ERIE THAMES POWERLINES CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2017

ERIE THAMES POWERLINES CORPORATION
INDEX TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Erie Thames Powerlines Corporation,

We have audited the accompanying financial statements of Erie Thames Powerlines Corporation, which comprise the statement of financial position as at December 31, 2017, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Erie Thames Powerlines Corporation as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

April 26, 2018

ERIE THAMES POWERLINES CORPORATION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

		2017	2016
Assets			
Current assets			
Accounts receivable	6	$ 5,613,906	$ 5,845,546
Unbilled revenue		5,469,225	6,817,837
Due from related parties	25	42,783	141,813
Materials and supplies	7	80,968	88,158
Prepaid expenses		135,220	92,441
Payments in lieu of income taxes receivable		-	16,646
Total current assets		11,342,102	13,002,441
Non-current assets			
Property, plant and equipment	9	38,628,638	36,834,241
Intangible assets	10	436,702	487,595
Investment	8	25,502	25,584
Total non-current assets		39,090,842	37,347,420
Total assets		50,432,944	50,349,861
Regulatory balances	12	6,342,767	5,732,952
Total assets and regulatory balances		$56,775,711	$56,082,813

ERIE THAMES POWERLINES CORPORATION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

		2017	2016
Liabilities			
Current liabilities			
Bank indebtedness	13	$ 1,064,151	$ 2,507,866
Accounts payable and accrued liabilities	14	10,173,547	10,949,045
Payments in lieu of income taxes payable		83,872	-
Due to related parties	25	345,096	351,078
Long-term debt due within one year	15	179,412	192,612
Customer deposits		190,226	345,866
Deferred revenue		569,720	442,724
Total current liabilities		12,606,024	14,789,191
Non-current liabilities			
Long-term debt	15	20,592,846	20,740,791
Post-employment benefits	16	895,200	797,100
Customer deposits		823,231	606,215
Deferred revenue		2,755,192	1,903,060
Deferred tax liabilities	11	400,000	231,000
Total non-current liabilities		25,466,469	24,278,166
Total liabilities		38,072,493	39,067,357
Equity			
Share capital	17	10,855,585	10,855,585
Retained earnings		4,720,953	3,809,844
Accumulated other comprehensive loss		(113,619)	(38,837)
Total equity		15,462,919	14,626,592
Total liabilities and equity		53,535,412	53,693,949
Regulatory balances	12	3,240,299	2,388,864
Total liabilities, equity and regulatory balances		$56,775,711	$56,082,813

Contingencies (note 22)
Guarantee (note 23)
Commitments (note 24)

APPROVED ON BEHALF OF THE BOARD:

_________________ Director   _________________ Director

ERIE THAMES POWERLINES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017

		2017	2016
Revenues			
Sale of energy		$53,058,373	$60,612,620
Distribution revenue		10,303,428	10,098,899
Other	18	422,231	533,497
		63,784,032	71,245,016
Operating expenses			
Cost of power purchased		52,775,737	61,006,324
Employee salaries and benefits	19	2,827,901	3,182,316
Operating expenses	20	3,259,006	3,158,049
Depreciation and amortization		1,931,169	1,741,257
		60,793,813	69,087,946
Income from operating activities		2,990,219	2,157,070
Finance costs	21	1,578,490	1,559,373
Income before income taxes		1,411,729	597,697
Income tax expense	11	279,000	284,000
Net income for the year		1,132,729	313,697
Net movement in regulatory balances, net of tax	12	221,620	(695,837)
Net income for the year and net movement in regulatory balances		**911,109**	**1,009,534**
Other comprehensive income			
Items that will be reclassified to profit or loss:			
Change in fair value of investments		(82)	4,169
Items that will not be reclassified to profit or loss:			
Remeasurement of post-employment benefits	16	(74,700)	67,800
Tax on remeasurements	11	20,000	(19,000)
Net movement in regulatory balances, net of tax	12	(20,000)	19,000
Other comprehensive income (loss)		(74,782)	71,969
Total comprehensive income for the year		**$ 836,327**	**$ 1,081,503**

ERIE THAMES POWERLINES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017

	Share capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at January 1, 2016	$10,855,585	$ 2,800,310	$ (110,806)	$13,545,089
Net income and net movement in regulatory balances	-	1,009,534	-	1,009,534
Other comprehensive income	-	-	71,969	71,969
Balance at December 31, 2016	$10,855,585	$ 3,809,844	$ (38,837)	$14,626,592
Balance at January 1, 2017	$10,855,585	$ 3,809,844	$ (38,837)	$14,626,592
Net income and net movement in regulatory balances	-	911,109	-	911,109
Other comprehensive loss	-	-	(74,782)	(74,782)
Balance at December 31, 2017	$10,855,585	$ 4,720,953	$ (113,619)	$15,462,919

