817	8,817	8,656	8,606
Income before the following	**10,334**	9,917	12,797	13,198	12,653	11,518	10,024	9,915	8,856	9,452
Depreciation - property, plant and equipment	**(4,072)**	(3,392)	(5,423)	(4,927)	(4,752)	(4,596)	(3,965)	(3,692)	(3,572)	(3,365)
Amortization - deferred IRU/leases	**(10)**	(10)	(10)	(11)	(15)	(16)	—	—	—	—
(Loss) gain on disposal of property, plant and equipment	**(208)**	(75)	141	—	4	—	37	48	35	—
Non-recurring provision for deferred PILs	—	—	1,208	—	—	—	—	—	—	—
Interest income	**110**	145	203	158	200	688	814	785	505	397
Interest improvement on regulatory accounts	—	—	—	(32)	(28)	(104)	(4)	55	134	329
Interest expense	**(1,165)**	(1,657)	(1,514)	(1,686)	(1,607)	(1,525)	(1,277)	(1,391)	(1,556)	(1,485)
Income before payments in lieu of corporate income taxes	**4,989**	4,928	7,402	6,700	6,455	5,965	5,629	5,720	4,402	5,328
Provision for payments in lieu of corporate income taxes	**701**	424	2,004	2,290	2,415	1,995	2,084	1,967	2,007	2,110
Net income for the year	**4,288**	4,504	5,398	4,410	4,040	3,970	3,545	3,753	2,395	3,218

See accompanying notes

1. INCORPORATION

The consolidated financial statements include the accounts of Oshawa Power and Utilities Corporation ["OPUC"] and its subsidiaries, Oshawa PUC Networks Inc. ["OPUCN"], Oshawa PUC Services Inc. ["OPUCS"], Oshawa PUC Energy Services Inc., and 2252112 Ontario Inc., collectively the "Corporation".

The principal business of the Corporation is providing electricity distribution services to businesses and residences in the service area of Oshawa, Ontario, through its subsidiary, OPUCN, a local distribution company ["LDC"] incorporated under the *Business Corporations Act* (Ontario) on October 18, 2000. The incorporation was required in accordance with the provincial government's *Electricity Act*, 1998.

OPUCS provides dark fibre optic network connections to various municipalities, universities, schools, hospitals, and enterprise and carrier customers. Oshawa PUC Energy Services Inc. generates electricity under contract with Ontario Power Authority ["OPA"] and provides thermal energy to Durham College and University of Ontario Institute of Technology. 2252112 Ontario Inc. was incorporated on July 29, 2010 for the purpose of developing and managing energy generation projects.

OPUC is wholly owned by the Corporation of the City of Oshawa [the "City"].

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Corporation's consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ["GAAP"], including accounting principles prescribed by the Ontario Energy Board ["OEB"] in the *Accounting Procedures Handbook for Electric Distribution Utilities* ["AP Handbook"], and reflects the significant accounting policies summarized below.

Rate setting and regulation

The OEB has regulatory oversight of electricity matters in the Province of Ontario. The *Ontario Energy Board Act*, 1998 sets out the OEB's powers, including the issuance of distribution licences that must be obtained by any person owning or operating a distribution system under the *Ontario Energy Board Act,* 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and for ensuring that LDCs fulfill obligations to connect and service customers.

As part of its regulation of LDCs, the OEB established a multi-year electricity distribution rate setting plan which indicated that, commencing with 2008 rates, a limited number of LDCs would be identified each year to file a future test year cost of service application. The plan would run for four years, enabling each LDC in the province to rebase its rates once during the four-year plan. For any of the other LDCs seeking approval to change their distribution rates, LDCs would file a mechanistic update to their current rates prescribed under the OEB's incentive regulation mechanism.

In June 2011, the Corporation filed its cost of service application with the OEB to rebase its rates for the four-year period commencing January 1, 2012. On January 10, 2012, the OEB approved the cost of service application filed by the Corporation and issued its Decision and Order for rates effective January 1, 2012.

The OEB has the general authority to include or exclude costs and revenues in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company under Canadian GAAP.

The following regulatory practices relating to regulatory assets and liabilities, and payments in lieu of corporate income taxes, have resulted in accounting treatments which differ from Canadian GAAP for enterprises operating in a non-regulated environment.

Regulatory assets and liabilities
Regulatory assets primarily represent costs that have been deferred because it is probable that they will be recovered in future rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers for electricity services and the costs that the Corporation incurs to purchase and deliver these services. Certain costs and variance account balances are deemed to be "regulatory assets" or "regulatory liabilities" and are reflected in the LDC's balance sheet until the manner and timing of disposition is determined by the OEB.

