Oshawa Power and Utilities Corporation

Consolidated financial statements
December 31, 2020 and 2019

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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, 2020
- 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 consolidated financial statements present fairly, in all material respects, financial position of the Entity as at December 31, 2020, 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 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Vaughan, Canada

April 29, 2021

Oshawa Power and Utilities Corporation

CONSOLIDATED BALANCE SHEETS

[in thousands of dollars]

As at December 31	**2020**	**2019**
	$	**$**
ASSETS		
Current		
Cash [including customer deposits in 2020 - $2,443; 2019 - $3,200]	**14,148**	6,167
Restricted cash *[note 10]*	**120**	120
Accounts receivable *[notes 12 and 15]*	**13,845**	18,125
Unbilled revenue	**13,710**	10,734
Inventory *[note 20]*	**434**	165
Payments in lieu of corporate income taxes	**530**	781
Prepaid expenses and other	**672**	737
Total current assets	**43,459**	36,829
Property, plant and equipment, net *[note 3]*	**180,064**	168,423
Intangible assets, net *[note 4]*	**4,210**	4,422
Deferred income tax assets *[note 8]*	**2,858**	3,114
Investment in ZooShare Biogas LP *[note 16]*	**4,200**	4,200
Right-of-use lease assets *[note 13]*	**576**	940
Other assets	**303**	36
Total assets	**235,670**	217,964
Regulatory balances *[note 5]*	**3,544**	752
Total assets and regulatory balances	**239,214**	218,716
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable for power - IESO *[note 15]*	**2,811**	5,694
Accounts payable and accrued liabilities	**11,009**	11,250
Payable to ZooShare Biogas LP *[note 16]*	**—**	1,600
Deferred contributions *[note 7]*	**1,275**	1,958
Customer advance payments	**867**	844
Deferred revenue	**—**	613
Dividend Payable *[note 11]*	**2,289**	—
Current portion of long-term liabilities `	**1,667**	1,653
Total current liabilities	**19,918**	23,612
Long-term debt *[notes 10 and 21]*	**82,488**	62,814
Unrealized loss on interest rate swaps *[note 15]*	**8,630**	3,662
Customer advance deposits	**1,535**	2,284
Lease Liability *[note 13]*	**557**	909
Deferred contributions *[note 7]*	**38,054**	36,660
Deferred revenue	**94**	111
Post-employment non-pension retirement benefits *[note 9]*	**15,980**	13,121
Deferred income tax liabilities *[note 8]*	**1,191**	1,225
Total liabilities	**168,447**	144,398
Shareholder's equity		
Capital stock *[note 11]*	**23,064**	23,064
Retained earnings	**47,726**	45,235
Accumulated other comprehensive loss	**(6,343)**	(2,692)
Total shareholder's equity	**64,447**	65,607
Total liabilities and shareholder's equity	**232,893**	210,004
Regulatory balances *[note 5]*	**6,321**	8,712
Total liabilities, shareholder's equity and regulatory balances	**239,214**	218,716

