FINANCIAL STATEMENTS OF

PETERBOROUGH DISTRIBUTION INC.

December 31, 2013

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Collins Barrow
Chartered Accountants

Collins Barrow Kawarthas LLP
272 Charlotte Street
Peterborough, Ontario
K9J 2V4

T. 705.742.3418
F. 705.742.9775

www.collinsbarrowkawarthas.com

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Peterborough Distribution Inc.

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

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal controls as management determines are necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the company's preparation and fair presentation of the 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 company's internal controls. 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 financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Peterborough Distribution Inc. as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Kawarthas LLP

Chartered Professional Accountants
Peterborough, Ontario
March 27, 2014

PETERBOROUGH DISTRIBUTION INC.

STATEMENT OF FINANCIAL POSITION

As at December 31, 2013

	2013 $	2012 $
ASSETS		
Current assets		
Cash	1,227,883	4,226,634
Accounts receivable	6,821,206	6,783,017
Unbilled revenue on customer accounts	10,756,000	9,143,000
Income taxes recoverable	727,444	-
Inventories	1,258,035	1,377,803
Prepaid expenses	140,815	91,380
	20,931,383	21,621,834
Other assets		
Property, plant and equipment (note 3)	55,810,665	54,679,268
Regulatory assets (note 4)	2,800,886	1,456,584
Deferred tax assets (note 8)	1,827,300	2,260,000
	60,438,851	58,395,852
	81,370,234	80,017,686

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
STATEMENT OF FINANCIAL POSITION
As at December 31, 2013

	2013 $	2012 $
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	9,780,372	10,439,796
Income taxes payable	-	497,683
Customer deposits refundable within one year	691,000	773,000
Current portion of long-term debt (note 5)	1,313,333	900,835
	11,784,705	12,611,314
Long-term liabilities		
Customer deposits	1,026,583	926,038
Regulatory liabilities (note 4)	1,112,537	1,653,877
Long-term debt (note 5)	35,423,184	30,938,238
Due to related parties (note 6)	1,500,000	5,157,680
	39,062,304	38,675,833
Shareholder's equity		
Share capital (note 7)	21,657,680	21,657,680
Retained earnings	8,865,545	7,072,859
	30,523,225	28,730,539
	81,370,234	80,017,686

Approved on behalf of the Board

Paterson Director

Director

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2013

	2013 $	2012 $
Retained earnings - beginning of year	7,072,859	6,814,807
Net income for the year	2,792,686	1,541,052
Dividends paid	(1,000,000)	(1,283,000)
Retained earnings - end of year	8,865,545	7,072,859

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
STATEMENT OF INCOME

For the year ended December 31, 2013

	2013 $	2012 $
Revenue		
Power recovery	83,858,057	70,397,921
Distribution	15,095,754	16,646,620
Other (note 10)	848,500	1,222,665
	99,802,311	88,267,206
Expenses		
Purchased power	83,858,057	70,397,921
Operations and administration	8,107,645	7,165,315
Amortization (notes 2f and 3)	2,661,997	5,693,972
	94,627,699	83,257,208
Income before the undernoted items and corporate taxes	5,174,612	5,009,998
Other expense (income)		
Interest income	(104,734)	(291,837)
Interest expense - related parties	25,993	1,353,605
Interest expense - long-term debt	1,432,010	966,703
Interest expense - regulatory assets	51,878	262,542
Loss on write-down of regulatory assets	-	588,380
	1,405,147	2,879,393
Income before income taxes	3,769,465	2,130,605
Provision for income taxes		
Current	544,079	1,039,553
Deferred (recovery)	432,700	(450,000)
	976,779	589,553
Net income for the year	2,792,686	1,541,052

