SEPTEMBER 2008

IFRS CONSULTATION

December 2011 Financial Information
Prepared in accordance with
International Financial Reporting Standards

Prepared by OEB staff For Discussion Purposes Only

PREFACE TO EXAMPLE FINANCIAL STATEMENTS OF SIMULATED DISTRIBUTION UTILITY INC.

(Prepared in accordance with IFRS issued as at May 15, 2008)

1. About this publication:

These example general-purpose financial statements have been developed by the Ontario Energy Board ("OEB") staff. The presentation, illustrations, assumptions and accounting policies presented herein have been selected by OEB staff solely for the purpose set out below. The OEB currently does not prescribe how the regulatory accounts contained in the Uniform System of Accounts ("USoA") roll up for purposes of general financial reporting. Presentation in general-purpose financial statements is left at the discretion of each utility.

Simulated Distribution Utility Inc. is a hypothetical rate-regulated distribution utility conducting its operations in the province of Ontario, Canada, and does not represent any existing regulated utility. While language chosen in these example financial statements is that of the electricity distribution sector, the electricity transmission or the gas distribution sectors could also have been chosen to create the example. The authors believe the concepts illustrated by these statements could be applied to general-purpose financial statements for all three of these sectors. Also, the concepts illustrated are assumed to be applicable in the electricity generation sector as well. Additional industry specific requirements in all these other sectors will need to be addressed by the sector participants.

During the development and preparation of these example financial statements, OEB staff consulted with KPMG on matters related to International Financial Reporting Standards.

2. Purpose of these example financial statements:

The purpose of these financial statements is to illustrate an example of general-purpose financial statements of a distribution utility prepared in accordance with International Financial Reporting Standards ("IFRSs'"). The example financial statements illustrate one possible reporting format for IFRS general-purpose financial statements, based on Simulated Distribution Utility Inc, a hypothetical entity. It is assumed that the corporation is a first-time adopter of IFRSs with effect from January 1, 2011, having previously reported under Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). In addition, it is assumed the accounting standards applicable to rate-regulated operations under Canadian and/or US GAAP were those that had been issued as at May 15, 2008 and previously adopted by Simulated Distribution Utility Inc. (and in effect) up to December 31, 2010.

2. Purpose of these example financial statements (continued):

OEB staff has developed these example financial statements to assist it in leading the consultation process that is aimed at establishing and considering the implications of the transition to IFRS on regulatory accounting instruments, (e.g., gas and electricity USoA) and processes related to them. While rate-regulated utilities may find certain elements of these example general-purpose financial statements useful in identifying the high-level matters expected to arise from their transition to IFRS, these financial statements are not intended to identify or address every possible reporting difference, scenario or circumstance that may arise nor are they considered to be an OEB endorsed template. Utilities should separately conduct detailed assessments and consider the extent to which IFRS will impact on their own organizations, including their general-purpose financial statements, internal systems and processes, staff resources and their stakeholders as well as their overall business environment.

In addition, separate accompanying example financial statements for 2011 have been prepared in accordance with Canadian GAAP, with comparatives figures for 2010. Together these financial statements show potential accounting differences or impacts on conversion from Canadian GAAP to IFRS.

3. Extent of disclosures made in these example financial statements:

In line with the above stated objective, the disclosures made in the notes to these example general-purpose financial statements have been intentionally reduced in order to only reflect selected notes that are anticipated to differ significantly from current note disclosures under Canadian GAAP. As a result, the disclosures in these example financial statements are not a complete or comprehensive illustration of the detailed note disclosure requirements normally required under IFRS.

Where a note in these example IFRS financial statements has not been selected in order to illustrate its IFRS disclosure requirements, this has been indicated by the statement:

"Not illustrated in these example IFRS financial statements"

However, there could well be circumstances existing in a utility's business which could require different or expanded disclosure under IFRS.

4. IFRSs applied in these example financial statements:

These example general-purpose financial statements have been prepared based on IFRS pronouncements that were issued as at May 15, 2008. IFRS pronouncements are comprised of IFRSs as adopted by the International Accounting Standards Board ("IASB") and interpretations as issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

IFRS pronouncements are subject to ongoing revision by the IASB. As a result, measurement and disclosures in general-purpose financial statements may change materially in response to subsequent changes or revisions to the pronouncements.

Proposed changes to IFRSs:

At May 15, 2008, the project timetable of the IASB indicated that several IFRS pronouncements were in the process of possible change or revision in the near future. These proposed changes and revisions arise either from annual IFRS improvements or other subject-specific IFRS projects. The proposed changes and revisions had not been finalized and approved as at May 15, 2008. They have therefore not been specifically addressed in these example general-purpose financial statements.

Appendix I provides details of the key proposed changes or revisions, as well as their possible effect on regulated electricity distribution utilities.

5. Key exemptions elected as well as choices and assumptions made in the preparation of these example financial statements:

IFRS 1 Exemptions:

IFRS 1, *First-time Adoption of IFRS*, provides several exemptions that an entity may elect to use upon transition to IFRS. The exemptions, which are very specific and cannot be applied to other items by analogy, provide relief from the requirement to retrospectively apply IFRSs in the areas specified. Although the exemptions are aimed primarily at providing relief to reporting issues (and thereby may significantly reduce conversion effort), it is not uncommon for entities to use the exemptions for other business and strategic reasons.

In preparing these example general-purpose financial statements, OEB staff has elected to use the exemptions as set out in **Appendix II**. These exemptions are solely for the purpose of illustration, and do not represent OEB's official views or otherwise.

IFRS accounting policy choices:

In selecting IFRS accounting policies, each utility has a one-time opportunity to evaluate its current general-purpose financial reporting, and make accounting policy decisions that could significantly affect its future general-purpose financial reporting. In some cases, IFRSs explicitly provide for more accounting policy choices than Canadian GAAP. It is possible that a utility could depart from its past accounting policies for general-purpose financial reporting and start anew, even if current Canadian GAAP accounting policies are appropriate under IFRS.

In preparing these example general-purpose financial statements, OEB staff has selected to use the accounting policies as set out in **Appendix III**. These accounting policy choices are solely for the purpose of illustration, and do not represent OEB's official views or otherwise.

IFRS accounting policy choices relating to the presentation of financial statements:

Similarly, in presenting general-purpose financial information, IFRS contains several financial statement presentation choices. It is also possible that a utility could depart from its past presentation and start anew, even if current presentation under Canadian GAAP is also appropriate under IFRS.

In preparing these example general-purpose financial statements, OEB staff has selected to use the presentation choices as set out in **Appendix IV**. These choices are solely for the purpose of illustration, and do not represent OEB's official views or otherwise.

Key assumptions and estimates:

The preparation of example general-purpose financial statements in conformity with IFRSs requires management to make certain judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. These estimates and assumptions were made particularly with regards to the quantification of accounting differences that are expected to arise upon transition from Canadian GAAP to IFRS. Utilities should individually conduct detailed assessments to identify and quantify these accounting differences, taking into account their particular circumstances and materiality levels applicable to their financial statements.

In preparing these example general-purpose financial statements, OEB staff has made the key assumptions and estimates as set out in **Appendix V**. These key assumptions and estimates are solely for the purpose of illustration and do not represent OEB's official views or otherwise.

SEPTEMBER 2008

Example Financial Statements of

SIMULATED DISTRIBUTION UTILITY INC.

Year ended December 31, 2011

(Prepared in accordance with International Financial Reporting Standards issued as at May 15, 2008)

Prepared by OEB staff For Discussion Purposes Only

SIMULATED DISTRIBUTION UTILITY INC.
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December 31, 2011

Financial statements:

The appendices set out on pages 46 to 56 are not part of the financial statements. They serve to provide key information used in the preparation of these example financial statements.

Note: In addition, the journal entries that accompany these example financial statements are also useful in understanding the IFRS adjustments that have been raised in these financial statements. These journal entries are provided separately as part of the reconciliation of the before and after IFRS regulatory income and revenue requirement document.

SIMULATED DISTRIBUTION UTILITY INC.
Statement of Financial Position
(In thousands of Canadian dollars)

December 31, 2011, with comparative figures for December 31, 2010 and January 1, 2010

	Notes	2011	December 31, 2010 (Restated)	January 1, 2010 (Restated)
Assets				
Property, plant and equipment	4	$ 379,750	$ 371,701	$ 378,500
Intangible assets	5	22,000	24,000	24,000
Goodwill		2,000	2,000	2,000
Deferred tax assets	19	–	1,588	–
Total non-current assets		403,750	399,289	404,500
Current assets:				
Inventories	20	7,000	5,000	4,000
Prepaid expenses		1,000	1,000	2,000
Available-for-sale financial assets	18	22,000	21,000	22,000
Trade and other receivables	21	45,000	49,000	41,000
Unbilled revenue	21.1	49,000	41,000	54,000
Bank balances held for customer deposits		22,000	22,000	22,000
Cash and cash equivalents	22	35,000	33,000	56,500
Total current assets		181,000	172,000	201,500
Total assets		$ 584,750	$ 571,289	$ 606,000
Shareholder's Equity and Liabilities				
Shareholder's equity:				
Share capital	23	$ 156,000	$ 156,000	$ 156,000
Fair value reserves		2,000	1,000	2,000
Retained earnings		26,576	9,789	5,668
Total equity attributable to equity holder of the Corporation		184,576	166,789	163,668
Loans and borrowings	25	289,000	288,000	287,000
Employee benefits	26	3,000	3,000	2,000
Provisions	6	6,800	6,300	5,050
Deferred tax liabilities	19	3,074	–	2,032
Total non-current liabilities		301,874	297,300	296,082
Current liabilities:				
Trade and other payables	27	73,000	81,000	118,000
Customer deposits		22,000	22,000	22,000
Provisions - current portion	6	300	200	250
Payments in lieu of corporate income taxes payable		3,000	4,000	6,000
Total current liabilities		98,300	107,200	146,250
Total liabilities		400,174	404,500	442,332
Total shareholder’s equity and liabilities		$ 584,750	$ 571,289	$ 606,000

The notes on pages 5 to 47 are an integral part of these financial statements.

SIMULATED DISTRIBUTION UTILITY INC.

Statement of Comprehensive Income
(In thousands of Canadian dollars)

Year ended December 31, 2011, with comparative figures for 2010

	Notes	2011	2010 (Restated)
Revenue	12	$ 685,000	$ 669,000
Cost of electricity sold		(554,200)	(557,300)
Gross profit		130,800	111,700
Other income	13	5,000	3,000
Distribution expenses		(31,864)	(29,730)
Administration expenses		(30,425)	(29,231)
Billing and collection expenses		(19,722)	(18,488)
Results from operating activities		53,789	37,251
Finance income	16	3,000	2,300
Finance costs	16	(18,840)	(19,050)
Profit before income tax		37,949	20,501
Income tax expense	17	(13,662)	(7,380)
Profit for the year		24,287	13,121
Other comprehensive income:			
Fair value reserve for available-for-sale financial assets			
Gains arising during the year		2,000	–
Net gains realized upon disposal of the available-for-sale financial assets		(1,000)	(1,000)
Other comprehensive income for the year		1,000	(1,000)
Total comprehensive income for the year		$ 25,287	$ 12,121
Attributable to:			
Equity holder's of the Corporation		$ 25,287	$ 12,121
Non-controlling interests		–	–
Total comprehensive income for the year		$ 25,287	$ 12,121

The notes on pages 5 to 47 are an integral part of these financial statements.

SIMULATED DISTRIBUTION UTILITY INC.

Statement of Changes in Equity
(In thousands of Canadian dollars)

Year ended December 31, 2011, with comparatives for December 31, 2010 and January 1, 2010

	Share capital	Retained earnings	Available-for -assets fair value reserve	Total
Balance at January 1, 2010 in accordance with Canadian GAAP	$ 156,000	$ 21,500	$ 2,000	$ 179,500
Net opening effect of adopting International Financial Reporting Standards	–	(15,832)	–	(15,832)
Restated balance at January 1, 2010	156,000	5,668	2,000	163,668
Dividends	–	(9,000)	–	(9,000)
Total comprehensive income for the year	–	13,121	(1,000)	12,121
Balance at December 31, 2010	156,000	9,789	1,000	166,789
Dividends	–	(7,500)	–	(7,500)
Total comprehensive income for the year	–	24,287	1,000	25,287
Balance at December 31, 2011	$ 156,000	$ 26,576	$ 2,000	$ 184,576

The notes on pages 5 to 47 are an integral part of these financial statements.

SIMULATED DISTRIBUTION UTILITY INC.

Statement of Cash Flows
(In thousands of Canadian dollars)

Year ended December 31, 2011, with comparative figures for 2010

	Note	2011	2010
Cash flows from operating activities:			
Profit for the year		$ 24,287	$ 13,121
Adjustments for:			
Depreciation of property, plant and equipment		32,392	31,609
Amortization of intangible assets		4,000	2,500
Finance income		(3,000)	(2,300)
Finance costs		18,840	19,050
Loss on sale of property, plant and equipment		2,329	5,080
Income tax expense		13,662	7,380
		92,510	76,440
Change in:			
Inventories		(2,000)	(1,000)
Prepaid expenses		–	1,000
Trade and other receivables		4,000	(8,000)
Unbilled revenue		(8,000)	13,000
Trade and other payables		(8,000)	(37,000)
Employee benefits		–	1,000
		78,510	45,440
Interest received		3,000	2,300
Interest paid	33.1	(17,800)	(18,000)
Income taxes paid	33.2	(10,000)	(13,000)
Net cash from operating activities		53,710	16,740
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment		2,000	4,000
Acquisition of property, plant and equipment	33.3	(44,210)	(32,740)
Acquisition of intangible assets		(2,000)	(2,500)
Net cash used in investing activities		(44,210)	(31,240)
Cash flows from financing activities:			
Dividends paid		(7,500)	(9,000)
Net cash used in financing activities		(7,500)	(9,000)
Net increase (decrease) in cash and cash equivalents		2,000	(23,500)
Cash and cash equivalents at January 1		33,000	56,500
Cash and cash equivalents at December 31		$ 35,000	$ 33,000

The notes on pages 5 to 47 are an integral part of these financial statements.

SIMULATED DISTRIBUTION UTILITY INC.

Table of Contents to Notes to Example Financial Statements

Year ended December 31, 2011

* For simplicity in preparing these example financial statements, a separate disclosure note has not been selected for illustration - the detailed note disclosure is **not illustrated in these example financial statements**.

1. Reporting entity:

Simulated Distribution Utility Inc. is a corporation domiciled in Canada. The address of the Corporation's registered office is 1 Ontario Street, The City, Ontario, Canada. The Corporation is primarily involved in the distribution of electricity to the residents of the City, a municipal area within the Province of Ontario, Canada.

2. Basis of preparation:

(a) Statement of compliance:

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB") and interpretations as issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

(b) Adoption of IFRS:

These are the Corporation's first financial statements prepared in accordance with IFRS. In prior years, the Corporation prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The Corporation has restated its opening balance sheet at January 1, 2010, its IFRS transition date, by applying IFRSs retrospectively, except with regard to the following items, in respect of which IFRS 1: *First-time Adoption of IFRS* either, prohibits or modifies the retrospective application of IFRS:

- Property, plant and equipment and goodwill at January 1, 2010 are stated at their carrying values as previously reported under Canadian GAAP, after testing for impairment.

2. Basis of preparation (continued):

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in note 8.

(c) Approval of the financial statements

The financial statements were approved by the Board of Directors on February 22, 2012.

(d) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for the following:

(i) where held, derivative financial instruments are measured at fair value;

(ii) where held, financial instruments at fair value through profit or loss, including those held for trading, are measured at fair value;

(iii) available-for-sale financial assets are measured at fair value; and

(iv) where held, non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The methods used to measure fair values are discussed further in note 9.

(e) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

2. Basis of preparation (continued):

(f) Use of estimates and judgements:

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

(i) Note 4 - property, plant and equipment useful lives and residual values; and the identification of significant components of property, plant and equipment.

(ii) Notes 6 and 31 - provisions and contingencies;

(iii) Note 9 - valuation of financial instruments;

(iv) Note 19 - utilisation of tax losses;

(v) Note 21.1 - unbilled revenue;

(vi) Note 26 - measurement of defined benefit obligations; and

(vii) Impairment testing as required by the Corporation’s accounting policy note 3(h).

2. Basis of preparation (continued):

(g) Other judgements and key disclosures: Effect of rate-setting regulations on the Corporation's activities and on these financial statements:

The Corporation is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs, revenue, losses or gains in the rates of a specific period, resulting in a difference between the timing of recognition of certain items for rate-regulation purposes and for general-purpose financial statement purposes. Specifically, the following treatments are being applied for the purposes of rate-regulation:

(i) An amount to represent an allowance for funds used during construction and development is applied based on the value of construction in progress. Interest is also charged/accrued on the net regulatory liabilities/assets of the Corporation. The interest rates that are applied to these amounts are variable and are prescribed by the OEB. For financial statement purposes, interest is capitalized in accordance with IAS 23, *Borrowing costs*;

(ii) Future income tax consequences are not taken into account in setting the rate for a particular period. For financial statement purposes, the Corporation follows the balance sheet method;

(iii) Certain retail settlement variances are deferred in the rate-setting calculation. These are not deferred for financial statement purposes;

(iv) The recognition of the employer's share of contributions to the Ontario Municipal Employees Retirement System ("OMERS") from January 1, 2005 to April 30, 2006 was deferred in the rate-setting calculation. For financial statement purposes, the company accounts for these employee pension benefits as a defined contribution plan; and

(v) The capitalization of certain costs relating to property, plant and equipment differs from that described in accounting policy note 3(d) below. Also, the depreciation model applied for purposes of rate-setting is different from the model that is applied for financial reporting purposes.

2. Basis of preparation (continued):

The accounting treatments described above are applied for the purposes of rate-setting only and are consistent with the requirements of the OEB Accounting Procedures Handbook. The accounting consequences of the above regulatory treatments are recognized in each period's financial position when the asset and liability recognition criteria of IFRS is met. In particular, IFRS requires assets to be under the control of the Corporation, whereas liabilities should represent the Corporation's present obligations. In addition, both assets and liabilities should relate to past events. Regulatory amounts have not been recognized in these financial statements.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS financial position at January 1, 2010 for the purposes of the transition to IFRS.

The accounting policies have been applied consistently by all the Corporation's entities.

(a) Basis of consolidation:

(i) Acquisitions from entities under common control:

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Corporation are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose, comparatives are restated. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Corporation's controlling shareholder's financial statements. The components of equity of the acquired entities are added to the same components within the Corporation's equity except that any share capital of the acquired entities is recognized as part of share premium. Any consideration paid for the acquisition is recognized directly in equity.

3. Significant accounting policies (continued):

(b) Foreign currency translation (excluding foreign operations):

Transactions denominated in foreign currencies are translated to the respective functional currencies of the Corporation's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized directly in equity.

(c) Financial instruments:

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, bank balances held for customer deposits, available-for-sale financial assets, cash and cash equivalents, loans and borrowings, customer deposits and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

3. Significant accounting policies (continued):

(ii) Held-to-maturity investments:

If the Corporation has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

(iii) Available-for-sale financial assets:

The Corporation's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

(iv) Financial assets at fair value through profit or loss:

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss in order to avoid an accounting mismatch that would otherwise arise or if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(v) Other:

All the other non-derivative financial instruments, including loans and receivables, are measured at amortized cost using the effective interest method, less any impairment losses.

3. Significant accounting policies (continued):

(d) Property, plant and equipment:

(i) Recognition and measurement:

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment at January 1, 2010, the date of transition to IFRS, was determined by reference to cost values as previously determined under Canadian GAAP.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are capitalized to the cost of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized within "other income" in profit or loss.

(ii) Subsequent costs:

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(All amounts in thousands of Canadian dollars)

3. Significant accounting policies (continued):

(iii) Depreciation:

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	15 - 50 years
Distribution substation equipment:	
Transformers and switchgear	30 years
Other	10 - 20 years
Other distribution system equipment:	
Overhead lines	25 years
Underground lines	25 years
Other	10 - 20 years
Office equipment and furniture	10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Estimates in respect of certain items of property, plant and equipment were revised on December 31, 2011 (note 4).

(e) Intangible assets:

(i) Goodwill:

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures.

Acquisitions prior to January 1, 2010:

As part of its transition to IFRS, the Corporation elected not to restate any business combinations that occurred prior to January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under the Corporation's previous accounting framework, Canadian GAAP.

3. Significant accounting policies (continued):

Acquisitions on or after January 1, 2010:

For acquisitions on or after January 1, 2010, goodwill represents the excess of the cost of the acquisition over the Corporation’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit or loss.

Acquisitions of minority interests:

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement:

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Land rights:

Payments to obtain non-possessory interest in land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use/way over land for which the Corporation does not hold title.

Land rights are measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Other intangible assets:

Other intangible assets that are acquired by the Corporation, including software that is not integral to the functionality of equipment purchased, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

3. Significant accounting policies (continued):

(iv) Subsequent expenditure:

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill, is recognized in profit or loss as incurred.

(v) Amortization:

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The useful life of intangible assets includes the renewal period only if there is evidence to support renewal by the Corporation without significant cost, otherwise each renewal is treated as an acquisition of a new intangible asset. The estimated useful lives for the current and comparative periods are as follows:

Land rights:	
Indefinite life	–
Finite life	10 - 50 years
Computer software	2 years

Amortization methods and useful lives of all intangible assets are reviewed at each reporting date.

(f) Leased assets:

Leases in which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the Corporation's financial statements.

3. Significant accounting policies (continued):

(g) Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion (where applicable) and selling expenses.

(h) Impairment:

(i) Financial assets:

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to profit or loss.

3. Significant accounting policies (continued):

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

3. Significant accounting policies (continued):

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Non-current assets held for sale:

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Corporation's accounting policies. Thereafter, generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Corporation's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss until they are realized.

(j) Employee benefits:

(i) Defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

3. Significant accounting policies (continued):

Ontario Municipal Employees Retirement System:

The Corporation provides a pension plan for all its full-time employees through OMERS. OMERS is a multi-employer, contributory, defined benefit pension plan established in 1962 by the Province of Ontario for employees of municipalities, local boards and school boards in Ontario. Both participating employers and employees are required to make plan contributions based on participating employees' contributory earnings.

OMERS is a defined benefit plan. However, as sufficient information is not available to enable the Corporation to account for the plan as a defined benefit plan, the plan has been accounted for as a defined contribution plan.

(ii) Defined benefit plans:

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Defined benefit plans include the Corporation's medical, dental and life insurance benefit plans. The Corporation's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Corporation's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Corporation, the recognized asset is limited to the net total of any unrecognized net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

3. Significant accounting policies (continued):

The Corporation recognizes actuarial gains and losses using the corridor method. Under the corridor method, to the extent that any cumulative unrecognized actuarial gain or loss exceeds 10 percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognized in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

(iii) Other long-term employee benefits:

The Corporation's other long-term employee benefits include long-service benefits, long-term compensated absences and long-term disability benefits. The net obligation is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Corporation's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses and past service costs are immediately recognized in profit or loss in the period in which they arise.

(iv) Termination benefits:

Termination benefits are recognized as an expense when the Corporation is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Corporation has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

3. Significant accounting policies (continued):

(v) Short-term benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(k) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability.

(i) Asset retirement obligations:

When there is a legal or constructive obligation to remove and dispose of system equipment at the end of its useful life, a provision is raised to cover such future removal and disposal costs.

(ii) Site remediation:

In accordance with the Corporation's published environmental policy and/or applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expenses, is recognized when the land is contaminated.

3. Significant accounting policies (continued):

(iii) Onerous contracts:

A provision for onerous contracts is recognized when the expected benefits to be derived by the Corporation from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Corporation recognises impairment losses, if any, on the assets associated with that contract.

(l) Revenue:

Revenue is measured at the fair value of the consideration received or receivable, net of sales tax.

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

Other revenue is recognized as services are rendered or contract milestones are achieved using the percentage of completion method.

(m) Lease payments:

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Payments relating to land rights are treated as intangible assets (note 3(e) (ii)).

3. Significant accounting policies (continued):

(n) Finance income and finance costs:

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Corporation's right to receive payment is established, which in the case of quoted securities, is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and asset retirement obligations and changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets. All borrowing costs are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(o) Income taxes:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. Significant accounting policies (continued):

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but there is intention to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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 utilised. 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 realised.

(p) Discontinued operations:

A discontinued operation is a component of the Corporation's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

3. Significant accounting policies (continued):

(q) Customer contributions:

Certain customers and developers are required to contribute towards the capital cost of electricity connections. Cash contributions are initially recorded as current liabilities. Once the network asset is completed or modified as outlined in the terms of the contract, the contribution amount is transferred to a customers' capital contribution account.

When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized in the customers' capital contribution account.

The customers' capital contribution account, which represents the Corporation's obligation to continue to provide the customers access to the supply of electricity, is reported as a credit to property, plant and equipment and, is amortized to income on a straight-line basis over the economic useful life of the acquired or contributed asset.

(r) Set-off and reporting on a net basis:

In these financial statements, assets and liabilities and income and expenses are not offset and reported on a net basis unless required or permitted by IFRS. For financial assets and financial liabilities, offsetting is permitted when, and only when, the Corporation has a legally enforceable right to set-off and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(s) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these example financial statements. These are set out below:

[In 2011 standards that are new or amended will be disclosed in detail]

(All amounts in thousands of Canadian dollars)

4. Property, plant and equipment:

(a) Cost:

	Land and buildings	Distribution substation equipment	Other distribution system equipment	Office equipment and furniture	Construction work-in-progress	Total
Balance at January 1, 2010	$ 17,000	$ 51,000	$ 556,500	$ 24,500	$ 20,000	$ 669,000
Additions	2,000	11,000	15,390	1,500	4,000	33,890
Transfers	–	9,000	7,000	–	(16,000)	–
Disposals/retirements	–	(8,000)	(5,810)	–	–	(13,810)
Balance at December 31, 2010	$ 19,000	$ 63,000	$ 573,080	$ 26,000	$ 8,000	$ 689,080
Balance at January 1, 2011	$ 19,000	$ 63,000	$ 573,080	$ 26,000	$ 8,000	$ 689,080
Additions	–	17,000	19,770	2,000	6,000	44,770
Transfers	–	2,000	3,000	–	(5,000)	–
Disposals/retirements	–	–	(9,290)	–	–	(9,290)
Balance at December 31, 2011	$ 19,000	$ 82,000	$ 586,560	$ 28,000	$ 9,000	$ 724,560

(All amounts in thousands of Canadian dollars)

4. Property, plant and equipment (continued):

(b) Accumulated depreciation:

	Land and buildings	Distribution substation equipment	Other distribution system equipment	Office equipment and furniture	Construction work-in-progress	Total
Balance at January 1, 2010	$ 4,100	$ 17,500	$ 258,400	$ 10,500	$ –	$ 290,500
Depreciation charge for the year	520	10,047	18,542	2,500	–	31,609
Disposals/retirements	–	(2,000)	(2,730)	–	–	(4,730)
Balance at December 31, 2010	$ 4,620	$ 25,547	$ 274,212	$ 13,000	$ –	$ 317,379
Balance at January 1, 2011	$ 4,620	$ 25,547	$ 274,212	$ 13,000	$ –	$ 317,379
Depreciation charge for the year	620	9,547	20,225	2,000	–	32,392
Disposals/retirements	–	–	(4,961)	–	–	(4,961)
Balance at December 31, 2011	$ 5,240	$ 35,094	$ 289,476	$ 15,000	$ –	$ 344,810

(All amounts in thousands of Canadian dollars)

4. Property, plant and equipment (continued):

(c) Carrying amounts:

	Land and buildings	Distribution substation equipment	Other distribution system equipment	Office equipment and furniture	Construction work-in-progress	Total
Balance at December 31, 2010	$ 14,380	$ 37,453	$ 298,868	$ 13,000	$ 8,000	$ 371,701
Balance at December 31, 2011	$ 13,760	$ 46,906	$ 297,084	$ 13,000	$ 9,000	$ 379,750

(All amounts in thousands of Canadian dollars)

4. Property, plant and equipment (continued):

(d) Pledged assets:

At December 31, 2011, certain distribution substation equipment and other distribution system equipment with a carrying amount of $290,000 (2010: $300,000) was pledged as security for the bonds that are payable by the Corporation.

(e) Property, plant and equipment:

At December 31, 2011, the Corporation had commenced various projects aimed at expanding the distribution network into new housing development areas. Costs incurred as at the reporting date were $9,000 (2010: $8,000).

During the year, $400 (2010: $400), representing actual borrowing costs incurred during the construction of distribution system assets, was capitalized to construction work-in-progress.

(f) Change in estimates:

On December 31, 2011, the Corporation conducted a detailed review of the residual value of its distribution substation equipment. The review indicated that residual values at the end of the equipments' useful lives were expected to be higher than originally estimated. However, estimated useful lives remained largely unchanged from previous estimates. The effect of this change in residual values on the depreciation expense in the current and future periods is as follows:

	Decrease in depreciation
2011	$ –
2012	1,050
2013	990
2014	990
2015	800
Thereafter	7,300

(All amounts in thousands of Canadian dollars)

4. Property, plant and equipment (continued):

(g) Fully-depreciated assets:

At December 31, 2011, distribution system assets with a cost of $35,000 (2010: $31,000) had been fully depreciated but were still in use.

(h) Allocation of depreciation and amortization:

The depreciation of property, plant and equipment and the amortization of intangible assets has been allocated to profit or loss as follows:

	Distribution expenses	Administration expenses	Billing and collection	Total
December 31, 2010:				
Depreciation of property, plant and equipment	$ 11,695	$ 12,328	$ 7,586	$ 31,609
Amortization of intangible assets	2,000	–	500	2,500
	$ 13,695	$ 12,328	$ 8,086	$ 34,109
December 31, 2011:				
Depreciation of property, plant and equipment	$ 11,985	$ 12,633	$ 7,774	$ 32,392
Amortization of intangible assets	3,000	–	1,000	4,000
	$ 14,985	$ 12,633	$ 8,774	$ 36,392

(All amounts in thousands of Canadian dollars)

5. Intangible assets:

(a) Cost:

	Land rights	Computer software	Total
Balance at January 1, 2010	$ 25,000	$ 2,500	$ 27,500
Additions	2,000	500	2,500
Balance at December 31, 2010	27,000	3,000	30,000
Additions	1,000	1,000	2,000
Balance at December 31, 2011	$ 28,000	$ 4,000	$ 32,000

(b) Accumulated amortization:

	Land rights	Computer software	Total
Balance at January 1, 2010	$ 3,000	$ 500	$ 3,500
Amortization charge for the year	2,000	500	2,500
Balance at December 31, 2010	5,000	1,000	6,000
Amortization charge for the year	3,000	1,000	4,000
Balance at December 31, 2011	$ 8,000	$ 2,000	$ 10,000

(c) Carrying amounts:

	Land rights	Computer software	Total
Balance at December 31, 2010	$ 22,000	$ 2,000	$ 24,000
Balance at December 31, 2011	$ 20,000	$ 2,000	$ 22,000

(All amounts in thousands of Canadian dollars)

5. Intangible assets (continued):

(d) Indefinite-life land rights:

Land rights with a total cost of $16,000 are classified as having an indefinite life. This arises when the current contract rights are for an indefinite period or when there is evidence to support the renewal of existing limited life land rights without incurring significant costs. In most instances, the cost to the Corporation of renewing these land rights is not significant when compared with the future economic benefits expected to flow to the Corporation from the renewals.

The majority of the land rights are classified as having an indefinite life based on contractual terms. Land rights will only become impaired if the line to which the land right is linked is impaired or is derecognized. In practice, a derecognized line will be refurbished or replaced by a new line.

6. Provisions:

Asset retirement obligations	A	B	Total
Balance at January 1, 2011	$ 2,000	$ 4,500	$ 6,500
Provisions used during the year	(40)	(150)	(190)
Additional provisions raised during the year	200	600	800
Provisions reversed during the year	(100)	–	(100)
Unwind of discount (accretion)	40	50	90
Balance at December 31, 2011	$ 2,100	$ 5,000	$ 7,100
Current	$ 300	$ –	$ 300
Non-current	1,800	5,000	6,800
	$ 2,100	$ 5,000	$ 7,100

(a) Asset retirement obligation A:

Certain of the Corporation's equipment needs to be dismantled and disposed of in a specialized manner at the end of its economic useful life. Although there is currently no legal obligation for this, the Corporation's published policy creates a valid expectation that the Corporation will dismantle and dispose of these assets in a responsible manner.

6. Provisions (continued):

During the year ended December 31, 2011, the Corporation dismantled and disposed of several of these assets at a total cost of $40. Other additional assets were established to require specialized disposal, whereas certain others will require less expenditure than was originally estimated. The provision was also increased based on a final report on the full extent of the specialized work that will be required. It is expected that the various assets will be dismantled and disposed of by 2020. Because of the long-term nature of these activities, the provision reflects an estimate of the cost that will be incurred. In particular, the Corporation has assumed that the assets will be dismantled and disposed of using technology and materials that are available currently. The provision has also been calculated using a discount rate of 6% per annum. The dismantling and disposal of these assets is expected to occur progressively over the next six to eight years.

(b) Asset retirement obligation B:

Asset retirement obligations also arise as a result of legal requirements to dismantle equipment at the end of its useful life and dispose of it in accordance with prescribed minimum requirements. An obligation is recognized when equipment is installed, and is calculated based on an initial estimate of the costs that will be incurred to dismantle and remove the equipment, as well as to restore the site on which is located.

Uncertainty in estimating the provision arises mainly as a result of changes in the estimated cash outflows required to settle the obligation and uncertainty of the timing of the cash flows. At December 31, 2011, the average remaining useful life of the equipment that will need to be dismantled is 16 years. The provision has been calculated using a discount rate of 6.5% per annum.

(All amounts in thousands of Canadian dollars)

7. Related party transactions:

(a) Parent and ultimate controlling party:

The parent and ultimate controlling party of the Corporation is the City. The City produces financial statements that are available for public use.

(b) Key management personnel:

The key management personnel of the Corporation has been defined as members of its board of directors and executive management team members. The definition of key management includes close members of family of key management personnel and any entity over which key management exercise control. Close members of the family of an individual are those family members who may be expected to influence, or be influenced by that individual in their dealings with the Corporation. They include the individual's domestic partner and children, the children of the individual's domestic partner and dependents of the individual or that individual's domestic partner.

Key management compensation:

	2011	2010
Salaries and other short-term benefits	$ 1,050	$ 900
Post-employment benefits	90	77
Other long-term benefits	110	99
Termination benefits	225	–
	$ 1,475	$ 1,076

The Corporation charged key management personnel $15 (2010: $14) for the supply of electrical energy. At the end of the year, $1 (2010: $1) was outstanding on their customer accounts. All the energy charges were at prices and terms equivalent to those charged to other customers that are not related to the Corporation.

(All amounts in thousands of Canadian dollars)

7. Related party transactions (continued):

(c) Transactions with parent:

The Corporation provides electricity and services to the City. Electricity is billed to the City at the prices and terms as approved by OEB. Other construction services are provided at cost. A summary of amounts charged by the Corporation to the City is as follows:

	2011	2010
Electrical energy	$ 8,000	$ 7,000
Street-lighting energy	4,000	3,000

The Corporation charged the City $100 for other construction services in 2011 (2010: $500).

At December 31, 2011, accounts payable and accrued liabilities include $40 (2010: $60) due to the City and accounts receivable include $1,800 (2010: $1,900) due from the City. Amounts due to related parties include $700 (2010: $1,000) due to the parent company.

(d) Transactions with fellow subsidiaries:

Fellow subsidiaries comprise of all entities under the common control of the City. A listing of the various entities under the control of the City is set out on the City's website.

The Corporation had the following transactions with fellow subsidiaries:

	2011	2010
Outward charges for electrical energy supplied	$ 15,000	$ 13,000
Outward access agreement charges	10	7
Inward construction costs for distribution infrastructure	10,000	8,000
Balances included in accounts receivable and unbilled revenue	1	1
Balances included in related party receivables	–	1,000
Balances included in related party payables	300	1,000

8. Adoption of IFRS:

In 2008, the Canadian Accounting Standards Board (“AcSB”) announced that all publicly-accountable entities are required to adopt IFRS for years beginning on or after January 1, 2011. In line with this requirement, the Corporation has adopted IFRS from January 1, 2011. As the Corporation publishes comparative information for one year in its financial statements, the date of transition to IFRS is effectively January 1, 2010, which represents the start of the earliest period of comparative information presented. The comparative information for 2010 has been restated to take into account the requirements of all the IFRSs effective as at December 31, 2011. In accordance with the requirements of IFRS 1, *First-time Adoption of IFRS*, three statements of financial position have been presented for the year of adopting IFRS.

(a) Transitional arrangements:

The key principle of IFRS 1, *First-time Adoption of IFRS*, is full retrospective application of IFRS. However, due to cost and practical considerations, this standard also provides elective exemptions from retrospective application in certain instances. The Corporation's elections in this regard were to:

- not restate for past business combinations; and

- not restate property, plant and equipment, but to record it at amounts as previously determined under Canadian GAAP.

(All amounts in thousands of Canadian dollars)

8. Adoption of IFRS (continued):

(b) Reconciliations from Canadian GAAP to IFRS

For the year ended December 31, 2010, the Corporation reported in accordance with Canadian GAAP. The comparative figures that were reported in the December 31, 2010 Canadian GAAP financial statements are reconciled to those set out in these IFRS financial statements as set out below. No detailed reconciliation of the adjustments to the statement of cash flows has been prepared as the adjustments were not material.

Equity reconciliation 2010:

	Note	Share capital	Fair value reserve	Retained earnings	Total
Balance at January 1, 2010, as previously reported under Canadian GAAP		$ 156,000	$ 2,000	$ 21,500	$ 179,500
Adjustments on adoption of IFRS:					
Derecognition adjustments on rate-regulated accounting	8c(i)	–	–	(19,000)	(19,000)
Recognition adjustments for constructive obligations		–	–	(1,800)	(1,800)
Deferred tax thereon	8c(iii)	–	–	4,968	4,968
Balance at January 1, 2010, as restated under IFRS		156,000	2,000	5,668	163,668
Net comprehensive income, as previously reported under Canadian GAAP		–	(1,000)	13,000	12,000
Adjustments on adoption of IFRS:					
Derecognition adjustments:					
Rate-regulated accounting	8c(i)	–	–	5,560	5,560
Capitalized costs	8c(ii)	–	–	(682)	(682)
Recognition adjustments for constructive obligations	8c(iii)	–	–	(128)	(128)
Remeasurement adjustments:					
Depreciation	8c(iv)	–	–	(2,658)	(2,658)
Asset retirements/disposals	8c(iv)	–	–	(1,971)	(1,971)
Net comprehensive income, as restated under IFRS		–	(1,000)	13,121	12,121
Dividends paid		–	–	(9,000)	(9,000)
Balance at December 31, 2010, as restated under IFRS		$ 156,000	$ 1,000	$ 9,789	$ 166,789

(All amounts in thousands of Canadian dollars)

8. Adoption of IFRS (continued):

(b) Reconciliations from Canadian GAAP to IFRS (continued)

Statement of comprehensive income reconciliation for the year ended December 31, 2010:

		Effect of adopting IFRS						
	As previously reported under Canadian GAAP	Derecognition adjustments - rate regulated accounting Note 8c(i)	Derecognition adjustments - capitalized costs Note 8c(ii)	Recognition adjustments - constructive obligations Note 8c(iii)	Remeasurement adjustments - depreciation and asset retirements Note 8c(iv)	Income statement reclassification adjustments Note 8c(vi)	Total IFRS adjustments	As now reported under IFRS
Revenue:								
Energy sales	$ 557,000	$ 1,000	$ –	$ –	$ –	$ –	$ 1,000	$ 558,000
Distribution	104,000	–	–	–	–	–	–	104,000
Recovery of regulatory assets	7,000	–	–	–	–	–	–	7,000
Total revenue	668,000	1,000	–	–	–	–	1,000	669,000
Cost of electricity sold	557,000	300	–	–	–	–	300	557,300
Other income	3,000	–	–	–	–	–	–	3,000
Operating expenses:								
Operations, maintenance and administration	37,000	2,000	1,110	150	3,080	(43,340)	(37,000)	–
Distribution	–	–	–	–	–	29,730	29,730	29,730
Administration expenses	–	–	–	–	–	29,231	29,231	29,231
Billing and collection expenses	–	–	–	–	–	18,488	18,488	18,488
Depreciation of property, plant and equipment	30,000	–	(44)	–	4,153	(34,109)	(30,000)	–
Amortization of regulatory assets	7,000	(7,000)	–	–	–	–	(7,000)	–
	74,000	(5,000)	1,066	150	7,233	–	3,449	77,749
Operating income	40,000	5,700	(1,066)	(150)	(7,233)	–	(2,749)	37,251
Finance income	3,000	(700)	–	–	–	–	(700)	2,300
Finance expense	(19,000)	–	–	(50)	–		(50)	(19,050)
	(16,000)	(700)	–	(50)	–	–	(750)	(16,750)
Profit before income tax	24,000	5,000	(1,066)	(200)	(7,233)	–	(3,499)	20,501
Income tax expense	(11,000)	560	384	72	2,604	–	3,620	(7,380)
Profit for the year	13,000	5,560	(682)	(128)	(4,629)	–	121	13,121
Total other comprehensive income	(1,000)	–	–	–	–	–	–	(1,000)
Total comprehensive income for the year	$ 12,000	$ 5,560	$ (682)	$ (128)	$ (4,629)	$ –	$ 121	$ 12,121

(All amounts in thousands of Canadian dollars)

8. Adoption of IFRS (continued):

(b) Reconciliations from Canadian GAAP to IFRS (continued)

Statement of financial position reconciliation December 31, 2010:

	As previously reported under Canadian GAAP	Effect of adopting IFRS: Derecognition adjustments - rate regulated accounting Note 8c(i)	Derecognition adjustments - capitalized costs Note 8c(ii)	Recognition adjustments - constructive obligations Note 8c(iii)	Remeasurement adjustments - depreciation and asset retirements Note 8c(iv)	Reclassification adjustments Note 8c(v)	Total IFRS adjustments	As now reported under IFRS
ASSETS								
Property, plant and equipment:								
Cost	$ 724,000	$ –	$ (1,110)	$ –	$ (5,810)	$ (30,000)	$ (36,920)	$ 687,080
Less accumulated depreciation	(320,000)	–	44	–	(1,423)	6,000	4,621	(315,379)
	404,000	–	(1,066)	–	(7,233)	(24,000)	(32,299)	371,701
Intangible assets	–	–	–	–	–	24,000	24,000	24,000
Goodwill	2,000	–	–	–	–	–	–	2,000
Regulatory assets	24,251	(24,251)	–	–	–	–	(24,251)	–
Deferred tax assets	–	–	–	–	–	1,588	1,588	1,588
Total non-current assets	430,251	(24,251)	(1,066)	–	(7,233)	1,588	(30,962)	399,289
Current assets								
Inventories	5,000	–	–	–	–	–	–	5,000
Prepaid expenses	1,000	–	–	–	–	–	–	1,000
Available-for-sale financial assets	21,000	–	–	–	–	–	–	21,000
Trade and other receivables	49,000	–	–	–	–	–	–	49,000
Unbilled revenue	41,000	–	–	–	–	–	–	41,000
Bank balances held for consumer deposits	22,000	–	–	–	–	–	–	22,000
Cash and cash equivalents	33,000	–	–	–	–	–	–	33,000
Total current assets	172,000	–	–	–	–	–	–	172,000
Total assets	$ 602,251	$ (24,251)	$ (1,066)	$ –	$ (7,233)	$ 1,588	$ (30,962)	$ 571,289

(All amounts in thousands of Canadian dollars)

8. Adoption of IFRS (continued):

(b) Reconciliations from Canadian GAAP to IFRS (continued)

Statement of financial position reconciliation December 31, 2010 (continued):

	As previously reported under Canadian GAAP	Effect of adopting IFRS: Derecognition adjustments - rate regulated accounting Note 8c(i)	Derecognition adjustments - capitalized costs Note 8c(ii)	Recognition adjustments - constructive obligations Note 8c(iii)	Remeasurement adjustments - depreciation and asset retirements Note 8c(iv)	Reclassification adjustments Note 8c(vi)	Total IFRS adjustments	As now reported under IFRS
SHAREHOLDER'S EQUITY AND LIABILITIES								
Shareholder's equity:								
Capital stock	$ 156,000	$ –	$ –	$ –	$ –	$ –	$ –	$ 156,000
Fair value reserves	1,000	–	–	–	–	–	–	1,000
Retained earnings	25,500	(9,120)	(682)	(1,280)	(4,629)	–	(15,711)	9,789
	182,500	(9,120)	(682)	(1,280)	(4,629)	–	(15,711)	166,789
Non-current liabilities								
Loans and borrowings	288,000	–	–	–	–	–	–	288,000
Employee benefits	3,000	–	–	–	–	–	–	3,000
Regulatory liabilities	10,000	(10,000)	–	–	–	–	(10,000)	–
Provisions	4,500	–	–	1,800	–	–	1,800	6,300
Deferred tax liabilities	7,251	(5,131)	(384)	(720)	(2,604)	1,588	(7,251)	–
Total non-current liabilities	312,751	(15,131)	(384)	1,080	(2,604)	1,588	(15,251)	297,300
Current liabilities								
Trade and other payables	81,000	–	–	–	–	–	–	81,000
Provisions – current portion	–	–	–	200	–	–	200	200
Payments in lieu of corporate taxes	4,000	–	–	–	–	–	–	4,000
Consumer deposits	22,000	–	–	–	–	–	–	22,000
Total current liabilities	107,000	–	–	200	–	–	200	107,200
Total shareholder's equity and liabilities	$ 602,251	$ (24,251)	$ (1,066)	$ –	$ (7,233)	$ 1,588	$ (30,962)	$ 571,289

(All amounts in thousands of Canadian dollars)

8. Adoption of IFRS (continued):

(b) Reconciliations from Canadian GAAP to IFRS (continued)

Statement of financial position reconciliation January 1, 2010:

	As previously reported under Canadian GAAP	Effect of adopting IFRS: Derecognition adjustments - rate regulated accounting Note 8c(i)	Derecognition adjustments - capitalized costs Note 8c(ii)	Recognition adjustments - constructive obligations Note 8c(iii)	Remeasurement adjustments - depreciation and asset retirements Note 8c(iv)	Reclassification adjustments Note 8c(v)	Total IFRS adjustments	As now reported under IFRS
ASSETS								
Property, plant and equipment:								
Cost	$ 692,500	$ –	$ –	$ –	$ –	$ (27,500)	$ (27,500)	$ 665,000
Less accumulated depreciation	(290,000)	–	–	–	–	3,500	3,500	(286,500)
	402,500	–	–	–	–	(24,000)	(24,000)	378,500
Intangible assets	–	–	–	–	–	24,000	24,000	24,000
Goodwill	2,000	–	–	–	–	–	–	2,000
Regulatory assets	32,938	(32,938)	–	–	–	–	(32,938)	–
Total non-current assets	437,438	(32,938)	–	–	–	–	(32,938)	404,500
Current assets								
Inventories	4,000	–	–	–	–	–	–	4,000
Prepaid expenses	2,000	–	–	–	–	–	–	2,000
Available-for-sale financial assets	22,000	–	–	–	–	–	–	22,000
Trade and other receivables	41,000	–	–	–	–	–	–	41,000
Unbilled revenue	54,000	–	–	–	–	–	–	54,000
Bank balances held for consumer deposits	22,000	–	–	–	–	–	–	22,000
Cash and cash equivalents	56,500	–	–	–	–	–	–	56,500
Total current assets	201,500	–	–	–	–	–	–	201,500
Total assets	$ 638,938	$ (32,938)	$ –	$ –	$ –	$ –	$ (32,938)	$ 606,000

(All amounts in thousands of Canadian dollars)

8. Adoption of IFRS (continued):

(b) Reconciliations from Canadian GAAP to IFRS (continued)

Statement of financial position reconciliation January 1, 2010 (continued):

		Effect of adopting IFRS						
	As previously reported under Canadian GAAP	Derecognition adjustments - rate regulated accounting Note 8c(i)	Derecognition adjustments - capitalized costs Note 8c(ii)	Recognition adjustments - constructive obligations Note 8c(iii)	Remeasurement adjustments - depreciation and asset retirements Note 8c(iv)	Reclassification adjustments Note 8c(vi)	Total IFRS adjustments	As now reported under IFRS
SHAREHOLDER'S EQUITY AND LIABILITIES								
Shareholder's equity:								
Capital stock	$ 156,000	$ –	$ –	$ –	$ –	$ –	$ –	$ 156,000
Fair value reserves	2,000	–	–	–	–	–	–	2,000
Retained earnings	21,500	(14,680)	–	(1,152)	–	–	(15,832)	5,668
	179,500	(14,680)	–	(1,152)	–	–	(15,832)	163,668
Non-current liabilities								
Loans and borrowings	287,000	–	–	–	–	–	–	287,000
Employee benefits	2,000	–	–	–	–	–	–	2,000
Regulatory liabilities	10,000	(10,000)	–	–	–	–	(10,000)	–
Provisions	3,500	–	–	1,550	–	–	1,550	5,050
Deferred tax liabilities	10,938	(8,258)	–	(648)	–	–	(8,906)	2,032
Total non-current liabilities	313,438	(18,258)	–	902	–	–	(17,356)	296,082
Current liabilities								
Trade and other payables	118,000	–	–	–	–	–	–	118,000
Provisions – current portion	–	–	–	250	–	–	250	250
Payments in lieu of corporate taxes	6,000	–	–	–	–	–	–	6,000
Consumer deposits	22,000	–	–	–	–	–	–	22,000
Total current liabilities	146,000	–	–	250	–	–	250	146,250
Total shareholder's equity and liabilities	$ 638,938	$ (32,938)	$ –	$ –	$ –	$ –	$ (32,938)	$ 606,000

8. Adoption of IFRS (continued):

(c) Primary differences between Canadian GAAP and IFRS:

The primary differences between the Corporation's accounting policies under Canadian GAAP and those under IFRS are set out below:

Accounting policy under Canadian GAAP	Accounting policy under IFRS
(i) Rate-regulated accounting: de-recognition adjustments	
The effect of the regulatory environment in which the Corporation conducts its operating activities was taken into account in recognizing the Corporation's assets and liabilities. As a result, all regulatory assets and regulatory liabilities were recognized in the Corporation's statement of financial position.	Asset and liabilities are now recognized only when they meet specific IFRS recognition criteria. Regulatory assets and regulatory liabilities are therefore now only recognized when they meet the recognition criteria set out in the respective IFRS standards or the IFRS Framework.
(ii) Capitalized costs: de-recognition adjustments	
The costs that were capitalized as part of the cost of constructed and developed property, plant and equipment included all directly attributable overhead costs and certain indirectly attributable overhead costs such as administrative and general overheads, as well as technical training for line crews and insurance costs.	While most other directly attributable costs continue to be capitalized, IFRS specifically requires that administration and other general overhead costs be excluded from the costs that are capitalized. Costs that are not considered to be directly attributable to a construction project are not capitalized.
(iii) Constructive obligations: recognition adjustments	
Certain of the Corporation's equipment needs to be dismantled and disposed of in a specialized manner at the end of its economic useful life. However, there is currently no legal requirement for the proper dismantling and disposal of these assets. As Canadian GAAP only required the recognition of legal asset retirement obligations, these costs were previously recognized when they were incurred.	In accordance with the Corporation's published policy, the corporation has made a public commitment to dismantle and dispose of these assets in a responsible manner. As the IFRS definition of liabilities includes both legal and constructive present obligations, a provision has now been recognized for these constructive obligations.

8. Adoption of IFRS (continued):

Accounting policy under Canadian GAAP	Accounting policy under IFRS
(iv) Depreciation and asset retirements/ disposals: re-measurement adjustment The Corporation previously calculated depreciation by applying a "group depreciation method" that did not necessarily identify individual assets based on homogenous nature and use. Significant components were not identified and residual values were not reviewed annually. Further, in applying the "group depreciation method", when an asset was retired from use, accumulated depreciation was charged by the cost of the item retired and any amounts recovered, including insurance recoveries, were credited to accumulated depreciation.	IFRS emphasize the use of components in calculating depreciation expense. Significant components of items of property, plant and equipment are separately identified and depreciation is then charged. Residual values are also reviewed annually. Further, an item of property, plant and equipment is de-recognized upon disposal or retirement. The gain or loss arising from de-recognition is included in profit or loss when the item is de-recognized.
(v) Land rights and computer software costs: re-classification adjustments Land rights and computer software that is not an integral part of related hardware were previously reported as part of property, plant and equipment.	Under IFRS, land rights and computer software that is not an integral part of the related hardware are classified and reported as intangible assets.
(vi) Income statement: reclassification adjustments Under Canadian GAAP, expenses were previously reported on a mixed basis of their nature and the business functional area to which they related.	IFRS specifically require that expenses be presented based either on their nature or the business functional area to which they relate. Presentation on a mixed basis is not allowed. All expenses have therefore now been allocated to their respective business functional area.

APPENDIX I – Proposed changes to IFRS

As at May 15, 2008, the project timetable of the IASB indicated that several IFRS pronouncements were in the process of possible change or revision in the near future. These proposed changes and revisions arise either from annual IFRS improvements or other subject-specific IFRS projects. The proposed changes and revisions had not been finalized and approved as at May 15, 2008. They have therefore not been specifically addressed in these example general-purpose financial statements.

Of the several changes on the IASB project timetable, set out below are the key proposed changes or revisions that are expected to have a significant effect on rate-regulated utilities and which are expected to be finalized in the lead up to 2011.

	Key proposed change(s)	**Possible effect on regulated electric distribution utilities**
1.	IAS 12, *Income Taxes* The IASB plans to amend IAS 12 as a result of its joint project with the FASB. A final standard is currently expected in 2010.	Changes will affect the entire existing standard. A detailed assessment can only be done once the new standard is available.
2.	IAS 31, *Interests in joint ventures* As part of the IASB's short-term project with the FASB to reduce differences between IFRSs and U.S. GAAP, the IASB intends to issue a new standard that would improve the reporting of joint arrangement activities. A final standard is expected in 2009. In 2007, the IASB issued Exposure Draft 9 (ED 9). A key proposal in this exposure draft is to account for interests in joint ventures using the equity method only.	Improvements will affect some key aspects of the existing standard. A detailed assessment can only be done once the new standard is available. Should the proposal contained in ED 9 be carried forward into the final standard, utilities will not be able to apply the proportionate consolidation method in accounting for their interests in joint ventures. The equity method would then be the only method that can be used by rate-regulated entities.
3.	IAS 37, *Provisions, contingent liabilities and contingent assets* The IASB's current project on liabilities will amend IAS 37 in order to converge with U.S. GAAP pertaining to the treatment of restructuring costs and termination benefits, and improve the requirements relating to identification and recognition of liabilities. A final standard is currently expected in 2010.	Changes will affect most key aspects of the existing standard. A detailed assessment can only be done once the new standard is available.

APPENDIX I – Proposed changes to IFRS (continued)

	Key proposed change(s)	Possible effect on regulated electric distribution utilities
4.	IAS 24, *Related party disclosures* The IASB intends to amend those parts of IAS 24 dealing with state-controlled entities and the definition of a related party. The amendments are currently expected to be finalized in 2008.	The amendment will provide some relief to state-owned entities (national, regional or local government) from the otherwise onerous disclosure requirements for transactions with other state-owned entities.
5.	IFRIC Draft Interpretation D24, *Customer contributions* In January 2008, IFRIC issued Draft Interpretation D24 which states that an entity that receives an asset that meets the definition of a customer contribution has an obligation to provide access to a supply of goods or services. That obligation shall be recognized in the statement of financial position (balance sheet) and measured on initial recognition at the fair value of the contribution received. The obligation shall be reduced and revenue recognized as access to a supply of goods or services is provided. Where a cash contribution is received, the obligation shall be measured by reference to the cash contribution received.	IFRIC Draft Interpretation D24 would result in all capital contributions that are received by utilities (whether cash or actual assets) being reported as obligations. Currently, capital contributions may be reported as a reduction in the carrying value of property, plant and equipment or as deferred income. The OEB Accounting Procedures Handbook requires them to be treated as a reduction in the carrying value of property, plant and equipment. In addition, if the interpretation draft is approved without any further amendments, the reduction (amortization) of the amount of the obligation will be presented as part of revenue instead of a reduction in the total depreciation charge for property, plant and equipment.
6.	IAS 18, *Revenue* A proposed amendment arising from the 2008 annual improvements to IFRSs is to provide guidance that accompanies IAS 18 to address the issue of determining whether an entity is acting as a principal or as an agent.	This will provide some IFRS guidance in determining principal versus agent relationships. Rate-regulated entities would probably use such guidance in considering the various components of the amount billed to customers (i.e. electricity, delivery, regulatory and debt retirement charges). In these example financial statements, all these charges have been treated as transactions arising from acting as the principal.

APPENDIX II – IFRS I Exemptions

IFRS 1, *First-time Adoption of IFRS*, provides several exemptions that an entity **may** elect to use upon transition to IFRS. The exemptions, which are very specific and cannot be applied to other items by analogy, provide relief from the requirement to retrospectively apply IFRSs in the areas specified. Although the exemptions are aimed primarily at providing relief to reporters (and thereby may significantly reduce conversion effort), it is not uncommon for entities to use these exemptions for other business and strategic reasons.

IFRS 1 contains a total of 14 exemptions. Of the 8 that may be relevant to the electric distribution industry, OEB staff has made the elections set out below in preparing these example general-purpose financial statements.

	Key IFRS 1 Exemptions	**Adoption exemption used in these example financial statements?**	**Comments**
1.	A first-time adopter may elect not to apply IFRS 3, *Business Combinations*, retrospectively to past business combinations.	Yes	Past business combinations have not been restated in these example financial statements. The requirements of IFRS 3 are applied prospectively.
2.	A first-time adopter may elect to measure an item of property, plant and equipment (or intangible asset or investment property) at its fair value and use fair value as its deemed cost.	No	Items of property, plant and equipment have been measured at historic cost in accordance with the recognition criteria under IFRS. Refer to Appendix V for assumptions made with regards to non-qualifying costs and Allowance for Funds Used During Construction (“AFUDC”). Also, as set out in Appendix V, the proposed additional exemption has been applied in these example financial statements.
3.	A first-time adopter may elect to recognize all cumulative actuarial gains and losses in retained earnings at the date of transition to IFRS, provided this is then applied to all employee benefit plans. This does not affect the accounting treatment of future actuarial gains and losses.	No	Actuarial gains and losses have been determined in accordance with the requirements of IFRS and are recognized in accordance with the "corridor approach". Refer to Appendix V for assumptions made in this regard.

APPENDIX II – IFRS I Exemptions (continued)

	Key IFRS 1 Exemptions	Adoption exemption used in these example financial statements?	Comments
4.	A first-time adopter may elect to have the cumulative translation differences for all foreign operations deemed to be zero at transition.	No	The Corporation does not have any foreign subsidiaries, associates or joint ventures. As result, it does not incur any cumulative translation differences.
5.	A first-time adopter need not separate compound instruments into two components (liability and equity) if the liability component is no longer outstanding at the date of transition.	No	The Corporation has not issued any compound financial instruments in the past. As a result, the need to consider this matter does not arise.
6.	At transition to IFRS, an entity is permitted to designate any financial asset as available-for-sale and any financial asset or liability at fair value through profit or loss (provided it meets certain criteria).	No	Other than those financial instruments already designated under Canadian GAAP, no additional financial assets or financial liabilities have been designated upon transition to IFRS.
7.	A first time adopter need not comply with requirements of IFRIC 1 for changes in existing decommissioning, restoration or similar liabilities that occurred before the date of transition to IFRS. However, if elected, the liability as at the date of transition would be determined in accordance with IAS 37.	Yes	For purposes of the transitional adjustment, the liability has been determined in accordance with IAS 37.
8.	A first-time adopter may designate any date before the IFRS transition date and capitalize borrowing costs for all qualifying assets (capital work-in-progress) for which the commencement date for capitalization is after this date.	Yes	No transitional adjustments have been made for borrowing costs that were capitalized under Canadian GAAP. The proposed additional exemption detailed in Appendix V has been used for this purpose. Refer to the assumption made in this regard also set out in Appendix V.

APPENDIX III – IFRS Accounting Policy Choices

In selecting IFRS accounting policies, each utility has a one-time opportunity to evaluate its current general-purpose financial reporting, and make accounting policy decisions that could significantly affect its future general-purpose financial reporting. In some cases, IFRSs explicitly provide for more accounting policy choices than Canadian GAAP. It is possible that a utility could depart from its past general-purpose accounting policies and start anew, even if current Canadian GAAP accounting policies are appropriate under IFRS.

In preparing these example general-purpose financial statements, OEB staff has selected to use the accounting policy choices set out below. Alternative IFRS accounting policies are also set out below.

	Accounting policy applied in these example financial statements	**Alternative accounting policy available under IFRS**
1.	The cost of inventories has been assigned using the first-in, first-out (FIFO) method.	The cost of inventories can also be assigned by using the weighted average cost method.
2.	Customers' capital contributions for the acquisition of property, plant and equipment have been presented as a reduction in the carrying value of property, plant and equipment. Refer to Appendix I for proposed change in this regard.	Customers' capital contributions for the acquisition of property, plant and equipment can also be presented as deferred income under non-current liabilities.
3.	After initial recognition, the Corporation uses the cost model to measure the value of an entire class of property, plant and equipment.	An entity can also chose to use the revaluation model to measure the value of an entire class of property, plant and equipment.
4.	Actuarial gains and losses have been recognized using the "corridor approach."	An entity may also recognize actuarial gains and losses as follows: - any systematic method that results in faster recognition than the "corridor approach"; or - full recognition in the period in which they arise, but recognized in "other comprehensive income".
5.	When government grants in the form of non-monetary assets arise, fair value is used to recognize both the grant and the asset received.	An alternative course that is sometimes followed is to record both the asset and the government grant at a nominal amount.
6.	When these arise, government grants related to assets, including non-monetary grants at fair value, are presented by deducting the grant in arriving at the carrying amount of the asset.	Government grants related to assets, including non-monetary grants at fair value, may also be presented by setting up the grant as deferred income.

APPENDIX III – IFRS Accounting Policy Choices (continued)

	Accounting policy applied in these example financial statements	Alternative accounting policy available under IFRS
7.	Interest in a jointly controlled entity has been presented using the proportionate consolidation method. Refer to Appendix I for proposed change in this regard.	Interest in a jointly controlled entity may also be presented using the equity method.
8.	After initial recognition, the cost model is used to measure the value of an entire class of intangible assets.	After initial recognition, an entity may also chose to use the revaluation model to measure the value of an entire class of intangible assets, unless there is no active market for the other assets in the class. For the purposes of the revaluation model, fair value shall be determined by reference to an active market.
9.	A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using settlement date accounting.	A regular way purchase or sale of financial assets can also be recognized and derecognized, as applicable, using trade date accounting.
10.	The Corporation chose not to apply hedge accounting.	An entity may choose to apply hedge accounting by designating hedging relationships between a hedging instrument and a hedged item (subject to strict criteria).
11.	The Corporation chose not to designate, upon initial recognition, a financial asset or financial liability as measured at fair value through profit or loss.	An entity can choose to designate, upon initial recognition, a financial asset or financial liability as measured at fair value through profit or loss provided certain criteria are met.
12.	The Corporation designates certain of its financial assets as available-for-sale.	An entity can choose not to designate a financial asset as available-for-sale.
13.	The Corporation chose the cost model as its accounting policy for all of its investment property.	An entity can also choose the fair value model as its accounting policy for all of its investment property.

APPENDIX IV – IFRS Presentation Choices

In presenting general-purpose financial information, IFRS contains several accounting policy choices. It is also possible that a utility could depart from its past presentation and start anew, even if current presentation under Canadian GAAP is appropriate under IFRS.

In preparing these example general-purpose financial statements, OEB staff has selected to use the presentation choices set out below. Alternative IFRS presentation choices are also set out below.

	Presentation choice applied in these example financial statements	**Alternative presentation choice available under IFRS**
1.	The Corporation presents all items of income and expense recognized in a period in a single statement of comprehensive income.	An entity can also present all items of income and expense recognized in a period in two statements: a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income).
2.	The Corporation discloses the amount of income taxes relating to each component of other comprehensive income, including reclassification adjustments, in the notes.	An entity can also disclose the amount of income taxes relating to each component of other comprehensive income, including reclassification adjustments, in the statement of comprehensive income.
3.	The Corporation presents an analysis of expenses recognized in the profit or loss using a classification based on their function within the entity.	An entity can also present an analysis of expenses recognized in the profit or loss using a classification based on their nature.
4.	Cash flows from operating activities are reported using the indirect method.	Cash flows from operating activities can also be reported using the direct method.
5.	Cash flows from interest received and dividends received are classified as operating activities.	Cash flows from interest received and dividends received can also be classified as investing activities.
6.	Cash flows from interest paid are classified as operating activities.	Cash flows from interest paid can also be classified as financing activities.
7.	Cash flows from dividends paid are classified as financing activities.	Cash flows from dividends paid can also be classified as operating activities.
8.	The relationship between tax expense and accounting profit is presented as a numerical reconciliation between the tax expense and the product of accounting income multiplied by the applicable tax rate.	Alternatively, the relationship can be explained by a numerical reconciliation between the average effective tax rate and the applicable tax rate, or both of these alternatives.
9.	Governments grants related to income are deducted in reporting the related expense.	Governments grants related to income can also be presented as a credit in comprehensive income either separately or under a heading such as "other income."

APPENDIX V – IFRS Key Assumptions and Estimates

The preparation of these example general-purpose financial statements in conformity with IFRSs requires certain judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. These estimates and assumptions were made particularly with regards to the quantification of accounting gaps that arise upon transition from Canadian GAAP to IFRS. Utilities should conduct detailed assessments to identify and quantify these accounting gaps, taking into account materiality levels applicable to their separate financial statements.

In preparing these example general-purpose financial statements, OEB staff has made the key assumptions and estimates set out below.

	Matter requiring key assumption and estimate	Areas affected by this matter	How addressed in these example financial statements
1.	Regulatory assets and regulatory liabilities Under Canadian GAAP, regulatory assets and regulatory liabilities were recognized. However, for reporting under IFRS, based on an IFRIC agenda decision in August 2005, *"IFRIC had concluded that the recognition criteria in FAS 71 were not fully consistent with the recognition criteria of IFRSs, and would require the recognition of assets under certain circumstances which would not meet the recognition criteria of relevant IFRSs."* However, it should be noted that the views in the agenda decision *"are not an official position of the IASB or of the IFRIC".* In addition, *"The IFRIC agenda decision does not preclude the recognition of regulatory assets and liabilities. It does require entities to apply existing standards, including the Framework, carefully to items it is considering recognizing and does not permit the automatic application of the requirements of FAS 71."* As a result of the above, there is uncertainty regarding whether or not regulatory assets and liabilities will meet the recognition criteria under IFRS. In the near future, IFRIC is expected to consider whether or not to take this matter as a separate agenda point. The issue is still in the preliminary research stage.	Opening IFRS financial position and the 2010 and 2011 financial statements	This matter will only be concluded upon when the IASB makes a final decision. In these example IFRS financial statements, neither regulatory assets nor regulatory liabilities have been recognized (both have been assumed not to meet the IFRS recognition criteria), although in practice, it is possible that certain of the regulatory liabilities, and to a lesser extent, the regulatory assets would meet the IFRS recognition criteria.

APPENDIX V – IFRS Key Assumptions and Estimates (continued)

	Matter requiring key assumption and estimate	Areas affected by this matter	How addressed in these example financial statements
2.	Proposed IFRS 1 exemption for rate-regulated entities Based on the minutes of the May 2008 IASB meeting, it is proposed that rate-regulated entities be granted special relief and be exempt from the need to retrospectively remeasure the cost of property, plant and equipment in accordance with IFRS (i.e. restating for non-qualifying costs such as administrative and general indirect overheads and borrowing costs, like AFUDC, that were determined on a basis that is different from that set out in IFRS). This exemption is expected to be subject to other considerations such as unavailability of accounting records and impracticability to determine deemed cost. The interaction of the other existing adoption elections with this proposed additional exemption is also under discussion. These matters are yet to be finalized.	Opening IFRS financial position	This proposed special exemption for rate-regulated entities has been assumed to be in place at the time of adopting IFRS. As a result, no adjustments have been raised in the opening IFRS financial position. Example adjustments have however been depicted for those costs being incurred on a go-forward basis from the date of transition to IFRS.
3.	Other key IFRS adoption accounting differences Key accounting differences between IFRS and Canadian GAAP commonly associated with electric distribution utilities include: - greater emphasis on componentization is required under IFRS; - use of the "group depreciation method" may not be appropriate under IFRS; - liabilities (including asset retirement obligations) under IFRS include constructive obligations; - IFRS uses discounted cash flows in assessing whether or not an impairment is required, whereas Canadian GAAP uses undiscounted cash flows; - under IFRS, there is need to account for the multi-employer plan (such as OMERS) as a defined benefit plan if sufficient information is available to quantify the amounts relating to the individual reporting entity; and - differences in the period used to recognize unvested past service costs.	Opening IFRS financial position and the 2010 and 2011 financial statements	Except as adjusted for and detailed in the note for "Canadian GAAP to IFRS reconciliations," these matters have not been selected for illustration in these financial statements. Additional details regarding the assumptions and adjustments that have been made are set out in the journal entries and reconciliations that accompany these example financial statements.

APPENDIX V – IFRS Key Assumptions and Estimates (continued)

	Matter requiring key assumption and estimate	Areas affected by this matter	How addressed in these example financial statements
4.	Land rights # In conducting its operations, the Corporation acquires non-possessory land rights over land owned by third-parties. These land rights include easements, right of access and right of use of the land. Current IFRSs indicate that as the Corporation will never obtain title over such land, the land is not part of property, plant and equipment. The land rights could therefore be classified as either intangible assets (if they relate to right of way or access rights) or operating lease prepayments (if they relate to right of use).	Classification in opening IFRS financial position and the 2010 and 2011 financial statements	All the land rights have been classified as intangible assets.
5.	Computer software # Under IFRS, if computer software is an integral part of the related hardware (e.g. the operating system of a computer) it is treated as part of property, plant and equipment. However, if it is not an integral part of the related hardware (e.g. application programs), it is treated as an intangible asset.	Classification in opening IFRS financial position and the 2010 and 2011 financial statements.	Billing system software has been classified as non-integral software and has therefore been treated as an intangible asset.

with effect from fiscal years beginning on or after October 1, 2008, the requirements of the new Section 3064 of the CICA Handbook and IAS 38, Intangible Assets, will be aligned. In order to demonstrate the effect of this change in the 2011 rate-setting reconciliations, the Canadian GAAP financial statements for the year ended December 31, 2011 and December 31, 2010 have not been adjusted to reflect these new requirements. In practice, entities will have to apply the new Section 3064 in preparing their Canadian GAAP financial statements for fiscal years commencing on or after October 1, 2008.

APPENDIX V – IFRS Key Assumptions and Estimates (continued)

	Matter requiring key assumption and estimate	Areas affected by this matter	How addressed in these example financial statements
6.	Tax laws at future dates, including the tax effect of IFRS adjustments Under IFRS, current tax is provided using tax rates enacted or substantively enacted at the reporting date. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. As these financial statements illustrate financial results and financial position at future dates, it is uncertain whether or not any material changes to tax laws would have been enacted or substantively enacted at those future dates.	Measurement in opening IFRS financial position and the 2010 and 2011 financial statements	These example financial statements have assumed that no changes will be made in the tax rules/laws as a result of the accounting changes arising from the transition to IFRS. As a result, the tax effect of IFRS adjustments has been treated as impacting only on deferred tax with no immediate effect on current tax.