Commitments and contingencies *[note 14]*

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	2020 $	2019 $
REVENUE		
Sale of electrical energy *[note 19]*	**155,016**	129,434
Distribution *[note 19]*	**25,501**	25,366
Energy management services	**1,255**	3,055
Regulated service	**509**	899
Combined heat and power, net	**1,338**	1,324
Service	**1,513**	1,435
Fibre optic	**887**	1,244
Deferred developer contributions *[note 7]*	**1,187**	1,684
Solar	**567**	529
Other (loss) revenue	**18**	(102)
Total revenue	**187,791**	164,868
EXPENSES		
Cost of electrical energy	**156,686**	126,186
Energy management services	**1,057**	2,938
Operations, maintenance and administrative *[note 20]*	**16,350**	15,903
Depreciation - property, plant and equipment, intangible assets and ROU leases	**7,788**	8,257
Income from operations	**5,910**	11,584
Gain (loss) on disposal of property, plant and equipment	**(76)**	200
Interest income	**62**	245
Interest expense *[note 10]*	**(2,113)**	(2,062)
Income before payments in lieu of corporate income taxes	**3,783**	9,967
Provision for payments in lieu of corporate income taxes *[note 8]*	**206**	983
Net income for the year	**3,577**	8,984
Net movements in regulatory balances, net of tax *[note 5]*	**1,203**	(3,260)
Net income after net movements in regulatory balances	**4,780**	5,724
Other comprehensive loss:		
Unrealized loss in fair value of derivatives designated as cash flow hedges, net of income taxes	**(4,968)**	(1,383)
Gain in fair value of derivatives designated as cash flow hedges, transferred to net income for the year, net of income taxes	**1,317**	368
Remeasurement of post-employement benefits, net of income taxes	**(2,825)**	(60)
Net movements in regulatory balances related to OCI, net of income taxes	**2,825**	60
Total other comprehensive loss	**(3,651)**	(1,015)
Total comprehensive income for the year	**1,129**	4,709

See accompanying notes

Oshawa Power and Utilities Corporation

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

[in thousands of dollars]

Years ended December 31, 2020 and 2019	Capital stock	Retained earnings	Accumulated other comprehensive loss	Total
	$	$	$	$
Balance as at January 1, 2019	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
Net income after net movements in regulatory balances	—	4,780	—	4,780
Other comprehensive loss	—	—	(3,651)	(3,651)
Dividends payable *[note 11]*	—	(2,289)	—	(2,289)
Balance as at December 31, 2020	**23,064**	**47,726**	**(6,343)**	**64,447**

See accompanying notes

Oshawa Power and Utilities Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of dollars]

Years ended December 31	2020 $	2019 $
OPERATING ACTIVITIES		
Net income after net movements in regulatory balances for the year	**4,780**	5,724
Adjustments:		
Net movements in regulatory balances	**(1,203)**	3,260
Depreciation - property, plant and equipment, intangible assets and ROU leases	**7,788**	8,256
Deferred developer contribution	**(1,187)**	(1,684)
Amortization of deferred revenue	**(1,050)**	(697)
Provision for payments in lieu of corporate income taxes	**206**	983
Post-employment non-pension retirement benefits expense	**543**	634
Interest expense	**2,113**	2,062
Interest income	**(62)**	(245)
Loss (gain) on disposal of property, plant and equipment	**76**	(214)
Contribution received from developers	**1,898**	4,217
Payments in lieu of corporate income taxes	**82**	(1,710)
Post-employment non-pension retirement benefit payments	**(508)**	(501)
Cash received related to deferred revenue	**419**	1,032
Prior period regulatory settlement	**-**	6,514
	13,895	27,631
Changes in non-cash working capital balances related to operations:		
(Increase) decrease in accounts receivable	**4,280**	(5,668)
Decrease (increase) in unbilled revenue	**(2,976)**	1,787
Decrease in other assets	**(267)**	206
Increase in inventory	**(269)**	(40)
Decrease (increase) in prepaid expenses and other	**65**	(156)
Increase (decrease) in accounts payable and accrued liabilities, and accounts payable for power - IESO	**(3,124)**	(6,628)
Increase (decrease) in customer advance payments	**23**	316
(Decrease) increase in customer advance deposits	**(749)**	392
Increase in other current liabilities	**(246)**	5
Change related to regulatory disposition balances	**318**	831
Cash provided by operating activities	**10,951**	18,676
INVESTING ACTIVITIES		
Additions to property, plant and equipment, and intangible assets	**(18,644)**	(19,344)
Proceeds from disposal of property, plant and equipment	**16**	14
Investment in Zooshare Biogas LP	**(1,600)**	(2,600)
Cash used in investing activities	**(20,229)**	(21,930)
FINANCING ACTIVITIES		
Dividends paid	**-**	(2,500)
Repayment of loan principal	**(304)**	(286)
Proceeds from long-term debt	**20,000**	-
Interest income received	**62**	245
Interest paid on long term debt	**(2,113)**	(2,408)
Payment against lease liability	**(386)**	**(396)**
Cash (used in) provided by financing activities	**17,259**	(5,345)
Net (decrease) increase in cash during the year	**7,981**	(8,599)
Cash, beginning of year	**6,167**	14,766
Cash, end of year	**14,148**	6,167