Payments in lieu of income taxes ["PILs"]
The Corporation provides for PILs using the future income taxes method for its regulated activities as permitted by The Chartered Professional Accountants of Canada ["CPA Canada"] and the OEB.

Inventory
Inventory, which consists of parts and supplies acquired for internal maintenance or construction, and gas for use in a combined heat and power ["CHP"] plant, is valued at the lower of cost and net realizable value, with cost being determined on a weighted average basis.

Property, plant and equipment
Property, plant and equipment purchased or constructed by the Corporation are stated at historic costs and include contracted services, material, labour, engineering and overhead costs. Furthermore, constructed property, plant and equipment include ascribed interest during the period of construction.

Property, plant and equipment also include the cost of certain capital assets partially funded by developers as a contribution in aid of construction to the Corporation. The OEB requires that such contributions, whether in cash or in-kind, be offset against the related asset cost.

When identifiable capital assets are retired or otherwise disposed of, their original cost and accumulated depreciation are removed from the accounts and the related gain or loss is included in the determination of income for the year. Repairs and maintenance expenditures are charged to operations as incurred.

[in thousands of dollars]

Depreciation is provided on a straight-line basis over the estimated service lives of the property, plant and equipment as follows:

Buildings	1.61% - 2.38%
Transmission, distribution system and meters	1.67% - 10%
Equipment and furniture	5% - 20%
CHP engine	$12 per engine run hour
Computer hardware	25%
Computer software	33.33%
Vehicle fleet	8.33% - 12.50%
Fibre optics network	5%

Construction-in-progress comprises capital assets under construction, capital assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed. These assets are not depreciated until placed into service.

In the absence of rate regulation, overhead costs which are not directly attributable to construction activity are not capitalized.

Customer advance deposits

Customer advance deposits represent cash collections from customers that are available to offset the payment of energy bills or other services. Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of securities, these amounts are recorded in the accounts as securities held in respect of customer deposits. Interest is paid on customer balances at rates established by the Corporation in accordance with OEB guidelines.

Pension and other post-employment benefits

The Corporation provides pension benefits for its employees through the Ontario Municipal Employees' Retirement System ["OMERS"] Fund [the "OMERS Fund"], a multi-employer public sector pension fund. The OMERS Fund is a defined benefit pension plan which is financed by equal contributions from participating employers and employees and by the investment earnings of the OMERS Fund. Although the plan is a defined benefit plan, sufficient information is not available to the Corporation to account for it as such because it is not possible to attribute the fund assets and liabilities between the various employers who contribute to the fund. Accordingly, contributions payable as a result of employee service are expensed when incurred as part of operating costs.

Employee future benefits, other than pensions, provided by the Corporation include supplemental health, dental and life insurance. These plans provide benefits to retired employees, their spouses and surviving spouses when the employees are no longer providing active service. Retiree benefits expense is recognized in the period during which the employees render services.

The liability for employee future benefits other than pensions is recorded on an accrual basis. The Corporation actuarially determines the cost of post-employment benefits offered to employees and retirees, including their spouses and surviving spouses, using the projected benefit method, pro-rated on service and based on management's best estimates. Under this method, the projected post-retirement benefits are deemed to be earned on a pro-rata basis over the employee's years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits.

The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered during the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gains or losses over 10% of the accrued benefit obligation is amortized as an expense or income on a straight-line basis over the average remaining service period of active employees to full eligibility. As at December 31, 2013, there was a net unamortized actuarial gain of $1,136 [2012 - net unamortized actuarial gain of $666] not reflected in the post-employment non-pension benefits liability.

Restricted cash

Restricted cash is defined as funds held separately to maintain a debt service reserve in an amount equal to three months' future debt service costs related to the CHP term loan.

Financial instruments

Financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at fair value, except for financial assets classified as held-to-maturity, or loans and receivables, and other financial liabilities, which are measured at cost or amortized cost using the effective interest rate method. The Corporation has made the following classifications:

Accounts receivable and unbilled revenue
Accounts receivable and unbilled revenue are classified as loans and receivables and are recorded at amortized cost, which upon their initial measurement is equal to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities, customer advance deposits and long-term debt
Accounts payable and accrued liabilities, customer advance deposits and long-term debt are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Derivative financial instruments and hedge accounting

Derivative financial instruments in the form of interest rate swap contracts are used to manage exposure to fluctuations in interest rates on the Corporation's long-term debt. The Corporation does not enter into derivative agreements for speculative purposes.

