Financial Statements of

ENERSOURCE HYDRO MISSISSAUGA INC.

Years ended December 31, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Enersource Hydro Mississauga Inc.

We have audited the accompanying financial statements of Enersource Hydro Mississauga Inc., which comprise the statement of financial position as at December 31, 2015, the 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 Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Enersource Hydro Mississauga Inc. as at December 31, 2015, and its financial performance and its 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 HYDRO MISSISSAUGA INC.

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

	Notes	December 31, 2015	December 31, 2014
Assets			
Current assets:			
Accounts receivable	5	$ 61,668	$ 55,648
Unbilled revenue		78,055	73,045
Income taxes receivable		1,515	346
Amounts due from related parties	18	-	724
Inventories	6	4,671	3,814
Prepaid expenses		1,494	1,527
Customer deposits	7	25,297	23,367
Total current assets		172,700	158,471
Non-current assets:			
Property, plant and equipment	8	606,345	556,024
Intangible assets	9	57,348	16,309
Deferred tax assets	11	9,893	16,432
Total non-current assets		673,586	588,765
Total assets		**$ 846,286**	**$ 747,236**
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank overdraft	20	$ 11,718	$ 7,956
Accounts payable and accrued liabilities	12	112,932	103,368
Advance payments		4,128	4,854
Amounts due to related parties	18	15,331	-
Customer deposits	7	25,297	23,367
Current portion of environmental provision	19	1,843	1,600
Total current liabilities		171,249	141,145
Non-current liabilities:			
Loans and borrowings	13	378,129	318,137
Deferred contributions	14	21,069	15,153
Post-employment benefits	15	6,073	5,712
Environmental provision	19	-	1,267
Total non-current liabilities		405,271	340,269
Total liabilities		576,520	481,414
Shareholders' equity:			
Share capital	16	155,629	155,629
Accumulated other comprehensive income		416	420
Retained earnings		113,721	109,773
Total shareholders' equity		269,766	265,822
Total liabilities and shareholders' equity		**$ 846,286**	**$ 747,236**

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

ENERSOURCE HYDRO MISSISSAUGA INC.

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	21	$ 848,230	$ 786,505
Distribution	21	123,334	111,675
Other revenue	22	28,790	19,270
		1,000,354	917,450
Operating expenses:			
Energy purchases	21	844,300	801,795
Employee salaries and benefits		25,107	26,489
Materials and transportation		4,490	4,367
Contract labour		6,226	5,070
Other expenses		9,125	7,837
Corporate cost allocation		15,071	8,273
Conservation and demand management	22	21,311	14,546
Depreciation of property, plant and equipment	8	27,200	25,873
Amortization of intangible assets	9	4,301	3,556
		957,131	897,806
Results from operating activities		43,223	19,644
Non-operating revenue (expense):			
Interest income		388	488
Interest expense		(16,812)	(16,212)
Interest expense on accrued post-employment benefits	15	(236)	(234)
		(16,660)	(15,958)
Profit before income tax expense		26,563	3,686
Income tax expense	10	(6,976)	(951)
Profit for the year		19,587	2,735
Other comprehensive loss, net of income tax:			
Remeasurements of the defined benefit obligation	15	(5)	(579)
Income tax recovery		1	139
		(4)	(440)
Total comprehensive income for the year		**$ 19,583**	**$ 2,295**

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

ENERSOURCE HYDRO MISSISSAUGA INC.

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		$ 19,583	$ 2,295
Adjustments for:			
Depreciation of property, plant and equipment		27,200	25,873
Amortization of intangible assets		4,301	3,556
Amortization of deferred contributions	14	(442)	(318)
Gain on disposals of property, plant and equipment		(122)	(56)
Post-employment benefits		361	860
Environmental provision	19	1,235	825
Income tax expense		6,975	812
Interest income		(388)	(488)
Interest expense		16,812	16,212
Environmental expenditures		(2,259)	(783)
Income tax paid		(1,606)	(4,770)
Change in working capital	17	9,523	(5,599)
Net cash from operating activities		81,173	38,419
Cash flows from investing activities:			
Customer deposits		(1,930)	(1,447)
Interest received		264	487
Capitalized interest		411	348
Additions to property, plant and equipment		(74,163)	(51,106)
Additions to intangible assets		(45,119)	(2,699)
Additions to deferred contributions	14	6,358	4,138
Proceeds from sales of property, plant and equipment		183	131
Cash used in investing activities		(113,996)	(50,148)
Cash flows from financing activities:			
Customer deposits		1,930	1,447
Proceeds from bank loan		60,000	-
Debt issuance costs paid		(140)	-
Dividends paid	16	(15,639)	(13,344)
Interest paid		(17,090)	(16,464)
Cash from (used in) financing activities		29,061	(28,361)
Decrease in cash and cash equivalents, during the year		(3,762)	(40,090)
Cash and cash equivalents, beginning of year		(7,956)	32,134
Cash and cash equivalents, end of year		$ (11,718)	$ (7,956)

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

ENERSOURCE HYDRO MISSISSAUGA INC.

