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Horizon Utilities Corporation

Auditors' Report to the Shareholder

and Consolidated Financial Statements

Year Ended December 31, 2015 and

December 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Horizon Utilities Corporation

We have audited the accompanying consolidated financial statements of Horizon Utilities Corporation, which comprise the consolidated statement of financial position as at December 31, 2015, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG

Opinion

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
February 26, 2016

Horizon Utilities Corporation

Table of Contents to Consolidated Financial Statements

As at and for the year ended December 31, 2015

Horizon Utilities Corporation
Consolidated Statement of Financial Position

As at December 31, 2015
(stated in thousands of Canadian dollars)

	Note	2015	2014
Assets			
Current assets			
Cash and cash equivalents	4	—	126
Accounts receivable		108,197	98,223
Accounts receivable from corporations under common control		739	188
Inventory	5	8,339	7,355
Other assets		2,991	3,127
		120,266	109,019
Non-current assets			
Property, plant and equipment	6	438,446	418,937
Deferred payments in lieu of income taxes	9	14,868	18,077
Intangible assets	7	23,279	17,675
Goodwill	8	18,923	18,923
		495,516	473,612
Total assets		615,782	582,631
Liabilities			
Current liabilities			
Bank indebtedness		876	—
Accounts payable and accrued liabilities		69,074	67,968
Accounts payable to corporations under common control	20	17,031	16,330
Current portion of long term borrowings	11	143	294
Current portion of obligations under capital cost recovery agreements	12	16,626	—
Credit support for service delivery	10	21,454	18,145
Reimbursements from Independent Electricity System Operator ("IESO")	22	4,511	2,037
		129,715	104,774
Non-current liabilities			
Long term borrowings	11	189,753	189,352
Obligations under capital cost recovery agreements	12	—	10,000
Employee future benefits	13	29,760	29,430
Deferred revenue		29,738	25,401
		249,251	254,183
Total liabilities		378,966	358,957
Shareholder's equity			
Share capital	15	123,593	123,593
Contributed surplus		15,218	15,218
Accumulated other comprehensive loss		(6,463)	(6,712)
Retained earnings		104,468	91,575
Total shareholder's equity		236,816	223,674
Total liabilities and shareholder's equity		615,782	582,631

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

Director

Director

Horizon Utilities Corporation
Consolidated Statement of Income and Comprehensive Income

For the year ended December 31, 2015
(stated in thousands of Canadian dollars)

	Note	2015	2014
Sale of energy		563,433	519,225
Distribution revenue	16	110,377	97,381
Other income from operations	17	14,780	12,300
Total revenues		688,590	628,906
Expenses:			
Cost of power purchased		554,983	528,328
Operating expenses		68,297	64,871
Depreciation and amortization		24,354	21,246
		647,634	614,445
Income from operating activities		40,956	14,461
Loss on sale and disposal of property, plant and equipment		(1,502)	(1,498)
Finance income	18	117	112
Finance charges	18	(7,141)	(7,097)
Income before payments in lieu of income taxes		32,430	5,978
Provision for payments in lieu of income taxes	9	7,418	1,838
Net income		25,012	4,140
Items that will not be reclassified to net income, net of tax			
Remeasurements of the future employee net benefit liability		249	(4,682)
Other comprehensive income (loss)		249	(4,682)
Total comprehensive income (loss), net of tax		25,261	(542)

The accompanying notes are an integral part of these consolidated financial statements.

Horizon Utilities Corporation
Consolidated Statement of Changes in Equity

For the year ended December 31, 2015
(stated in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive (loss) income	Total
Balance at January 1, 2015	123,593	15,218	91,575	(6,712)	223,674
Net income	—	—	25,012	—	25,012
Other comprehensive income	—	—	—	249	249
Dividends	—	—	(12,119)	—	(12,119)
Balance at December 31, 2015	123,593	15,218	104,468	(6,463)	236,816
Balance at January 1, 2014	123,593	15,218	100,781	(2,030)	237,562
Net income	—	—	4,140	—	4,140
Other comprehensive loss	—	—	—	(4,682)	(4,682)
Dividends	—	—	(13,346)	—	(13,346)
Balance at December 31, 2014	123,593	15,218	91,575	(6,712)	223,674

The accompanying notes are an integral part of these consolidated financial statements.

Horizon Utilities Corporation
Consolidated Statement of Cash Flows

For the year ended December 31, 2015
(stated in thousands of Canadian dollars)

	Note	2015	2014
OPERATING ACTIVITIES			
Net income		25,012	4,140
Adjustments to reconcile net income to cash provided by (used in) operations:			
Depreciation and amortization	6,7	24,354	21,246
Loss on sale and disposal of property, plant and equipment		1,502	1,498
Provisions for payments in lieu of income taxes	9	4,210	4,282
Deferred payments in lieu of income taxes	9	3,208	(2,444)
Amortization of deferred revenue		(770)	(631)
Finance income		(117)	(112)
Finance charges		7,141	7,097
Change in employee future benefits		668	510
Change in other assets and liabilities	19	(10,955)	5,687
		54,253	41,273
Finance charges paid		(7,038)	(7,228)
Finance charges received		118	90
Payments in lieu of income taxes paid		(2,606)	(1,822)
Cash from operating activities		44,727	32,313
INVESTING ACTIVITIES			
Acquisitions of property, plant and equipment and intangible assets		(44,700)	(43,849)
Proceeds from sale of property, plant and equipment		445	221
Cash used in investing activities		(44,255)	(43,628)
FINANCING ACTIVITIES			
Proceeds (reductions) of credit support for service delivery		3,309	(2,822)
Reimbursements (reductions of reimbursements) from IESO		2,474	(1,635)
Contributions received from customers		5,107	6,112
Finance lease payments		(245)	(292)
Dividends paid		(12,119)	(13,346)
Cash used in financing activities		(1,474)	(11,983)
(Decrease) in cash and cash equivalents		(1,002)	(23,298)
Cash and cash equivalents, beginning of year		126	23,424
(Bank indebtedness) cash and cash equivalents, end of year		(876)	126

The accompanying notes are an integral part of these consolidated financial statements.