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 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 Ontario Tech University. 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 29, 2021, when the Corporation’s Board of Directors approved and authorized the consolidated financial statements.

2. SUMMARY OF ACCOUNTING POLICIES

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.

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 ZooShare Biogas LP 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: 4th 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.

4th Generation Incentive Rate-setting, ["Price Cap Incentive rate-setting"] 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 July 2020, the Corporation filed its Price Cap Incentive rate-setting application with the OEB seeking approval to change rates that it charges for electricity delivery, retail services, allowances, loss factor and specific services charges, to be effective January 1, 2021. 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 February 18, 2021 approving final 2021 rates and charges.

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.

In March 2020, The OEB extended the ban on disconnecting residential and other low volume customers to July 31, 2020. This decision was made due to the Covid-19 pandemic as a payment relief measure implemented to assist customers. OPUC followed OEB guidelines related to the ban on disconnections due to non-payment of the electricity bills by the customer. This is in addition to the annual winter disconnection ban which bars which includes the following provisions:

- Electricity distributors are banned from disconnecting residential customers for non-payment from November 15 to April 30;
- Electricity distributors have until December 1 to reconnect residential customers who were disconnected for non-payment before November 15;
- Electricity distributors may not install load control devices (devices that limit how much electricity is supplied to a home) on homes from November 15 to April 30.

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.

Effective January 1, 2021 the OER Rebate is reduced from 31.8% to 21.2%.

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.

[In thousands of dollars]

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.

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, 2020, 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 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
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 2020 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.

Estimation uncertainty may exist in the following financial notes:

(i) Note 3 and note 4 - estimation of useful lives of PP&E and intangible assets;
(ii) Note 9 - measurement of post-employment non-pension retirement benefits: key actuarial assumptions
(iii) Note 15 – expected credit losses.

Management uses judgement in the following:

(iv) Note 5 and note 8 - recognition and measurement of regulatory balances;

(v) Note 14 –recognition and measurement of commitments and contingencies.

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.

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"))

[In thousands of dollars]

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following as at December 31, 2020:

	January 1, 2020 $	Additions/transfers/ depreciation $	Disposals / retirements $	**December 31, 2020 $**
Cost				
Transmission, distribution and generation				
Transformers	64,190	2,455	(681)	**65,964**
Underground distribution	60,674	1,157	–	**61,831**
Poles, towers and fixtures	50,321	7,033	(236)	**57,118**
Station equipment	27,046	–	(46)	**27,000**
Overhead distribution	25,691	3,348	(327)	**28,712**
Meters	13,762	1,005	(65)	**14,702**
Combined heat and power plant	7,118		–	**7,118**
Solar	2,463	(60)	–	**2,403**
	251,265	14,938	(1,355)	**264,848**
Construction in progress	6,876	2,091	-	**8,967**
Other property, plant and equipment				
Vehicle fleet	5,106	453	–	**5,559**
Equipment and furniture	9,681	486	–	**10,167**
Fibre optics network	2,674	503	–	**3,177**
Computer hardware	3,080	167	–	**3,247**
Buildings	5,711	40	–	**5,751**
Land	294	–	–	**294**
	26,546	1,649		**28,193**
Total cost	284,687	18,678	(1,355)	**302,010**
Accumulated depreciation				
Transmission, distribution and generation				
Transformers	(33,234)	(1,092)	681	**(33,645)**
Underground distribution	(21,178)	(1,355)	–	**(22,533)**
Poles, towers and fixtures	(15,040)	(1,023)	201	**(15,862)**
Station equipment	(9,454)	(599)	46	**(10,008)**
Overhead distribution	(9,090)	(438)	279	**(9,249)**
Meters	(8,612)	(781)	57	**(9,336)**
Combined heat and power plant	(3,081)	(263)	–	**(3,344)**
Solar	(841)	(88)	–	**(929)**
	(100,531)	(5,639)	1,264	**(104,906)**
Other property, plant and equipment				
Vehicle fleet	(3,191)	(412)	–	**(3,605)**
Equipment and furniture	(7,764)	(434)	–	**(8,179)**
Fibre optics network	(1,504)	(137)	–	**(1,641)**
Computer hardware	(2,626)	(232)	–	**(2,858)**
Buildings	(648)	(109)	–	**(757)**
	(15,743)	(1,324)		**(17,040)**
Total accumulated depreciation	(116,264)	(6,963)	1,264	**(121,946)**
Carrying amount	168,423	11,713	(91)	**180,064**

