

SCHEDULE "G"

FINANCIAL STATEMENTS OF

**NEWMARKET-TAY POWER
DISTRIBUTION LTD.**

December 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Newmarket-Tay Power Distribution Ltd.

Report on the Financial Statements

We have audited the accompanying financial statements of Newmarket-Tay Power Distribution Ltd., which comprise the statement of financial position as at December 31, 2015, December 31, 2014 and January 1, 2014, and the statements of changes in equity and accumulated other comprehensive income, income, comprehensive income and cash flows for the years ended December 31, 2015 and December 31, 2014, 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 controls as management determines are 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 audits. We conducted our audits 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 auditors' 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 auditors consider internal controls relevant to the Company'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 Company's internal controls. 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 Newmarket-Tay Power Distribution Ltd. as at December 31, 2015, December 31, 2014 and January 1, 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards.

INDEPENDENT AUDITORS' REPORT, continued

Comparative Information

Without modifying our opinion, we draw attention to note 4 to the financial statements which describes that Newmarket-Tay Power Distribution Ltd. adopted International Financial Reporting Standards on January 1, 2015 with a transition date of January 1, 2014. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statement of financial position as at December 31, 2014 and January 1, 2014, and the statements of changes in equity and accumulated other comprehensive income, income, comprehensive income and cash flows for the year ended December 31, 2014 and related disclosures.

Collins Barrow Kawarthas LLP

Chartered Accountants
Licensed Public Accountants

Peterborough, Ontario
May 18, 2016

NEWMARKET-TAY POWER DISTRIBUTION LTD.

STATEMENT OF FINANCIAL POSITION

As at December 31, 2015

	December 31, 2015	December 31, 2014 Restated (note 4)	January 1, 2014 Restated (note 4)
	\$	\$	\$
ASSETS			
Current assets			
Cash	6,720,248	7,357,053	8,697,037
Short-term investments (note 5)	3,410,393	3,389,515	3,349,379
Accounts receivable	9,206,702	9,755,213	9,394,591
Unbilled revenue	12,286,784	11,764,225	9,819,789
Inventories (note 6)	1,113,359	1,301,688	808,950
Prepaid expenses	492,351	448,952	376,146
Income taxes receivable	691,360	900,312	350,000
	33,921,197	34,916,958	32,795,892
Other assets			
Property, plant and equipment (note 7)	89,075,766	77,979,138	76,600,589
Intangible assets (note 8)	545,438	709,451	935,256
Deferred income taxes (note 9)	3,579,706	3,586,139	3,500,000
	93,200,910	82,274,728	81,035,845
	127,122,107	117,191,686	113,831,737
Regulatory deferral account debit balances (note 10)	3,916,408	2,191,352	1,833,086
	131,038,515	119,383,038	115,664,823

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.

STATEMENT OF FINANCIAL POSITION

As at December 31, 2015

	December 31, 2015	December 31, 2014 Restated (note 4)	January 1, 2014 Restated (note 4)
	\$	\$	\$
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities (note 11)	11,247,160	13,063,265	12,073,996
Current portion of long-term debt (note 12)	1,625,745	1,000,000	-
Current portion of deposits held (note 13)	425,000	425,000	425,000
	<u>13,297,905</u>	<u>14,488,265</u>	<u>12,498,996</u>
Long-term liabilities			
Long-term debt (note 12)	30,117,076	23,742,821	24,742,821
Contributed capital (note 14)	24,821,517	23,553,032	22,250,508
Deposits held (note 13)	2,764,264	2,537,654	2,875,807
Employee future benefits (note 15)	813,117	830,105	1,016,846
Advances from parent company (note 16)	2,473,010	2,393,957	2,313,323
	<u>60,988,984</u>	<u>53,057,569</u>	<u>53,199,305</u>
Shareholders' equity			
Share capital (note 17)	27,140,206	27,140,206	27,140,206
Retained earnings	18,995,343	17,195,721	15,634,546
Accumulated other comprehensive income	177,006	154,685	-
	<u>46,312,555</u>	<u>44,490,612</u>	<u>42,774,752</u>
	120,599,444	112,036,446	108,473,053
Regulatory deferral account credit balances (note 10)	<u>10,439,071</u>	<u>7,346,592</u>	<u>7,191,770</u>
	<u>131,038,515</u>	<u>119,383,038</u>	<u>115,664,823</u>

Approved on behalf of the Board

Director

Director

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.
STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME
For the year ended December 31, 2015

	Share capital \$	Retained earnings \$	Accumulated other comprehensive income \$	Total \$
Balance, January 1, 2014	27,140,206	15,634,546	-	42,774,752
Net income for the year	-	2,998,175	-	2,998,175
Other comprehensive income	-	-	154,685	154,685
Dividends paid	-	(1,437,000)	-	(1,437,000)
Balance, December 31, 2014	27,140,206	17,195,721	154,685	44,490,612
Net income for the year	-	3,236,622	-	3,236,622
Other comprehensive income	-	-	22,321	22,321
Dividends paid	-	(1,437,000)	-	(1,437,000)
Balance, December 31, 2015	27,140,206	18,995,343	177,006	46,312,555

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.

STATEMENT OF INCOME

For the year ended December 31, 2015

	2015	2014
	\$	Restated (note 4) \$
Revenue		
Distribution revenue	15,020,342	15,104,369
Cost of power revenue	73,793,907	69,549,614
Contributed capital	558,247	519,222
	89,372,496	85,173,205
Cost of power purchased	72,426,484	69,753,058
	16,946,012	15,420,147
Gross profit		
Other income (note 18)	857,843	1,031,619
	17,803,855	16,451,766
Gross income from operations		
Expenses		
Amortization	3,466,023	3,395,416
Operating expenses (note 19)	7,538,124	8,040,746
Loss on disposal of property, plant and equipment	1,159	35,051
	11,005,306	11,471,213
Income before undernoted items and income taxes	6,798,549	4,980,553
Finance income (note 20)	(424,115)	(427,355)
Finance costs (note 20)	1,511,594	1,504,087
	5,711,070	3,903,821
Income before income taxes and net movement in regulatory deferral accounts		
Provision for (recovery of) income taxes (note 9)		
Current	1,108,640	1,251,000
Deferred	(1,615)	(141,910)
	1,107,025	1,109,090
Income before net movement in regulatory deferral accounts	4,604,045	2,794,731
Net movement in regulatory deferral accounts	1,367,423	(203,444)
Net income for the year	3,236,622	2,998,175

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2015

	2015	2014 Restated (note 4)
	\$	\$
Net income for the year	3,236,622	2,998,175
Comprehensive income		
Actuarial gain, not reclassified to profit or loss	30,369	210,456
Actuarial gain, deferred income tax	(8,048)	(55,771)
Comprehensive income	22,321	154,685
Net income and Comprehensive income for the year	3,258,943	3,152,860

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.**STATEMENT OF CASH FLOWS**

For the year ended December 31, 2015

	2015	2014
		Restated
	\$	(note 4)
		\$
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	3,236,622	2,998,175
Items not affecting cash		
Amortization of property, plant and equipment	3,235,775	3,156,320
Amortization of intangible asset	230,248	239,096
Deferred income taxes	(1,615)	(141,910)
Loss on disposal of property, plant and equipment	1,159	35,051
Employee future benefits	13,381	23,715
Current income tax	1,108,640	1,251,000
Net finance costs	1,087,479	1,076,733
Recognition of contributed capital	(558,247)	(519,222)
	8,353,442	8,118,958
Change in non-cash working capital items (note 21)	(1,915,064)	(3,633,580)
	6,438,378	4,485,378
Investing activities		
Purchase of property, plant and equipment	(14,620,126)	(4,583,122)
Proceeds on disposal of property, plant and equipment	286,564	13,202
Purchase of intangible assets	(66,235)	(13,291)
Regulatory deferral accounts	1,367,423	(203,444)
Proceeds of contributed capital	1,826,732	1,821,746
	(11,205,642)	(2,964,909)
Financing activities		
Proceeds of long-term debt	7,000,000	-
Advances from parent company	79,053	80,634
Interest paid	(1,511,594)	(1,504,087)
Dividends paid	(1,437,000)	(1,437,000)
	4,130,459	(2,860,453)
Decrease in cash	(636,805)	(1,339,984)
Cash - beginning of year	7,357,053	8,697,037
Cash - end of year	6,720,248	7,357,053

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

1. NATURE OF OPERATIONS

Newmarket-Tay Power Distribution Ltd. (the "Company") is a subsidiary of Newmarket Hydro Holdings Inc. and was formed as a result of the amalgamation of Newmarket Hydro Ltd. and Tay Hydro Electric Distribution Company Inc. on May 1, 2007. Tay Hydro Inc. has a 7% non-controlling interest in the Company. The address of its registered office and its principal place of business is 590 Steven Ct, Newmarket, ON L3Y 6Z2.

The principal activity of the Company is to distribute electricity to the residents and businesses in the Town of Newmarket and the Township of Tay under licence issued by the Ontario Energy Board (OEB). The Company is regulated by the OEB and adjustments to its distribution rates require OEB approval.

2. STATEMENT OF COMPLIANCE

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These are the Company's first annual financial statements prepared in accordance with IFRS. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 4.

The financial statements for the year ended December 31, 2015 (including comparatives) were approved and authorized for issue by the board of directors on April 26, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with International Financial Reporting Standards. The significant policies are detailed as follows:

(a) *Basis of measurement*

The financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at their fair values, as explained in the relevant accounting policies.

The consolidated financial statements are presented in Canadian dollars which is also the Company's functional currency.

(b) *Electricity regulation*

The Company is licensed and regulated by the Ontario Energy Board (OEB). The OEB is charged with the responsibility of approving rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfil obligations to connect and service customers.

The following regulatory policy is practiced in a rate regulated environment:

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(b) *Electricity regulation, continued*

Regulatory accounts

Regulatory accounts represent future revenue or expenses incurred in the current or prior periods, that are expected to be recovered (repaid) through the rate setting process.

These assets and liabilities include various rate and retail variance accounts which arise from differences in amounts billed to customers (based on regulated rates) and the actual cost of electricity services to the Company. These amounts are accumulated for accounting purposes because it is probable that they will be recovered (repaid) in future rates. The Company continually assesses the likelihood of the recovery of regulatory assets and likelihood or repayment of regulatory liabilities. If recovery or repayment is no longer considered probable, the amounts are charged to operations in the year the assessment is made.

Regulatory accounts recognized at December 31, 2015 and December 31, 2014 are disclosed in note 10.

(c) *Revenue recognition*

Service revenue is measured based on the OEB approved rate and the meter readings for customer usage, net of sales tax and debt retirement charge. Service revenue also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is recognized as electricity is delivered and consumed by customers and measured.

Cost of power revenue is recorded on the basis of the power billed by the Independent Electricity System Operator.

Contributed capital represent certain items of property, plant and equipment which are acquired or constructed with financial assistance in the form of contributions from developers. Such contributions, whether in cash or in-kind, are recognized as contributions in aid of construction and amortized into income over the life of the related assets. Contributions in aid of construction in-kind are valued at their fair value at the date of their contribution.

Revenues related to Conservation and Demand Management ("CDM") agreements with the Independent Electricity System Operator ("IESO") are recognized on a net basis. Performance fees are recognized as CDM programs are delivered.

Other operating revenue is recorded when services are provided.

(d) *Cash*

Cash consists of balances with financial institutions.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(e) *Short-term investments*

Investments are recorded at fair value. Unrealized gains and losses as a result of fair value adjustments at year end are included in finance income for the year.

(f) *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.

(g) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated amortization and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset or its development when those costs are necessarily incurred for the asset to function in the manner intended by management. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

All assets having limited useful lives are amortized using the straight-line over their estimated useful lives. Assets are amortized from the date of acquisition. Internally constructed assets are amortized from the time an asset is capable of operating in the manner intended by management.

In the year of acquisition, amortization is taken at one-half of the below rates.

The residual value, useful life and amortization method applied to each class of assets are reassessed at each reporting date.

The amortization rates applicable for each class of asset are as follows:

Building	25 to 30 years
Distribution equipment	10 to 50 years
Transportation equipment	5-10 years
Office and other	5-10 years

An impairment loss is recognized when the carrying amount of these assets is not recoverable and exceeds their fair value.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(h) Intangible assets

Intangible assets include computer software and land rights. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. The useful lives of the intangibles are as follows:

Computer software	3-5 years straight-line
Land rights	30 years straight-line

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software, (expenditure relating to patches and other minor updates as well as their installation), are expensed as incurred.

Land rights are capitalized based on the payments made for easements, right of access and right of use over land for which the Company does not hold title. Land rights are measured at cost less accumulated amortization and accumulated impairment losses.

(i) Contributed capital

Contributions for capital construction consist of third party and related party contributions toward the cost of constructing distribution assets. The contributions are calculated through an economic evaluation as per the OEB Distribution Service Code. Contributed capital amounts are recorded as received and amortized over the same period as the asset to which they relate being 30 to 50 years.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(j) *Impairment of non-financial assets*

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(k) *Related parties*

Related party transactions are in the normal course of operations and have been measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Details of related party transactions and balances are disclosed in note 16.

NEWMARKET-TAY POWER DISTRIBUTION LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(l) Employee future benefits

The Company accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi employer public sector pension fund, as a defined benefit plan. Both participating employers and employees are required to make plan contributions based on the participating employees' contributory earnings. The Company recognizes the expense related to this plan as contributions are made. No liability has been established for this plan.

The Company pays certain medical and life insurance benefits on behalf of its retired employees. These plans are not funded and accordingly have no plan assets. The Company's net obligation is calculated by estimating the amount of future benefits that are expected to be paid out discounted to determine its present value. This calculation is actuarially performed using the projected unit credit method. The last valuation performed was as at December 31, 2014. Service costs are recognized in the Statement of Income in operating expenses, and include current and past service costs as well as gains and losses on curtailment. Net interest expense is included in finance costs.

Details related to the post-employment benefits are detailed in Note 15.

(m) Income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes (PILS) to the Ontario Electricity Financial Corporation (OEFEC). Deferred income taxes are calculated using the liability method of tax accounting. In providing for income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as deferred income taxes. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate future income taxes. Additional details related to the calculation and method of accounting for PILS is included in note 9.

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(n) Significant accounting estimates and judgements

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant accounting estimates, judgements and assumptions include the following:

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.

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 Company 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.

Payment in lieu of taxes payable - The company is required to make payments in lieu of taxes calculated on the same basis as income taxes on taxable income earned. Significant judgement is required in determining the provision and liability or asset for income taxes. Changes in deferred taxes may be required due to changes in future tax rates.

Employee future benefits - The cost of providing certain health, dental and life insurance benefits on behalf of its retired employees are determined using actuarial valuations. The actuarial valuation uses managements assumptions which have been outlined in note 15.

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

NEWMARKET-TAY POWER DISTRIBUTION LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(o) Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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.

Some of the Company's assets may have provision obligations. As the Company expects to use the majority of its fixed assets for an indefinite period, no removal costs can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations has not been made at this time.

(p) Financial instruments

Financial assets and financial liabilities are initially measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. Transactions to purchase or sell these items are recorded on the trade date. During the year, there has been no reclassification of financial instruments.

Financial liabilities measured at fair value through profit or loss

Derivative financial instruments in the form of interest rate swap contracts are used to manage exposure to fluctuations in interest rates on the Company's long-term debt. The contracts are not designated as hedges, and therefore any gain or loss, is measured through profit or loss.

Loans and receivables

The Company has classified cash, short-term investments, accounts receivable and unbilled revenue as loans and receivables.

Loans and receivables are subsequently measured at their amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, plus or minus any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in total comprehensive income upon de-recognition or impairment.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(p) *Financial instruments, continued*

Financial liabilities measured at amortized cost

The Company has classified accounts payable and accrued liabilities, long-term debt, advances from parent company and deposits held as financial liabilities measured at amortized cost.

Financial liabilities measured at amortized cost are measured at their amortized cost subsequent to initial recognition. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in total comprehensive income upon de-recognition or impairment.

(q) *New Standards and interpretations not yet effective or adopted*

The following pronouncements issued by the IASB will become effective for annual periods beginning on or after January 1, 2016, with earlier adoption permitted.

IFRS 14 Regulatory Deferral Accounts, an interim standard, permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with previous GAAP requirements when they adopt IFRS, with the effect of rate regulation presented separately from other items. The Company has early adopted this IFRS and such continues to recognize rate regulated activities.

IAS 1 Presentation of Financial Statements: Amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements.