Horizon Utilities Corporation
Table of Contents to the Consolidated Financial Statement Notes

For the year ended December 31, 2015
(stated in thousands of Canadian dollars)

1. REPORTING ENTITY

Horizon Utilities Corporation (the "Corporation") is one of Ontario's largest municipally owned electricity distribution companies, delivering electricity and related utility services to more than 243,000 residential and commercial customers in Hamilton and St. Catharines. The address of the Corporation's registered office is 55 John Street North, Hamilton, Ontario, Canada.

The Corporation also has a 99.99% ownership interest in Solar Sunbelt General Partnership ("Solar Sunbelt GP"), which has been established to undertake a solar generation business. The Corporation is also the managing partner of Solar Sunbelt GP.

The Corporation is 100% owned by Horizon Holdings Inc. ("HHI"). HHI is 78.9% owned by Hamilton Utilities Corporation ("HUC") and 21.1% owned by St. Catharines Hydro Inc. ("SCHI").

2. BASIS OF PREPARATION

a. Statement of Compliance

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

b. Approval of the financial statements

The financial statements were approved by the Board of Directors on February 26, 2016.

c. Basis of measurement

The financial statements have been prepared on the historical cost basis, unless otherwise stated.

d. 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.

e. 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 year in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty 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 6 - Property, plant and equipment: estimation of useful lives

(ii) Note 7 - Intangible assets: estimation of useful lives

(iii) Note 8 - Goodwill: key assumptions underlying recoverable amount for goodwill impairment testing

(iv) Note 12 - Obligations under capital cost recovery agreements: estimation of capital contribution shortfalls and corresponding intangible assets

(v) Note 13 - Employee future benefits: key actuarial assumptions

(vi) Note 21 - Financial instruments and risk management: estimation of allowance for impairment of accounts receivable

2. BASIS OF PREPARATION (Continued)

e. Use of estimates and judgements (Continued)

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

(i) Note 3 - Revenue: whether the Corporation is a principal or agent for sale of energy

(ii) Note 11 - Long term borrowings: lease classification

(iii) Note 22 - Commitments and contingencies: whether a contingency is a liability

f. Regulation

The Corporation is regulated by the Ontario Energy Board ("OEB"). In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that differ from IFRS. The OEB's regulatory accounting treatments require the recognition of regulatory assets and liabilities which do not meet the definition of an asset or liability under IFRS and, as a result, these regulatory assets and liabilities have not been recorded in these IFRS financial statements.

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the OEB powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include: approving or fixing rates for the transmission and distribution of electricity; providing continued rate protection for rural and remote residential electricity consumers; and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs"), such as the Corporation, which may include, among other things: record keeping; regulatory accounting principles; separation of accounts for distinct business; and filing and process requirements for rate setting purposes.

Rate setting

The electricity distribution rates and other regulated charges of the Corporation are determined in a manner that provides shareholders with opportunity to earn a regulated Maximum Allowable Return on Equity ('MARE") on the amount of shareholder's equity supporting the business of electricity distribution, which is also determined by regulation.

Rate Applications

The OEB regulates the electricity distribution rates charged by LDCs, such as Horizon Utilities through periodic rate applications to the OEB and its ongoing monitoring and reporting requirements. At present, LDCs may apply to the OEB for electricity distribution rates under options specified in its Report of the Board - A Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach ("RRFE"). The three rate-setting methods available to LDCs under the RRFE are: 4th Generation Incentive Rate-setting ("4GIRM"); Custom Incentive Rate-setting ("Custom IR"); or Annual Incentive Rate-setting Index.

On April 16, 2014, Horizon Utilities submitted its 2015 Custom IR application to the OEB to adjust the electricity distribution rates charged to customers in each of the years 2015 to 2019 inclusive. As part of the application, Horizon Utilities submitted a Distribution System Plan providing for the modernization, expansion and maintenance of the distribution system.

On December 11, 2014, the OEB issued its Decision and Order on this application. Based on the Decision and Order, the resulting change to the distribution portion of the bill for a typical residential customer consuming 800 kWh per month will be, approximately: 5.40% increase in 2015; 3.73% increase in 2016; 0.79% increase in 2017; (0.03%) decrease in 2018; and 2.35% increase in 2019. Management expects that the increases to its revenues resulting from this Decision and Order will support sustainable investment and maintenance of the distribution system through the effective period of this application from 2015 to 2019.

2. BASIS OF PREPARATION (Continued)

f. Regulation (Continued)

Rate setting (Continued)

On August 12, 2015, Horizon Utilities submitted its first Annual Filing (the "Filing") to its five year Custom IR Application for electricity distribution rates effective January 1, 2016. The Filing incorporated annual adjustments provided in the Decision to the Custom IR Application. In this Filing, Horizon Utilities adopted and implemented the following policy changes issued by the OEB corresponding to: i) rate design for residential electricity customers; and ii) cost allocation policy for street lighting rate class.

On December 10, 2015, the OEB issued its Decision and Order on the Filing resulting in a change to the distribution portion of the bill for a typical residential customer consuming 800 kWh per month of approximately 1.28% increase in 2016.

Select Energy Policies and Regulation Affecting the Corporation

A New Distribution Rate Design for Residential Electricity Customers

On April 2, 2015, the OEB issued a policy providing for fully fixed distribution charges for residential electricity customers. The implementation of this New Distribution Rate Design for residential electricity customers will be phased in over a four year period commencing January 2016. This policy is focused on only the distribution rate component of electricity charges. Distribution rates are designed to recover the costs for the poles, wires, meters, transformer stations, trucks and computer systems that convey electricity from the high voltage transmission system to individual homes. Under the new policy, electricity distributors will structure residential rates so that all the costs for distribution service are collected through a fully fixed monthly charge. Current distribution rate design is a combination of a fixed monthly rate and a separate usage (i.e., variable) rate. The OEB's general policy for rate design is to increase the amount of revenue collected through the fixed rate, and, ultimately, eliminate the amount of revenue collected through the usage rate. Electricity charges corresponding to the electricity generation, transmission and system operations are not affected by this policy.

