# Oshawa Power and Utilities Corporation

## Consolidated financial statements
## December 31, 2019 and 2018

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# INDEPENDENT AUDITORS' REPORT

To the Shareholder of Oshawa Power and Utilities Corporation

## *Opinion*

We have audited the consolidated financial statements of Oshawa Power and Utilities Corporation (the Entity), which comprise:

- the consolidated balance sheet as at December 31, 2019
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended

and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

## *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

## *Other Matter – Comparative Information*

The financial statements for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on May 2, 2019.

## Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the Annual Report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

## Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Vaughan, Canada

April 30, 2020

**Oshawa Power and Utilities Corporation**

# CONSOLIDATED BALANCE SHEETS

[in thousands of dollars]

| As at December 31 | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash [including customer deposits in 2019 - $3,200; 2018 - $2,807] | **6,167** | 14,766 |
| Restricted cash *[note 10]* | **120** | 120 |
| Accounts receivable *[notes 12 and 15]* | **18,125** | 12,458 |
| Unbilled revenue | **10,734** | 12,521 |
| Inventory | **165** | 125 |
| Payments in lieu of corporate income taxes | **781** | 490 |
| Prepaid expenses and other | **737** | 581 |
| **Total current assets** | **36,829** | 41,061 |
| Property, plant and equipment, net *[note 3]* | **168,423** | 156,287 |
| Intangible assets, net *[note 4]* | **4,422** | 4,554 |
| Deferred income tax assets *[note 8]* | **3,114** | 3,824 |
| Investment in ZooShare Biogas LP *[note 16]* | **4,200** | — |
| Right-of-use lease assets *[note 13]* | **940** | — |
| Other assets | **36** | 243 |
| **Total assets** | **217,964** | 205,969 |
| Regulatory balances *[note 5]* | **752** | 7,195 |
| **Total assets and regulatory balances** | **218,716** | 213,164 |
| | | |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | |
| **Current** | | |
| Accounts payable for power - IESO *[note 17]* | **5,694** | 10,042 |
| Accounts payable and accrued liabilities | **11,250** | 13,529 |
| Payable to ZooShare Biogas LP *[note 16]* | **1,600** | — |
| Deferred contributions *[note 7]* | **1,958** | 1,654 |
| Customer advance payments | **844** | 528 |
| Payments in lieu of corporate income taxes | **—** | 382 |
| Deferred revenue | **613** | 148 |
| Current portion of long-term liabilities *[note 6]* | **1,653** | 3,649 |
| **Total current liabilities** | **23,612** | 29,932 |
| Long-term debt *[note 10]* | **62,814** | 63,116 |
| Unrealized loss on interest rate swaps *[note 14]* | **3,662** | 2,281 |
| Customer advance deposits | **2,284** | 1,892 |
| Lease Liability *[note 13]* | **909** | — |
| Deferred contributions *[note 7]* | **36,660** | 32,415 |
| Deferred revenue | **111** | 241 |
| Post-employment non-pension retirement benefits *[note 9]* | **13,121** | 12,928 |
| Deferred income tax liabilities *[note 8]* | **1,225** | 1,204 |
| **Total liabilities** | **144,398** | 144,009 |
| | | |
| **Shareholder's equity** | | |
| Capital stock *[note 11]* | **23,064** | 23,064 |
| Retained earnings | **45,235** | 42,011 |
| Accumulated other comprehensive loss on interest rate swaps | **(2,692)** | (1,677) |
| **Total shareholder's equity** | **65,607** | 63,398 |
| **Total liabilities and shareholder's equity** | **210,004** | 207,407 |
| Regulatory balances *[note 5]* | **8,712** | 5,757 |
| **Total liabilities, shareholder's equity and regulatory balances** | **218,716** | 213,164 |

Commitments and contingencies *[note 14]*

Subsequent events *[note 16, 19]*

*See accompanying notes*

On behalf of the Board:

Director Director

**Oshawa Power and Utilities Corporation**

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[in thousands of dollars]

| Years ended December 31 | **2019** **$** | **2018** **$** |
|---|---|---|
| **REVENUE** | | |
| Sale of electrical energy | **129,434** | 119,918 |
| Distribution | **25,366** | 24,282 |
| Energy management services | **3,055** | 5,099 |
| Regulated service | **899** | 846 |
| Combined heat and power, net | **1,324** | 1,028 |
| Service | **1,435** | 1,832 |
| Fibre optic | **1,244** | 1,207 |
| Deferred developer contributions *[note 7]* | **1,684** | 1,277 |
| Solar | **529** | 551 |
| Other (loss) revenue | **(102)** | 523 |
| **Total revenue** | **164,868** | 156,563 |
| | | |
| **EXPENSES** | | |
| Cost of electrical energy | **126,186** | 121,763 |
| Energy management services | **2,938** | 4,480 |
| Operations, maintenance and administrative | **15,903** | 16,020 |
| Depreciation - property, plant and equipment, intangible assets and ROU leases | **8,257** | 6,757 |
| Income from operations | **11,584** | 7,543 |
| Gain (loss) on disposal of property, plant and equipment | **200** | (457) |
| Interest income | **245** | 190 |
| Interest expense *[note 10]* | **(2,062)** | (1,543) |
| Income before payments in lieu of corporate income taxes | **9,967** | 5,733 |
| Provision for payments in lieu of corporate income taxes *[note 8]* | **983** | 1,290 |
| **Net income for the year** | **8,984** | 4,443 |
| Net movements in regulatory balances, net of tax *[note 5]* | **(3,260)** | 2,043 |
| **Net income after net movements in regulatory balances** | **5,724** | 6,486 |
| | | |
| Other comprehensive loss: | | |
| Unrealized loss in fair value of derivatives designated as cash flow hedges, net of income taxes | **(1,383)** | (1,801) |
| Gain in fair value of derivatives designated as cash flow hedges, transferred to net income for the year, net of income taxes | **368** | 261 |
| Remeasurement of post-employement benefits, net of income taxes | **(60)** | 1,129 |
| Net movements in regulatory balances related to OCI, net of income taxes | **60** | (1,129) |
| **Total comprehensive income for the year** | **4,709** | 4,946 |

*See accompanying notes*

**Oshawa Power and Utilities Corporation**

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

[in thousands of dollars]

| Years ended December 31, 2019 and 2018 | Capital stock | Retained earnings | Accumulated other comprehensive loss | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Balance as at January 1, 2018 | 23,064 | 37,825 | (137) | 60,752 |
| Net income after net movements in regulatory balances | — | 6,486 | — | 6,486 |
| Other comprehensive loss | — | — | (1,540) | (1,540) |
| Dividends paid | — | (2,300) | — | (2,300) |
| Balance as at December 31, 2018 | 23,064 | 42,011 | (1,677) | 63,398 |
| | | | | |
| Net income after net movements in regulatory balances | — | 5,724 | — | 5,724 |
| Other comprehensive loss | — | — | (1,015) | (1,015) |
| Dividends paid | — | (2,500) | — | (2,500) |
| **Balance as at December 31, 2019** | **23,064** | **45,235** | **(2,692)** | **65,607** |

