



Consolidated Financial Statements of

## **ENERSOURCE CORPORATION**

Years ended December 31, 2015 and 2014



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Enersource Corporation

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

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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



March 1, 2016

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*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Enersource Corporation as at December 31, 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

March 1, 2016

Toronto, Canada

**ENERSOURCE CORPORATION**  
**Consolidated Statement of Financial Position**  
(In thousands of Canadian dollars)  
As at December 31, 2015 and 2014

	Notes	December 31, 2015	December 31, 2014
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	5	\$ -	\$ 15,322
Accounts receivable	6	66,878	59,414
Unbilled revenue		78,055	73,045
Income taxes receivable		1,504	711
Inventories	7	5,120	4,073
Prepaid expenses		2,714	2,181
Customer deposits	8	25,297	23,367
Total current assets		179,568	178,113
Non-current assets:			
Property, plant and equipment	9	606,876	556,617
Intangible assets	10	57,348	16,309
Promissory note	11	2,068	2,068
Deferred tax assets	13	10,232	16,747
Total non-current assets		676,524	591,741
<b>Total assets</b>		<b>\$ 856,092</b>	<b>\$ 769,854</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Bank overdraft	5	\$ 3,898	\$ -
Accounts payable and accrued liabilities	14	117,408	105,858
Advance payments		4,362	5,039
Customer deposits	8	25,297	23,367
Current portion of environmental provision	21	1,843	1,600
Total current liabilities		152,808	135,864
Non-current liabilities:			
Loans and borrowings	15	378,129	318,137
Deferred contributions	16	21,069	15,153
Post-employment benefits	17	7,465	7,035
Environmental provision	21	-	1,267
Total non-current liabilities		406,663	341,592
Total liabilities		559,471	477,456
Shareholders' equity:			
Share capital	18	175,691	175,691
Accumulated other comprehensive income		442	446
Retained earnings		120,488	116,261
Total shareholders' equity		296,621	292,398
<b>Total liabilities and shareholders' equity</b>		<b>\$ 856,092</b>	<b>\$ 769,854</b>

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

On behalf of the Board of Directors:

\_\_\_\_\_ Director \_\_\_\_\_ Director

# ENERSOURCE CORPORATION

## Consolidated Statement of Comprehensive Income

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

	Notes	December 31, 2015	December 31, 2014
Revenue:			
Energy sales	23	\$ 848,230	\$ 786,505
Distribution	23	123,334	111,675
Services		14,744	9,779
Other revenue	24	28,193	21,020
		1,014,501	928,979
Operating expenses:			
Energy purchases	23	844,300	801,795
Employee salaries and benefits		35,367	35,532
Materials and transportation		9,977	6,065
Contract labour		10,740	9,198
Other expenses		17,480	12,247
Conservation and demand management	24	21,311	14,546
Depreciation of property, plant and equipment	9	27,387	26,040
Amortization of intangible assets	10	4,301	3,556
		970,863	908,979
Results from operating activities		43,638	20,000
Non-operating revenue (expense):			
Interest income		810	816
Interest expense		(16,691)	(16,248)
Interest expense on accrued post-employment benefits	17	(281)	(285)
		(16,162)	(15,717)
Profit before income tax expense		27,476	4,283
Income tax expense	12	(7,221)	(869)
Profit for the year		20,255	3,414
Other comprehensive loss, net of income tax:			
Remeasurements of the defined benefit obligation	17	(5)	(639)
Income tax recovery		1	169
		(4)	(470)
<b>Total comprehensive income for the year</b>		<b>\$ 20,251</b>	<b>\$ 2,944</b>

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

# ENERSOURCE CORPORATION

## Consolidated Statement of Cash Flows

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

	Notes	December 31, 2015	December 31, 2014
Cash flows from operating activities:			
Comprehensive income for the year		\$ 20,251	\$ 2,944
Adjustments for:			
Depreciation of property, plant and equipment		27,387	26,040
Amortization of intangible assets		4,301	3,556
Amortization of deferred contributions	16	(442)	(318)
Gain on disposals of property, plant and equipment		(122)	(56)
Post-employment benefits		430	1,049
Environmental provision	21	1,235	825
Promissory note	11	-	(2,068)
Income tax expense		7,220	700
Interest income		(810)	(816)
Interest expense		16,691	16,248
Environmental expenditures	21	(2,259)	(783)
Income tax paid		(1,499)	(5,253)
Change in working capital	19	(6,697)	(5,967)
Net cash from operating activities		65,686	36,101
Cash flows from investing activities:			
Customer deposits		(1,930)	(1,447)
Interest received		686	853
Capitalized interest		411	348
Additions to property, plant and equipment		(74,288)	(51,278)
Additions to intangible assets		(45,119)	(2,699)
Additions to deferred contributions	16	6,358	4,138
Proceeds from sales of property, plant and equipment		183	131
Cash used in investing activities		(113,699)	(49,954)
Cash flows from financing activities:			
Customer deposits		1,930	1,447
Proceeds from bank loan		60,000	-
Debt issuance costs paid		(140)	-
Dividends paid	18	(16,028)	(14,571)
Interest paid		(16,969)	(16,501)
Cash from (used in) financing activities		28,793	(29,625)
Decrease in cash and cash equivalents, during the year		(19,220)	(43,478)
Cash and cash equivalents, beginning of year		15,322	58,800
Cash and cash equivalents, end of year		\$ (3,898)	\$ 15,322

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

**ENERSOURCE CORPORATION**  
**Consolidated Statement of Changes in Equity**  
(In thousands of Canadian dollars)  
Years ended December 31, 2015 and 2014

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
<b>Balance at January 1, 2015</b>	\$ 175,691	\$ 446	\$ 116,261	\$ 292,398
Profit for the year	-	-	20,255	20,255
Other comprehensive loss, net of tax	-	(4)	-	(4)
Dividends paid	-	-	(16,028)	(16,028)
<b>Balance at December 31, 2015</b>	\$ 175,691	\$ 442	\$ 120,488	\$ 296,621

  

<b>Balance at January 1, 2014</b>	\$ 175,691	\$ 916	\$ 127,418	\$ 304,025
Profit for the year	-	-	3,414	3,414
Other comprehensive loss, net of tax	-	(470)	-	(470)
Dividends paid	-	-	(14,571)	(14,571)
<b>Balance at December 31, 2014</b>	\$ 175,691	\$ 446	\$ 116,261	\$ 292,398

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

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

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## 1. General Information

### a) Corporate Information

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

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

The accompanying consolidated financial statements include the accounts of the Corporation's wholly owned subsidiaries: Enersource Hydro Mississauga Inc. ("Enersource Hydro"), Enersource Services Inc., Enersource Technologies Inc. ("Technologies") and Enersource Power Services Inc. ("Power Services"). On July 7, 2014, Enersource Hydro Mississauga Services Inc. officially changed its name to Enersource Power Services Inc.