The following pronouncement issued by the IASB will become effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

IFRS 9 - Financial Instruments addresses the classification and measurement of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The new standard also requires a single impairment method to be used. Additionally, a new hedge accounting model that will allow entities to better reflect their risk management activities has been included in the standard.

IFRS 15 Revenue from Contracts with Customers is a new standard issued by the IASB. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the Company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The Company has not yet completed its evaluations of the effect of adopting IAS 1, IFRS 9 or IFRS 15 and the impact it may have on its consolidated financial statements.

NEWMARKET-TAY POWER DISTRIBUTION LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

4. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING

These are the Company's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2015, the comparative information presented for the year ended December 31, 2014 and the opening IFRS Statement of Financial Position as at January 1, 2014 (the Company's date of transition).

IFRS 1 sets out the procedures that the Company must follow when it adopts IFRS for the first time as the basis for preparing its financial statements. The Company is, in general, required to apply these policies retrospectively to determine the IFRS opening Statement of Financial Position as at its date of transition, January 1, 2014.

In preparing its opening IFRS Statement of Financial Position, the Company has adjusted amounts reported previously in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and performance is set out in the following tables and notes.

IFRS 1 also provides a number of exemptions to the retrospective restatement of the opening Statement of Financial Position. The Company has applied the following exemptions in its transition from Canadian GAAP to IFRS:

Deemed cost

IFRS 1 provides an optional exemption for a first-time adopter with rate-regulated activities to use the carrying amount of PP&E as deemed cost on transition date when the carrying amount includes costs that do not qualify for capitalization in accordance with IFRS. The Company elected this exemption and used the carrying amount of the PP&E under Canadian GAAP as deemed cost on transition date.

Business combinations

IFRS 1 provides an optional exemption whereby a first-time adopter may elect not to apply IFRS retrospectively to business combinations that occurred prior to the date of transition. The Company elected this exemption and did not restate business combinations that occurred prior to the date of transition.

Employee benefits

The Company has elected, under IFRS 1, to recognize all cumulative actuarial gains and losses that were previously deferred under Canadian GAAP through opening retained earnings at the date of transition for all of its employee benefit plans.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

4. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING, continued

(a) *Opening statement of financial position at January 1, 2014:*

	As previously reported	Effects of transition	As restated
	\$	\$	\$
ASSETS			
Property, plant and equipment (i)	55,285,337	21,315,252	76,600,589
Intangible assets (ii)	-	935,256	935,256
Regulatory assets (ii)	-	1,833,086	1,833,086
LIABILITIES AND SHAREHOLDERS' EQUITY			
Contributed capital (i)	-	22,250,508	22,250,508
Regulatory liabilities (ii)	5,358,684	1,833,086	7,191,770
Employee future benefits (iii)	1,107,432	(90,586)	1,016,846
Shareholders' equity			
Retained earnings (iii)	15,543,960	90,586	15,634,546
	22,010,076	24,083,594	46,093,670

(b) *Statement of financial position at December 31, 2014:*

	As previously reported	Effects of transition	As restated
	\$	\$	\$
ASSETS			
Property, plant and equipment (i)	55,135,557	22,843,581	77,979,138
Intangible assets (i)	-	709,451	709,451
Regulatory assets (ii)	-	2,191,352	2,191,352
Deferred income tax (iii)	3,674,000	(87,861)	3,586,139
LIABILITIES AND SHAREHOLDERS' EQUITY			
Contributed capital (i)	-	23,553,032	23,553,032
Regulatory liabilities (ii)	5,155,240	2,191,352	7,346,592
Employee future benefits (iii)	1,162,477	(332,372)	830,105
Shareholders' equity			
Retained earnings (iii)	17,105,895	89,826	17,195,721
Other comprehensive income (iii)	-	154,685	154,685
	17,105,895	244,511	17,350,406
	23,423,612	25,656,523	49,080,135

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

4. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING, continued

(i) Increase in property, plant and equipment (PP&E) is the result of reclassifying intangible assets and contributed capital to their own lines on the statement of financial position.

Under IFRS, intangible assets are accounted for separately from PP&E with no change to the cost or amortization expense and contributed capital is accounted for separately from PP&E, with the amortization being shown as revenue, not netted against the amortization expense. The impact of showing contributed capital in accordance with IFRS is an increase in assets, liabilities and revenue and a decrease in amortization expense.

(ii) IFRS 14 permits a first-time adopter of IFRS to retrospectively account for regulatory deferral account balances in accordance with its previous GAAP. The impact of this standard on the Company is that the account balances must be presented separately from all other account debit and credit balances on the statement of financial position, and any profit or loss related to these accounts must be reported below continuing operations.

(iii) The Company has adopted IAS 19, Employee Benefits, on January 1, 2014 and now accounts for its employee benefits as described in its accounting policies. Actuarial gains and loss have been accounted for in other comprehensive income, net of deferred tax and all other changes have been accounted for through retained earnings.

(c) *Statement of income, for the year ended December 31, 2014:*

	As previously reported \$	Effects of transition \$	As restated \$
Revenue (iv)	84,857,427	315,778	85,173,205
Other revenue (v)	1,271,768	(240,149)	1,031,619
Cost of power purchased and expenses (vi)	(82,053,260)	(247,743)	(82,301,003)
Provision for income taxes (vii)	(1,077,000)	(32,090)	(1,109,090)
Income before net movement in regulatory accounts	2,998,935	(204,204)	2,794,731
Net movement in regulatory accounts	-	203,444	203,444
Net income	2,998,935	(760)	2,998,175

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

4. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING, continued

(iv) The change in revenue is the result reclassifying contributed capital from amortization and net movement in regulatory accounts.

(v) The change in other revenue is the result of the reclassifying interest income from other revenue to finance income.

(vi) The change in cost of power purchased and expenses is the result of reclassifying interest expense to finance costs and decreased amortization expense as a result of contributed capital recognized in other revenue.

(vii) The change in the provision for income taxes was a result of the change in the employee future benefit balance and the resulting deferred income tax effect.

5. SHORT-TERM INVESTMENTS

	December 31, 2015	December 31, 2014	January 1, 2014
	\$	\$	\$
Money market accounts	3,410,393	3,389,515	3,349,379

Included in finance income (note 20) is a loss on investments of \$26,029 (2014 - \$32,231 gain).

6. INVENTORIES

Inventory recognized in cost of sales during the year amounted to \$74,739 (2014 - \$80,034).

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

7. PROPERTY, PLANT AND EQUIPMENT

	Land and building \$	Distribution equipment \$	Transportation equipment \$	Office and other \$	Total \$
Cost					
At January 1, 2015	4,550,851	74,391,365	1,170,368	1,022,874	81,135,458
Additions	1,667,783	12,765,391	35,831	151,121	14,620,126
Disposals	(105,109)	(230,448)	(32,310)	(341)	(368,208)
At December 31, 2015	6,113,525	86,926,308	1,173,889	1,173,654	95,387,376
Amortization					
At January 1, 2015	8,901	2,626,688	233,074	287,657	3,156,320
Additions	9,084	2,748,106	178,356	300,229	3,235,775
Disposals	-	(47,834)	(32,310)	(341)	(80,485)
At December 31, 2015	17,985	5,326,960	379,120	587,545	6,311,610
Net book amount at December 31, 2015	6,095,540	81,599,348	794,769	586,109	89,075,766
	Land and building \$	Distribution equipment \$	Transportation equipment \$	Office and other \$	Total \$
Cost					
At January 1, 2014, restated (note 4)	4,422,019	70,345,143	1,027,045	806,382	76,600,589
Additions	128,832	4,094,475	143,323	216,492	4,583,122
Disposals	-	(48,253)	-	-	(48,253)
At December 31, 2014, restated (note 4)	4,550,851	74,391,365	1,170,368	1,022,874	81,135,458
Amortization					
Additions	8,901	2,626,688	233,074	287,657	3,156,320
At December 31, 2014, restated (note 4)	8,901	2,626,688	233,074	287,657	3,156,320
Net book amount at December 31, 2014, restated (note 4)	4,541,950	71,764,677	937,294	735,217	77,979,138

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

8. INTANGIBLE ASSETS

	Cost \$	Accumulated amortization \$	December 31, 2015 Net book value \$
Land rights	400,358	31,459	368,899
Computer software	614,424	437,885	176,539
	1,014,782	469,344	545,438

	Cost \$	Accumulated amortization \$	December 31, 2014 Net book value \$
Land rights	400,358	15,730	384,628
Computer software	548,189	223,366	324,823
	948,547	239,096	709,451

	Restated (note 4) \$	Accumulated amortization \$	January 1, 2014 Net book value \$
Land rights	400,358	-	400,358
Computer software	534,898	-	534,898
	935,256	-	935,256

During the year, additions of \$66,235 (2014 - \$13,291) and amortization of \$230,248 (2014 - \$239,096) were noted.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

9. INCOME TAXES

(a) The components of deferred income tax balances are as follows:

	2015	2014 Restated (note 4)
	\$	\$
Deferred income tax asset		
Tax basis of equipment in excess of carrying amount	3,008,948	2,993,853
Reserves deductible when paid	215,477	219,978
Cumulative eligible capital available for tax purposes	233,973	251,000
Timing difference - revenue recognition	121,308	121,308
	<u>3,579,706</u>	<u>3,586,139</u>

(b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 26.5% (2014 - 26.5%) to the income for the years as follows:

	2015	2014 Restated (note 4)
	\$	\$
Income for the year before income taxes	5,711,000	3,904,000
Net movement in regulatory deferral accounts	(1,367,423)	203,444
	<u>4,343,577</u>	<u>4,107,444</u>
Anticipated income tax	1,151,000	1,088,000
Tax effect of the following:		
Permanent expense differences	4,000	12,000
Dividend refund	(30,500)	-
Impact of tax rate change and other	(17,475)	9,090
Provision for income taxes	<u>1,107,025</u>	<u>1,109,090</u>

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

9. INCOME TAXES, continued

	Opening balance at January 1, 2015, as restated (note 4) \$	Recognize in net income \$	Closing balance at December 31, 2015 \$
Deferred tax assets			
Property, plant and equipment	3,244,853	(1,932)	3,242,921
Employee future benefits	219,978	(4,501)	215,477
Timing difference - revenue recognition	121,308	-	121,308
	3,586,139	(6,433)	3,579,706
	Opening balance at January 1, 2014 \$	Recognize in net income \$	Closing balance at December 31, 2014, as restated (note 4) \$
Deferred tax assets			
Property, plant and equipment	3,221,000	23,853	3,244,853
Employee future benefits	279,000	(59,022)	219,978
Timing difference - revenue recognition	-	121,308	121,308
	3,500,000	86,139	3,586,139
	December 31, 2015 \$	December 31, 2014 Restated (note 4) \$	January 1, 2014 Restated (note 4) \$
Deferred tax assets to be recovered after more than 12 months	3,579,706	3,586,139	3,500,000

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

10. REGULATORY DEFERRAL ACCOUNTS

All amounts deferred as regulatory deferral account debit balances are subject to approval by the OEB. As such, amounts subject to deferral could be altered by the regulators. Remaining recovery periods are those expected and the actual recovery or settlement periods could differ based on OEB approval. Due to previous, existing or expected future regulatory articles or decisions, the Company has the following amounts expected to be recovered in future periods which are comprised of the following:

	Note	Remaining recovery/reversal period (years)	December 31, 2014, as restated (note 4) \$	Net balances arising/recovered in the period \$	December 31, 2015 \$
Regulatory deferral account debit					
Cost of power	i	A	1,577,301	1,383,346	2,960,647
Recovery account	ii	1-2	174,293	251,193	425,486
Low voltage	iii	A	186,969	141,069	328,038
Other	iv	A	252,789	(50,552)	202,237
			2,191,352	1,725,056	3,916,408

	Note	Remaining recovery/reversal period (years)	December 31, 2014, as restated (note 4) \$	Net balances arising/recovered in the period \$	December 31, 2015 \$
Regulatory deferral account credit					
Cost of power	i	A	926,390	2,214,935	3,141,325
Other	iv	A	577,386	(28,943)	548,443
Recovery account	ii	1-2	1,249,470	(463,248)	786,222
IFRS conversion	v	A	4,593,346	1,369,735	5,963,081
			7,346,592	3,092,479	10,439,071

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

10. REGULATORY DEFERRAL ACCOUNTS, continued

(A) These amounts are expected to reverse when the Company submits their next cost of service filing which is anticipated to be within the next five years.

(i) Power purchased for resale and retail settlement and others represent the difference between the amount paid by the Company to the Independent Electricity System Operator ("IESO") for the cost of energy and the amount billed by the Company to its customers as energy sales, and related carrying costs. These amounts are recorded on the statement of financial position until their disposition is decided by the Ontario Energy Board through a rate filing process.

(ii) Recovery accounts are items approved for settlement which consists of various deferred amounts in connection with global adjustment dispositions, and other amounts approved by the OEB. Costs incurred with respect to these various activities are included in rate recoveries effective until 2016.

Pursuant to The Ontario Energy Board Decision on EB 2011-0184 the Company has returned charges related to Payments in Lieu of Taxes. These charges were collected from 2002 to 2006. The remaining balance of \$37,000 (2014 - \$110,000) will be repaid through the next cost of service filing.

(iii) This account is used to record the variances arising from low voltage transactions which are not part of the electricity wholesale market. The account is used to record the net of the amount charged by a host distributor to an embedded distributor for transmission or low voltage services and the amount billed to the embedded distributor's customers based on the embedded distributor's approved rates.

(iv) Included in other is the Smart Meter variance account which represents the estimated net payable value of smart meter monies advanced before these assets were transferred into the Rate Base of the Company in 2010.

Also included in other is retail cost variance accounts. These accounts are used to record the revenue derived, including accruals from establishing service agreements, distributor-consolidated billing, retailer-consolidated billing, Service Transaction Request services and charged by the distributor, in the form of a request fee, processing fee, information request fee, default fee, and other associated costs.

(v) In 2012, the Company adjusted the estimated useful life related to the amortization period for certain capital assets, based upon the Ontario Energy's Board regulatory accounting direction as contained in the revised 2012 Accounting Procedures Handbook for Electricity Distributors. As a result of OEB direction related to the settlement of these amounts, the Company has recorded a payable in the deferral account of \$5,963,081 (2014 - \$4,593,346) and a reduction in service revenue of \$1,336,735 in 2015 (2014 - \$1,473,041).

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2015 \$	December 31, 2014 \$	January 1, 2014 \$
Accounts payable - purchased power	6,332,580	6,811,291	5,189,751
Other trade accounts payable and accrued liabilities	1,793,110	2,843,268	3,685,979
Water and sewer billings payable (note 16)	1,890,178	1,941,311	1,704,054
Credits on customer accounts	1,220,670	1,365,229	901,976
Independent Electric System Operator	-	-	75,198
Ontario Power Authority program	10,622	102,166	517,038
	11,247,160	13,063,265	12,073,996

12. LONG-TERM DEBT

	December 31, 2015 \$	December 31, 2014 \$	January 1, 2014 \$
Note payable, 5.48% - Town of Newmarket	22,000,000	22,000,000	22,000,000
Note payable, 5.48% - Township of Tay	1,742,821	1,742,821	1,742,821
Committed term facility, 3.07%.	1,000,000	1,000,000	1,000,000
Bank loan payable, 2.44% fixed rate, payable in blended monthly payments of \$65,742	7,000,000	-	-
	31,742,821	24,742,821	24,742,821
Less principal payments due within one year	1,625,745	1,000,000	-
	30,117,076	23,742,821	24,742,821
Estimated principal repayments are as follows:			\$
2016			1,625,745
2017			641,184
2018			657,006
2019			673,217
2020			4,402,848
Unspecified (A)			23,742,821
			31,742,821

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

12. LONG-TERM DEBT, continued

(A) The notes payable are unsecured and have no specific terms of repayment. Since the holders of the notes have confirmed they will not request repayment of this amount during the next fiscal year, these amounts have been classified as a non-current liability in the accompanying financial statements.

The committed term facility was drawn for the purpose of the purchase of smart meters. The Company is required to make monthly interest payments only with 100% of the remaining balance due December 31, 2015. This balance was paid in January 2016 and therefore is still accounted for as a current liability as at December 31, 2015. At December 31, 2015, the Company was in compliance with all covenants. A general security agreement covering all assets of the Company and assignment of business/liability insurance has been pledged as security for the committed term facility.