[In thousands of dollars]

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]

For the year ended December 31, 2020, ascribed interest capitalized to property, plant and equipment as prescribed by the OEB amounted to $302 [2019 - $357]. In the absence of rate regulation, additions to property, plant and equipment would have been $302 lower [2019 - $357 lower] and interest expense would have been $302 higher [2019 - $357 higher].

4. INTANGIBLE ASSETS

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

	January 1, 2020	Additions/ depreciation	Disposals/ retirements	**December 31, 2020**
	$	$	$	**$**
Cost				
Deferred IRU lease	231	–	–	**231**
Computer software	2,349	215	–	**2,564**
HONI Contribution	4,135	–	–	**4,135**
	6,715	215	–	**6,930**
Accumulated depreciation				
Deferred IRU lease	(190)	(10)	-	**(200)**
Computer software	(2,021)	(252)	-	**(2,273)**
HONI Contribution	(83)	(165)	-	**(248)**
	(2,294)	(427)	–	**(2,721)**
Carrying amount	4,422	(212)	-	**4,210**

	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**

[In thousands of dollars]

5. REGULATORY BALANCES

Regulatory debit balances consist of the following:

	January 1, 2020 $	Balances arising in the period $	Recovery/ reversal $	**December 31, 2020 $**
Regulatory debit balances				
Retail settlement variance – power	–	–	–	**–**
Retail settlement variance – global adjustment	–	–	–	**–**
Post-employment benefits deferral	320	2,825	–	**3,145**
Regulatory debit balances – other	433	(34)	–	**399**
Regulatory Asset Recovery Account [“RARA”]	–	–	–	**–**
Total regulatory debit balances	752	2,791	–	**3,544**

	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

Regulatory credit balances consist of the following:

	January 1, 2020 $	Balances arising in the period $	Recovery/ reversal $	**December 31, 2020 $**
Regulatory credit balances				
Retail Settlement Variance – power	2,123	601	–	**2,725**
Retail Settlement Variance – global adjustment	2,273	(912)	–	**1,361**
Retail settlement variances – other	1,910	(1,360)	–	**550**
Regulatory Asset Recovery Account ["RARA"]	198	(153)	311	**357**
Deferred income taxes *[note 8]*	2,072	(1,501)	–	**571**
Smart meter variance	54	–	–	**54**
Regulatory credit balances – other	81	622	–	**703**
Total regulatory credit balances	8,712	(2,703)	311	**6,321**

	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

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 $1,203 [2019 - $(3,260)].

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 2022 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.
The Corporation intends to seek disposition of this balance in its 2022 rate application to the OEB, with settlement expected over a 12-month period commencing on January 1, 2022.

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.
The Corporation intends to seek disposition of this balance in its 2022 rate application to the OEB, with settlement expected over a 12-month period commencing on January 1, 2022.