The Corporation's consolidated financial statements are presented in thousands of Canadian dollars, which is the Corporation's functional currency.

### b) Nature of operations

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

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

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

## 2. Basis of Preparation

### a) Statement of compliance

The accompanying annual consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards ("IFRS")* as issued by the *International Accounting Standards Board ("IASB")*.

These consolidated financial statements have been approved by the Corporation's Board of Directors on March 1, 2016.



# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

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## 2. Basis of Preparation (continued)

### b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for post-employment benefits.

### c) Rate setting

Enersource Hydro, as an electricity distributor, is both licensed and regulated by the OEB, which has a legislative mandate to oversee various aspects of the electricity industry as set out by the OEB Act, 1998. The OEB's mission is to promote a viable, sustainable and efficient energy sector that serves the public interest and assists consumers to obtain reliable energy services that are cost effective.

The OEB exercises statutory authority through setting or approving all rates charged by Enersource Hydro and establishing standards of service for Enersource Hydro's customers.

The OEB's regulatory framework for electricity distributors is designed to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB typically regulates the electricity rates for distributors using a combination of cost-based and formula-based rate setting mechanisms. Currently there are three specific rate-setting methods available to electricity distributors: Price Cap Incentive Rate-setting, Custom Incentive Rate-setting, and the Annual Incentive Rate-setting Index.

The Price Cap Incentive Rate-setting method establishes rates on a single forward test-year cost of service basis and indexed for four subsequent years through a formulaic adjustment. Under this method, the Incremental Capital Module is available to address any incremental capital investment needs that may arise during the term.

The Custom Incentive Rate-setting method establishes rates for a minimum period of five years, typically on a forward test-year cost of service basis with subsequent annual adjustments determined by the OEB on a case-by-case basis.

The Annual Incentive Rate-setting Index method sets a distributor's rates through an annual adjustment mechanism.

Under each method, actual operating conditions may vary from forecasts and therefore actual returns achieved can differ from approved returns.

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

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## 2. Basis of Preparation (continued)

On August 13, 2014, Enersource Hydro submitted an annual Price Cap Incentive Rate application for distribution rates effective January 1, 2015 to December 31, 2015. The application was approved by the OEB on December 4, 2014.

On August 16, 2013, Enersource Hydro submitted an annual Price Cap Incentive Rate application to change distribution rates effective January 1, 2014. The application was approved by the OEB on December 5, 2013.

## 3. Key Accounting Judgements, Estimates and Assumptions

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and amounts reported and disclosed in the financial statements. Actual results may differ from these 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.

Key sources of estimation uncertainty and judgements at the end of the reporting period that could have a significant impact on the consolidated financial statements, relate to the following:

### a) Useful lives of depreciable assets

The Corporation relies on a third party independent study to componentize and determine the estimated useful lives of its distribution system assets. The useful life values from the study were derived from industrial statistics, research studies, reports and past utility experience. Actual lives of assets may vary from estimated useful lives.

### b) Post-employment benefits other than pensions

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

### c) Accounts receivable impairment

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

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

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## 3. Key Accounting Judgements, Estimates and Assumptions (continued)

### d) Unbilled revenue

Unbilled revenue is based on either the actual usage at the end of the period or an estimate of unbilled electricity distribution services supplied to customers between the date of the last meter reading and the period ending date. The Corporation applies judgement to the measurement of the estimated consumption and to the valuation of that consumption.

### e) Connection and cost recovery agreements

The Corporation is party to connection and cost recovery agreements ("CCRA") with Hydro One Networks Inc. ("Hydro One") as regulated by the OEB under the Transmission System Code ("TSC"). The economic evaluation methodology, as described within the TSC, determines the capital contribution amount which represents the difference between the total capital cost of constructing and operating the transmission facility and the future revenues earned by Hydro One through such facility. Management estimates the future electricity consumption through the facility, which in turn impacts the economic evaluation and the resulting capital contribution. Periodic true-up calculations are carried at the end of each of the fifth, tenth and possibly the fifteenth year of operation of the facility. Actual electricity consumption could significantly impact the outcome of these true-ups.

## 4. Significant Accounting Policies

### a) Financial instruments

All financial assets of the Corporation are classified as loans and receivables and all financial liabilities are classified as other financial liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently they are accounted for based on their classification as following:

#### *i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less any provision for impairment.

Financial assets are assessed at each reporting period to determine whether there is any objective evidence that they are impaired. Impairment provisions are recognized when there is objective evidence that the Corporation will be unable to collect all of the amounts due under the terms receivable. The impairment loss is calculated as the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. All impairment losses are recognized in net income.

Loans and receivables are comprised of cash and cash equivalents, accounts receivable, promissory note, unbilled revenue, and customer deposits.

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

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## 4. Significant Accounting Policies (continued)

### *ii) Other financial liabilities*

Financial liabilities are classified as other liabilities. They are initially recognized at fair value plus transaction costs that are directly attributable to their issue, and are subsequently carried at amortised cost using the effective interest rate method. Financial liabilities are further classified as current or non-current depending on whether they are due within twelve months of the reporting date.

Other financial liabilities are comprised of accounts payable and accrued liabilities, loans and borrowings and deposits payable.

### b) Inventories

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

Inventory is carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence. Cost is comprised of the purchase price and other directly attributable expenditures to bring the inventories to their present condition and location.

### c) Customer deposits

Customers may be required to post security to obtain electricity or other services, which are interest bearing and refundable on demand. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded as customer deposits and are reported separately from the Corporation's own cash and cash equivalents.

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

PP&E is measured at cost less accumulated depreciation and impairment losses. Cost includes all directly attributable expenditures to acquire and bring the asset into operation including labour, employee benefits, materials and transportation costs, contracted services and borrowing costs where applicable. Subsequent expenditures are included in an asset's carrying amount or recognized as a separate asset, where appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be reliably measured. All other subsequent expenditures, including the costs of day-to-day servicing, repairs and maintenance, are expensed as incurred. Major spare parts and standby equipment are accounted for as PP&E since they support the Corporation's distribution system reliability.

An asset is derecognized at its carrying value when it is disposed of or when no future economic benefits are expected from its use. The gain or loss arising on the disposal or retirement of an item of PP&E is determined as the difference between the proceeds from sale and the carrying amount of the asset, and is recognized in the statement of comprehensive income.

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

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## 4. Significant Accounting Policies (continued)

Depreciation of PP&E is recorded in the statement of comprehensive income on a straight-line basis over the estimated useful life of each component of PP&E. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

Distribution system	10 - 55 years
Distribution station equipment	40 years
Other PP&E	3 - 25 years
Buildings and fixtures	20 - 60 years
Land	Indefinite life

Assets under construction and spare parts accounted as PP&E, which are not available for use, are not depreciated.

