Consolidated Financial Statements

Oshawa Power and Utilities Corporation

December 31, 2016 and 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Oshawa Power and Utilities Corporation

We have audited the accompanying consolidated financial statements of **Oshawa Power and Utilities Corporation,** which comprise the consolidated balance sheet as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in shareholder's equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Oshawa Power and Utilities Corporation** as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Toronto, Canada
April 27, 2017

Chartered Professional Accountants
Licensed Public Accountants

Oshawa Power and Utilities Corporation

CONSOLIDATED BALANCE SHEET

[in thousands of dollars]

As at December 31	**2016**	2015
	$	$
ASSETS		
Current		
Cash [including customer deposits in 2016 - $2,815; 2015 - $2,763]	**12,578**	12,855
Restricted cash *[note 10]*	**120**	120
Accounts receivable *[notes 12 and 14]*	**15,683**	11,648
Unbilled revenue	**16,201**	13,281
Inventory	**94**	137
Payments in lieu of corporate income taxes	**236**	214
Prepaid expenses and other	**270**	242
Total current assets	**45,182**	38,497
Property, plant and equipment, net *[note 3]*	**136,561**	130,195
Intangible assets, net *[note 4]*	**1,227**	472
Deferred income tax assets *[note 8]*	**6,027**	6,695
Other assets	**554**	521
Total assets	**189,551**	176,380
Regulatory asset balances *[note 5]*	**4,830**	6,335
Total assets and regulatory balances	**194,381**	182,715
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable for power - IESO *[note 15]*	**14,365**	12,749
Accounts payable and accrued liabilities	**12,118**	8,231
Customer advance payments	**2,669**	3,097
Current portion of long-term liabilities *[note 6]*	**3,628**	3,595
Total current liabilities	**32,780**	27,672
Long-term debt *[note 10]*	**48,670**	48,925
Unrealized loss on interest rate swaps *[note 14]*	**1,619**	2,449
Customer advance deposits	**1,906**	1,854
Deferred developer contributions *[note 7]*	**30,808**	29,625
Deferred revenue	**57**	126
Post-employment non-pension retirement benefits *[note 9]*	**13,256**	11,779
Deferred income tax liabilities *[note 8]*	**938**	724
Total liabilities	**130,034**	123,154
Shareholder's equity		
Capital stock *[note 11]*	**23,064**	23,064
Retained earnings	**34,474**	30,654
Accumulated comprehensive loss on interest rate swaps	**(1,190)**	(1,800)
Total shareholder's equity	**56,348**	51,918
Total liabilities and shareholder's equity	**186,382**	175,072
Regulatory liability balances *[note 5]*	**7,999**	7,643
Total liabilities, shareholder's equity and regulatory balances	**194,381**	182,715

Commitments and contingencies *[note 13]*

See accompanying notes

On behalf of the Board:

Director Director

Oshawa Power and Utilities Corporation

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

[in thousands of dollars]

Year ended December 31	**2016**	2015
	$	$
REVENUE		
Sale of electrical energy	**148,625**	131,936
Distribution	**22,524**	19,469
Regulated service	**1,465**	1,303
Combined heat and power, net	**1,410**	1,341
Service	**1,152**	214
Fibre optic	**968**	999
Deferred developer contributions *[note 7]*	**757**	833
Solar	**586**	538
Other	**160**	166
Total revenue	**177,647**	156,799
EXPENSES		
Cost of electrical energy	**146,563**	131,343
Operations, maintenance and administrative	**15,215**	12,933
Depreciation - property, plant and equipment and intangible assets	**5,681**	5,107
Income from operations	**10,188**	7,416
Loss on disposal of property, plant and equipment	**(422)**	(106)
Interest income	**116**	123
Interest expense *[note 10]*	**(1,516)**	(1,477)
Income before payments in lieu of corporate income taxes	**8,366**	5,956
Provision for payments in lieu of corporate income taxes *[note 8]*	**663**	686
Net income for the year	**7,703**	5,270
Net movements in regulatory balances, net of tax *[note 5]*	**(1,983)**	(494)
Net income after net movements in regulatory balances	**5,720**	4,776
Other comprehensive income (loss):		
Unrealized gain (loss) in fair value of derivatives designated as cash flow hedges, net of income taxes	**111**	(1,305)
Gain in fair value of derivatives designated as cash flow hedges, transferred to net income for the year, net of income taxes	**499**	435
Total comprehensive income for the year	**6,330**	3,906

See accompanying notes

Oshawa Power and Utilities Corporation

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

[in thousands of dollars]

