Consolidated Financial Statements of

ENERSOURCE CORPORATION

Years ended December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Enersource Corporation

We have audited the accompanying consolidated financial statements of Enersource Corporation, which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Enersource Corporation as at December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

KPMG LLP
Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
February 28, 2014

ENERSOURCE CORPORATION

Consolidated Statements of Financial Position
(In thousands of Canadian dollars)

	December 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents (Note 5)	$ 58,800	$ 72,724
Accounts receivable, net (Note 6, Note 20)	58,172	65,239
Unbilled revenue	70,049	59,363
Income taxes receivable	-	2,310
Inventory (Note 7)	8,483	8,474
Prepaid expenses	3,521	2,378
Deposits (Note 8)	21,920	19,732
Total current assets	220,945	230,220
Non-current assets:		
Property, plant and equipment (Note 9)	526,557	505,231
Intangible assets (Note 10)	17,330	18,653
Deferred tax assets (Note 12)	13,393	14,004
Total non-current assets	557,280	537,888
Total assets	$ 778,225	$ 768,108
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (Note 13)	$109,691	$ 107,334
Income taxes payable	490	-
Advance payments	3,672	2,078
Deferred revenue	241	13,868
Deposits payable (Note 8)	21,920	19,732
Environmental provision (Note 21)	2,825	370
Total current liabilities	138,839	143,382
Non-current liabilities:		
Debentures payable (Note 14)	318,042	317,951
Deferred contributions (Note 15)	11,333	5,584
Employee post-employment benefits (Note 16)	5,986	6,777
Total non-current liabilities	335,361	330,312
Total liabilities	474,200	473,694
Shareholders' equity:		
Share capital (Note 18)	175,691	175,691
Accumulated other comprehensive income (Note 17)	916	(926)
Retained earnings	127,418	119,649
Total shareholders' equity	304,025	294,414
Total liabilities and shareholders' equity	$ 778,225	$ 768,108

Contingencies, commitments and guarantees (Note 21)

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

____________________ Director ____________________ Director

ENERSOURCE CORPORATION

Consolidated Statements of Comprehensive Income
(In thousands of Canadian dollars)

Years ended December 31, 2013 and 2012

	December 31, 2013	December 31, 2012
Revenue:		
Energy sales	$ 765,984	$ 711,877
Distribution	124,010	91,894
Services	12,452	8,698
Other income (Note 24)	18,728	17,920
	921,174	830,389
Operating Expenses:		
Energy purchases (Note 13)	770,026	704,527
Employee salaries and benefits	36,085	36,496
Materials and transportation	6,206	5,711
Contract services	8,334	7,335
Other costs	13,408	11,324
Conservation and demand management (Note 24(a))	14,274	12,298
Depreciation of property, plant and equipment	25,608	25,117
Amortization of intangible assets	3,198	2,851
	877,139	805,659
Results from operating activities	44,035	24,730
Non-operating revenue (expense):		
Interest income	1,212	1,641
Interest expense	(16,047)	(15,778)
Interest expense on accrued post-employment benefits	(260)	(260)
	(15,095)	(14,397)
Profit before income tax expense	28,940	10,333
Income tax expense (recovery) (Note 11)	8,165	(632)
Profit for the year	20,775	10,965
Other comprehensive income (loss) net of income tax:		
Remeasurements of the post-employment net benefit liability (Note 17)	1,247	(423)
Income tax recovery (expense)	(331)	112
	916	(311)
Comprehensive income for the year	$ 21,691	$ 10,654

See accompanying notes to the consolidated financial statements

ENERSOURCE CORPORATION

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

Years ended December 31, 2013 and 2012

	December 31, 2013	December 31, 2012
Cash flows from operating activities:		
Operating Activities:		
Comprehensive income for the year	$ 21,691	$ 10,654
Adjustments for:		
Depreciation of property, plant and equipment	25,608	25,117
Amortization of intangible assets	3,198	2,851
Amortization of deferred contributions	(195)	(112)
Gain on disposal of property, plant and equipment	(183)	(196)
Employee post-employment benefits	(791)	993
Income tax expense	8,496	(744)
Interest income	(1,212)	(1,641)
Interest expense	16,047	15,778
Income tax paid	(5,085)	(2,607)
	67,574	50,093
Change in non-cash operating working capital (Note 19)	(10,106)	9,591
Net cash from operating activities	57,468	59,684
Cash flows from investing activities:		
Deposits	(2,188)	2,961
Interest received	1,290	1,606
Capitalized interest	379	683
Additions to property, plant and equipment	(48,477)	(64,979)
Additions to intangible assets	(2,301)	(2,970)
Additions to deferred contributions	5,944	1,248
Proceeds on disposal of property, plant and equipment	231	303
Net cash used in investing activities	(45,122)	(61,148)
Cash flows from financing activities:		
Deposits	2,188	(2,961)
Dividends paid (Note 18)	(12,080)	(13,648)
Interest paid	(16,378)	(16,330)
Net cash used in financing activities	(26,270)	(32,939)
Decrease in cash and cash equivalents	(13,924)	(34,403)
Cash and cash equivalents, beginning of year	72,724	107,127
Cash and cash equivalents, end of year	$ 58,800	$ 72,724

See accompanying notes to the consolidated financial statements

ENERSOURCE CORPORATION

Consolidated Statements of Changes in Equity
(In thousands of Canadian dollars)

Years ended December 31, 2013 and 2012

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance at January 1, 2013	$ 175,691	$ (926)	$ 119,649	$ 294,414
Profit for the year	-	-	20,775	20,775
Other comprehensive income	-	916	-	916
Accumulated other comprehensive income transferred to retained earnings (Note 17)		926	(926)	-
Dividends paid (Note 18)	-	-	(12,080)	(12,080)
Balance at December 31, 2013	$ 175,691	$ 916	$ 127,418	$ 304,025

Balance at January 1, 2012	$ 175,691	$ (615)	$ 122,332	$ 297,408
Profit for the year	-	-	10,965	10,965
Other comprehensive income	-	(311)	-	(311)
Dividends paid	-	-	(13,648)	(13,648)
Balance at December 31, 2012	$ 175,691	$ (926)	$ 119,649	$ 294,414

See accompanying notes to the consolidated financial statements

1. General Information

(a) Corporate Information:

Enersource Corporation (the "Corporation"), incorporated under the Ontario Business Corporations Act, was formed to conduct electricity distribution and non-regulated utility service ventures. The Corporation is owned 90% by the City of Mississauga (the "City") and 10% by BPC Energy Corporation ("Borealis"), a wholly owned subsidiary of the Ontario Municipal Employees Retirement System ("OMERS").

The Corporation's equity is not traded in a public market. The Corporation's registered office is located at 2185 Derry Road West in Mississauga, Ontario, L5N 7A6.

The accompanying consolidated financial statements include the accounts of the Corporation's wholly owned subsidiaries: Enersource Hydro Mississauga Inc. ("Enersource Hydro"), Enersource Services Inc., Enersource Technologies Inc. ("Technologies") and Enersource Hydro Mississauga Services Inc. ("EHM Services"). The Company's consolidated financial statements are presented in thousands of Canadian dollars, which is the Corporation's functional currency.

(b) Nature of operations:

The Corporation provides electricity distribution services to businesses and residences in the City of Mississauga, Ontario through its subsidiary, Enersource Hydro.

EHM Services provides utility services, including electricity distribution infrastructure design, construction and operations and streetlight construction and maintenance services to customers in Ontario.