ERIE THAMES POWERLINES CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
Operating activities		
Net income and net movement in regulatory balances	$ 911,109	$ 1,009,534
Adjustments for:		
Depreciation and amortization	1,931,169	1,741,257
Amortization of deferred revenue	(40,060)	(28,635)
Post-employee benefits	23,400	35,800
Loss (gain) on disposal of property, plant and equipment	28,958	(61,534)
Finance costs	1,578,490	1,559,373
Income tax expense	279,000	284,000
	4,712,066	4,539,795
Changes in non-cash operating working capital:		
Accounts receivable	231,640	(992,628)
Due to related parties	93,048	(596,699)
Unbilled revenue	1,348,612	(1,201,097)
Materials and supplies	7,190	(1,633)
Prepaid expenses	(42,779)	(10,371)
Accounts payable and accrued liabilities	(775,498)	2,575,669
Customer deposits	61,376	191,702
	923,589	(35,057)
Regulatory balances	221,620	(695,837)
Income tax refund	10,518	152,909
Net cash from operating activities	5,867,793	3,961,810
Investing activities		
Purchase of property, plant and equipment	(3,622,900)	(4,356,503)
Proceeds on disposal of property, plant and equipment	8,127	61,534
Purchase of intangible assets	(88,858)	(28,800)
Contributions received from customers	1,019,188	587,128
Net cash used by investing activities	(2,684,443)	(3,736,641)
Financing activities		
Interest paid	(1,578,490)	(1,559,373)
Proceeds from long-term debt	37,757	-
Proceeds from finance leases	-	682,061
Repayment of long-term debt	(6,293)	-
Repayment of finance leases	(192,609)	(160,332)
Net cash used by financing activities	(1,739,635)	(1,037,644)
Change in bank indebtedness	1,443,715	(812,475)
Bank indebtedness, beginning of year	(2,507,866)	(1,695,391)
Bank indebtedness, end of year	$ (1,064,151)	$ (2,507,866)

1. Reporting entity

Erie Thames Powerlines Corporation ("the Corporation") is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Corporation is located in the Town of Ingersoll. The address of the Corporation's registered office is 143 Bell Street, PO Box 157 Ingersoll ON (Canada) N5C 3K5.

The Corporation delivers electricity and related energy services to residential and commercial customers in Aylmer, Beachville, Belmont, Burgessville, Embro, Ingersoll, Norwich, Otterville, Port Stanley, Tavistock, Thamesford, Clinton, Mitchell and Dublin. The Corporation is wholly owned by ERTH Corporation who is wholly owned by the following eight municipalities, each of whom has one voting common share: Aylmer, Central Elgin, East-Zorra Tavistock, Ingersoll, Norwich, South-West Oxford, Zorra and West Perth.

The financial statements are for the Corporation as at and for the year ended December 31, 2017.

2. Basis of presentation

(a) Statement of compliance

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

The financial statements were approved by the Board of Directors on April 26, 2018.

(b) Basis of measurement

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

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest dollar.

(d) Use of estimates and judgments

(i) Assumptions and estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

2. Basis of presentation (continued)

(d) Use of estimates and judgments (continued)

(i) Assumptions and estimation uncertainty (continued)

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment is included in the following notes:

(i) Note 3(b) – measurement of unbilled revenue
(ii) Notes 9, 10 – estimation of useful lives of its property, plant and equipment and estimation of fair value of goodwill and intangible assets
(iii) Note 12 – recognition and measurement of regulatory balances
(iv) Note 16 – measurement of defined benefit obligations: key actuarial assumptions
(v) Note 22 – recognition and measurement of provisions and contingencies

(ii) Judgments

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

- Note 9 – leases: whether an arrangement contains a lease

(e) Rate regulation

The Corporation is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs"), such as the Corporation, which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

The Corporation is required to bill commercial customers for the debt retirement charge set by the province. The Corporation may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation ("OEFC") once each year.

Rate setting

Distribution revenue

For the distribution revenue included in sale of energy, the Corporation files a "Cost of Service" ("COS") rate application with the OEB every five years where rates are determined through a review of the forecasted annual amounts of operating and capital expenditures, debt and shareholder's equity required to support the Corporation's business. The Corporation forecasts electricity usage and the costs to service each customer class to determine the appropriate rates to be charged. The COS application is reviewed by the OEB and interveners and rates are approved based upon this review, including any revisions resulting from that review.

2. Basis of presentation (continued)

(e) Rate regulation (continued)

In the intervening years an Incentive Rate Mechanism application ("IRM") is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year's rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflator for Final Domestic Demand ("GDP IPI-FDD") net of a productivity factor and a "stretch factor" determined by the relative efficiency of an electricity distributor.

As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers.

The Corporation last filed a COS application on June 26, 2012 for rates effective January 1, 2013 to April 30, 2013. On October 17, 2016 an IRM application was filed with the OEB for rates effective May 1, 2017 until April 30, 2018. Within this application the approved GDP IPI-FDD is 2.10%, the Corporation's productivity factor is 0.00% and the stretch factor is 0.30%, resulting in a net increase of 1.80% to the previous year's rates.

Electricity rates

The OEB sets electricity prices for low-volume consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers pay the market price for electricity. The Corporation is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

3. Significant accounting policies

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

(a) Financial instruments

All financial assets are classified as loans and receivables, except for investments which are classified as available for sale, and all financial liabilities are classified as other liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(f). Available for sale assets are subsequently measured at their fair value, with changes in fair value recognized in other comprehensive income ("OCI") until the asset is sold.