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2013

	2013 $	2012 $
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	2,792,686	1,541,052
Charges to operations not requiring a current cash payment -		
Amortization	2,661,997	5,693,972
Loss on write-down of regulatory assets	-	588,380
Deferred income tax (recovery)	432,700	(450,000)
	5,887,383	7,373,404
Change in non-cash working capital items (note 15)	(3,465,407)	(2,247,163)
Increase in customer deposits	18,545	64,226
	2,440,521	5,190,467
Investing activities		
Purchase of property, plant and equipment	(5,209,179)	(6,471,887)
Decrease (increase) in regulatory assets and liabilities	(1,885,642)	632,747
Decrease in advances to related party	-	11,795,000
	(7,094,821)	5,955,860
Financing activities		
Proceeds from long-term debt	6,157,680	18,000,000
Repayment to related party	(3,657,680)	(18,000,000)
Repayment of long-term debt	(1,260,236)	(856,815)
Repayment of bank indebtedness	-	(11,795,000)
Contributions in aid of construction	1,415,785	1,671,900
Dividends paid	(1,000,000)	(1,283,000)
	1,655,549	(12,262,915)
Net decrease in cash	(2,998,751)	(1,116,588)
Cash - beginning of year	4,226,634	5,343,222
Cash - end of year	1,227,883	4,226,634

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS

Peterborough Distribution Inc. (the "Company") is an electricity distribution company, wholly owned by the City of Peterborough Holdings Inc. which, in turn, is wholly owned by the Corporation of the City of Peterborough. The Company's distribution rates and conditions for providing services are regulated by the Ontario Energy Board (the "OEB").

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant policies are detailed as follows:

(a) Revenue Recognition

In accordance with the OEB regulations, the Company recognizes as revenue the regulated distribution service charges associated with the distribution of energy.

Revenue on the sale of electricity is recognized when the service is provided. Unbilled revenues are calculated by estimating the number of kilowatt hours delivered but not billed. Other revenues are recognized when services are rendered.

(b) Cash

Cash consists of balances with financial institutions.

(c) Accounting for Electricity Regulation

The Company accounts for the impact of rate regulation by the OEB as follows:

(i) Regulatory Decisions to Adjust Distribution Rates

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset, or creation of a liability, and culminating in an adjustment to Company distribution rates, such occurrences are immediately reflected in the Company's accounts.

(ii) Regulatory Accounting Practice

In the absence of a regulatory decision impacting rates, and where the Company is required by regulatory accounting practice or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities.

Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision and such adjustment are reflected in net income for the period.

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provisions are more fully described in note 4.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(d) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the statement of financial position date and the reported amounts of revenues and expenses during the year. Significant estimates and assumptions used in the preparation of the financial statements include, but are not limited to: estimates of revenue; carrying values of regulatory assets and liabilities; allowance for doubtful accounts; amortization rates and carrying values of property, plant and equipment; income taxes; fair values of financial instruments; and contingencies. Actual results could differ from these estimates.

(e) Inventory

Inventory consists of distribution system maintenance and construction materials and is valued at the lower of moving average cost and replacement cost. Major spare parts and stand-by equipment are recorded in property, plant and equipment.

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost and include labour, materials, engineering and purchased services.

The cost and related accumulated amortization for identifiable property, plant and equipment, such as substations, remain in the accounts until the assets are retired or disposed of at which time any gain or loss is reflected in operations. Property, plant and equipment which are recorded on a group basis, such as meters, are removed from the accounts only at the end of their estimated service lives.

In circumstances where external customers are required to make specific contributions to fund the construction and installation of specific fixed assets, the Company nets the customer contributions against the acquisition cost.

Effective January 1, 2013, the Company revised its estimate of useful life of property, plant and equipment as a result of an analysis completed related to the useful life assessment. This change has been accounted for on a prospective basis in the financial statements effective January 1, 2013. The change in estimate reduced amortization expense by approximately $2,184,000 for the year ended December 31, 2013, with an offsetting increase in the carrying value of assets.

Amortization is provided annually on a straight-line basis designed to amortize the assets over their estimated useful lives as follows:

Buildings	34 – 50 years
Substations	25 – 45 years
Overhead lines	30 – 60 years
Underground lines	30 – 60 years
Transformers	35 – 60 years
Meters	15 – 25 years
Other	4 – 5 years

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(g) Customer deposits

Customers may be required to post security to obtain electricity or other services. Where the deposit posted is in the form of cash, these amounts are recorded in the accounts as customer deposits. In accordance with the Ontario Energy Board regulation, interest is paid on customer balances at the Bank of Canada prime rate, adjusted quarterly, less 2%.