Enersource Services Inc. is the parent company of EHM Services, the Corporation's non-regulated businesses, which also owns 100% of Enersource Technologies.

2. Basis of Preparation

(a) Statement of compliance:

The accompanying annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC"). These consolidated financial statements have been approved by the Corporation's Board of Directors on February 28, 2014.

(b) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis with the exception of certain financial instruments that are measured at fair value.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period, as set out in note 4. Accounts receivable is reported based on amounts expected to be recovered less an appropriate allowance for unrecoverable amounts based on prior experience. Unbilled revenue is reported based on amounts expected to be recovered. Inventory is recorded net of a provision for obsolescence.

Amounts recorded for depreciation of property, plant and equipment and amortization of intangible assets are based on estimates of useful life.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by the Ontario Energy Board ("OEB") or the Ministry of Energy.

(c) Rate setting:

Enersource Hydro, as an electricity distributor, is both licensed and regulated by the OEB which has a legislative mandate to oversee various aspects of the electricity industry. The OEB exercises statutory authority through setting or approving all rates charged by Enersource Hydro and establishing standards of service for Enersource Hydro's customers.

Enersource Hydro is subject to a cost of service regulatory mechanism under which the OEB establishes the revenues required to (i) recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) provide a fair and reasonable return on utility investment, or rate base. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

2. Basis of Preparation (continued)

The OEB has the power to establish electricity prices to be charged to low volume consumers and designated consumers who do not choose an electricity retailer. The OEB may adjust consumption thresholds and electricity commodity prices charged to these consumers every six months as required.

In November 2011, Enersource Hydro submitted a formula based rate application to the OEB to change distribution rates effective May 1, 2012. The application was approved by the OEB on April 19, 2012. Enersource Hydro implemented this distribution rate decision, effective May 1, 2012.

On April 27, 2012, Enersource Hydro submitted a cost of service rate application to the OEB to change distribution rates effective January 1, 2013. The application was approved by the OEB on December 19, 2012. Enersource Hydro implemented this distribution rate decision, effective February 1, 2013.

3. Significant Accounting Policies

(a) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash and bank term deposits or equivalent financial instruments with maturities of 90 days or less from the date of purchase.

(b) Inventory:

Inventory consists primarily of parts and supplies acquired for internal construction, consumption or recoverable work. The Corporation accounts for major spare parts and standby equipment as property, plant and equipment.

Inventory costs are comprised of all costs of purchase, costs of conversion and other costs to bring the inventories to their present condition and location. The purchase price comprises of import duties, non-recoverable taxes, transportation, handling and other costs directly attributable to the acquisition of finished goods, materials or services.

Inventory is carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

3. Significant Accounting Policies (continued)

(c) Deposits:

Customers may be required to post security to obtain electricity or other services, which are refundable on demand. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits, which are reported separately from the Corporation's own cash and cash equivalents. Interest rates paid on customer deposits are based on the Bank of Canada's prime business rate less 2.0%.

(d) Property, plant and equipment ("PP&E"):

The Corporation recognizes PP&E on the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. Self-constructed asset costs are comprised of all directly attributable expenditures to bring the asset into operation including labour, employee benefits, materials and transportation costs, contracted services and capitalized borrowing costs (in accordance with IAS 23 Borrowing Costs), where applicable. 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 statement of comprehensive income.

The need to estimate the cost of decommissioning or asset retirement obligations ("ARO") at the end of the useful lives of certain assets is reviewed periodically. A provision is recorded, if required, for the estimated cost of the ARO. Currently, the Corporation does not have any ARO's since the decision and the actual removal or replacement of PP&E is usually completed within 12 months of the decision. The Corporation also does not have a legal obligation to remove PP&E and the constructive obligation has been determined to be immaterial.

Major spare parts such as spare transformers and other items kept as standby/back up equipment are accounted for as PP&E since they support the Corporation's distribution system reliability. All other subsequent expenditures, including the costs of day-to-day servicing, repairs and maintenance, are expensed as incurred.

Depreciation of PP&E is recorded in the statements of comprehensive income on a straight-line basis over the estimated useful life of the related asset. 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 estimate being accounted for on a prospective basis.

3. Significant Accounting Policies (continued)

Estimated useful lives for the main categories of PP&E are shown in the table below:

Buildings and other fixtures	20 - 60 years
Distribution system and station equipment	15 - 40 years
Overhead and underground distribution system	15 - 55 years
Other PP&E	3 - 25 years

Assets under construction, which are not currently available for use, are not depreciated.

During the construction period of qualifying assets, borrowing costs have been capitalized as a component of cost of self-constructed assets. The capitalization rate is the Corporation's weighted average cost of borrowings.

(e) Intangible assets:

Intangible assets are assets that lack physical substance, other than financial assets. Intangible assets, which consist mainly of computer software and easements, are recorded at cost less accumulated amortization and impairment losses, where applicable, and include expenditures associated with the initial acquisition or development, which are directly attributable to the acquisition, production and preparation of the asset for its intended use. Software that is an integral part of the cost of PP&E has been included in PP&E.

Amortization of intangible assets with finite lives is recorded on a straight line basis over the estimated useful life of the related asset and recorded in the statement of comprehensive income. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Software in development is not amortized.

Estimated useful lives for intangible assets are shown in the table below:

Computer software	2 - 10 years

Indefinite life intangible assets, which consist of easements and other land rights, are held in perpetuity and are not amortized. The Corporation evaluates indefinite life intangible assets for impairment annually or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. For purposes of such an evaluation, the fair value estimate is compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

3. Significant Accounting Policies (continued)

(f) Impairment of PP&E and intangible assets:

PP&E and intangible assets with finite lives are tested for recoverability whenever events or changes in circumstances indicate a possible impairment. Impairment is assessed and tested at the cash-generating unit ("CGU") level (or groups of CGUs), which is the smallest identifiable group of assets that generates independent cash inflows. An impairment of PP&E and intangible assets with finite lives is recognized in the statement of comprehensive income when the asset's carrying value exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Where fair value less costs to sell is not reliably available, value in use is used as the recoverable amount. Value in use is the present value of the future cash flows expected to be derived from an asset, CGU or group of CGUs.

An impairment charge may be reversed only if there is objective evidence that a change in the estimate used to determine the asset's recoverable amount since the last impairment was recognized is warranted. Where an impairment charge is subsequently reversed, the carrying amount of the asset (or CGU) is increased to the revised recoverable amount to the extent that it does not exceed the carrying amount that would have been determined had no impairment charge been recognized in previous periods. A reversal of an impairment charge is recognized immediately in the statement of comprehensive income. After such a reversal, the depreciation or amortization charge, where relevant, is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(g) Regulatory accounting:

In the absence of a rate regulated standard under IFRS, Enersource Hydro does not recognize assets and liabilities arising from rate regulated activities. Instead, Enersource Hydro records revenues in accordance with its revenue recognition policy and expenses as operating costs when incurred. Regulatory balances that have an effect on comprehensive income under IFRS are disclosed in Note 23.

(h) Revenue recognition:

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 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 it is acting as a principal for the electricity distribution and therefore has presented the energy sales on a gross basis.

3. Significant Accounting Policies (continued)

Distribution revenue attributable to the delivery of electricity is recognized based upon OEB-approved tariff of rates and charges and electricity consumed by customers since the date of each customer's last meter reading. Energy revenue is recognised based on OEB and IESO prevailing energy rates and electricity consumed by customers since the date of each customer's last meter reading. Revenue is recognized as electricity is delivered and consumed by customers, where actual electricity usage could differ from estimates.