*See accompanying notes*

**Oshawa Power and Utilities Corporation**

# CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of dollars]

| Years ended December 31 | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income after net movements in regulatory balances for the year | **5,724** | 6,486 |
| Adjustments: | | |
| Net movements in regulatory balances | **3,260** | (2,043) |
| Depreciation - property, plant and equipment, intangible assets and ROU leases | **8,256** | 6,757 |
| Deferred developer contribution | **(1,684)** | (1,277) |
| Amortization of deferred revenue | **(697)** | (695) |
| Provision for payments in lieu of corporate income taxes | **983** | 1,290 |
| Post-employment non-pension retirement benefits expense | **634** | 649 |
| Interest income | **2,062** | 1,543 |
| Interest expense | **(245)** | (190) |
| (Gain) loss on disposal of property, plant and equipment | **(214)** | 457 |
| Contribution received from developers | **4,217** | 1,864 |
| Payments in lieu of corporate income taxes | **(1,710)** | (1,169) |
| Post-employment non-pension retirement benefit payments | **(501)** | (451) |
| Cash received related to deferred revenue | **1,032** | 742 |
| Prior period regulatory settlement | **6,514** | - |
| | **27,631** | 13,963 |
| Changes in non-cash working capital balances related to operations: | | |
| (Increase) decrease in accounts receivable | **(5,668)** | 6,029 |
| Decrease (increase) in unbilled revenue | **1,787** | (353) |
| Decrease in other assets | **206** | 27 |
| Increase in inventory | **(40)** | (10) |
| (Increase) decrease in prepaid expenses and other | **(156)** | 44 |
| (Decrease) increase in accounts payable and accrued liabilities, and accounts payable for power - IESO | **(6,628)** | 541 |
| Increase (decrease) in customer advance payments | **392** | (601) |
| Increase (decrease) in customer advance deposits | **316** | (2,928) |
| Increase in other current liabilities | **5** | 2 |
| Change related to regulatory disposition balances | **831** | (589) |
| **Cash provided by operating activities** | **18,676** | 16,125 |
| **INVESTING ACTIVITIES** | | |
| Additions to property, plant and equipment, and intangible assets | **(19,344)** | (19,929) |
| Proceeds from disposal of property, plant and equipment | **14** | 33 |
| Investment in Zooshare Biogas LP | **(2,600)** | 0 |
| **Cash used in investing activities** | **(21,930)** | (19,896) |
| **FINANCING ACTIVITIES** | | |
| Dividends paid | **(2,500)** | (2,300) |
| Repayment of loan principal | **(286)** | (272) |
| Proceeds from long-term debt | **-** | 15,000 |
| Interest income received | **245** | 190 |
| Interest paid on long term debt | **(2,408)** | (1,948) |
| Payment against lease liability | **(396)** | - |
| **Cash (used in) provided by financing activities** | **(5,345)** | 10,670 |
| **Net (decrease) increase in cash during the year** | **(8,599)** | 6,899 |
| Cash, beginning of year | **14,766** | 7,867 |
| **Cash, end of year** | **6,167** | 14,766 |

*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. [“OPUCES”], 2252112 Ontario Inc., and 2720665 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. OPUCES provides energy management services, and owns and operates a combined heat and power plant generating electricity under a long-term contract with the Independent Electricity System Operator ["IESO"], and 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. 2720665 Ontario Inc. was incorporated on October 8, 2019 for the purpose of holding an investment in ZooShare Biogas Development Inc. On October 31, 2019, ZooShare Biogas LP was formed as a limited partnership between ZooShare Biogas Development Inc, ZooShare Biogas Co-operative Inc. and OPUCES.

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

The Corporation has evaluated the events and transactions after the consolidated balance sheet dates through April 30, 2020, when the Corporation’s Board of Directors approved and authorized the consolidated financial statements.

## 2. SUMMARY OF ACCOUNTING POLICIES

### A) Changes in accounting policies

***IFRS 16 Leases ("IFRS 16")***
In January 2016, the IASB issued IFRS 16, *Leases* ["IFRS 16"], which replaces IAS 17, *Leases* ["IAS 17"]. 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. Lessor accounting remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. Under the new standard, a lessee recognizes a right of use asset and a lease liability. The right of use asset is subsequently depreciated, similar to other non- financial assets and the liability accrues interest. The lease liability is initially measured as the present value of the lease payments over the lease term, discounted at the rate implicit in the lease. The Corporation applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 is not restated, and continues to be presented under IAS 17. The impact of changes is disclosed in notes 2 (B) and 13.

## B) Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements have been applied consistently to all periods presented herein, except for the new standard IFRS 16, which was adopted effective January 1, 2019. The Consolidated Balance Sheets and the Consolidated Statements of Comprehensive Income have been modified from the adoption of the new standard.

### Basis of consolidation
The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

### Interests in equity-accounted investees
The Corporation's interests in the joint venture is accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Corporation's share of the profit or loss and OCI of equity-accounted investees, until the date on which joint control ceases.

### Basis of presentation
The Corporation's consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ["IFRS"] as adopted by the International Accounting Standards Board ["IASB"] and interpretations as issued by the International Financial Reporting Interpretations Committee ["IFRIC"] of the IASB, 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 licenses 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 fulfil their obligations to connect and service customers.

On October 18, 2012, the OEB released its report, "*Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach"* ["RRFE"]. The OEB established three rate-setting methods under RRFE: 4$^{th}$ Generation Incentive Rate, Custom Incentive Rate and Annual Incentive Rate Index. Each LDC has the option to select the method that best meets its needs and circumstances, and apply to the OEB to have its rates set on that basis.

4$^{th}$ Generation Incentive Rate-setting ["4th Generation IR"] is most appropriate for distributors that anticipate some incremental investment needs will arise during the plan term. The OEB expects that this method will be appropriate for most LDCs. LDCs with relatively steady state investment needs (i.e., primarily sustainment), may opt for the Annual Incentive Rate-setting Index ["Annual IR Index"]. The Custom Incentive Rate-setting ["Custom IR"] method may be appropriate for LDCs with significantly large multi-year or highly variable investment commitments with relatively certain timing and level of associated expenditures.

In January 2015, the Corporation filed its Custom IR application with the OEB seeking approval to change rates that it charges for electricity delivery, retail services, allowances, loss factor and specific services charges for a period of five years, to be effective January 1, 2015 to December 31, 2019. This application requested a revenue requirement to recover costs, and provides a rate of return on a deemed capital structure applied to rate base assets.

The OEB issued its decision and rate order on December 22, 2015 approving final 2016 and 2017 rates and charges, and interim rates and charges for subsequent years, 2018 and 2019. On July 4, 2017, the Corporation filed an application with the OEB to seek OEB approval of final rates for 2018 and 2019. OEB final approval of 2018 and 2019 rates and charges was confirmed on February 1, 2018, to be effective January 1, 2018. In addition, the Corporation may introduce new rate riders depending on the timing of the clearance of variance and deferral accounts.

The OEB has the general authority to include or exclude costs and revenue 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 IFRS.

***Amendments to the Ontario Rebate for Electricity Consumers Act, 2016 and Associated Regulations***

The Ministry of Energy, Northern Development, & Mines has amended portions of the Ontario Rebate for Electricity Consumers Act, 2016 ("OREC") and associated Regulations as part of its effort to improve the transparency of electricity costs for consumers. Beginning November 1, 2019, the following changes were mandated:

1. The subsidies from the Fair Hydro Plan were removed from the Regulated Price Plan (“RPP”);
2. The 8% Ontario Rebate for Electricity Consumers, otherwise known as the ‘Provincial Rebate’ was removed and replaced with a credit of 31.8% called the Ontario Electricity Rebate [“OER”];
3. An additional line item, entitled the Total Ontario Electricity Support, was added, comprising all other forms of support provided to customers, previously identified separately as each of the Ontario Electricity Support Program; Rural or Remote Rate Protection; Distribution Rate Protection; and First Nations Delivery Credit.

These changes are generally applicable to low volume customers. However, the amendments to the regulations also amend the eligibility criteria for customers. Certain groups of customers will now be excluded from the rebate altogether.

The following regulatory practices relating to regulatory balances, and payments in lieu of corporate income taxes, have resulted in accounting treatments that differ from IFRS for enterprises operating in a non-regulated environment.

***Regulatory Deferral Accounts***

IFRS 14, *Regulatory Deferral Accounts*, allows the Corporation to utilize pre-IFRS Canadian Generally Accepted Accounting Principles ["IFRS 14"] with respect to the recognition of Regulatory Balances that address the deferral of specific non-income related cash inflows and outflows.

Regulatory debits primarily represent costs that have been deferred because it is probable that they will be recovered in future rates. Similarly, regulatory credits 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 balances and are reflected in the LDC's balance sheets until the manner and timing of disposition is determined by the OEB.

***Payments in lieu of corporate income taxes ["PILs"]***

The Corporation provides for PILs using the deferred income taxes method for its regulated activities as permitted by the IASB and the OEB.