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.
The Corporation intends to seek disposition of this balance in its 2022 rate application to the OEB, with settlement expected over a 12-month period commencing on January 1, 2022.

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.
The balance remaining as at December 31, 2020 was approved for disposition by the OEB on February 18, 2021 as part of the Corporation's cost of service application for rates effective January 1, 2021, with settlement over a 12-month period commencing February 1, 2021.

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, 2020 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 18, 2021 as part of the Corporation's cost of service application for rates effective January 1, 2021.

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, 2020 and December 31, 2019 primarily related to the actuarial gain and loss recorded for each year, respectively. No disposition is currently planned as the balance is derived mainly from actuarial valuation changes and not monetary income or expense.

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:

	2020	2019
	$	$
Customer advance deposits	**908**	915
Long-term debt *[note 10]*	**321**	299
Deferred fibre lease	**438**	438
Current portion of long-term liabilities	**1,667**	1,653

7. DEFERRED CONTRIBUTIONS

The continuity of deferred contributions is as follows:

	2020	2019
	$	$
Deferred contributions, net, beginning of year	**38,619**	34,069
Deferred contributions received	**1,898**	4,218
Reclass of deferred contribution	**-**	2,016
Deferred contributions recognized as income	**(1,187)**	(1,684)
Deferred contributions, net, end of year	**39,329**	38,619
Less: current portion	**(1,275)**	(1,958)
Deferred contributions long-term portion	**38,054**	36,660

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:

	2020	2019
	$	$
Income before PILs	**3,783**	9,967
Net movements in regulatory balances	**1,203**	(3,260)
Net income after net movements in regulatory balances, before PILs	**4,986**	6,707
Combined Canadian federal and Ontario statutory income tax rate	**26.50%**	26.50%
Expected provision for PILs at statutory tax rates	**1,321**	1,777
Property, plant and equipment	**(1,074)**	(802)
Post-employment non-pension benefits	**(42)**	38
Corporate minimum taxes	**104**	(30)
Other	**(24)**	(95)
Cost allocations	**(80)**	(95)
Provision for PILs	**206**	983
Effective tax rates	**4.10%**	14.67%

[In thousands of dollars]

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

	2020	2019
	$	$
Current tax expense		
Current PILs charge	**170**	1,034
Deferred income tax expense		
Origination and reversal of temporary differences	**1,537**	1,193
Deferred taxes transferred to regulatory balances *[note 5]*	**(1,501)**	(1,148)
Provision for PILs	**206**	983

	2020	2019
	$	$
Deferred income taxes related to items recognized in OCI during the year		
Net gain on revaluation of cash flow hedges	**(475)**	(133)
Unrealized gain on derivatives designated as cash flow hedges	**1,792**	499
Deferred income taxes charged to OCI	**1.317**	366

As at December 31, 2020, the Corporation has recognized $571 in regulatory credit balance and a corresponding offset to deferred income tax assets [2019 - $2,071].

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, 2020	Recognized in regulatory balance	Recognized in OCI	Recognized in income statement	**Net balance, December 31, 2020**
	$	$	$	$	**$**
Components of deferred income tax assets					
Property, plant and equipment	(1,373)	(1,868)	–	–	**(3,242)**
Employee post-employment non-pension benefits	3,477	758	–	–	**4,235**
Non-capital losses	70	382	–	(70)	**382**
Other taxable temporary differences	939	(773)	1,317	–	**1,483**
Deferred income tax assets	3,113	(1,501)	1,317	(70)	**2,858**

[In thousands of dollars]

	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	**3,113**

The net deferred income tax liability consists of the following:

	Net balance, January 1, 2020 $	Recognized in income statement $	Net balance, December 31, 2020 $
Components of deferred income tax liabilities			
Property, plant and equipment	1,225	(34)	1,191
Other taxable temporary differences	–	–	–
Deferred income tax liability	1,225	(34)	1,191

	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

As at December 31, 2020, the Corporation has $1,444 non-capital losses for income tax purposes [2019 - $272], which are available to offset net income for 20 years before expiring.