The bank loan payable is a 5 year term loan due December 10, 2020 with a payment due at maturity of \$3,771,150. To reduce exposure to interest rate fluctuations, the Company has entered into an interest rate swap where they pay a fixed interest rate over of the term of the loan.

13. DEPOSITS HELD

Deposits held represent cash deposits from electricity distribution customers and retailers, as well as construction deposits.

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

Construction Deposits represent cash payments from developers in order to secure the performance of the developer's obligations under the Construction Agreement for Expansion Facilities and Connection Assets Supplied by Developer - Residential Subdivision (The Construction Agreement).

Upon commissioning of the Expansion Facilities and upon payment by the developer of all fees associated with the installation, inspection, testing and commissioning of work done by the Company, the Company may reduce the deposit to 10% of financial guarantee. The remaining letter of credit will be held for a two year period to cover any defects arising from the work done by the developer and its contractor.

	December 31, 2015	December 31, 2014	January 1, 2014
	\$	\$	\$
Customer deposits	2,697,240	2,717,399	2,754,067
Construction deposits	492,024	245,255	546,740
	<u>3,189,264</u>	<u>2,962,654</u>	<u>3,300,807</u>

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

14. CONTRIBUTED CAPITAL

	December 31, 2015	December 31, 2014 (restated, note 4)
	\$	\$
Deferred contributions, net, beginning of year	23,553,032	22,250,508
Contributed capital received	1,826,732	1,821,746
Contributed capital recognized as revenue	(558,247)	(519,222)
Deferred contributions, net, end of year	24,821,517	23,553,032

15. EMPLOYEE FUTURE BENEFITS

The Company provides certain health, dental and life insurance benefits for retired employees pursuant to the Company's policy. The accrued benefit obligation and net periodic expense for the year were determined by an actuarial valuation. The most recent valuation was performed for December 31, 2014.

Information about the Company's defined benefit plan is as follows:

	2015 \$	2014 as restated (noted 4) \$
Accrued benefit obligation, beginning of period	830,105	1,016,846
Current service cost	30,327	29,161
Interest expense	32,221	38,794
Benefits paid	(49,167)	(44,240)
	843,486	1,040,561
Actuarial loss	(30,369)	(210,456)
	813,117	830,105

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

15. EMPLOYEE FUTURE BENEFITS, continued

Current service costs and interest on accrued benefit obligation are recognized in the statement of income. Actuarial gains (loss) arising from changes in financial assumptions are accounted for in other comprehensive income. The total benefit costs for the year is \$32,179 (2014 - \$(142,502)).

The actuarial assumptions used in the valuation are the consumer price index at 2% (2014 - 2.5%), discount rate of 4.3% (2014 - 4.0%), salary increase rate of 2.5% (2014 - 3.3%), cost trend including health benefits of 6.5% (2014 - 7.47%) and dental benefits 4.5% (2014 - 4.8%) and retirement age of 61 (2014 - 60). The health benefits are expected to decrease at 0.25% per year until 2023 when it reaches 4.50% and dental benefits will remain at 4.50% to 2023.

The impact of a change in the actuarial assumptions would have the following impact on the obligation:

	Reasonable possible change	Defined benefit obligation Change	Current service costs change	Interest cost change
	\$	\$	\$	\$
Discount rate	+1%	(106,000)	(5,000)	3,000
Discount rate	-1%	137,000	5,000	(4,000)
Retirement age	62	(75,000)	(6,000)	(3,000)
Retirement age	60	74,000	5,000	3,000
Cost trends	+1%	34,000	3,000	2,000
Cost trends	-1%	(31,000)	(4,000)	(1,000)

16. RELATED PARTY TRANSACTIONS AND ADVANCES FROM PARENT COMPANY

- (a) During the year, the Company entered into transactions with its majority parent, Newmarket Hydro Holdings Inc. (NHHI) and with The Town of Newmarket which is the sole shareholder of Newmarket Hydro Holdings Inc. Revenue charged during the year included energy, street light capital and street light maintenance charged at commercial rates to the Town of Newmarket.

Included in accounts payable (note 11) are water and sewer amounts collected which are due to the Town. These amounts are collected and remitted in accordance with a contract with URB Olameter and remitted on their behalf.

Included in long term debt (note 12) are notes payable to related parties.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

16. RELATED PARTY TRANSACTIONS, continued

(b) Transactions

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

	December 31, 2015 \$	December 31, 2014 \$	January 1, 2014 \$
Revenue			
Energy sales	3,410,483	3,596,417	2,995,243
Services - Street light capital	96,827	57,765	12,147
Services - Street light maintenance	245,491	267,809	267,809
	3,752,801	3,921,991	3,275,199
Expenses			
Interest	1,205,600	1,205,600	1,205,600
Rent and property tax	377,439	375,601	386,770
	1,583,039	1,581,201	1,592,370

(c) The following amount is due from the Town of Newmarket and included in the financial statements:

	December 31, 2015 \$	December 31, 2014 \$	January 1, 2014 \$
Accounts receivable	289,015	380,484	333,155

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

16. RELATED PARTY TRANSACTIONS, continued

(d) The following amount is due to the parent company:

	December 31, 2015 \$	December 31, 2014 \$	January 1, 2014 \$
Newmarket Hydro Holdings Inc.	2,473,010	2,393,957	2,313,323

Advances from the parent company, Newmarket Hydro Holdings Inc. consist of promissory notes in the amount of \$2,153,000 (2013 - \$2,153,000) and are due within 13 months of notice provided. The remainder of the balance has no specific terms of repayment. As the parent company has indicated that it is not their intention to request repayment of this amount during the next fiscal year, the amount has been classified as a non-current liability in the financial statements.

The balances are unsecured and bear interest at the OEB deemed debt rate of 5.48% for 2015 (2014 - 5.48%).

The key management personnel of the Company has been defined as members of its board of directors, and supervisory personnel. The compensation is comprised of director's fees, management salaries and wages, short-term employee benefits and post employment benefits totaling \$2,243,793 (2014 - \$2,399,308).

17. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued

	December 31, 2015 \$	December 31, 2014 \$	January 1, 2014 \$
10,000 common shares	27,140,206	27,140,206	27,140,206

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

18. OTHER INCOME

Other income consists of the following:

	2015	2014
	\$	\$
Account set up fees	111,852	110,266
Pole rentals	140,256	140,309
Collection charges	271,672	258,428
Administration charges	125,330	124,352
Conservation demand management	618	243,679
Other	208,115	154,585
Operating income	857,843	1,031,619

19. OPERATING EXPENSES

Operating expenses consist of the following:

	2015	2014
	\$	\$
Wages and benefits	4,648,063	4,818,973
Materials, equipment and other operating expenses	1,951,291	2,280,851
Administration and overhead	938,770	940,922
Operating expenses	7,538,124	8,040,746

20. FINANCE INCOME AND FINANCE COSTS

Finance income recognized in profit or loss consists of the following:

	2015	2014
	\$	\$
Interest income on receivables	262,354	240,149
Income on short term investments	161,761	187,206
	424,115	427,355

Finance costs recognized in profit or loss consists of the following:

	2015	2014
	\$	\$
Interest on long term debt	1,487,043	1,471,407
Customer deposit interest	24,551	32,680
	1,511,594	1,504,087

NEWMARKET-TAY POWER DISTRIBUTION LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

21. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2015	2014
		Restated
	\$	(note 4)
		\$
Increase in short-term investments	(20,878)	(40,136)
Decrease (increase) in accounts receivable	548,511	(360,622)
Increase in unbilled revenue	(522,559)	(1,944,436)
Decrease (increase) in inventories	188,329	(492,738)
Increase in prepaid expenses	(43,399)	(72,806)
Increase (decrease) in accounts payable and accrued liabilities	(1,816,105)	989,269
Increase (decrease) in deposits held	226,610	(338,153)
Interest received	424,115	427,354
Taxes paid	(1,800,000)	(1,801,312)
Taxes received	900,312	-
	(1,915,064)	(3,633,580)

22. SHORT TERM CREDIT FACILITIES

The Company has \$4,000,000 available in operating facilities from a major chartered bank. The facilities are 364 day revolving operating loan, bearing interest at prime plus 0.5%, to be repaid within one year from date of acquisition unless extended by the bank. A commitment fee of 0.125% per annum, payable quarterly applies to any unused portion of the facility. As at the report date, the Company has no balance outstanding (2014 - Nil) on this facility. The operating loan includes restrictive clauses with respect to repayment.

The Company has provided prudential support in the amount of \$2,765,940 to the Independent Electricity System Operator. The prudential support is secured by a letter of credit with a major chartered bank for \$2,765,940, contains restrictive clauses with respect to debt repayments and bears interest at 0.5% per annum.

A general security agreement covering all assets of the Company and assignment of business/liability insurance has been pledged as security for the operating facilities. At December 31, 2015, the Company was in compliance with all covenants.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

23. PENSION AGREEMENT

The Company makes contributions to the Ontario Municipal Employees' Retirement Fund (O.M.E.R.S.), which is a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on the length of service and rates of pay.

The amount contributed to O.M.E.R.S. for the year ended was \$430,916 (2014 - \$430,840).

24. CAPITAL DISCLOSURES

The Company's primary objective when managing capital is to address the expectations as provided in the Shareholder Agreement between the Company's parent company, Newmarket Hydro Holdings Inc. and its shareholder, the Town of Newmarket. The expectation is that the Company will maintain a prudent financial structure in order to safeguard the Company's assets and to provide adequate returns for its shareholders and benefits to the stakeholders.

Changes to the Company's capital structure are constrained by existing covenants contained in the banking agreement. The Company must maintain a maximum debt to capitalization ratio of 0.60 to 1 and maintain a debt service coverage ratio of 1.2. As at year end the Company is compliant with these covenants.

25. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash, mutual funds, accounts receivable, unbilled revenue which will result in future cash receipts, as well as accounts payable and accrued liabilities, deposits held, accounts payable and accruals, advances from parent company and long term debt which will result in future cash outflows.

The Company does not believe that it is exposed to significant foreign exchange risk.

The Company is exposed to the following risks in respect of certain financial instruments held:

(a) *Interest rate risk*

The Company manages exposure to interest rate risk through a combination of fixed and floating rate borrowings. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent that the floating rate credit facility bears interest at a floating rate. The Company is also exposed to interest rate price risk to the extent that loans bear interest at fixed rates and has entered into an interest rate swap arrangements to manage the impact of fluctuating interest rates on bank loan payable. The swaps require the periodic exchange of interest payments without the exchange of the notional principal amount on which the payments are based (notes 12 and 16).

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

25. FINANCIAL INSTRUMENTS, continued

(b) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers located in the service area. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of related impairment loss is recognized in the statement of income. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2015 is \$223,619 (2014 - \$215,429). The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has approximately 10,000 customers, the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2015, the Company holds security deposits in the amount of \$3,189,264 (2014 - \$2,962,654). The Company's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk. The accounts receivable balance is expected to be fully repaid within 90 days excluding the allowance for doubtful accounts portion of the balance.

(c) Market risk

The securities held as short term investments exposes the Company to market risk due to the potential for changes in market prices.

(d) Liquidity risk

The Company does have a liquidity risk in the accounts payable and accrued liabilities of \$11,247,160 (2014 - \$13,063,265). Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate line of credit to repay trade creditors and repays long term debt interest and principal as they become due. In the opinion of management the liquidity risk exposure to the Company is low and is not material.

The following are contractual maturities of financial liabilities, including estimated interest payments:

	Between 0 -3 Months \$	Between 4 - 12 months \$	Over 1 year \$
Accounts payable and accrued liabilities	11,247,160	-	-
Deposits held	106,250	318,750	2,764,264
Long term debt	1,155,009	470,736	30,117,076
Employee future benefits	-	-	813,117
	12,508,419	789,486	33,694,457

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

26. COMMITMENT

The Company has an operating lease agreement with the Town of Newmarket, expiring December 31, 2017 for the rental of the building. Minimum lease payments over the term of the lease are as follows;

	\$
2016	275,000
2017	275,000
	<hr/> 550,000

27. CONTINGENT LIABILITIES

(a) In the normal course of business, the Company enters into agreements that meet the definition of a guarantee. The guarantees include indemnities under lease agreements, purchase and sale agreements, confidentiality agreements, outsourcing, service and information agreements. The nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability related to the likelihood and predictability of future events. Historically, the Company has not made any significant payments under similar indemnification agreements and therefore no amount has been accrued in the statement of financial position with respect to these agreements.

(b) Indemnity has been provided to all directors and/or officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential suits or actions. The amount of any potential future liability which exceeds the amount of insurance coverage cannot reasonably be determined.

(c) The Company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the Company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual losses, claims and costs experienced.

FINANCIAL STATEMENTS OF

**NEWMARKET-TAY POWER
DISTRIBUTION LTD.**

December 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Newmarket-Tay Power Distribution Ltd.

Report on the Financial Statements

We have audited the accompanying financial statements of Newmarket-Tay Power Distribution Ltd., which comprise the statement of financial position as at December 31, 2016, and the statements of changes in equity and accumulated other comprehensive income, income, comprehensive income and cash flows for the year then ended, 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 controls as management determines are 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 auditors consider internal controls relevant to the Company'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 Company's internal controls. 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 Newmarket-Tay Power Distribution Ltd. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Collins Barrow Kawarthas LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
April 26, 2017

NEWMARKET-TAY POWER DISTRIBUTION LTD.
STATEMENT OF FINANCIAL POSITION
As at December 31, 2016

	2016	2015
	\$	\$
ASSETS		
Current assets		
Cash	9,691,630	6,720,248
Short-term investments (note 4)	-	3,410,393
Accounts receivable	14,098,270	9,206,702
Unbilled revenue	13,815,135	12,286,784
Inventories (note 5)	875,151	1,113,359
Prepaid expenses	483,259	492,351
Income taxes receivable	1,188,748	691,360
	<u>40,152,193</u>	<u>33,921,197</u>
Other assets		
Property, plant and equipment (note 6)	94,961,239	89,075,766
Intangible assets (note 7)	435,759	545,438
Deferred income taxes (note 8)	3,023,363	3,579,706
	<u>98,420,361</u>	<u>93,200,910</u>
	138,572,554	127,122,107
Regulatory deferral account debit balances (note 9)	<u>4,550,445</u>	<u>2,465,775</u>
	<u>143,122,999</u>	<u>129,587,882</u>

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.

STATEMENT OF FINANCIAL POSITION

As at December 31, 2016

	2016	2015
	\$	\$
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 10)	14,464,695	11,247,160
Current portion of long-term debt (note 11)	641,184	1,625,745
Current portion of deposits held (note 12)	690,000	643,357
	<u>15,795,879</u>	<u>13,516,262</u>
Long-term liabilities		
Long-term debt (note 11)	29,475,892	30,117,076
Contributed capital (note 13)	30,660,427	24,821,517
Deposits held (note 12)	2,317,478	2,545,907
Employee future benefits (note 14)	876,508	813,117
Advances from parent company (note 15)	2,553,645	2,473,010
	<u>65,883,950</u>	<u>60,770,627</u>
Shareholders' equity		
Share capital (note 16)	27,140,206	27,140,206
Retained earnings	20,663,101	18,995,343
Accumulated other comprehensive income	140,871	177,006
	<u>47,944,178</u>	<u>46,312,555</u>
	129,624,007	120,599,444
Regulatory deferral account credit balances (note 9)	13,498,992	8,988,438
	<u>143,122,999</u>	<u>129,587,882</u>

Approved on behalf of the Board

Director

Director

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.
STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME
For the year ended December 31, 2016

	Share capital \$	Retained earnings \$	Accumulated other comprehensive income \$	Total \$
Balance, December 31, 2014	27,140,206	17,195,721	154,685	44,490,612
Net income for the year	-	3,236,622	-	3,236,622
Other comprehensive income	-	-	22,321	22,321
Dividends paid	-	(1,437,000)	-	(1,437,000)
Balance, December 31, 2015	27,140,206	18,995,343	177,006	46,312,555
Net income for the year	-	3,104,758	-	3,104,758
Other comprehensive loss	-	-	(36,135)	(36,135)
Dividends paid	-	(1,437,000)	-	(1,437,000)
Balance, December 31, 2016	27,140,206	20,663,101	140,871	47,944,178

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.

