Financial statements of

PowerStream Inc.

December 31, 2015

PowerStream Inc.
December 31, 2015

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Independent Auditor's Report

To the Shareholder of
PowerStream Inc.

We have audited the accompanying financial statements of PowerStream Inc., which comprise the balance sheet as at December 31, 2015, the statements of income and other comprehensive income, changes in equity and of cash flows for the year ended December 31, 2015, and 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.

Auditor's 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 the auditor's 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, the auditor considers 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 PowerStream 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.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
March 9, 2016

PowerStream Inc.

Balance sheet

as at December 31, 2015

(In thousands of dollars)

	2015	2014
	$	$
Assets		
Current assets		
Cash	6,859	23,110
Accounts receivable (Note 17(c))	105,942	95,963
Unbilled revenue	94,657	112,582
Due from related parties (Note 10)	13,654	6,724
Inventories (Note 6)	3,226	3,085
Income taxes receivable	9,734	6,208
Prepaids and other assets	5,208	4,129
	239,280	251,801
Long-term assets		
Property, plant and equipment (Note 7)	1,119,147	1,032,551
Intangible assets (Note 8)	53,073	42,621
Investment in a joint venture (Note 5)	8,169	7,536
Deferred tax assets (Note 20)	7,227	14,239
Goodwill (Note 8(b))	42,543	42,543
	1,469,439	1,391,291
Liabilities		
Current liabilities		
Short-term debt (Note 11(a))	50,000	25,000
Infrastructure Ontario financing (Note 11(b))	74,691	67,656
Customer deposits	15,991	14,436
Accounts payable and accrued liabilities (Note 9)	145,962	134,179
Due to related parties (Note 10)	19,075	16,929
Liability for subdivision development	4,820	5,268
Current portion of finance lease obligation (Note 16)	360	337
Notes payable (Note 12)	20,000	-
	330,899	263,805
Long-term liabilities		
Notes payable (Note 12)	162,430	182,430
Debentures payable (Note 12)	347,407	347,288
Finance lease obligation (Note 16)	16,095	16,455
Post-employment benefits obligation (Note 13)	18,309	17,362
Deferred revenue	138,406	120,651
	682,647	684,186
	1,013,546	947,991
Shareholders' equity		
Share capital (Note 14)	342,184	327,184
Accumulated other comprehensive income	2,083	1,819
Retained earnings	111,626	114,297
	455,893	443,300
	1,469,439	1,391,291

Approved on behalf of the Board on March 9, 2016

____________ Director ____________ Director

PowerStream Inc.

Statement of income and other comprehensive income
year ended December 31, 2015

(In thousands of dollars)

	2015	2014
	$	$
Revenue (Note 10(a))		
Sale of energy	**1,021,312**	927,323
Distribution revenue	**159,438**	157,584
Other revenue (Note 22)	**32,772**	26,053
Total revenue	**1,213,522**	1,110,960
Cost of power purchased	**1,010,699**	941,260
Operating expenses (Note 19)	**100,218**	90,355
Depreciation and amortization	**48,931**	42,416
	1,159,848	1,074,031
	53,674	36,929
Loss on derecognition of property, plant and equipment	**(1,273)**	(2,078)
Share in income from joint venture (Note 5)	**837**	463
Interest income	**481**	401
Interest expense	**(24,884)**	(22,024)
Income before income taxes	**28,835**	13,691
Income tax expense (recovery) (Note 20)	**3,390**	(183)
Net income	**25,445**	13,874
Other comprehensive income		
Remeasurement of defined benefit obligation, net of tax of $96 (2014-$922) (Note 13(b))	**264**	2,558
Total income and other comprehensive income for the year	**25,709**	16,432

PowerStream Inc.

Statement of changes in equity
year ended December 31, 2015
(In thousands of dollars)

	Share capital	Accumulated other comprehensive income	Retained earnings	Total
	$	$	$	$
As at January 1, 2014	288,718	(739)	123,157	411,136
Net income	-	-	13,874	13,874
Other comprehensive income, (net of tax of $922)	-	2,558	-	2,558
	288,718	1,819	137,031	427,568
Dividends paid	-	-	(22,734)	(22,734)
Issuance of common shares (Note 14)	20,001	-	-	20,001
Issuance of Class A common shares (Note 14)	18,465	-	-	18,465
Balance at December 31, 2014	327,184	1,819	114,297	443,300
Net income	-	-	25,445	25,445
Other comprehensive income, (net of tax of $96)	-	264	-	264
	-	264	25,445	25,709
Dividends paid	-	-	(28,116)	(28,116)
Issuance of common shares (Note 14)	15,000	-	-	15,000
Balance at December 31, 2015	**342,184**	**2,083**	**111,626**	**455,893**

The accompanying notes to the financial statements are an integral part of this financial statement

PowerStream Inc.

Statement of cash flows
year ended December 31, 2015
(In thousands of dollars)

	2015	2014
	$	$
Operating activities		
Net income for the year	**25,445**	13,874
Adjustments to determine cash provided by operating activities		
Remeasurement of defined benefit obligation	**360**	3,480
Share of loss/(income) from joint venture (net of 2015 dividend of $204 (2014 - $183))	**(633)**	(280)
Depreciation of property, plant and equipment	**46,259**	41,298
Amortization of intangible assets	**4,992**	3,323
Post-employment benefits	**947**	(1,955)
Loss on disposal of property, plant and equipment	**506**	3,759
Amortization of deferred revenue	**(3,013)**	(2,454)
Amortization of debenture issuance costs	**119**	34
Finance costs	**24,403**	21,622
Income tax expense	**3,390**	(183)
	102,775	82,518
Net change in non-cash operating working capital (Note 21)	**19,177**	(5,445)
Cash generated from operating activities	**121,952**	77,073
Interest paid	**(24,411)**	(22,661)
	97,541	54,412
Financing activities		
Dividends paid	**(28,116)**	(22,734)
Proceeds from Infrastructure Ontario financing	**7,035**	19,341
Proceeds from the issuance of common shares	**15,000**	38,465
Proceeds from issuance of debenture (net)	**-**	149,000
Proceeds (repayment) of short-term debt	**25,000**	(45,000)
Payment of finance lease obligation	**(337)**	(315)
	18,582	138,757
Investing activities		
Proceeds on sale of property, plant and equipment	**1,185**	-
Contributions received from customers	**20,768**	21,763
Purchase of intangible assets	**(15,444)**	(17,111)
Purchase of property, plant and equipment	**(138,883)**	(167,343)
	(132,374)	(162,691)
(Decrease) increase in cash during the year	**(16,251)**	30,478
Cash (bank indebtedness), beginning of year	**23,110**	(7,368)
Cash, end of year	**6,859**	23,110

1. Description of the business

PowerStream Inc. (the “Corporation”) was amalgamated on January 1, 2009, under the Business Corporations Act (Ontario) and is wholly owned by PowerStream Holdings Inc., which in turn is owned by the Corporation of the City of Vaughan (the “City of Vaughan”), through its wholly owned subsidiary, Vaughan Holdings Inc.; the Corporation of the City of Markham (the “City of Markham”), through its wholly owned subsidiary, Markham Enterprises Corporation; and the Corporation of the City of Barrie (the “City of Barrie”), through its wholly owned subsidiary, Barrie Hydro Holdings Inc. PowerStream Holdings Inc. is jointly controlled by these three municipalities. The Corporation is incorporated and domiciled in Canada with its head and registered office located at 161 Cityview Boulevard, Vaughan, ON L4H 0A9.