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

### e) Intangible assets

Intangible assets include easements, capital contributions and computer software.

Easements are measured at cost and are held in perpetuity. Since there is no foreseeable limit to the period over which these easements are expected to provide benefit to the Corporation, they have been assessed as having indefinite useful lives and are not amortized.

Capital contributions represent payments made to Hydro One Networks Inc. ("Hydro One") for building dedicated infrastructure to accommodate the Corporation's distribution system requirements. The contributions are measured at cost less accumulated amortization.

Computer software is measured at cost less accumulated amortization and impairment losses. Cost includes expenditures associated with the initial acquisition or development and other directly attributable expenditures to prepare the asset for its intended use.

Computer software and capital contributions are amortized on a straight line basis over the estimated useful life of the related asset from the date that they are available for use. The estimated useful lives and amortization methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Software in development and contributions for work in progress are not amortized.

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

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## 4. Significant Accounting Policies (continued)

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

Easements	Indefinite
Capital contributions	45 years
Computer software	2 - 10 years

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### f) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is tested and assessed.

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

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

An impairment charge may be reversed only if there is objective evidence that a change in the estimate used to determine the asset's recoverable amount since the last impairment was recognized is warranted. A reversal of an impairment charge is recognized immediately in the statement of comprehensive income.

### g) Regulatory accounting

On January 30, 2014, the IASB issued interim standard *IFRS 14, Regulatory Deferral Accounts*. This standard allows first-time adopters of IFRS to apply previous Generally Accepted Accounting Principles to account for rate-regulated assets and liabilities. As the Corporation is not a first-time adopter, it does not recognize assets and liabilities arising from rate regulated activities. Instead, the Corporation records revenues in accordance with its revenue recognition policy and expenses as operating costs when incurred. Regulatory balances that have an effect on comprehensive income under IFRS are disclosed in Note 23.

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

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## 4. Significant Accounting Policies (continued)

### h) Revenue recognition

The Corporation's principal sources of revenue are:

#### *(i) Energy sales and distribution revenue*

Energy sales and distribution revenue are recorded on the basis of cyclical billings based on electricity usage and include unbilled revenue for electricity consumed but not yet billed. The unbilled revenue accrual for the period is based on estimated energy consumption. Energy sales are recognized based on OEB and Independent Electricity System Operator's ("IESO") prevailing energy rates and electricity consumed by customers. Distribution revenue attributable to the delivery of electricity is recognized based upon OEB-approved distribution rates and estimated electricity consumed by the customers.

#### *(ii) Services revenue*

Services revenue, related to the non-regulated operations, is recognized as services are rendered or contract milestones are achieved. Amounts received in advance of these milestones are presented as advance payments.

#### *(iii) Other revenue*

Other revenue includes government grants under Conservation and Demand Management ("CDM") programs, amortization of customer contributions and other general revenue.

Government grants under CDM programs are recognized when there is reasonable assurance that the grant will be received and all related conditions will be met. Grants are recognized as income on a systematic basis over the period to match to the costs they are intended to compensate. Cost efficiency incentives related to CDM programs are recognized when it is probable that future economic benefits will flow to the Corporation, and the amount can be measured reliably.

The Corporation receives customer contributions to construct certain items of PP&E. These customer contributions are recorded as deferred contributions and amortized into income over the life of the related asset.

Other general revenues are recognized as the services are rendered.

### i) Deferred debt issue costs

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

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

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## 4. Significant Accounting Policies (continued)

### j) Employee benefits

#### (i) Short-term employee benefits

The Corporation provides short-term employee benefits such as salaries, employment insurance, short-term compensated absences, health and dental care. Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as the related service is provided. Short-term employee benefits are recognized as an expense unless they qualify for capitalization as part of an item of PP&E or intangible asset.

#### (ii) Defined benefit pension plan

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

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

#### (iii) Post-employment benefits

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

Remeasurements of the net defined benefit liability, which are comprised of actuarial gains and losses, are recognized immediately in the statement of financial position with a charge or credit to other comprehensive income. Current service costs are recognized in the statement of comprehensive income under employee salaries and benefits and net interest expense on accrued post-employment benefits are presented as a separate line in the statement of comprehensive income. The Corporation accumulates remeasurements of the defined benefit obligation and transfers them to retained earnings upon OEB's review and approval.



# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

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## 4. Significant Accounting Policies (continued)

### k) Deferred customer contributions

Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers when the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements.

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

### l) Income taxes

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes ("PILs") to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada), the Taxation Act, 2007 (Ontario), as modified by the Electricity Act, 1998, and related regulations. References in these financial statements to income taxes are with respect to PILs.

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

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

Current taxes are based on taxable profit or loss for the year, which differ from profit or loss as reported in the consolidated statement of comprehensive income because it excludes items that are taxable or deductible in other years and items that are neither taxable nor deductible. The Corporation's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

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

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

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## 4. Significant Accounting Policies (continued)

### m) Foreign currency translation

Transactions in foreign currencies are translated to Canadian dollars at the prevailing rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing period-end rates. Exchange gains or losses are recognized as income in the period in which they arise.

### n) Leases

Leases are classified as finance leases, whenever terms of the lease transfer substantially all the risks and rewards of the ownership to the lessee. All other leases are classified as operating leases.

Operating leases payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

### o) Provisions and contingencies

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

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

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

### p) Consolidation

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

### q) New standards and interpretations not yet adopted

Certain new or amended standards issued by the IASB do not have to be adopted in the current period. The standards that the Corporation anticipates might have an impact on its consolidated financial statements or note disclosures are described below.

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

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## 4. Significant Accounting Policies (continued)

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. The standard is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. IFRS 15 is available for early adoption. The purpose of this standard is to remove inconsistencies and weaknesses in previous revenue requirements, improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, and to simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. The Corporation is currently evaluating the impact of the new standard.

In July 2014, the IASB issued IFRS 9 *Financial Instruments* which replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard provides revised guidance on the classification and measurement of financial assets, including impairment, and supplements the new hedge accounting principles published in 2013 as part of IFRS 9. The standard is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. IFRS 9 is available for early adoption. The Corporation is currently evaluating the impact of the new standard.

In December 2014, the IASB issued Amendments to IAS 1 *Presentation of Financial Statements* as part of their Disclosure Initiative. These amendments improve the existing presentation and disclosure requirements and ensure that entities are able to use judgement when applying those requirements. These amendments are effective for annual periods beginning on or after January 1, 2016 and are available for earlier application. The Corporation is currently evaluating the impact of these amendments.

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces the IAS 17 *Leases* and related interpretations. IFRS 16 establishes the 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. The new standard brings most leases on-balance sheet for leases under a single model, eliminating the distinction between operating and finance leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Earlier application is permitted if IFRS 15 *Revenue from Contracts with Customers* has also been applied. The Corporation is currently evaluating the impact of the new standard.