These contracts are designated as hedges, and therefore any gain or loss is included in other comprehensive income. Any gain or loss would not be expected to affect net income as management intends to hold the interest rate swap contracts to maturity.

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. The Corporation has elected to apply hedge accounting for its interest rate swap contracts and these are designated as cash flow hedges. For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognized in accumulated other comprehensive income, net of income taxes. The ineffective portion of the fair value changes is recognized in net income for the year. Amounts charged to accumulated other comprehensive income are reclassified in the statement of income and retained earnings when the hedged transaction affects the financial instrument.

All hedging relationships are formally documented, including the risk management objective and strategy. On an ongoing basis, an assessment is made as to whether the designated derivative financial instruments continue to be effective in offsetting changes in cash flows of the hedged transaction.

Investments

An Irrevocable Standby Letter of Credit in the amount of $7,000 was issued in October 2012, and renewed in October 2013, in favour of the IESO as collateral support for energy amounts as determined by and payable to the IESO.

Deferred indefeasible right of use ["IRU"] leases

Deferred IRU leases are lump-sum payments made by OPUCS to lease the IRU of the dark fibre optics networks from arm's-length corporations. These payments are amortized over the contracted term of 20 years.

Customer advance payments

Customer advance payments consist of both the Equal Payment Plan and customer advance payments.

Deferred revenue

Deferred revenue relates to customers' lump-sum payments for the IRU of the Corporation's dark fibre optics network. The payment is amortized over the contracted term of 20 years.

Revenue recognition

Revenue from the sale of electricity represents actual revenue attributable to its sale and delivery. Revenue includes an estimate of unbilled revenue, which represents electricity delivered and consumed by customers since the date of each customer's last billing.

Combined heat and power revenue is derived from selling electricity, the provision of capacity and thermal energy. Revenue is recognized upon delivery of the metered electricity and thermal energy.

Regulated service revenue represents charges to energy customers for services such as late payments, collection fees, account set-up fees, pole attachment charges, and reconnect and disconnect charges. Regulated service revenue is recognized as services are rendered.

Service revenue primarily includes duct rental revenue and is recognized as services are rendered.

Fibre optic revenue includes lease, maintenance and IRU revenue related to dark fibre capacity for various customers of OPUCS. This revenue is recognized on a straight-line basis over the term of the customer contract.

Other revenue and interest are recognized as services are rendered, projects completed or when interest is earned.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian GAAP 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Certain estimates are necessary since the regulatory environment in which the Corporation operates requires amounts to be recorded at estimated values until finalization and adjustment pursuant to subsequent regulatory decisions or other regulatory proceedings. Due to inherent uncertainty involved in making such estimates, actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Ministry of Energy and Infrastructure, or the Ministry of Finance.

PILs

Under the *Electricity Act*, 1998, and effective October 1, 2001, the Corporation incurs PILs that are remitted to the Ministry of Finance. These payments are calculated in accordance with the rules for computing income and taxable capital 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. Payments remitted to Ontario Electricity Financial Corporation are designated to be applied against the stranded debt of Ontario Power Generation ["OPG"], formerly Ontario Hydro.

The regulated electricity distribution business of the Corporation provides for PILs using the future income taxes method. Under the future income taxes method, provisions are made for future income taxes as a result of temporary differences between the tax bases of assets and liabilities and their carrying amounts for accounting purposes. When future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers of the Corporation at that time.

The OEB's Electricity Distribution Rate Handbook provides for the recovery of PILs by LDCs through annual distribution rate adjustments as permitted by the OEB.

In the case of the Corporation's unregulated businesses, the liability method of accounting for income taxes is also applied in accordance with the recommendations of the CPA Canada.

The method that has been used to set the PILs portion of the Corporation's rates for 2013 is consistent with the approach used in past periods.

Upstream capital improvement liability

The provision for an upstream capital improvement liability levied under the *Development Charges Act*, 1997, and/or predecessor legislation, is earmarked for specific property, plant and equipment related to estimated growth that may occur in the future. Upstream capital improvement liability balances are reduced as expenditures occur.

Asset retirement obligations

The Corporation follows the CPA Canada Handbook which requires the recording of the fair value of the future expenditures required to settle legal obligations associated with asset retirements. As at December 31, 2013, the Corporation has determined that there are no material asset retirement obligations associated with transmission, distribution and generation systems.

Future accounting policies

Transition to new Canadian financial reporting standards

Effective January 1, 2011, publicly accountable enterprises in Canada were required to apply International Financial Reporting Standards ["IFRS"], with the exception of qualifying entities with rate-regulated activities ["RRA"].