STATEMENT OF INCOME

For the year ended December 31, 2016

	2016	2015
	\$	\$
Revenue		
Distribution revenue	15,434,308	15,020,342
Cost of power revenue	85,691,103	73,793,907
	101,125,411	88,814,249
Cost of power purchased	83,265,219	72,426,484
	17,860,192	16,387,765
Gross profit		
Other income (note 17)	1,446,388	1,416,091
	19,306,580	17,803,856
Gross income from operations		
Expenses		
Amortization	3,668,457	3,466,023
Operating expenses (note 18)	7,746,455	7,538,125
Loss on disposal of property, plant and equipment	24,234	1,159
	11,439,146	11,005,307
	7,867,434	6,798,549
Income before undernoted items and income taxes		
Finance income (note 19)	(405,554)	(424,115)
Finance costs (note 19)	1,561,723	1,511,594
	6,711,265	5,711,070
Income before income taxes and net movement in regulatory deferral accounts		
Provision for (recovery of) income taxes (note 8)		
Current	611,252	1,108,640
Deferred	569,371	(1,615)
	1,180,623	1,107,025
	5,530,642	4,604,045
Income before net movement in regulatory deferral accounts		
Net movement in regulatory deferral accounts	2,425,884	1,367,423
	3,104,758	3,236,622
Net income for the year		

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2016

	2016	2015
	\$	\$
Net income for the year	3,104,758	3,236,622
Comprehensive income (loss)		
Actuarial gain (loss), not reclassified to profit or loss	(49,163)	30,369
Actuarial gain (loss), deferred income tax	13,028	(8,048)
Comprehensive income (loss)	(36,135)	22,321
Net income and comprehensive income (loss) for the year	3,068,623	3,258,943

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2016

	2016	2015
	\$	\$
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	3,104,758	3,236,622
Items not affecting cash		
Amortization of property, plant and equipment	3,496,627	3,235,775
Amortization of intangible asset	171,830	230,248
Deferred income taxes	569,371	(1,615)
Loss on disposal of property, plant and equipment	24,234	1,159
Employee future benefits	14,228	13,381
Current income tax	611,252	1,108,640
Net finance costs	1,156,169	1,087,479
Recognition of contributed capital	(599,543)	(558,247)
	8,548,926	8,353,442
Change in non-cash working capital items (note 20)	(429,563)	(1,915,064)
	8,119,363	6,438,378
Investing activities		
Purchase of property, plant and equipment	(9,887,842)	(14,620,126)
Proceeds on disposal of property, plant and equipment	481,508	286,564
Purchase of intangible assets	(62,151)	(66,235)
Regulatory deferral accounts	2,425,884	1,367,423
Proceeds of contributed capital	6,438,453	1,826,732
	(604,148)	(11,205,642)
Financing activities		
Repayment of long-term debt	(1,625,745)	-
Proceeds of long-term debt	-	7,000,000
Advances from parent company	80,635	79,053
Interest paid	(1,561,723)	(1,511,594)
Dividends paid	(1,437,000)	(1,437,000)
	(4,543,833)	4,130,459
Increase (decrease) in cash	2,971,382	(636,805)
Cash - beginning of year	6,720,248	7,357,053
Cash - end of year	9,691,630	6,720,248

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

1. NATURE OF OPERATIONS

Newmarket-Tay Power Distribution Ltd. (the "Company") is a subsidiary of Newmarket Hydro Holdings Inc. and was formed as a result of the amalgamation of Newmarket Hydro Ltd. and Tay Hydro Electric Distribution Company Inc. on May 1, 2007. Tay Hydro Inc. has a 7% non-controlling interest in the Company. The address of its registered office and its principal place of business is 590 Steven Ct, Newmarket, ON L3Y 6Z2.

The principal activity of the Company is to distribute electricity to the residents and businesses in the Town of Newmarket and the Township of Tay under licence issued by the Ontario Energy Board (OEB). The Company is regulated by the OEB and adjustments to its distribution rates require OEB approval.

2. STATEMENT OF COMPLIANCE

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements for the year ended December 31, 2016 were approved and authorized for issue by the board of directors on April 26, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with International Financial Reporting Standards. The significant policies are detailed as follows:

(a) *Basis of measurement*

The financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at their fair values, as explained in the relevant accounting policies.

The consolidated financial statements are presented in Canadian dollars which is also the Company's functional currency.

(b) *Electricity regulation*

The Company is licensed and regulated by the Ontario Energy Board (OEB). The OEB is charged with the responsibility of approving rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfil obligations to connect and service customers.

The following regulatory policy is practiced in a rate regulated environment:

NEWMARKET-TAY POWER DISTRIBUTION LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(b) Electricity regulation, continued

Regulatory accounts

Regulatory accounts represent future revenue or expenses incurred in the current or prior periods that are expected to be recovered (repaid) through the rate setting process.

These assets and liabilities include various rate and retail variance accounts which arise from differences in amounts billed to customers (based on regulated rates) and the actual cost of electricity services to the Company. These amounts are accumulated for accounting purposes because it is probable that they will be recovered (repaid) in future rates. The Company continually assesses the likelihood of the recovery of regulatory assets and likelihood of repayment of regulatory liabilities. If recovery or repayment is no longer considered probable, the amounts are charged to operations in the year the assessment is made.

Regulatory accounts recognized at December 31, 2016 and December 31, 2015 are disclosed in note 9.

(c) Revenue recognition

Service revenue is measured based on the OEB approved rate and the meter readings for customer usage, net of sales tax and debt retirement charge. Service revenue also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is recognized as electricity is delivered and consumed by customers and measured.

Cost of power revenue is recorded on the basis of the power billed by the Independent Electricity System Operator.

Contributed capital represent certain items of property, plant and equipment which are acquired or constructed with financial assistance in the form of contributions from developers. Such contributions, whether in cash or in-kind, are recognized as contributions in aid of construction and amortized into income over the life of the related assets. Contributions in aid of construction in-kind are valued at their fair value at the date of their contribution.

Revenues related to Conservation and Demand Management ("CDM") agreements with the Independent Electricity System Operator ("IESO") are recognized on a net basis. Performance fees are recognized as CDM programs are delivered.

Other operating revenue is recorded when services are provided.

(d) Cash

Cash consists of balances with financial institutions.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(e) *Short-term investments*

Investments are recorded at fair value. Unrealized gains and losses as a result of fair value adjustments at year end are included in finance income for the year.

(f) *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.

(g) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated amortization and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset or its development when those costs are necessarily incurred for the asset to function in the manner intended by management. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

All assets having limited useful lives are amortized using the straight-line method over their estimated useful lives. Assets are amortized from the date of acquisition. Internally constructed assets are amortized from the time an asset is capable of operating in the manner intended by management.

In the year of acquisition, amortization is taken at one-half of the below rates.

The residual value, useful life and amortization method applied to each class of assets are reassessed at each reporting date.

The amortization rates applicable for each class of asset are as follows:

Building	25-30 years
Distribution equipment	10-50 years
Transportation equipment	5-10 years
Office and other	5-10 years

An impairment loss is recognized when the carrying amount of these assets is not recoverable and exceeds their fair value.

NEWMARKET-TAY POWER DISTRIBUTION LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(h) Intangible assets

Intangible assets include computer software and land rights. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. The useful lives of the intangibles are as follows:

Computer software	3-5 years straight-line
Land rights	30 years straight-line

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software, (expenditure relating to patches and other minor updates as well as their installation), are expensed as incurred.

Land rights are capitalized based on the payments made for easements, right of access and right of use over land for which the Company does not hold title. Land rights are measured at cost less accumulated amortization and accumulated impairment losses.

(i) Contributed capital

Contributions for capital construction consist of third party and related party contributions toward the cost of constructing distribution assets. The contributions are calculated through an economic evaluation as per the OEB Distribution Service Code. Contributed capital amounts are recorded as received and amortized over the same period as the asset to which they relate being 30 to 50 years.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(j) *Impairment of non-financial assets*

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(k) *Related parties*

Related party transactions are in the normal course of operations and have been measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Details of related party transactions and balances are disclosed in note 15.

NEWMARKET-TAY POWER DISTRIBUTION LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(l) Employee future benefits

The Company accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi employer public sector pension fund, as a defined benefit plan. Both participating employers and employees are required to make plan contributions based on the participating employees' contributory earnings. The Company recognizes the expense related to this plan as contributions are made. No liability has been established for this plan.

The Company pays certain medical and life insurance benefits on behalf of its retired employees. These plans are not funded and accordingly have no plan assets. The Company's net obligation is calculated by estimating the amount of future benefits that are expected to be paid out discounted to determine its present value. This calculation is actuarially performed using the projected unit credit method. The last full valuation performed was as at December 31, 2014. An updated valuation for changes in the discount rate was performed as at December 31, 2016. Service costs are recognized in the Statement of Income in operating expenses, and include current and past service costs as well as gains and losses on curtailment. Net interest expense is included in finance costs.

Details related to the post-employment benefits are detailed in note 14.

(m) Income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes (PILS) to the Ontario Electricity Financial Corporation (OEFC). Deferred income taxes are calculated using the liability method of tax accounting. In providing for income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as deferred income taxes. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate future income taxes. Additional details related to the calculation and method of accounting for PILS is included in note 8.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(n) *Significant accounting estimates and judgements*

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant accounting estimates, judgements and assumptions include the following:

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 Company 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.

Payment in lieu of taxes payable - The company is required to make payments in lieu of taxes calculated on the same basis as income taxes on taxable income earned. Significant judgement is required in determining the provision and liability or asset for income taxes. Changes in deferred taxes may be required due to changes in future tax rates.

Employee future benefits - The cost of providing certain health, dental and life insurance benefits on behalf of its retired employees are determined using actuarial valuations. The actuarial valuation uses managements assumptions which have been outlined in note 14.

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

(o) *Provisions*

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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.

Some of the Company's assets may have provision obligations. As the Company expects to use the majority of its fixed assets for an indefinite period, no removal costs can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations has not been made at this time.

NEWMARKET-TAY POWER DISTRIBUTION LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(p) Financial instruments

Financial assets and financial liabilities are initially measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. Transactions to purchase or sell these items are recorded on the trade date. During the year, there has been no reclassification of financial instruments.

Financial liabilities measured at fair value through profit or loss

Derivative financial instruments in the form of interest rate swap contracts are used to manage exposure to fluctuations in interest rates on the Company's long-term debt. The contracts are not designated as hedges, and therefore any gain or loss is measured through profit or loss.

Loans and receivables

The Company has classified cash, short-term investments, accounts receivable and unbilled revenue as loans and receivables.

Loans and receivables are subsequently measured at their amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, plus or minus any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in total comprehensive income upon de-recognition or impairment.

Financial liabilities measured at amortized cost

The Company has classified accounts payable and accrued liabilities, long-term debt, advances from parent company and deposits held as financial liabilities measured at amortized cost.

Financial liabilities measured at amortized cost are measured at their amortized cost subsequent to initial recognition. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in total comprehensive income upon de-recognition or impairment.

NEWMARKET-TAY POWER DISTRIBUTION LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(q) New Standards and interpretations not yet effective or adopted

Effective for annual periods beginning on or after January 1, 2017

IAS 7 Statement of Cash Flows – Amendments will require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Effective for annual periods beginning on or after January 1, 2018

IFRS 9 Financial Instruments: Recognition and Measurement (new) – modifies IAS 39 eliminating categories and redefines gain and loss re-measurement.

IFRS 15 Revenue from Contracts with Customers: The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard contains enhanced disclosures about revenue and provides guidance for transactions that were not previously addressed comprehensively.

Effective for annual periods beginning on or after January 1, 2019

IFRS 16 replaces IAS 17 Leases and brings leases onto companies' balance sheets, increasing the visibility of their assets and liabilities. IFRS 16 removes the classification of leases as either operating or finance leases for the lessee treating all leases as finance leases. Short term and low value assets are exempt from these requirements.

The Company is currently assessing the impact that the standards will have on the statements.

4. SHORT-TERM INVESTMENTS

	2016	2015
	\$	\$
Money market accounts	-	3,410,393

Included in finance income (note 19) is a gain on investments of \$52,741 (2015 - \$26,029 loss).

5. INVENTORIES

Inventory recognized in cost of sales during the year amounted to \$29,920 (2015 - \$74,739).

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

6. PROPERTY, PLANT AND EQUIPMENT

	Land and building \$	Distribution equipment \$	Transportation equipment \$	Office and other \$	Total \$
Cost					
At January 1, 2016	6,113,525	86,926,308	1,173,889	1,173,654	95,387,376
Additions	105,732	9,421,644	272,888	87,578	9,887,842
Disposals	(465,590)	(90,574)	-	-	(556,164)
At December 31, 2016	5,753,667	96,257,378	1,446,777	1,261,232	104,719,054
Amortization					
At January 1, 2016	17,985	5,326,960	379,120	587,545	6,311,610
Additions	9,083	3,072,161	212,348	203,035	3,496,627
Disposals	-	(50,422)	-	-	(50,422)
At December 31, 2016	27,068	8,348,699	591,468	790,580	9,757,815
Net book amount at December 31, 2016	5,726,599	87,908,679	855,309	470,652	94,961,239
	Land and building \$	Distribution equipment \$	Transportation equipment \$	Office and other \$	Total \$
Cost					
At January 1, 2015	4,550,851	74,391,365	1,170,368	1,022,875	81,135,459
Additions	1,667,783	12,765,391	35,831	151,121	14,620,126
Disposals	(105,109)	(230,448)	(32,310)	(342)	(368,209)
At December 31, 2015	6,113,525	86,926,308	1,173,889	1,173,654	95,387,376
Amortization					
At January 1, 2015	8,901	2,626,688	233,074	287,657	3,156,320
Additions	9,084	2,748,106	178,356	300,229	3,235,775
Disposals	-	(47,834)	(32,310)	(341)	(80,485)
At December 31, 2015	17,985	5,326,960	379,120	587,545	6,311,610
Net book amount at December 31, 2015	6,095,540	81,599,348	794,769	586,109	89,075,766

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

7. INTANGIBLE ASSETS

	Cost \$	Accumulated amortization \$	2016 Net book value \$
Land rights	400,358	47,188	353,170
Computer software	676,576	593,986	82,590
	1,076,933	641,174	435,759

	Cost \$	Accumulated amortization \$	2015 Net book value \$
Land rights	400,358	31,459	368,899
Computer software	614,424	437,885	176,539
	1,014,782	469,344	545,438

During the year, the Company had additions of \$62,151 (2015 - \$66,235) and amortization of \$171,830 (2015 - \$230,248).

8. INCOME TAXES

(a) The components of deferred income tax balances are as follows:

	2016 \$	2015 \$
Deferred income tax asset		
Tax basis of property, plant and equipment in excess of carrying amount	2,452,184	3,008,948
Reserves deductible when paid	232,275	215,477
Cumulative eligible capital available for tax purposes	217,596	233,973
Timing difference - revenue recognition	121,308	121,308
	3,023,363	3,579,706

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

8. INCOME TAXES, continued

(b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 39.5% (2015 - 39.5%) to the income for the years as follows:

	2016 \$	2015 \$
Income for the year before income taxes	6,711,265	5,711,070
Net movement in regulatory deferral accounts	(2,425,884)	(1,367,423)
	4,285,381	4,343,647
Anticipated income tax	1,692,725	1,715,741
Tax effect of the following:		
Permanent expense differences	5,925	5,925
Other comprehensive income	(19,420)	-
General rate reduction	(552,658)	(609,832)
Impact of tax rate change and other	54,051	(4,809)
Provision for income taxes	1,180,623	1,107,025

	Opening balance at January 1, 2016 \$	Recognize in net income \$	Recognize in OCI \$	Closing balance at December 31, 2016 \$
Deferred tax assets				
Property, plant and equipment and cumulative eligible capital	3,242,921	(573,141)	-	2,669,780
Reserves deductible when paid	215,477	3,770	13,028	232,275
Timing difference - revenue recognition	121,308	-	-	121,308
	3,579,706	(569,371)	13,028	3,023,363
			2016 \$	2015 \$
Deferred tax assets to be recovered after more than 12 months			3,023,363	3,579,706

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

9. REGULATORY DEFERRAL ACCOUNTS

All amounts deferred as regulatory deferral account debit balances are subject to approval by the OEB. As such, amounts subject to deferral could be altered by the regulators. Remaining recovery periods are those expected and the actual recovery or settlement periods could differ based on OEB approval. Due to previous, existing or expected future regulatory articles or decisions, the Company has the following amounts expected to be recovered in future periods which are comprised of the following:

	Note	Remaining recovery/ reversal period (years)	December 31, 2015 \$	Net balances arising/ recovered in the period \$	December 31, 2016 \$
Regulatory deferral account debit					
Settlement Variances	i	A	1,837,980	1,775,940	3,613,920
Recovery Account	ii	A	209,890	86	209,976
Other	iii	A	417,905	308,644	726,549
			2,465,775	2,084,670	4,550,445

	Note	Remaining recovery/ reversal period (years)	December 31, 2015 \$	Net balances arising/ recovered in the period \$	December 31, 2016 \$
Regulatory deferral account credit					
Settlement variances	i	A	1,642,444	3,011,199	4,653,643
Recovery Account	ii	A	705,518	10,508	716,026
Other	iii	A	677,395	(217)	677,178
IFRS Conversion	iv	A	5,963,081	1,489,064	7,452,145
			8,988,438	4,510,554	13,498,992

NEWMARKET-TAY POWER DISTRIBUTION LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

9. REGULATORY DEFERRAL ACCOUNTS, continued

(A) These amounts are expected to reverse when the Company submits their next cost of service filing which is anticipated to be within the next five years.