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

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## 5. Cash and Cash Equivalents

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

	December 31, 2015	December 31, 2014
Cash	\$ -	\$ 4,730
Short term investments	-	10,592
Total cash and cash equivalents	\$ -	\$ 15,322

There are no restrictions, pledges or limitations to the use of the cash and cash equivalents, except for \$385 (December 31, 2014 - \$10,520) posted as letters of credit.

As at December 31, 2015, the Corporation had a bank overdraft of \$3,898 (December 31, 2014 - \$nil).

## 6. Accounts Receivable

The components of accounts receivable are as follows:

	December 31, 2015	December 31, 2014
Trade receivables	\$ 53,014	\$ 53,335
Less: allowance for doubtful accounts	(1,791)	(1,928)
Trade receivables, net	\$ 51,223	\$ 51,407
Receivables due from related parties (Note 20)	4,330	4,406
Other receivables	11,325	3,601
Total accounts receivable, net	\$ 66,878	\$ 59,414
Of which:		
Not yet due (less than 16 days)	\$ 49,934	\$ 36,539
Past due 1 day but not more than 14	9,183	16,163
Past due 15 days but not more than 44	6,540	5,394
Past due 45 days but not more than 74	1,314	1,516
Past due 75 days but not more than 104	686	651
Past due more than 104 days	1,012	1,079
Less: allowance for doubtful accounts	(1,791)	(1,928)
Total accounts receivable, net	\$ 66,878	\$ 59,414

The allowance for doubtful accounts as at December 31, 2015 was 2.6% (December 31, 2014 – 3.1%) of the total accounts receivable which includes accounts receivable that are not yet due or past due, that the Corporation has deemed to be impaired.

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

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## 7. Inventories

The amount of inventory consumed by the Corporation and recognized as an expense during 2015 was \$2,086 (2014 – \$2,155). The amount of inventory that was written down due to obsolescence in 2015 was \$1 (2014 - \$nil).

## 8. Deposits and Guarantees

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

	December 31, 2015	December 31, 2014
Customer deposits (a)	\$ 25,297	\$ 23,367
Security with the IESO (b)	11,450	11,450
Security with the City of Brampton (c)	35	10,170
Security with the City of Mississauga (d)	350	350
	<u>\$ 37,132</u>	<u>\$ 45,337</u>

### (a) Customer deposits

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

### (b) Security with the IESO

Entities that purchase electricity in Ontario through the IESO are required to post security to mitigate the risk of their default on their expected activity in the market. The IESO could draw on this security if the Corporation fails to make the payment required by a default notice issued by the IESO. The Corporation has posted a letter of credit as security in the amount of \$11,450 as at December 31, 2015 (December 31, 2014 - \$11,450).

### (c) Security with the City of Brampton

The Corporation has posted letters of credit in the amount of \$35 as at December 31, 2015 (December 31, 2014 - \$10,170) relating to contracts with the City of Brampton to provide routine and emergency maintenance of street lighting and related services. The City of Brampton could draw on this security by issuing a certificate demonstrating that the Corporation has failed to fulfill its obligations related to these contracts.

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

## 8. Deposits and Guarantees (continued)

(d) Security with the City of Mississauga

The Corporation has posted a letter of credit in the amount of \$350 as at December 31, 2015 (December 31, 2014 - \$350) relating to a contract with the City of Mississauga for the installation of Light Emitting Diode streetlight luminaires and monitoring system components. The City of Mississauga could draw on this security by issuing a certificate demonstrating that the Corporation has failed to fulfill its obligations related to this contract.

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

PP&E consists of the following as at December 31, 2015:

	December 31, 2014	Additions/ Depreciation	Disposals/ Retirements	December 31, 2015
<b>Cost</b>				
Distribution system	\$ 453,324	\$ 57,633	\$ (1,474)	\$ 509,483
Distribution station equipment	62,575	5,029	(252)	67,352
Other PP&E	74,262	9,271	(2,281)	81,252
Buildings and fixtures	38,228	2,522	-	40,750
Land	9,879	-	(26)	9,853
Construction in progress	5,504	3,252	-	8,756
Subtotal	\$ 643,772	\$ 77,707	\$ (4,033)	\$ 717,446
<b>Accumulated depreciation</b>				
Distribution system	\$ (53,081)	\$ (15,242)	\$ 325	\$ (67,998)
Distribution station equipment	(7,130)	(2,030)	33	(9,127)
Other PP&E	(23,165)	(7,228)	2,127	(28,266)
Buildings and fixtures	(3,779)	(1,400)	-	(5,179)
Land	-	-	-	-
Subtotal	\$ (87,155)	\$ (25,900)	\$ 2,485	\$ (110,570)
Carrying amount	\$ 556,617	\$ 51,807	\$ (1,548)	\$ 606,876

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

## 9. PP&E (continued)

PP&E consists of the following as at December 31, 2014:

	December 31, 2013	Additions/ Depreciation	Disposals/ Retirements	December 31, 2014
<b>Cost</b>				
Distribution system	\$ 417,267	\$ 37,372	\$ (1,315)	\$ 453,324
Distribution station equipment	58,969	3,852	(246)	62,575
Other PP&E	71,665	4,824	(2,227)	74,262
Buildings and fixtures	34,041	4,187	-	38,228
Land	9,879	-	-	9,879
Construction in progress	4,944	560	-	5,504
Subtotal	\$ 596,765	\$ 50,795	\$ (3,788)	\$ 643,772
<b>Accumulated depreciation</b>				
Distribution system	\$ (38,999)	\$ (14,331)	\$ 249	\$ (53,081)
Distribution station equipment	(5,238)	(1,925)	33	(7,130)
Other PP&E	(18,067)	(7,081)	1,983	(23,165)
Buildings and fixtures	(2,525)	(1,254)	-	(3,779)
Land	-	-	-	-
Subtotal	\$ (64,829)	\$ (24,591)	\$ 2,265	\$ (87,155)
Carrying amount	\$ 531,936	\$ 26,204	\$ (1,523)	\$ 556,617

The carrying amount of PP&E, that have been derecognized before the end of their estimated useful lives and have been recorded as depreciation expense in the statement of comprehensive income, was \$1,487 in 2015 (2014 - \$1,449).

As at December 31, 2015, major spare parts included as PP&E were \$8,754 (December 31, 2014 – \$5,018).

During the year, borrowing costs of \$329 (2014 - \$304) were capitalized to PP&E and recorded as an offset to interest expense, with an average capitalization rate of 4.465% (2014 – 5.091%). During the year, the Corporation has included \$3,419 (2014 - \$483) of accrued liabilities in the additions to PP&E.

PP&E purchase commitments outstanding as at December 31, 2015 were \$9,628 (December 31, 2014 - \$9,366).