On the amendment of the CPA Canada Handbook , the effective mandatory date for qualifying entities with RRA to adopt IFRS will be January 1, 2015. The Corporation qualifies for the deferral options and has elected to defer the adoption of IFRS and will, therefore, continue to prepare its Consolidated financial statements in accordance with existing Canadian GAAP [i.e., Part V of the CPA Canada Handbook] for all interim and annual periods ending on or before December 31, 2014.

With the amendment, effective January 1, 2015, the Corporation will no longer be permitted to use Part V of the CPA Canada Handbook in the presentation of its Consolidated financial statements, at which time the transition to a new set of accounting standards will be required. The Corporation, as an organization part of the public sector and defined as a government business enterprise, will be adopting IFRS. The Corporation is currently assessing the financial reporting impacts of adopting IFRS.

[in thousands of dollars]

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2013			2012		
	Cost $	**Accumulated depreciation** $	**Net book value** $	**Cost** $	**Accumulated depreciation** $	**Net book value** $
Total transmission, distribution and generation						
Underground distribution	**40,814**	**17,675**	**23,139**	38,894	17,158	21,736
Overhead distribution	**19,701**	**9,056**	**10,645**	18,688	9,308	9,380
Poles, towers and fixtures	**34,766**	**14,168**	**20,598**	30,606	14,023	16,583
Transformers	**52,112**	**29,019**	**23,093**	50,434	29,256	21,178
Station equipment	**18,413**	**7,084**	**11,329**	19,172	7,524	11,648
Meters	**10,406**	**3,915**	**6,491**	9,864	3,195	6,669
Solar	**2,364**	**102**	**2,262**	878	22	856
Combined heat and power plant	**7,138**	**1,594**	**5,544**	7,132	1,334	5,798
	185,714	**82,613**	**103,101**	175,668	81,820	93,848
Total construction-in-progress	**1,299**	**—**	**1,299**	1,226	—	1,226
Other property, plant and equipment						
Vehicle fleet	**4,135**	**2,181**	**1,954**	4,335	2,097	2,238
Equipment and furniture	**6,504**	**4,982**	**1,522**	6,300	4,546	1,754
Computer hardware and software	**4,092**	**3,175**	**917**	3,472	2,711	761
Fibre optics network	**2,097**	**787**	**1,310**	2,094	682	1,412
Buildings	**709**	**388**	**321**	709	374	335
Land	**294**	**—**	**294**	294	—	294
	17,831	**11,513**	**6,318**	17,204	10,410	6,794
Property, plant and equipment before contributions in aid of construction	**204,844**	**94,126**	**110,718**	194,098	92,230	101,868
Contributions in aid of construction	**(32,865)**	**(8,413)**	**(24,452)**	(31,175)	(7,698)	(23,477)
Property, plant and equipment	**171,979**	**85,713**	**86,266**	162,923	84,532	78,391

For the year ended December 31, 2013, ascribed interest capitalized to property, plant and equipment as prescribed by the OEB amounted to $107 [2012 - $91]. In the absence of rate regulation, additions to property, plant and equipment would have been $107 lower [2012 - $91 lower] and interest expense would have been $107 higher [2012 - $91 higher].

[in thousands of dollars]

The Company's rate application was approved with an effective date of January 1, 2012. The OEB authorized the Company to adjust the cost of the property, plant and equipment for changes to capitalized overhead costs and depreciation rates effective January 1, 2012. An amount of $1,250 was credited to the regulatory account approved by the OEB to record this adjustment.

4. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities consist of the following:

	2013 $	2012 $
Regulatory liabilities (assets)		
Retail settlement variance – power	**(1,853)**	(248)
Retail settlement variance – global adjustment	**(1,070)**	(175)
Retail settlement variances – other	**722**	621
Smart meter variance	**(1,075)**	(1,605)
Regulatory Asset Recovery Account ["RARA"]	**(883)**	(1,105)
Future income taxes *[note 6]*	**7,918**	8,871
IFRS-CGAAP transitional PP&E account	**814**	1,013
Regulatory asset – other	**(24)**	5
Net regulatory liabilities	**4,549**	7,377
Add current portion	**586**	586
Net regulatory long-term liabilities	**5,135**	7,963

The smart meter variance account includes $964 [2012 - $1,421] to be recovered through rates for meters stranded upon being replaced with smart meters.