(i) Settlement variances represent the variances between the amounts charged by the company to its customers, and the amounts paid by the company to the Independent Electricity System Operator ("IESO") and Hydro One for the cost of energy. The settlement variances include network and connection service charges, low voltage, energy sales and the global adjustment. The balance for settlement variances continue to be calculated and carrying charges are recorded monthly basis.

(ii) Recovery Accounts are used to record the disposition of deferral and variances account balances that have been approved by the OEB. The variances are to be recovered or settled when the company submits their next Cost of Service filing.

(iii) Other Deferral Accounts include debit and credit balances in other regulatory assets, including Lost Revenue Adjustment Mechanism variances, Smart Metering Entity Charge variances, Retail Cost variances, IFRS transition expenditures, payments in lieu of taxes and Smart Meter expenditures. The costs incurred in these deferral accounts have been captured for future recovery or settlement. Carrying charges are recorded monthly on the opening balances.

(iv) In 2012, the Company adjusted the estimated useful life related to the amortization period for certain capital assets, based upon the Ontario Energy's Board regulatory accounting direction as contained in the revised 2012 Accounting Procedures Handbook for Electricity Distributors. As a result of OEB direction related to the settlement of these amounts, the company has recorded a payable in the deferral account of \$7,452,145 (2015 - \$5,963,081) and a reduction in service revenue of \$1,489,064 (2015 - \$1,336,735)

The company has been approved through its annual Incentive Regulation Mechanism (IRM) application to the OEB for the settlement of the 2015 balance in the amount of \$5,963,081. Starting May 1, 2017, the company will start refunding its respective customers by class over a one year period.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
	\$	\$
Accounts payable - purchased power	7,568,566	6,332,580
Other trade accounts payable and accrued liabilities	3,816,859	1,793,110
Water and sewer billings payable (note 15)	2,002,034	1,890,178
Credits on customer accounts	762,862	1,220,670
Ontario Power Authority program	314,374	10,622
	14,464,695	11,247,160

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

11. LONG-TERM DEBT

	2016	2015
	\$	\$
Note payable, 5.48% - Town of Newmarket	22,000,000	22,000,000
Note payable, 5.48% - Township of Tay	1,742,821	1,742,821
Committed term facility, 3.07%.	-	1,000,000
Bank loan payable, 2.44% fixed rate, payable in blended monthly payments of \$65,742	6,374,255	7,000,000
	30,117,076	31,742,821
<u>Less principal payments due within one year</u>	<u>641,184</u>	<u>1,625,745</u>
<u>Due beyond one year</u>	<u>29,475,892</u>	<u>30,117,076</u>
Estimated principal repayments are as follows:		
		\$
2017		641,184
2018		657,006
2019		673,217
2020		4,402,848
Unspecified (A)		23,742,821
		<u>30,117,076</u>

(A) The notes payable are unsecured and have no specific terms of repayment. Since the holders of the notes have confirmed they will not request repayment of this amount during the next fiscal year, these amounts have been classified as a non-current liability in the accompanying financial statements.

The committed term facility was drawn for the purpose of the purchase of smart meters. This balance was paid out in full in January 2016.

The bank loan payable is a 5 year term loan due December 10, 2020 with a payment due at maturity of \$3,771,150. To reduce exposure to interest rate fluctuations, the Company has entered into an interest rate swap where they pay a fixed interest rate over of the term of the loan.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

12. DEPOSITS HELD

Deposits held represent cash deposits from electricity distribution customers and retailers, as well as construction deposits.

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

Construction Deposits represent cash payments from developers in order to secure the performance of the developer's obligations under the Construction Agreement for Expansion Facilities and Connection Assets Supplied by Developer - Residential Subdivision (The Construction Agreement).

Upon commissioning of the Expansion Facilities and upon payment by the developer of all fees associated with the installation, inspection, testing and commissioning of work done by the Company, the Company may reduce the deposit to 10% of financial guarantee. The remaining letter of credit will be held for a two year period to cover any defects arising from the work done by the developer and its contractor.

	December 31, 2016	December 31, 2015
	\$	\$
Customer deposits	2,712,758	2,697,240
Construction deposits	294,720	492,024
	3,007,478	3,189,264

13. CONTRIBUTED CAPITAL

	December 31, 2016	December 31, 2015
	\$	\$
Deferred contributions, net, beginning of year	24,821,517	23,553,032
Contributed capital received	6,438,453	1,826,732
Contributed capital recognized as revenue (note 17)	(599,543)	(558,247)
Deferred contributions, net, end of year	30,660,427	24,821,517

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

14. EMPLOYEE FUTURE BENEFITS

The Company provides certain health, dental and life insurance benefits for retired employees pursuant to the Company's policy. The accrued benefit obligation and net periodic expense for the year were determined by an actuarial valuation. The most recent valuation was performed for December 31, 2014.

Information about the Company's defined benefit plan is as follows:

	2016	2015
	\$	\$
Accrued benefit obligation, beginning of year	813,117	830,105
Current service cost	30,900	30,327
Interest expense	33,877	32,221
Benefits paid	(50,549)	(49,167)
	827,345	843,486
Actuarial (gain)/loss	49,163	(30,369)
Accrued benefit obligation, end of year	876,508	813,117

Current service costs and interest on accrued benefit obligation are recognized in the statement of income. Actuarial gains (loss) arising from changes in financial assumptions are accounted for in other comprehensive income. The total benefit costs for the year is \$113,940 (2015 - \$32,179).

The actuarial assumptions used in the valuation are the consumer price index at 2.0% (2015 - 2.0%), discount rate of 3.9% (2015 - 4.3%), salary increase rate of 2.5% (2015 - 2.5%), cost trend including health benefits of 6.25% (2015 - 6.5%) and dental benefits 4.5% (2015 - 4.5%) and retirement age of 61 (2015 - 61). The health benefits are expected to decrease at 0.25% per year until 2023 when it reaches 4.50% and dental benefits will remain at 4.50% to 2023.

The impact of a change in the actuarial assumptions would have the following impact on the obligation:

	Reasonable possible change	Defined benefit obligation change	Current service costs change	Interest cost change
	\$	\$	\$	\$
Discount rate	+1%	(115,000)	(6,000)	2,000
Discount rate	-1%	146,000	7,000	(4,000)
Retirement age	62	(94,000)	(6,000)	(4,000)
Retirement age	60	92,000	6,000	3,000
Cost trends	+1%	44,000	3,000	1,000
Cost trends	-1%	(41,000)	(3,000)	(2,000)

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

15. RELATED PARTY TRANSACTIONS AND ADVANCES FROM PARENT COMPANY

- (a) The Company entered into transactions with its majority parent, Newmarket Hydro Holdings Inc. (NHHI) and with The Town of Newmarket which is the sole shareholder of Newmarket Hydro Holdings Inc. Revenue charged during the year included energy, street light capital and street light maintenance charged at commercial rates to the Town of Newmarket.

Included in accounts payable (note 10) are water and sewer amounts collected which are due to the Town. These amounts are collected and remitted in accordance with a contract with URB Olameter and remitted on their behalf.

Included in long-term debt (note 11) are notes payable to related parties.

- (b) Transactions

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

	2016	2015
	\$	\$
Revenue		
Energy sales	3,146,105	3,410,483
Services - Street light capital	25,491	96,827
Services - Street light maintenance	52,452	245,491
	3,224,048	3,752,801
Expenses		
Interest	1,205,600	1,205,600
Rent and property tax	409,040	377,439
	1,614,640	1,583,039

- (c) The following amount is due from the Town of Newmarket and included in the financial statements:

	2016	2015
	\$	\$
Accounts receivable	343,581	289,015

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

15. RELATED PARTY TRANSACTIONS, continued

(d) The following amount is due to the parent company:

	2016	2015
	\$	\$
Newmarket Hydro Holdings Inc.	2,549,895	2,473,010

Advances from the parent company, Newmarket Hydro Holdings Inc. includes promissory notes in the amount of \$2,153,000 (2015 - \$2,153,000) which are due March 16, 2018. The remainder of the balance has no specific terms of repayment. As the parent company has confirmed they will not request repayment of this amount during the next fiscal year, the amount has been classified as a non-current liability in the financial statements.

The balances are unsecured and bear interest at the OEB deemed debt rate of 5.48% for 2016 (2015 - 5.48%).

The key management personnel of the Company has been defined as members of its board of directors and supervisory personnel. The compensation is comprised of director's fees, management salaries and wages, short-term employee benefits and post employment benefits totaling \$1,805,086 (2015 - \$1,811,848).

16. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued

	2016	2015
	\$	\$
10,000 common shares	27,140,206	27,140,206

17. OTHER INCOME

Other income consists of the following:

	2016	2015
	\$	\$
Account set up fees	134,914	111,852
Pole rentals	141,015	140,256
Collection charges	247,871	271,672
Administration charges	127,977	125,330
Recognition of contributed capital	599,543	558,247
Other	195,068	208,734
Operating income	1,446,388	1,416,091

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

18. OPERATING EXPENSES

Operating expenses consist of the following:

	2016	2015
	\$	\$
Wages and benefits	4,740,254	4,648,063
Materials, equipment and other operating expenses	2,010,880	1,951,291
Administration and overhead	995,321	938,771
Operating expenses	7,746,455	7,538,125

19. FINANCE INCOME AND FINANCE COSTS

Finance income recognized in profit or loss consists of the following:

	2016	2015
	\$	\$
Interest income on accounts receivable	306,201	262,354
Income on short-term investments	99,353	161,761
	405,554	424,115

Finance costs recognized in profit or loss consists of the following:

	2016	2015
	\$	\$
Interest on long-term debt	1,589,377	1,461,014
Customer deposit interest	25,087	24,551
(Gain)/loss on short-term investments	(52,741)	26,029
	1,561,723	1,511,594

20. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2016	2015
	\$	\$
Decrease (increase) in short-term investments	3,410,393	(20,878)
Decrease (increase) in accounts receivable	(4,891,568)	548,511
Increase in unbilled revenue	(1,528,351)	(522,559)
Decrease in inventories	238,208	188,329
Decrease (increase) in prepaid expenses	9,092	(43,399)
Decrease in income taxes receivable	691,360	900,312
Increase (decrease) in accounts payable and accrued liabilities	3,217,535	(1,816,105)
Increase (decrease) in deposits held	(181,786)	226,610
Interest received	405,554	424,115
Taxes paid	(1,800,000)	(1,800,000)
	(429,563)	(1,915,064)

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

21. SHORT TERM CREDIT FACILITIES

The Company has \$4,000,000 available in operating facilities from a major chartered bank. The facilities include a 364 day revolving operating loan, bearing interest at prime plus 0.5%, to be repaid within one year from date of acquisition unless extended by the bank. A commitment fee of 0.125% per annum, payable quarterly applies to any unused portion of the facility. As at December 31, the Company has no balance outstanding (2015 - Nil) on this facility. The operating loan includes restrictive clauses with respect to repayment.

The Company has provided prudential support in the amount of \$2,765,940 to the Independent Electricity System Operator. The prudential support is secured by a letter of credit with a major chartered bank for \$2,765,940, contains restrictive clauses with respect to debt repayments and bears interest at 0.5% per annum.

A general security agreement covering all assets of the Company and assignment of business/liability insurance has been pledged as security for the operating facilities. At December 31, 2016, the Company was in compliance with all covenants.

22. PENSION AGREEMENT

The Company makes contributions to the Ontario Municipal Employees' Retirement Fund (O.M.E.R.S.), which is a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on the length of service and rates of pay.

The amount contributed to O.M.E.R.S. for the year ended was \$410,721 (2015 - \$430,916).

23. CAPITAL DISCLOSURES

The Company's primary objective when managing capital is to address the expectations as provided in the Shareholder Agreement between the Company's parent company, Newmarket Hydro Holdings Inc. and its shareholder, the Town of Newmarket. The expectation is that the Company will maintain a prudent financial structure in order to safeguard the Company's assets and to provide adequate returns for its shareholders and benefits to the stakeholders.

Changes to the Company's capital structure are constrained by existing covenants contained in the banking agreement. The Company must maintain a maximum debt to capitalization ratio of 0.60 to 1 and maintain a debt service coverage ratio of 1.2. As at year end the Company is compliant with these covenants.

24. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash, accounts receivable, unbilled revenue which will result in future cash receipts, as well as accounts payable and accrued liabilities, deposits held, accounts payable and accruals, advances from parent company and long-term debt which will result in future cash outflows.

The Company does not believe that it is exposed to significant foreign exchange risk.

NEWMARKET-TAY POWER DISTRIBUTION LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

24. FINANCIAL INSTRUMENTS, continued

The Company is exposed to the following risks in respect of certain financial instruments held:

(a) *Interest rate risk*

The Company manages exposure to interest rate risk through a combination of fixed and floating rate borrowings. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent that the floating rate credit facility bears interest at a floating rate. The Company is also exposed to interest rate price risk to the extent that loans bear interest at fixed rates and has entered into an interest rate swap arrangement to manage the impact of fluctuating interest rates on bank loan payable. The swaps require the periodic exchange of interest payments without the exchange of the notional principal amount on which the payments are based (notes 11 and 15).

(b) *Credit risk*

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers located in the service area. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of related impairment loss is recognized in the statement of income. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2016 is \$92,132 (2015 - \$223,619). The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has approximately 28,000 customers, the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2016, the Company holds security deposits in the amount of \$3,007,478 (2015 - \$3,189,264). The Company's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk. The accounts receivable balance is expected to be fully repaid within 90 days excluding the allowance for doubtful accounts portion of the balance.

(c) *Market risk*

The securities held as short-term investments exposes the Company to market risk due to the potential for changes in market prices.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

24. FINANCIAL INSTRUMENTS, continued

(d) Liquidity risk

The Company does have a liquidity risk in accounts payable and accrued liabilities of \$14,464,695 (2015 - \$11,247,160). Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate line of credit to repay trade creditors and repays long-term debt interest and principal as they become due. In the opinion of management the liquidity risk exposure to the Company is low and is not material.

The following are contractual maturities of financial liabilities, including estimated interest payments:

	Between 0 -3 Months \$	Between 4 - 12 months \$	Over 1 year \$
Accounts payable and accrued liabilities	14,464,695	-	-
Deposits held	172,000	518,000	2,317,478
Long-term debt	105,781	535,403	29,475,892
Employee future benefits	-	-	876,508
Advances from parent company	-	-	2,553,645
	14,742,476	1,053,403	35,223,523

25. COMMITMENT

The Company has an operating lease agreement with the Town of Newmarket, expiring December 31, 2017 for the rental of the building. The minimum lease payment expected in 2017 is \$275,000.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

26. CONTINGENT LIABILITIES

(a) In the normal course of business, the Company enters into agreements that meet the definition of a guarantee. The guarantees include indemnities under lease agreements, purchase and sale agreements, confidentiality agreements, outsourcing, service and information agreements. The nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability related to the likelihood and predictability of future events. Historically, the Company has not made any significant payments under similar indemnification agreements and therefore no amount has been accrued in the statement of financial position with respect to these agreements.

(b) Indemnity has been provided to all directors and/or officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential suits or actions. The amount of any potential future liability which exceeds the amount of insurance coverage cannot reasonably be determined.

(c) The Company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the Company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual losses, claims and costs experienced.

27. SUBSEQUENT EVENTS

Subsequent to the year end, the Company entered into negotiations to purchase the shares of another Local Distribution Company. Negotiations are still on going and are expected to conclude in 2017.

28. COMPARATIVE FIGURES

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.