Years ended December 31, 2016 and 2015	Capital stock	Retained earnings	Accumulated other comprehensive loss	Total
	$	$	$	$
Balance as at January 1, 2015	23,064	27,678	(930)	49,812
Net income after net movements in regulatory balances	—	4,776	—	4,776
Other comprehensive loss	—	—	(870)	(870)
Dividends	—	(1,800)	—	(1,800)
Balance as at December 31, 2015	23,064	30,654	(1,800)	51,918
Net income after net movements in regulatory balances	—	5,720	—	5,720
Other comprehensive income	—	—	610	610
Dividends	—	(1,900)	—	(1,900)
Balance as at December 31, 2016	**23,064**	**34,474**	**(1,190)**	**56,348**

Oshawa Power and Utilities Corporation

CONSOLIDATED STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended December 31	**2016** **$**	2015 $
OPERATING ACTIVITIES		
Net income after net movements in regulatory balances for the year	**5,720**	4,776
Add (deduct) items not involving cash:		
Depreciation - property, plant and equipment and intangible assets	**5,681**	5,107
Deferred income taxes	**882**	200
Unrealized (gain) loss on interest rate swaps	**(830)**	1,185
Accumulated other comprehensive loss (income)	**610**	(870)
Loss on disposal of property, plant and equipment	**422**	106
Post-employment non-pension retirement benefits, net of cash payments	**1,477**	1,753
	13,962	12,257
Changes in non-cash working capital balances related to operations:		
Increase in accounts receivable	**(4,035)**	(1,075)
(Increase) decrease in payments in lieu of corporate income taxes	**(22)**	249
Increase in unbilled revenue	**(2,920)**	(968)
Decrease (increase) in inventory	**43**	(30)
Increase in prepaid expenses and other	**(28)**	(80)
Increase in other assets	**(33)**	(147)
Increase in accounts payable and accrued liabilities, and accounts payable for power - IESO	**5,503**	728
Increase (decrease) in regulatory liabilities, net of regulatory assets	**1,861**	(2,136)
(Decrease) increase in customer advance payments	**(428)**	1,155
Increase in deferred developer contributions	**1,183**	2,275
Decrease in deferred revenue	**(69)**	(5)
Cash provided by operating activities	**15,017**	12,223
INVESTING ACTIVITIES		
Additions to property, plant and equipment, and intangible assets, net	**(13,224)**	(14,730)
Cash used in investing activities	**(13,224)**	(14,730)
FINANCING ACTIVITIES		
Dividends paid	**(1,900)**	(1,800)
Increase in customer advance deposits	**71**	341
Proceeds from long-term debt	—	15,000
Repayment of long-term debt	**(241)**	(228)
Decrease in line of credit	—	(836)
Cash (used in) provided by financing activities	**(2,070)**	12,477
Net (decrease) increase in cash during the year	**(277)**	9,970
Cash and cash equivalents, beginning of year	**12,975**	3,005
Cash and cash equivalents, end of year	**12,698**	12,975
Cash and cash equivalents are comprised of:		
Cash and cash equivalents	**12,578**	12,855
Restricted cash	**120**	120
Cash and cash equivalents, end of year	**12,698**	12,975
Supplemental cash flow information:		
Interest paid [prior to capitalization of interest]	**1,733**	1,587
Payments in lieu of corporate income taxes	**575**	217

See accompanying notes

1. INCORPORATION

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

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

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

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 date through April 27, 2017, when the Corporation's Board of Directors approved and authorized the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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, including accounting principles prescribed by the Ontario Energy Board ["OEB"] in the *Accounting Procedures Handbook for Electric Distribution Utilities* ["AP Handbook"], and reflects the significant accounting policies summarized below.

Rate setting and regulation

The OEB has regulatory oversight of electricity matters in the Province of Ontario. The *Ontario Energy Board Act*, 1998 sets out the OEB's powers, including the issuance of distribution 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 fulfill 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 ["4th Generation IR"] is most appropriate for distributors that anticipate some incremental investment needs will arise during the plan term. The OEB expects that this method will be appropriate for most LDCs. LDCs with relatively steady state investment needs (i.e., primarily sustainment), may opt for the Annual Incentive Rate-setting Index ["Annual IR Index"]. The Custom Incentive Rate-setting ["Custom IR"] method may be appropriate for LDCs with significantly large multi-year or highly variable investment commitments with relatively certain timing and level of associated expenditures.

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

The OEB issued its decision and rate order on December 22, 2015 approving final 2016 and 2017 rates and charges, and interim rates and charges for subsequent years, 2018 and 2019. Final distribution rates for 2018 and 2019 are subject to a modified rate application due in 2017. In addition, the Corporation may introduce new rate riders depending on the timing of the clearance of variance and deferral accounts.