On January 10, 2012, the Corporation received approval from the OEB for the disposition of certain regulatory account balances, excluding future income taxes to be paid to customers. The disposition is to be adjusted through customer rates effective January 1, 2012. As future income tax assets are realized, the liability for future income taxes to be paid to customers will be settled.

Retail settlement variances

The retail settlement variances relate to charges the Corporation has incurred for transmission services, generation and wholesale market operations from the IESO that were not settled with customers during the period through approved rates. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time and are reported at period-end dates in accordance with rules prescribed by the OEB. Under rate regulation, the variances which would be recorded as revenue or expense when incurred under Canadian GAAP are deferred until collected or repaid through future rates. The Corporation has accrued interest on the regulatory asset and liability balances, as prescribed by the OEB.

Retail settlement variance – power

The retail settlement variance – power account is established for the purpose of recording the net difference in energy cost only. Net difference refers to the difference between the amount charged by the IESO on the settlement invoice for the energy cost and the amount billed to customers for the energy cost.

Retail settlement variance – global adjustment

The global adjustment variance account is established for the purpose of recording the net difference in the global adjustment attributable to customers. Net difference refers to the difference between the amount charged or credited by the IESO for the global adjustment and the amount billed to customers for the global adjustment.

The global adjustment arises mainly due to a difference between the spot price charged by the IESO to market participants and the blended price paid by the IESO under the various contracts with electricity generators and suppliers.

Retail settlement variances – other

This item refers to a set of accounts that will separately capture information relating to wholesale market service charges, non-recurring wholesale market service charges, retail transmission network service charges and retail transmission connection service charges. Retail settlement variances – other is used to record the net difference between the amount paid in the month to the IESO for the services listed above and the amount billed to customers and retailers in the month based on OEB approved rates.

Smart meter variance

The provincial government mandated the installation of smart meters for all residential and small business customers in Ontario by December 31, 2010. The smart meter variance account is used to record expenditures made by the Corporation under the smart meter program; the carrying value of meters replaced and stranded by the installation of smart meters; and amounts received from customers under approved OEB rates, for advances used to fund the installation of smart meters.

On January 10, 2012, the Corporation received approval of the costs incurred under the program and was granted a rate rider to recover the balance in the smart meter variance account which is the excess of costs incurred [including the carrying value of stranded meters] less amounts received from customers.

RARA

Effective May 2006, the RARA was approved by the OEB. This account is used to record the disposition of deferral and variance account balances, by means of a rate rider, for which approval to recover (or refund) has been granted by the OEB as part of the regulatory process. The balance remaining as at December 31, 2013 represents the difference between the opening balance approved for recovery and the amount collected.

[in thousands of dollars]

Future income taxes to be paid to customers
An offset to future income tax assets relating to the regulated business has been recorded in the accounts as a regulatory liability. As future income tax assets are realized, the liability for future income taxes to be paid to customers will be settled through lower OEB approved rates.

IFRS-CGAAP Transitional PP&E Account
The Company's rate application was approved with an effective date of January 1, 2012. The rate application included adjustments to the cost of the property, plant and equipment which was to approximate the adjustments otherwise required to account for costs in accordance with IFRS standards. The increase in the costs of the property, plant and equipment in the amount of $1,250 was recorded effective January 1, 2012, and expected to be amortized over four years. The regulatory liability "IFRS-CGAAP Transitional PP&E account" was authorized under the AP Handbook to record these differences.

Regulatory accrued interest
Interest is earned or charged on regulatory assets and liabilities at OEB prescribed rates and are recorded to the related regulatory account.

5. CURRENT PORTION OF LONG-TERM LIABILITIES

The current portion of long-term liabilities consists of the following:

	2013 **$**	**2012** **$**
Customer advance deposits	**910**	924
Upstream capital improvement liability *[note 7]*	**1,989**	2,065
Long-term debt *[note 9]*	**216**	204
Deferred revenue	**309**	354
	3,424	3,547

[in thousands of dollars]

6. PILs

The 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 effective tax rates is provided as follows:

	2013 $	2012 $
Income before PILs	**4,989**	4,928
Combined Canadian federal and Ontario statutory income tax rate	**26.50%**	26.50%
Expected provision for PILs at statutory tax rates	**1,322**	1,306
Pre 2006 provision reversed	**—**	(346)
Property, plant and equipment	**(671)**	(723)
Post-employment non-pension benefits	**78**	166
Other	**(1)**	45
Cost allocations	**(27)**	(24)
Provision for PILs	**701**	424
Effective tax rates	**14.03%**	8.60%
Components of provision for PILs		
Current PILs	**571**	366
Future PILs	**1,082**	725
Future PILs transferred to regulatory assets	**(952)**	(667)
Provision for PILs	**701**	424

During the year, the Corporation recorded $7,918 in regulatory liabilities and a corresponding offset to future income tax assets [2012 - $8,871], for the amount of future income taxes expected to be paid to customers in future electricity rates.