Customer billings for debt retirement charges are recorded on a net basis as the Corporation is acting as an agent for this revenue stream. The Corporation files to recover uncollected debt retirement charges from the Ontario Electricity Financial Corporation ("OEFC") when accounts receivable are deemed uncollectible.

Services and other revenues are recognized as services are rendered or contract milestones are achieved. Amounts received in advance of these milestones are presented as deferred revenue.

(i) Deferred debt issue costs:

Deferred debt issue costs represent the cost of the issuance of the debentures. The Corporation's deferred debt issuance costs, net of accumulated amortization, are included in the carrying value of debentures payable. The debentures are accreted back to their face amount using the effective interest rate method over the remaining period to maturity.

(j) Employee post-employment benefits:

The Corporation's current pension plan is administered by OMERS and is a multi-employer public sector defined benefit pension plan funded by equal contributions from participating employers and employees as well as by investment earnings of the plan. Pension contributions received from all OMERS employers and members are combined and used jointly to purchase investments. Under OMERS' funding and investment structure, investment and actuarial evaluations are determined on a commingled basis across all employers and as a result, information for individual employers is unavailable.

As the Corporation does not have the information to account for its proportionate share of the defined benefit obligation and plan assets, the Corporation accounts for its participation in OMERS as a defined contribution plan, and all contributions to the plan are recognized as an expense.

3. Significant Accounting Policies (continued)

The Corporation also provides post-employment life, health, and dental benefits to its employees. An actuary determines the cost of these benefits as well as measures the plan obligation. The actuary uses the projected unit credit method, prorated on service and based on management's best estimate and assumptions. Under this method, the projected post-employment benefit is deemed to be earned on a pro rata basis over the years of service in the attribution period, and ends at the earliest age the employee could retire and qualify for benefits.

The Corporation recognizes any remeasurements of the net defined benefit liability including actuarial gains and losses immediately in other comprehensive income. Current service costs are recognized in the statement of comprehensive income under employee salaries and benefits and net interest expense on accrued post-employment benefits are disclosed on the face of the statement of comprehensive income. The Corporation will accumulate remeasurements and transfer them to retained earnings after OEB rulings.

(k) 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.

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

(l) Income taxes:

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes ("PILs") to the OEFC. 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), the Taxation Act, 2007 (Ontario), as modified by the Electricity Act, 1998, and related regulations. References in these financial statements to income taxes are with respect to PILs.

3. Significant Accounting Policies (continued)

The Corporation recognizes deferred tax using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are probable. Deferred 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment. Deferred income tax assets and liabilities are offset since they relate to income taxes levied by the same taxation authority.

A deferred 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 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.

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. The Corporation’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Both current and deferred taxes are included as part of income tax expense on the statement of comprehensive income.

(m) Foreign currency translation:

The Corporation’s financial statements are presented in Canadian dollars, the functional currency of the Corporation and the currency of the primary economic environment in which the Corporation operates. Transactions in foreign currencies are initially recorded in the functional currency at the prevailing rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing period-end rates. All differences are recorded in the statement of comprehensive income in the period in which they arise. Exchange gains or losses on financial assets at fair value through profit or loss is reported as part of other income in profit and loss. Realized and unrealized exchange gains and losses are included in income.

3. Significant Accounting Policies (continued)

(n) Financial instruments:

All financial assets of the Corporation are classified into one of the following categories: financial assets at fair value through profit or loss, available for sale financial assets, held-to-maturity, and loans and receivables. All financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities at amortized cost.

The Corporation has classified its financial instruments as follows:

Cash and cash equivalents	Fair value through profit or loss
Accounts receivables	Loans and receivables at amortized cost
Unbilled revenues	Loans and receivables at amortized cost
Deposits	Loans and receivables at amortized cost
Accounts payable and accrued liabilities	Financial liabilities at amortized cost
Advance payments	Fair value through profit or loss
Debentures payable	Financial liabilities at amortized cost
Deposits payable	Financial liabilities at amortized cost

Cash equivalents include short-term investments that are readily convertible to cash without significant loss in value. These short term investments are comprised of bankers' acceptances and bankers' demand notes issued by Canadian banks.

Subsequent to initial recognition, all non-derivative financial instruments of the Corporation are carried on the statement of financial position at fair value, except for loans and receivables, held-to-maturity investments and financial liabilities at amortized cost, which are measured at amortized cost.

The Corporation does not enter into derivative instruments. Hedge accounting has not been used in the preparation of these financial statements.

IFRS 13 Fair Value Measurement was issued in May 2011. It defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurement. It is effective for annual periods beginning on or after January 1, 2013. The prospective adoption of IFRS 13 did not have a material effect on the Corporation's financial statements or require a significant amount of additional disclosures.

When measuring fair value, an entity is required to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. IFRS 13 includes a fair value hierarchy, which prioritizes the inputs in a fair value measurement as described below:

3. Significant Accounting Policies (continued)

Level 1 inputs – are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs – are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs - are unobservable inputs for the asset or liability

The Corporation’s financial assets and liabilities are considered recurring, and are carried at fair value using level 1 inputs. The valuation technique used is the market approach, whereby the value is determined based on prices and other relevant information generated by market transactions involving identical or similar assets/liabilities.

(o) Capital disclosures:

The Corporation's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis, at reasonable rates, and to deliver the appropriate financial returns to its shareholders.

Enersource Hydro was deemed by the OEB for rate setting purposes to have a capital structure that was funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure as a basis of how capital is funded for rate setting purposes only. The actual capital structure for Enersource Hydro may differ from the OEB’s deemed structure.

(p) Provisions and contingencies:

The Corporation recognizes provisions when there is a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The evaluation of the likelihood of the contingent events requires judgement by management as to the probability of exposure to potential loss. Actual results could differ from these estimates.

A contingent asset is not recognized in the consolidated financial statements. However, a contingent asset is disclosed where an inflow of economic benefits is probable.

3. Significant Accounting Policies (continued)

(q) Short term employee benefits:

The cost of short term employee benefits, which includes salaries, employment insurance, short term compensated absences, health and dental care, are recognized as an expense in employee salaries and benefits as employees render service. When the services are rendered in the construction or development of an asset and they meet the recognition criteria as part of the cost of an asset, the cost of the short term employee benefits is included as part of the related PP&E or intangible asset.

(r) Government grants:

The Corporation includes in profit or loss government grants received from the Ontario Power Authority ("OPA"). The funding received from the OPA is to reimburse costs incurred by the Corporation to deliver electricity conservation and demand management programs ("CDM").

(s) Consolidation:

The Corporation prepares consolidated financial statements. All intercompany balances and transactions are eliminated in preparing the consolidated financial statements.

(t) Future accounting changes:

IAS 32, Financial Instruments: Presentation was amended in December 2011 to clarify the guidance for offsetting financial assets and liabilities. The amendments state that an entity has a legally enforceable right to offset if that right, is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. It also clarifies when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. It is effective for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The Corporation is currently in the process of evaluating the potential impact on the consolidated financial statements.

4. Key Accounting Judgements, Estimates and Assumptions

The preparation of these consolidated financial statements involves management's judgment and the use of estimates and assumptions to be made in applying accounting policies that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities, at the date of the consolidated financial statements, and the reported revenue and expenses during the reporting period.