MIDLAND POWER UTILITY CORPORATION

FINANCIAL STATEMENTS

For the year ended December 31, 2015



MIDLAND POWER UTILITY CORPORATION

FINANCIAL STATEMENTS

For the year ended December 31, 2015

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BDO Canada LLP
40 Huron Street, Suite 100
Collingwood ON L9Y 4R3 Canada

Independent Auditor's Report

To the Shareholder of Midland Power Utility Corporation

We have audited the accompanying financial statements of Midland Power Utility Corporation, which comprise the balance sheets as at December 31, 2015, December 31, 2014 and January 1, 2014, and the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and December 31, 2014, and 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 audits. We conducted our audits 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 in our audits 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 Midland Power Utility Corporation as at December 31, 2015, December 31, 2014 and January 1, 2014 and the results of its operations and its cash flows for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Collingwood, Ontario
April 22, 2016

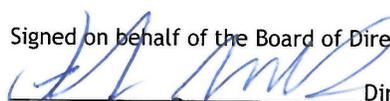
MIDLAND POWER UTILITY CORPORATION
BALANCE SHEET (EXPRESSED IN CANADIAN DOLLARS)

	Notes	December 31, 2015	December 31, 2014	January 1, 2014
Assets				
Current Assets				
Cash and cash equivalents		\$ 51,482	\$ -	\$ 266,208
Accounts receivable	7	1,967,131	2,154,268	1,491,298
Unbilled service revenue		2,580,942	2,259,306	2,668,791
Inventory	17	186,361	197,824	193,422
Prepaid expenses		156,382	191,652	216,447
Payments in lieu of taxes receivable		6,154	106,323	77,320
Total Current Assets		4,948,452	4,909,373	4,913,486
Non-Current Assets				
Property, plant and equipment	4	14,609,664	14,759,232	14,658,849
Intangible assets	5	135,486	133,478	79,061
Goodwill	11	1,260,000	1,260,000	1,260,000
Long-term investments	20	100	100	100
Deferred taxes	8	34,257	122,586	170,464
Total Non-Current Assets		16,039,507	16,275,396	16,168,474
Total Assets		20,987,959	21,184,769	21,081,960
Regulatory Deferral Account Debit Balances and Related Deferred Tax	3	809,460	681,231	127,949
Total Assets and Regulatory Deferral Account Balances		\$ 21,797,419	\$ 21,866,000	\$ 21,209,909
Liabilities and Shareholder's Equity				
Current Liabilities				
Bank indebtedness	14	\$ 1,200,000	\$ 469,110	\$ 1,380,000
Accounts payable and accrued liabilities	15	3,037,423	3,829,436	3,107,207
Deferred Revenue		6,361	4,864	189
Current portion of contributions in aid of construction	6	78,867	78,497	72,804
Current portion of customer and construction deposits	7	115,754	183,544	195,759
Current portion of long-term debt	12	4,417,134	4,540,302	4,286,596
Total Current Liabilities		8,855,539	9,105,753	9,042,555
Non-Current Liabilities				
Contributions in aid of construction	6	2,026,382	2,069,166	1,797,795
Customer and construction deposits	7	346,458	285,493	295,412
Employee future benefits	10	77,290	78,448	69,602
Deferred taxes	8	92,479	81,032	53,545
Total Non-Current Liabilities		2,542,609	2,514,139	2,216,354
Total Liabilities		11,398,148	11,619,892	11,258,909

MIDLAND POWER UTILITY CORPORATION
BALANCE SHEET (EXPRESSED IN CANADIAN DOLLARS)

	Notes	December 31, 2015	December 31, 2014	January 1, 2014
Shareholder's Equity				
Share capital	18	6,880,984	6,880,984	6,880,984
Retained earnings		3,518,287	3,365,124	3,070,016
Total Shareholder's Equity		10,399,271	10,246,108	9,951,000
Total Liabilities and Shareholder's Equity		\$ 21,797,419	\$ 21,866,000	\$ 21,209,909

Signed on behalf of the Board of Directors' by:


 _____ Director


 _____ Director

MIDLAND POWER UTILITY CORPORATION
STATEMENT OF COMPREHENSIVE INCOME (EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEAR ENDED DECEMBER 31, 2015

	Notes	2015	2014
Revenue			
Electricity sales		\$ 23,615,459	\$ 21,636,827
Distribution revenue		3,712,542	3,769,959
Other	16	431,851	346,611
		<u>27,759,852</u>	<u>25,753,397</u>
Expenses			
Purchased power		23,653,907	22,311,258
Operating expenses	9	2,397,842	2,317,299
Amortization		722,502	776,507
Loss on disposal of property, plant and equipment		48,361	18,731
		<u>26,822,612</u>	<u>25,423,795</u>
Income from operating activities		937,240	329,602
Finance Income	21	45,907	52,274
Finance Cost	21	(232,639)	(245,687)
Income before provision for (recovery of) payment in lieu of taxes and regulatory items		750,508	136,189
Provision for (recovery of) payment in lieu of taxes			
Current	8	75,797	(81,002)
Income before net movements in regulatory items		674,711	217,191
Net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement	3	28,452	477,917
Net income for the year		\$ 703,163	\$ 695,108

MIDLAND POWER UTILITY CORPORATION
STATEMENT OF CHANGES IN EQUITY (EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEAR ENDED DECEMBER 31, 2015

	Share Capital	Retained Earnings	Total
Balance at January 1, 2014	\$ 6,880,984	\$ 3,070,016	\$ 9,951,000
Net income for the year		695,108	695,108
Dividends		(400,000)	(400,000)
Balance at December 31, 2014	6,880,984	3,365,124	10,246,108
Net income for the year		703,163	703,163
Dividends		(550,000)	(550,000)
Balance at December 31, 2015	\$ 6,880,984	\$ 3,518,287	\$ 10,399,271

MIDLAND POWER UTILITY CORPORATION
STATEMENT OF CASH FLOWS (EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	2014
Cash flows from operating activities		
Net income for the year	\$ 703,163	\$ 695,108
Adjustments to reconcile income to net cash used in operating activities:		
Amortization	722,502	776,507
Provision for (recovery of) payment in lieu of taxes	75,797	(81,002)
Loss on disposal of property, plant and equipment	48,361	18,731
Amortization of contributions in aid of construction	(78,497)	(72,804)
Changes in non-cash working capital		
Energy revenue accounts receivable	249,874	(963,778)
Accounts receivable	(62,738)	300,808
Unbilled service revenue	(321,636)	409,485
Inventory	11,465	(4,404)
Prepaid expenses	35,270	24,796
Accounts payable and accrued liabilities	(792,013)	722,229
Deferred taxes	99,776	75,365
Customer and construction deposits	(6,826)	(22,134)
Deferred revenue	1,498	4,675
Employee benefits	(1,158)	8,846
Cash generated from operations	684,838	1,892,428
Payments in lieu of taxes (paid) received	24,372	52,000
Net cash flows from operating activities	709,210	1,944,428
Cash flows from investing activities		
Proceeds on disposal of property, plant and equipment	5,971	1,500
Purchase of property, plant and equipment	(584,793)	(820,963)
Purchase of intangibles	(44,483)	(130,575)
Changes in regulatory deferral account balances	(128,228)	(553,282)
Proceeds on contributions in aid of construction	36,084	349,868
Net cash used in investing activities	(715,449)	(1,153,452)
Cash flows from financing activities		
Loan advances	450,000	825,000
Loan repayments	(573,169)	(571,294)
Short-term financing (repayments)	730,890	(910,890)
Dividends paid in cash	(550,000)	(400,000)
Net cash used in financing activities	57,721	(1,057,184)
Net increase (decrease) in cash during the year	51,482	(266,208)
Cash, beginning of year	-	266,208
Cash, end of the year	\$ 51,482	\$ -

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. CORPORATE INFORMATION

Midland Power Utility Corporation's (Midland PUC) main business activity is the distribution of electricity under a license issued by the Ontario Energy Board (OEB). Midland PUC owns and operates an electricity distribution system, which delivers electricity to approximately 7,200 customers located in Midland, Ontario.

The Province, through its regulator the OEB exercises statutory authority through setting or approving all rates charged by the Midland PUC and establishing standards of service for Midland PUC's customers. Rates are set by the OEB on an annual basis for May 1 to April 30.

Operating in regulated environment exposes Midland PUC to regulatory and recovery risk.

Regulatory risk is the risk that the Province and its regulator, the OEB, could establish a regulatory regime that imposes conditions that restrict the electricity distribution business from achieving an acceptable rate of return that permits financial sustainability of its operations including the recovery of expenses incurred for the benefit of other market participants in the electricity industry such as transition costs and other regulatory assets. All requests for changes in electricity distribution charges require the approval of the OEB.

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect distribution rates and other permitted recoveries in the future. Midland PUC is subject to a cost of service regulatory mechanism under which the OEB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment, or rate base. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The address of the Midland PUC's corporate office and principal place of business is 16984 Highway 12, P.O. Box 820, Midland, Ontario, Canada.

The sole shareholder of Midland PUC is the Corporation of the Town of Midland.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements of Midland PUC have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are Midland PUC's first financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. They should be read in conjunction with the 2014 Canadian generally accepted accounting principles ("Canadian GAAP") financial statements and related notes. In this context, the term "Canadian GAAP" refers to generally accepted accounting principles before the adoption of IFRS.

The financial statements were authorized for issue by the Board of Directors on April 22, 2016.

b) First time adoption of IFRS

The transition to IFRS resulted in a decrease of shareholders equity of \$50,590 and \$253,954 at January 1, 2014 and December 31, 2014 respectively and a decrease in income for the year ended December 31, 2014 of \$203,362. In addition, the adoption of IFRS 14 Regulatory Deferral Accounts, did not result in a significant change in presentation of regulatory deferral accounts presented separately from assets and liabilities, however, there is a change in regulatory deferral accounts being presented separately from net profit.

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

2. BASIS OF PREPARATION (CONT'D)

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of Midland PUC is provided in note 24.

c) Basis of measurement

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Canadian dollars (CDN\$), which is also Midland PUC's functional currency and all values are rounded to the nearest dollar, unless when otherwise indicated.

d) Judgment and Estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying Midland PUC's accounting policies. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The calculation of the impairment of accounts receivables (Note 7);
- The determination for the provision for Payment in Lieu of Taxes since there are many transactions and calculations for which the ultimate tax determination is uncertain (Note 8); and
- The calculation of the net future obligation for certain unfunded life insurance benefits for Midland PUC's retired employees (Note 10).

In addition, in preparing the financial statements the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

3. REGULATORY DEFERRAL ACCOUNT BALANCES

Midland PUC has early adopted IFRS 14, Regulatory Deferral Accounts, to reflect the impact of regulation on its operations. In accordance with IFRS 14, Midland PUC has continued to apply the accounting policies it applied in accordance with the pre-changeover Canadian GAAP for the recognition, measurement and impairment of assets and liabilities arising from rate regulation. These are referred to as regulatory deferral account balances. Regulatory deferral account balances are recognized and measured initially and subsequently at cost. They are assessed for impairment on the same basis as other non-financial assets.

Regulatory deferral account credit balances are associated with the collection of certain revenues earned in the current period or in prior period(s), that are expected to be returned to consumers in future periods through the rate-setting process.

Regulatory deferral account debit balances represent future revenues associated with certain costs incurred in the current period or in prior period(s), that are expected to be recovered from consumers in future periods through the rate-setting process. Management continually assesses the likelihood of recovery of regulatory assets. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

The balances and movements in the regulatory deferral account balances shown below are presented net of related deferred taxes. These deferred taxes are not presented within the total deferred tax asset balances shown in note 8.

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

3. REGULATORY DEFERRAL ACCOUNT BALANCES (CONT'D)

All amounts deferred as regulatory deferral account balances are subject to approval by the OEB. As such, amounts subject to deferral could be altered by the regulators. Remaining recovery periods are those expected and the actual recovery or settlement periods could differ based on OEB approval. Due to previous, existing or expected future regulatory articles or decisions, Midland PUC has the following amounts expected to be recovered by customers (returned to customers) in future periods and as such regulatory deferral account balances are comprised of:

	Balances			Balances			
	January 1,	arising in the	Recovery/	December 31,	arising in the	Recovery	December
	2014	period	Reversal	2014	period	/Reversal	31, 2015
Regulatory Deferral Account Debit							
Settlement variances	\$ (436,346)	\$ 566,648	\$ 164,797	\$ 295,099	\$ 203,724	\$ (77,314)	\$ 421,509
Carrying Charges	486,460	1,138	(1,557)	486,041	9,237	(1,871)	493,407
Deferred tax	(174,357)	(121,149)	-	(295,506)	89,780	-	(205,726)
Stranded meters	199,483	-	(86,399)	113,084	-	(87,089)	25,995
IFRS transition costs	28,801	7,000	-	35,801	3,000	-	38,801
Other	23,908	22,804	-	46,712	(11,238)	-	35,474
Net Regulatory Assets	\$127,949	\$ 476,441	\$ 76,841	\$ 681,231	\$ 294,503	\$(166,274)	\$ 809,460

i. Settlement variances

This account is comprised of the variances between amounts charged by Midland PUC to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service incurred by Midland PUC. The settlement variances relate primarily to service charges, non-competitive electricity charges, imported power charges and the global adjustment.

The company has recognized a settlement variance asset of \$421,509 (2014 - a settlement variance asset of \$295,099) arising from the recognition of regulatory deferral account balances. The settlement variance asset balance is presented within the total regulatory deferral account debit balances presented in the statement of financial position. The expected recovery/reversal period is three years.

ii. Carrying charges

Carrying charges are calculated monthly on the opening balance of the applicable variance account using a specified interest rate as outlined by the OEB. Midland PUC applied for and received approval to recover carrying charges earned in 2013 and prior in its 2015 rate application. Midland PUC also intends to seek recovery of carrying charge income earned in 2014 and 2015 in future rate applications. Midland PUC expects to recover these amounts over the next three years.

Total carrying charges are comprised of \$493,407 (2014 - \$486,041). If carrying charges are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset, as specified in IAS 23, they are capitalized as part of Property, Plant and Equipment. Carrying charges that do not meet this criteria are included as part of the regulatory deferral account. Midland PUC does not have any carrying charges directly attributable to the acquisition, construction or production of a qualifying asset. The carrying charge balances for Midland PUC are directly attributable to settlement variances, deferred tax, stranded meters, IFRS transition costs and other regulatory deferral accounts.

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

3. REGULATORY DEFERRAL ACCOUNT BALANCES (CONT'D)

iii. Deferred tax

The recovery from, or refund to, customers of future income taxes through future rates is recognized as a regulatory deferral account balance. This regulatory credit balance relates to both deferred tax amounts reclassified under IFRS 14 and to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred tax assets. As at December 31, 2015, this regulatory balance did not include any carrying charges

The amounts reclassified under IFRS 14 include the deferred tax liability related to regulatory balances of \$263,948 as at December 31, 2015 (December 31, 2014 - \$253,952; January 1, 2014 \$57,438) offset by the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of \$58,222 as at December 31, 2015 (December 31, 2014 \$(41,554); January 1, 2014 \$(116,919)). The deferred tax balance is presented within the total regulatory deferral account balances presented in the statement of financial position. The expected recovery/reversal period is three years.

iv. Stranded meters

In April, 2013, Midland PUC obtained approval from the OEB to recover the remaining cost of the stranded meters related to the deployment of smart meters which were formerly included in capital assets over a three year period effective May 1, 2013. The stranded meters were transferred from capital assets to regulatory assets in fiscal 2013. Midland PUC has recognized a recoverable balance \$25,995 (2014 - \$113,084) in stranded meters. In the absence of rate regulation, these stranded meters would have previously been expensed. Recovery of stranded meters will continue until April 30, 2016.

v. IFRS transition costs

During 2009, the OEB consultation process was set up to determine the effect of IFRS on local distribution companies. The consultation concluded that prudently incurred administrative costs directly related to IFRS transition would be recoverable from ratepayers on the same basis as other administrative costs. The OEB has approved the collection from customers to cover the expected one-time costs of implementing IFRS. Collections of \$100,000 over a 4 year period (May 1, 2009 to April 30, 2013) are off-set by OEB approved expenses in this variance account. In Midland PUC's 2013 Cost of Service Rate Application the OEB approved further collection from customers of \$46,352 over a two year period (May 1, 2013 to April 30, 2015).

Midland PUC has recognized an IFRS transition cost asset of \$38,801 (2014 - \$35,801) arising from the recognition of regulatory deferral account balances. The IFRS transition cost asset balance is presented within the total regulatory deferral account debit balances presented in the balance sheet.

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

4. PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment (PP&E) are recognized at cost less accumulated amortization. Costs may include material, labour, contracted services, engineering costs and eligible borrowing costs when applicable.