## 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 combined heat and power ["CHP"] plant term loan.

## Inventory

Inventory, which consists of parts and supplies acquired for internal maintenance or construction, and gas for use in a 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

Items of property, plant and equipment ["PP&E"] are measured at cost or deemed cost on transition date, less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use. Borrowing costs on qualifying assets are capitalized as part of the cost of the asset and are based on OEB prescribed rates.

When parts of an item of PP&E have different useful lives, they are separately depreciated as components of PP&E.

Subsequent expenditures are included in an asset's carrying amount or recognized as a separate asset, where appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be reliably measured.

Under IFRS, an asset is derecognized at its carrying value when it is disposed of or when no future economic benefits are expected from its use. The gain or loss arising on the disposal or retirement of an item of PP&E is determined as the difference between the proceeds from sale and the carrying amount of the asset, and is recognized in the Consolidated Statements of Comprehensive Income.

[In thousands of dollars]

Depreciation of PP&E is recorded in the consolidated statements of comprehensive income on a straight-line basis over the estimated useful lives of the components of PP&E. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

Depreciation rates representing estimated useful lives for the main categories of PP&E are shown in the table below:

| | |
|---|---|
| Buildings | 1.61% - 2.38% |
| Transmission, distribution system and meters | 1.67% - 10% |
| Equipment and furniture | 5% - 20% |
| Combined heat and power plant engine | 25% |
| Computer hardware | 8.33% - 12.50% |
| Vehicle fleet | 1.61% - 2.38% |
| 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 they are in the location and condition necessary for them to be capable of operating in the manner intended by the Corporation.

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

## Intangible assets

Intangible assets are assets that lack physical substance, other than financial assets. Intangible assets, which consist of computer software, deferred indefeasible right of use ["IRU"] leases, and payments made to Hydro One Networks Inc. ["HONI"] for dedicated infrastructure in order to receive connections to transmission facilities, are recorded at cost less accumulated amortization. Amortization of intangible assets is recorded on a straight-line basis over the estimated useful life of the related asset, or over the term of the IRU, and recorded in the consolidated statements of comprehensive income.

Amortization rates representing estimated useful lives for intangible assets are shown below:

| | |
|---|---|
| Computer software | 33.33% |
| Deferred indefeasible right of use lease | 20 years |

## Asset retirement obligations

The need to estimate the cost of decommissioning or asset retirement obligations ["AROs"] at the end of the useful lives of certain assets is reviewed periodically. A provision is recorded, if required, for the fair value of the future expenditures required to settle legal obligations associated with asset retirements. As at December 31, 2019, the Corporation has determined that there are no material AROs associated with transmission, distribution and generation systems.

## Impairment of non-financial assets
The carrying amounts of the Corporation's non-financial assets, other than inventory and deferred payments in lieu of corporate income taxes, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use and are largely independent of the cash inflows of other assets or groups of assets [the "cash-generating unit"]. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in net income.

## 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 defined 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 post-employment non-pension retirement benefits 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, prorated 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 the 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.

Current service costs are recognized in the consolidated statements of comprehensive income under operations, maintenance and administrative expenses.

The Corporation applies IFRS 14, Regulatory Deferral Accounts, to recognize all cumulative actuarial gains or losses in a deferral account as at January 1, 2014. The Corporation, as permitted by the OEB, created a deferral account to capture all actuarial gains and losses going forward. Remeasurements arising from defined benefit plans are recognized immediately in other comprehensive income (“OCI”) and reported in accumulated other comprehensive income. Amounts recorded in OCI are not recycled to the Consolidated Statement of Income and Comprehensive Income. The disposition of this new deferral account will occur sometime in the future in accordance with OEB guidelines in effect at that appropriate time.

## 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 cash or cash equivalents, 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.

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

## Deferred contributions
Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers when the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers’ specific requirements.

Capital contributions received in advance from electricity customers and developers to construct or acquire PP&E for the purpose of connecting a customer to a network are recorded as deferred revenue and amortized into other revenue at an equivalent rate to that used for the depreciation of the related PP&E. Capital contributions received from developers to construct or acquire PP&E for the purpose of connecting future customers to the distribution network are considered out of scope of IFRS 15 Revenue from Contracts with Customers.

## Deferred revenue
Deferred revenue includes 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.

## Financial instruments

*Initial and subsequent measurement*

At initial recognition, all financial instruments are measured at fair value plus or minus transaction costs, with the exception of accounts receivable which are initially recognized at the transaction price and financial instruments fair value through profit or loss which are initially recognized at fair value.

Financial assets are subsequently measured at either amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL") based on the cash flow characteristics of the assets and the business models under which they are managed. All of the Corporation's financial assets are held for collection of contractual cash flows that represent payments of principal and interest and, accordingly, are subsequently measured at amortized cost using the effective interest rate method. These include cash, restricted cash, and accounts receivables.

Financial liabilities are either subsequently measured at FVTPL or amortized cost, except for interest rate swaps used in hedge accounting. The Corporation's financial liabilities measured at amortized cost include accounts payable for power – IESO, accounts payable and accrued liabilities, long-term debt, and customer advance deposits.

*Impairment*

The Corporation recognizes an allowance for expected credit losses ("ECL") for all financial assets not held at FVTPL. The Corporation applies the simplified approach to its accounts receivable which requires expected lifetime losses to be recognized from initial recognition of the receivables and on an ongoing basis. The measurement of ECLs for accounts receivable is based on management's judgment. This is determined using a provision matrix based on historical observed default rates, adjusted for forward-looking factors specific to the debtors and the economic environment. For financial assets other than accounts receivable, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default. The Corporation considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Corporation may also consider a financial asset to be in default when internal or external information indicates that the Corporation is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Corporation. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the asset. All impairment losses are recognized in net income.

*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, which are designated as cash flow hedges as it is hedging the exposure to variability in cash flows that is attributable to interest rate risk associated with the long-term debt. The Corporation does not enter into derivative agreements for speculative purposes.

At the inception of a hedging relationship, the Corporation designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and its strategy for undertaking the hedge. The Corporation also assesses on an on-going basis whether the hedge continues to be effective, including that the hedge ratio remains appropriate.

The interest rate swaps are measured at their fair value upon initial recognition and on each subsequent reporting date. When the cash flow hedge meets all the qualifying criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income ("OCI"), while any ineffective portion is recognized immediately in net income. The amount accumulated in OCI is reclassified to net income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect net income, and recorded within interest expense.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to net income as a reclassification adjustment.

## Investments in Associates

IAS 28, Investments in Associates and Joint Ventures, provides the accounting guidelines for recognition, measurement and disclosure of investments in associates. Investment was recognized at cost upon initial recognition. Subsequent to initial recognition, carrying amount of the investment is increased or decreased by the investor's share on investee's net profit or loss after the acquisition date.

## Leases

The Corporation applied IFRS 16 Leases from January 1, 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as January 1, 2019. Accordingly, the comparative information presented for 2018 is not restated. It is presented as previously reported under IAS 17 and related interpretations. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

On transition to IFRS 16, the Corporation elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Corporation applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

As a lessee, the Corporation leases the right to use dark fibre optics networks from arm's length corporations. Deferred IRU leases are lump-sum payments made by OPUCS with a contract term of 20 years. As a lessee, the Corporation leases its office premises with the Corporation of the City of Oshawa. The Corporation leases IT office equipment, and the rooftops of various premises from the City for the installation of solar panels.

Under IFRS 16, the Corporation recognizes right-of-use assets and lease liabilities for all of these leases. On transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Corporation's incremental borrowing rate as at January 1, 2019. The Corporation has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Corporation previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Corporation. Comparative lease information is reported under IAS 17. Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases in comparative periods. 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.

The Corporation, through its subsidiary, OPUCS, leases out its dark fibre optic network to various municipalities, universities, schools, hospitals, and enterprise and carrier customers. The Corporation is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor as dark fibre leases are determined to be operating leases.