The principal activity of the Corporation is distribution of electricity in the service areas of Alliston, Aurora, Barrie, Beeton, Bradford West Gwillimbury, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham and Vaughan in the Province of Ontario, under a license issued by the Ontario Energy Board (“OEB”). The Corporation is regulated under the OEB and adjustments to the distribution rates require OEB approval. Collingwood PowerStream Utility Services Corp. (“Collus PowerStream”) is a joint venture between the Corporation and the Town of Collingwood. It distributes electricity in Collingwood, Thornbury, Stayner and Creemore.

As a condition of its distribution license, the Corporation is required to meet specified Conservation and Demand Management (“CDM”) targets for reductions in electricity consumption and peak electricity demand. As part of this initiative, the Corporation is delivering Independent Electricity System Operator (“IESO”) funded programs in order to meet its targets.

Under the Green Energy and Green Economy Act, 2009, the Corporation and other Ontario electricity distributors have new opportunities and responsibilities for enabling renewable generation.
The Corporation commenced operations of a Solar Generation Business unit, in 2010, as permitted by these changes.

2. Basis of preparation

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis.

(c) Presentation currency

The financial statements are presented in Canadian dollars, which is also the Corporation’s functional currency. All financial information has been rounded to the nearest thousand, except when otherwise noted.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the application of accounting policies and the amounts reported and disclosed in the financial statements. Estimates and underlying assumptions are continually reviewed and are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

2. Basis of preparation (continued)

(d) Use of estimates and judgments (continued)

Significant sources of estimation uncertainty, assumptions and judgments include the following:

(i) Unbilled revenue

The measurement of unbilled revenue is based on an estimate of the amount of electricity delivered to customers between the date of the last bill and the end of the year.

(ii) Useful lives of depreciable assets

Depreciation and amortization expense is based on estimates of the useful lives of property, plant and equipment and intangible assets. The Corporation estimates the useful lives of its property, plant and equipment and intangible assets based on management's judgment, historical experience and an asset study conducted by an independent consulting firm.

(iii) Cash Generating Units ("CGU")

Determining CGU's for impairment testing is based on Management's judgment. This requires an estimation of the value in use. The value in use calculation requires an estimate of the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

(iv) Valuation of financial instruments

As described in Note 17, the Corporation uses the discounted cash flow model to estimate the fair value of the financial instruments for disclosure purposes.

(v) Other areas

There are a number of other areas in which the Corporation makes estimates; these include accounts receivable, inventories, post-employment benefits and income taxes. These amounts are reported based on the amounts expected to be recovered/refunded and an appropriate allowance has been provided based on the Corporation's best estimate of unrecoverable amounts.

3. Significant accounting policies

The Corporation's financial statements are the representations of management, prepared in accordance with IFRS. The accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise indicated.

The financial statements reflect the following significant accounting policies:

(a) Rate regulation

The Ontario Energy Board Act, 1998 gave the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may prescribe license requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, and filing process requirements for rate-setting purposes.

The Corporation recognizes revenue when electricity is delivered to customers based on OEB approved rates. Operating costs and expenses are recorded when incurred, unless such costs qualify for recognition as part of an item of property, plant and equipment or as an intangible asset.

3. Significant accounting policies (continued)

(b) Revenue recognition

(i) Electricity distribution and sale

Revenue from the sale and distribution of electricity is recorded on the basis of cyclical billings based on electricity usage and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is generally comprised of the following:

- Electricity Price and Related Rebates. The electricity price and related rebates represent a pass through of the commodity cost of electricity.
- Distribution Rate. The distribution rate is designed to recover the costs incurred by the Corporation in delivering electricity to customers, as well as the ability to earn the OEB allowed rate of return. Distribution charges are regulated by the OEB and typically comprise a fixed charge and a usage-based (consumption) charge.
- Retail Transmission Rate. The retail transmission rate represents a pass through of costs charged to the Corporation for the transmission of electricity from generating stations to the Corporation's service area. Retail transmission rates are regulated by the OEB.
- Wholesale Market Service Charge. The wholesale market service charge represents a pass through of various wholesale market support costs charged by the IESO.

(ii) Other revenue

Other revenue includes revenue from renewable generation, sale of other services, contributions from customers and performance incentive payments.

Revenue related to the sale of other services is recognized as services are rendered. Revenue related to the generation of revenue from renewable generation sources is recognized as the output is produced.

Certain items of property, plant and equipment are acquired or constructed with financial assistance in the form of contributions from developers or customers ("customer contributions"). Such contributions, whether in cash or in-kind, are recognized as deferred revenue and amortized into income over the life of the related assets. Contributions in-kind are valued at their fair value at the date of their contribution.

Performance incentive payments under Conservation and Demand Management ("CDM") programs are recognized by the Corporation when there is reasonable assurance that the program conditions have been satisfied and the incentive payment will be received.

Government grants under CDM programs are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(c) Finance and borrowing costs

Finance costs comprise interest expense on borrowings and are recognized on an accrual basis using the effective interest rate method.

Borrowing costs are calculated using the effective interest rate method and are recognized as finance costs, unless they are capitalized as part of the cost of a qualifying asset, which is an asset that takes a substantial period of time to get ready for its intended use.

3. Significant accounting policies (continued)

(d) Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as loans and receivables or as other liabilities. Transaction costs for financial assets classified as loans and receivables and financial liabilities classified as other liabilities are capitalized as part of the carrying value at initial recognition.

(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. Subsequent to initial recognition, such financial assets are carried at amortized cost using the effective interest rate method, less any impairment losses. Losses are recognized in net income when the loans and receivables are derecognized or impaired.

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and the loss event has had a negative effect on estimated future cash flows of the asset which are reliably measureable.

Loans and receivables are comprised of cash, accounts receivable, unbilled revenue and amounts due from related parties.

(ii) Other liabilities

All non-derivative financial liabilities are classified as other liabilities. Subsequent to initial recognition, other liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when either the Corporation is discharged from its obligation, the obligation expires, or the obligation is cancelled or replaced by a new financial liability with substantially modified terms.

Financial liabilities are further classified as current or non-current depending on whether they will fall due within twelve months after the balance sheet date or beyond.

Other liabilities are comprised of bank indebtedness, short-term debt, Infrastructure Ontario financing, customer deposits, accounts payable and accrued liabilities, amounts due to related parties, notes payable, debentures payable, bank term loan, Infrastructure Ontario debentures, and liability for subdivision development.

(e) Inventories

Inventories, which consist of parts and supplies acquired for internal construction or consumption, are valued at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis and includes expenditures incurred in acquiring the inventories and other costs to bring the inventories to their existing location and condition.

(f) Property, plant and equipment

Property, plant and equipment ("PP&E") is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and includes contracted services, cost of materials, direct labour and borrowing costs incurred in respect of qualifying assets constructed subsequent to January 1, 2011. When parts of an item of PP&E have different useful lives, they are accounted for as separate components of PP&E.

Major spare parts and standby equipment are recognized as items of PP&E. Property, plant and equipment in the course of construction are carried at cost, cost includes expenditures that are directly attributable to the construction of the asset. These assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation on these assets commences when the assets are ready for their intended use.

(In thousands of dollars)

3. Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal with the carrying amount of the item and is included in net income.

Depreciation of PP&E is recognized on a straight-line basis over the estimated useful life of each component of PP&E. The estimated useful lives for the current and comparative years are as follows:

Land and buildings	
Land	Indefinite
Buildings	10 to 60 years
Distribution and other assets	
Transformer stations	20 to 40 years
Transformers and meters	15 to 40 years
Plant and equipment	3 to 20 years
Other	3 to 37.5 years

Depreciation methods and useful lives are reviewed at each financial year-end and any changes are adjusted prospectively.