Judgment is commonly used in determining whether a balance or transaction should be recognized in the consolidated financial statements and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated. As the basis for its judgments, management uses estimates and related assumptions which are based on previous experience and various commercial, economic and other factors that are considered reasonable under the circumstances. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised. Actual outcomes may differ from these estimates under different assumptions and conditions.

Key sources of estimation uncertainty and judgments, made by management in the application of IFRS that have a significant impact on the consolidated financial statements, relate to the following:

(a) Revenue recognition:

Measurement of usage not yet billed, which is included in revenues from the regulated distribution of electricity, is based on either the actual usage at the end of the period or an assessment of unbilled electricity distribution services supplied to customers between the date of the last meter reading and the period ending date. The Corporation applies judgement to the measurement of the estimated consumption and to the valuation of that consumption.

(b) Useful lives of depreciable assets:

The Corporation, in conjunction with four other utilities, engaged a third party to conduct an independent study of asset useful lives. The Corporation revised its componentization structure and revised the estimated useful lives of its distribution system assets and other assets as a result of that study. The useful life values from the study were completed from industrial statistics, research studies, reports and past utility experience. Actual lives of assets may vary from estimated useful lives.

(In thousands of Canadian dollars)

4. Key Accounting Judgements, Estimates and Assumptions (continued)

(c) Employee post-employment benefits other than pensions:

The costs of post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, any expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

(d) Accounts receivable impairment:

In determining the allowance for doubtful accounts, the Corporation considers historical loss experience of account balances based on the aging and arrears status of accounts receivable balances.

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5. Cash and Cash Equivalents

Cash and cash equivalents include cash at the bank, cash on hand and short term investments with a maturity of 90 days or less from the date of purchase.

	December 31, 2013	December 31, 2012
Cash	$ 43,311	$ 57,441
Short term investments	15,489	15,283
Total cash and cash equivalents	$ 58,800	$ 72,724

The carrying amounts disclosed above reasonably approximate fair value at the statement of financial position date. There are no restrictions, pledges or limitations to the use of the cash and cash equivalents, except for $5,203 (2012 - $5,203) posted as letters of credit.

(In thousands of Canadian dollars)

6. Accounts Receivable

The components of accounts receivable, net are as follows:

	December 31, 2013	December 31, 2012
Trade receivables	$ 54,162	$ 56,500
Less: allowance for doubtful accounts	(2,142)	(3,299)
Trade receivables, net	$ 52,020	$ 53,201
Receivables due from related parties (Note 20)	3,838	3,358
Other receivables	2,314	8,680
Total accounts receivable, net	$ 58,172	$ 65,239
Of which:		
Not yet due (less than 16 days)	37,076	52,946
Past due 1 day but not more than 14	13,779	6,227
Past due 15 days but not more than 44	5,168	4,797
Past due 45 days but not more than 74	1,988	1,385
Past due 75 days but not more than 104	765	732
Past due more than 104 days	1,538	2,451
Less: allowance for doubtful accounts	(2,142)	(3,299)
Total accounts receivable, net	$ 58,172	$ 65,239

The allowance for doubtful accounts as at December 31, 2013 was 3.6% (December 31, 2012 – 4.8%), of the total accounts receivable which includes accounts receivable, that are not yet due or past due, that the Corporation has deemed to be impaired.

7. Inventory

The amount of inventory consumed by the Corporation and recognized as an expense during 2013 was $2,197 (2012 - $1,849). The amount of inventory that was written down due to obsolescence in 2013 was $127 (2012 - $9).

(In thousands of Canadian dollars)

8. Deposits

The following outlines the deposits and letters of credit/guarantees of the Corporation posted as security. The amounts are comprised of cash and cash equivalents in the form of deposits and letters of credit/letters of guarantee, under which the Corporation is contingently liable.

	December 31, 2013		December 31, 2012	
	Cash and cash equivalents	Letters of credit/ guarantees	Cash and cash equivalents	Letters of credit/ guarantees
Customer deposits (a)	$ 21,920	$ -	$ 19,732	$ -
Security with the IESO (b)	-	11,450	-	11,450
Security with the City of Brampton (c)	-	4,853	-	4,853
Security with the City of Mississauga (d)	-	350	-	350
	$ 21,920	$ 16,653	$ 19,732	$ 16,653

(a) Customer Deposits:

The Corporation collects cash and cash equivalents as deposits from certain customers to reduce credit risk.

(b) Security with the Independent Electricity System Operator:

Entities that purchase electricity in Ontario through the Independent Electricity System Operator ("IESO") are required to post security to mitigate the risk of their default on their expected activity in the market. The IESO could draw on this security if the Corporation failed to make payment required by a default notice issued by the IESO. The Corporation has posted a letter of credit as security in the amount of $11,450 as at December 31, 2013 (December 31, 2012 - $11,450).

(c) Security with the City of Brampton:

The Corporation has posted letters of credit in the amount of $4,853 as at December 31, 2013 (December 31, 2012 - $4,853) relating to contracts with the City of Brampton to provide routine and emergency maintenance of street lighting and related services. The City of Brampton could draw on this security by issuing a certificate demonstrating that the Corporation has failed to fulfill its obligations related to these contracts.

(d) Security with the City of Mississauga:

The Corporation has posted a letter of credit in the amount of $350 as at December 31, 2013 (December 31, 2012 - $350) relating to a contract with the City of Mississauga for the installation of Light Emitting Diode (“LED”) streetlight luminaires and monitoring system components. The City of Mississauga could draw on this security by issuing a certificate demonstrating that the Corporation has failed to fulfill its obligations related to this contract.

(In thousands of Canadian dollars)

9. Property, Plant and Equipment ("PP&E")

PP&E consists of the following as at December 31, 2013

	December 31, 2012	Additions/ Depreciation	Disposals/ Retirements	December 31, 2013
Cost				
Distribution system	$ 378,722	$ 35,688	$ (1,739)	$ 412,671
Distribution station equipment	55,681	3,520	(231)	58,970
Other PP&E	65,389	6,511	(1,144)	70,756
Buildings and fixtures	32,378	1,663	-	34,041
Land	9,892	-	(13)	9,879
Construction in progress	5,459	(387)	-	5,072
Subtotal	$ 547,521	$ 46,995	$ (3,127)	$ 591,389
Accumulated depreciation				
Distribution system	$ (25,615)	$ (13,653)	$ 270	$ (38,998)
Distribution station equipment	(3,439)	(1,831)	32	(5,238)
Other PP&E	(11,852)	(6,944)	725	(18,071)
Buildings and fixtures	(1,384)	(1,141)	-	(2,525)
Land	-	-	-	-
Subtotal	$ (42,290)	$ (23,569)	$ 1,027	$ (64,832)
Carrying amount	$ 505,231	$ 23,426	$ (2,100)	$ 526,557

PP&E consists of the following as at December 31, 2012

	December 31, 2011	Additions/ Depreciation	Disposals/ Retirements	December 31, 2012
Cost				
Distribution system	$ 352,141	$ 28,395	$ (1,814)	$ 378,722
Distribution station equipment	54,071	1,775	(165)	55,681
Other PP&E	57,318	9,821	(1,750)	65,389
Buildings and fixtures	14,822	17,556	-	32,378
Land	4,069	5,823	-	9,892
Construction in progress	4,239	1,220	-	5,459
Subtotal	$ 486,660	$ 64,590	$ (3,729)	$ 547,521
Accumulated depreciation				
Distribution system	$ (12,590)	$ (13,127)	$ 102	$ (25,615)
Distribution station equipment	(1,684)	(1,762)	7	(3,439)
Other PP&E	(5,988)	(6,555)	691	(11,852)
Buildings and fixtures	(532)	(852)	-	(1,384)
Land	-	-	-	-
Subtotal	$ (20,794)	$ (22,296)	$ 800	$ (42,290)
Carrying amount	$ 465,866	$ 42,294	$ (2,929)	$ 505,231

(In thousands of Canadian dollars)

9. Property, Plant and Equipment (continued)

The carrying amount of PP&E that have been derecognized before the end of their estimated useful lives, and have been recorded as depreciation expense on the statement of comprehensive income was $1,671 in 2013 (2012 - $1,869).