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

3. Significant accounting policies (continued)

(b) Revenue recognition

Sale and distribution of electricity

Revenue from the sale and distribution of electricity is recognized as the electricity is delivered to customers on the basis of cyclical meter readings and estimated customer usage since the last meter reading date to the end of the year. Revenue includes the cost of electricity supplied, distribution, and any other regulatory charges. The related cost of power is recorded on the basis of power used.

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Corporation has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Customer billings for debt retirement charges are recorded on a net basis as the Corporation is acting as an agent for this billing stream.

Other revenue

Revenue earned from the provision of services is recognized as the service is rendered.

Certain customers and developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. Cash contributions are recorded as deferred revenue. When an asset other than cash is received as a capital contribution, the asset is initially recognized at its fair value, with a corresponding amount recognized as deferred revenue. The deferred revenue, which represents the Corporation's obligation to continue to provide the customers access to the supply of electricity, is amortized to income on a straight-line basis over the useful life of the related asset.

Government grants and the related performance incentive payments under CDM programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

(c) Materials and supplies

Materials and supplies, the majority of which is consumed by the Corporation in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on an average cost basis, and includes expenditures incurred in acquiring the materials and supplies and other costs incurred in bringing them to their existing location and condition.

3. Significant accounting policies (continued)

(d) Property, plant and equipment

Items of property, plant and equipment ("PP&E") used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost, less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

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

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the weighted average cost of debt incurred on the Corporation's borrowings. Qualifying assets are considered to be those that take in excess of 12 months to construct.

When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E.

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

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

The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. In this event, the replaced part of PP&E is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

The need to estimate the decommissioning costs at the end of the useful lives of certain assets is reviewed periodically. The Corporation has concluded it does not have any legal or constructive obligation to remove PP&E.

Depreciation is calculated to write off the cost of items of PP&E using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate. Land is not depreciated. Construction-in-progress assets are not depreciated until the project is complete and the asset is available for use.

The estimated useful lives are as follows:

	Years
Buildings	55 - 60
Automotive equipment	8 - 10
Computer equipment	5 - 15
Services, office and other equipment	5 - 8
Transmission and distribution system	12 - 60

3. Significant accounting policies (continued)

(e) Intangible assets

Intangible assets used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost, less accumulated amortization. All other intangible assets are measured at cost.

Computer software that is acquired or developed by the Corporation after January 1, 2014, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization.

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Corporation does not hold title. Land rights are measured at cost less accumulated amortization.

Goodwill represents the excess of cost over fair value of net assets of businesses acquired. Goodwill is measured at cost less accumulated impairment losses.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted prospectively if appropriate.

The estimated useful lives are:

	Years
Computer software	5 - 10
Goodwill	indefinite life
Land rights	indefinite life

(f) Impairment

(i) Financial assets measured at amortized cost

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss is calculated as the difference between an asset’s carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount. Losses are recognized in profit or loss. An impairment loss is reversed through profit or loss if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

3. Significant accounting policies (continued)

(f) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than materials and supplies and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a prorate basis, if applicable.

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

(g) Customer deposits

Customer deposits represent cash deposits from electricity distribution customers and retailers to guarantee the payment of energy bills. Interest is paid on customer deposits.

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

(h) Provisions

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

3. Significant accounting policies (continued)

(i) Regulatory balances

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the deferred cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. When the customer is billed at rates approved by the OEB for the recovery of the deferred costs, the customer billings are recognized in revenue. The regulatory debit balance is reduced by the amount of these customer billings with the offset to net movement in regulatory balances in profit or loss or OCI.

The probability of recovery of the regulatory deferral account debit balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover the balance. The assessment of likelihood of recovery is based upon previous decisions made by the OEB for similar circumstances, policies or guidelines issued by the OEB, etc. Any resulting impairment loss is recognized in profit or loss in the year incurred.

When the Corporation is required to refund amounts to ratepayers in the future, the Corporation recognizes a regulatory deferral account credit balance. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. The amounts returned to the customers are recognized as a reduction of revenue. The credit balance is reduced by the amount of these customer repayments with the offset to net movement in regulatory balances in profit or loss or OCI.

(j) Post-employment benefits

(i) Pension plan

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System (“OMERS”). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (“the Fund”), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

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

3. Significant accounting policies (continued)

(j) Post-employment benefits (continued)

(ii) Post-employment benefits, other than pension

The Corporation provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans.

The obligations for these post-employment benefit plans are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Remeasurements of the net defined benefit obligations, including actuarial gains and losses, are recognized immediately in other comprehensive income. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

(k) Leased assets

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

All other leases are classified as operating leases and the leased assets are not recognized on the Corporation's statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(l) Finance income and finance costs

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest earned on cash and cash equivalents and dividend income.

Finance costs comprise interest expense on borrowings, finance lease obligations and unwinding of the discount on provisions. Finance costs are recognized in profit or loss unless they are capitalized as part of the cost of qualifying assets.

(m) Income taxes

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts"). Under the *Electricity Act*, 1998, the Corporation makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Tax Acts as modified by the *Electricity Act*, 1998, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes. Payments in lieu of taxes ("PILs") are referred to as income taxes.

3. Significant accounting policies (continued)

(m) Income taxes (continued)

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

Deferred tax is recognized in respect of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted, at the reporting date.