(g) Intangible assets

Intangible assets include land rights, computer software and capital contributions. Capital contributions relate to the contributions made to Hydro One for a transformer station that was built outside the City of Barrie.

Land rights held by the Corporation are effective in perpetuity and there is no foreseeable limit to the period over which the rights are expected to provide benefit to the Corporation. Land rights have therefore been assessed as having an indefinite useful life and are not amortized. Land rights are measured at cost.

Computer software and capital contributions are measured at cost less accumulated amortization and accumulated impairment losses.

Computer software and capital contributions are amortized on a straight-line basis over the estimated useful lives from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Computer software	4 to 10 years
Capital contributions	17 years

Amortization methods and useful lives are reviewed at each financial year-end and adjusted prospectively.

(h) Goodwill

Goodwill represents the excess of the purchase price over the fair value assigned to the Corporation's interest of the net identifiable assets acquired on the acquisition, by predecessor corporations, of the former Richmond Hill Hydro Inc., Penetanguishene Hydro, Essa Hydro, New Tecumseth Hydro and Bradford West Gwillimbury Hydro.

Goodwill is measured at cost and is not amortized. The Corporation's policy on goodwill arising on acquisition of an associate is described in note 3(n).

3. Significant accounting policies (continued)

(i) Impairment of non-financial assets

The carrying amounts of the Corporation's 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 estimated. Goodwill and intangible assets with indefinite lives are tested annually for impairment and when circumstances indicate that the carrying value may be impaired. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Corporation has two CGU's, the rate regulated business and the Permitted Generation Business unit. Two CGU's were determined, as Management views the Corporation as having two distinct lines of business.

The recoverable amount of an asset or CGU is the greater of its value in use and fair value less costs of disposal. Value in use is calculated as the present value of the estimated future cash flows expected to be derived from an asset or CGU.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of those from other assets or CGUs. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in net income. Impairment losses relating to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(j) Employee benefits

The Corporation provides both short-term employee benefits and post-employment benefits. The post-employment benefits are provided through a defined benefit plan.

A defined benefit plan is a post-retirement benefit plan that specifies either the benefits to be received by an employee, or the method of determining those benefits.

(i) <u>Short-term employee benefits</u>

Short-term employee benefit obligations are recognized as the related services are rendered to the Corporation. Short-term employee benefit obligations are measured on an undiscounted basis and recognized as an expense unless the amount qualifies for capitalization as part of the cost of an item of inventory, PP&E or an intangible asset.

(ii) <u>Multi-employer defined benefit pension plan</u>

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

3. Significant accounting policies (continued)

(j) Employee benefits (continued)

(ii) Multi-employer defined benefit pension plan (continued)

It is not practicable to determine the present value of the Corporation's obligation or the related current service cost under the OMERS plan as OMERS computes its obligations in accordance with an actuarial valuation in which all the benefit plans are co-mingled and therefore information for individual plans cannot be determined. As a result, the Corporation accounts for the OMERS plan as a defined contribution plan where contributions to the OMERS plan are recognized as an employee benefit expense in the periods during which services are rendered by employees.

(iii) Non-pension defined benefit plans

The Corporation provides certain health, dental and life insurance benefits under unfunded defined benefit plans to its eligible retired employees (the "defined benefit plans").

The Corporation's net obligation in respect of the defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The calculated benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Corporation's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation of the defined benefit obligation is performed by an independent qualified actuary using the projected unit credit method.

Remeasurement of the net defined benefit liability, which is comprised of actuarial gains and losses, is recognized immediately in the balance sheet with a charge or credit to other comprehensive income in the year in which they occur.

Past service costs arising from plan amendments is recognized immediately in net income at the earlier of the date the plan amendment occurs or when any related restructuring costs or termination benefits are recognized.

(k) Customer deposits

Customer deposits are collections from customers to guarantee the payment of energy bills. Deposits that are refundable to customers on demand are classified as a current liability. Interest is paid on customer deposits.

(l) Leases

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

Other leases are operating leases and are not recognized in the Corporation's balance sheet. Payments made under operating leases are recognized as an expense on a straight-line basis over the term of the lease.

3. Significant accounting policies (continued)

(m) Payment in lieu of corporate income taxes ("PILs")

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). The payments in lieu of taxes are calculated on a basis as if the Corporation was a taxable company under the Income Tax Act (Canada) and the Taxation Act, 2007 (Ontario).

Income tax expense comprises current and deferred tax and is recognized in net income except to the extent that it relates to items recognized directly in other comprehensive income.

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

Deferred tax is recognized, using the liability method, on temporary differences arising between the carrying amount of balance sheet items and their corresponding tax basis, using the substantively enacted income tax rates for the years in which the differences are expected to reverse.

In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognized for deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized.

(n) Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group owns 50% of Collingwood PowerStream Utility Services Corp. ("Collus PowerStream"). This investment is accounted for using the equity method and is recognized initially at cost.

Any excess cost over the acquisition of the Group's share of the net fair value of the identifiable assets and liabilities of Collus PowerStream is recognized as goodwill and included in the carrying value of the investment.

If Collus PowerStream is in a loss position, then when the Group's share of losses in Collus PowerStream equals or exceeds its interest, the Group would discontinue recognizing its share of further losses.

The financial statements include the Corporations's share of the (loss)/income and other comprehensive (loss)/income of Collus PowerStream for the year ended December 31, 2015.

4. Future accounting changes

There are a number of new standards and amendments to standards which are effective for annual periods beginning after 1 January 2015 and earlier application is permitted; however, the Corporation has not early applied the following new or amended standards in preparing these financial statements:

- IFRS 9 *Financial Instruments* - replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Corporation has not yet assessed the impact of this standard on the financial statements.
- IFRS 15 *Revenue from Contracts with Customers* - this standard establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 18 *Transfer of Assets from Customers*. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Corporation has not yet assessed the impact of this standard on the financial statements

(In thousands of dollars)

4. Future accounting changes (continued)

The following new or amended standards are not expected to have a significant impact on the Corporation's financial statements.

- IFRS 14, Regulatory deferral accounts
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)
- Equity method in Separate Financial Statements - Amendments to IAS 27
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*
- Annual Improvements to IFRSs 2012-2014 Cycle - various standards
- Disclosure initiative - Amendments to IAS 1

5. Investment in a joint venture

The Corporation owns a 50% interest in Collus PowerStream, a joint venture of which the Corporation has joint control. The cost of the investment includes transaction costs and the share of Collus PowerStream's (loss)/income and other comprehensive (loss)/income since the acquisition. Collus PowerStream is involved in the distribution of electricity in Collingwood, Thornbury, Stayner and Creemore, as well as the provision of other utility services in the service area of Clearview and the Town of The Blue Mountains in the Province of Ontario. Collus PowerStream's principal place of business is the Town of Collingwood.

The following judgments were used in determining that the investment was a joint venture:

- Joint control was established by assessing that both the Corporation and the City of Collingwood have unanimous consent over relevant activities within Collus PowerStream. This was done through the agreements that were signed.
- This classification of the investment in Collus PowerStream as a joint venture was determined through analysis of the rights and obligations of the investment, specifically the legal structure.

Summarized financial information for Collus PowerStream follows. There were no significant restrictions from borrowing arrangements or any commitments incurred on behalf of Collus PowerStream in relation to the Corporation.

	2015	2014
	$	$
Total assets	**30,789**	27,709
Total liabilities	**21,722**	20,876
Net revenue	**9,368**	7,452
Total income and other comprehensive income	**1,674**	925
Share of income and other comprehensive income	**837**	463

6. Inventories

During fiscal 2015, an amount of $196 (2014 - $59) was recorded as an expense for the write-down to net realizable value of obsolete or damaged inventory.