Monthly Billing Requirement for Electricity Distributors in Ontario

On April 15, 2015, the OEB announced that, by the end of 2016, all electricity distributors in Ontario will be required to bill their customers on a monthly basis. Included with this policy change is an increased expectation on distributors to issue bills based on actual meter reads rather than estimates, at least 98% of the time. The amendments regarding estimated billing and billing accuracy came into force on April 15, 2015. The amendment regarding monthly billing will come into force on December 31, 2016.

New Cost Allocation Policy for Street Lighting Rate Class

On June 12, 2015, the OEB issued a letter outlining a new cost allocation policy for the Street Lighting customer class: one-device-per-connection (1:1) system; and multiple-device-per-connection (daisy-chain) systems. The new cost allocation policy for Street Lighting introduces a "Street Lighting adjustment factor" that will be used to allocate costs to the Street Lighting class for the allocation of costs related to primary and line transformer assets. The Street Lighting adjustment factor replaces the "number of connections" allocator in the cost allocation model. Based on the Decision and Order of the OEB in Horizon Utilities' Custom IR application, the OEB directed Horizon Utilities to update the methodology for cost allocation related to Street Lighting pending the outcome of this initiative. The OEB's new cost allocation policy was incorporated into the August 12, 2015 Annual Filing.

2. BASIS OF PREPARATION (Continued)

f. Regulation (Continued)

Select Energy Policies and Regulation Affecting the Corporation (Continued)

New 2015-2020 Conservation and Demand Management Framework

On March 26, 2014, the Minister of Energy issued a directive to the OEB to amend the licences of electricity distributors with new requirements to: deliver Conservation and Demand Management ("CDM") programs available to customers that are designed to achieve energy reductions; meet CDM requirements through either the IESO (formerly the Ontario Power Authority "OPA") programs, LDC programs, or a combination of the two; and make the results of local programs available to other distributors on request. The coordination and integration of CDM and Demand Side Management ("DSM") activities is intended to achieve energy efficiencies and deliver convenient integrated programs for electricity and natural gas customers. The OEB issued the amendments to LDC licenses on December 18, 2014.

On March 31, 2014, the Minister of Energy issued a directive to the IESO to coordinate, support and fund the delivery of CDM programs through electricity distributors to achieve a total of 7 Terawatt Hours ("TWh") of reductions in electricity consumption between January 1, 2015 and December 31, 2020. The IESO has allocated a target of 330,680 MWh savings over the 2015 - 2020 to Horizon Utilities. A joint CDM plan with another LDC was prepared outlining the programs to achieve the targeted savings. The IESO approved the joint CDM plan on May 29, 2015.

Prior 2011-2014 Conservation and Demand Management Framework

On November 12, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Corporation's CDM targets included a demand reduction target of 60.36 megawatts ("MW"), and a consumption reduction target of 281.42 gigawatt-hours ("GWh").

Horizon Utilities achieved 107.49% of its energy target and 80.85% of its peak demand target. Horizon Utilities is eligible for performance incentive payments from the OEB since it exceeded 80% of both its demand reduction and consumption reduction targets. A performance incentive payment application has been filed with the OEB.

On December 17, 2014 the OEB issued a letter which clearly specifies that the OEB will not take compliance actions against (i) distributors who do not reach 100% of their energy targets if they reach at least 80% of the energy targets, or (ii) distributors who do not meet their peak demand targets for the previous CDM framework in effect from January 1, 2011 to December 31, 2014.

Ontario Premier's Advisory Council on Government Assets

On November 13, 2014, the Ontario Premier's Advisory Council on Government Assets ("the Council") released Retain & Gain: Making Ontario's Assets Work Better for Taxpayers and Consumers, an initial report on key provincial assets, including the Liquor Control Board of Ontario, Hydro One Networks Inc. ("HONI"), and Ontario Power Generation. This report provides initial recommendations on ways to improve customer service and increase efficiencies at these government business enterprises, in order to maximize their value and generate better returns for the people of Ontario.

One of the key recommendations in this report was to use Hydro One Brampton Networks Inc. and the distribution business of HONI as catalysts for consolidation of the distribution sector. The Council issued its final recommendation on April 16, 2015 which included recommendations for the future divestiture of HONI and Hydro One Brampton.

2. BASIS OF PREPARATION (Continued)

f. Regulation (Continued)

Select Energy Policies and Regulation Affecting the Corporation (Continued)

Low-Income Assistance Strategy Review

On March 26, 2015, the Minister of Energy announced the Ontario Electricity Support Program ("OESP"), a support program for low-income electricity consumers in Ontario. The OEB recommended that the program offer ongoing, and on-bill, rate assistance to customers with limited financial resources. The OESP will be funded by all ratepayer classes. On November 19, 2015, the OEB set a rate of $0.0011 per kWh to fund the OESP, effective January 1, 2016.

Other Matters

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders, may affect future electricity distribution rates and other permitted regulatory recoveries of the Corporation.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

a. Basis of consolidation

These consolidated financial statements include the accounts of Horizon Utilities Corporation and its 99.99% investment in Solar Sunbelt GP.

Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it has power over, exposure or rights to investee variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. The financial statements of the subsidiaries are included in these consolidated financial statements from the date on which control commences until the date of which control ceases.

When the Corporation ceases to have control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any other components of equity. Any resulting gain or loss is recognized in income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

All significant inter-company accounts and transactions have been eliminated.

b. Financial instruments

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities.

These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in Note 3(g).

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

c. Inventory

Inventory, comprising material and supplies, the majority of which is consumed by the Corporation in the provision of its services, is measured at the lower of cost and net realizable value. The cost of inventory is determined on a weighted average basis and includes expenditures incurred in acquiring the material and supplies and other costs incurred in bringing them to their existing location and condition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Property, plant and equipment

Property, plant and equipment ("PP&E") are measured at historical cost or deemed cost, less accumulated depreciation and accumulated impairment losses, if any. Where an item is transferred from customers, it is measured at fair value at the date of transfer less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes contracted services, materials and transportation, direct labour, directly attributable overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset using the weighted average cost of debt incurred on the Corporation's external borrowings. Qualifying assets are considered to be those that take more than twelve months to construct.

In circumstances where parts of an item of PP&E have different useful lives, such are accounted for as separate items (major components) of PP&E.

Major spare parts and standby equipment are recognized as items of PP&E.