[In thousands of dollars]

9. EMPLOYEE BENEFITS

Pension costs

The Corporation's eligible employees participate in a defined benefit pension plan through OMERS. As at December 31, 2020, the OMERS plan was 97.0% funded [December 31, 2019 - 97.0%]. OMERS has a strategy to return the plan to a fully funded position. The Corporation is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions.

For the year ended December 31, 2020, the Corporation's contributions were $801 [2019 - $843]. 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 [2019 – 9.0% up to YMPE and 14.6% over YMPE for NRA of 65]. The Corporation expects to contribute approximately $850 to the OMERS plan in 2021.

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, 2020.

	2020 **$**	2019 $
Accrued benefit obligations, beginning of year	**13,121**	12,928
Employer current service cost	**141**	137
Interest on obligation	**401**	497
Benefits paid	**(508)**	(500)
Actuarial gain recognized at the end of the year, in OCI	**2,825**	60
Accrued benefit obligations, end of year	**15,980**	13,121

Changes in post-employment non-pension retirement benefits	**2020** **$**	2019 $
Post-employment non-pension retirement benefits, beginning of year	**13,121**	12,928
Net periodic benefits cost accrued	**542**	634
Benefits paid	**(508)**	(500)
Recognized losses	**2825**	59
Post-employment non-pension retirement benefits, end of year	**15,980**	13,121

Components for net periodic benefit costs	**2020** **$**	2019 $
Current service cost	**141**	137
Imputed interest cost	**401**	497
Net periodic benefit cost accrual for the year	**542**	634

[In thousands of dollars]

Significant actuarial assumptions	**2020** **%**	2019 %
Discount rate applied to the calculation of future benefits	**2.55**	3.10
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.

The actuarial valuation as at December 31, 2020 assumed health care costs would increase 7% [2019 - 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% [2019 - 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 [2019 - 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 2020:

	Increase $	**Decrease** $
Accrued benefit obligations, as at December 31, 2020	**(2,353)**	**3,037**

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 $	**Decrease** $
Accrued benefit obligations, as at December 31, 2020	**2,273**	**(1,819)**

[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 $80,000 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. On December 21, 2020, the Corporation incurred new debt in the amount of $20,000, due in one repayment on December 21, 2030. Both loans are structured with ten-year interest rate swap agreements with the Bank, effectively converting the Corporation's interest obligation to fixed rates of 3.649% and 2.227%. The debt is at a variable rate of banker's acceptance rate plus 0.55%. The effective start dates of these interest rate swap agreements are October 22, 2018 and December 21, 2020 respectively, with expiry dates of October 22, 2028 and December 21, 2030 respectively. 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 $2,809 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, 2020, the restricted cash balance in connection with the debt service reserve amounts to $120 [2019 - $120].

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

Future principal repayments for the term debt are as follows:

	$
Less than one year	321
Between one and five years	1,483
More than five years	81,005
Total amount of future payments	**82,809**

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, 2020, there were no outstanding balances on this line of credit [2019 - nil].

Interest on short-term debt was $62 [2019 – $49] at an effective interest rate of 2.47%. During the year, the Corporation made interest payments of $2,381 [2019 - $2,586].

[In thousands of dollars]

Net of interest capitalized on construction in progress, interest expense charged to the consolidated statements of comprehensive income amounted to $2,079 during the year [2019 - $2,229].

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, 2020.

11. CAPITAL STOCK

Capital stock consists of the following:

	2020	2019
	$	$
Authorized		
Unlimited common shares		
Issued		
1,000 common shares	**23,064**	23,064

During the year ended December 31, 2020, the Corporation declared and recorded a dividend payable on common shares aggregating $2,289 (2019 - $2,500). Subsequent to period end, the dividend of $2,289 was paid to the shareholder.