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

## 10. Intangible Assets

Intangible assets consist of the following as at December 31, 2015:

	December 31, 2014	Additions/ Amortization	Disposals/ Retirements	December 31, 2015
<b>Cost</b>				
Computer software	\$ 25,785	\$ 5,699	\$ (456)	\$ 31,028
Easements	583	158	-	741
Capital contributions	-	40,479	-	40,479
Software in development	1,616	(996)	-	620
Subtotal	\$ 27,984	\$ 45,340	\$ (456)	\$ 72,868
<b>Accumulated amortization</b>				
Computer software	\$ (11,675)	\$ (3,795)	\$ 456	\$ (15,014)
Easements	-	-	-	-
Capital contributions	-	(506)	-	(506)
Software in development	-	-	-	-
Subtotal	\$ (11,675)	\$ (4,301)	\$ 456	\$ (15,520)
Carrying amount	\$ 16,309	\$ 41,039	\$ -	\$ 57,348

Intangible assets consist of the following as at December 31, 2014:

	December 31, 2013	Additions/ Amortization	Disposals/ Retirements	December 31, 2014
<b>Cost</b>				
Computer software	\$ 23,717	\$ 2,087	\$ (19)	\$ 25,785
Easements	565	18	-	583
Software in development	1,186	430	-	1,616
Subtotal	\$ 25,468	\$ 2,535	\$ (19)	\$ 27,984
<b>Accumulated amortization</b>				
Computer software	\$ (8,138)	\$ (3,556)	\$ 19	\$ (11,675)
Easements	-	-	-	-
Subtotal	\$ (8,138)	\$ (3,556)	\$ 19	\$ (11,675)
Carrying amount	\$ 17,330	\$ (1,021)	\$ -	\$ 16,309

During the year, borrowing costs of \$82 (2014 - \$44) were capitalized to intangible assets and recorded as an offset to interest expense, with an average capitalization rate of 4.465% (2014 – 5.091%). During 2015, the Corporation has included \$221 (2014 - \$164) of accrued liabilities in the additions to intangible assets.

Intangible asset purchase commitments outstanding as at December 31, 2015 were \$547 (December 31, 2014 - \$710).



# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

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Years ended December 31, 2015 and 2014

## 11. Promissory Note Receivable

The Corporation holds a promissory note of \$2,068 from Trans Power Holding Inc. relating to the sale of its investment in Enerpower Utility Inc. The promissory note, which matures on February 15, 2020, bears a fixed annual interest rate of 6.25%, with payments due annually. The promissory note is open for repayment at any time without notice, bonus or penalty. The current portion of the promissory note, expected to be received within twelve months, is \$204. Interest income included in current year's revenue and presented as interest income is \$129 (December 31, 2014 – \$nil).

## 12. Income Taxes

The components of income tax expense for the years ended December 31, 2015 and 2014 were as follows:

	December 31, 2015	December 31, 2014
<i>Current income tax expense (recovery):</i>		
Expense for the year	\$ 1,394	\$ 4,611
Utilization of future timing differences in the current year	(689)	(558)
Total current Income tax expense	705	4,053
<i>Deferred income tax expense (recovery):</i>		
Reversal of temporary differences	5,874	(3,733)
Reduction of future timing differences	642	549
Total deferred Income tax expense (recovery)	6,516	(3,184)
Total income tax expense	\$ 7,221	\$ 869

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

	December 31, 2015	December 31, 2014
Federal and Ontario statutory income tax rate	26.50%	26.50%
Profit before provision for income taxes	\$ 27,476	\$ 4,283
Provision for income taxes at statutory rate:	7,281	1,135
<i>Increase (decrease) resulting from:</i>		
Non-taxable portion of capital gain	-	(274)
Other differences between accounting net income and net income for tax purposes	(60)	8
Provision for income taxes	\$ 7,221	\$ 869
Effective income tax rate	26.28%	20.29%

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

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Years ended December 31, 2015 and 2014

## 13. Deferred Tax Assets

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The net deferred tax asset consists of the following:

	December 31, 2015	December 31, 2014
PP&E and intangible assets	\$ 7,025	\$ 11,385
Energy variances	1,021	2,907
Post-employment benefits	1,978	1,865
Unutilized tax loss	113	213
Other temporary differences	95	377
Net deferred income tax assets	10,232	\$ 16,747

At December 31, 2015, the Corporation has non-capital loss carry forwards totalling \$429 (2014 - \$803), which expires in 2034.

Deferred tax assets have been recognized to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilized. The Company has recognized deferred tax assets in the amount of \$275 (2014 – \$279) the utilization of which is dependent on future taxable profits. The recognition of these deferred tax assets is based on taxable income forecasts that incorporate existing circumstances that will result in positive taxable income against which non-capital loss carry-forwards can be utilized.

## 14. Accounts Payable and Accrued Liabilities

The components of accounts payable and accrued liabilities are as follows:

	December 31, 2015	December 31, 2014
Amounts due to the IESO for energy purchases	\$ 76,672	\$ 72,601
Trade payables due to related parties (Note 20)	61	88
Other trade payables	8,414	4,843
Accrued expenses	17,706	18,463
Other non-trade payables	14,555	9,863
Total accounts payable and accrued liabilities	\$ 117,408	\$ 105,858

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

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## 15. Loans and Borrowings

### a) Debentures Payable

	December 31, 2015	December 31, 2014
4.52 % Series A Debentures due April 29, 2021	\$ 110,000	\$ 110,000
Deferred debt issue cost (net of accumulated amortization of \$326) (December 31, 2014 - \$251)	(465)	(540)
5.30 % Series B Debentures due April 29, 2041	210,000	210,000
Deferred debt issue cost (net of accumulated amortization of \$103) (December 31, 2014 - \$79)	(1,299)	(1,323)
Net debentures payable	\$ 318,236	\$ 318,137

Interest expenses, relating to the debentures, for the year ended December 31, 2015 were \$16,097 (December 31, 2014 - \$16,097). The amortization of the debt issue cost for the year ended December 31, 2015 was \$100 (December 31, 2014 - \$95).

At any time prior to the respective maturity dates set out in the table, the debentures are redeemable at the Corporation's option, on not fewer than 30 and not more than 60 days' prior notice. The redemption price is equal to the greater of par and the Canada Yield Price (as determined by the terms of the debenture), plus all accrued and unpaid interest up to but excluding the redemption date.

The debentures contain customary covenants and events of default that restrict the ability of the Corporation to create security interests, limit additional indebtedness or dispose of all or substantially all of their assets. The Corporation is limited to not issue, incur or become liable for obligations that exceed 75% of the total consolidated capitalization. As at December 31, 2015 the Corporation is in compliance with all debenture agreement covenants and limitations.

### b) Bank Loan

	December 31, 2015	December 31, 2014
Bank loan	\$ 60,000	\$ -
Deferred debt issue cost (net of accumulated amortization of \$33) (December 31, 2014 - nil)	(107)	-
Net bank loan	\$ 59,893	\$ -

The Corporation entered into a credit facility agreement with a Canadian chartered bank and utilized the full amount of \$60,000 in the third quarter of 2015. This credit facility bears a variable interest rate based on the Canadian Dollar Offered Rate plus a margin. The weighted average interest rate for the period ended December 31, 2015 was 1.01% (December 31, 2014 - nil). As set forth in the credit agreement, this facility will be converted to a fixed rate term loan, with a maturity date no earlier than April 29, 2017.

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

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## 15. Loans and Borrowings (continued)

Interest expenses, relating to this loan, for the year ended December 31, 2015 were \$226 (December 31, 2014 - \$nil). The amortization of the loan issue cost for the year ended December 31, 2015 was \$33 (December 31, 2014 - \$nil).

The credit facility contains customary representations, warranties and covenants, including maintaining at all times a ratio of consolidated debt to total capital of not greater than 0.75:1, calculated at the end of each financial quarter on a rolling four quarter basis. As at December 31, 2015 the Corporation is in compliance with all credit agreement covenants and limitations.

## 16. Deferred Contributions

The continuity of deferred contributions is as follows:

	December 31, 2015	December 31, 2014
Deferred contributions, net, beginning of year	\$ 15,153	\$ 11,333
Additions to deferred contributions	6,358	4,138
Contributions recognized as revenue	(442)	(318)
Deferred contributions, net, end of year	\$ 21,069	\$ 15,153

## 17. Post-employment Benefits

The Corporation's retirement plan is comprised of a defined contribution plan. In addition, the Corporation provides other post-employment benefits such as primarily life insurance, health and dental coverage, on a shared basis.

### a) OMERS pension plan

The most recently available OMERS annual report is for the year ended December 31, 2014 which reported that the plan was 90.8% (December 31, 2013 – 88.2%) funded, with a fund deficit of \$7,078,000 and on track to be fully funded by 2025. This fund deficit is likely to result in future payments by the participating employers. The Corporation shares in the actuarial risks of other participants in the plan and therefore its future contributions could increase due to their actuarial losses. In addition, the Corporation's contributions may also increase if other entities withdraw from the plan.

The Corporation expensed contributions to OMERS of \$4,328 (December 31, 2014 – \$4,210) for the year ended December 31, 2015. These amounts are included under employee salaries and benefit in the statement of comprehensive income.

### b) Post-employment benefits other than pension

Post-employment benefits other than pension are subject to annual actuarial valuations. A valuation of the post-employment benefits was performed as of December 31, 2015.

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

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## 17. Post-employment Benefits (continued)

A reconciliation of the defined benefit obligation is as following:

	December 31, 2015	December 31, 2014
Accrued benefit obligation, beginning of year	\$ 7,035	\$ 5,986
Current service cost	379	325
Interest on accrued benefit obligation	281	285
Benefits paid	(235)	(200)
Re-measurements recognized in other comprehensive income	5	639
Accrued benefit obligation, end of year	\$ 7,465	\$ 7,035

	December 31, 2015	December 31, 2014
Total expense recognized in profit or loss		
Current service costs	\$ 379	\$ 325
Interest on obligation	281	285
Total expense for the year	\$ 660	\$ 610

The significant actuarial assumptions used to determine the present value of the obligation are as follows:

Actuarial assumptions	December 31, 2015	December 31, 2014
Discount rate (beginning of year)	4.00%	4.75%
Discount rate (end of year)	4.00%	4.00%
Health care cost increases	8.75%	9.00%
Dental cost increases	4.00%	4.00%
Rate of compensation increase	3.00%	3.00%

Based on the actuarial valuation, the Corporation is expected to contribute \$401 towards post-employment benefits in 2016.

A one percentage point change in the assumed discount rate would have the following effects at December 31, 2015:

	<u>1% higher</u>	<u>1% lower</u>
Increase/(Decrease) on the defined benefit obligation (at 4.00%)	\$ (780)	\$ 967

A one percentage point change in the assumed health and dental cost trend rates would have the following effects at December 31, 2015:

	<u>1% higher</u>	<u>1% lower</u>
Increase/(Decrease) on the total service and interest cost (at 4.00%)	\$ 110	\$ (90)
Increase/(Decrease) on the defined benefit obligation (at 4.00%)	\$ 629	\$ (534)

# ENERSOURCE CORPORATION

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## 18. Share Capital

	December 31, 2015	December 31, 2014
Authorized:		
Unlimited, Class A shares, voting		
1,000 Class B shares, non-voting		
100 Class C shares, voting		
Issued:		
180,555,562 Class A shares	\$ 155,628	\$ 155,628
1,000 Class B shares	1	1
100 Class C shares	20,062	20,062
	\$ 175,691	\$ 175,691

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

The holders of the Class A shares and holders of the Class C shares, in priority to the holders of the Class B shares, are entitled to receive, if, as and when declared by the Corporation's Board of Directors, concurrent preferential dividends at a rate per annum equal to the regulated rate of return on the rate base equity represented by each such class of shares. The cumulative portion of such preferential dividend is the amount by which the preferential dividend for each class of shares exceeds the amount of regulated capital expenditures represented by each class of shares. The remaining portion is non-cumulative. As at December 31, 2015, there were no cumulative preferential dividends outstanding (December 31, 2014 – \$nil). Once these preferential dividend entitlements have been satisfied, holders of each class of shares are entitled to receive, on a concurrent basis with each other class of shares, additional dividends if, as and when declared by the Corporation's Board of Directors and in such amounts and payable in such manner as may be determined from time to time by the Corporation's Board of Directors. Holders of the Class A shares and the Class C shares are together entitled to 60% of any such additional dividends, which are to be allocated between the holders of each such class of shares in proportion to the rate base equity represented by each such class. Holders of the Class B shares are entitled to 40% of any such additional dividends. Class A, B and C shares have no par value.

Dividends may be declared by the Board of Directors through a resolution. In 2015, a dividend of \$16,028 (2014 - \$14,571) was declared and paid to the Shareholders of the Corporation.

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

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## 19. Change in Working Capital

	December 31, 2015	December 31, 2014
Accounts receivable	\$ (7,340)	\$ (1,282)
Unbilled revenue	(5,010)	(2,996)
Inventories	(1,047)	(969)
Prepaid and deposits	(533)	1,340
Accounts payable	11,550	(3,833)
Advance payments	(673)	1,290
Deferred revenue	(4)	(164)
Accrued PP&E and intangible assets	(3,640)	647
Decrease in working capital	\$ (6,697)	\$ (5,967)

## 20. Related Party Transactions

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

	December 31, 2015	December 31, 2014
Electrical energy	\$ 11,863	\$ 10,912
Street lighting maintenance and construction	7,172	7,280
Street lighting energy	5,064	5,843

As at December 31, 2015, accounts payable and accrued liabilities include \$61 (December 31, 2014 - \$88) due to the City. Accounts receivable include \$4,330 (December 31, 2014 - \$4,406) due from the City.