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
Balance at January 1, 2015	$ 155,629	$ 420	$ 109,773	$ 265,822
Profit for the year	-	-	19,587	19,587
Other comprehensive loss, net of tax	-	(4)	-	(4)
Dividends paid	-	-	(15,639)	(15,639)
Balance at December 31, 2015	$ 155,629	$ 416	$ 113,721	$ 269,766

Balance at January 1, 2014	$ 155,629	$ 860	$ 120,382	$ 276,871
Profit for the year	-	-	2,735	2,735
Other comprehensive loss, net of tax	-	(440)	-	(440)
Dividends paid	-	-	(13,344)	(13,344)
Balance at December 31, 2014	$ 155,629	$ 420	$ 109,773	$ 265,822

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

1. General Information

a) Corporate Information

Enersource Hydro Mississauga Inc. (the "Corporation"), is a wholly owned subsidiary of Enersource Corporation which is incorporated under the Ontario Business Corporations Act, and 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 Corporation's 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.

2. Basis of Preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Rate setting

The Corporation, 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 the Corporation and establishing standards of service for the Corporation's customers.

2. Basis of Preparation (continued)

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.

On August 13, 2014, the Corporation 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, the Corporation submitted an annual Price Cap Incentive Rate application to the OEB 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 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 financial statements, relate to the following:

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

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.

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.

4. Significant Accounting Policies (continued)

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 amortized 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 accounts receivable, amounts due from related parties, unbilled revenue, and customer deposits.

(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 amortized 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.

Financial liabilities are derecognized from the statement of financial position when the Corporation is discharged from the obligation, or when the obligation is cancelled or expired.

Other financial liabilities are comprised of accounts payable and accrued liabilities, amounts due to related parties, 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.

4. Significant Accounting Policies (continued)

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.

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.

4. Significant Accounting Policies (continued)

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.

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

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

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 are 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.

4. Significant Accounting Policies (continued)

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 21.

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) 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.

4. Significant Accounting Policies (continued)

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 value of 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.

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.

4. Significant Accounting Policies (continued)

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.

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.

4. Significant Accounting Policies (continued)

Current taxes are based on taxable profit or loss for the year, which differ from profit or loss as reported in the 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.

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 financial statements. However, a contingent asset is disclosed where an inflow of economic benefits is probable.

p) 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 financial statements or note disclosures are described below.

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 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.

(In thousands of Canadian dollars)

5. Accounts Receivable

The components of accounts receivable are as follows:

	December 31, 2015	December 31, 2014
Trade receivables	$ 50,477	$ 51,920
Less: allowance for doubtful accounts	(1,678)	(1,856)
Trade receivables, net	$ 48,799	$ 50,064
Receivables due from related parties (Note 18)	1,742	2,342
Other receivables	11,127	3,242
Total accounts receivable, net	$ 61,668	$ 55,648
Of which:		
Not yet due (less than 16 days)	$ 46,290	$ 34,330
Past due 1 day but not more than 14	9,094	15,819
Past due 15 days but not more than 44	5,155	4,475
Past due 45 days but not more than 74	1,288	1,343
Past due 75 days but not more than 104	654	636
Past due more than 104 days	865	901
Less: allowance for doubtful accounts	(1,678)	(1,856)
Total accounts receivable, net	$ 61,668	$ 55,648

The allowance for doubtful accounts as at December 31, 2015 was 2.6% (December 31, 2014 – 3.2%) 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.

6. Inventories

The amount of inventory consumed by the Corporation and recognized as an expense during 2015 was $1,472 (2014 – $1,659). The amount of inventory that was written down due to obsolescence in 2015 was $1 (2014 - $nil).

7. 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
	$ 36,747	$ 34,817

(In thousands of Canadian dollars)

7. Deposits and Guarantees (continued)

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).