Also included in PP&E are the costs of capital assets constructed by developers or customers and contributed to Midland PUC as well as items designated as major spare parts or stand-by equipment. Major spares such as spare transformers and meters kept as standby/back up equipment are accounted for as PP&E since they support Midland PUC's distribution system reliability.

Depreciation of PP&E is recorded in the Statement of Comprehensive Income on a straight-line basis over the estimated useful life of the related asset. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

The estimated useful lives are as follows:

Land and Buildings:

Buildings and fixtures	50 years
------------------------	----------

Distribution Equipment:

Substations	25 - 75 years
Overhead Distribution Lines	45 - 60 years
Underground distribution lines	25 - 50 years
Distribution transformers	40 years
Distribution meters	25 years
Smart meters	15 years

Other Equipment:

Office equipment	10 years
Computer equipment	5 years
Transportation equipment	8 years
Small tools and miscellaneous equipment	10 years
System supervisory controls	20 years

Land is not depreciated.

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

4. PROPERTY, PLANT & EQUIPMENT (CONT'D)

PP&E consists of the following:

	Land and buildings	Distribution equipment	Other equipment	Total
Cost				
Balance at January 1, 2014	\$ 998,394	\$ 12,508,895	\$ 1,151,560	\$ 14,658,849
Additions	33,091	655,649	132,223	820,963
Disposals	-	19,999	232	20,231
Balance at December 31, 2014	<u>1,031,485</u>	<u>13,144,545</u>	<u>1,283,551</u>	<u>15,459,581</u>
Balance at January 1, 2015	1,031,485	13,144,545	1,283,551	15,459,581
Additions	95,781	336,872	152,140	584,793
Disposals	-	56,439	5,563	62,002
Balance at December 31, 2015	<u>\$ 1,127,266</u>	<u>\$ 13,424,978</u>	<u>\$ 1,430,128</u>	<u>\$ 15,982,372</u>
Depreciation and impairment losses				
Balance at January 1, 2014	\$ -	\$ -	\$ -	\$ -
Depreciation for the year	23,236	429,271	247,842	700,349
Disposals	-	-	-	-
Balance at December 31, 2014	<u>23,236</u>	<u>429,271</u>	<u>247,842</u>	<u>700,349</u>
Balance at January 1, 2015	23,236	429,271	247,842	700,349
Depreciation for the year	24,525	445,915	209,588	680,028
Disposals	-	4,446	3,223	7,669
Balance at December 31, 2015	<u>\$ 47,761</u>	<u>\$ 870,740</u>	<u>\$ 454,207</u>	<u>\$ 1,372,708</u>
Carrying amounts				
At January 1, 2014	\$ 998,394	\$ 12,508,895	\$ 1,151,560	\$ 14,658,849
At December 31, 2014	<u>\$ 1,008,249</u>	<u>\$ 12,715,274</u>	<u>\$ 1,035,709</u>	<u>\$ 14,759,232</u>
At December 31, 2015	<u>\$ 1,079,505</u>	<u>\$ 12,554,238</u>	<u>\$ 975,921</u>	<u>\$ 14,609,664</u>

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

5. INTANGIBLE ASSETS

Intangible assets are measured at cost less accumulated amortization.

Depreciation of Intangible Assets is recorded in the Statements of Comprehensive Income on a straight-line basis over the estimated useful life of the related asset. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

The estimated useful lives are as follows:

Computer Software	5 years
Land Rights	not amortized

Intangible assets consist of the following:

	Computer Software	Land Rights	Total
Cost			
Balance at January 1, 2014	\$ 61,566	\$ 17,495	\$ 79,061
Additions	130,575	-	130,575
Balance at December 31, 2014	192,141	17,495	209,636
Balance at January 1, 2015	192,141	17,495	209,636
Additions	44,483	-	44,483
Balance at December 31, 2015	\$ 236,624	\$ 17,495	\$ 254,119
Depreciation and impairment losses			
Balance at January 1, 2014	\$ -	\$ -	\$ -
Depreciation for the year	76,158	-	76,158
Balance at December 31, 2014	76,158	-	76,158
Balance at January 1, 2015	76,158	-	76,158
Depreciation for the year	42,475	-	42,475
Balance at December 31, 2015	\$ 118,633	\$ -	\$ 118,633
Carrying amounts			
At January 1, 2014	\$ 61,566	\$ 17,495	\$ 79,061
At December 31, 2014	\$ 115,983	\$ 17,495	\$ 133,478
At December 31, 2015	\$ 117,991	\$ 17,495	\$ 135,486

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

6. REVENUE RECOGNITION

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

Revenues from the sale and distribution of electricity is recognized on an accrual basis, including unbilled revenues accrued in respect of electricity delivered but not yet billed. The unbilled revenue is calculated using real time consumption from the last billing date to December 31, 2015. Sale and distribution of energy revenue is comprised of customer billings for distribution service charges. Customer billings for distribution service charges are recorded based on meter readings.

Other revenues, which include revenues from pole use rental, collection charges and other miscellaneous revenues are recognized at the time services are provided. Where Midland PUC has an ongoing obligation to provide services, revenues are recognized as the service is performed and amounts billed in advance are recognized as deferred revenue.

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 are classified as contributions in aid of construction and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset. When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as contributions in aid of construction

The continuity of deferred contributions in aid of construction is as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
Deferred contributions, net, beginning of year	\$ 2,147,663	\$ 1,870,599	\$ 1,870,599
Contributions in aid of construction received	36,083	349,868	-
Contributions in aid of construction recognized as other revenue	(78,497)	(72,804)	-
Deferred contributions, net, end of year	\$ 2,105,249	\$ 2,147,663	\$ 1,870,599
Current portion of deferred contributions in aid of construction	\$ 78,867	\$ 78,497	\$ 72,804
Non-current portion of deferred contributions in aid of construction	2,026,382	2,069,166	1,797,795
	\$ 2,105,249	\$ 2,147,663	\$ 1,870,599

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

7. ACCOUNTS RECEIVABLE AND CUSTOMER DEPOSITS

	December 31, 2015	December 31, 2014	January 1, 2014
Energy revenue accounts receivable	\$ 1,798,163	\$ 2,073,038	\$ 1,138,160
Due from shareholder	16,377	43,840	72,397
Merchandise and jobbing receivable	85,903	22,145	193,784
Other accounts receivable	111,688	85,245	185,857
Allowance for doubtful accounts	(45,000)	(70,000)	(98,900)
	<u>\$ 1,967,131</u>	<u>\$ 2,154,268</u>	<u>\$ 1,491,298</u>

Due to its short term nature, the carrying amount of the energy accounts receivable, due from shareholder, merchandise and jobbing and other accounts receivable approximates its fair value. In determining the allowance for doubtful accounts, Midland PUC considers historical loss experience of account balances based on the aging and arrears status of accounts receivable balances.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the income statement in operating expenses. The balance of the allowance for impairment at December 31, 2015 is \$45,000 (2014 - \$70,000). An impairment loss of \$26,543 was recognized during the year. Midland PUC's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2015, approximately \$59,822 (2014 - \$66,444) is considered 60 days past due. Midland PUC has approximately 7,200 customers, the majority of which are residential.

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits. Deposits to be refunded to customers within the next fiscal year are classified as a current liability. Interest rates paid on customer deposits are based on the Bank of Canada's prime business rate less 2% to a minimum of 1%.

Customer deposits represent cash deposits from electricity distribution customers and retailers, as well as construction deposits. Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by Midland PUC in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

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

	December 31, 2015	December 31, 2014	January 1, 2014
Customer deposits	\$ 325,466	\$ 332,290	\$ 331,287
Construction deposits	136,746	136,747	159,884
Total customer deposits	<u>462,212</u>	<u>469,037</u>	<u>491,171</u>
Less long-term portion of customer and construction deposits	346,458	285,493	295,412
	<u>\$ 115,754</u>	<u>\$ 183,544</u>	<u>\$ 195,759</u>

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

8. PAYMENTS IN LIEU OF TAXES PAYABLE

Midland PUC is a Municipal Electricity Utility (“MEU”) for purposes of the payments in lieu of taxes (“PILs”) regime contained in the Electricity Act, 1998. As an MEU, Midland PUC is exempt from tax under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario).

Under the Electricity Act, 1998, Midland PUC is required to make, for each taxation year, PILs payments to the Ontario Electricity Financial Corporation (“OEF”)”. These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporation Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

PILs expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to items recognized directly in equity or regulatory deferral account balances (See Note 3).

Significant judgment is required in determining the provision for PILs. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. Midland PUC recognizes liabilities for anticipated tax audit issues based on Midland PUC’s current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Significant components of the payments in lieu of taxes expense are as follows:

	2015	2014
Current tax		
Based on current year taxable income	\$ 75,797	\$ (81,952)
Adjustments for over/under provision in prior periods	-	950
	<u>\$ 75,797</u>	<u>\$ (81,002)</u>

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

8. PAYMENTS IN LIEU OF TAXES PAYABLE (CONT'D)

The current provision for (recovery of) payments in lieu of taxes varies from amounts which would be computed by applying Midland PUC's combined statutory income tax rate as follows:

	2015	2014
Net income for the year	\$ 703,163	\$ 695,108
Less provision for payment in lieu of taxes	75,797	(81,002)
Less deferred payment in lieu of taxes included in net movement of regulatory deferral account balances	9,996	196,514
	<u>788,956</u>	<u>810,621</u>
Statutory Canadian federal and provincial tax rate	26.50%	26.50%
Provision for PILs at statutory rate	<u>209,073</u>	<u>214,814</u>
Increase (decrease) in payments in lieu of taxes resulting from:		
Cumulative eligible capital deduction	(11,667)	(12,546)
Net increase in regulatory assets	(32,461)	(193,478)
Amortization expense in excess of capital cost allowance	(102,536)	(113,666)
Change in pension post retirement plan	307	2,344
Loss on disposal of assets	12,816	5,914
Other	265	-
Loss carryback	-	15,616
	<u>\$ 75,797</u>	<u>\$ (81,002)</u>
Effective tax rate	<u>9.61%</u>	<u>(9.99%)</u>

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

8. PAYMENTS IN LIEU OF TAXES PAYABLE (CONT'D)

The movement in the 2015 deferred tax liability are:

	Opening Balance at Jan 1, 2015	Recognize in Regulatory Deferred Tax	Closing Balance at Dec 31, 2015
2015			
Deferred tax asset			
Property, plant and equipment	\$ 102,190	\$ (88,028)	\$ 14,162
Employee Future Benefits	20,396	(301)	20,095
Deferred tax asset	\$ 122,586	\$ (88,329)	\$ 34,257
Deferred tax liability			
Goodwill and land rights	81,032	11,447	92,479
Deferred tax liability	\$ 81,032	\$ 11,447	\$ 92,479
	Opening Balance at Jan 1, 2014	Recognize in Regulatory Deferred Tax	Closing Balance at Dec 31, 2014
2014			
Deferred tax asset			
Property, plant and equipment	\$ 155,938	\$ (53,748)	\$ 102,190
Employee future benefits	14,526	5,870	20,396
Deferred tax asset	\$ 170,464	\$ (47,878)	\$ 122,586
Deferred tax liability			
Goodwill and land rights	53,545	27,487	81,032
Deferred tax liability	\$ 53,545	\$ 27,487	\$ 81,032

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

9. EXPENSES BY NATURE

	2015	2014
Operations and maintenance:		
Customer and community relations	\$ 17,903	\$ 14,268
Distribution station	110,236	91,523
Employee wages and benefits	672,510	656,004
Metering	4,995	3,225
Overhead and underground system maintenance	137,349	166,315
Safety, training and small tools	27,705	31,609
Vehicle	14,084	21,555
	<u>\$ 984,782</u>	<u>\$ 984,499</u>
Billing and collecting:		
Bad debts	\$ 26,543	\$ 6,644
Billing supplies and postage	117,759	123,805
Collecting	13,896	14,209
Employee wages and benefits	163,385	158,347
Meter reading	130,807	126,898
	<u>\$ 452,390</u>	<u>\$ 429,903</u>
Administration and general:		
Bank charges	\$ 20,022	\$ 19,177
Building maintenance	20,705	17,555
Employee & Director wages and benefits	563,049	553,696
Insurance	39,804	45,823
Memberships, fees, dues and audit	77,347	54,044
Office supplies and materials	132,069	112,827
Property taxes	28,831	28,438
Regulatory	55,701	60,367
Safety and training	23,142	10,970
	<u>\$ 960,670</u>	<u>\$ 902,897</u>
Total operating expenses	<u><u>\$ 2,397,842</u></u>	<u><u>\$ 2,317,299</u></u>

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

10. EMPLOYEE FUTURE BENEFITS

Defined contribution plan

The employees of Midland PUC participate in the Ontario Municipal Employees Retirement System (“OMERS”). Midland PUC also makes contributions to the OMERS plan on behalf of its employees. The plan has a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. However, the plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The contribution payable in exchange for services rendered during a period is recognized as an expense during that period. The employer portion of amounts paid to OMERS during the year was \$148,848 (2014 - \$149,233). The contributions were made for current service and these have been recognized in net income.

Defined benefit plans

During 2003 Midland PUC discontinued its post-retirement life insurance, dental and health benefits to all employees. As at December 31, 2015, there are only five (2014 - five) retirees who retain the post-retirement life insurance benefit. These benefits are provided through a group defined benefit plan. Midland PUC’s net obligation for these benefits is calculated by estimating the amount of future benefits that are expected to be paid out discounted to determine its present value.

The cost of these benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions. Due to the complexity of the valuation, the underlying assumptions and its long term nature, the cost of these benefits are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The calculation is performed by a qualified actuary using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities. The valuation is performed every third year or when there are significant changes to workforce.

Service costs are recognized in the Statement of Comprehensive Income in operating expenses, and include current and past service costs as well as gains and losses on curtailments.

Net interest expense is recognized in the Statement of Comprehensive Income in finance expense, and is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the balance of the net defined benefit obligation, considering the effects of benefit payments during the period. Gains or losses arising from changes to defined benefits or plan curtailment are recognized immediately in the Statement of Comprehensive Income. Settlements of defined benefit plans are recognized in the period in which the settlement occurs.

The plan is exposed to a number of risks, including:

Interest rate risk: decreases/increases in the discount rate used (high quality corporate bonds) will increase/decrease the defined benefit obligation.

Longevity risk: changes in the estimation of mortality rates of the former employees.

Health care cost risk: increases in cost of providing life insurance benefits.

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

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

10. EMPLOYEE FUTURE BENEFITS (CONT'D)

	Defined benefit liability	
	2015	2014
Balance January 1	\$ 78,448	\$ 69,602
Interest cost	2,979	3,242
Included in profit or loss	81,427	72,844
Actuarial (gain) losses from financial assumptions	-	9,741
Benefits paid during the year	(4,137)	(4,137)
Balance December 31	\$ 77,290	\$ 78,448

The main actuarial assumptions underlying the valuation are as follows:

Assumption	2015	2014	Defined Benefit Obligation	
			Increase	Decrease
Discount Rate	3.90%	3.90%	\$ -	\$ (1,158)

11. GOODWILL

Goodwill represents the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased. In October 2000, Midland PUC recognized original goodwill of \$1,400,000 on its financial statements upon transition from a Public Utility Commission to a Corporation under the Business Corporations Act of Ontario. As at December 31, 2015 Midland PUC has \$1,260,000 recorded as goodwill.

Should any indication of impairment exist or circumstances arise which indicate that goodwill may be impaired, the goodwill would be tested for impairment by comparing the recoverable amount of the asset with the carrying amount of the asset.

When the carrying value amount of goodwill exceeds the implied fair value of goodwill an impairment loss is recognized in an amount equal to the excess as a charge against the results of operations.