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 construction services.
These transactions are summarized below:

	2020	2019
	$	$
REVENUE		
City facilities (from electricity distribution)	**3,090**	3,516
Streetlights (from electricity distribution)	**1,548**	1,520
City streetlights LED replacement program	**-**	423
Streetlight maintenance and construction services	**36**	64
Fibre optic leases to the City	**255**	278
	4,929	5,802
EXPENSES		
100 Simcoe Street South Office	**335**	330
City streetlights LED replacement program	–	423
Property taxes	**136**	136
	471	889

[In thousands of dollars]

	2020	2019
	$	$
ACCOUNTS RECEIVABLE		
Facilities and streetlights	**376**	348
Construction services	**279**	30
	655	378

During the year ended December 31, 2020, the Corporation declared dividends of $2,289 (2019 - $2,500) to the City of Oshawa.

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:

	2020	2019
	$	$
Salaries and current employment benefits	**908**	901
Employee future benefits	**118**	85
	1,023	986

13. LEASES

The Corporation leases its premises under a lease with the Corporation of the City of Oshawa. The Corporation’s lease expires May 31, 2021.

The Corporation has a contractual agreement to lease office equipment over a period of 74 months. The lease operates from 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.
Lease liabilities were measured at the present value of the remaining lease payments, discounted at the Corporation’s incremental borrowing rate of 3.7%.

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 a long term right-of-use lease assets on the balance sheet.

[In thousands of dollars]

	Building $	Rooftop Solar $	IT Equipment $	**Total $**
2020				
Balance at 1 January	464	431	45	**940**
Depreciation charge for the year	(323)	(27)	(13)	**(363)**
Additions to right –of-use assets	-	-	-	**-**
Balance at 31 December	141	404	32	**576**

ii. Amounts recognized in profit or loss

	2020 $
2019 – Leases under IFRS 16	
Interest on lease liabilities	**34**
2020 – Operating leases under IAS17	
Lease Expense	**352**

iii. Amounts recognized in statement of cash flows

Total cash outflow for leases	**386**

Repayment of lease liabilities is disclosed within 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.

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, 2020.

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. The IESO continues to fund unavoidable commitments and costs associated with the wind-down of these programs.

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.

[In thousands of dollars]

Guarantee for obligations
OPUCN guarantees an amount recoverable that shall not exceed $96 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, 2020 and 2019, the Corporation did not have any transfers between levels.

The carrying values of cash, restricted cash, accounts receivable, accounts payable for power – IESO, current customer advance payments, and accounts payable 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:

		2020		2019	
	Level	**Carrying value**	**Fair value**	Carrying value	Fair value
Non-current financial liabilities					
Customer advance deposits	**1**	**1,535**	**1,535**	2,284	2,284
Long-term debt	**3**	**82,488**	**86,017**	62,814	55,718
Unrealized loss on interest rate swaps	**2**	**8,630**	**8,630**	3,662	3,662

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.

[In thousands of dollars]

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 2.80% 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 records an estimate provision for expected credit losses. Unbilled revenue of $13,710 [2019 - $10,734] is collectible from customers and is considered current for assessing credit risk. The Corporation also has insurance in support of certain receivables.
The COVID-19 pandemic creates a higher degree of uncertainty due to economic and business disruption. Management considers current economic and credit conditions in revising the estimates and judgments used in preparation of the expected credit losses provision on its accounts receivable balances. The Corporation applies provision rates based on recent and changing trends to customer aging balances, customer collection patterns and risk of customer default and has recorded an increase to the expected credit loss allowance of $1,793 to account for these anticipated risks, which includes the impact of the COVID-19 pandemic.