## Revenue recognition

The Corporation has identified that its material performance obligation is the distribution and provision of electricity to customers. Revenue is measured at the fair value of the consideration received or receivable, excluding any discounts, rebates and sales taxes. The Corporation has determined that it acts as a principal in all of its revenue arrangements.

The Corporation is licensed by the OEB to distribute electricity. As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity services, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to the regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers. The Corporation has determined that they are acting as a principal for the distribution of electricity and, therefore, have presented the sale of electrical energy revenue on a gross basis.

Distribution revenue for the Corporation is recognized at approved rates, as electricity is delivered to customers and is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used.

Distribution revenue attributable to the delivery of electricity is based upon OEB-approved distribution tariff rates and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution charges and any regulatory charges. Revenue is recognized as electricity is delivered and consumed by customers. Revenue includes an estimate of unbilled revenue. Unbilled revenue represents an estimate of electricity consumed by customers since the date of each customer's last meter reading. Actual electricity usage could differ from those estimates.

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.

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.

Service revenue primarily includes duct rental, and other energy services revenue, that is recognized as services are rendered and time expires.

Energy management services includes project management, and design and build services. Revenue from design and build services is recognized by reference to the stage of completion. Stage of completion is measured by reference to total expenses incurred to date as a percentage of total estimated expenses for each contract. When the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered. The excess of billed revenue over expenses incurred is then placed into deferred revenue. This is generally during the early stages of the contract when total expenses for a contract cannot be reliably estimated.

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.

Capital contributions received from electricity customers to construct or acquire PP&E for the purpose of connecting a customer to a network, are recorded as a deferred contribution on the balance sheet and amortization is presented as revenue from deferred contributions on the statement of comprehensive income at an equivalent rate to that used for the depreciation of the related PP&E.

Solar revenue is recognized upon delivery of the metered electricity.

Other revenue and interest are recognized as services are rendered, projects completed or when interest is earned. Revenue and costs associated with Conservation and Demand Management ["CDM"] programs are presented using the net basis of accounting within other revenue. Performance incentive payments under CDM programs are recognized by the Corporation when there is reasonable assurance that the program conditions have been satisfied and the incentive payments will be received.

## 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, formerly Ontario Hydro.

The regulated electricity distribution business of the Corporation recognizes deferred tax using the balance sheet method. Under this method, provisions are made for deferred income taxes as a result of temporary differences between the tax bases of assets and liabilities and their carrying amounts for accounting purposes. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. When deferred 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. Deferred income tax assets and liabilities are offset since they relate to income taxes levied by the same taxation authority.

A deferred income tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred income 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 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 Chartered Professional Accountants of Canada.

The method that has been used to set the PILs portion of the Corporation's rates for 2018 is consistent with the approach used in past periods.

Current income taxes are based on taxable profit or loss for the year, which differ from profit or loss as reported in the consolidated statements of comprehensive income because it excludes items that are taxable or deductible in other years and items that are neither taxable nor deductible.

## Measurement uncertainty

The preparation of consolidated financial statements in conformity with IFRS, 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.

## Future accounting policies

At the date of authorization of these financial statements, certain new standards and amendments to existing standards have been published but are not yet effective, and have not been early adopted by the Corporation. Information on new standards and amendments that are expected to be relevant to the Corporation’s financial statements is provided below.

- Interbank Offered Rate reform and its effects on financial reporting – Phase 1
- Amendments to references to conception framework in IFRS
- Definition of a business (amendments to IFRS 3)
- Definition of material (amendments to IAS 1 and IAS 8)
- IFRS 17 – Insurance
- Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28).

[In thousands of dollars]

## 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following as at December 31, 2019:

| | January 1, 2019 $ | Additions/transfers/ depreciation $ | Disposals / retirements $ | **December 31, 2019 $** |
|---|---|---|---|---|
| **Cost** | | | | |
| **Transmission, distribution and generation** | | | | |
| Transformers | 61,208 | 4,594 | (1,612) | **64,190** |
| Underground distribution | 54,955 | 8,009 | (2,290) | **60,674** |
| Poles, towers and fixtures | 45,900 | 7,580 | (3,159) | **50,321** |
| Station equipment | 27,522 | – | (476) | **27,046** |
| Overhead distribution | 24,176 | 2,494 | (979) | **25,691** |
| Meters | 13,316 | 1,072 | (626) | **13,762** |
| Combined heat and power plant | 7,070 | 48 | – | **7,118** |
| Solar | 2,463 | – | – | **2,463** |
| | 236,610 | 23,797 | (9,142) | **251,265** |
| **Construction in progress** | 11,490 | (4,614) | - | **6,876** |
| **Other property, plant and equipment** | | | | |
| Vehicle fleet | 4,969 | 341 | (204) | **5,106** |
| Equipment and furniture | 9,335 | 407 | (61) | **9,681** |
| Fibre optics network | 2,615 | 59 | – | **2,674** |
| Computer hardware | 3,230 | 148 | (298) | **3,080** |
| Buildings | 5,314 | 397 | – | **5,711** |
| Land | 294 | – | – | **294** |
| | 25,757 | 1,352 | (563) | **26,546** |
| **Total cost** | 273,857 | 20,535 | (9,705) | **284,687** |
| | | | | |
| **Accumulated depreciation** | | | | |
| **Transmission, distribution and generation** | | | | |
| Transformers | (33,661) | (1,153) | 1,580 | **(33,234)** |
| Underground distribution | (21,859) | (1,485) | 2,167 | **(21,178)** |
| Poles, towers and fixtures | (16,593) | (866) | 2,419 | **(15,040)** |
| Station equipment | (9,285) | (573) | 403 | **(9,454)** |
| Overhead distribution | (9,485) | (324) | 719 | **(9,090)** |
| Meters | (8,113) | (1,003) | 504 | **(8,612)** |
| Combined heat and power plant | (2.818) | (263) | – | **(3,081)** |
| Solar | (718) | (123) | – | **(841)** |
| | (102,533) | (5,791) | 7,792 | **(100,531)** |
| **Other property, plant and equipment** | | | | |
| Vehicle fleet | (3,014) | (383) | 204 | **(3,191)** |
| Equipment and furniture | (7,336) | (501) | 72 | **(7,764)** |
| Fibre optics network | (1,373) | (132) | – | **(1,504)** |
| Computer hardware | (2,733) | (193) | 298 | **(2,626)** |
| Buildings | (582) | (70) | – | **(648)** |
| | (15,037) | (1,279) | 574 | **(15,743)** |
| **Total accumulated depreciation** | (117,570) | (7,069) | 8,366 | **(116,264)** |
| **Carrying amount** | 156,287 | 13,466 | (1,339) | **168,423** |

[In thousands of dollars]

Property, plant and equipment consist of the following as at December 31, 2018:

| | January 1, 2018 $ | Additions/ depreciation $ | Disposals/ retirements $ | Reclass $ | December 31, 2018 $ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Transmission and distribution** | | | | | |
| Transformers | 59,310 | 1,898 | – | – | 61,208 |
| Underground distribution | 49,651 | 3,791 | (295) | 1,808 | 54,955 |
| Poles, towers and fixtures | 45,157 | 236 | (30) | 537 | 45,900 |
| Station equipment | 23,551 | 3,562 | (15) | 424 | 27,522 |
| Overhead distribution | 21,893 | 770 | (3) | 1,516 | 24,176 |
| Meters | 12,495 | 665 | (43) | 199 | 13,316 |
| Combined heat and power plant | 7,132 | 124 | (186) | – | 7,070 |
| Solar | 2,463 | – | – | – | 2,463 |
| | 221,652 | 11,046 | (572) | 4,484 | 236,610 |
| **Construction in progress** | 9,642 | 3,102 | – | (1,254) | 11,490 |
| **Other property, plant and equipment** | | | | | |
| Vehicle fleet | 4,835 | 335 | (201) | – | 4,969 |
| Equipment and furniture | 9,089 | 246 | – | – | 9,336 |
| Fibre Optics Network | 2,527 | 84 | – | 4 | 2,615 |
| Computer hardware | 2,804 | 426 | – | – | 3,230 |
| Buildings | 757 | 4,557 | – | – | 5,314 |
| Land | 294 | – | – | – | 294 |
| | 20,306 | 5,648 | (201) | 4 | 25,757 |
| **Total cost** | 251,600 | 19,796 | (773) | 3,234 | 273,857 |
| **Accumulated depreciation** | | | | | |
| **Transmission and distribution** | | | | | |
| Transformers | (32,648) | (1,014) | – | 1 | (33,661) |
| Underground distribution | (19,204) | (1,311) | – | (1,345) | (21,860) |
| Poles, towers and fixtures | (15,672) | (807) | – | (114) | (16,593) |
| Station equipment | (8,389) | (559) | – | (337) | (9,285) |
| Overhead distribution | (7,783) | (351) | – | (1,351) | (9,485) |
| Meters | (7,067) | (958) | – | (88) | (8,113) |
| Combined heat and power plant | (2,637) | (269) | 88 | – | (2.818) |
| Solar | (595) | (123) | – | – | (718) |
| | (93,995) | (5,393) | 88 | (3,234) | (102,533) |
| **Other property, plant and equipment** | | | | | |
| Vehicle fleet | (2,899) | (350) | 234 | 1 | (3,014) |
| Equipment and furniture | (6,961) | (375) | – | – | (7,336) |
| Fibre Optics Network | (1,244) | (129) | – | – | (1,373) |
| Computer hardware | (2,571) | (161) | – | (1) | (2,733) |
| Buildings | (527) | (54) | – | – | (581) |
| | (14,202) | (1,069) | 234 | – | (15,037) |
| **Total accumulated depreciation** | (108,197) | (6,461) | 322 | (3,234) | (117,570) |
| **Carrying amount** | 143,403 | 13,335 | (451) | – | 156,287 |

Certain comparative information presented for the year ended 2018 has been reclassified.

[In thousands of dollars]

For the year ended December 31, 2019, ascribed interest capitalized to property, plant and equipment as prescribed by the OEB amounted to $357 [2018 - $405]. In the absence of rate regulation, additions to property, plant and equipment would have been $357 lower [2018 - $405 lower] and interest expense would have been $357 higher [2018 - $405 higher].

## 4. INTANGIBLE ASSETS

Intangible assets consist of deferred IRU lease charges, computer software, and Hydro One Networks Inc. ["HONI"] contribution.

| | January 1, 2019 | Additions/ depreciation | Disposals/ retirements | **December 31, 2019** |
|---|---|---|---|---|
| | $ | $ | $ | **$** |
| **Cost** | | | | |
| Deferred IRU lease | 231 | – | - | **231** |
| Computer software | 2,383 | 176 | 210 | **2,349** |
| HONI Contribution | 4,051 | 84 | - | **4,135** |
| | 6,665 | 260 | 210 | **6,715** |
| **Accumulated depreciation** | | | | |
| Deferred IRU lease | (180) | (10) | - | **(190)** |
| Computer software | (1,931) | (300) | (210) | **(2,021)** |
| HONI Contribution | - | (83) | - | **(83)** |
| | (2,111) | (393) | (210) | **(2,294)** |
| **Carrying amount** | 4,554 | (133) | - | **4,422** |

| | January 1, 2018 | Additions/ depreciation | Disposals/ retirements | December 31, 2018 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Cost** | | | | |
| Deferred IRU lease | 231 | – | - | 231 |
| Computer software | 2,033 | 349 | - | 2,383 |
| HONI Contribution | 3,902 | 149 | - | 4,051 |
| | 6,166 | 498 | - | 6,665 |
| **Accumulated depreciation** | | | | |
| Deferred IRU lease | (170) | (10) | - | (180) |
| Computer software | (1,645) | (286) | | (1,931) |
| | (1,814) | (296) | - | (2,110) |
| **Carrying amount** | 4,352 | 202 | - | 4,554 |

## 5. REGULATORY BALANCES

[In thousands of dollars]

Regulatory debit balances consist of the following:

| | January 1, 2019 $ | Balances arising in the period $ | Recovery/ reversal $ | **December 31, 2019 $** |
|---|---|---|---|---|
| **Regulatory debit balances** | | | | |
| Retail settlement variance – power | 679 | (679) | – | **–** |
| Retail settlement variance – global adjustment | 5,306 | (5,306) | – | **–** |
| Post-employment benefits deferral | 259 | 60 | – | **320** |
| Regulatory debit balances – other | 321 | 111 | – | **433** |
| Regulatory Asset Recovery Account [“RARA”] | 630 | | (630) | **–** |
| **Total regulatory debit balances** | 7,195 | (5,814) | (630) | **752** |

| | January 1, 2018 $ | Balances arising in the period $ | Recovery/ reversal $ | December 31, 2018 $ |
|---|---|---|---|---|
| **Regulatory debit balances** | | | | |
| Retail settlement variance – power | 1,244 | (565) | – | 679 |
| Retail settlement variance – global adjustment | 2,567 | 2,739 | – | 5,306 |
| Post-employment benefits deferral | 1,388 | (1,129) | – | 259 |
| Regulatory debit balances – other | 213 | 108 | – | 321 |
| Regulatory Asset Recovery Account [“RARA”] | 40 | 590 | – | 630 |
| **Total regulatory debit balances** | 5,452 | 1,743 | – | 7,195 |

Regulatory credit balances consist of the following:

| | January 1, 2019 $ | Balances arising in the period $ | Recovery/ reversal $ | **December 31, 2019 $** |
|---|---|---|---|---|
| **Regulatory credit balances** | | | | |
| Retail Settlement Variance – Power | – | 2,123 | – | **2,123** |
| Retail Settlement Variance – global adjustment | – | 2,273 | – | **2,273** |
| Retail settlement variances – other | 2,426 | (514) | – | **1,910** |
| Regulatory Asset Recovery Account ["RARA"] | – | – | 198 | **198** |
| Deferred income taxes *[note 8]* | 3,218 | (1,146) | – | **2,072** |
| Smart meter variance | 54 | – | – | **54** |
| Regulatory credit balances – other | 59 | 22 | – | **81** |
| **Total regulatory credit balances** | 5,757 | 2,758 | 198 | **8,712** |

[In thousands of dollars]

| | January 1, 2018 $ | Balances arising in the period $ | Recovery/ reversal $ | December 31, 2018 $ |
|---|---|---|---|---|
| **Regulatory credit balances** | | | | |
| Retail settlement variances – other | 2,220 | 206 | – | 2,426 |
| Deferred income taxes *[note 8]* | 4,756 | (1,538) | – | 3,218 |
| Smart meter variance | 54 | – | – | 54 |
| Regulatory credit balances – other | 22 | 37 | – | 59 |
| **Total regulatory credit balances** | 7,052 | (1,295) | – | 5,757 |

The "Balances arising in the period" column consists of new additions to regulatory balances (for both debits and credits). The "Recovery/reversal" column consists of amounts disposed through OEB-approved rate riders or transactions reversing an existing regulatory balance. Net movements in regulatory balances, net of tax totalled $3,260 [2018 - $2,043].

The regulatory balances of the Corporation consist of the following:

## 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 debit and credit over time and are reported at period-end dates in accordance with rules prescribed by the OEB. Under rate regulation, the variances that would be recorded as revenue or expense when incurred under IFRS are deferred until collected or repaid through future rates. The Corporation has accrued interest on the regulatory debit or credit balances, as directed by the OEB. Management has not yet sought disposal of the regulatory balances but intends to do so as part of the 2021 rate application.

***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 previously 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, 2019 represents the opening balance approved for recovery, amounts collected during the year, and the deferral and variance account balances approved for disposition by the OEB on February 1, 2018 as part of the Corporation's cost of service application for rates effective January 1, 2019.

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

***Post-employment benefits deferral***
This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments. The balance arising during the years ended December 31, 2019 and December 31, 2018 primarily related to the actuarial gain and loss recorded for each year, respectively.