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

The following regulatory practices relating to regulatory assets and liabilities, 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
The Corporation follows regulated accounting rules as prescribed by the OEB for rate-regulated enterprises. IFRS 14, *Regulatory Deferral Accounts*, allows the Corporation to utilize pre-IFRS Canadian Generally Accepted Accounting Principles ["Canadian GAAP"] with respect to the recognition of Regulatory Assets and Liabilities that address the deferral of specific non-income related cash inflows and outflows.

Regulatory assets primarily represent costs that have been deferred because it is probable that they will be recovered in future rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers for electricity

services and the costs that the Corporation incurs to purchase and deliver these services. Certain costs and variance account balances are deemed to be regulatory assets or regulatory liabilities and are reflected in the LDC's balance sheets until the manner and timing of disposition is determined by the OEB.

Payments in lieu of income taxes ["PILs"]
The Corporation provides for PILs using the deferred income taxes method for its regulated activities as permitted by the IASB and the OEB.

Restricted cash
Restricted cash is defined as funds held separately to maintain a debt service reserve in an amount equal to three months' future debt service costs related to the combined heat and power ["CHP"] plant term loan.

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

Property, plant and equipment
Items of property, plant and equipment ["PP&E"] are measured at cost or deemed cost on transition date, less accumulated depreciation and accumulated impairment losses. Consistent with IFRS 1, *First-time Adoption of International Financial Reporting Standards*, the Corporation elected to use the carrying amount as previously determined under Canadian GAAP as the deemed cost for items of PP&E used in rate regulated operations at January 1, 2014, the transition date to IFRS.

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 the Corporation’s average cost of borrowing.

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 statement of comprehensive income.

Depreciation of PP&E is recorded in the consolidated statement 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	$12 per engine run hour
Computer hardware	25%
Vehicle fleet	8.33% - 12.50%
Fibre optics network	5%

Construction in progress comprises capital assets under construction, capital assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed. These assets are not depreciated until 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 and deferred indefeasible right of use ["IRU"] leases, 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 statement 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, 2016, the Corporation has determined that there are no material AROs associated with transmission, distribution and generation systems.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in net income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in net income.

Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than inventory and deferred payments in lieu of 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 comprehensive 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 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, pro-rated on service and based on management's best estimates. Under this method, the projected post-retirement benefits are deemed to be earned on a pro-rata basis over the employee's years of service in the attribution period commencing at 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 statement 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. The disposition of this new deferral account will occur sometime in the future in accordance with OEB guidelines in effect at that appropriate time.

Customer advance deposits

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

Customer advance payments

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

Deferred developer 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.

Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as deferred developer contributions and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset in accordance with IFRIC 18, *Transfers of Assets from 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.

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

Financial instruments
Financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at fair value, except for financial assets classified as held-to-maturity, or loans and receivables, and other financial liabilities, which are measured at cost or amortized cost using the effective interest rate method. The Corporation has adopted IAS 39, *Financial Instruments: Recognition and Measurement* and commenced reporting in accordance with this standard on the date of transition. The Corporation has made the following classifications:

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

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

Derivative financial instruments and hedge accounting
Derivative financial instruments in the form of interest rate swap contracts are used to manage exposure to fluctuations in interest rates on the Corporation's long-term debt. The Corporation does not enter into derivative agreements for speculative purposes. These contracts are designated as hedges, and therefore any gain or loss is included in other comprehensive income ["OCI"].

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

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

Investments
An Irrevocable Standby Letter of Credit in the amount of $7,000 was issued in October 2012, and renewed in October 2014, in favour of the IESO as collateral support for energy amounts as determined by and payable to the IESO.

Leased assets
Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. 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.

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

All other leases are classified as operating leases and the leased assets are not recognized on the Corporation's consolidated balance sheet. Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease.

Revenue recognition
The Corporation recognizes revenue when it is likely that economic benefits will flow to the Corporation and where the revenue can be reliably measured. 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 service, 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 management services that are recognized upon the provision of services including project management, operations and maintenance, and other energy management services for which fees are charged under contract, and duct rental revenue that is recognized as services are rendered and time expires.

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 liability and amortized into deferred developer contributions 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 2016 is consistent with the approach used in past periods.

Current taxes are based on taxable profit or loss for the year, which differ from profit or loss as reported in the consolidated statement 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 financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Certain estimates are necessary since the regulatory environment in which the Corporation operates requires amounts to be recorded at estimated values until finalization and adjustment pursuant to subsequent regulatory decisions or other regulatory proceedings. Due to inherent uncertainty involved in making such estimates, actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Ministry of Energy and Infrastructure, or the Ministry of Finance.