The carrying amount of old conventional meters that were derecognized before the end of their useful lives due to the smart metering deployment program was $368 in 2013 (2012 - $952). These costs have been recorded as depreciation expense on the statement of comprehensive income.

Included in the additions to PP&E was $354 (2012 - $650) representing the borrowing cost attributable to the assets during construction, and allocated to the qualifying asset at the weighted average cost of borrowings of 5.091% (2012 – 5.091%).

For the year ended December 31, 2013, accrued liabilities relating to PP&E in the amount of $4,522 (December 31, 2012 - $6,004) have been included in additions to PP&E.

PP&E and intangible asset purchase commitments outstanding as at December 31, 2013 was $10,907 (December 31, 2012 - $11,760).

10. Intangible Assets

Intangible assets consist of the following as at December 31, 2013:

	December 31, 2012	Additions/ Amortization	Disposals/ Retirements	December 31, 2013
Cost				
Computer software	$ 22,089	$ 1,652	$ (24)	$ 23,717
Easements	524	28	13	565
Software in development	1,004	182	-	1,186
Subtotal	$ 23,617	$ 1,862	$ (11)	$ 25,468
Accumulated amortization				
Computer software	$ (4,964)	$ (3,198)	$ 24	$ (8,138)
Easements	-	-	-	-
Subtotal	$ (4,964)	$ (3,198)	$ 24	$ (8,138)
Carrying amount	$ 18,653	$ (1,336)	$ 13	$ 17,330

(In thousands of Canadian dollars)

10. Intangible Assets (continued)

Intangible assets consist of the following as at December 31, 2012:

	December 31, 2011	Additions/ Amortization	Disposals/ Retirements	December 31, 2012
Cost				
Computer software	$ 19,717	$ 2,447	$ (75)	$ 22,089
Easements	333	191	-	524
Software in development	526	478	-	1,004
Subtotal	$ 20,576	$ 3,116	$ (75)	$ 23,617
Accumulated amortization				
Computer software	$ (2,187)	$ (2,852)	$ 75	$ (4,964)
Easements	-	-	-	-
Subtotal	$ (2,187)	$ (2,852)	$ 75	$ (4,964)
Carrying amount	$ 18,389	$ 264	$ -	$ 18,653

During 2013, $25 (2012 - $33) has been included in the additions to intangible assets, representing the borrowing costs attributable to the assets during the development phase and allocated to the qualifying asset at weighted average cost of borrowings of 5.091% (2012 – 5.091%).

For the period ended December 31, 2013, accrued liabilities relating to intangible assets in the amount of $436 (December 31, 2012 - $876) have been included in additions to intangible assets.

11. Income Taxes

The components of income tax expense for the years ended December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012
Current income tax expense:		
Expense for the year	$ 7,831	$ 3,527
Benefit arising from unrecognized tax loss	-	(98)
Utilization of future timing differences in the current period	54	(4,969)
Total current income tax expense (recovery)	7,885	(1,540)
Deferred income tax expense:		
Reversal of temporary differences	$ (190)	$ (712)
Increase in future tax rates on existing timing differences	-	(930)
Reduction of future timing differences	470	2,550
Total deferred income tax expense	$ 280	$ 908
Total income tax expense (recovery)	$ 8,165	$ (632)

(In thousands of Canadian dollars)

11. Income Taxes (continued)

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

	December 31, 2013	December 31, 2012
Federal and Ontario statutory income tax rate	26.50%	26.50%
Income before provision for income taxes	$ 28,940	$ 10,333
Provision for income taxes at statutory rate	7,669	2,738
Increase (decrease) resulting from:		
Tax effect of non-capital losses for which no benefit has been recorded	-	(98)
Increase in future tax rates on existing timing differences	-	(930)
Other timing differences between accounting net income and net income for tax purposes	496	(2,342)
Provision for income taxes	$ 8,165	$ (632)
Effective income tax rate	28.21%	(6.12%)

12. Deferred 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 tax asset consists of the following:

	December 31, 2013	December 31, 2012
Property, plant and equipment and intangible assets	$ 14,640	$ 17,806
Timing of refund of energy variances	(3,332)	(9,299)
Employee post-employment benefits other than pensions	1,587	1,796
Deferred revenue	-	3,619
Other temporary differences	498	82
Net deferred income tax assets	$ 13,393	$ 14,004

(In thousands of Canadian dollars)

13. Accounts Payable and Accrued Liabilities

Major components of accounts payable and accrued liabilities consist of the following:

	December 31, 2013	December 31, 2012
Amounts due to the IESO for energy purchases	$ 70,245	$ 59,157
Trade payables due to related parties (Note 20)	26	100
Other trade payables	5,179	8,720
Accrued expenses	23,992	28,525
Other non-trade payables	10,249	10,832
Total accounts payable and accrued liabilities	$ 109,691	$ 107,334

14. Debentures Payable

	December 31, 2013	December 31, 2012
4.52 % Series A Debentures due April 29, 2021	$ 110,000	$ 110,000
Deferred debt issue cost (net of accumulated amortization of $178)(Dec. 31, 2012 - $109)	(613)	(682)
5.30 % Series B Debentures due April 29, 2041	210,000	210,000
Deferred debt issue cost (net of accumulated amortization of $56)(Dec. 31, 2012 - $34)	(1,345)	(1,367)
Net debentures payable	$ 318,042	$ 317,951

The Corporation has a private placement debt of $320,000 comprised of $110,000 of Series A, 10-year debenture with fixed coupon rate of 4.52%, and $210,000 of Series B 30-year debentures with fixed coupon rate of 5.30%.

Interest expense for the year ended December 31, 2013 included $16,053 (December 31, 2012 - $16,141) in respect of interest on the debt. The amortization of the debt issue cost for the year ended December 31, 2013 was $91 (December 31, 2012 - $87).

14. Debentures Payable (continued)

The Corporation has the following material covenants associated with its long-term debt:

(a) The Corporation will duly and punctually pay or cause to be paid payments of principal and interest to each holder of the debentures.

(b) The Corporation will, and will cause each designated subsidiary to maintain its corporate existence (unless all of its assets are or have been conveyed to the Corporation or another designated subsidiary), and will carry on and conduct its business in a proper and efficient manner.

(c) The Corporation will provide to the Trustee copies of (i) within 120 days of each fiscal year end of the Corporation, annual audited consolidated financial statements of the Corporation together with a report of the Corporation's auditors thereon; (ii) within 60 days of the end of the first, second and third quarters of the Corporation's fiscal year, interim consolidated financial statements. The corporation's first interim consolidated financial report prepared in accordance with IFRS for the first quarter in which such report is required to be prepared, which may be provided within 90 days of the end of such quarter.