(In thousands of dollars)

7. Property, plant and equipment

	Land and buildings	Distribution and other assets		Work-in-progress	Total
	$	$		$	$
Cost					
Balance at January 1, 2014	66,263	893,391		53,110	1,012,764
Additions	6,202	134,477		26,146	166,825
Disposals	(19)	(4,219)		-	(4,238)
Balance at December 31, 2014	72,446	1,023,649		79,256	1,175,351
Additions	5,694	170,045		-	175,739
Disposals / transfers	(9)	(2,114)		(41,193)	(43,316)
Balance at December 31, 2015	**78,131**	**1,191,580**		**38,063**	**1,307,774**
Accumulated depreciation					
Balance at January 1, 2014	3,382	98,598		-	101,980
Depreciation expense	1,191	40,107		-	41,298
Disposals	-	(478)		-	(478)
Balance at December 31, 2014	4,573	138,227		-	142,800
Depreciation expense	1,263	44,996		-	46,259
Disposals	-	(432)		-	(432)
Balance at December 31, 2015	**5,836**	**182,791**		**-**	**188,627**
Carrying amounts					
At December 31, 2014	67,873	885,422	-	79,256	1,032,551
At December 31, 2015	**72,295**	**1,008,789**	**-**	**38,063**	**1,119,147**

Included in PP&E costs is $18,833 (2014 - $16,910) of capitalized expenses and $651 (2014 - $654) of interest capitalized during the year. Interest costs have been capitalized at a rate of 3.75% (2014 - 5.81%) for rate-regulated business and at a rate of 1.68% (2014 - 1.82%) for Permitted Generation Business.

The Corporation leases its operations centre under a finance lease agreement. The leased operations centre is secured as collateral against the lease obligation. At December 31, 2015, the net carrying amount of the operations centre was $13,894 (2014 - $14,624).

(In thousands of dollars)

8. Intangible assets and goodwill

(a) Intangible assets

	Land rights	Computer software	Capital contributions	Work in progress	Total
	$	$	$	$	$
Cost					
Balance at January 1, 2014	827	15,307	4,972	15,686	36,792
Additions	46	1,488	-	15,577	17,111
Disposals	-	-	-	-	-
Balance at December 31, 2014	873	16,795	4,972	31,263	53,903
Additions	26	46,681	-	-	46,707
Transfers	-	-	-	(31,263)	(31,263)
Balance at December 31, 2015	**899**	**63,476**	**4,972**	**-**	**69,347**
Accumulated amortization					
Balance at January 1, 2014	-	7,353	606	-	7,959
Amortization expense	-	3,035	288	-	3,323
Disposals	-	-	-	-	-
Balance at December 31, 2014	-	10,388	894	-	11,282
Amortization expense	-	4,704	288	-	4,992
Disposals	-	-	-	-	-
Balance at December 31, 2015	**-**	**15,092**	**1,182**	**-**	**16,274**
Carrying amounts					
At December 31, 2014	873	6,407	4,078	31,263	42,621
At December 31, 2015	**899**	**48,384**	**3,790**	**-**	**53,073**

Included in intangible assets is $755 (2014 - $797) of interest capitalized during the year.

(b) Impairment testing of goodwill and indefinite life intangible assets

For the purpose of impairment testing, goodwill with a carrying amount of $42,543 (2014 - $42,543) and land rights with a carrying amount of $899 (2014 - $873) are allocated to the Corporation's rate regulated CGU. The Corporation tested goodwill and land rights for impairment as at December 31, 2015, in accordance with its policy described in Note 3.

The total recoverable amount of $1,108,058, being $1,008,700 and $99,358 for the rate regulated and Permitted Generation Business unit CGUs respectively, was determined based on its value-in-use.

The Corporation has used discounted cash flow analysis to determine value-in-use. The value-in-use was determined in a similar manner at December 31, 2015, and December 31, 2014.

(In thousands of dollars)

8. Intangible assets and goodwill (continued)

(b) Impairment testing of goodwill and indefinite life intangible assets (continued)

The calculation of value in use for the rate regulated CGU was based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results using a 5 year forecast with growth rates of 2.50% (2014 - 2.50%) built into the forecast. Growth rates were determined using the Bank of Canada inflation forecast.
- A pre-tax discount rate of 5.90% (2014 - 5.66%) and terminal value was used to discount the cash flows; this is derived from the Weighted Average Cost of Capital ("WACC") calculation. A discount rate increase of 1% would result in the carrying amount of the regulated CGU exceeding the recoverable amount by $262.

The calculation of value in use for the Permitted Generation Business unit CGU was based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results using a 5 year forecast with declining rates of 0.9% (2014 - 2.5%) built into the forecast. Declining rates were determined by the declining efficiency of solar assets due to aging.
- A pre-tax discount rate of 6.71% (2014 - 5.50%) and terminal value was used to discount the cash flows; this is derived from the cost of borrowing on solar debentures.
- A discount rate increase of 7% would result in the carrying amount of the Permitted Generation Business unit CGU exceeding the recoverable amount by $115.

Guidance in IAS 36 Impairment of Assets Appendix A, was applied in determining the WACC which is not asset specific.

9. Accounts payable and accrued liabilities

	2015	2014
	$	$
Accounts payable - energy purchases	**84,149**	82,881
Debt retirement charge payable - OEFC	**4,526**	4,600
Payroll payable	**5,767**	6,131
Interest payable	**3,836**	3,844
Commodity taxes payable	**993**	(41)
Customer receivables in credit balances	**5,360**	4,279
Other accounts payable and accrued liabilities	**41,331**	32,485
	145,962	134,179

(In thousands of dollars)

10. Related party balances and transactions

(a) Balances and transactions with jointly controlling shareholders

The amount due to/(from) related parties is comprised of amounts payable to/(receivable from) the City of Vaughan, the City of Markham, the City of Barrie and their wholly-owned subsidiaries.

Components of the amounts due to/(from) related parties are as follows:

	2015	2014
	$	$
Due from:		
City of Vaughan	**987**	778
City of Markham	**1,366**	1,083
City of Barrie	**1,004**	1,032
	3,357	2,893
Due to:		
City of Vaughan	**(9,865)**	(8,266)
City of Markham	**(8,926)**	(8,381)
City of Barrie	**(282)**	(282)
	(19,073)	(16,929)

Significant related party transactions with the jointly controlling shareholders not otherwise disclosed separately in the financial statements, are summarized below:

			2015			2014
	City of Vaughan	**City of Markham**	**City of Barrie**	City of Vaughan	City of Markham	City of Barrie
	$	**$**	**$**	$	$	$
Revenue						
Energy and distribution	**6,800**	**6,820**	**7,368**	6,233	6,189	7,256
Shared services	**1,779**	**1,687**	**-**	1,727	2,029	-
Total revenue	**8,579**	**8,507**	**7,368**	7,960	8,218	7,256
Expenses						
Realty taxes	**615**	**548**	**269**	640	502	268
Facilities rental and other	**23**	**69**	**52**	5	66	42
Total	**7,941**	**7,890**	**7,047**	7,315	7,650	6,946

These transactions are in the normal course of operations and are recorded at the exchange amount. The Corporation has certain operating leases with the City of Vaughan, City of Markham and City of Barrie to lease rooftops on a number of buildings for which feed-in tariff contracts have been obtained. The current year lease expense has been included in the 'Facilities rental and other' line on the table above, and the future operating lease commitments have been disclosed in Note16(b).