8. 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
Cost				
Distribution system	$ 453,324	$ 57,633	$ (1,474)	$509,483
Distribution station equipment	62,575	5,029	(252)	67,352
Other PP&E	73,070	9,147	(2,277)	79,940
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	$ 642,580	$ 77,583	$ (4,029)	$716,134
Accumulated depreciation				
Distribution system	$ (53,081)	$ (15,242)	$ 325	$ (67,998)
Distribution station equipment	(7,130)	(2,030)	33	(9,127)
Other PP&E	(22,566)	(7,042)	2,123	(27,485)
Buildings and fixtures	(3,779)	(1,400)	-	(5,179)
Land	-	-	-	-
Subtotal	$ (86,556)	$ (25,714)	$ 2,481	$ (109,789)
Carrying amount	$ 556,024	$ 51,869	$ (1,548)	$ 606,345

(In thousands of Canadian dollars)

8. PP&E (continued)

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

	December 31, 2013	Additions/ Depreciation	Disposals/ Retirements	December 31, 2014
Cost				
Distribution system	$ 417,267	$ 37,372	$ (1,315)	$ 453,324
Distribution station equipment	58,969	3,852	(246)	62,575
Other PP&E	70,645	4,652	(2,227)	73,070
Buildings and fixtures	34,041	4,187	-	38,228
Land	9,879	-	-	9,879
Construction in progress	4,944	560	-	5,504
Subtotal	$ 595,745	$ 50,623	$ (3,788)	$ 642,580
Accumulated depreciation				
Distribution system	$ (38,999)	$ (14,331)	$ 249	$ (53,081)
Distribution station equipment	(5,238)	(1,925)	33	(7,130)
Other PP&E	(17,634)	(6,915)	1,983	(22,566)
Buildings and fixtures	(2,525)	(1,254)	-	(3,779)
Land	-	-	-	-
Subtotal	$ (64,396)	$ (24,425)	$ 2,265	$ (86,556)
Carrying amount	$ 531,349	$ 26,198	$ (1,523)	$ 556,024

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 $9,566 (December 31, 2014 - $9,366).

(In thousands of Canadian dollars)

9. Intangible Assets

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

	December 31, 2014	Additions/ Amortization	Disposals/ Retirements	December 31, 2015
Cost				
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
Accumulated amortization				
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
Cost				
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
Accumulated amortization				
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).

(In thousands of Canadian dollars)

10. 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
Current income tax expense (recovery):		
Expense for the year	$ 1,125	$ 4,454
Utilization of future timing differences in the current year	(688)	(558)
Total current Income tax expense	437	3,896
Deferred income tax expense (recovery):		
Reversal of temporary differences	5,888	(3,494)
Reduction of future timing differences	651	549
Total deferred Income tax expense (recovery)	6,539	(2,945)
Total income tax expense	$ 6,976	$ 951

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	$ 26,563	$ 3,686
Provision for income taxes at statutory rate:	7,039	977
Decrease resulting from:		
Other differences between accounting net income and net income for tax purposes	(63)	(26)
Provision for income taxes	$ 6,976	$ 951
Effective income tax rate	26.26%	25.80%

11. 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	$ 7,064	$ 11,436
Energy variances	1,021	2,907
Post-employment benefits	1,744	1,649
Other temporary differences	64	440
Net deferred income tax assets	$ 9,893	$ 16,432

(In thousands of Canadian dollars)

12. 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 18)	38	75
Other trade payables	6,286	4,187
Accrued expenses	15,395	16,634
Other non-trade payables	14,541	9,871
Total accounts payable and accrued liabilities	$ 112,932	$ 103,368

13. 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.

(In thousands of Canadian dollars)

13. Loans and Borrowings (continued)

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.

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.

14. 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

15. 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.

(In thousands of Canadian dollars)

15. Post-employment Benefits (continued)

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 $3,454 (December 31, 2014 – $3,395) 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.

A reconciliation of the defined benefit obligation is as following:

	December 31, 2015	December 31, 2014
Accrued benefit obligation, beginning of year	$ 5,712	$ 4,852
Current service cost	318	266
Interest on accrued benefit obligation	236	234
Benefits paid	(197)	(163)
Re-measurements recognized in other comprehensive income	4	523
Accrued benefit obligation, end of year	$ 6,073	$ 5,712

Total expense recognized in profit or loss	December 31, 2015	December 31, 2014
Current service costs	$ 318	$ 266
Interest on obligation	236	234
Total expense for the year	$ 554	$ 500

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%

(In thousands of Canadian dollars)

15. Post-employment Benefits (continued)

Based on the actuarial valuation, the Corporation is expected to contribute $336 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:

	1% higher	1% lower
Increase/(Decrease) on the defined benefit obligation (at 4.00%)	$ (653)	$ 809

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

	1% higher	1% lower
Increase/(Decrease) on the total service and interest cost (at 4.00%)	$ 92	$ (75)
Increase/(Decrease) on the defined benefit obligation (at 4.00%)	$ 526	$ (447)

16. Share Capital

	December 31, 2015	December 31, 2014
Authorized:		
Unlimited common shares		
Issued:		
40 common shares	$ 155,629	$ 155,629

Dividends may be declared by the Board of Directors through a resolution. In 2015, a dividend of $15,639 (2014 - $13,344) was declared and paid to the Shareholder of the Corporation.