	2013 $	2012 $
Components of future income tax assets		
Property, plant and equipment	**3,708**	4,709
Employee post-employment non-pension benefits	**4,210**	4,112
	7,918	8,821
Non-capital losses	**—**	94
Accumulated other comprehensive loss	**75**	377
Future income tax assets	**7,993**	9,292

Future income tax liabilities of $329 [2012 - $243], relating to the unregulated business, have been recorded in the accounts.

[in thousands of dollars]

7. UPSTREAM CAPITAL IMPROVEMENT LIABILITY

The upstream capital improvement liability account represents amounts received from developers for improvements to system capacity not yet needed to be constructed. Improvements may include capital contributions for transformer stations and construction of new municipal substations.

	2013 $	2012 $
Current portion balance	**1,989**	2,065

8. EMPLOYEE BENEFITS

Pension costs
The Corporation makes contributions to OMERS, which is a multi-employer plan. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on length of service and rates of pay. Current and future contributions are dependent upon the results of the OMERS plan as actuarially determined from time to time.

For the year ended December 31, 2013, the Corporation's OMERS current service pension costs were $674 [2012 - $577]. OMERS contribution rates were 9.0% up to the year's maximum pensionable earnings ["YMPE"] and 14.6% over the YMPE for normal retirement age ["NRA"] of 65 [2012 – 8.3% up to YMPE and 12.8% over YMPE for NRA of 65].

Post-employment non-pension benefits
The Corporation provides post-employment benefits, principally supplemental health and dental coverage, for employees who retire from active employment.

Accrued benefit obligations
The Corporation measures its accrued benefit obligations as at December 31 of each year. The latest actuarial valuation was performed as of December 31, 2013.

[in thousands of dollars]

	2013 $	2012 $
Accrued benefit obligations, beginning of year	**10,714**	13,204
Employer current service cost	**189**	287
Interest on obligation	**426**	739
Benefits paid	**(346)**	(496)
Actuarial gain recognized at the end of the year	**(471)**	(3,020)
Accrued benefit obligations, end of year	**10,512**	10,714

Reconciliation of the accrued benefit obligations to post-employment non-pension retirement benefits	2013 $	2012 $
Accrued benefit obligations	**10,512**	10,714
Unamortized net actuarial gains	**1,137**	666
Post-employment non-pension retirement benefits	**11,649**	11,380

Changes in post-employment non-pension retirement benefits	2013 $	2012 $
Post-employment non-pension retirement benefits, beginning of year	**11,380**	10,756
Net periodic benefit costs accrued	**615**	1,120
Benefits paid	**(346)**	(496)
Post-employment non-pension retirement benefits, end of year	**11,649**	11,380

Components for net periodic benefit costs	2013 $	2012 $
Current service cost	**189**	287
Imputed interest cost	**426**	739
Amortization of actuarial gains	**-**	94
Net periodic benefit cost accrual for the year	**615**	1,120

Significant assumptions	2013 %	2012 %
Discount rate applied to the calculation of future benefits	**4.75**	4.00
Rate of compound compensation increase used in determining future costs	**3.0**	3.0

[in thousands of dollars]

The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered during the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gains or losses over 10% of the accrued benefit obligations is amortized as an expense or income on a straight-line basis over the average remaining service period of active employees to full eligibility. As at December 31, 2013, there was an actuarial gain of $1,137 [2012 - $666 actuarial gain] not reflected in the post-employment non-pension retirement benefits liability.

The actuarial valuation as at December 31, 2013 assumed health care costs would increase 8% [2012 – 8%] in the year following the valuation, graded down to 4% after six years [2012 - 4% after 6 years], and dental costs are assumed to increase by 6% [2012 - 6%] after one year, graded down to 4% after six years [2012 - 4% after 6 years]. The dispensing fee portion of health care costs is limited to twelve dollars and ninety-nine cents; the current maximum allowed under the benefits plan.