(d) The Corporation will, and will cause each Designated Subsidiary to, from time to time pay or cause to be paid all taxes (including transfer taxes), rates, levies, payments in lieu of taxes, assessments (ordinary or extraordinary), government fees or dues lawfully levied, assessed or imposed upon or in respect of its respective property or any part thereof or upon its income and profits as and when the same become due and payable and to withhold and remit any amounts required to be withheld by it from payments due to others and remit the same to any government or agency thereof.

(e) The Corporation will not, and will not permit any Designated Subsidiary to, create, assume or suffer to exist any Security Interest, other than permitted encumbrances, on any of its assets to secure any obligation, unless at the same time it secures equally and rateably therewith all the debentures issued pursuant to the Trust Indenture then outstanding.

(f) The Corporation shall not issue, incur or become liable for obligations that exceed 75% of the total consolidated capitalization.

(g) The Corporation may not amalgamate or consolidate with or merge into any other Person, or permit any other Person to amalgamate or consolidate with or merge into with the Corporation, or directly or indirectly transfer, sell, lease or otherwise dispose of all or substantially all of its property or assets. Notwithstanding the foregoing, a Designated Subsidiary shall be permitted to merge with another entity provided that, after giving effect to such merger, it continues to be a Designated Subsidiary

(h) No default or event of default shall have occurred and be continuing, or shall occur.

The Corporation is in compliance with all credit agreement covenants and limitations associated with its debt.

(In thousands of Canadian dollars)

15. Deferred Contributions

The continuity of deferred customer contributions in aid of construction ("CIAC") of PP&E is as follows:

	December 31, 2013	December 31, 2012
Deferred contributions, net, beginning of year	$ 5,584	$ 4,448
CIAC received	5,944	1,248
CIAC recognized as distribution revenue	(195)	(112)
Deferred contributions, net, ending of year	$ 11,333	$ 5,584

16. Employee Post-Employment Benefits

The Corporation's retirement plan is comprised of a defined contribution plan.

In addition, the Corporation provides other employee post-employment benefits, primarily life, health and dental coverage, on a shared basis.

(a) OMERS pension plan:

The defined contribution plan is mandatory for all full-time employees of the Corporation from day one of employment. Under the terms of the defined contribution plan, employees contribute a percentage of eligible employee earnings per year. The Corporation makes contributions for each contributing employee in amounts equal to the employee contribution. The defined contribution plan is fully vested from the first day of employment.

The most recently available OMERS annual report is for the year ended December 31, 2012, which reported that the plan was 86% funded, with an unfunded liability of $9,924,000. This unfunded liability is likely to result in future payments by participating employers and members. The Corporation's contributions could be increased if other entities withdraw from the plan.

The Corporation expensed contributions to OMERS of $3,968 (December 31, 2012 – $3,564) for the year ended December 31, 2013. These amounts are included under operating expenses on the statement of comprehensive income.

The Corporation expects $4,112 in contributions to be paid to its defined contribution plan in 2014.

(In thousands of Canadian dollars)

16. Employee Post-Employment Benefits (continued)

(b) Employee post-employment benefits other than pensions:

Employee post-employment benefits other than pensions are subject to annual actuarial valuations. The Corporation has a December 31 measurement date. A valuation of the employee post-employment benefits was performed as of December 31, 2013. The next valuation of the employee post-employment benefits will be performed as at December 31, 2014.

	December 31, 2013	December 31, 2012
Accrued benefit obligation, beginning of year	$ 6,777	$ 5,784
Current service costs	376	479
Interest on accrued employee post-employment benefits	260	260
Benefits paid	(180)	(169)
Re-measurements recognized in other comprehensive income	(1,247)	423
Accrued benefit obligation, end of year	$ 5,986	$ 6,777

Total expense recognized in profit or loss	December 31, 2013	December 31, 2012
Current service costs	$ 376	$ 479
Interest on obligation	260	260
Total Expense	$ 636	$ 739

Actuarial assumptions	December 31, 2013	December 31, 2012
Discount rate (beginning of year)	3.75%	4.25%
Discount rate (end of year)	4.75%	3.75%
Health care cost increases	9.00%	8.50%
Dental cost increases	4.00%	4.00%
Rate of compensation increase	3.00%	3.00%

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing to $5,117. A 1% decrease in the assumed discount rate would result in the defined benefit obligation increasing to $6,706.

17. Other Comprehensive Income

The Corporation recognizes any re-measurements of the net defined liability including actuarial gains and losses immediately in other comprehensive income. The Corporation reclassifies accumulated re-measurements as retained earnings after OEB rulings. On January 1, 2013, the Corporation reclassified $926 from accumulated other comprehensive income to retained earnings.

(In thousands of Canadian dollars)

18. Share Capital

	December 31, 2013	December 31, 2012
Authorized:		
Unlimited, Class A shares, voting		
1,000 Class B shares, non-voting		
100 Class C shares, voting		
Issued:		
180,555,562 Class A shares	$ 155,628	$ 155,628
1,000 Class B shares	1	1
100 Class C shares	20,062	20,062
	$ 175,691	$ 175,691

The holders of Class A shares and Class C shares are entitled to receive notice of, to attend, and to vote at all general and special meetings of the Corporation's shareholders. The holders of Class B shares are not entitled to vote at any meeting of the Corporation's shareholders (except as required by law) and are only entitled to receive notice of special meetings called to consider certain fundamental changes. Holders of Class A shares are entitled to one vote per share. Holders of Class C shares are entitled to such number of votes in respect of each Class C share as will entitle the holders of the Class C shares, as a class, to the proportion of the total number of votes of all shareholders entitled to vote at any such meeting that the Class C total base equity is of the aggregate regulated rate base equity of the Corporation's and its subsidiaries.

The holders of the Class A shares and holders of the Class C shares, in priority to the holders of the Class B shares, are entitled to receive, if, as and when declared by the Corporation's Board of Directors, concurrent cumulative preferential dividends at a rate per annum equal to the regulated rate of return on the rate base equity represented by each such class of shares. Once these preferential dividend entitlements have been satisfied, holders of each class of shares are entitled to receive, on a concurrent basis with each other class of shares, additional dividends if, as and when declared by the Corporation's Board of Directors and in such amounts and payable in such manner as may be determined from time to time by the Corporation's Board of Directors. Holders of the Class A shares and the Class C shares are together entitled to 60% of any such additional dividends, which are to be allocated between the holders of each such class of shares in proportion to the rate base equity represented by each such class. Holders of the Class B shares are entitled to 40% of any such additional dividends. Class A, B and C shares have no par value.

Dividends may be declared by the Board of Directors through a resolution. In 2013, a dividend of $12,080 (2012 - $13,648) was declared and paid to the Shareholders of the Corporation.

(In thousands of Canadian dollars)

19. Change in Non-cash Working Capital

	December 31, 2013	December 31, 2012
Accounts receivable	$ 6,989	$ (5,025)
Unbilled revenue	(10,686)	376
Inventory	(9)	(947)
Prepaid and deposits	(1,143)	(111)
Accounts payable	2,399	7,821
Environmental provision	2,455	210
Advance payments	1,594	8
Deferred revenue	(13,627)	7,015
Accrued PP&E and intangible assets	1,922	244
(Decrease) / Increase in non-cash operating working capital	$ (10,106)	$ 9,591

20. Related Party Transactions

The Corporation's operations include the provision of electricity and services to its principal shareholder, the City. Electricity is billed to the City at the prices and terms as any other Enersource Hydro customer not with an electricity retailer. Street lighting maintenance and construction services are provided at an exchange amount, being that amount agreed to by the parties. A summary of amounts charged by the Corporation to the City is as follows:

	December 31, 2013	December 31, 2012
Electrical energy	$ 10,586	$ 10,031
Street lighting maintenance and construction	8,011	5,726
Street lighting energy	6,716	6,242

At December 31, 2013, accounts payable and accrued liabilities include $26 (December 31, 2012 - $100,) due to the City. Accounts receivable include $3,838 (December 31, 2012 - $3,358) due from the City.

At December 31, 2013, the Corporation incurred property taxes which are paid to the City in the amount of $944 (December 31, 2012 - $948).

The Corporation charged Borealis $9 for the period ended December 31, 2013 (December 31, 2012 - $9) for an access agreement. These transactions were recorded at the exchange amount being the amount agreed to by the parties.

In 2013, a dividend of $10,872 (2012 - $12,283) was declared and paid to the City

In 2013, a dividend of $1,208 (2012 - $1,365) was declared and paid to Borealis.

(In thousands of Canadian dollars)

20. Related Party Transactions (continued)

No Director had, during or at the end of the period, any material interest in any contract of significance in relation to the Corporation's business.

The following compensation has been provided to the key management personnel of the Corporation and members of the Board of Directors (Directors Honorarium), who have the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

	December 31, 2013	December 31, 2012
Salaries and short term employee benefits	$ 1,985	$ 2,142
Retirement contributions	212	204
Other compensation	37	48
Directors Honorarium	227	179
	$ 2,461	$ 2,573

21. Contingencies, Commitments and Guarantees

The Corporation is party to a number of disputes and lawsuits in the normal course of business. The Corporation believes that the ultimate liability arising from these matters will have no material impact on the consolidated financial statements. Accordingly, no provision for any liability has been made in these financial statements.

In the normal course of operations, the Corporation executes agreements that provide for indemnification to third parties in transactions such as service agreements, leases and purchases of goods. Under these agreements, the Corporation agrees to indemnify the counterparty against loss or liability arising from the acts or omissions of the Corporation in relation to the agreement.

(a) Insurance Claims:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Current liability coverage is provided to a level of $24,000 per occurrence. The Corporation has also obtained additional general liability insurance of $10,000 per occurrence through Alternative Risk Services.

(In thousands of Canadian dollars)

21. Contingencies, Commitments and Guarantees (continued)

Enersource Hydro has been jointly named as a defendant in several actions. No provision has been made for these potential liabilities as Enersource Hydro expects that these claims are adequately covered by its insurance.

(b) Environmental:

The Corporation is subject to Canadian federal, provincial and municipal environmental regulations. As part of the Corporation's risk mitigation strategy, environmental assessments and environmental remediation are underway at various sites. The Corporation records a liability for the estimated future expenditures associated with testing and remediation of contaminated lands at various municipal substations and neighbouring properties.

Actual future environmental expenditures may vary from these estimates. As at December 31, 2013, the Corporation provided $2,825 (December 31, 2012- $370) for testing and future site remediation.

	December 31, 2013	December 31, 2012
Environmental provision, beginning of the year	$ 370	$ 160
Addition	2,731	260
Utilized in the year	(276)	(50)
Environmental provision, ending of the year	$ 2,825	$ 370

(c) Operating Lease Commitments:

The Corporation has entered into a commercial lease arrangement on a premise which is recognized and reported as part of other costs in the statement of comprehensive income.

For the year ended December 31, 2013, the Corporation recognized minimum lease payments of $145 (December 31, 2012 - $139) in the statement of comprehensive income. The lease has a life of one year with yearly renewal options. There are no restrictions placed upon the Corporation by entering into this lease. As at December 31, 2013, the Corporation’s committed future minimum annual lease payments under operating leases were $138 for 2014. The future minimum lease commitments would change depending on the decision to renew the agreement. The Corporation has numerous cancellable operating leases which are predominantly in the form of encroachment permits required to place distribution infrastructure assets on a rights-of-way or private property. The lease terms are between one and twenty years, and the amounts of these leases are immaterial and have been included in other costs in the statement of comprehensive income.

22. Risk Management and Financial Instruments

The private placement debt, having a principal amount of $320,000 as at December 31, 2013 (December 31, 2011 - $320,000), has a fair value of $350,758 (December 31, 2012 - $384,986) calculated using level 3 inputs. The valuation techniques used took into consideration accrued interest, Government of Canada benchmark yields and statistical data.

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

(a) Market Risk:

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Corporation does not have commodity risk due to the flow through nature of energy purchases and costs and its foreign exchange risk is not considered material since the Corporation's exposure is limited to U.S. dollar cash and cash equivalents holdings of $99 as at December 31, 2013 (December 31, 2012 - $96).

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference between actual interest income earned by the Corporation and the interest revenue reduction approved by the OEB may have a negative impact on the results of operations.

The Corporation minimizes interest rate risk by issuing long-term fixed rate debt.

(b) Credit Risk:

Financial assets create credit risk that counterparties will fail to discharge an obligation, causing a financial loss.

The Corporation manages counterparties credit risk through various techniques including, limiting total exposure levels with individual counterparties consistent with the Corporation's policies, and monitoring the financial condition of counterparties. Short-term investments held as at December 31, 2013, met the credit exposure limits specified under the Corporation's Investment Policy.

The Corporation's distribution revenue is earned on a broad base of customers principally located in Mississauga. As a result, the Corporation did not earn a significant amount of revenue from any individual customer. As at December 31, 2013, there were no significant balances of accounts receivable due from any single customer.

(In thousands of Canadian dollars)

22. Risk Management and Financial Instruments (continued)

Management believes that the credit risk of accounts receivable is not significant due to the following reasons:

i. There is a broad base of customers with no single customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance in either year.

ii. Enersource Hydro, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or letter of credit from customers to mitigate risk of payment default.

iii. The percentage of accounts receivable that is past due for more than 75 days is approximately 3.8% (2012 – 4.6%) of the total gross accounts receivable. (See note 6)

iv. Enersource Hydro included an amount for accounts receivable write-offs within operating expense for rate setting purposes.

(c) Liquidity Risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, as well as an established $50,000 banking line of credit, if required. Short-term liquidity is expected to be sufficient to fund normal operating requirements.

The Corporation's private placement debt matures in 2021 and 2041 and is expected to be refinanced at that time.

The Corporation has contractual obligations in the normal course of business; future minimum undiscounted contractual maturities are as follows:

Financial Liabilities	Due within 1 year	Due between 1 and 5 years	Due past 5 years
Accounts payable and accrued liabilities	$ 112,516	$ -	$ -
Debentures payable (interest and principal)	16,097	80,484	574,668
Total	$ 128,613	$ 80,484	$ 574,668

23. Divisional information

The Corporation consists primarily of two operating divisions, regulated operations and non-regulated operations. Non-regulated operations are primarily comprised of engineering design, construction and maintenance services for utilities and developers and street lighting design

(In thousands of Canadian dollars)

23. Divisional information (continued)

and maintenance services. The regulated operation provides electricity distribution services to businesses and residences in the City of Mississauga.

The designation of activities to the two operating divisions is based on a combination of regulatory status and the nature of the products and services provided. The accounting policies followed by the divisions are the same as those described in the summary of significant accounting policies.

Financial information that adjusts IFRS results to show the effect of rate regulation is used by the Corporation's Board of Directors, as well as members of key Management having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. This group is determined to be the Chief Operating Decision Maker ("CODM") and it assesses operating performance principally on the basis of earnings adjusted for regulatory items as shown in the divisional information disclosed below.