17. Change in Working Capital

	December 31, 2015	December 31, 2014
Accounts receivable	$ (5,896)	$ (1,331)
Unbilled revenue	(5,010)	(2,996)
Inventories	(857)	(989)
Prepaid and deposits	33	687
Amount due to/from related parties, net	16,055	407
Accounts payable	9,564	(3,268)
Advance payments	(720)	1,244
Deferred revenue	(6)	-
Accrued PP&E and intangible assets	(3,640)	647
Increase (decrease) in working capital	$ 9,523	$ (5,599)

(In thousands of Canadian dollars)

18. 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 energy	5,064	5,843
Road projects	484	455

As at December 31, 2015, accounts payable and accrued liabilities include $38 (December 31, 2014 - $75) due to the City. Accounts receivable include $1,742 (December 31, 2014 - $2,342) 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.

Amounts due to related parties include $15,331 (December 31, 2014 – $nil) to parent company and other subsidiary under common control.

There was no amount due from the parent company in 2015 (December 31, 2014 – $724) and other subsidiary under common control.

In 2015, a dividend of $15,639 (2014 - $13,344) was declared and paid to Enersource Corporation.

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.

The following compensation has been provided to the key management personnel of the Corporation and members of the Board of Directors, 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	$ 642	$ 979
Retirement OMERS contributions	70	108
Other compensation	18	21
	$ 730	$ 1,108

(In thousands of Canadian dollars)

19. 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.

	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

19. Contingencies, Provisions, Commitments and Guarantees (continued)

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.

20. 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.

20. Financial Instruments and Risk Management (continued)

The fair values of accounts receivable, unbilled revenue, amounts due to and from related parties, accounts payable and accrued liabilities approximate their carrying values due to the immediate or short maturity of these financial instruments. The fair values of 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.

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.

(In thousands of Canadian dollars)

20. Financial Instruments and Risk Management (continued)

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) The Corporation, 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 2.4% (2014 – 2.7%) of the total gross accounts receivable (See note 5).

(iv) The Corporation 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	$ 11,718	$ -	$ -
Accounts payable and accrued liabilities	112,932	-	-
Amounts due to related parties	15,331	-	-
Debentures payable (interest and principal)	16,097	190,484	432,474
Bank loan (interest and principal)	1,601	60,660	-
Total	$ 157,679	$ 251,144	$ 432,474

(In thousands of Canadian dollars)

21. Regulatory assets and liabilities

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.

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

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 and it assesses operating performance principally on the basis of earnings adjusted for regulatory items as shown below.

2015	**Enersource Hydro Regulated**	**Regulatory Adjustments**	**Enersource Hydro IFRS**
Energy sales	$ 848,230	$ -	$ 848,230
Distribution	125,605	(2,271)	123,334
Other revenue	28,790	-	28,790
	1,002,625	(2,271)	1,000,354
Energy purchases	(848,230)	3,930	(844,300)
Operating expenses	(81,334)	4	(81,330)
Depreciation and amortization	(31,346)	(155)	(31,501)
Interest income	754	(366)	388
Interest expense	(17,226)	178	(17,048)
Profit before income tax expense	25,243	1,320	26,563
Income tax expense	(2,204)	(4,772)	(6,976)
Other comprehensive loss, net of tax	-	(4)	(4)
Comprehensive income (loss) for year ended December 31, 2015	$ 23,039	$ (3,456)	$ 19,583

(In thousands of Canadian dollars)

21. Regulatory assets and liabilities (continued)

2014	Enersource Hydro Regulated	Regulatory Adjustments	Enersource Hydro IFRS
Energy sales	$ 786,505	$ -	$ 786,505
Distribution	123,629	(11,954)	111,675
Other revenue	19,270	-	19,270
	929,404	(11,954)	917,450
Energy purchases	(786,505)	(15,290)	(801,795)
Operating expenses	(66,560)	(22)	(66,582)
Depreciation and amortization	(29,246)	(183)	(29,429)
Interest income	751	(263)	488
Interest expense	(16,664)	218	(16,446)
Profit (loss) before income tax expense	31,180	(27,494)	3,686
Income tax (expense) recovery	(5,115)	4,164	(951)
Other comprehensive loss, net of tax	-	(440)	(440)
Comprehensive income (loss) for year ended December 31, 2014	$ 26,065	$ (23,770)	$ 2,295

The most significant regulatory activities included in the regulatory adjustments are:

(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 the Corporation 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.

21. Regulatory assets and liabilities (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.

22. 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.