Sensitivity analysis

Assumed interest rates have a significant effect on the amounts reported for the total accrued benefit obligations and expense. A one-percentage-point change in assumed interest rates would have the following effects for 2013:

	Increase $	**Decrease** $
Accrued benefit obligations, as at December 31, 2013	**(1,351)**	1,713
Estimated expense for fiscal 2013	**(11)**	10

9. DEBT

The Corporation's long-term and short-term borrowing facilities are as follows:

Long-term facilities

The Corporation incurred debt in the amount of $30,000 with The Toronto-Dominion Bank [the "Bank"] due in one repayment obligation at maturity in December 2012. In September 2011, this term was extended for seven years. This facility was drawn down in December 2005 and structured with a seven-year interest rate swap agreement with the Bank, effectively converting the Corporation's obligations to a fixed interest rate of approximately 4.9%. Subject to payment of any unwinding costs or receipt of benefits for unwinding the interest rate swap agreement, the Corporation has the flexibility of pre-paying the debt at its option.

On October 12, 2011, the Corporation entered into a new seven-year interest rate swap agreement with the Bank, effectively converting the Corporation's obligations to a fixed interest rate of approximately 3.6%. The effective start date of this agreement is December 2012, to coincide with the expiry of the existing swap agreement. Subject to payment of any unwinding costs or receipt of benefits for unwinding the interest rate swap agreement, the Corporation has the flexibility of pre-paying the debt at its option.

[in thousands of dollars]

Oshawa PUC Energy Services Inc. incurred a term loan of $5,558 with The Manufacturers Life Insurance Company for construction of the CHP plant. The term loan is for 20 years, ending March 2028, bearing annual interest of 5.778% compounded quarterly, and requires blended interest and principal payments of $119 per quarter.

The Corporation is required to maintain a debt services reserve account in an amount equal to three months' future debt service costs related to the term loan. As at December 31, 2013, the restricted cash balance in connection with the debt service reserve is $120.

The term loan is supported by a fixed and floating first charge on the CHP asset, a general security agreement and an assignment of the Corporation's interest in all material contracts relating to the CHP plant.

Future principal repayments for the term debt are as follows:

	$
2014	216
2015	229
2016	242
2017	256
2018	271
Thereafter	3,396
	4,610

During the year, the Corporation made interest payments of $1,272 [2012 - $1,747].

Short-term facilities

The Corporation has an operating line of credit for a maximum amount of $10,000 to assist with its working capital requirements. During the year, no amounts were drawn under this facility.

The above borrowing facilities are subject to financial tests and other covenants. These financial covenants are to be tested quarterly. In addition, these facilities are subject to other customary covenants and events of default, including an event of cross-default [for non-payment of other debts] of amounts in excess of $5,000. Non-compliance with such covenants could result in accelerated payments of amounts due under the facilities and their termination. The Corporation was in compliance with the above-mentioned covenants at December 31, 2013.

Net of interest capitalized on construction-in-progress, interest expense charged to the consolidated statement of income and retained earnings amounted to $1,165 during the year [2012 - $1,657].

[in thousands of dollars]

10. CAPITAL STOCK

Capital stock consists of the following:

	2013 $	2012 $
Authorized		
Unlimited common shares		
Issued		
1,000 common shares	**23,064**	23,064

11. RELATED PARTY TRANSACTIONS

The Corporation transacts business with the Corporation of the City of Oshawa ["City"] and its affiliates in the normal course of business at commercial rates. These transactions are summarized below:

	2013 $	2012 $
REVENUE		
City facilities	**3,071**	2,668
Streetlights	**1,744**	1,807
Fibre optic leases to City	**227**	239
	5,042	4,714
Streetlight maintenance and construction services	**59**	126
EXPENSES		
Net rent - 100 Simcoe Street South	**292**	287
Property taxes	**152**	149
ACCOUNTS RECEIVABLE		
Facilities and streetlights	**154**	326
Streetlight maintenance, construction services and fibre optic leases	**23**	272

[in thousands of dollars]

12. LEASE COMMITMENTS

The Corporation leases its premises under a net operating lease with the Corporation of the City of Oshawa. The Corporation entered into a new lease in 2012, which expires March 31, 2017. This lease replaced the previous agreement signed in 2007, which expired March 31, 2012. The Corporation entered into a contractual agreement to lease office equipment over a period of 66 months, expiring June 30, 2019. A wholly-owned subsidiary, 2252112 Ontario Inc., leases the roof-tops of various premises' from the City of Oshawa for the installation of solar panels. The lease is for a period of 25 years, and the specific site operational rent is based on a charge of $55 per kilowatt.