During 2015, the Corporation incurred \$1,200 (2014 - \$1,179) for property taxes to the City.

The Corporation charged Borealis \$9 in 2015 (2014 - \$9) for an access agreement. These transactions were recorded at the exchange amount, agreed to by the parties.

In 2015, a dividend of \$14,425 (2014 - \$13,114) was declared and paid to the City and a dividend of \$1,603 (2014 - \$1,457) was declared and paid to Borealis.

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

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

## 20. Related Party Transactions (continued)

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

	December 31, 2015	December 31, 2014
Salaries and short term employee benefits	\$ 2,426	\$ 2,233
Retirement OMERS contributions	264	246
Other compensation	56	50
Directors honorarium	304	270
	\$ 3,050	\$ 2,799

## 21. Contingencies, Provisions, Commitments and Guarantees

### a) Contingencies

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members. Insurance premiums charged to each member consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Current liability coverage is provided to a level of \$24,000 per occurrence. The Corporation has also obtained additional general liability insurance of \$10,000 per occurrence through Mearie Insurance Services Inc.

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

### b) Environmental provision

The Corporation is subject to Canadian federal, provincial and municipal environmental regulations. As part of the Corporation's risk mitigation strategy, environmental assessments and remediations are underway at various sites. The Corporation records a liability for the estimated future expenditures associated with testing and remediation of contaminated lands, caused by leaking transformers. Actual environmental expenditures may vary from these estimates. These estimates are reviewed at the end of each reporting period and adjusted to reflect the current best estimate at that point of time. As at December 31, 2015, the Corporation provided \$1,843 (December 31, 2014 - \$2,867) for testing and future site remediation. Based on the latest estimates and the remediation work plan, the entire provision is expected to be settled within twelve months of the reporting date.



# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

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Years ended December 31, 2015 and 2014

## 21. Contingencies, Provisions, Commitments and Guarantees (continued)

	December 31, 2015	December 31, 2014
Environmental provision, beginning of year	\$ 3,042	\$ 2,825
Addition	1,122	1,000
Utilized in the year	(2,259)	(783)
	1,905	3,042
Discount of the provision	(62)	(175)
Environmental provision, end of year	\$ 1,843	\$ 2,867
Environmental provision, current	\$ 1,843	\$ 1,600
Environmental provision, non-current	-	1,267
Environmental provision, end of year	\$ 1,843	\$ 2,867

### c) Commitments

- (i) The Corporation has entered into two commercial lease arrangements which are recognized and reported as part of other costs in the statement of comprehensive income. For the year ended December 31, 2015, the Corporation recognized minimum lease payments of \$164 (December 31, 2014 - \$151) in the statement of comprehensive income.

The first lease has a life of one year with yearly renewal options. There are no restrictions placed upon the Corporation by entering into this lease. As at December 31, 2015, the Corporation's committed future minimum annual lease payments under this operating lease are \$156 for 2016. The future minimum lease commitments would change depending on the decision to renew the agreement.

The second lease has a life of ten years and shall be automatically extended on an annual basis. As at December 31, 2015, the Corporation's committed future minimum annual lease payments under this operating lease are \$24 for 2016.

- (ii) The Corporation has numerous cancellable operating leases which are predominantly in the form of encroachment permits required to place distribution infrastructure assets on a rights-of-way or private property. The lease terms are between one and twenty years, and the amounts of these leases are immaterial and have been included in other costs in the statement of comprehensive income.

### d) Guarantees

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

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

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## 22. Financial Instruments and Risk Management

Financial instruments which are disclosed at fair value are to be classified using a three-level hierarchy. Each level reflects the inputs used to measure the fair values disclosed of the financial liabilities, and are as follows:

Level 1 – inputs are unadjusted quoted prices for identical instruments in active markets,

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

Level 3 – inputs that are not based on observable market data.

The fair values of cash and cash equivalents, accounts receivable, unbilled revenue, accounts payable and accrued liabilities approximate their carrying values due to the immediate or short maturity of these financial instruments. The fair values of promissory note, bank loan, customer deposits and deposits payable approximate their carrying values taking into account interest accrued on the outstanding balance.

The Corporation's debentures have a principal amount of \$320,000 as at December 31, 2015 (December 31, 2014 - \$320,000) and have a fair value of \$377,791 (December 31, 2014 - \$382,629). The fair value has been calculated using level 3 inputs. The valuation techniques used took into consideration accrued interest, Government of Canada benchmark yields and statistical data.

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

### (a) Market Risk

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates.

The Corporation does not have a commodity risk as a result of changes in the market price of electricity, due to the flow through nature of the electricity purchases.

The Corporation's foreign exchange risk is not considered material since the exposure is limited to U.S. dollar cash and cash equivalents holdings of \$25 as at December 31, 2015 (December 31, 2014 - \$138).

The Corporation is exposed to short-term interest rate risk on its bank loan and its net cash and cash equivalent balances. The Corporation is also exposed to fluctuations in interest rates for the valuation of its post-retirement benefit obligations. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance.

### (b) Credit Risk

The Corporation is exposed to credit risk as a result of counterparties failing to discharge an obligation.

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

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Years ended December 31, 2015 and 2014

## 22. Financial Instruments and Risk Management (continued)

The Corporation manages counterparties credit risk through various techniques including, limiting total exposure levels with individual counterparties consistent with the Corporation's policies, assessing and monitoring the credit exposures of counterparties. Short-term investments held as at December 31, 2015, met the credit exposure limits specified under the Corporation's Investment Policy.

The Corporation's distribution revenue is earned on a broad base of customers principally located in Mississauga. As a result, the Corporation did not earn a significant amount of revenue from any individual customer. As at December 31, 2015, there were no significant balances of accounts receivable due from any single customer.

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

- (i) There is a broad base of customers with no single customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance in either year.
- (ii) Enersource Hydro, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or letter of credit from customers to mitigate risk of payment default.
- (iii) The percentage of accounts receivable that is past due for more than 75 days is approximately 2.5% (2014 – 2.8%) of the total gross accounts receivable (See note 6).
- (iv) Enersource Hydro included an amount for accounts receivable write-offs within operating expense for rate setting purposes.

### (c) Liquidity Risk:

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

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

Financial Liabilities	Due within 1 year	Due between 1 and 5 years	Due past 5 years
Bank overdraft	\$ 3,898	\$ -	\$ -
Accounts payable and accrued liabilities	117,408	-	-
Debentures payable (interest and principal)	16,097	190,484	432,474
Bank loan (interest and principal)	1,601	60,660	-
Total	\$ 139,004	\$ 251,144	\$ 432,474

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

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Years ended December 31, 2015 and 2014

## 23. Divisional Information

The Corporation consists primarily of two operating divisions, regulated and non-regulated operations. Non-regulated operations are primarily comprised of engineering design, construction and maintenance services for utilities and developers and street lighting design and maintenance services. The regulated operation provides electricity distribution services to business and residences in the City of Mississauga.

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

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

	<b>Enersource Hydro regulated</b>	<b>Regulatory adjustments</b>	<b>Non- regulated</b>	<b>Consolidating eliminations</b>	<b>Total</b>
<b>2015</b>					
Energy sales	\$ 848,230	\$ -	\$ -	\$ -	\$ 848,230
Distribution	125,605	(2,271)	-	-	123,334
Other revenue	28,790	-	14,746	(599)	42,937
	1,002,625	(2,271)	14,746	(599)	1,014,501
Energy purchases	(848,230)	3,930	-	-	(844,300)
Operating expenses	(81,334)	4	(14,144)	599	(94,875)
Depreciation and amortization	(31,346)	(155)	(187)	-	(31,688)
Interest income	754	(366)	572	(150)	810
Interest expense	(17,226)	178	(74)	150	(16,972)
Profit before income tax expense	25,243	1,320	913	-	27,476
Income tax expense	(2,204)	(4,772)	(245)	-	(7,221)
Other comprehensive loss, net of tax	-	(4)	-	-	(4)
Comprehensive income (loss) for year ended December 31, 2015	\$ 23,039	\$ (3,456)	\$ 668	\$ -	\$ 20,251

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

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Years ended December 31, 2015 and 2014

## 23. Divisional Information (continued)

2014	Enersource Hydro regulated	Regulatory adjustments	Non- regulated	Consolidating eliminations	Total
Energy sales	\$ 786,505	\$ -	\$ -	\$ -	\$ 786,505
Distribution	123,629	(11,954)	-	-	111,675
Other revenue	19,270	-	12,168	(639)	30,799
	929,404	(11,954)	12,168	(639)	928,979
Energy purchases	(786,505)	(15,290)	-	-	(801,795)
Operating expenses	(66,560)	(22)	(11,645)	639	(77,588)
Depreciation and amortization	(29,246)	(183)	(171)	4	(29,596)
Interest income	751	(263)	328	-	816
Interest expense	(16,664)	218	(87)	-	(16,533)
Profit (loss) before income tax expense	31,180	(27,494)	593	4	4,283
Income tax (expense) recovery	(5,115)	4,164	82	-	(869)
Other comprehensive loss, net of tax	-	(440)	(30)	-	(470)
Comprehensive income (loss) for year ended December 31, 2014	\$ 26,065	\$ (23,770)	\$ 645	\$ 4	\$ 2,944

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

	December 31, 2015	December 31, 2014
Enersource Hydro regulated	\$ 846,286	\$ 747,236
Non-regulated	32,957	30,574
Consolidating elimination	(23,151)	(7,956)
	\$ 856,092	\$ 769,854

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

	December 31, 2015	December 31, 2014
Enersource Hydro regulated	\$ 576,520	\$ 481,414
Non-regulated	6,102	3,998
Consolidating elimination	(23,151)	(7,956)
	\$ 559,471	\$ 477,456

# ENERSOURCE CORPORATION

Notes to the Consolidated Financial Statements

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## 23. Divisional Information (continued)

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

	December 31, 2014	2015 activity	December 31, 2015
Net regulatory assets (liabilities), excluding other comprehensive (income)/loss	\$ 5,109	\$ (1,320)	\$ 3,789
Other comprehensive income (loss)	(573)	5	(568)
Net regulatory assets (liabilities)	\$ 4,536	\$ (1,315)	\$ 3,221

IFRS 14 *Regulatory Deferral Accounts* was issued by the IASB on January 30, 2014 and permits first time adopters of IFRS to use previous Generally Accepted Accounting Principles to account for regulatory deferral account balances. As the Corporation is not a first time adopter, the Corporation does not recognize assets and liabilities arising from rate regulated activities. Since the economics of rate regulation have not changed from the adoption of IFRS, the CODM will continue to assess operating performance principally on the basis of earnings adjusted for the following significant regulatory activities:

- (i) Retail settlement variances are caused by the difference between the actual price of the electricity commodity throughput and the prices set by the OEB. Specifically, these amounts include variances between the amounts charged by Hydro One and the IESO for the operation of the electricity markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates. Under regulatory accounting, the Corporation would have adjusted energy purchases for these variances. Under IFRS, the Corporation recognizes these differences in future periods as an increase or decrease to distribution revenue.
- (ii) The OEB approved a variance account to record lost revenues associated with the delivery of CDM programs. The variance account tracks the difference between the results of actual, verified impacts of CDM activities and the level of CDM program activities included in the distributor's load forecast. The Corporation may recover or refund this revenue through future distribution rates.
- (iii) The OEB requires Enersource Hydro to track the difference between revenue and costs associated with providing retailers with customer settlement services as retail cost variance account deferrals. Under IFRS, the Corporation recognizes these differences as an increase or decrease to distribution revenue when incurred and will recover or refund these differences through future distribution rates.

# ENERSOURCE CORPORATION

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## 23. Divisional Information (continued)

- (iv) The OEB approved four deferral accounts to record qualifying incremental capital investments, operating, maintenance and administration expenses and funding adders approved by the OEB related to the connection of renewable generation or the development of smart grid. Under IFRS, the Corporation capitalizes or expenses these items as incurred and recognizes revenue in accordance with the Corporation's revenue recognition policy.
- (v) The OEB approved a deferral account to record costs associated with replacing interval meters for its large commercial customers in order to meet amendments made to its Distribution System Code. Under IFRS, the Corporation capitalizes or expenses the amounts in the period they were incurred.
- (vi) The OEB requires the Corporation to accrue interest on regulatory assets and liabilities balances. Under IFRS, the Corporation recognizes the net interest on these balances in future periods as an increase or decrease to distribution revenue once approved for recovery or refund by the OEB.
- (vii) The OEB approved a deferral account to record any re-measurements of the post-employment net defined liability including actuarial gains or losses. Under IFRS, the Corporation recognizes any re-measurements of the post-employment net defined liability in other comprehensive income.

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

## 24. Conservation and Demand Management

The Corporation recognized \$23,985 (2014 - \$14,563) of IESO funding in other revenue for the year ended December 31, 2015. The Corporation recognized \$21,311 (2014 - \$14,546) of IESO costs under operating expenses for the year ended December 31, 2015. The Corporation currently has no unfilled obligations relating to the government grants received by the IESO.