Future accounting policies

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ["IFRS 15"], which replaces existing revenue recognition guidance, including IAS 18, *Revenue* and IFRIC 18, *Transfers of Assets from Customers*. IFRS 15 contains a single model that applies to contracts with customers with two approaches for recognizing revenue: at a point in time; or over time. The model features a contract-based five-step analysis of transactions to determine whether revenue should be recognized, and the respective timing and amount. New estimates and judgment thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS. On July 22, 2015, the IASB confirmed a one-year deferral of the effective date of IFRS 15 to annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of the new standard.

Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments* ["IFRS 9"], which replaces IAS 39, *Financial Instruments: Recognition and Measurement* ["IAS 39"]. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exceptions. The Corporation is currently evaluating the impact of the new standard.

Leases
In January 2016, the IASB issued IFRS 16, *Leases* ["IFRS 16"], which replaces IAS 17, *Leases* ["IAS 17"]. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset has a low value. Lessor accounting remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. The standard is effective for annual periods beginning on or after January 1, 2019, and will be applied retrospectively with some exceptions. Early adoption is permitted if IFRS 15 has been adopted. The Corporation is currently evaluating the impact of the new standard.

Oshawa Power and Utilities Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2016 and 2015

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following as at December 31, 2016:

	January 1, 2016 $	Additions/ depreciation $	Disposals/ retirements $	**December 31, 2016 $**
Cost				
Transmission, distribution and generation				
Transformers	57,258	514	-	**57,772**
Underground distribution	46,069	3,316	(1,495)	**47,890**
Poles, towers and fixtures	40,865	2,541	(142)	**43,264**
Station equipment	22,020	793	(374)	**22,439**
Overhead distribution	21,490	1,074	(1,501)	**21,063**
Meters	11,502	769	(149)	**12,122**
Combined heat and power plant	7,132	-	-	**7,132**
Solar	2,463	-	-	**2,463**
	208,799	9,007	(3,661)	**214,145**
Construction in progress	3,916	2,632	-	**6,548**
Other property, plant and equipment				
Vehicle fleet	4,688	93	(143)	**4,638**
Equipment and furniture	7,318	297	-	**7,615**
Fibre optics network	2,340	154	-	**2,494**
Computer hardware	2,658	75	-	**2,733**
Buildings	757	-	-	**757**
Land	294	-	-	**294**
	18,055	619	(143)	**18,531**
Total cost	230,770	12,258	(3,804)	**239,224**
Accumulated depreciation				
Transmission, distribution and generation				
Transformers	(30,852)	(943)	-	**(31,795)**
Underground distribution	(18,714)	(907)	1,345	**(18,276)**
Poles, towers and fixtures	(14,370)	(717)	113	**(14,974)**
Station equipment	(7,704)	(528)	337	**(7,895)**
Overhead distribution	(8,391)	(438)	1,351	**(7,478)**
Meters	(5,489)	(846)	89	**(6,246)**
Combined heat and power plant	(2,113)	(263)	-	**(2,376)**
Solar	(349)	(123)	-	**(472)**
	(87,982)	(4,765)	3,235	**(89,512)**
Other property, plant and equipment				
Vehicle fleet	(2,739)	(316)	143	**(2,912)**
Equipment and furniture	(5,889)	(183)	-	**(6,072)**
Fibre optics network	(1,000)	(120)	-	**(1,120)**
Computer hardware	(2,463)	(69)	-	**(2,532)**
Buildings	(502)	(13)	-	**(515)**
	(12,593)	(701)	143	**(13,151)**
Total accumulated depreciation	(100,575)	(5,466)	3,378	**(102,663)**
Carrying amount	130,195	6,792	(426)	**136,561**

Property, plant and equipment consist of the following as at December 31, 2015:

	January 1, 2015 $	Additions/ depreciation $	Disposals/ retirements $	December 31, 2015 $
Cost				
Transmission, distribution and generation				
Transformers	54,804	2,471	(17)	57,258
Underground distribution	42,583	3,488	(2)	46,069
Poles, towers and fixtures	37,066	3,885	(86)	40,865
Station equipment	20,223	1,797	–	22,020
Overhead distribution	20,173	1,412	(95)	21,490
Meters	10,994	508	–	11,502
Combined heat and power plant	7,132	–	–	7,132
Solar	2,463	–	–	2,463
	195,438	13,561	(200)	208,799
Construction in progress	4,017	15	(116)	3,916
Other property, plant and equipment				
Vehicle fleet	4,188	500	–	4,688
Equipment and furniture	6,599	719	–	7,318
Fibre optics network	2,097	243	–	2,340
Computer hardware	2,602	56	–	2,658
Buildings	757	–	–	757
Land	294	–	–	294
	16,537	1,518	–	18,055
Total cost	215,992	15,094	(316)	230,770
Accumulated depreciation				
Transmission, distribution and generation				
Transformers	(30,017)	(843)	8	(30,852)
Underground distribution	(17,998)	(717)	1	(18,714)
Poles, towers and fixtures	(13,763)	(633)	26	(14,370)
Station equipment	(7,245)	(459)	–	(7,704)
Overhead distribution	(8,060)	(390)	59	(8,391)
Meters	(4,699)	(790)	–	(5,489)
Combined heat and power plant	(1,852)	(261)	–	(2,113)
Solar	(225)	(124)	–	(349)
	(83,859)	(4,217)	94	(87,982)
Other property, plant and equipment				
Vehicle fleet	(2,448)	(291)	–	(2,739)
Equipment and furniture	(5,317)	(572)	–	(5,889)
Fibre optics network	(892)	(108)	–	(1,000)
Computer hardware	(2,339)	(124)	–	(2,463)
Buildings	(402)	(100)	–	(502)
	(11,398)	(1,195)	–	(12,593)
Total accumulated depreciation	(95,257)	(5,412)	94	(100,575)
Carrying amount	120,735	9,682	(222)	130,195

For the year ended December 31, 2016, ascribed interest capitalized to property, plant and equipment as prescribed by the OEB amounted to $216 [2015 - $110]. In the absence of rate regulation, additions to property, plant and equipment would have been $216 lower [2015 - $110 lower] and interest expense would have been $216 higher [2015 - $110 higher].

4. INTANGIBLE ASSETS

Intangible assets consist of deferred IRU lease charges and computer software.

	January 1, 2016 $	Additions/ depreciation $	Disposals/ retirements $	**December 31, 2016 $**
Cost				
Deferred IRU lease	231	–	–	**231**
Computer software	1,979	966	–	**2,945**
	2,210	966	–	**3,176**
Accumulated depreciation				
Deferred IRU lease	(150)	(10)		**(160)**
Computer software	(1,588)	(201)	–	**(1,789)**
	(1,738)	(211)	–	**(1,949)**
Carrying amount	472	755	–	**1,227**

	January 1, 2015 $	Additions/ depreciation $	Disposals/ retirements $	December 31, 2015 $
Cost				
Deferred IRU lease	231	–	–	231
Computer software	1,635	344	–	1,979
	1,866	344	–	2,210
Accumulated depreciation				
Deferred IRU lease	(140)	(10)	–	(150)
Computer software	(1,310)	(278)	–	(1,588)
	(1,450)	(288)	–	(1,738)
Carrying amount	416	56	–	472

5. REGULATORY ASSETS AND LIABILITIES

Regulatory asset balances consist of the following:

	January 1, 2016 $	Balances arising in the period $	Recovery/ reversal $	**December 31, 2016 $**
Regulatory assets				
Retail settlement variance – power	770	(770)	–	**–**
Post-employment benefits deferral	–	975	–	**975**
Regulatory Asset Recovery Account ["RARA"]	5,565	–	(1,710)	**3,855**
Total regulatory assets	6,335	205	(1,710)	**4,830**

	January 1, 2015 $	Balances arising in the period $	Recovery/ reversal $	December 31, 2015 $
Regulatory assets				
Retail settlement variance – power	1,588	790	(1,608)	770
Retail settlement variance – global adjustment	2,050	24	(2,074)	–
Retail settlement variances – other	544	–	(544)	–
Smart meter variance	533	–	(533)	–
Regulatory Asset Recovery Account ["RARA"]	656	5,149	(240)	5,565
Regulatory asset – other	7	–	(7)	–
Total regulatory assets	5,378	5,963	(5,006)	6,335

Regulatory liability balances consist of the following:

	January 1, 2016 $	Balances arising in the period $	Recovery/ reversal $	**December 31, 2016 $**
Regulatory liabilities				
Retail settlement variance – power	–	129	–	**129**
Retail settlement variance – global adjustment	210	446	–	**656**
Retail settlement variances – other	1,050	667	–	**1,717**
Deferred income taxes *[note 8]*	6,046	(552)	–	**5,494**
Post-employment benefits deferral	327	(327)	–	**–**
Regulatory liability – other	10	(7)	–	**3**
Total regulatory liabilities	7,643	356	–	**7,999**

	January 1, 2015 $	Balances arising in the period $	Recovery/ reversal $	December 31, 2015 $
Regulatory liabilities				
Retail settlement variance – global adjustment	–	210	–	210
Retail settlement variances – other	–	1,050	–	1,050
Deferred income taxes *[note 8]*	6,351	(305)	–	6,046
Post-employment benefits deferral	1,877	(1,550)	–	327
IFRS-CGAAP transitional PP&E account	594	–	(594)	–
Regulatory liability – other	–	10	–	10
Total regulatory liabilities	8,822	(585)	(594)	7,643

Net movements in regulatory balances, net of tax totalled $1,983 [2015 - $494].