Accounts receivable consists of the following:

	2020	2019
	$	$
Receivables from customers	**11,546**	8,953
Receivables from other trade and projects	**4,092**	9,736
Less allowance for doubtful accounts	**(1,793)**	(564)
Total accounts receivable	**13,845**	18,125

Credit risk associated with accounts receivable is as follows:

	2020	2019
	$	$
Outstanding for not more than 30 days	**12,450**	16,662
Outstanding for more than 30 days and not more than 90 days	**1,621**	1,248
Outstanding for more than 90 days	**1,574**	779
Less allowance for doubtful accounts	**(1,793)**	(564)
Total accounts receivable	**13,845**	18,125

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.

[In thousands of dollars]

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 $8,630 [2019 - loss of $3,662] would be realized if the contracts were terminated on December 31, 2020. 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, 2020, the Corporation had two interest rate swap agreements in place with notional amounts of $80 million [2019 - $60 million] and $20 million [2019 - $0 million] whereby the Corporation pays fixed rates of interest of 3.649% and 2.227% respectively. The swaps are 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
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.

				2020
	Due within 1 year $	Due between 1 and 5 years $	Due past 5 years $	**Total** **$**
Accounts Payable for power – IESO	**2,811**	-	-	**2,811**
Accounts payable and accrued liabilities	**11,009**	-	-	**11,009**
Dividends payable	**2,289**	-	-	**2,289**
Customer advance payments	**867**	-	-	**867**
Lease liability	**192**	**171**	**375**	**738**
Long-term debt	**3,112**	**12,447**	**89,880**	**105,439**
Customer advance deposits	**908**	**1,535**	-	**2,443**

				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**
Lease liability	**396**	**278**	**235**	**909**
Long-term debt	**2,665**	**10,647**	**70,343**	**83,655**
Customer advance deposits	**915**	**2,284**	-	**3,199**

[In thousands of dollars]

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.

As of December 31, 2020 there was no share of profit to recognize. The Corporation did not make any capital contributions in 2020 [2019 - $4,200] to ZooShare Biogas LP.

	2020	2019
	$	$
ZooShare Biogas LP	4,200	4,200
Balance at 31 December	**4,200**	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.

	2020	**2019**
Non-current assets	**11,162**	**7,621**
Current assets	**790**	**2,193**
Non-current liabilities	(1,537)	–
Current liabilities	**(1,098)**	**(497)**
Net assets (at 100%)	9,317	9,317
Corporation's share of net assets (49%)	4,565	4,565
Elimination of Class B capital contribution asset	(365)	(365)
Carrying amount of interest in joint venture	**4,200**	**4,200**
Total comprehensive income for period-ended December 31	–	–
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.

[In thousands of dollars]

19. REVENUES

Sale of electrical energy and distribution revenues consist of the following:

	2020	2019
	$	$
Sale of electrical energy	**155,016**	129,434
Distribution	**25,501**	25,366
Total distribution and commodity revenues	**180,517**	154,800

	2020	2019
	$	$
Residential rate classes	**106,375**	78,932
Commercial rate classes	**72,504**	74,447
Street Lighting	**1,638**	1,421
Total distribution and commodity revenues	**180,517**	154,800

20. OPERATIONS, MAINTENANCE AND ADMINISTRATION

Operations, maintenance and administrative expense consists of the following:

	2020	2019
	$	$
Salaries/benefits/payroll	**7,183**	8,787
External services	**3,396**	2,621
Inventory expensed	**97**	75
Repairs & Maintenance	**813**	745
Communications, Postage & Printing	**876**	743
Vehicle Expenses	**393**	390
Provision for doubtful accounts	**1,498**	401
Other	**2,094**	2,141
Total Operations, maintenance and administrative	**16,350**	15,903

21. SUBSEQUENT EVENT

Subsequent to December 31, 2020, the Corporation incurred new debt in the amount of $3,000. The loan was incurred by 2252112 Ontario Inc. in the form of an amortising loan owed to Concentra Bank. The term is 11 years and six months, ending October 2032, and bearing annual interest at a rate of 4.18%.