4. **Standards issued but not yet adopted**

Future accounting changes

There are new standards, amendments to standards and interpretations which have not been applied in preparing these financial statements. The Corporation is still evaluating the adoption of the following new and revised standards along with any subsequent amendments.

(a) On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*.

On April 12, 2016, the IASB issued *Clarifications to IFRS 15, Revenue from Contracts with Customers*, which is effective at the same time as IFRS 15.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property.

The Corporation will adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

4. Standards issued but not yet adopted (continued)

(b) On July 24, 2014 the IASB issued the complete IFRS 9 Financial Instruments standard.

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities.

It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The Corporation will adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The Corporation does not expect the standard to have a material impact on the financial statements.

(c) On January 13, 2016 the IASB issued IFRS 16 *Leases*.

The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply *IFRS 15 Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace *IAS 17 Leases*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Corporation does not expect the standard to have a material impact on the financial statements.

4. Standards issued but not yet adopted (continued)

(d) *Annual Improvements to IFRS Standards (2014-2016) Cycle*

On December 8, 2016 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process.

Remaining amendments not yet effective relate to IFRS 1 and IAS 28:

- Removal of out-dated exemptions for first time adopters under IFRS 1 First-time Adoption of International Financial Reporting Standards, effective for annual periods beginning on or after January 1, 2018; and

- Clarification that the election to measure an associate or joint venture at fair value under IAS 28 Investments in Associates and Joint Ventures for investments held directly, or indirectly, through a venture capital or other qualifying entity can be made on an investment-by-investment basis. The amendments are effective retrospectively for annual periods beginning on or after January 1, 2018.

The Corporation intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

(e) *Annual Improvements to IFRS Standards (2015-2017) Cycle*

On December 12, 2017 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process.

The amendments are effective on or after January 1, 2019, with early application permitted. Each of the amendments has its own specific transition requirements.

Amendments were made to the following standards:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business;

- IAS 12 Income Taxes – to clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI, or equity; and

- IAS 23 Borrowing Costs – to clarify that specific borrowings – i.e. funds borrowed specifically to finance the construction of a qualifying asset – should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed.

The Corporation intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the amendments has not yet been determined.

5. Change in accounting policies

There are new standards, amendments to standards and interpretations which have been applied in preparing these financial statements.

(a) On January 7, 2016 the IASB issued *Disclosure Initiative* (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after January 1, 2017.

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. In order to address this new disclosure requirement, note 15(e) provides a reconciliation between the opening and closing balances for liabilities from financing activities.

(b) On January 19, 2016 the IASB issued *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)*. The amendments apply retrospectively for annual periods beginning on or after January 1, 2017.

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences.

The Corporation adopted these amendments in its financial statements for the annual period beginning on January 1, 2017. The amendments did not have a material impact on the financial statements.

6. Accounts receivable

	2017	2016
Trade receivables	$ 4,460,074	$ 5,113,712
Billable work	1,153,832	731,834
	$ 5,613,906	$ 5,845,546

7. Materials and supplies

Amounts written down due to obsolescence in 2017 was nil (2016 - nil).

8. Investment

The Corporation holds 386 Common shares of Sunlife Financial with a fair value at December 31, 2017 of $25,502 (2016 - $25,584).

9. Property, plant and equipment

	Land and buildings	Distribution equipment	Other fixed assets	Construction in progress	Total
Cost or deemed cost					
Balance at Jan. 1, 2017	$ 295,451	$ 35,215,012	$ 2,885,502	$ 990,592	$ 39,386,557
Additions	-	2,470,128	337,719	815,053	3,622,900
Transfers	-	990,592	-	(990,592)	-
Disposals/retirements	-	(5,420)	81,524	-	76,104
Balance at Dec. 31, 2017	$ 295,451	$ 38,670,312	$ 3,304,745	$ 815,053	$ 43,085,561
Balance at Jan. 1, 2016	$ 220,945	$ 32,390,048	$ 2,561,581	$ 1,198,503	$ 36,371,077
Additions	74,506	18,638	811,014	3,452,345	4,356,503
Transfers	-	3,660,256	-	(3,660,256)	-
Disposals/retirements	-	(853,930)	(487,093)	-	(1,341,023)
Balance at Dec. 31, 2016	$ 295,451	$ 35,215,012	$ 2,885,502	$ 990,592	$ 39,386,557
Accumulated depreciation					
Balance at Jan. 1, 2017	$ 9,780	$ 2,233,472	$ 309,064	$ -	$ 2,552,316
Depreciation	3,261	1,271,506	516,651	-	1,791,418
Disposals/retirements	-	(5,420)	118,609	-	113,189
Balance at Dec. 31, 2017,	$ 13,041	$ 3,499,558	$ 944,324	$ -	$ 4,456,923
Balance at Jan. 1, 2016	$ 6,520	$ 1,860,523	$ 424,093	$ -	$ 2,291,136
Depreciation	3,260	1,226,879	372,064	-	1,602,203
Disposals/retirements	-	(853,930)	(487,093)	-	(1,341,023)
Balance at Dec. 31, 2016,	$ 9,780	$ 2,233,472	$ 309,064	$ -	$ 2,552,316
Carrying amounts					
At December 31, 2017	$ 282,410	$ 35,170,754	$ 2,360,421	$ 815,053	$ 38,628,638
At December 31, 2016	285,671	32,981,540	2,576,438	990,592	36,834,241

The Corporation leases equipment under a number of finance agreements. The leased equipment secures the lease obligations (see note 15). At December 31, 2017, the net carrying amount of leased equipment was $812,450 (2016 - $936,592).