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 assets and liabilities over time and are reported at period-end dates in accordance with rules prescribed by the OEB. Under rate regulation, the variances 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 asset and liability balances, as directed by the OEB.

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

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

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

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

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

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

RARA
Effective May 2006, the RARA was approved by the OEB. This account is used to record the disposition of deferral and variance account balances, by means of a rate rider, for which approval to recover (or refund) has been granted by the OEB as part of the regulatory process. The balance remaining as at December 31, 2015 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 December 22, 2015 as part of the Corporation's cost of service application for rates effective January 1, 2016.

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

IFRS-CGAAP transitional PP&E account
The IFRS-CGAAP transitional PP&E account was established to record adjustments to the carrying cost of PP&E resulting from the transition from Canadian GAAP to IFRS. An increase in the costs of PP&E in the amount of $1,250 was recorded effective January 1, 2012, and is being amortized over four years. The regulatory liability ″IFRS-CGAAP Transitional PP&E account″ was authorized under the AP Handbook to record these differences.

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, 2016 and December 31, 2015 primarily related to the actuarial gain and loss recorded for each year, respectively.

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

6. CURRENT PORTION OF LONG-TERM LIABILITIES

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

	2016	2015
	$	$
Customer advance deposits	**909**	909
Upstream capital improvement liability	**2,016**	2,017
Long-term debt *[note 10]*	**256**	242
Deferred revenue	**447**	427
	3,628	3,595

7. DEFERRED DEVELOPER CONTRIBUTIONS

The continuity of deferred developer contributions is as follows:

	2016	2015
	$	$
Deferred developer contributions, net, beginning of year	**29,625**	27,350
Deferred developer contributions received	**1,940**	3,108
Deferred developer contributions recognized as revenue	**(757)**	(833)
Deferred developer contributions, net, end of year	**30,808**	29,625

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 rate. The reconciliation between the statutory and effective tax rates is provided as follows:

	2016	2015
	$	$
Income before PILs	**8,366**	5,956
Net movements in regulatory balances	**(1,983)**	(494)
Net income after net movements in regulatory balances, before PILs	**6,383**	5,462
Combined Canadian federal and Ontario statutory income tax rate	**26.50%**	26.50%
Expected provision for PILs at statutory tax rates	**1,691**	1,447
Property, plant and equipment	**(701)**	(802)
Post-employment non-pension benefits	**38**	(67)
Corporate minimum taxes paid in prior years recovered	**(148)**	-
Other	**(160)**	137
Cost allocations	**(57)**	(29)
Provision for PILs	**663**	686
Effective tax rates	**10.38%**	12.55%

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

	2016	2015
	$	$
Current tax expense		
Current PILs charge	**552**	445
Adjustment for tax positions taken in prior periods	**-**	30
Deferred income tax expense		
Origination and reversal of temporary differences	**663**	516
Deferred taxes transferred to regulatory liabilities [note 5]	**(552)**	(305)
Provision for PILs	**663**	686

	2016	2015
	$	$
Deferred income taxes related to items recognized in OCI during the year		
Net gain on revaluation of cash flow hedges	**(180)**	(157)
Unrealized loss on derivatives designated as cash flow hedges	**(41)**	472
Deferred income taxes charged to OCI	**(221)**	315

As at December 31, 2016, the Corporation has recognized $5,494 in regulatory liabilities and a corresponding offset to deferred income tax assets [2015 - $6,046].

Deferred income tax assets

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, 2016 $	Recognized in regulatory liabilities $	Recognized in OCI $	Recognized in income statement $	**Net balance, December 31, 2016** **$**
Components of deferred income tax assets					
Property, plant and equipment	1,798	(1,083)	–	–	**715**
Employee post-employment non-pension benefits	4,247	531	–	–	**4,778**
Non-capital losses	–	–	–	105	**105**
Other taxable temporary differences	650	–	(221)	–	**429**
Deferred income tax assets	6,695	(552)	(221)	105	**6,027**

	Net balance, January 1, 2015 $	Recognized in regulatory liabilities $	Recognized in OCI $	Net balance, December 31, 2015 $
Components of deferred income tax assets				
Property, plant and equipment	2,748	(950)	–	1,798
Employee post-employment non-pension benefits	3,602	645	–	4,247
Other taxable temporary differences	335	–	315	650
Deferred income tax assets	6,685	(305)	315	6,695

Deferred income tax liabilities of $938 [2015 - $724], relating to the unregulated business, have been recorded in the accounts.

As of December 31, 2016, the Corporation has $1,009 accumulated non-capital losses for income tax purposes [2015 - $1,741], which are available to offset net income for 20 years before expiring.

9. EMPLOYEE BENEFITS

Pension costs

The Corporation makes contributions to OMERS, which is a multi-employer plan. The plan is a defined benefit plan that specifies the amount of retirement benefits to be received by the employees based on length of service and rates of pay. Current and future contributions are dependent upon the results of the OMERS plan as actuarially determined from time to time. OMERS reported that its funded status as at December 31, 2016, was 93.4% [2015 – 91.5%].

For the year ended December 31, 2016, the Corporation's OMERS current service pension costs were $693 [2015 - $699]. 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 [2015 – 9.0% up to YMPE and 14.6% over YMPE for NRA of 65].

Post-employment non-pension benefits

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

Accrued benefit obligations

The Corporation measures its accrued benefit obligations as at December 31 of each year. The latest actuarial valuation was performed as at December 31, 2016.

	2016 **$**	2015 $
Accrued benefit obligations, beginning of year	**11,779**	10,026
Employer current service cost	**189**	182
Interest on obligation	**465**	397
Benefits paid	**(480)**	(375)
Actuarial loss recognized at the end of the year	**1,303**	1,549
Accrued benefit obligations, end of year	**13,256**	11,779

Changes in post-employment non-pension retirement benefits	**2016** **$**	2015 $
Post-employment non-pension retirement benefits, beginning of year	**11,779**	10,026
Net periodic benefits cost accrued	**654**	579
Benefits paid	**(480)**	(375)
Recognized losses	**1,303**	1,549
Post-employment non-pension retirement benefits, end of year	**13,256**	11,779

Components for net periodic benefit costs	**2016** **$**	2015 $
Current service cost	**189**	182
Imputed interest cost	**465**	397
Net periodic benefit cost accrual for the year	**654**	579

Significant actuarial assumptions	**2016** **%**	2015 %
Discount rate applied to the calculation of future benefits	**3.85**	4.0
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, 2016 assumed health care costs would increase 8% [2015 - 8%] in the year following the valuation, graded down to 4% after six years [2015 - 4% after six years], and dental costs are assumed to increase by 6% [2015 - 6%] after one year, graded down to 4% after six years [2015 - 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 2016:

	Increase $	**Decrease** $
Accrued benefit obligations, as at December 31, 2016	**(1,851)**	**2,370**

b) **Health care trend rate**
The health care cost trend is estimated to increase at a declining rate from 8% to 4% over six years. Other medical and dental expenses are assumed to increase by 6% after one year, down to 4% after six years. The approximate effect on the accrued benefit obligations if the health care trend rate assumption was increased or decreased by 1% is as follows:

	Increase $	**Decrease** $
Accrued benefit obligations, as at December 31, 2016	**1,830**	**(1,466)**

10. DEBT

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

Long-term facilities

The Corporation has term loans totalling $45,000 with Toronto-Dominion Commercial Bank [the "Bank"]. On September 11, 2011, the Corporation renewed term loans in the amount of $30,000, due in one repayment on December 21, 2019. The loans are structured with interest rate swap agreements with the Bank which expire with the loans and, effectively, converts the Corporation's obligation to a fixed interest rate of 3.57%. 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.

On June 12, 2015, the Corporation incurred additional debt in the amount of $15,000 with the Bank due in one repayment on June 12, 2025. The loan is structured with a seven-year interest rate swap agreement with the Bank, effectively converting the Corporation's obligations to a fixed interest rate of approximately 2.71%. The effective start date of this interest rate swap agreement is June 17, 2015 and expires on June 17, 2022. 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 $5,558 with The Manufacturers Life Insurance Company for construction of the CHP plant. The term loan is for 20 years, ending March 2028, bearing annual interest of 5.778% compounded quarterly, and requires blended interest and principal payments of $119 per quarter.

The Corporation is required to maintain a debt services reserve account in an amount equal to three months' future debt service costs related to the term loan. As at December 31, 2016, the restricted cash balance in connection with the debt service reserve is $120.