The cost of replacing part of an item of PP&E 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 PP&E are recognized in net income as incurred.

Depreciation is recognized in net income on a straight-line basis over the estimated useful life of each part or component of an item of PP&E.

Land is not depreciated.

Construction-work-in-progress assets are not amortized until the project is complete and available for use. The estimated useful lives for the current and comparative years are as follows:

Buildings	30 - 40 years
Distribution system equipment	15 - 70 years
Other PP&E	3 - 15 years
Leasehold improvements	Over lease term

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.

Other PP&E includes vehicles, office, and computer equipment.

Gains and losses on disposal of an item of PP&E are recognized in income and determined by the difference between proceeds from disposal and the carrying amount of PP&E.

Depreciation methods, useful lives and residual values, if any, are reviewed at each reporting date and adjusted prospectively.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Intangible assets

Intangible assets include computer software and capital contributions paid under capital cost recovery agreements.

Computer software is measured at historical cost or deemed cost less accumulated amortization. All other computer software that is acquired or developed by the Corporation, including software that is not integral to the functionality of equipment purchased, which has finite useful lives, is measured at cost less accumulated amortization.

Amortization is recognized in net income on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives of intangible assets are as follows:

Computer software	2 - 5 years
Capital contributions under capital cost recovery agreements	16 - 25 years

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

f. Goodwill

Goodwill arising on the acquisition of subsidiaries or on amalgamation is measured at cost and is not amortized.

g. 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. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

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

ii. Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than inventory and deferred payments in lieu of income taxes assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, then the recoverable amount of the asset is estimated. The recoverable amount of goodwill is estimated as at December 31.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Impairment (Continued)

ii. Non-financial assets (Continued)

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

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.

h. 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 rate, net of tax, that corresponds to current market assessments of the time value of money and the risks specific to the liability.

i. Employee future benefits

i. Pension Plan

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (“the Fund”) and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan as a defined benefit plan. Consequently, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income when they are due.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Employee future benefits (Continued)

ii. Other than pension

The Corporation provides its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans. These benefits are provided through a group defined benefit plan. The Corporation is the legal sponsor of the Plan. There is a policy in place to allocate the net defined benefit cost to the entities participating in the group plan. The allocation is based on the obligation attributable to the plan participants. The Corporation has incorporated its share of the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements.

The Corporation's net obligation in respect of defined benefit 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 and discounting such to determine its present value. Any unrecognized past service costs are deducted. The discount rate is the interest yield, at the reporting date, on high quality debt instruments with duration similar to the duration of the plan.

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligation and the current service costs are actuarially determined by applying the projected unit credit method and incorporate management's best estimate of certain underlying assumptions. Remeasurements arising from defined benefit plans are recognized immediately in other comprehensive income and reported in retained earnings. When the benefits of a plan are improved, these increases are recognized immediately in net income.

j. Credit support for service delivery

Credit support for service delivery represents cash deposits from electricity distribution customers as well as construction deposits.

Deposits from electricity distribution customers are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid account balances are refundable to individual customers upon termination of their electricity distribution service. In accordance with OEB regulations, customer deposits are also refundable to residential electricity distribution customers demonstrating an acceptable level of credit risk, as determined by the Corporation.

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. Cash contributions are initially recorded as credit support for service delivery, a current liability. Once the distribution system asset is completed or modified as outlined in the terms of the contract, the contribution amount is transferred to deferred revenue.

k. Deferred revenue and assets transferred from customers

Assets received as capital contributions are initially recognized at fair value, with the corresponding value of capital contribution recognized as deferred revenue.

Deferred revenue represents the Corporation's obligation to continue to provide customers access to the supply of electricity, and is amortized to income on a straight-line basis, as a component of other income from operations, over the terms of the agreements with respective customers or the economic useful life of the acquired or contributed assets, which represents the period of ongoing service to customers.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

l. Revenue

The Corporation is licensed by the OEB to distribute electricity. As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers. The Corporation has determined that it is acting as a principal for electricity distribution and therefore has presented the electricity revenues on a gross basis.

Revenue attributable to the delivery of electricity is based upon OEB-approved distribution tariff rates and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution charges, and any other regulatory charges. Revenue is recognized as electricity is delivered and consumed by customers. Electricity revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year. Revenue is measured at the fair value of the consideration received or receivable, net of sales tax.

Customer billings for Ontario debt retirement charges are recorded on a net basis as the Corporation is acting as an agent for this billing stream. The Corporation may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation ("OEFC") once each year.

Performance incentive payments under CDM programs are recognized by the Corporation when there is reasonable assurance that the program conditions have been satisfied and the incentive payments will be received.

Water billing revenue is recorded net of the water revenue paid to the City of Hamilton and is recognized in the period the billing services are rendered.

All other revenues are recorded on a gross basis and are recognized when services are rendered.

m. Leased assets

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

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

n. Finance income and finance charges

Finance income is recognized as it accrues in net income and comprises interest earned on cash and cash equivalents.

Finance charges are calculated using the effective interest rate method and are recognized as an expense unless they are capitalized as part of the cost of qualifying assets. Finance charges comprise: interest on borrowings; interest on credit support for service delivery; interest and penalties on income tax payments; and letter of credit and standby fees.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o. Payments in lieu of income taxes

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts").

Pursuant to the Electricity Act, 1998 (Ontario) ("EA"), and as a consequence of its exemption from income taxes under the Tax Acts, the Corporation is required to make payments in lieu of income taxes ("PILs") to the OEFC. These payments are calculated in accordance with the Tax Acts. These amounts are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC.

PILs comprises current and deferred payments in lieu of income tax. PILs is recognized in income and loss except to the extent that it relates to items recognized directly in either comprehensive income or in equity, in which case, it is recognized in comprehensive income or in equity.

Current PILs is the expected amount of cash taxes 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.

Deferred PILs comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred PILs assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred PILs assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

A deferred PILs asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred PILs assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

p. Set-off and reporting on a net basis

Assets and liabilities and income and expenses are not offset and reported on a net basis unless required or permitted by IFRS. Offsetting is permitted for financial assets and financial liabilities 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.

q. Future changes in accounting policy and disclosures

The Corporation is evaluating the adoption of the following new and revised standards along with any subsequent amendments.

Revenue Recognition

In July 2015, the IASB announced a one-year deferral of the Revenue from Contracts with Customers ("IFRS 15") effective date. IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and various interpretations and establishes principles regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The standard requires entities to recognize revenue for the transfer of goods or services to customers measured at the amounts an entity expects to be entitled to in exchange for those goods or services. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Corporation is assessing the impact of IFRS 15 on its results of operations, financial position, and disclosures.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

q. Future changes in accounting policy and disclosures (Continued)

Financial Instruments

In July 2014, the IASB issued a new standard, IFRS 9 Financial Instruments, which will replace IAS 39 Financial Instruments: Recognition and Measurement. The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is part of the first phase of this project. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. The Corporation is assessing the impact of IFRS 9 on its results of operations, financial position, and disclosures.

Property, Plant, and Equipment and Intangible Assets

In May 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* and IAS 38 *Intangible Assets,* which are effective for years beginning on or after January 1, 2016. The amendments clarify when revenue-based depreciation methods are permitted. The Corporation is assessing the impact of the amendments on its results of operations, financial positions, and disclosures.

Leases

In January 2016, IASB issued IFRS 16 to establish principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 replaces IAS 17 and it is effective for annual periods beginning on or after January 1, 2019. The Corporation is assessing the impact of IFRS 16 on its results of operations, financial positions, and disclosures.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of overnight deposits in a Canadian Schedule A bank.

5. INVENTORY

During fiscal year 2015, an amount of $16 (2014 - $32) was recorded as an expense for the write-down of obsolete or damaged inventory to net realizable value.

The amount of inventory consumed by the Corporation and recognized as an expense during 2015 was $539 (2014 - $406).

(stated in thousands of Canadian dollars)

6. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Other distribution system equipment	Other PP&E	Construction work-in-progress	Total
Cost or deemed cost					
Balance at January 1, 2015	27,274	424,842	29,633	6,152	487,901
Additions	4,182	35,882	3,196	(429)	42,831
Disposals	(340)	(6,120)	—	—	(6,460)
Balance at December 31, 2015	31,116	454,604	32,829	5,723	524,272
Balance at January 1, 2014	22,386	396,561	26,376	5,357	450,680
Additions	4,888	30,181	3,289	795	39,153
Disposals	—	(1,900)	(32)	—	(1,932)
Balance at December 31, 2014	27,274	424,842	29,633	6,152	487,901
Accumulated amortization					
Balance at January 1, 2015	4,873	49,634	14,457	—	68,964
Additions	1,292	15,965	4,118	—	21,375
Disposals	(340)	(4,173)	—	—	(4,513)
Balance at December 31, 2015	5,825	61,426	18,575	—	85,826
Balance at January 1, 2014	3,698	36,120	10,501	—	50,319
Additions	1,175	13,703	3,980	—	18,858
Disposals	—	(189)	(24)	—	(213)
Balance at December 31, 2014	4,873	49,634	14,457	—	68,964
Carrying amounts					
December 31, 2015	25,291	393,178	14,254	5,723	438,446
December 31, 2014	22,401	375,208	15,176	6,152	418,937

During the year, borrowing costs of $88 (2014 - $111) were capitalized as part of the cost of property, plant and equipment. A capitalization rate of 3.42% (2014 - 3.42%) was used to determine the amount of borrowing costs to be capitalized.

The net carrying amount of leased equipment is $463 (2014 - $343).

(stated in thousands of Canadian dollars)

7. INTANGIBLE ASSETS

	Capital contributions under CCRA	Computer software	Total
Cost or deemed cost			
Balance at January 1, 2015	12,420	13,694	26,114
Other additions	6,626	1,957	8,583
Balance at December 31, 2015	19,046	15,651	34,697
Balance at January 1, 2014	12,420	8,998	21,418
Other additions	—	4,696	4,696
Balance at December 31, 2014	12,420	13,694	26,114
Accumulated amortization			
Balance at January 1, 2015	1,455	6,984	8,439
Other additions	798	2,181	2,979
Balance at December 31, 2015	2,253	9,165	11,418
Balance at January 1, 2014	733	5,318	6,051
Other additions	722	1,666	2,388
Balance at December 31, 2014	1,455	6,984	8,439
Carrying amounts			
December 31, 2015	16,793	6,486	23,279
December 31, 2014	10,965	6,710	17,675

8. GOODWILL

Management has determined that the Corporation's rate-regulated operations are one cash-generating unit. As the goodwill corresponds to the rate-regulated operations, the goodwill was allocated to that cash-generating unit. The Corporation performed an impairment test as at December 31, 2015 based on an estimate of the Corporation's fair value less selling costs. Fair value selling costs was determined using a multiple of regulated rate base approach and was based on the following key assumptions:

- The multiple of rate base approach is a valuation technique used in the industry for purchase and sale transactions. A multiple is applied to the rate base of regulated assets to determine the value of the utility;
- The multiple of rate base is a key assumption in the determination of fair value less selling costs. Management utilized a range of multiples in the analysis to determine the recoverable amount of goodwill;

  The multiple of rate base used ranged from 1.35 to 1.45;
- Management obtained information regarding multiples used for recent purchase and sale transactions within the industry;
- The fair value estimate is categorized as a Level 2 input.

The recoverable amount of goodwill determined in the analysis was greater than the carrying value and no impairment was recorded.

(stated in thousands of Canadian dollars)

9. PAYMENTS IN LIEU OF INCOME TAXES

The provision for payments in lieu of income taxes recognized in income is as follows:

	2015	2014
Current PILs:		
Current year	4,210	4,282
Deferred PILs:		
Origination and reversal of temporary differences	3,208	(2,444)
Provision for payments in lieu of income taxes	7,418	1,838

Reconciliation of effective tax rate

PILs varies from amounts which would be computed by applying the Corporation's combined statutory income tax rate as follows:

	2015	2014
Basic rate applied to income before payments in lieu of income taxes	26.5%	26.5%
(Decrease) increase in PILs resulting from:		
Items not deductible for tax purposes and other	(3.5%)	4.3%
Effective rate applied to income before payments in lieu of income taxes	23.0%	30.8%

Deferred payments in lieu of income taxes balances

Significant components of the Corporation's deferred payments in lieu of income taxes balances are as follows:

	2015	2014
Deferred PILs assets:		
Property, plant and equipment and intangibles	4,228	3,747
Employee benefits	9,074	8,989
Obligations under capital cost recovery agreement	2,015	2,650
Regulatory assets	—	2,771
Deferred PILs liabilities:		
Bond issuance costs	(103)	(80)
Regulatory liabilities	(346)	—
Net deferred PILs assets	14,868	18,077

(stated in thousands of Canadian dollars)

10. CREDIT SUPPORT FOR SERVICE DELIVERY

Credit support for service delivery represents cash deposits from electricity distribution customers and retailers, as well as construction deposits. These customer deposits bear interest at Canada's Prime Business rate less 2.0%, which is 0.7% per annum as of December 31, 2015.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Corporation in compliance with policies set by the OEB or upon termination of their electricity distribution service.

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, these deposits are transferred to deferred revenue.

	2015	2014
Customer deposits	12,429	11,698
Construction deposits	9,025	6,447
Total credit support for service delivery	21,454	18,145

11. LONG TERM BORROWINGS

Long term borrowings comprise promissory notes and finance lease liability.

	2015	2014
Promissory note payable to Horizon Holdings bearing interest at 4.89% and due July 21, 2020	40,000	40,000
Promissory note payable to Horizon Holdings bearing interest at 3.033% and due July 25, 2022	150,000	150,000
Finance lease liability	458	294
Transaction costs on promissory note payable to Horizon Holdings bearing interest at 3.033% and due July 25, 2022	(857)	(857)
Net long term borrowing	189,601	189,437
Accreted interest	295	209
Total long term borrowings	189,896	189,646
Current	143	294
Non-current	189,753	189,352
	189,896	189,646

(stated in thousands of Canadian dollars)

11. LONG TERM BORROWINGS (Continued)

Long-term borrowings comprise two promissory notes payable to Horizon Holdings Inc.:

i. $40,000 (2014 - $40,000) bearing interest at 4.89% per annum which is payable semi-annually on January 21 and July 21. This promissory note is unsecured and matures on July 21, 2020.

ii. $150,000 (2014 - $150,000) bearing interest at 3.033% per annum which is payable semi-annually on January 25 and July 25. This promissory note is unsecured and matures on July 25, 2022.

The Corporation paid interest in respect of the promissory notes payable of $6,506 (2014 - $6,506).

Finance lease liability is payable as follows:

	Future minimum payments	Interest	Present value of minimum payments
Less than one year	144	1	143
Total	458	1	457

12. OBLIGATIONS UNDER CAPITAL COST RECOVERY AGREEMENTS

The Corporation is party to connection and cost recovery agreements ("CCRA(s)") with HONI. Such agreements provide for the construction by HONI of transformer stations ("TS(s)") to the distribution system for the purpose of serving the Corporation's customers, including anticipated electricity load growth.

Under the CCRAs, the Corporation is required to provide HONI with an initial capital contribution ("Initial Capital Contribution") based on the difference (the "Difference") between the total capital cost of constructing the TS and a projection of transformation revenue ("HONI Revenue") earned on the conveyance of electricity through such TS. The Difference represents a debt obligation of the Corporation based on the extent that historical actual and forecast HONI Revenue through the CCRA term is less than the amount of HONI revenue projected as a basis for the determination of the Initial Capital Contribution. Conversely, the Corporation is entitled to a rebate of the Initial Capital Contribution based on the extent that historical actual and forecast HONI Revenue through the CCRA term is greater than the amount of HONI revenue projected as a basis for the determination of the Initial Capital Contribution.

Based on a review of two CCRAs with HONI for TS facilities constructed in 2003, the Corporation estimates a shortfall to HONI for TS Revenue relative to that projected as bases for the determination of respective Initial Capital Contributions. As a result of such a shortfall and based on the terms of the CCRAs, the Corporation has recorded Obligations Under Capital Cost Recovery Agreements and a corresponding intangible asset of $10,000 as at December 31, 2012.

Based on a review of three additional CCRAs with HONI for TS facilities constructed in 2006, 2011, and 2013, the Corporation estimates additional shortfalls to HONI for TS Revenue relative to that projected as bases for the determination of respective Initial Capital Contributions. As a result of such shortfalls and based on the terms of the CCRAs, the Corporation has recorded incremental Obligations Under Capital Cost Recovery Agreements and a corresponding intangible asset of $6,626 as at August 31, 2015. Total Obligations Under Capital Cost Recovery Agreements amount to $16,626 as at December 31, 2015.

The Corporation received and accepted a settlement proposal from HONI in respect of three of the aforementioned CCRAs in the amount of $9,022. In totality, the settlement amounts for these CCRAs equaled the respective estimated shortfalls recorded as Obligations Under Capital Cost Agreements. The related payment of this settlement occurred on February 19, 2016.

In general terms, investments in regulated electricity distribution assets are recoverable from ratepayers in future rate applications based on the rate-making policies of the OEB.

(stated in thousands of Canadian dollars)

13. EMPLOYEE FUTURE BENEFITS

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. These benefits are provided through a group defined benefit plan. There is a policy in place to allocate the net defined benefit cost to the entities participating in the group plan. The allocation is based on the obligation attributable to the plan participants. The Corporation has reported its share of the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements. The accrued benefit liability and the expense for the year ended December 31, 2015 and December 31, 2014 were based on results and assumptions determined by actuarial valuation as at December 31, 2015 and December 31, 2014, respectively.

Information about the group unfunded defined benefit plan as a whole and changes in the present value of the unfunded defined benefit obligation and the accrued benefit liability are as follows:

Entire Plan

	2015	2014
Defined benefit obligation, beginning of year	29,628	22,622
Current service costs	1,805	1,626
Benefits paid during the year	(1,143)	(1,125)
Actuarial (gains) losses recognized in other comprehensive income (loss)	(338)	6,505
Defined benefit obligation, end of year	29,952	29,628

Corporation

	2015	2014
Defined benefit obligation, beginning of year	29,430	22,550
Current service costs	1,797	1,622
Benefits paid during the year	(1,128)	(1,111)
Actuarial (gains) losses recognized in other comprehensive income (loss)	(339)	6,369
Defined benefit obligation, end of year	29,760	29,430

The main actuarial assumptions underlying the valuation are as follows:

a. General inflation

The health care cost trend for prescription drugs is estimated to increase at a declining rate from 6.79% to 4% over four years. Other medical and dental expenses are assumed to increase at 4% per year.

The approximate effect on the accrued benefit obligation ("ABO") and the estimated net benefit expense if the health care trend rate assumption was increased or decreased by 1% is as follows:

	Period benefit cost	ABO
1% increase in health care trend rate	312	4,268
1% decrease in health care trend rate	(244)	(3,423)

(stated in thousands of Canadian dollars)

13. EMPLOYEE FUTURE BENEFITS (Continued)

b. Interest (discount) rate

The obligation at the period end and the present value of future liabilities were determined using a discount rate of 4.10% (2014 - 4.00%) representing an estimate of the yield on high quality corporate bonds as at the valuation date.

c. Salary levels

Future general salary and wage levels were assumed to increase at 2.50% (2014 - 2.50%) per year.

14. PENSION PLAN

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined benefit pension plan with equal contributions by the employer and its employees. In 2015, the Corporation made employer contributions of $4,121 to OMERS (2014 - $3,750). The Corporation's net benefit expense has been allocated as follows:

i. $682 (2014 - $707) capitalized as part of PP&E; and

ii. $3,237 (2014 - $3,043) charged to net income.

The Corporation estimates a contribution of $4,059 to OMERS during the next fiscal year.

15. SHARE CAPITAL

	2015	**2014**
Authorized:		
Unlimited Class A Common shares		
Unlimited Class 1 Common shares		
Issued:		
7,890 Class 1 Common shares	91,133	91,133
2,110 Class A Common shares	32,460	32,460
	123,593	123,593

Dividends

The holders of the common shares are entitled to receive dividends as declared from time to time.

The Corporation paid aggregate dividends in the year on common shares of $1.212 per share (2014 - $1.335), which amount to total dividends paid in the year of $12,119 (2014 - $13,346).

(stated in thousands of Canadian dollars)

16. DISTRIBUTION REVENUE

	2015	2014
Gross customer billings	673,809	616,606
Less: pass through charges billed by the Corporation		
Electricity charges paid through to generators	(466,739)	(429,171)
Transmission and miscellaneous charges	(68,941)	(62,030)
Market service charges	(27,752)	(28,024)
Distribution revenue	110,377	97,381

17. OTHER INCOME FROM OPERATIONS

	2015	2014
Water and waste water billing and customer charges	4,943	4,733
CDM performance incentive revenue	2,035	250
Pole and other rental income	1,542	1,423
Solar PV revenue	1,383	1,352
Collection and other service charges	1,376	1,305
Miscellaneous	1,214	984
Late payment charges	957	901
Management and other support services	772	726
Scrap sales	558	626
Other income from operations	14,780	12,300

18. FINANCE INCOME AND CHARGES

	2015	2014
Interest income on bank deposits	117	112
Finance income	117	112
Interest expense - intercompany	(6,506)	(6,505)
Interest expense	(635)	(592)
Finance charges	(7,141)	(7,097)
Net finance charges recognized in net income and comprehensive income	(7,024)	(6,985)

(stated in thousands of Canadian dollars)

19. CASH FLOW INFORMATION

The net change in other assets and liabilities comprises:

	2015	2014
Accounts receivable	(10,535)	(1,731)
Accounts receivable under common control	(551)	94
Inventory	(984)	(1,094)
Other assets	(527)	683
Accounts payable and accrued liabilities	941	6,336
Accounts payable to corporations under common control	701	1,399
	(10,955)	5,687

20. RELATED PARTY TRANSACTIONS

a. Parent and ultimate controlling party

The parent of the Corporation is HHI. The ultimate parent of the Corporation is HUC; with an effective and indirect 78.9% interest in the share capital of the Corporation. The ultimate controlling party (sole shareholder of the ultimate parent) is the City of Hamilton, which wholly owns HUC. The City of Hamilton produces financial statements that are available for public use.

b. Entity with significant influence

The City of St. Catharines exercises significant influence over the Corporation through its indirect 21.1% ownership interest in the Corporation's parent HHI.

c. Key management personnel

The key management personnel of the Corporation has been defined as members of its Executive Management team.

Key management compensation

	2015	2014
Salaries and other short-term benefits	1,939	1,691
Bonuses	500	429
Employee future benefits	23	25
Other long-term benefits	567	475
	3,029	2,620

The Corporation provides utility services to certain key management personnel. All energy charges of the Corporation to key management personnel were at prices and under terms approved by the OEB.

d. Transactions with parent

During the year the Corporation paid management, and business development services to HHI in the amount of $589 (2014 - $732).

20. RELATED PARTY TRANSACTIONS (Continued)

e. Transactions with entity with significant influence

In the ordinary course of business, the Corporation delivers electricity to the City of St. Catharines. Electricity is billed to the City of St. Catharines at prices and under terms approved by the OEB.

f. Transactions with shareholder of ultimate parent

In the ordinary course of business, the Corporation delivers electricity to the City of Hamilton. Electricity is billed to the City of Hamilton at prices and under terms approved by the OEB.

The Corporation also provides certain water and waste water billing and customer care services to the City of Hamilton. Other revenue includes $4,496 (2014 - $4,354) earned with respect to these services. Accounts payable and accrued liabilities include $13,623 (2014 - $13,657), owing to the City of Hamilton for amounts collected on behalf of the City of Hamilton.

g. Transactions with corporations under common control of the ultimate parent

Corporations under common control include all entities controlled by HUC.

The Corporation provides certain management, billing and administrative services to HUC, HCE Energy Inc., and Horizon Energy Solutions Inc.; all corporations under common control. Other revenue includes $162 (2014 - $149) earned with respect to these agreements.

h. Shareholder loans

Pursuant to a Credit Agreement dated June 30, 2013, HHI has made available a revolving line of credit up to $95,000 to the Corporation to finance general corporate requirements, capital investments, working capital requirements and prudential obligations to its subsidiaries. The Credit Agreement matures on June 30, 2017. Interest rates payable on the Credit Agreement are determined with reference to HHI's debt rating and interest is payable monthly by the 15th day of the following month.