At December 31, 2017 all current and future personal property with a carrying amount of $38,628,638 (2016 - $36,834,241) are subject to a general security agreement.

During the year, borrowing costs of nil (2016 - nil) were capitalized as part of property, plant and equipment.

PP&E and intangible asset purchase commitments outstanding as at December 31, 2017 are nil (2016 - $335,995).

10. Intangible assets

	Computer software	Land rights	Goodwill	Total
Cost or deemed cost				
Balance at Jan. 1, 2017	$ 735,510	$ 45,679	$ 76,667	$ 857,856
Additions	88,858	-	-	88,858
Disposals/retirements	(51,954)	-	-	(51,954)
Balance at Dec. 31, 2017	$ 772,414	$ 45,679	$ 76,667	$ 894,760
Balance at Jan. 1, 2016	$ 708,510	$ 43,879	$ 76,667	$ 829,056
Additions	27,000	1,800	-	28,800
Balance at Dec. 31, 2016	$ 735,510	$ 45,679	$ 76,667	$ 857,856
Accumulated depreciation				
Balance at Jan. 1, 2017	$ 370,261	$ -	$ -	$ 370,261
Depreciation	139,751	-	-	139,751
Disposals/retirements	(51,954)	-	-	(51,954)
Balance at Dec. 31, 2017	$ 458,058	$ -	$ -	$ 458,058
Balance at Jan. 1, 2016	$ 231,206	$ -	$ -	$ 231,206
Depreciation	139,055	-	-	139,055
Balance at Dec. 31, 2016	$ 370,261	$ -	$ -	$ 370,261
Carrying amounts				
At December 31, 2017	$ 314,356	$ 45,679	$ 76,667	$ 436,702
At December 31, 2016	365,249	45,679	76,667	487,595

11. Income tax expense

Income tax expense

	2017	2016
Current tax	$ 90,000	$ 35,000
Deferred tax	169,000	268,000
	259,000	303,000
Net movement in regulatory balances	(169,000)	(268,000)
	$ 90,000	$ 35,000

Reconciliation of effective tax rate

	2017	2016
Income before taxes	$ 926,327	$ 1,116,503
Canada and Ontario statutory income tax rates	26.5 %	26.5 %
Expected tax provision on income at statutory rates	245,000	296,000
Increase (decrease) in income taxes resulting from:		
Permanent difference	2,000	2,000
Recognized deductible temporary differences due to/from customers	(169,000)	(268,000)
Other	12,000	5,000
Income tax expense	$ 90,000	$ 35,000

11. Income tax expense (continued)

Significant components of the Corporation's deferred tax balances

	2017	2016
Deferred tax assets (liabilities):		
Property, plant, equipment and intangible assets	$ (626,000)	$ (435,000)
Post-employment benefits	237,000	211,000
Other	(11,000)	(7,000)
	$ (400,000)	$ (231,000)

12. Regulatory balances

Reconciliation of the carrying amount for each class of regulatory balances

	January 1, 2017	Additions	Recovery/ reversal	December 31, 2017
Regulatory deferral account debit balances				
Regulatory assets account	$ 2,980,935	$ -	$ 2,082,524	$ 5,063,459
Regulatory settlement account	1,800,579	-	(1,698,951)	101,628
LRAM	335,000	23,570	-	358,570
Other regulatory accounts	385,438	33,672	-	419,110
Deferred income tax	231,000	169,000	-	400,000
	$ 5,732,952	$ 226,242	$ 383,573	$ 6,342,767

All regulatory deferral account debit balances have a remaining recovery reversal of 1 years.

	January 1, 2016	Additions	Recovery/ reversal	December 31, 2016
Regulatory deferral account debit balances				
Regulatory assets account	$ 3,450,942	$ -	$ (470,007)	$ 2,980,935
Regulatory settlement account	1,163,063	3,121,073	(2,483,557)	1,800,579
Smart meters	(3,423)	-	3,423	-
Stranded meters	9,773	-	(9,773)	-
LRAM	86,166	148,000	100,834	335,000
Other regulatory accounts	56,220	329,218	-	385,438
Deferred income tax	-	231,000	-	231,000
	$ 4,762,741	$ 3,829,291	$ (2,859,080)	$ 5,732,952

All regulatory deferral account debit balances have a remaining recovery reversal of 1 years.

The presentation of the comparative amounts has been reclassified to conform with the current year presentation which resulting in a $1,807,964 decrease to regulatory assets account opening balance, a $2,486,693 decrease to regulatory assets account closing balance, a $723,812 increase to regulatory settlement account opening balance, a $14,951 decrease to regulatory settlement account closing balance a $300,613 increase in other regulatory assets additions and a $308,044 decrease to PILs regulatory adjustment account opening balance.

12. Regulatory balances (continued)

	January 1, 2017	Additions	Recovery/ reversal	December 31, 2017
Regulatory deferral account credit balances				
Regulatory liability account	$ 1,401,211	$ 700,589	$ -	$ 2,101,800
Regulatory adjustments	975,653	150,846	-	1,126,499
Other regulatory accounts	12,000	-	-	12,000
	$ 2,388,864	$ 851,435	$ -	$ 3,240,299

All regulatory deferral account debit balances have a remaining recovery reversal of 1 years.

	January 1, 2016	Additions	Recovery/ reversal	December 31, 2016
Regulatory deferral account credit balances				
Regulatory liability account	$ 1,120,375	$ 280,836	$ -	$ 1,401,211
Regulatory adjustments	962,819	12,834	-	975,653
Other regulatory accounts	13,296	-	(1,296)	12,000
Deferred income tax	37,000	-	(37,000)	-
	$ 2,133,490	$ 293,670	$ (38,296)	$ 2,388,864

All regulatory deferral account debit balances have a remaining recovery reversal of 1 years.

The presentation of the comparative amounts has been reclassified to conform with the current year presentation resulting in a $1,060,669 decrease to regulatory liability account opening balance, a $2,501,644 decrease to regulatory liability account closing balance, a $300,613 increase to regulatory adjustment account closing balance and a $331,527 decrease to regulatory settlement account opening balance.

The regulatory balances are recovered or settled through rates approved by the OEB which are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Corporation has received approval from the OEB to establish its regulatory balances.

Settlement of the Group 1 deferral accounts is done on an annual basis through application to the OEB. The Corporation has filed a Cost of Service application and requested Settlement of Group 1 deferral accounts for $440,279, Group 2 deferral accounts for $369,394, Lost CDM Revenue for $360,312 and IFRS transition and account changes of $1,220,946. These amounts are material and will be disposed of as part of the Corporations rate process.

The OEB requires the Corporation to estimate its income taxes when it files a COS application to set its rates. As a result, the Corporation has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be paid back to its customers. This balance will fluctuate as the Corporation's deferred tax balance fluctuates.

Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers Acceptances three-month rate plus a spread of 25 basis points. In 2017, the rate was 1.10% at the start of the year then increased to 1.50% in October.

13. Demand operating loan

Through a mirror banking agreement with its parent company the Corporation has available to its use a $10,000,000 revolving line of credit. The Corporation provides a guarantee on this facility, as outlined in note 23.

14. Accounts payable and accrued liabilities

	2017	2016
Trade payables	$ 10,069,215	$ 10,843,802
Payroll payables	104,332	105,243
	$ 10,173,547	$ 10,949,045

15. Long-term debt

	2017	2016
Demand note (a)	$ 10,000,000	$ 10,000,000
Shareholder notes (b)	10,121,915	10,121,915
Vehicle loan (c)	31,464	-
Finance lease obligation (d)	618,879	811,488
	20,772,258	20,933,403
Less: current portion	179,412	192,612
	$ 20,592,846	$ 20,740,791

(a) Demand note

The Corporation has a demand promissory note payable to ERTH Corporation for $10,000,000 (2016 - $10,000,000) which bears interest at 7.25%. This note is unsecured. There are no fixed repayments terms associated with the principal outstanding and no principal is anticipated to be paid over the next thirteen months.

(b) Shareholder notes

The shareholder notes represents amounts owing to the municipal shareholders of ERTH Corporation for purchase of the respective Municipality's Hydro Electric Commission's net assets. The rate of interest is currently 7.25% and is set by the Board of Directors, from time to time. There are no fixed repayment terms associated with the principal outstanding and no principal is anticipated to be paid over the next thirteen months. The principal amounts are convertible at the option of the Corporation into Class B shares. The loan is secured by a second position General Security Agreement covering accounts receivable, inventory and equipment, including motor vehicles.

The amounts owing to the municipalities are as follows:

	2017	2016
Aylmer	$ 1,694,863	$ 1,694,863
Central Elgin	806,436	806,436
East-Zorra Tavistock	569,073	569,073
Ingersoll	3,402,080	3,402,080
Norwich	763,755	763,755
South-west Oxford	192,062	192,062
Zorra	610,255	610,255
Municiaplity of West Perth	2,083,391	2,083,391
	$ 10,121,915	$ 10,121,915

(c) Vehicle loans

The Corporation has under loan one vehicle which bears interest at nil% with monthly payments of $787 due, April 2021.

15. Long-term debt (continued)

(d) Finance lease obligations

	Less than one year	Between one and five years	More than five years	Total
Future minimum lease payments				
2017	$ 165,814	$ 503,167	$ -	$ 668,981
2016	218,962	668,979	-	887,941
Interest				
2017	$ 17,866	$ 32,236	$ -	$ 50,102
2016	26,350	50,103	-	76,453
Present value of minimum lease payments				
2017	$ 147,948	$ 470,931	$ -	$ 618,879
2016	192,612	618,876	-	811,488

(e) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Notes and loans	Finance leases	Total
Balance at Jan. 1, 2017	$20,121,915	$ 811,488	$20,933,403
Proceeds from loans	37,757	-	37,757
Repayment of loans	(6,293)	-	(6,293)
Payments of finance leases	-	(192,609)	(192,609)
Interest paid	(1,552,140)	(26,350)	(1,578,490)
	18,601,239	592,529	19,193,768
Interest expense	1,552,140	26,350	1,578,490
Balance at Dec. 31, 2017	$20,153,379	$ 618,879	$20,772,258
Balance at Jan. 1, 2016	$20,121,915	$ 289,759	$20,411,674
Proceeds from finance leases	-	682,061	682,061
Payments of finance leases	-	(160,332)	(160,332)
Interest paid	(1,543,469)	(15,904)	(1,559,373)
	18,578,446	795,584	19,374,030
Interest expense	1,543,469	15,904	1,559,373
Balance at Dec. 31, 2016	$20,121,915	$ 811,488	$20,933,403

16. Post-employment benefits

(a) OMERS pension plan

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2017, the Corporation made employer contributions of $385,449 to OMERS (2016 - $403,239).

As at December 31, 2017, OMERS had approximately 482,000 members, of whom 45 are current employees of the Corporation. The most recently available OMERS annual report is for the year ended December 31, 2017, which reported that the plan was 94% funded, with an unfunded liability of $5.4 billion. This unfunded liability is likely to result in future payments by participating employers and members.

16. Post-employment benefits (continued)

(b) Post-employment benefits other than pension

The Corporation pays certain medical and life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-employment benefits in the year in which employees' services were rendered. The Corporation is recovering its post-employment benefits in rates based on the expenses and remeasurements recognize for post-employment benefit plans.

Reconciliation of the obligation

	2017	2016
Defined benefit obligation, beginning of year	$ 797,100	$ 829,100
Included in profit or loss		
Current service cost	19,900	27,100
Interest cost	31,300	32,600
	51,200	59,700
Included in OCI		
Actuarial gains arising from:		
Changes in experience	500	(28,300)
Changes in demographic assumptions	-	(11,900)
Changes in financial assumptions	74,200	(27,600)
	74,700	(67,800)
Benefits paid	27,800	23,900
Defined benefit obligation, end of year	$ 895,200	$ 797,100

Actuarial assumptions

	2017	2016
Discount rate	3.50%	4.00%
Salary levels	2.00%	2.00%
Medical costs	7.00%	7.00%
Dental costs	4.00%	4.00%

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by $171,000 decrease in the assumed discount rate would result in the defined benefits obligation increasing by $171,000.

17. Share capital

Authorized
Unlimited number of common shares

	2017	2016
Issued capital		
10,000 Common shares	$ 10,855,585	$ 10,855,585

(a) Dividends

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

The Corporation paid aggregate dividends in the year on common shares of nil per share (2016 - nil), which amount to total dividends paid of nil during 2017 (2016 - nil).

18. Other revenue

	2017	2016
Service	$ 382,171	$ 504,862
Amortization of deferred revenue	40,060	28,635
	$ 422,231	$ 533,497

19. Employee salaries and benefits

	2017	2016
Salaries, wages and benefits	$ 2,255,695	$ 2,566,071
CPP and EI remittances	163,357	177,206
Contributions to OMERS	385,449	403,239
Post-employment benefit plans	23,400	35,800
	$ 2,827,901	$ 3,182,316

20. Operating expenses

	2017	2016
Contracting and consulting	$ 357,143	$ 425,567
Materials and supplies	752,098	712,397
Vehicle recovery	(131,764)	(141,306)
Billing and collecting	785,732	706,184
Office administration	1,226,448	1,283,773
Community relations	156,389	150,231
Loss (gain) on sale of equipment	28,958	(61,534)
Other	84,002	82,737
	$ 3,259,006	$ 3,158,049

21. Finance costs

	2017	2016
Finance costs		
Interest expense on long-term debt	$ 732,000	$ 758,000
Shareholder interest	733,839	733,276
Interest expense on customer deposits	(12,635)	(15,599)
Overdraft and other bank charges	125,286	83,696
Finance costs recognized in profit or loss	$ 1,578,490	$ 1,559,373

22. Commitments and contingencies

General

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

General Liability Insurance

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2017, no assessments have been made.

23. Guarantee

The Corporation has guaranteed the operating and term loans of its parent company ERTH Corporation up to 25% of the Corporations equity or $3,865,730. The loans are secured by a General Security Agreement covering all assets of the Corporation and a pledge of the shares of the Corporation. As the Corporation does not expect to be in a position where it would need to honour this guarantee in the foreseeable future, no liability has been recorded in these financial statements.

24. Operating leases

The Corporation is committed to lease agreements for various vehicles and equipment.

The future minimum non-cancelable annual lease payments are as follows:

	2017	2016
Less than one year	$ 57,040	$ 59,686
Between one and five years	40,069	70,299
	$ 97,109	$ 129,985

During the year ended December 31, 2017 an expense of $59,686 (2016 - $73,285) was recognized in operating expenses in the statement of comprehensive income in respect of operating leases.

25. Related party transactions

(a) Shareholders and ultimate controlling party

The sole shareholder of the Corporation is ERTH Corporation, which in turn is wholly-owned by eight municipalities Alymer, Central Elgin, East-Zorra-Tavistock, Ingersoll, Norwich, South-West Oxford, Zorra and West Perth.

(b) Companies under common control

ERTH Corporation owns 100% of the issued and outstanding shares of ERTH Limited.

ERTH Business Technologies Inc., ERTH (Holdings) Inc. and J-Mar Line Maintenance Inc. are wholly-owned subsidiaries of ERTH Limited.

(c) Outstanding balances with related parties

The following represent due from/to in the normal course of operations:

	2017	2016
Due from:		
ERTH Corporation	$ 12,450	$ 30,381
ERTH (Holdings) Inc.	30,168	44,164
ERTH Business Technologies Inc.	80	2,320
J-Mar Line Maintenance Inc.	85	64,948
	$ 42,783	$ 141,813

	2017	2016
Due to:		
ERTH Corporation	$ 4,026	$ 52,446
ERTH (Holdings) Inc.	102,120	78,742
Town of Aylmer	238,950	219,890
	$ 345,096	$ 351,078

25. Related party transactions (continued)

(c) Outstanding balances with related parties

The transactions between the Corporation and its related parties are measured at the exchange amount, which is the amount of consideration paid or received as established and agreed to by the related parties, unless otherwise noted.

The Corporation has contracted ERTH (Holdings) Inc. and ERTH Business Technologies Inc., to provide maintenance and upgrades to the existing capital infrastructure of the Corporation and administrative services.

(d) Transactions with parent

The Corporation has a contract with ERTH Corporation, the parent company, for management services and rental of facilities used by the Corporation.

During the year, the Corporation paid management services, consulting services and rental fees to its parent in the amount of $668,000, $128,000 and $213,000 respectively (2016 - $1,078,000, $200,000 and $210,500). The Corporation also charged its parent company $134,320 (2016 -$155,040) for operations and administrative services.

(e) Transactions with companies under common control

During the year, the Corporation had the following transactions with related parties as follows:

- sold operations and administration services of nil (2016 - $2,768) to ERTH Business Technologies Inc.

- purchased capitalized items of nil (2016 - $64,901) and operations, administration services of $55,940 (2016 - $2,642), sold operations and administration services of $2,429 (2016 - $7,032) and sold capital equipment of nil (2016 – $29,589) to J-Mar Line Maintenance Inc.

- purchased capitalized items of $149,664 (2016 - $275,405), operations, maintenance and administration services of $553,229 (2016 - $800,011), sold operations, maintenance and admission services of $414,438 (2016 - $438,576) to ERTH (Holdings) Inc.

In the ordinary course of business, the Corporation delivers electricity to ERTH (Holdings) Inc. Electricity is billed to ERTH (Holdings) Inc. at prices and under terms approved by the OEB, if applicable.

(f) Transactions with ultimate parents

The Corporation delivers electricity to the eight municipalities throughout the year for the electricity needs of the municipalities and their related organizations. Electricity delivery charges are at prices under terms approved by the OEB. The Corporation also provides additional services to the Municipality or Norwich, the Town of Aylmer and the Town of Ingersoll for water and waste water billing and customer care services.

The Municipality of West Perth charges the Corporation for tree trimming and annual rent.

26. Financial instruments and risk management

Fair value disclosure

The carrying values of cash and cash equivalents, accounts receivable, unbilled revenue, due from/to related parties and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

The fair value of the long-term debt at December 31, 2017 is $19,318,275 (2016 - $19,248,053). The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at December 31, 2017 was 4.16% (2016 - 4.54%).

The fair value of available for sale financial assets is based on the closing value of the equity in publicly traded markets.

Financial risks

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

(a) Credit risk

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the municipalities of Aylmer, Central Elgin, East-Zorra Tavistock, Ingersoll, Norwich, South-West Oxford, Zorra and West Perth. As a result, the Corporation did not earn a significant amount of revenue from any one individual customer.

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 profit or loss. Subsequent recoveries of receivables previously provisioned are credited to profit or loss. The balance of the allowance for impairment at December 31, 2017 is $952,919 (2016 - $837,820). An impairment loss of $108,515 (2016 - $26,204) was recognized during the year.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2017, approximately $49,004 (2016 - $181,221) is considered 60 days past due. The Corporation has over 18,000 customers, the majority of whom 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, 2017, the Corporation holds security deposits in the amount of $1,013,457 (2016 - $952,081).

26. Financial instruments and risk management (continued)

(b) Market risk

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity or foreign exchange risk. The Corporation is exposed to fluctuations in interest rates as the regulated rate of return for the Corporation's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

The Corporation minimizes interest rate risk by issuing long-term fixed rate debt.

(c) Liquidity risk

The Corporation's ultimate parent company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The ultimate parents objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to a $38.8 million credit facility and monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they become due. As at December 31, 2017, $29.3 million has been drawn under the parents credit facility.

The Corporation also has a bilateral facility for $2.3 million for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which $2,246,667 has been drawn and posted with the IESO (2016 - $2,246,667).

The majority of accounts payable, as reported on the statement of financial position, are due within 30 days.

(d) Capital disclosures

The Corporation's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2017, shareholder's equity amounts to $15,462,919 (2016 - $14,626,592) and long-term debt amounts to $20,592,846 (2016- $20,740,791).