If regulatory accounting was permitted under IFRS, the Corporation's regulatory assets would represent certain amounts receivable from customers in the future for costs that have been deferred for accounting purposes as it is probable that they will be recovered in future rates. If regulatory accounting was permitted under IFRS, the Corporation's regulatory liabilities would represent certain amounts payable to customers that are expected to be refunded through future distribution rates.

Year ended December 31, 2013

2013	Enersource Hydro Regulated	Adjustment regulatory activities	Non-regulated	Eliminations	Total
Energy revenues	$ 765,984	$ -	$ -	$ -	$ 765,984
Distribution revenue	121,726	2,284	-	-	124,010
Other revenues	19,031	-	12,831	(682)	31,180
	906,741	2,284	12,831	(682)	921,174
Energy purchases	(765,984)	(4,042)	-	-	(770,026)
Operating expenses	(68,590)	(170)	(10,218)	671	(78,307)
Depreciation and amortization	(28,299)	(354)	(161)	8	(28,806)
Interest income	1,111	(224)	325	-	1,212
Interest expense	(17,130)	905	(82)	-	(16,307)
Profit (loss) before income tax expense	27,849	(1,601)	2,695	(3)	28,940
Income tax expense	5,609	1,853	703	-	8,165
Other comprehensive income	-	860	56		916
Comprehensive income (loss) at December 31, 2013	$ 22,240	$ (2,594)	$ 2,048	$ (3)	$ 21,691

(In thousands of Canadian dollars)

23. Divisional information (continued)

Year ended December 31, 2012

2012	Enersource Hydro Regulated	Adjustment regulatory activities	Non-regulated	Eliminations	Total
Energy revenues	$ 711,877	$ -	$ -	$ -	$ 711,877
Distribution revenue	112,555	(20,661)	-	-	91,894
Other revenues	17,948	-	9,129	(459)	26,618
	842,380	(20,661)	9,129	(459)	830,389
Energy purchases	(711,877)	7,350	-	-	(704,527)
Operating expenses	(65,219)	(335)	(8,069)	459	(73,164)
Depreciation and amortization	(27,894)	75	(149)	-	(27,968)
Interest income	1,493	(183)	331	-	1,641
Interest expense	(16,733)	771	(76)	-	(16,038)
Profit (loss) before income tax expense	22,150	(12,983)	1,166	-	10,333
Income tax (recovery) expense	2,668	(3,503)	203	-	(632)
Other comprehensive loss	(292)		(19)		(311)
Comprehensive income (loss) at December 31, 2012	$ 19,190	$ (9,480)	$ 944	$ -	$ 10,654

Total assets for the Corporation's two operating divisions are as follows:

	December 31, 2013	December 31, 2012
Enersource Hydro regulated	$ 746,245	$ 737,286
Non-regulated	31,980	30,822
	$ 778,225	$ 768,108

Total liabilities for the Corporation's two operating divisions are as follows:

	December 31, 2013	December 31, 2012
Enersource Hydro regulated	$ 469,373	$ 468,547
Non-regulated	4,827	5,147
	$ 474,200	$ 473,694

(In thousands of Canadian dollars)

23. Divisional information (continued)

Total regulatory balances that have been derecognized under IFRS that will be recovered or refunded through future distribution rates are as follows:

	December 31, 2012	2013 activity	December 31, 2013
Regulatory assets (ii)-(ix)	$ 9,967	$ (13,344)	$ (3,377)
Regulatory liabilities (i)	(33,954)	13,775	(20,179)
Net regulatory liabilities*	$ (23,987)	$ 431	$ (23,556)

** Income tax expenses on other comprehensive income of $310 have been excluded from net regulatory liability as at December 31, 2013.*

In a rate regulated environment, there is normally a requirement from the regulator to the utility to either reduce or increase rates in a future period. Under regulatory accounting, utilities account for the impact of rate regulation through the recognition of regulatory assets and liabilities, which is the deferral of costs (revenues) to a future period to match with the higher (lower) rates recovered in that period, usually as a result of a decision approved by the regulator.

In the absence of a rate regulated standard under IFRS, the Corporation does not recognize assets and liabilities arising from rate regulated activities. Since the economics of rate regulation have not changed from the adoption of IFRS, the CODM will continue to assess operating performance principally on the basis of earnings adjusted for the following significant regulatory activities:

(i) Retail settlement variances are caused by the difference between the actual price of the electricity commodity throughput and the prices set by the OEB. Specifically, these amounts include variances between the amounts charged by Hydro One and the IESO for the operation of the electricity markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates. Under regulatory accounting, the Corporation would have adjusted energy purchases for these variances. Under IFRS, the Corporation recognizes these differences in future periods as an increase or decrease to distribution revenue.

(ii) The OEB approved deferral accounts to record transitional differences associated with the implementation of IFRS, any incremental costs needed to comply with Environment Canada's new regulations associated with Polychlorinated biphenyls ("PCBs"), costs relating to stranded conventional meters, and unearned revenue and costs associated with Enersource Hydro's smart meter program. On December 19, 2012 the OEB approved the recovery of these deferral accounts and the Corporation has recognized the related revenue.

23. Divisional information (continued)

(iii) The OEB approved a variance account to record lost revenues associated with the delivery of CDM programs between 2011 and 2014. The variance account tracks the difference between the results of actual, verified impacts of CDM activities and the level of CDM program activities included in the distributor's load forecast. The Corporation may recover or refund this revenue through future distribution rates.

(iv) The OEB requires Enersource Hydro to track the difference between revenue and costs associated with providing retailers with customer settlement services as retail cost variance account deferrals. Under IFRS, the Corporation recognizes these differences as an increase or decrease to distribution revenue.

(v) The difference in income taxes or PILs resulting from legislative or regulatory changes to tax rates or rules as compared to rate-setting is recorded in an OEB approved variance account in regulatory accounting. Under IFRS, the Corporation recognizes these differences as an increase or decrease to distribution revenue.

(vi) The OEB requires the Corporation to accrue interest on regulatory assets and liabilities balances. Under IFRS, the Corporation recognizes the net interest on these balances in future periods as an increase or decrease to distribution revenue once approved for recovery or refund by the OEB.

(vii) The OEB approved four deferral accounts to record qualifying incremental capital investments, OM&A expenses and funding adders approved by the OEB related to the connection of renewable generation or the development of smart grid. Under IFRS, the Corporation capitalizes or expenses these items as incurred and recognizes revenue in accordance with the Corporation's revenue recognition policy.

(viii) The OEB approved a deferral account to record any re-measurements of the post-employment net defined liability including actuarial gains or losses. Under IFRS, the Corporation recognizes any re-measurements of the post-employment net defined liability in other comprehensive income.

To the extent that the OEB's future actions are different from the Corporation's expectations, the timing and amount of recovery or settlement of amounts included in the adjustment for regulatory activities could be significantly different from the amounts that are eventually recovered or settled through distribution rates in the future.

24. Other Revenue

(a) Government grants:

The Corporation recognized $14,278 ($13,703 – 2012) of OPA funding in other revenue for the year ended December 31, 2013. The Corporation recognized $14,274 ($12,298 – 2012) of OPA costs under operating expenses for the year ended December 31, 2013. The Corporation currently has no unfilled obligations relating to the government grants received by the OPA.

(b) Compensation from third parties for items of PP&E:

The Corporation recognized $578 ($290 – 2012) for damage claims received from third parties relating to emergency replacement of distribution equipment.