Pursuant to a Credit Agreement dated June 30, 2013, the Corporation has made available a revolving line of credit up to $5,000 to Solar Sunbelt GP to finance general corporate requirements, working capital requirements, and capital investments. The Credit Agreement between the Corporation and Solar Sunbelt GP matures on June 30, 2017. Interest rates receivable on this Credit Agreement are based on Corporation's Credit Agreement with HHI. Interest is payable monthly by the 15th day of the following month.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value disclosure

The carrying values of cash and cash equivalents, accounts receivable, bank and bank indebtedness, accounts payable, accrued liabilities, current portion of obligations under cost recovery agreements and reimbursements from IESO approximate respective fair values because of the short maturity of these instruments. The carrying value of the credit support for service delivery approximates fair value because the amounts are payable on demand.

The fair value of the long term borrowing is $204,000. The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date.

Financial risks

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk as well as related mitigation strategies are discussed below. However, the risks described below are not exhaustive of all the risks nor will the mitigation strategies eliminate the Corporation's exposure to all risks listed.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Financial risks (Continued)

i. Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Corporation, such as cash and cash equivalents and accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Hamilton and the City of St. Catharines. One customer, the City of Hamilton, accounts for 3.74% (2014 - 3.10%) of revenue. No other single customer in either year would account for revenue in excess of 1% of the respective reported balances.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in net income. Subsequent recoveries of receivables previously recorded as impaired are credited to net income. The balance of the allowance for impairment as at December 31, 2015 is $1,750 (2014 - $1,750). An impairment loss of $1,330 was recognized during the year (2014 - $2,857).

The Corporation's credit risk associated with accounts receivable primarily corresponds to payments from distribution customers. At December 31, 2015, approximately $960 is considered 60 days past due. The Corporation has approximately 243,000 customers; the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2015, The Corporation holds security deposits from electricity distribution customers in the amount of $12,429 (2014 - $11,698).

ii. Market risk

Market risk primarily refers to the risk of loss that results from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have commodity or foreign exchange risk. The Corporation is exposed to fluctuations in interest rates as the regulated rate of return for the Corporation's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates during the rate application processes previously described in these notes. A decrease in the forecasted long-term Government of Canada bond yield used in determining the Corporation's rate of return would reduce the Distribution business results of operations at the next rate filing or annual rate adjustment if the bond yield reduction continued to that time.

iii. Liquidity risk

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to $95,000 line of credit and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The majority of accounts payable, as reported on the Statement of Financial Position, are due within 60 days.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Financial risks (Continued)

iv. Capital disclosures

The main objectives of the Corporation when managing financial capital include:

- ensuring ongoing cost effective access to such to provide adequate investment in support of its regulated electricity distribution and other businesses;
- compliance with covenants within its financial instruments;
- prudently manage its capital structure, with regard for maintaining a high level of creditworthiness;
- recover financing charges permitted by the OEB on its regulated electricity distribution business; and
- deliver reasonable returns on the investments of its shareholders.

The Corporation's definition of capital includes: shareholder's equity; indebtedness under existing credit facilities; and long-term borrowings, which includes the current portion of long term borrowings.

The OEB regulates the amount of interest on debt and MARE that may be recovered by the Corporation, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure for the Corporation may differ from the OEB deemed structure.

The Corporation has customary covenants typically associated with long-term borrowings. The Corporation is in compliance with all credit agreement covenants and limitations associated with its long-term borrowings.

22. COMMITMENTS AND CONTINGENCIES

Commitments

Contractual Obligations

Energy Conservation Agreement

On October 31, 2014, the Corporation entered into an Energy Conservation Agreement ("ECA") with the IESO. In accordance with the ECA, the Corporation was required to submit a 2015-2020 CDM Plan outlining the activities and budget by year in accordance with CDM Plan Submission and Review Criteria Rules by May 1, 2015. The Corporation's CDM Plan was submitted to the IESO on April 14, 2015. On May 29, 2015, the Corporation received approval of its 2015-2020 CDM Conservation First Plan for the period July 1, 2015 to December 31, 2020 from the IESO.

The Corporation estimates that the total cost of IESO CDM program delivery ending December 31, 2020 will be approximately $84,600. Any program costs incurred by the Corporation in excess of the pre-approved estimates are not recoverable from the IESO. The total cost of IESO CDM program delivery in 2015 was approximately $1,900, of which approximately $1,000 represents administration costs of the Corporation for program delivery. The Corporation received a one-time payment of $4,300, along with a $200 payment to cover all Conservation First Funding Program planning expenditures from the IESO. Additionally, the Corporation received, on a monthly basis, all costs associated with the prior month's expenditures for the Conservation First Funding Program from the IESO.

22. COMMITMENTS AND CONTINGENCIES (Continued)

Commitments (Continued)

Contractual Obligations (Continued)

Master Customer Demand Management Agreement

On December 16, 2014, the Corporation entered into an extension of the CDM Agreement ("Amending Agreement") with the IESO for the period January 1, 2015 to December 31, 2015 to provide funding for the delivery of CDM programs to its customers for the transition period until its 2015-2020 CDM Plan was approved by the IESO. Subject to the terms of the Amending Agreement, all IESO CDM program costs are paid by the IESO. The Corporation effectively acts as a delivery agent for those programs that it participates in under the Amending Agreement.

The Corporation is entitled to receive reimbursements of its estimated administration costs associated with each program. Any administration costs incurred by the Corporation in excess of the pre-approved estimates are not recoverable from the IESO. All other program costs incurred by the Corporation, (such as customer incentives and goods and services delivered under the programs) are recoverable from the IESO on an invoiced basis in accordance with the Amending Agreement. The Corporation received advanced program administration budget reimbursement of approximately $3,100. The total administration costs of the IESO CDM program participation in 2015 was approximately $2,500.

Contingencies

General

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

General Liability Insurance

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool, for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to 5 years. As at December 31, 2015, no assessments have been made.