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

[In thousands of dollars]

## 6. CURRENT PORTION OF LONG-TERM LIABILITIES

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

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Customer advance deposits | **915** | 915 |
| Upstream capital improvement liability | **-** | 2,016 |
| Long-term debt *[note 10]* | **299** | 283 |
| Deferred fibre lease | **438** | 435 |
| **Current portion of long-term liabilities** | **1,653** | 3,649 |

## 7. DEFERRED CONTRIBUTIONS

The continuity of deferred contributions is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Deferred contributions, net, beginning of year | **34,069** | 33,482 |
| Deferred contributions received | **4,218** | 1,863 |
| Reclass of deferred contribution | **2,016** | - |
| Deferred contributions recognized as income | **(1,684)** | (1,276) |
| Deferred contributions, net, end of year | **38,619** | 34,069 |
| Less: current portion | **(1,958)** | (1,654) |
| Deferred contributions long-term portion | **36,660** | 32,415 |

## 8. PILs

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

| | **2019** | 2018 |
|---|---|---|
| | $ | $ |
| Income before PILs | **9,967** | 5,733 |
| Net movements in regulatory balances | **(3,260)** | 2,043 |
| Net income after net movements in regulatory balances, before PILs | **6,707** | 7,776 |
| Combined Canadian federal and Ontario statutory income tax rate | **26.50%** | 26.50% |
| Expected provision for PILs at statutory tax rates | **1,777** | 2,062 |
| Property, plant and equipment | **(802)** | (615) |
| Post-employment non-pension benefits | **38** | 32 |
| Corporate minimum taxes paid in prior years recovered | **(30)** | (43) |
| Other | **(95)** | (39) |
| Cost allocations | **(95)** | (107) |
| **Provision for PILs** | **983** | 1,290 |
| **Effective tax rates** | **14.67%** | 16.58% |

Income tax expense as presented in the consolidated statements of comprehensive income is as follows:

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[In thousands of dollars]

December 31, 2019 and 2018

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| **Current tax expense** | | |
| Current PILs charge | **1,034** | 1,182 |
| **Deferred income tax expense** | | |
| Origination and reversal of temporary differences | **1,193** | 1,646 |
| Deferred taxes transferred to regulatory balances *[note 5]* | **(1,148)** | (1,538) |
| **Provision for PILs** | **983** | 1,290 |

| | **2019** | 2018 |
|---|---|---|
| | $ | $ |
| **Deferred income taxes related to items recognized in OCI during the year** | | |
| Net gain on revaluation of cash flow hedges | **(133)** | (94) |
| Unrealized gain (loss) on derivatives designated as cash flow hedges | **499** | 649 |
| **Deferred income taxes charged to OCI** | **366** | 555 |

As at December 31, 2019, the Corporation has recognized $2,071 in regulatory credit balance and a corresponding offset to deferred income tax assets [2018 - $3,218].

### Deferred income taxes

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The net deferred income tax asset consists of the following:

| | Net balance, January 1, 2019 | Recognized in regulatory balance | Recognized in OCI | Recognized in income statement | **Net balance, December 31, 2019** |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | **$** |
| **Components of deferred income tax assets** | | | | | |
| Property, plant and equipment | (1,349) | (24) | – | – | **(1,373)** |
| Employee post-employment non-pension benefits | 4,567 | (1,090) | – | – | **3,477** |
| Non-capital losses | – | – | – | 70 | **70** |
| Other taxable temporary differences | 606 | (33) | 366 | – | **939** |
| **Deferred income tax assets** | 3,824 | (1,148) | 366 | 70 | **3,114** |

[In thousands of dollars]

| | Net balance, January 1, 2018 $ | Recognized in regulatory balance $ | Recognized in OCI $ | Recognized in income statement $ | Net balance, December 31, 2018 $ |
|---|---|---|---|---|---|
| **Components of deferred income tax assets** | | | | | |
| Property, plant and equipment | (241) | (1,108) | – | – | (1,349) |
| Employee post-employment non-pension benefits | 4,997 | (430) | – | – | 4,567 |
| Non-capital losses | 151 | – | – | (151) | – |
| Other taxable temporary differences | 49 | – | 557 | – | 606 |
| **Deferred income tax assets** | 4,956 | (1,538) | 557 | (151) | 3,824 |

The net deferred income tax liability consists of the following:

| | Net balance, January 1, 2019 $ | Recognized in income statement $ | Net balance, December 31, 2019 $ |
|---|---|---|---|
| **Components of deferred income tax liabilities** | | | |
| Property, plant and equipment | 1,234 | (9) | 1,225 |
| Other taxable temporary differences | (30) | 30 | – |
| **Deferred income tax liability** | 1,204 | 21 | 1,225 |

| | Net balance, January 1, 2018 $ | Recognized in income statement $ | Net balance, December 31, 2018 $ |
|---|---|---|---|
| **Components of deferred income tax liabilities** | | | |
| Property, plant and equipment | 1,244 | (10) | 1,234 |
| Non-capital losses | (67) | 67 | – |
| Other taxable temporary differences | (61) | 31 | (30) |
| **Deferred income tax liability** | 1,116 | 88 | 1,204 |

As at December 31, 2019, the Corporation has $272 non-capital losses for income tax purposes [2018 - $0], which are available to offset net income for 20 years before expiring.

## 9. EMPLOYEE BENEFITS

### Pension costs

The Corporation makes contributions to OMERS, which is a multi-employer plan. The plan is a defined benefit plan that 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. OMERS reported that its funded status as at December 31, 2019, was 97% [2018 – 96%].

[In thousands of dollars]

For the year ended December 31, 2019, the Corporation's OMERS current service pension costs were $843 [2018 - $803]. 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 [2018 – 9.0% up to YMPE and 14.6% over YMPE for NRA of 65]. The expected payment for 2020 is $847.

## Post-employment non-pension retirement 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 at December 31, 2019.

| | **2019**<br>**$** | 2018<br>$ |
|---|---|---|
| Accrued benefit obligations, beginning of year | **12,928** | 13,862 |
| Employer current service cost | **137** | 180 |
| Interest on obligation | **497** | 466 |
| Benefits paid | **(500)** | (451) |
| Actuarial gain (loss) recognized at the end of the year, in OCI | **60** | (1,129) |
| **Accrued benefit obligations, end of year** | **13,121** | 12,928 |

| **Changes in post-employment non-pension retirement benefits** | **2019**<br>**$** | 2018<br>$ |
|---|---|---|
| Post-employment non-pension retirement benefits, beginning of year | **12,928** | 13,862 |
| Net periodic benefits cost accrued | **634** | 646 |
| Benefits paid | **(500)** | (451) |
| Recognized losses | **59** | (1,129) |
| **Post-employment non-pension retirement benefits, end of year** | **13,121** | 12,928 |

| **Components for net periodic benefit costs** | **2019**<br>**$** | 2018<br>$ |
|---|---|---|
| Current service cost | **137** | 180 |
| Imputed interest cost | **497** | 466 |
| **Net periodic benefit cost accrual for the year** | **634** | 646 |

| **Significant actuarial assumptions** | **2019**<br>**%** | 2018<br>% |
|---|---|---|
| Discount rate applied to the calculation of future benefits | **3.10** | 3.90 |
| Rate of compound compensation increase used in determining future costs | **3.0** | 3.0 |

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.

[In thousands of dollars]

The actuarial valuation as at December 31, 2019 assumed health care costs would increase 7% [2018 - 7%] in the year following the valuation. This rate of increase is then reduced annually to a rate of 4% six years following the valuation [2018 - 4% after six years].

Dental costs are assumed to increase by 4% [2018 - 4%] in the year following the valuation. This rate of increase is then reduced annually to a rate of 4% six years following the valuation [2018 - 4% after six 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**
The main actuarial assumptions underlying the valuation are as follows:

a) **Interest (discount) rate**
Assumed interest rates have a significant effect on the amounts reported for the total accrued benefit obligations and expense. A 1% change in assumed interest rates would have the following effects for 2019:

| | **Increase**<br>$ | **Decrease**<br>$ |
|---|---|---|
| Accrued benefit obligations, as at December 31, 2019 | **(1,828)** | **2,337** |

b) **Health care cost trend rate**
The health care cost trend is estimated to increase at a declining rate from 7% to 4% over six years following the valuation. Other medical and dental expenses are assumed to increase by 4% after one year, down to 4% after six years following the valuation. The approximate effect on the accrued benefit obligations if the health care cost trend rate assumption was increased or decreased by 1% is as follows:

| | **Increase**<br>$ | **Decrease**<br>$ |
|---|---|---|
| Accrued benefit obligations, as at December 31, 2019 | **1,724** | **(1,390)** |

[In thousands of dollars]

## 10. DEBT

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

### Long-term facilities

The Corporation has term loans totalling $60,000 with Toronto-Dominion Commercial Bank [the "Bank"].

On October 22, 2018, the Corporation renewed existing debt of $45,000, as well as, incurred new debt in the amount of $15,000, for a total of $60,000 under one loan, due in one repayment on October 22, 2028. The loan is structured with a ten-year interest rate swap agreement with the Bank, effectively converting the Corporation's interest obligation to a fixed rate of 3.649%. The effective start date of this interest rate swap agreement is October 22, 2018 and expires on October 22, 2028. Subject to payment of any unwinding costs or receipt of benefits for unwinding the interest rate swap agreements, the Corporation has the flexibility of pre-paying the debt at its option.

Oshawa PUC Energy Services Inc. has a term loan in the amount of $3,113 owed to The Manufacturers Life Insurance Company for construction of the CHP plant. The term loan is for 20 years, ending March 2028, bearing annual interest at a rate 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, 2019, the restricted cash balance in connection with the debt service reserve amounts to $120 [2018 - $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.

As of year-end the Corporation is in compliance with all debt covenants.

Future principal repayments for the term debt are as follows:

| | $ |
|---|---|
| Less than one year | 299 |
| Between one and five years | 1,382 |
| More than five years | 61,432 |
| **Total amount of future payments** | **63,113** |

### Short-term facilities

The Corporation has an operating line of credit for a maximum amount of $20,000 to assist with its working capital requirements. As of December 31, 2019, there were no outstanding balances on this line of credit [2018 - nil].

Interest on short-term debt was $49 [2018 – $81] at an effective interest rate of 3.97%. During the year, the Corporation made interest payments of $2,586 [2018 - $1,948].

[In thousands of dollars]

Net of interest capitalized on construction in progress, interest expense charged to the consolidated statements of comprehensive income amounted to $2,229 during the year [2018 - $1,543].

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 as at December 31, 2019.

## 11. CAPITAL STOCK

Capital stock consists of the following:

| | **2019**<br>**$** | 2018<br>$ |
|---|---|---|
| **Authorized** | | |
| Unlimited common shares | | |
| **Issued** | | |
| 1,000 common shares | **23,064** | 23,064 |

During the year ended December 31, 2019, the Corporation declared and paid dividends on common share aggregating $2,500 (2018 - $2,300).

## 12. RELATED PARTY TRANSACTIONS

a) Balances and transactions with related parties

The Corporation transacts business with the City and its affiliates in the normal course of business at commercial rates. Accounts receivable represent receivables from the City primarily for electricity, street lighting and construuction services.

These transactions are summarized below:

| | **2019**<br>$ | 2018<br>$ |
|---|---|---|
| **REVENUE** | | |
| City facilities (from electricity distribution) | **3,516** | 3,358 |
| Streetlights (from electricity distribution) | **1,520** | 1,424 |
| City streetlights LED replacement program | **423** | 45 |
| Fibre optic leases to the City | **278** | 278 |
| | **5,738** | 5,105 |
| Streetlight maintenance and construction services | **64** | 34 |

**EXPENSES**

[In thousands of dollars]

| | | |
|---|---|---|
| Net rent - 100 Simcoe Street South | **330** | 323 |
| City streetlights LED replacement program | **423** | 45 |
| Property taxes | **136** | 136 |
| | **889** | 504 |
| **ACCOUNTS RECEIVABLE** | | |
| Facilities and streetlights | **348** | 153 |
| Construction services | **30** | – |
| | **378** | 153 |

During the year ended December 31, 2019, the Corporation declared and paid dividends of $2,500 (2018 - $2,300) to the City of Oshawa.

Oshawa PUC Energy Services Inc. provides a performance guarantee to the IESO as required for the CHP power contract, in the form of a letter of credit for $115 as at December 31, 2019.

As of December 31, 2019, the Corporation has an amount outstanding of $1,600 to related party ZooShare Biogas LP for the remaining amount on its investment through Oshawa PUC Energy Services Inc.

b) Key management personnel compensation

Key management personnel are comprised of the Corporation's senior leadership team. The compensation paid or payable to key management personnel is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Salaries and current employment benefits | **901** | 674 |
| Employee future benefits | **85** | 37 |
| | **986** | 711 |

## 13. LEASES

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 2017, which expires May 31, 2021.

The Corporation has a contractual agreement to lease office equipment over a period of 74 months. The lease begins June 1, 2017 and expires July 31, 2023.

A wholly owned subsidiary, 2252112 Ontario Inc., leases the rooftops of various premises from the City 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 as measured by system capacity.

On transition to IFRS 16, the Company recognized additional right-of-use assets and additional lease liabilities. Lease liabilities were measured at the present value of the remaining lease payments, discounted at the Corporation's incremental borrowing rate of 3.7%. The impact on transition is summarized below.

[In thousands of dollars]

| | $ |
|---|---|
| Balance at 1 January | |
| Right-of-use assets presented as property, plant and equipment | 1,305 |
| Lease liabilities | 1,305 |

| | $ |
|---|---|
| Operating lease commitments at December 31, 2018 | 1,493 |
| Discounted using the borrowing rate / contractual interest rates | (188) |
| Lease liabilities recognized at January 1, 2019 | 1,305 |

**Leases as lessee (IFRS16)**

**i. Right-of-use Assets**

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

| | Building<br>$ | Rooftop Solar<br>$ | IT Equipment<br>$ | **Total**<br>**$** |
|---|---|---|---|---|
| **2019** | | | | |
| Balance at 1 January | 780 | 467 | 58 | **1,305** |
| Depreciation charge for the year | (316) | (36) | (13) | **(365)** |
| Additions to right –of-use assets | - | - | - | - |
| **Balance at 31 December** | 464 | 431 | 45 | **940** |

**ii. Amounts recognized in profit or loss**

| | **2019**<br>**$** |
|---|---|
| **2019 – Leases under IFRS 16** | |
| Interest on lease liabilities | **14** |
| **2018 – Operating leases under IAS17** | |
| Lease Expense | **380** |

**iii. Amounts recognized in statement of cash flows**

| | |
|---|---|
| Total cash outflow for leases | **396** |

Repayment of lease liabilities is shown under financing activities on the statement of cash flows.

## 14. COMMITMENTS AND 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 Electrical 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.

## 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.

## Energy Conservation Agreement

On December 31, 2014, the Corporation entered into an Energy Conservation Agreement with the IESO for the period from January 1, 2015 to December 31, 2020 to deliver Energy Conservation and Demand Management [“CDM”] programs. The agreement provides terms under which the Corporation may engage the IESO to design and pay for province-wide CDM programs in support of the Corporation meeting its CDM targets.

Subject to the terms of the agreement, all IESO CDM program costs are paid by the IESO. The Corporation effectively acts as a delivery agent for those programs that it participates in under the agreement. The Corporation will be entitled to receive all of its pre-approved administration costs associated with each program. Any administration costs incurred by the Corporation in excess of the pre-approved estimate would not be recoverable. All other program costs incurred by the Corporation (such as customer incentives and goods and services delivered under the programs) are recoverable from the IESO on an invoiced basis in accordance with the agreement.

Under the terms of the Energy Conservation Agreement with the IESO, income incentives are available in the event the Corporation outperforms its expected target. Alternatively, financial penalties are possible if the Corporation does not meet minimum requirements outlined in the Energy Conservation Agreement with the IESO. The Corporation estimates it is meeting its obligations outlined in the Energy Conservation Agreement with the IESO and has not recorded a provision in these consolidated financial statements for neither financial incentives nor penalties in respect of these matters.

On March 21, 2019, the Minister of Energy, Northern Development and Mines, with the approval of the Lieutenant Governor in Council, issued a directive to the IESO pursuant to the statutory authority under sections 25. 32(5) and (11) of the *Electricity Act*, 1998. On the same date, the Minister issued a directive to the Ontario Energy Board (the

"Board") revoking the main provisions of the March 26, 2014 directive to the Board and providing the Board with the authority to amend or remove license conditions of electricity distributors in respect of electricity CDM that were established pursuant to the March 26, 2014 directive. These directives, which took effect on the date they were issued, have resulted in a change in the laws and regulations that is fundamentally inconsistent with the ECA by requiring the IESO to take all steps necessary to immediately discontinue the 2015-2020 Conservation First Framework [“CFF”] and by revoking, among others, the CFF Direction and authorizing the Board to remove license conditions of electricity distributors in respect of electricity CDM.

As a result, the IESO has provided the Corporation with notice that the IESO is terminating the ECA effective June 20, 2019.

### Security with IESO
Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of default based on their expected activity in the market. The IESO could draw on this security if the Corporation fails to make the payment required on a default notice issued by the IESO. An Irrevocable Standby Letter of Credit in the amount of $7,000 was issued in October 2012, and renewed in October 2014, in favour of the IESO as collateral support for energy amounts as determined by and payable to the IESO.

### Guarantee for obligations
OPUCN guarantees an amount recoverable that shall not exceed $68 million to Toronto-Dominion Bank for its shareholder, Oshawa Power and Utilities Corporation, related to the note payable in Note 10.

## 15. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – valuation techniques based on inputs other than quoted prices included in 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 – valuation techniques using inputs for the asset or liability that are not based on observable market data.

As at December 31, 2019 and 2018, the Corporation did not have any transfers between levels.

The carrying values of cash, restricted cash, accounts receivable, accounts payable for power – IESO, and accounts payable and accrued liabilities approximate their fair values due to the short period to maturity of these financial instruments.

The Corporation’s non-current financial instruments are as follows:

[In thousands of dollars]

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | **Level** | **Carrying value** | **Fair value** | Carrying value | Fair value |
| **Non-current financial liabilities** | | | | | |
| Customer advance deposits | **1** | **2,284** | **2,284** | 1,892 | 1,892 |
| Long-term debt | **3** | **62,814** | **55,718** | 63,116 | 55,435 |
| Unrealized loss on interest rate swaps | **2** | **3,662** | **3,662** | 2,281 | 2,281 |

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, credit and liquidity risks are described below.

***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 5.45% 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. Unbilled revenue of $10,734 [2018 - $12,458] is collectible from customers and is considered current with no related credit losses recorded. The Corporation also has insurance in support of certain receivables.

[In thousands of dollars]

Accounts receivable consists of the following:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Receivables from customers | **8,953** | 7,968 |
| Receivables from other trade and projects | **9,736** | 5,178 |
| Less allowance for doubtful accounts | **(564)** | (688) |
| **Total accounts receivable** | **18,125** | 12,458 |

Credit risk associated with accounts receivable is as follows:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Outstanding for not more than 30 days | **16,662** | **11,725** |
| Outstanding for more than 30 days and not more than 90 days | **1,248** | **909** |
| Outstanding for more than 90 days | **779** | **512** |
| Less allowance for doubtful accounts | **(564)** | **(688)** |
| **Total accounts receivable** | **18,125** | **12,458** |

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 year-end.

The Corporation estimates that a loss of approximately $3,662 [2018 - loss of $2,281] would be realized if the contracts were terminated on December 31, 2019. These contracts are designated as hedges, and therefore this loss has been included in OCI. This gain/loss is not expected to affect income as management intends to hold the interest rate swap contracts to maturity.

As at December 31, 2019, the Corporation had an interest rate swap agreement in place with a notional amount of $60 million [2018 - $60 million] whereby the Corporation pays a fixed rate of interest of 3.649%. The swap is being used to hedge the exposure to changes in the interest rate of its long-term debt which is at a variable rate of banker's acceptance rate plus 0.55%.

***Liquidity risk***

[In thousands of dollars]

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.

| | | | | **2019** |
|---|---|---|---|---|
| | Due within 1 year | Due between 1 and 5 years | Due past 5 years | **Total** |
| | $ | $ | $ | **$** |
| Accounts Payable for power – IESO | **5,694** | - | - | **5,694** |
| Accounts payable and accrued liabilities | **11,250** | - | - | **11,250** |
| Payable to ZooShare Biogas LP | **1,600** | - | - | **1,600** |
| Customer advance payments | **844** | - | - | **844** |
| Payments in lieu of corporate income taxes | - | - | - | - |
| Lease liability | **396** | **278** | **235** | **909** |
| Long-term debt | **299** | **1,382** | **61,432** | **63,113** |
| Customer advance deposits | **915** | **2,284** | - | **3,199** |

| | | | | **2018** |
|---|---|---|---|---|
| | Due within 1 year | Due between 1 and 5 years | Due past 5 years | Total |
| | $ | $ | $ | $ |
| Accounts Payable for power – IESO | 10,042 | - | - | 10,042 |
| Accounts payable and accrued liabilities | 13,530 | - | - | 13,530 |
| Customer advance payments | 528 | - | - | 528 |
| Payments in lieu of corporate income taxes | 382 | - | - | 382 |
| Long-term debt | 283 | 1,306 | 61,811 | 63,399 |
| Customer advance deposits | 915 | 1,892 | - | 2,807 |

## 16. EQUITY – ACCOUNTED INVESTEES

ZooShare Biogas LP is a joint venture in which the Corporation has joint control and a 49% ownership interest of Class A shares and 50% ownership interest of a General Partnership share unit. The ZooShare Biogas project is principally engaged in production and development of an organic waste receiving structure, anaerobic digestor, and CHP system with an 18-year FIT contract established with the IESO.

On October 31, 2019, the Corporation invested in ZooShare Biogas Development Inc. which was made through newly incorporated company, 2720665 Ontario Inc.

As of December 31, 2019 there was no share of profit to recognize. The Corporation made capital contributions of $2,600 to ZooShare Biogas LP. Subsequent to year end, the Corporation made a second capital contribution of $1,200 in March 2020 recorded as an account payable. The Corporation has an account payable to fund the final third capital contribution of $400 in the second quarter of 2020.

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| ZooShare Biogas LP | 4,200 | – |

[In thousands of dollars]

| | | |
|---|---|---|
| **Balance at 31 December** | **4,200** | - |

The following table summarises the financial information of ZooShare Biogas LP as included in its own financial statements, adjusted for fair value adjustments at acquisition and difference in accounting policies. The table also reconciles the summarised financial information to the carrying mount of the Corporation's interest in the limited partnership.

| | **2019** | 2018<br>$ |
|---|---|---|
| Non-current assets | **7,621** | – |
| Current assets | **2,193** | – |
| Non-current liabilities | – | – |
| Current liabilities | **(497)** | – |
| Net assets (at 100%) | 9,317 | – |
| Corporation's share of net assets (49%) | 4,565 | – |
| Elimination of Class B capital contribution asset | (365) | – |
| **Carrying amount of interest in joint venture** | **4,200** | |
| Total comprehensive income for period-ended December 31, 2019 | – | – |
| **Corporation's share of total comprehensive income** | **–** | **–** |

## 17. 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, and renewed in October 2014, in favour of the IESO, as collateral support for energy amounts as determined by and payable to the IESO.

## 18. 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.

## 19. SUBSEQUENT EVENT

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the Corporation's business are not known at this time. These impacts potentially include an impact on the Corporation's ability to access and obtain capital financing, impairment of investments, reduction to operational cash flow as a result of the inability of the Corporation to fully recover on its customer accounts and potential future decreases in revenue or the profitability of the Corporation's ongoing operations.