(h) Corporate income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate income taxes to Ontario Electricity Financial Corporation ("OEFC"). The payments in lieu of taxes are calculated on a basis as if the Company was a taxable company under the Income Tax Act (Canada).

Corporate income taxes are calculated using the deferred income tax liability and asset method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset and its carrying amount on the statement of financial position are used to calculate deferred tax liabilities or assets. Deferred tax liabilities or assets are measured using tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the year in which the change occurs.

(i) Financial instruments

(i) Comprehensive income

Comprehensive income consists of net income and other comprehensive income ("OCI"). OCI consists of the changes in the fair value of financial instruments, which have not been included in net income.

(ii) Recognition and measurement

Financial assets and liabilities are initially recognized and measured at fair value, except for certain related party transactions and are categorized as assets held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale or other liabilities. After initial recognition, financial assets, including derivatives that are assets, are measured at fair values, except for held-to-maturity investments and certain loans and receivables which are measured at amortized cost using the effective interest method. All financial liabilities are measured at amortized cost using the effective interest rate method, except for financial liabilities that are classified as held-for-trading.

A gain or loss on a financial asset or financial liability classified as held-for-trading is recognized in net income for the period in which it arises. A gain or loss on an available-for-sale financial asset is recognized directly in other comprehensive income, a permanent component of shareholder's equity. For financial assets and financial liabilities carried at amortized cost, a gain or loss is recognized in net income when the financial asset or financial liability is derecognized or impaired and through the amortization process.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(iii) Hedge accounting

Hedge accounting standards establish how and when hedge accounting is used, and in particular, the criteria to be met for the application of hedge accounting. Under hedge accounting, all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of operations in the same period. The Company presents the earnings and cash flow effects of hedging items with the hedged transaction. Ordinarily, the effective portion of the change in fair value of the cash flow hedging instrument is recorded in OCI and reclassified to earnings when the hedge ceases to be effective.

(j) International Financial Reporting Standards (IFRS)

On February 13, 2008 the AcSB confirmed that IFRS will be required to be adopted by publicly accountable enterprises and certain government enterprises for annual reporting purposes for fiscal years beginning on or after January 1, 2012. On September 10, 2011 the AcSB granted an optional one year deferral of IFRS adoption for entities subject to rate regulation. Subsequent to this through a series of additional one year extensions, the mandatory change over date for entities with rate regulated activities has been extended to January 1, 2015. At its December 2012 meeting, the IASB decided to develop an interim IFRS on rate regulated activities that “grandfathers” existing recognition and measurement policies while it completes its comprehensive project in the area.

On January 30, 2014, the AcSB issued interim Standard IFRS 14 *Regulatory Deferral Accounts*. IFRS 14 permits first-time adopters of IFRS to continue to use their previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances.

The interim standard requires regulatory deferral account balances and movements therein to be presented as separate line items on the face of the financial statements. In addition, further disclosure is required to identify the nature of, and risks associated with, rate regulation, and the effect of rate regulation on the entity’s financial position, performance and cash flows. IFRS 14 is effective from January 1, 2016, with early adoption permitted.

The IASB continues to move forward with its project to consider the broad issues of rate regulation with plans to publish a discussion paper on this subject in 2014, and a final comprehensive standard expected to follow in the coming years.

The Company has elected to continue the deferral of transition to IFRS, pending resolution of these matters before the IASB. The Company is continuing to assess the financial reporting impacts of the adoption of IFRS. At this time, the requirements of interim Standard IFRS 14 do not appear that they would have a significant impact on the financial reporting, future financial position or results of operations of the Company. However, the impact of any future changes that may be included in the discussion paper or the final comprehensive standard is not reasonably determinable. The impact of new IFRS standards and interpretations not yet effective has also not been assessed.

3. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2013 Net Book Value	2012 Net Book Value
	$	$	$	$
Land	134,968	-	134,968	134,968
Buildings	536,085	96,452	439,633	450,194
Substations	3,540,528	1,511,428	2,029,100	2,222,220
Overhead lines	37,395,027	15,628,565	21,766,462	20,992,297
Underground lines	24,980,033	10,940,230	14,039,803	13,460,043
Transformers	18,265,178	8,361,689	9,903,489	9,533,425
Meters	7,256,743	2,444,678	4,812,065	5,109,744
Other	2,936,270	2,416,838	519,432	733,325
Construction in process	2,165,713	-	2,165,713	2,043,052
	97,210,545	41,399,880	55,810,665	54,679,268

4. REGULATORY ASSETS AND LIABILITIES

The Company has recorded the following regulatory assets:

	2013	2012
	$	$
Retail Settlement Variance	1,271,417	-
Smart Meter Variance - replaced meters	1,272,498	1,412,163
Lost Revenue Adjustment Variance	51,012	29,428
Renewable Connection Deferral Account	172,423	-
Other	33,536	14,993
Regulatory Assets	2,800,886	1,456,584

4. REGULATORY ASSETS AND LIABILITIES, continued

In 2012, the Ontario Energy Board approved disposition of the Smart Meter variance account, excluding the portion related to the meters replaced ("stranded meters"). As prescribed by the regulator, the smart meter disposition resulted in the transfer of approximately $5.2 million to property, plant and equipment and $1.2 million in additional amortization expense in 2012. The remaining balance in the Smart Meter variance account of $1,272,498 (2012 - $1,412,163) represents the estimated net recoverable value of stranded meter assets to be recovered in future rates.

In the absence of rate regulation supporting the accumulation of these amounts, the Company would have written down all costs associated with the stranded meter assets in 2012, resulting in an after tax reduction in the current years opening equity in the amount of $1,037,940. Additionally, revenue in 2013 would be reduced by $1,528,388 on account of the other regulatory asset variance accounts.

Retail settlement variance accounts are accumulated as prescribed by regulatory policy and will be subject to review and disposition through future rate review processes, the timing of which have yet to be determined. It is expected that the approved disposition of any asset or liability accumulated at that time will be through the adjustment of future rates.

The Company has recorded the following regulatory liability accounts:

	2013 $	2012 $
Retail Settlement Variance	-	574,581
Regulatory items approved for settlement	1,112,537	1,079,296
Regulatory liabilities	1,112,537	1,653,877

In the absence of rate regulation supporting the accumulation of these amounts, revenue or the cost of purchased power would be adjusted for retail settlement variances as incurred. Net income would have been approximately $740,000 lower in 2013 and $1,680,000 higher in 2012 in the absence of rate regulatory accounting.

5. LONG-TERM DEBT

A summary of outstanding long-term debt is provided in the table below:

	2013	2012
	$	$
Bank debt, bearing interest at prime less 0.25% due August 14, 2016	2,500,000	-
Bank debt, bearing interest at 2.1% due January 31, 2014	-	18,000,000
Bank debt, bearing interest at 4.25% per annum payable in blended monthly payments of principal and interest of $105,359 due August 21, 2023	21,298,383	-
Bank debt, bearing interest at 4.55% per annum payable in blended monthly payments of principal and interest of $50,658, due December 24, 2018	4,876,645	5,253,311
Bank debt, bearing interest at 5.36% per annum payable in blended monthly payments of principal and interest of $80,967, due December 22, 2019	8,061,489	8,585,762
	36,736,517	31,839,073
Less: principal payments due within one year	1,313,333	900,835
	35,423,184	30,938,238

(a) Bank Borrowings

(i) Floating Rate Committed Term Facility

At December 31, 2013 the Company had drawn $2,500,000 on its $6,000,000 operating facility. Floating rate advances drawn in 2012 of $18,000,000 together with additional borrowings of $3.5 million during the year were converted to fixed rate debt during the year and included in 5(a)(ii).

5. LONG-TERM DEBT, continued

(ii) Fixed Rate Committed Reducing Term Facility

The Company has entered into receive-variable/pay-fixed interest rate swap agreements whereby the Company cash flow hedged the variable interest rate loan commitment for three committed bank term loans totaling $34,236,517.

Bank debt is secured by a general security agreement covering the assets of the Company, and a subordination of the general security agreement previously provided to the Corporation of the City of Peterborough.

(b) Financial Ratios

The bank agreements require the Company to maintain certain financial ratios which must be met on a quarterly or annual basis. Through the 12 month period ended December 31, 2013 the Company was in compliance with the financial ratio requirements.

(c) Letters of Credit

The Company has posted $ 7,063,922 (2012 - $7,063,922) in stand-by letters of credit with the Independent Electricity System Operator, as required by regulation.

The aggregate amount of principal payments required is as follows:

	$
2014	1,313,333
2015	1,377,897
2016	3,945,668
2017	1,516,806
2018	4,305,453
Thereafter	24,277,360
	36,736,517

6. DUE TO RELATED PARTIES

	2013 $	2012 $
Demand loan from City of Peterborough Holdings Inc., bearing interest at 6.25% (2012 - 6.25%), per annum	-	3,657,680
Demand loan from the Corporation of the City of Peterborough bearing interest at bank Prime less 1.25%	1,500,000	1,500,000
	1,500,000	5,157,680

The demand loan is without specified maturity dates or repayment terms, and is secured by a general security agreement in favour of the Corporation of the City of Peterborough. The security has been subordinated to the security for the Company's long-term debt (note 5).

The Company does not expect the shareholder to require repayment in fiscal 2014.

Included in interest expense is interest on the demand loans for the year ended December 31, 2013 in the amount of $25,993 (2012 - $1,379,927).

7. SHARE CAPITAL

Authorized
Unlimited number of common shares
Unlimited number of preferred shares

Issued

	2013 $	2012 $
1,000 common shares	21,657,680	21,657,680

8. INCOME TAXES

(a) The tax effects of the temporary differences that give rise to the deferred income tax assets are as follows:

	2013 $	2012 $
Tax basis of equipment in excess of carrying amount	1,827,300	2,260,000

(b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 26.5% (2012 – 26.5%) to the income for the years as follows:

	2013 $	2012 $
Income for the year before income taxes	3,769,465	2,130,605
Anticipated income tax expense	998,908	564,610
Impact of tax rate changes and other	(22,129)	24,943
Provision for income taxes	976,779	589,553

9. SUPPLEMENTARY CASH FLOW INFORMATION

	2013 $	2012 $
Interest paid	1,478,926	2,579,748
Income taxes paid	1,800,000	650,000

10. OTHER SERVICES

	2013 $	2012 $
Customer fees	223,818	197,951
Occupancy charges	184,830	174,480
Building and pole rentals	211,556	211,206
Miscellaneous	228,296	639,028
	848,500	1,222,665

11. RELATED PARTY TRANSACTIONS

The Company provides electricity and services to the shareholder of its parent, the City of Peterborough and to affiliate companies. Electrical energy is sold to these parties at the same prices and terms as other electricity customers.

The Company is also engaged in transactions in the normal course of operations with affiliated companies and the Peterborough Utilities Commission. The parties are related by virtue of common control.

Details of related party transactions are as follows:

	2013	2012
	$	$
Revenue		
Rental revenue	13,200	12,800
Interest revenue	-	147,575
	13,200	160,375
Expenses		
Professional services	3,533,191	3,154,814
Operating costs	2,135,905	2,323,439
Building rent	472,800	489,000
	6,141,896	5,967,253
Other - Capital expenditures	2,411,586	2,233,720

12. CAPITAL DISCLOSURES

The Company's primary objective when managing capital is to address the expectations as outlined in the Unanimous Shareholder Declaration between the Company's parent company, the City of Peterborough Holdings Inc., and its shareholder, the Corporation of the City of Peterborough. The expectation is that the Company will maintain a prudent financial and capitalization structure consistent with industry norms and on the basis that it is intended to be a self-financed entity.

The industry norm for capital structure, as supported by the Ontario Energy Board as regulator, suggests that companies operating in the distribution industry would have capital comprised of 60% debt and 40% equity. The Company is targeting to attain that structure, to the extent possible, in future years. The Company's current capital structure is defined as follows:

12. CAPITAL DISCLOSURES, continued

	2013	2012
	$	$
Debt		
Long-term debt	36,736,517	31,839,073
Due to related parties	1,500,000	5,157,680
	38,236,517	36,996,753

	2013	2012
	$	$
Equity		
Share capital	21,657,680	21,657,680
Retained earnings	8,865,545	7,072,859
	30,523,225	28,730,539

Changes to the Company's capital structure are constrained by an existing lending agreement provision that limits the amount of dividend distributions and the repayment of related party debt subject to certain cash flow tests. Additionally the agreements provide for a r estriction on the incurrence of new debt or the posting of security without prior lender consent. The Company has complied with these requirements during the year.

13. FINANCIAL INSTRUMENTS

As a rate regulated entity, the Company's operations and risks are also substantially influenced by regulation, limiting the necessity to actively engage in derivative financial products.

Measurement

The following classes of financial assets and liabilities are recorded:

Financial assets and liabilities

Cash is classified as assets held-for-trading. Accounts receivable and unbilled revenue on customer accounts are classified as loans and receivables. Accounts payable and accrued liabilities, and long-term debt are classified as other financial liabilities. The carrying value of the accounts receivable, accounts payable and accruals and short term debt approximates their fair value due to their short-term nature.

Long-term debt

The fair value of long-term debt, which is determined for disclosure purposes, is calculated using the discounted cash flow model based on the contractual terms of the instrument discounted using an appropriate market rate of interest. As at December, 31, 2013, the fair value of the long-term debt is $37,717,978.

13. FINANCIAL INSTRUMENTS, Continued

Due to related parties

Demand loans due to related parties (note 6) in the aggregate amount of $1,500,000, (2012 - $5,157,680) were originally recorded at the exchange amount and have been classified as other financial liabilities. The fair value of these loans cannot be reliably determined because there is no active market for these instruments and expected future cash flows cannot be reliably predicted.

14. FINANCIAL RISK MANAGEMENT

In the course of its business the Company may be exposed to various financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. An assessment of this risks as they apply to the Company is provided below:

(a) Credit risk

By regulation, in addition to the distribution service charges that the Company earns, the customers' electricity bills include, transmission charges, non-competitive energy charges, debt retirement and el ectricity commodity charges. T he Company acts as an agen t for billing and collecting these charges on behalf of other market participants and under regulation the Company bears the risk of non-collection of these amounts.

To mitigate credit risk the Company is permitted to request certain customers to provide deposits for a prescribed period. Furthermore, relief from substantial or catastrophic collection loss relief may be afforded by applying for recovery for those losses through distribution rate adjustments in future years, if approved by the regulator.

The Company is not exposed to a significant concentration of credit risk within any customer segment or individual customer. The allowance for collection of doubtful accounts included in accounts receivable is in the amount of $413,000 (2012 - $378,000).

(b) Interest rate risk

As described in note 5 to the financial statements the Company has entered into interest rate swap arrangements which are being used to manage the impact of fluctuating interest rates on approximately $34.2 million of the Company's existing debt. The swaps require the periodic exchange of interest payments without the exchange of the notional principal amount on which the payments are based. The swap instruments are not recognized on the statement of financial position.

(c) Foreign currency risk

The Company conducts the majority of its business without significant exposure to foreign currency.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they occur. At the present time the liquidity risk of the Company is low as it has unutilized existing debt capacity, additional room within its capital structure to obtain additional financing as required, and sufficient cash flow to address existing debt obligations.

15. NET CHANGE IN NON-CASH WORKING CAPITAL

	2013 $	2012 $
Accounts Receivable	(38,189)	(1,169,309)
Unbilled revenue on customer accounts	(1,613,000)	(905,000)
Income taxes recoverable	(727,444)	-
Inventories	119,768	(15,887)
Prepaid expenses	(49,435)	29,833
Accounts payable and accrued liabilities	(659,424)	(577,384)
Income taxes payable	(497,683)	390,584
	(3,465,407)	(2,247,163)

16. CONTINGENCIES

a) The Company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the Company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual loses, claims and costs experienced.

(b) The Company assets are pledged as security and the Company has provided an unlimited guarantee to support the indebtedness of the Company's parent company, City of Peterborough Holdings Inc., to its shareholder, the Corporation of the City of Peterborough.

17. COMPARATIVE AMOUNTS

The prior year figures have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.