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

Future principal repayments for the term debt are as follows:

	$
Less than one year	256
Between one and five years	1,183
More than five years	2,486
Total amount of future payments	3,925

During the year, the Corporation made interest payments of $1,733 [2015 - $1,587].

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, 2016, there were no outstanding balances on this line of credit [2015 - nil].

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, 2016.

Net of interest capitalized on construction in progress, interest expense charged to the consolidated statement of comprehensive income amounted to $1,516 during the year [2015 - $1,477].

11. CAPITAL STOCK

Capital stock consists of the following:

	2016 **$**	2015 $
Authorized		
Unlimited common shares		
Issued		
1,000 common shares	**23,064**	23,064

12. RELATED PARTY TRANSACTIONS

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

	2016	2015
	$	$
REVENUE		
City facilities (from electricity distribution)	**4,073**	3,336
Streetlights (from electricity distribution)	**2,225**	1,952
City streetlights LED replacement program	**4,191**	–
Fibre optic leases to the City	**299**	262
	10,788	5,550
Streetlight maintenance and construction services	**86**	111
EXPENSES		
Net rent - 100 Simcoe Street South	**308**	302
City streetlights LED replacement program	**4,191**	–
Property taxes	**136**	128
	4,635	430
ACCOUNTS RECEIVABLE		
Facilities and streetlights	**725**	476
City streetlights LED replacement program	**1,360**	–
Construction services and fibre optic leases	**4**	24
	2,089	500

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, 2016.

13. COMMITMENTS AND CONTINGENCIES

Lease commitments

The Corporation leases its premises under a net operating lease with the City. The Corporation entered into a new lease in 2012, which expires March 31, 2017.

The Corporation entered into a contractual agreement to lease office equipment over a period of 66 months, expiring June 30, 2019.

A wholly owned subsidiary, 2252112 Ontario Inc., leases the 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.

	100 Simcoe Street South $	Office equipment $	Rooftop solar installations $	**Total lease commitments $**
Less than one year	72	11	37	**120**
Between one and five years	–	16	149	**165**
More than five years	–	–	521	**521**
Total amount of future payments	72	27	707	**806**

Insurance claims

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

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

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

Income taxes

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

Energy Conservation Agreement

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

Subject to the terms of the agreement, all IESO CDM program costs are paid by the IESO. The Corporation effectively acts as a delivery agent for those programs that it participates in under the agreement. The Corporation will be entitled to receive all of its estimated 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 has not recorded a provision in these consolidated financial statements in respect of these matters.

14. 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, 2016 and 2015, the Corporation did not have any Level 3 instruments.

The Corporation has designated its financial instruments as follows:

		2016		2015	
	Level	**Carrying value**	**Fair value**	Carrying value	Fair value
Loans and receivables					
Accounts receivable	**1**	**15,683**	**15,683**	11,648	11,648
PILs	**1**	**236**	**236**	214	214
Unbilled revenue	**1**	**16,201**	**16,201**	13,281	13,281
Other financial liabilities					
Accounts payable and accrued liabilities	**1**	**26,483**	**26,483**	20,980	20,980
Customer advance payments	**1**	**2,669**	**2,669**	3,097	3,097
Long-term debt	**2**	**48,670**	**47,588**	48,925	47,836

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

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

Long-term debt
The fair value of the Corporation's long-term debt is estimated using present value techniques based on a borrowing rate of 4.2% for debt with similar terms and maturities. Long-term debt is shown net of unamortized debt issue costs.

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

Cash consists of deposits with major commercial banks.

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

The Corporation also has insurance in support of certain receivables. Credit risk associated with accounts receivable is as follows:

	2016 **$**	2015 $
Outstanding for not more than 30 days	**6,786**	4,350
Outstanding for more than 30 days and not more than 90 days	**742**	993
Outstanding for more than 90 days	**401**	285
Less allowance for doubtful accounts	**(505)**	(445)
Total trade accounts receivable	**7,424**	5,183
Other receivables	**8,259**	6,465
Total trade and other accounts receivable	**15,683**	11,648

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

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

The Corporation enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Corporation does not enter into derivatives for speculative purposes. The fair value of the interest rate swap agreements represents an approximation of the amounts the Corporation would have paid to or received from the counterparty to unwind its positions as at December 31, 2016.

The Corporation estimates that a loss of approximately $1,619 [2015 - loss of $2,449] would be realized if the contracts were terminated on December 31, 2016. These contracts are designated as hedges, and therefore this loss has been included in OCI. This loss is not expected to affect income as management intends to hold the interest rate swap contracts to maturity.

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

15. COLLATERAL

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

16. 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.