(In thousands of dollars)

10. Related party balances and transactions (continued)

(b) Inter-company balances

The Corporation also has an intercompany loan with PowerStream Energy Services Inc., the interest rate payable on the loan is at a banker's acceptance rate plus 160 basis points.

The amount due from inter-company related parties, which is comprised of a receivable from PowerStream Energy Services Inc., a subsidiary of PowerStream Holdings Inc., and a payable to PowerStream Holdings Inc., is as follows:

	2015	2014
	$	$
Due from:		
PowerStream Holdings Inc.	**-**	30
PowerStream Energy Services Inc.	**10,297**	3,801
Due to:		
PowerStream Holdings Inc.	**(2)**	-

Amount due from Collus PowerStream, not otherwise disclosed separately in the financial statements, is as follows:

	2015	2014
	$	$
Due from:		
Collus PowerStream	**12**	12

(c) Inter-company transactions

The Corporation has service level agreements with PowerStream Energy Services Inc. and Collus PowerStream, where the Corporation provides a number of back office service functions. The amount charged of $466 (2014 - $567) and $12 (2014 - $12) respectively to these entities is based on the percentage of time spent for these services.

The Corporation also has an intercompany loan of $9,639 (2014 - $3,063) with PowerStream Energy Services Inc. The interest rate payable on the loan is at 90-days bankers' acceptance rate plus 160 basis points. The loan is for a three-year term with an automatic renewal. The amount of interest charged was $192 (2014 - $171)

(In thousands of dollars)

10. Related party balances and transactions (continued)

(d) Key management personnel compensation

Key management personnel are comprised of the Corporation's senior management team. The compensation paid or payable to key management personnel is as follows:

	2015	2014
	$	$
Short-term employment benefits and salaries	**8,301**	8,225
Post-employment benefits	**1,019**	1,006
	9,320	9,231

11. Short-term debt

(a) Credit facilities

On December 17, 2008, the Corporation executed an unsecured credit facility with a Canadian chartered bank. The credit facility is renewable annually. The credit facility agreement provides an extendible 364-day committed revolving credit facility of $75,000, an uncommitted demand facility of $50,000, and uncommitted Letter of Guarantee facilities of $20,000. As of December 31, 2015, the Corporation utilized $Nil (2014 - $ Nil) of the 364-day committed revolving credit facilities and $15,000 (2014-$Nil) of the uncommitted demand facility.

In addition to the above, the Corporation entered into a second unsecured credit facility agreement with a Canadian Chartered Bank that provided for a committed line of credit of up to $150,000. This committed facility matures on February 12, 2017. As of December 31, 2015, the Corporation utilized $35,000 (2014 - $25,000) of this facility.

As at December 31, 2015, the Corporation had utilized $14,999 (2014 - $14,999) of the uncommitted Letter of Guarantee facility for a letter of credit that was provided to the IESO to mitigate the risk of default on energy payments. With the opening of Ontario's electricity market to wholesale and retail competition on May 1, 2002 ("Open Access"), the IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the letter of credit if the Corporation defaults on its payment. Further, as at December 31, 2015, an additional $359 (2014 - $364) of the uncommitted Letter of Guarantee facility was utilized as security for operating projects.

The 364-day committed revolving credit facility can be drawn upon by direct advances, bearing interest at the lower of prime plus 0% or Bankers' Acceptance of a stamping fee plus 95 basis points (0.95% per annum). The uncommitted demand facility bears an interest rate at the lower of prime minus 0.30% or Bankers' Acceptance stamping fee plus 68 basis points (0.68% per annum). The Letter of Guarantee facility bears a charge of 50 basis points (0.50%) per annum.

The second committed credit facility bears an interest rate at Bankers' Acceptance stamping fee plus 70 basis points (0.70% per annum), with commitment fee of 10.5 basis points applied to the unutilized balance.

The amount of short-term debt drawn on the available credit facilities consists of:

	2015	2014
	$	$
Uncommitted credit facility	**15,000**	-
Committed credit facility	**35,000**	25,000
	50,000	25,000

(In thousands of dollars)

11. Short-term debt (continued)

(b) Ontario Infrastructure and Lands Corporation ("Infrastructure Ontario") financing

On October 15, 2010 the Corporation secured financing with Infrastructure Ontario for its Permitted Generation Business unit. The funding is available for up to 5 years from the date that the agreement was signed, with an extension to March 31, 2016.

As at December 31, 2015, the Corporation has utilized $75,348 (2014 - $68,015) of the $90,000 financing facility, of which $3,995 (2014 - $4,293) has been transferred to a long-term debenture and $657 in principal repayments have been made to date. Principal repayments of $177 will be paid for 12 months following December 31, 2015 and therefore are classified as current liabilities. Each advance bears interest at a floating rate per annum as determined by Infrastructure Ontario. The advance interest rate at December 31, 2015 was 1.60% (2014 - 1.86%) and interest expense for the year was $1,015 (2014 - $654).

A note in the amount of $979 bears interest at a rate of 4.09% per annum, payable on May 15 and November 15 each year, and matures on November 17, 2031.

A note in the amount of $964 bears interest at a rate of 3.54% per annum, payable on February 15 and August 15 each year, and matures on August 1, 2032.

A note in the amount of $2,709 bears interest at a rate of 3.85% per annum, payable on March 1 and September 1 each year, and matures on March 1, 2033.

The Corporation will pay Infrastructure Ontario a stand-by fee calculated at a rate of 25 basis points (0.25%) on the advanced balance of the committed amount should the Corporation fail to draw any funds pursuant to the agreement from Infrastructure Ontario during any period of 12 consecutive months commencing initially from October 15, 2010, and subsequently from the date of the draw of any such funds until the earlier of the facility termination date March 31, 2016, or the full advance of the committed amount. Infrastructure Ontario financing is secured by the assets of the Permitted Generation Business unit. The financial covenants require a debt service coverage ratio of 1:1 or higher, a debt to capital ratio of 70% or lower, and a current ratio of 1:1 or higher.

This financing is presented as a current liability as a waiver related to non-compliance with the current ratio of 1:1 or higher and the debt service coverage covenants was not received.

12. Long-term debt

(a) Debentures payable

	2015	2014
	$	$
3.958% unsecured Series A debentures due July 30, 2042, interest payable in arrears semi-annually on January 30 and July 30	**198,290**	198,256
3.239% unsecured Series B debentures due November 21, 2024, interest payable in arrears semi-annually on May 21 and November 21	**149,117**	149,032
	347,407	347,288

The debentures rank *pari passu* with all of the Corporation's other senior unsubordinated and unsecured obligations.

Interest expense on these debentures payable was $12,767 (2014 - $8,476).

(In thousands of dollars)

12. Long-term debt (continued)

(a) Debentures payable (continued)

The debentures are subject to a financial covenant. This covenant requires that neither the Corporation nor any designated subsidiary may incur any funded obligation (other than non-recourse debt, capital lease obligations, intercompany indebtedness and purchase money obligations) unless the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. As at December 31, 2015, the Corporation is in compliance with this covenant.

(b) Notes payable

	2015	2014
	$	$
Promissory note issued to the City of Vaughan	**78,236**	78,236
Deferred interest on promissory note issued to the City of Vaughan	**8,743**	8,743
Promissory note issued to the City of Markham	**67,866**	67,866
Deferred interest on promissory note issued to the City of Markham	**7,585**	7,585
Promissory note issued to the City of Barrie	**-**	20,000
Total long term notes payable	**162,430**	182,430
Less current portion		
Promissory note issued to the City of Barrie	**20,000**	-
Total short term notes payable	**20,000**	-
Total notes payable	**182,430**	182,430

Interest expense on these notes payable was $9,927 (2014 - $9,927).

On June 1, 2004, an unsecured 20 year term promissory note was issued to the City of Vaughan in the amount of $78,236. Interest thereon commenced on June 1, 2004, at an annual rate of 5.58%.

On June 1, 2004, an unsecured 20 year term promissory note was issued to the City of Markham in the amount of $67,866. Interest thereon commenced on June 1, 2004, at an annual rate of 5.58%.

On December 31, 2008, an unsecured 16 year term promissory note was issued to the City of Barrie in the amount of $20,000. Interest thereon commenced on January 1, 2009, is at an annual rate of 5.58%.

The three promissory notes are repayable 90 days following demand by the City of Vaughan, the City of Markham, and the City of Barrie, with subordination and conditions. The City of Vaughan and City of Markham notes have been classified as long-term as they will not demand repayment before January 1, 2017. The City of Barrie promissory notes have been classified as short term as there is a potential that the City of Barrie will call the promissory note during 2016.

At the request of the City of Vaughan and the City of Markham, eight quarters of interest were deferred commencing October 1, 2006, and initially payable October 31, 2013. In 2013, it was agreed that this deferred interest will be repayable in full on October 31, 2018, and is subject to 4.03% interest rate.

(In thousands of dollars)

13. Post-employment benefits obligation

(a) *Multi-employer defined benefit pension plan*

During fiscal 2015, the expense recognized in conjunction with the OMERS plan, which is equal to contributions due for the year was $6,161 (2014 - $5,782). At December 31, 2015, $1,164 (2014 - $853) of contributions were payable to the OMERS plan and were included in accounts payable and accrued liabilities on the balance sheet.

As at December 31, 2014, OMERS had approximately 450,000 members, of whom approximately 550 are current employees of the Corporation. The accrued benefit obligation of the OMERS plan as shown in OMERS financial statements as at December 31, 2014 (the latest financial statements available as at the reporting date) is $76,924 million, with a funding deficit of $7,078 million. The funding deficit will result in future payments by the participating employers.

The Corporation shares in the actuarial risks of the other participating entities in the OMERS plan and its future contributions may therefore be increased due to actuarial losses relating to the other participating entities. In addition, the withdrawal of other participating entities from the OMERS plan may also result in an increase to the Corporation's future contribution requirements.

(b) *Non-pension defined benefit pension plans*

A reconciliation of the obligation for the defined benefit plans is as follows:

	2015	2014
	$	$
Defined benefit obligation, beginning of the year	**17,362**	19,317
Amounts recognized in net income:		
Current service cost	**1,002**	915
Interest expense	**687**	909
	1,689	1,824
Amounts recognized in other comprehensive income:		
Actuarial (gains)/losses arising from changes in demographic assumptions	**-**	(1,364)
Actuarial (gains)/losses arising from changes in financial assumptions	**(360)**	(2,116)
	(360)	(3,480)
Payments from the plan	**(382)**	(299)
Defined benefit obligation, end of the year	**18,309**	17,362

The obligation for the defined benefit plans is presented in the balance sheet as post-employment benefits.

(In thousands of dollars)

13. Post-employment benefits obligation (continued)

(b) Non-pension defined benefit pension plans (continued)

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

	2015	2014
	%	%
Discount rate	**4.00**	4.00
Rate of compensation increase	**3.50**	3.50
Medical benefits costs escalation	**6.66**	4.60 - 7. 00
Dental benefits costs escalation	**4.60**	4.60

14. Share capital

The Corporation's authorized share capital is made up of an unlimited number of common shares, and an unlimited number of Class A non-voting common shares, all of which are without nominal or par value.

The share capital issued during the period is as follows:

	Common shares		**Class A common shares**		**Total**
	Shares issued	**$**	**Shares issued**	**$**	**$**
Balance at January 1, 2014	100,000	247,183	69,223	41,535	288,718
Issued for cash	8,091	20,001	30,774	18,465	38,466
Balance at December 31, 2014	108,091	267,184	99,997	60,000	327,184
Issued for cash	6,068	15,000	-	-	15,000
Balance at December 31, 2015	**114,159**	**282,184**	**99,997**	**60,000**	**342,184**

On November 23, 2010, a Subscription Agreement was signed between the Corporation and its Shareholders for new Class A common shares for the purposes of the Shareholders providing equity for the Corporation's Permitted Generation business unit. The articles of incorporation and shareholders agreement were amended in order to proceed with the subscription agreement. This Subscription Agreement expired on December 31, 2011 and as such, a revised Subscription Agreement was signed between the Corporation and its Shareholders on January 1, 2012 to extend the equity financing in respect of the Corporation's Permitted Generation Business unit. The maximum amount of Class A common shares that are available under the subscription agreement is 100,000.

On November 1, 2013, a Unanimous Shareholders Agreement was signed between the Corporation and its Shareholders, superseding the existing revised Subscription Agreement. This ensured a reorganization of the Corporation becoming a wholly owned subsidiary of the newly established Group, PowerStream Holdings Inc. In effect, the total 114,159 common shares and 99,997 Class A common shares of the Corporation are wholly owned by PowerStream Holdings Inc.

During 2015, an additional 6,068 (2014 - 8,091) of the common shares were issued for an amount of $15,000 (2014 - $20,001).

14. Share capital (continued)

Dividends

The Corporation has established a dividend policy to pay a minimum of 50% of Modified IFRS ("MIFRS", framework used for reporting to the OEB) net income to PowerStream Holdings Inc., excluding the Permitted Generation Business unit income, with consideration given to the following:

- Cash position at the beginning of the current year;
- Working capital requirements for the current year; and
- Net capital expenditures required for the current year.

The Corporation paid a dividend of $157.58 per share (2014 - $165.75) on the common shares during the year, amounting to a total dividend of $17,108 (2014 - $16,575). There is no tax effect as the dividends are paid out on an after tax basis.

The Corporation has also established a dividend policy for its Permitted Generation Business unit to distribute a dividend on the Class A common shares to PowerStream Holdings Inc. determined as follows:

- The Corporation will target an IRR of 10.5% on the Permitted Generation Business Unit. As each project is completed by the Permitted Generation Business Unit, the Corporation expects to make distributions calculated with reference to the Class A common shares equity injections made by the Shareholders from time to time, provided that the amount of each dividend will be at the discretion of the Board of Directors ("Board") and may be greater or lesser than the below having regard to the financial and operating results of the Corporation as a whole;
    - For purposes of the dividend declaration that follows receipt of the unaudited IFRS financial statements for the Permitted Generation Business unit at mid-year, such amounts shall be the greater of:
        - The amounts reported in the most recent unaudited year-end IFRS financial statements for the Permitted Generation Business unit, or
        - The sum of fifty percent (50%) of the amounts reported in the most recent unaudited year-end IFRS financial statements for the Permitted Generation Business unit plus 100% of the amounts reported in the most recent unaudited mid-year IFRS financial statements for the Permitted Generation Business unit (i.e. for a six-month period).
- In the post-construction period or earlier as determined by the Board, the net free cash flow will be paid to the holders of the Class A common shares subject to the criteria listed below:
    - Dividends will be declared by the Corporation's Board of Directors after due consideration is given to the following:
        - All financial covenants on any debt issued by the Corporation.
        - Qualifications to meet external bond rating criteria and ensure no adverse impact on the current credit rating of the Corporation. The Corporation will advise the Shareholders of its credit rating from time to time (and at least on an annual basis).
        - Cash flow requirements of the Permitted Generation Business Unit of the Corporation to meet working capital requirements and short-term (2 year) plans of capital expenditures.
        - The maintenance of the planned 60/40 debt to equity ratio.

In 2015, The Corporation paid a dividend of $110.08 per share (2014 - $88.97) on the Class A common shares during the year, amounting to a total dividend of $11,008 (2014 - $6,159). There is no tax effect as the dividends are paid out on an after tax basis.

(In thousands of dollars)

15. Insurance

The Corporation maintains appropriate types and levels of insurance with major insurers. With respect to liability insurance, the Corporation is a member of the Municipal Electricity 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 thousands of dollars of service revenue subject to a credit or surcharge based on each member's claims experience. The maximum coverage is $24,000 for liability insurance, $499,217 for property insurance, $15,000 for vehicle insurance, and $4,500 for credit insurance; plus $10,000 excess coverage on top of the regular liability and vehicle coverage.

16. Leases

(a) Finance leases

The Corporation leases its operations centre under a 25 year lease agreement. The lease agreement includes both land and building elements. Upon entering into this lease arrangement, the Corporation classified the building element of the lease as a finance lease since it was determined that substantially all of the benefits and risks incidental to ownership of the operation centre were transferred to the Corporation (the lessee). The component of the annual basic rent related to the land is classified and recorded as an operating lease and the component related to the building is classified as a finance lease.

			2015
	Future minimum lease payments (including interest)	**Interest**	**Present value of minimum lease payments**
	$	**$**	**$**
Less than one year	**1,430**	**1,070**	**360**
Between one and five years	**7,363**	**4,938**	**2,425**
More than five years	**20,492**	**6,822**	**13,670**
	29,285	**12,830**	**16,455**

			2014
	Future minimum lease payments (including interest)	Interest	Present value of minimum lease payments
	$	$	$
Less than one year	1,430	1,093	337
Between one and five years	7,257	5,089	2,168
More than five years	22,029	7,742	14,287
	30,716	13,924	16,792

(In thousands of dollars)

16. Leases (continued)

(a) Finance leases (continued)

Interest on the lease obligation during fiscal 2015 amounted to $1,093 (2014 - $1,115) based on the rate of 6.57% per annum (2014 - 6.57%). Amortization of the corresponding property, plant and equipment during fiscal 2015 amounted to $731 (2014 - $731) based on the straight-line method with a useful life equal to the term of the lease (25 years). The Corporation has the option to purchase within twelve months before the expiry of the original lease in 2034, or an option of three five year lease extensions.

(b) Operating leases

The Corporation is also committed to lease agreements for various vehicles, equipment, rooftops and the land portion of the finance lease for solar projects that have been classified as operating leases. The leases typically run for a period of 5 to 20 years.

The future minimum, non-cancellable annual lease payments (including the land portion of the operating centre lease referred to in (a) above) are as follows:

	2015	2014
	$	$
Less than one year	**3,133**	3,141
Between one and five years	**15,558**	15,548
More than five years	**31,219**	34,363
	49,910	53,052

During the year ended December 31, 2015, an expense of $3,138 (2014 - $3,126) was recognized in net income in respect of operating leases.

17. Financial instruments and risk management

(a) Fair value of financial instruments

The Corporation's accounting policies relating to the recognition and measurement of financial instruments are disclosed in Note 3(d).

The carrying amount of cash, accounts receivable, unbilled revenue, amounts due from related parties, bank indebtedness, liability for subdivision development, short-term debt, short- term Infrastructure Ontario financing, customer deposits, accounts payable and accrued liabilities and amounts due to related parties approximates fair value because of the short maturity of these instruments. The carrying value and fair value of the Corporation's other financial instruments are as follows:

		2015		2014
Description	**Carrying value**	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Liabilities				
Notes payable	**182,430**	**217,108**	182,430	219,338
Debentures payable	**347,407**	**348,647**	347,288	353,756
	529,837	**565,755**	529,718	573,094

The carrying amounts shown in the table are included in the balance sheet under the indicated captions. In addition, the fair value of the $3,995 (2014 - $4,293) Infrastructure Ontario debentures which have been reclassified as a current liability (see Note 11), is $4,075 (2014 - $4,324) as at December 31, 2015.

(In thousands of dollars)

17. Financial instruments and risk management (continued)

(a) Fair value of financial instruments (continued)

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 of identical instruments in active markets,
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, and
- Level 3: inputs for the liabilities that are not based on observable market data (unobservable inputs).

The Corporation's fair value hierarchy is classified as Level 2 for notes and debentures payable. The classification for disclosure purposes has been determined in accordance with generally accepted pricing models, based on discounted cash flow analysis, with the most significant inputs being the contractual terms of the instrument discounted, and the market discount rates that reflects the credit risk of counterparties.

(b) Risk factors

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

(c) Credit risk

The Corporation's primary source of credit risk to its accounts receivable result from customers failing to discharge their dues for electricity consumed and billed.

The Corporation has approximately 375,000 (2014 - 370,000) residential and commercial customers. In order to mitigate such potential credit risks, the Corporation has taken various measures in respect of its Energy customers such as collecting security deposits amounting to \$17,358 (2014 - \$15,964) in accordance with OEB guidelines, reviewing Dun & Bradstreet ("D&B") reports for the top 3000 commercial customers with an outstanding balance of \$5 or more, in-house collection department as well as external collection agencies and a bad debt insurance policy for \$4,500 (2014 - \$4,500) related to energy receivables. Thus, the Corporation monitors and limits its exposure to such credit risks on an ongoing basis.

Pursuant to their respective terms, accounts receivable are aged as follows at December 31:

	2015		2014	
	Total		Total	
	$	**%**	$	%
Less than 30 days	**78,949**	**72**	78,146	80
30 - 60 days	**15,714**	**14**	12,803	13
61 - 90 days	**5,352**	**5**	3,469	4
Greater than 91 days	**9,576**	**9**	3,186	3
Total outstanding	**109,591**	**100**	97,604	100
Less: allowance for doubtful accounts	**(3,649)**	**(3)**	(1,641)	(2)
	105,942	**97**	95,963	98

As at December 31, 2015, there was no significant concentration of credit risk with respect to any financial assets.

(In thousands of dollars)

17. Financial instruments and risk management (continued)

(d) Interest rate risk

The Corporation manages its exposure to interest rate risk by issuing long term fixed rate debt in the form of debentures, promissory notes and bank loans. It also ensures that all payment obligations are met by adopting proper capital planning.

As part of the Corporations' revolving demand operating credit facility, the Corporation may utilize the line of credit for working capital and/or capital expenditure purposes. Such short-term borrowing may expose the Corporation to short-term interest rate fluctuations as follows:

	2015	2014
364 day revolving facility		
Prime based loans	**PR*+0.0% p.a.**	PR*+0.0% p.a.
Bankers Acceptances	**SF*+0.95% p.a.**	SF*+0.95% p.a.
Demand facility		
Prime based loans	**PR*–0.30% p.a.**	PR*–0.30% p.a.
Bankers acceptances	**SF*+0.68% p.a.**	SF*+0.68% p.a.
Bankers acceptances (Secondary)	**SF*+0.70% p.a.**	SF*+0.70% p.a.
Letter of guarantee facility	**0.50% p.a.**	0.50% p.a.
Infrastructure Ontario financing	**Floating rate p.a.**	Floating rate p.a.

Note: PR - Prime Rate, SF* - Stamping Fee*

A sensitivity analysis was conducted to examine the impact of a change in the prime rate or stamping fee on the short-term debt. A variation of 1% (100 basis points), with all other variables held constant, would increase or decrease the annual interest expense by approximately $455.

Cash balances that are not required for day to day obligations earn an interest of Prime minus 1.7% per annum. Fluctuations in this interest rate could impact the level of interest income earned by the Corporation.

(e) Liquidity risk

Liquidity risks are those risks associated with the Corporation's inability to meet obligations associated with financial liabilities such as repayment of principal or interest payments on debts.

The Corporation monitors its liquidity risks on a regular basis to ensure there is sufficient cash flow to meet the obligations as they fall due as well as minimize the interest expense. Cash flow forecasts are prepared to monitor liquidity risks. Liquidity risks associated with financial liabilities are as follows:

			2015			2014
Maturity period	**Principal***	**Interest**	**Total**	Principal*	Interest	Total
	$	**$**	**$**	$	$	$
Less than 1 year	**325,719**	**23,563**	**349,282**	254,072	24,533	278,605
1-5 years	**16,327**	**111,623**	**127,950**	17,283	112,299	129,582
6-10 years	**295,219**	**76,090**	**371,309**	316,291	90,242	406,533
Over 10 years	**198,291**	**122,540**	**320,831**	200,315	130,442	330,757
	835,556	**333,816**	**1,169,372**	787,961	357,516	1,145,477

* The principal includes $2,592 (2014 - $2,712) of unamortized deferred issuing cost.

(In thousands of dollars)

17. Financial instruments and risk management (continued)

(f) Hedging/derivative risk

The Corporation has a swap and derivative transaction policy to enable the Corporation to enter into agreements such as interest rate swaps where 100% of the floating rate risk is hedged into a fixed rate. This is done for prudent risk management purposes and not speculative purposes.

The Corporation has not entered into any such transactions during the current year or prior years.

18. Capital structure

The Corporation's main objectives in the management of capital are to:

(i) Ensure that there is access to various funding options at the lowest possible rates for the various capital initiatives and working capital requirements necessary for the rate-regulated business;

(ii) Ensure compliance with various covenants related to its short-term debt, Infrastructure Ontario financing, bank term loan, debentures payable and Infrastructure Ontario debentures;

(iii) Consistently maintain a high credit rating for the Corporation;

(iv) Maintain a split of approximately 60% debt, 40% equity as recommended by the OEB;

(v) Ensure interest rate fluctuations are mitigated primarily by long term borrowings as well as capital planning; and

(vi) Deliver appropriate financial returns to shareholders.

The Corporation considers shareholders' equity, long-term debt and certain short-term debt as its capital. The capital structure as at December 31, 2015 is as follows:

	2015	2014
	$	$
Short-term debt		
Short-term debt (Note 11)	**50,000**	25,000
Infrastructure Ontario financing (Note 11)	**74,691**	67,656
Notes payable (Note 12)	**20,000**	-
Long-term debt		
Debentures payable (Note 12)	**347,407**	347,288
Notes payable (Note 12)	**162,430**	182,430
Total debt	**654,528**	622,374
Shareholders' equity		
Share capital (Note 14)	**342,184**	327,184
Accumulated other comprehensive income	**2,083**	1,819
Retained earnings	**111,626**	114,297
Total equity	**455,893**	443,300
Total	**1,110,421**	1,065,674

(In thousands of dollars)

18. Capital structure (continued)

As at December 31, 2015, the Corporation was in compliance with covenants related to its short-term debt, bank term loan and debentures payable. The Corporation is in a temporary breach of a covenant related to Infrastructure Ontario financing and expects to receive a waiver following the reporting date. Details relating to covenants are disclosed in Note 11 and Note 12.

The Corporation is within the debt and equity requirements of the OEB. The Corporation's dividend policy is disclosed in Note 14.

19. Operating expenses

Operating expenses comprise:

	2015	2014
	$	$
Labour	**49,121**	49,747
Contract/consulting	**17,067**	15,710
Materials	**1,896**	1,651
Vehicle	**1,399**	1,579
Other	**30,735**	21,668
	100,218	90,355

20. Income taxes

(a) Income tax expense

PILs recognized in net income comprise the following:

	2015	2014
	$	$
Current tax recovery	**(3,526)**	(7,559)
Deferred tax expense	**6,916**	7,376
Income tax expense (recovery)	**3,390**	(183)

(In thousands of dollars)

20. Income taxes (continued)

(b) Reconciliation of effective tax rate

The PILs income tax expense differs from the amount that would have been recorded using the combined Canadian federal and provincial statutory income tax rates. The reconciliation between the statutory and effective tax rates is as follows:

	2015	2014
	$	$
Income before taxes	**28,835**	13,691
Statutory Canadian federal and provincial income tax rates	**26.50%**	26.50%
Expected tax provision on income at statutory rates	**7,641**	3,628
Increase (decrease) in income taxes resulting from:		
Permanent differences	**67**	(5)
Adjustments in respect of prior years	**40**	(1,929)
Scientific Research & Experimental Development tax credit	**(1,122)**	(1,374)
Burden filing reserve reversal	**(2,800)**	-
Other	**(436)**	(503)
Total income tax expense (recovery)	**3,390**	(183)

Statutory Canadian federal and provincial income tax rates for the current year comprise 15% (2014 - 15%) for federal corporate tax and a rate of 11.5% (2013 - 11.5%) for corporate tax in Ontario. There was no change in the federal and provincial corporate tax rates in 2015 (no change in 2014).

(c) Deferred tax balances

Deferred tax assets/(liabilities) are attributable to the following:

	2015	2014
	$	$
Employee future benefits	**4,852**	4,601
Property, plant and equipment	**480**	3,154
Intangible assets	**1,102**	1,203
Non-capital loss	**5,040**	1,314
Tax credit carryovers	**765**	2,482
Other deductible temporary differences	**(5,012)**	1,485
	7,227	14,239

Management has a plan in place to utilize the above losses and draw down this asset.

(In thousands of dollars)

20. Income taxes (continued)

(c) Deferred tax balances (continued)

Movement in deferred tax balances during the year were as follows:

	2015	2014
	$	$
Balance at January 1	**14,239**	22,537
Recognized in net income	**(6,916)**	(7,376)
Recognized in OCI related to employee future benefits	**(96)**	(922)
Balance at December 31	**7,227**	14,239

21. Net change in non-cash operating working capital

	2015	2014
	$	$
Accounts receivable	**(9,979)**	(5,334)
Unbilled revenue	**17,925**	3,258
Due from related parties	**(6,930)**	(3,998)
Inventories	**(141)**	(129)
Prepaids and other assets	**(1,079)**	(233)
Customer deposits	**1,555**	1,079
Accounts payable and accrued liabilities	**11,791**	(1,442)
Due to related parties	**2,146**	1,167
Liability for subdivision development	**(448)**	(332)
Capital accruals in prior year	**9,603**	10,122
Capital accruals in current year	**(5,266)**	(9,603)
	19,177	(5,445)

22. Other revenue

	2015	2014
	$	$
Renewable generation	**16,699**	10,878
Other	**16,073**	15,175
	32,772	26,053

23. Contingencies, commitments and guarantees

(a) Contingencies- legal claims

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

(b) Commitments

As at December 31, 2015, the Corporation has entered into agreements for capital projects and is committed to making payments of $15,067 in 2016.

(c) Guarantees

In the normal course of business, the Corporation enters into agreements that meet the definition of a guarantee as follows:

(i) The Corporation has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Corporation agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(ii) Indemnity has been provided to all directors and/or officers of the Corporation for various items including, but not limited to, all costs to settle suits or actions due to association with the Corporation, subject to certain restrictions. The Corporation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Corporation. The maximum amount of any potential future payment cannot be reasonably estimated.

(iii) In the normal course of business, the Corporation has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Corporation to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Corporation has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

24. Prior year's comparatives

Certain of prior year's figures have been reclassified to conform to the current year's presentation.