	100 Simcoe Street South $	Office Equipment $	Roof-top Solar Installations $	Total Lease Commitments $
2014	290	11	37	**338**
2015	290	11	37	**338**
2016	290	11	37	**338**
2017	72	11	37	**120**
2018	—	11	37	**48**
Thereafter	—	5	633	**638**
	942	60	818	**1,820**

Oshawa PUC Energy Services Inc. provides a performance guarantee to the OPA as required for the CHP power contract, in the form of a letter of credit for $115 as at December 31, 2013.

13. CONTINGENCIES

Insurance claims

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ["MEARIE"], which was created on January 1, 1987. A reciprocal insurance exchange is an Ontario group formed for the purpose of exchanging reciprocal contracts of indemnity of inter-insurance with each other. MEARIE provides general liability insurance to its member utilities.

Insurance premiums charged to each Municipal Electric Utility consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each electric utility's claims experience.

The Corporation refers any claims received to MEARIE under the provisions of this plan. No provision has been recorded in these consolidated financial statements in respect of these matters as the Corporation has not received any claim that is not adequately covered by its insurance.

[in thousands of dollars]

Income taxes

The tax returns filed by the Corporation are subject to review and reassessment by the Ministry of Finance for a period of up to five years from the date of filing. Any reassessment may result in a revision to previously determined tax obligations.

14. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Corporation has designated its financial instruments as follows:

	2013		2012	
	Carrying value $	**Estimated fair value** $	**Carrying value** $	**Estimated fair value** $
Loans and receivables				
Accounts receivable	**10,457**	**10,457**	8,345	8,345
PILs	**471**	**471**	216	216
Unbilled revenue	**13,081**	**13,081**	12,357	12,357
Other financial liabilities				
Accounts payable and accrued liabilities	**18,852**	**18,852**	14,039	14,039
Customer advance payments	**2,511**	**2,511**	2,812	2,812
Long-term debt	**34,394**	**33,400**	34,609	34,351

The Corporation has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. Considerable judgment is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments as well as related interest rate and credit and liquidity risks are described below.

Investments, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, and customer advance deposits
The carrying values of accounts receivable, unbilled revenue, accounts payable and accrued liabilities, and customer advance deposits approximate their fair values due to the short period to maturity of these financial instruments.

Long-term debt
The fair value of the Corporation's long-term debt is estimated using present value techniques based on a borrowing rate of 4.5% for debt with similar terms and maturities. Long-term debt is shown net of unamortized debt issue costs.

Credit risk
Certain of the Corporation's financial assets are exposed to credit risk.

Cash consists of deposits with major commercial banks.

The Corporation, in the normal course of business, is exposed to credit risk from its customers. These accounts receivable are subject to normal industry credit risks. The Corporation provides for an allowance for doubtful accounts to absorb its credit losses. The Corporation also has insurance against certain of the receivables.

The Corporation is also exposed to credit risk from the potential default of any of its counterparties on its interest rate swap agreements. The Corporation mitigates this credit risk by dealing with counterparties who are major financial institutions and which the Corporation anticipates will satisfy their obligations under the contracts.

Interest rate risk
Long-term debt is at fixed interest rates thereby minimizing cash flow and interest rate fluctuation exposure.

The Corporation enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Corporation does not enter into derivatives for speculative purposes. The fair value of the interest rate swap agreements represents an approximation of the amounts the Corporation would have paid to or received from the counterparty to unwind its positions as at December 31, 2013.

The Corporation estimates that a loss of approximately $282 [2012 - loss of $1,423] would be realized if the contracts were terminated on December 31, 2013. These contracts are designated as hedges, and therefore this loss has been included in other comprehensive income. This loss is not expected to affect income as management intends to hold the interest rate swap contracts to maturity.

Liquidity risk
The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest expense. The Corporation monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

[in thousands of dollars]

15. DEFERRED IRU LEASES

Deferred IRU leases are lump-sum payments made by OPUCS to lease the IRU of the dark fibre optics networks from arm's-length corporations. These payments are amortized over the contracted term of the IRU.

	2013 $	2012 $
Deferred IRU lease	**231**	231
Less accumulated amortization	**130**	120
Net book value	**101**	111

16. COLLATERAL

As part of its electricity purchase agreement with the IESO, an Irrevocable Standby Letter of Credit in the amount of $7,000 was issued in October 2012, in favour of the IESO, as collateral support for energy amounts as determined by and payable to the IESO.

17. CAPITAL MANAGEMENT

The Corporation defines capital as shareholder's equity. The Corporation's objectives when managing capital are to:

- Ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans;
- Maintain financial capacity and access to capital to support future development of the business while taking into consideration current and future industry, market and economic risks and conditions; and
- Utilize short-term funding sources to manage its working capital requirements.