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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12. LONG-TERM DEBT

	2015	2014
Infrastructure Ontario Debenture - 4.12% fixed rate, \$33,333 principal repayable semi-annually plus interest on December 15th and June 15th, secured by a general security agreement covering a second charge on all assets and real property, due June 15, 2026	\$ 700,000	\$ 766,667
Infrastructure Ontario Debenture - 2.91% fixed rate, \$30,000 principal repayable semi-annually plus interest on October 1st and April 1st, secured by a general security agreement covering a second charge on all assets and real property, due April 1, 2015	-	30,000
Infrastructure Ontario Debenture - 3.91% fixed rate, \$56,126 principal repayable semi-annually plus interest on October 1st and April 1st, secured by a general security agreement covering a second charge on all assets and real property, due April 1, 2020	505,134	617,385
Infrastructure Ontario Debenture - 3.91% fixed rate, \$61,750 principal repayable semi-annually plus interest on October 1st and April 1st, secured by a general security agreement covering a second charge on all assets and real property, due April 1, 2020	555,750	679,250
Infrastructure Ontario Debenture - 4.00% fixed rate, \$60,000 principal repayable semi-annually plus interest on September 1st and March 1st, secured by a general security agreement covering a second charge on all assets and real property, due March 1, 2021	660,000	780,000
Infrastructure Ontario Debenture - 3.61% fixed rate, \$14,125 principal repayable semi-annually plus interest on August 1st and February 1st, secured by a general security agreement covering a second charge on all assets and real property, due February 1, 2033	494,375	522,625
Infrastructure Ontario Debenture - 3.03% fixed rate, \$20,000 principal repayable semi-annually plus interest on September 1st and March 1st, secured by a general security agreement covering a second charge on all assets and real property, due March 1, 2023	300,000	340,000
Infrastructure Ontario Debenture - 3.77% fixed rate, \$20,625 principal repayable semi-annually plus interest on June 2nd and December 2nd, secured by a general security agreement covering a second charge on all assets and real property, due June 2, 2034	763,125	804,375
Infrastructure Ontario Debenture - 3.20% fixed rate, \$11,250 principal repayable semi-annually plus interest on May 15th and November 15th, secured by a general security agreement covering a second charge on all assets and real property, due May 15, 2035	438,750	-
Current portion of long-term debt	\$ 4,417,134	\$ 4,540,302

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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12. LONG-TERM DEBT (CONT'D)

Total construction advances of \$8,603,125 have been approved by infrastructure Ontario at December 31, 2015 (2014 - \$7 million). At December 31, 2015, Midland PUC had undrawn credit capacity under this facility of approximately \$1,153,125 (2014 - \$352,484).

The agreement governing these credit facilities contains certain covenants as described in Note 23. At December 31, 2015 Midland PUC did not meet the current ratio covenant of 1.1:1. Subsequent to year end the Ontario Infrastructure Lands Corporation has waived the current ratio covenant. Ontario Infrastructure Lands Corporation has also removed the current ratio covenant of 1.1:1 from our current financing agreement effective April 14, 2016.

Principal repayments for each of the five subsequent years and thereafter are as follows:

2016	\$	554,418
2017		554,418
2018		554,418
2019		554,418
2020		436,542
Thereafter		1,762,920
	\$	<u>4,417,134</u>

13. RELATED PARTY TRANSACTIONS

The ultimate parent

The common shares of Midland PUC are owned by the Corporation of the Town of Midland, the ultimate parent, which constitutes a local government. Consequently, Midland PUC is exempt from some of the general disclosure requirements of IAS 24 with relation to transactions with government-related parties, and has applied the government-related disclosure requirements.

The following summarizes Midland PUC's related party transactions for the year with its shareholder, the Corporation of the Town of Midland:

	<u>2015</u>	<u>2014</u>
Revenue		
Electricity charges	\$ 1,207,650	\$ 999,379
Maintenance of streetlights and other services	231,567	227,921
Expenses		
Municipal taxes	37,295	37,098
Lease fees for substation properties	49,980	49,980
After hours answering service	6,667	20,000
Communications antenna	20,000	20,000
Vehicle servicing, job recoveries and miscellaneous	9,239	4,417
Dividends Paid	550,000	400,000

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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13. RELATED PARTY TRANSACTIONS (CONT'D)

The ultimate parent continued

At the end of the year, the amounts due from and (to) its shareholder, the Corporation of the Town of Midland, are as follows:

	2015	2014
Trade receivable, unsecured due on demand	\$ 16,377	\$ 43,840
Trade payable, unsecured, due on demand	\$ (55,043)	\$ (155)

The Board of directors approved a \$550,000 (2014 - \$400,000) dividend that was paid to the Town of Midland.

Transactions with related parties

Midland PUC paid \$32,114 (2014 - \$28,046) in fees to Cornerstone Hydro Electric Concepts Association Inc. (CHEC).

Midland PUC paid \$70,376 (2014 - \$67,492) in fees to Utility Collaborative Services Inc. (UCS) for items such as information technology hosting, software licensing and CIS Analyst costs.

Key management personnel compensation comprised:

The key management personnel of the Company has been defined as members of its board of directors and executive management team members.

	2015	2014
Directors' fees & executive management compensation	\$ 495,570	\$ 468,297

14. BANK INDEBTEDNESS

Midland PUC has a line of credit with an authorized limit of \$4,380,000 available under a credit facility agreement with a Canadian chartered bank. Interest on advances is calculated using the bank's prime rate, calculated and payable monthly. It is secured by a general security agreement covering all assets except real property.

As at December 31, 2015 Midland PUC had drawn a balance of \$1,200,000 (2014 - \$460,000) on this credit facility. Midland PUC's line of credit has been pledged as security for the letter of credit provided to the Independent Electricity Systems Operation ("IESO"). As a result, Midland PUC's access to the \$4,380,000 credit facility mentioned below (Note 19) is limited to \$2,084,270 (2014 - 2,824,270).

The agreement governing the line of credit facilities contains certain covenants as described in Note 23.

As at December 31, 2015 Midland PUCs operating bank account was in a positive position of \$45,182 (2014 - a negative position of \$9,110).

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2015	2014
IESO accounts payable	\$ 1,436,024	\$ 1,852,896
Trade accounts payable	1,185,936	1,232,474
Due to shareholder	55,043	155
Accrued liabilities	209,539	620,727
Customer credit balances	150,881	123,184
	<u>\$ 3,037,423</u>	<u>\$ 3,829,436</u>

Included in trade accounts payable are two (2014 - two) customers who represent 78% (2014 - 70%) of the total balance. Included in accrued liabilities is one (2014 - one) customer who represents 64% (2014 - 88%) of the total balance.

16. OTHER REVENUE

Other revenue consists of the following:

	2015	2014
Late payment charges	\$ 28,468	\$ 23,265
Net service revenue	100,448	57,038
Ontario Power Authority management fees	37,400	-
Office rental	46,696	48,451
Other	108,362	111,646
Pole rental	31,980	33,407
Amortization of contributions in aid of construction	78,497	72,804
	<u>\$ 431,851</u>	<u>\$ 346,611</u>

17. INVENTORY

Cost of inventory is comprised of direct materials, which typically consists of distribution assets not deemed as major spares, unless purchased for specific capital projects in process or as spare units. Costs, after deducting rebates and discounts, are assigned to individual items of inventory on the basis of weighted average cost. Decommissioned assets that are transferred to inventory are tested for impairment once they are removed from service and placed in inventory. Inventory is recognized at the lower of cost and net realizable value. The amount of inventories consumed by the Midland PUC and recognized as an expense during 2015 was \$6,889 (2014 - \$9,340).

18. SHARE CAPITAL

An unlimited number of common and preference shares are authorized for issue.

As of December 31, 2015, Midland PUC has issued 1,000 common shares. The issued share capital is as follows:

	2015	2014
1,000 Common Shares	<u>\$ 6,880,984</u>	<u>\$ 6,880,984</u>

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

19. CONTINGENCIES

Midland PUC is contingently liable as a guarantor for a letter of credit for \$1,095,730 with its bank provided to the Independent Electricity Systems Operator (IESO) to secure Midland PUC's hydro purchase obligations.

20. LONG-TERM INVESTMENTS

	2015	2014
Cornerstone Hydro Electric Concepts Association Inc. (CHEC), incorporated without share capital. The cost for the investment was \$NIL and therefore not included in these financial statements	\$ -	\$ -
Utility Collaborative Services Inc. (UCS), recorded using the cost method, 100 common shares, 10% interest	100	100
	<u>\$ 100</u>	<u>\$ 100</u>

Cornerstone Hydro Electric Concepts Association Inc. (CHEC) is an association of fifteen electricity distribution utilities modelled after a cooperative to share resources and proficiencies.

Utility Collaborative Services Inc. (UCS) offers standards-based back office services. The collaboration allows leverage in the reduction of costs for items such as information technology hosting and software licensing.

21. FINANCE INCOME AND FINANCE COST

	2015	2014
Finance Income:		
Interest income on regulatory asset balances	\$ 44,982	\$ 50,163
Interest income on bank deposits	925	2,111
	<u>\$ 45,907</u>	<u>\$ 52,274</u>
Finance Cost:		
Interest on long-term debt	\$ 172,275	\$ 171,657
Interest on credit line	19,467	19,795
Interest on customer deposits	3,280	3,662
Interest on regulatory asset balances	37,617	50,573
	<u>\$ 232,639</u>	<u>\$ 245,687</u>

MIDLAND POWER UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

22. SUBSEQUENT EVENTS

On October 19, 2015, Midland PUC submitted an application seeking approval for changes to the rates charged for electricity distribution, to be effective May 1, 2016. The application was approved by the OEB on March 17, 2016.

On April 15, 2016, Midland PUC received a waiver from Ontario Infrastructure Lands Corporation for the 2015 current ratio covenant.

Subsequent to year end Ontario Infrastructure Lands Corporation removed the current ratio covenant of 1.1:1 from Midland PUC's financing agreement effective April 15, 2016.

23. CAPITAL DISCLOSURES

Midland PUC considers its capital to be its share capital and retained earnings. Midland PUC's main objectives when managing capital are to: i) ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans, ii) minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions, iii) maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial covenants, and iv) provide an adequate return to its shareholder.

Midland PUC relies predominantly on its cash flow from operations to fund its dividend distributions to its shareholder. This cash flow is supplemented, when necessary, through the borrowing of additional debt.

As part of existing debt agreements, financial covenants are monitored and communicated, as required by the terms of credit agreements, on an annual basis by management to ensure compliance with the agreements.

The Ontario Infrastructure and Lands Corporation loan covenants require the corporation to provide notification prior to any new debt issuance and to seek approval where the Debt Service Coverage Ratio falls below 1.15 to 1 at any time; such ratio is otherwise tested and calculated as of the end of each fiscal year. Midland PUC is also required to maintain a maximum Debt to Capital ratio of 0.60 to 1 and a minimum current ratio of 1.1 to 1 to be tested and calculated as of the end of each fiscal year. Midland PUC is in compliance with these covenants as at December 31, 2015, except for the current ratio. Infrastructure Ontario has waived the current ratio covenant. Ontario Infrastructure Lands Corporation has also removed the current ratio covenant of 1.1:1 from our current financing agreement effective April 15, 2016.

The Toronto-Dominion Bank loan covenants require Midland PUC to maintain a maximum Debt to Capital ratio of 0.60 to 1 and a minimum interest coverage ratio of 2.5x to be tested and calculated as of the end of each fiscal year. Midland PUC is in compliance with these covenants as at December 31, 2015.

Management monitors the following key ratios to effectively manage capital:

	<u>2015</u>	<u>2014</u>
a) Debt Service Coverage Ratio:	1.90 : 1	1.76 : 1
b) Debt to Capital:	0.38 : 1	0.36 : 1
c) Current Ratio:	0.56 : 1	0.54 : 1

MIDLAND POWER UTILITY CORPORATION
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FOR THE YEAR ENDED DECEMBER 31, 2015

24. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 1, *First Time Adoption of International Financial Reporting Standards*, requires that comparative financial information be provided. As a result, the first date at which Midland PUC has applied IFRS was January 1, 2014 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for Midland PUC will be December 31, 2015. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time IFRS adoption. Prior to transition to IFRS, Midland PUC prepared its financial statements in accordance with Canadian Generally Accepted Account principles ("pre-changeover Canadian GAAP")

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

Mandatory exceptions:

Derecognition of financial assets and liabilities

Midland PUC has applied the derecognition requirements in IAS 39 prospectively for transactions occurring on or after January 1, 2014. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized in accordance with pre-changeover Canadian GAAP as a result of a transaction that occurred before January 1, 2014, have not been recognized in accordance with IFRS unless they qualify for recognition as a result of a later transaction or event. Midland PUC did not derecognize any financial assets or liabilities.

Estimates

The estimates previously made by Midland PUC under pre-changeover Canadian GAAP were not revised for the application of IFRS, except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result, Midland PUC has not used hindsight to revise estimates.

Government loans - Ontario Infrastructure and Lands Corporation

Midland PUC classifies government loans received as financial liabilities or equity instruments in accordance with IAS 32 Financial Instruments: Presentation. At the date of transition, these loans are measured at the pre-changeover Canadian GAAP carrying amount as a government grant. No benefit element is recognized for below market interest rate loans. The loans are subsequently measured using an effective interest rate calculated at the date of transition and the guidance in IAS 20 Accounting for Government Grants and Disclosure of Government Assistance is applied after the date of transition.

Optional elections:

Borrowing costs

Midland PUC has elected to apply the transitional provisions of IAS 23 Borrowing Costs which permits prospective capitalization of borrowing costs on qualifying assets from the Transition Date.

Deemed cost for Operations subject to Rate Regulation

Midland PUC has elected the deemed cost exemption applicable to entities subject to rate regulation as described under IFRS 1. The election permits Midland PUC, at the date of transition to IFRS, to use the previous Canadian GAAP carrying amount of items of PP&E and intangible assets as deemed cost (thereby eliminating any accumulated depreciation balances existing at the date of transition); hence there will be no impact on retaining earnings for opening balances of PP&E and intangible assets at the date of transition. In accordance with the election, Midland PUC has tested these items of property, plant and equipment and intangible assets at the date of transition to IFRS. No impairment losses were recognized.

MIDLAND POWER UTILITY CORPORATION
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24. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

Transfers of Assets from Customers

Midland PUC has elected to apply the IFRS 1 election to only apply IFRIC 18 prospectively from the date of transition to non-repayable supply contribution made by customers.

Reconciliations of pre-changeover Canadian GAAP equity and comprehensive income to IFRS

IFRS 1 requires an entity to reconcile cash flows, equity, and comprehensive income for prior periods as shown below.

In the statement of changes in cash flows, there is a reclassification from the movement in regulatory assets and regulatory liabilities to a movement in the regulatory deferral account balance. These are both shown as movements within investing activities and as such do not result in material adjustments to the net cash flow balance.

The explanations for the impact of the transition to IFRS on the specific accounts is described below. Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS are provided below. Other than the related deferred taxes, all other items have no impact on Equity or Comprehensive Income as they are reclassifications within the relevant statements.

Equity

	Note	December 31, 2014	January 1, 2014
Equity as reported under Canadian GAAP		\$ 10,500,062	\$ 10,001,590
Adjustments to Retained Earnings:			
Deferred Taxes	8	(253,954)	(57,438)
Employee future benefits	9	-	6,848
Equity as reported under IFRS		\$ 10,246,108	\$ 9,951,000

	Note	Year ended December 31, 2014
Net Income		
Net income as reported under Canadian GAAP		\$ 898,470
Adjustments for transition:		
Deferred taxes	8	(196,514)
Employee future benefits		(6,848)
Net income as reported under IFRS2		\$ 695,108

i) Regulatory assets and liabilities

Regulatory assets and liabilities that were recognized under pre-changeover Canadian GAAP have been reclassified to the regulatory deferral account balance as either a debit or a credit balance. The amount recorded as a regulatory asset and liability, respectively, under pre-changeover CGAAP was \$421,852 and \$179,027. This transitional adjustment is a reclassification on the Balance Sheet and has no impact on the Statement of Changes in Equity or the Income Statement.

24. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

ii) Contributions in Aid of Construction

Under IFRS Contributions in aid of construction are recognized as deferred revenue and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset in the Statement of Comprehensive Income. The impact of this transitional adjustment related to Contributions in Aid of Construction is an increase in assets and an increase in liabilities on the Statement of Financial Position. On transition, \$1,870,599 was reclassified as deferred revenue from property plant & equipment.

iii) Borrowing Costs

Borrowing costs that were not recognized as a regulatory asset or liability were previously expensed under pre-changeover Canadian GAAP. Under IFRS, borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Since Midland PUC has elected to take the Borrowing Costs exemption, there is no transitional adjustment.

25. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2016 or later years. As discussed in note 3, Midland PUC early adopted IFRS 14, Regulatory Deferral Accounts. In addition as disclosed in note 2 under significant judgements and estimates, Midland PUC applied judgments related to the order and exclusion of immaterial disclosures, consistent with the amendment to IAS 1, Presentation of Financial Statements, which were also adopted early.

Midland PUC has not yet determined the extent of the impact of the following new standards, interpretations and amendments, which have not been applied in these financial statements:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers