ONTARIO POWER AUTHORITY

Management Report

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Power Authority are the responsibility of management and have been prepared in accordance with Canadian Public Sector Accounting Standards. The significant accounting policies followed by the Ontario Power Authority are described in Note 2 of the financial statements. The preparation of financial statements involves transactions affecting the current period which cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience and current conditions believed to be reasonable.

Management is responsible for establishing and maintaining a system of internal controls over financial reporting. The system of internal controls we have established is designed to provide reasonable assurance over safeguarding of assets and the reliability of financial reporting and preparation of financial statements. The system includes formal policies and procedures and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

These financial statements have been examined by KPMG LLP, a firm of independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with the accounting standards used by management. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

ONTARIO POWER AUTHORITY

On behalf of management,

Colin Andersen
Chief Executive Officer

Kimberly Marshall
Vice-President, Business Strategies & Solutions

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Ontario Power Authority

We have audited the accompanying financial statements of Ontario Power Authority, which comprise the statement of financial position as at December 31, 2013, the statements of operations, changes in net assets and cash flows for the year ended December 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

KPMG

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Power Authority as at December 31, 2013, and its results of operations, its changes in net assets and its cash flows for the year ended December 31, 2013 in accordance with Canadian public sector accounting standards**.**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 25, 2014
Toronto, Canada

Financial Statements

Statement of Financial Position (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

Assets	2013	2012
Current assets:		
Cash and cash equivalents	$76,140	$315,631
Accounts receivable (note 3)	438,183	546,963
Prepaid expenses	359	564
	514,682	**863,158**
Capital assets (note 4)	4,463	6,628
Total assets	**$519,145**	**$869,786**

Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	$362,031	$474,839
Operating loan (note 13)	-	60,000
Contract deposits (note 6)	23,239	28,996
Other liabilities	593	105
	385,863	**563,940**
Deferred rent inducement, net (note 7)	258	403
Other financial liabilities (note 8)	99,237	289,918
Net assets:		
Internally restricted Conservation funds (note 9)	9,534	9,939
Invested in capital assets	4,463	6,628
Accumulated operating surplus (deficit)	19,790	(1,042)
	33,787	**15,525**
Commitments (note 7)	-	-
Contingencies and guarantees (note 14)	-	-
Total liabilities and net assets	**$519,145**	**$869,786**

See accompanying notes to financial statements.

ONTARIO POWER AUTHORITY

Statement of Operations (in thousands of dollars)

Year ended December 31, 2013, with comparative figures for 2012

		2013	2012
Revenue:			
	Fees (note 13)	$75,934	$76,298
	Registration fees (note 6)	1,720	(1,456)
	Interest income	-	666
	Other income	794	102
		78,448	**75,610**
Expenses:			
	Compensation and benefits	33,544	32,034
	Professional fees	12,453	10,852
	General operating costs (note 10)	10,943	11,742
	Conservation funds expenses (note 9)	405	728
	Amortization of capital assets	2,841	4,427
		60,186	**59,783**
Excess of revenue over expenses		**$18,262**	**$15,827**

See accompanying notes to financial statements.

Statement of Changes in Net Assets (in thousands of dollars)

Year ended December 31, 2013, with comparative figures for 2012

	Invested in Capital Assets	Internally Restricted (see note 9)	Accumulated Operat-ing Surplus (Deficit)	2013 Total Net Assets	2012 Total Net Assets
Balance, beginning of the year	$6,628	$9,939	$(1,042)	$15,525	$(302)
Excess of revenue over expenses	(2,841)	-	21,103	18,262	15,827
Conservation funds expenses	-	(405)	405	-	-
Purchase of capital assets	676	-	(676)	-	-
Balance, end of the year	**$4,463**	**$9,534**	**$19,790**	**$33,787**	**$15,525**

See accompanying notes to financial statements.

ONTARIO POWER AUTHORITY

Statement of Cash Flows (in thousands of dollars)

Year ended December 31, 2013, with comparative figures for 2012

	2013	2012
Cash flows from operating activities:		
Excess of revenue over expenses	$18,262	$15,827
Items not involving cash:		
Amortization of capital assets	2,841	4,427
Amortization of deferred rent inducement	(145)	(144)
Change in non-cash operating items (note 12)	(9,580)	(1,413)
	11,378	18,697
Cash flows from financing activities:		
Increase in other liabilities	488	22
Decrease in operating loan	(60,000)	(196,368)
Increase/(decrease) in other financial liabilities	(190,681)	264,130
	(250,193)	67,784
Cash flows from capital activities:		
Purchase of capital assets	(676)	(677)
	(676)	(677)
Increase/(decrease) in cash and cash equivalents	(239,491)	85,804
Cash and cash equivalents, beginning of year	315,631	229,827
Cash and cash equivalents, end of year	**$76,140**	**$315,631**

See accompanying notes to financial statements.

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

1) NATURE OF OPERATIONS:

The *Electricity Restructuring Act, 2004* established the Ontario Power Authority (OPA) as a non-share corporation on December 20, 2004. The OPA is an independent non-profit, non-taxable corporation. The OPA is not a Crown agent and recovers its costs through fees approved by the Ontario Energy Board (OEB) and through charges to the electricity market through the global adjustment mechanism. In accordance with this act, the OPA's main objectives are:

- to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the medium and long term
- to conduct independent planning for electricity generation, demand management, conservation and transmission, and to develop integrated power system plans for Ontario
- to engage in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario
- to engage in activities to facilitate the diversification of sources of electricity supply by promoting the use of cleaner energy sources and technologies, including alternative energy sources and renewable energy sources
- to establish system-wide goals for electricity to be produced from alternative energy sources and renewable energy sources
- to assist the OEB by facilitating stability in rates for certain types of customers
- to collect and provide to the public and the OEB information relating to medium- and long-term electricity needs of Ontario and to the adequacy and reliability of the integrated power system to meet those needs.

The OPA's ability to continue as a going concern is dependent on its ability to obtain financing to support operations. The OPA's creditworthiness is attested to by the following:

- the ability of the OPA to meet its obligations is provided for in legislation
- the OPA's minimal counterparty risk, given that its principal counterparty is the Independent Electricity System Operator (IESO), a creation of the province and a strong counterparty.

Due to the OPA's primary objectives, the OPA plans for revenues to fund expenses. Any variances that occur are addressed in the following year's revenue requirement submission. As of December 31, 2013, the Minister of Energy had not provided formal approval of the OPA's business plan or the OPA's proposed usage fee for 2014. However, on December 19, 2013, the OEB approved an interim fee until such time as the OPA's revenue requirement submission is filed and decided upon. This rate is effective January 1, 2014.

During 2012, the Province of Ontario announced a plan to merge the OPA and the IESO. In December 2012, the Premier prorogued parliament thereby terminating the legislation to enact the merger. Since the merger would require the introduction and passing of a new bill, the likelihood and timing of a merger is indeterminable at this time.

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

2) SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (Standards) including the 4200 standards for government not-for-profit organizations.

(b) Revenue recognition:

Fees earned by the OPA are based on OEB-approved rates for electricity withdrawn from the IESO-controlled grid by electricity consumers of Ontario. Such revenue is recognized in the year in which it is earned.

Amounts received in the current year that relate to services and programs to be approved and/or provided in future periods are deferred until they are approved and/or provided.

(c) Cash and cash equivalents:

Cash and cash equivalents comprise bank deposit balances, term deposits and other short-term investments with original maturity dates of up to 90 days.

(d) Capital assets:

Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated service lives, as follows:

Assets	Estimated Average Service life
Furniture and equipment	10 years
Computer hardware	4 years
Computer software	3 to 5 years
Audio-visual equipment	10 years
Telephone system	5 years
Leasehold improvements	Term of lease

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

2) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(e) Employee pension benefits:

The OPA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the OPA does not have sufficient information to apply defined benefit plan accounting to this pension plan.

The OPA is not responsible for the cost of employee post-retirement, non-pension benefits. These costs are the responsibility of the Ontario Pension Board.

(f) Financial Instruments:

Financial instruments are recorded at fair value on initial recognition. Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

Long-term debt is recorded at cost.

The Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- **Level 1 –** unadjusted quoted market prices in active markets for identical assets or liabilities
- **Level 2 –** observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities
- **Level 3 –** unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

(g) Measurement uncertainty:

Uncertainty in determining the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurements of uncertainty in these financial statements exist in the valuation of the power purchase contracts and the estimated defeasance date for the OPA's obligations. Estimates are based on the best information available at the time of preparation of the financial statements and are updated annually to reflect new information as it becomes available.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

3) ACCOUNTS RECEIVABLE:

	2013	2012
Market contracts:		
Generation contracts	$393,848	$474,424
Conservation contracts	43,947	54,382
Renewable energy contracts	179	12,555
	437,974	541,361
Other	209	262
HST/GST receivable	-	5,340
	$438,183	**$546,963**

4) CAPITAL ASSETS:

	Cost	Accumulated amortization	2013 Net book value	2012 Net book value
Furniture and equipment	$3,384	$2,191	$1,193	$1,502
Computer hardware	4,807	4,480	327	224
Computer software	7,892	6,567	1,325	2,458
Audio-visual equipment	237	173	64	79
Telephone system	382	338	44	32
Leasehold improvements	5,190	3,680	1,510	2,333
	$21,892	**$17,429**	**$4,463**	**$6,628**

5) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

	2013	2012
Accrued contract settlements	$310,590	$211,522
Other accrued liabilities	49,774	263,317
HST/GST payable	1,667	-
	$362,031	**$474,839**

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

6) CONTRACT DEPOSITS:

Program deposits:

The OPA receives performance security in the form of deposit amounts received from renewable energy supply, Feed-In Tariff (FIT) Program and demand response suppliers. For suppliers engaged in a contract that involves the construction of a new supply facility, the deposits are larger during the construction phase and are reduced once a project commences commercial operations. Deposits related to the FIT Program are submitted to the OPA with the supplier application and can be returned if one of the following occurs: (a) the supplier withdraws its application from the program, (b) the supplier obtains a contract with the OPA, or (c) the supplier's application is rejected by the OPA.

The deposits are classified as current liabilities as they can be replaced by a letter of credit by the supplier on request.

The new FIT Program that was initiated in October 2013 (FIT 3.0) does not require the collection of program deposits.

Program registration fees:

The OPA also requires a registration fee from applicants to some renewable energy programs. Changes to FIT Program Rules in 2012 affected the existing applicants to this program. As a result, registration fees were made available for refund. Refunds were recorded as debits to the registration fee income account resulting in a negative balance.

The FIT 3.0 program requires a registration fee from applicants as well; however, this fee is not intended to be refundable to applicants in accordance with the rules of this program.

7) DEFERRED RENT INDUCEMENT AND OPERATING LEASE COMMITMENTS:

The OPA has entered into various long-term lease commitments for office space, which include lease inducements. Deferred rent inducement represents the benefit of operating lease inducements amortized on a straight-line basis over the term of the lease. The OPA obtained an allowance for leasehold improvements of $1,430. As at December 31, 2013, the deferred rent inducement, net of amortization, was $258 (December 31, 2012 - $403).

The OPA reports an average rental cost for premises over the term of the lease agreement and amortizes the benefit of the lease inducements over the same period. As at December 31, 2013, the accrued liability was $125 (December 31, 2012 - $189).

Lease commitments are set to terminate by October 2015. Lease commitments include amounts for leased computer hardware. Computer hardware commitments terminated in 2013. The minimum annual payments remaining under the operating lease are approximated as follows:

Lease Commitments	
2014	$1,650
2015	1,294
	$2,944

ONTARIO POWER AUTHORITY

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

8) OTHER FINANCIAL LIABILITIES:

Other financial liabilities and deferrals arise as a result of the *Electricity Act, 1998* and the regulations under the act and are reflected by the balances in the Regulated Price Plan (RPP), retailer contract settlement deferral accounts, government procurement deferral account and the global adjustment account. In the absence of rate-regulated accounting, these amounts would have flowed through the statement of operations when incurred.

	2013	2012
Other financial liabilities	$(99,237)	$(289,918)

RPP variance accounts:

While prices for RPP consumers are set every six months by the OEB based on a forecast of the cost of power over the next year, it is likely that there will be a difference between the actual and forecasted cost of supplying electricity to all RPP consumers. When HOEP is greater than the RPP, the OPA pays the excess amount and records a financial asset as the electricity market funds paid are receivable from the market. When the HOEP is less than the RPP, the OPA receives the difference and records a financial liability as the funds received will be returned to the market. The OPA tracks this variance in the RPP variance account. The Ontario Power Generation (OPG) rebate is equivalent to the difference between the revenue limit for specific OPG generating facilities and the revenue OPG actually received in the IESO wholesale spot market for that generation.

	2013	2012
OPG rebate contribution	$(603,351)	$(602,736)
Total RPP variance before interest	493,581	299,896
Interest earned	10,533	12,922
	$(99,237)	**$(289,918)**

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

8) OTHER FINANCIAL LIABILITIES (CONTINUED):

Global adjustment account:

The OPA has a legislated responsibility to record the transactions flowing through the global adjustment mechanism. The global adjustment and settlement accounts have been created for this purpose. The nature of the global adjustment transactions results in a zero balance in the account on a monthly basis. The information and explanation below provide transparency for the transactions flowing through the global adjustment mechanism.

The global adjustment and settlement accounts record charges that flow between the OPA and the IESO. The account flows include the amounts paid and received for: the Demand Response 2 and Demand Response 3 programs, non-utility generation, the regulated nuclear generation balancing amount and the regulated hydroelectric generation balancing amount. These accounts are settled simultaneously by the IESO. The account also records the amounts paid and received for OPA contracts (standard offer, generation and conservation/demand management, FIT Program and hydroelectric contract initiatives) that the OPA settles on a monthly basis with the IESO.

This account also includes charges related to OEB-approved non-OPA conservation programs. These programs are administered by local electricity distribution companies and charges related to them flow directly between the IESO and these companies.

The net impact of global adjustment transactions creates a zero balance in the account at every month end.

	2013	2012
Demand Response 2	$14,928	$17,782
Demand Response 3	42,806	35,337
Non-utility generation	1,132,615	1,090,982
Nuclear	1,492,901	1,636,129
Hydro	260,051	212,236
Renewable generation		
OPA contracts	4,784,048	3,463,341
Global adjustment balancing amount	(7,727,348)	(6,455,807)
	$ -	**$ -**

ONTARIO POWER AUTHORITY

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

9) INTERNALLY RESTRICTED CONSERVATION FUNDS:

The OPA established the Conservation Fund to support electricity conservation projects. The Technology Development Fund was established to aid the development of new technology to improve electricity supply or conservation. To date, 12 funds have been set up as listed in the table below. These funds were set up before April 2010. After that, in accordance with the April 2010 directive, all expenditures for new conservation and technology projects are recovered through the global adjustment mechanism.

	Restricted Fund	Expensed 2013	Expensed Prior Years	Balance 2013	Balance 2012
2005 - 2008 Conservation Fund	$8,600	$ -	$8,009	$591	$591
2009 Conservation Fund	3,000	-	2,546	454	454
2010 Conservation Fund	5,000	10	176	4,814	4,824
2005 - 2008 Technology Development Fund	3,500	-	2,916	584	584
2009 Technology Development Fund	1,500	-	1,415	85	85
2010 Technology Development Fund	4,500	395	1,099	3,006	3,401
	$26,100	**$405**	**$16,161**	**$9,534**	**$9,939**

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

10) GENERAL OPERATING COSTS:

	2013	2012
General program costs	$4,956	$3,744
Premises	3,742	3,631
Information technology	1,537	3,253
Office and administration	686	644
Interest expense	22	470
	$10,943	**$11,742**

11) PENSION PLAN:

The OPA makes contributions to the Public Service Pension Plan, a multi-employer plan, on behalf of staff. The plan is a contributory defined pension plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contribution rates by employers are made at a rate of approximately eight percent of earnings. As at December 31, 2013, the OPA paid or accrued contributions totaling $2,001 (December 31, 2012 - $2,096) during the year.

12) CHANGE IN NON-CASH OPERATING ITEMS:

	2013	2012
Decrease/(increase) in accounts receivable	$108,780	$(130,861)
Decrease/(increase) in prepaid expenses	205	(264)
Increase/(decrease) in accounts payable and accrued liabilities	(112,808)	152,844
Decrease in contract deposits	(5,757)	(23,132)
	$(9,580)	**$(1,413)**

Notes to the financial statements (in thousands of dollars)
As at December 31, 2013, with comparative figures for 2012

13) RELATED PARTY TRANSACTIONS:

The Province of Ontario is a related party as it is the controlling entity of the OPA. The OEB, Hydro One, the IESO, OPG, the Ontario Financing Authority (OFA) and the Ministry of Energy are related parties of the OPA, through the common control of the Province of Ontario. Transactions between these parties and the OPA were as follows:

Under the *Ontario Energy Board Act, 1998,* the OPA incurs registration and licence fees. Consistent with other registrants, in 2013 the OPA was allocated a portion of the operating costs of the OEB. The total of the OPA's transactions with the OEB were $1,025 in 2013 (2012 - $1,041).

The OPA procures conservation and demand management from Hydro One. The procurement costs include payments for electricity conservation, program operating costs and management fees. In 2013, the OPA procured $30,214 in conservation and demand management (2012 - $34,653), from Hydro One and its wholly owned subsidiaries. At December 31, 2013, the OPA had a net payable to Hydro One of $2,198 (December 31, 2012 - $nil).

The OPA receives its fee revenue from the IESO. The fee revenue is approved by the OEB and collected each month by the IESO from ratepayers through a usage rate applied to Ontario domestic electricity consumption. Fee revenue for 2013 was $75,934 (2012 - $76,298). In addition, the OPA and the IESO have agreements set up for the settlement of amounts paid and received for the global adjustment account, RPP on behalf of various market participants (see note 8). At December 31, 2013, the OPA had a net receivable of $393,795 (December 31, 2012 - $264,304). The OPA also incurred $123 in 2013 (2012 - $388) for professional services.

The OPA has available a revolving operating facility in the amount of $975,000, provided by the OFA to fund its general operating expenses and to support the RPP variance account. The line of credit was renewed in 2013 for a three-year term from January 1, 2014 to December 31, 2016 with an interest rate of 1.17 percent. On December 31, 2013, the OPA had a nil (December 31, 2012 - $60,000) outstanding balance to the OFA. In 2013, the OPA incurred nil (2012 - $470) in interest expenses for the loan. This is net of interest expense that was allocated to the market.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

14) CONTINGENCIES AND GUARANTEES:

Contingencies:

In the normal course of its operations, the OPA becomes involved in various legally binding agreements. Some of these agreements contain potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that a future event becomes likely to occur or fails to occur, and a reasonable estimate of the loss can be made, an estimated liability will be accrued and the expense will be recorded on the OPA's financial statements. As at December 31, 2013, in the opinion of management, no such liabilities existed.

Contract conditions related to the construction of a new clean energy facility stipulate that the OPA is contingently liable to repay upgrade costs, up to a maximum of $1,000, as incurred by the energy supplier. While none of these costs has been incurred to date, the OPA is liable to cover such costs over a 20-year period ending in 2025. As at December 31, 2013, management was not aware of any information to suggest that these upgrade costs will be incurred by the supplier.

Guarantees:

The OPA enters into contracts with suppliers of electricity as part of its normal business operations. In some cases, these contracts require the OPA to support obligations with these entities. In 2012, the OPA entered into a letter of credit amounting to $1,349 in support of a contracted obligation. As at December 31, 2013, no amounts had been drawn on the balance.

15) FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

The carrying values of the operating loan approximate their fair values, as the terms and conditions for similar types of loan arrangements are comparable to current market conditions for similar items.

The fair values of other financial assets and other financial liabilities are not provided because this would not give additional useful information, as they would be offset and/or would not be practical to determine.

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

16) FINANCIAL RISK MANAGEMENT:

The OPA is exposed to financial risks in the normal course of its business operations, including market risks resulting from credit risk, liquidity risk and interest rate risk. The nature of the financial risks and the OPA's strategy for managing these risks has not changed significantly from the prior year.

(a) Credit risk:
Credit risk refers to the risk that one party to a financial instrument may cause a financial loss for the other party by failing to meet its obligations under the terms of the financial instrument. The OPA is exposed directly to credit risk related to accounts receivable and bank deposits held at the chartered bank. Direct exposure to credit risk is limited to the carrying amount presented for these assets on the statement of financial position. Accounts receivable as of December 31, 2013 included no material items past due.

(b) Liquidity risk:
Liquidity risk refers to the risk that the OPA will encounter financial difficulty in meeting obligations associated with its financial liabilities. The OPA manages liquidity risk by forecasting cash flows to identify financing requirements. Cash flows from operations and maintaining appropriate credit facilities reduce liquidity risk.

(c) Interest rate risk:
The OPA's operating loan has a variable interest rate based on the Province of Ontario's cost of funds for borrowing, with a similar term as determined by the OFA plus a margin. As a result, the OPA is exposed to interest rate risk due to fluctuations in the Province of Ontario's cost of funds for borrowing with a similar term rate.

17) COMPARATIVE FIGURES:

Certain 2012 figures have been reclassified to conform with the financial statement presentation adopted in 2013.