Consolidated Financial Statements of

VERIDIAN CORPORATION

Years ended December 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Veridian Corporation

We have audited the accompanying consolidated financial statements of Veridian Corporation, which comprise the consolidated balance sheets as at December 31, 2016 and 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Veridian Corporation as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 4, 2017
Vaughan, Canada

VERIDIAN CORPORATION

Consolidated Balance Sheets
(In thousands of dollars)

December 31, 2016 and 2015

	Note	2016	2015
Assets			
Current assets:			
Cash		$ 18,993	$ 23,260
Accounts receivable	2	66,487	58,021
Materials and supplies		3,031	2,642
Prepaid expenses		1,202	575
Total current assets		89,713	84,498
Non-current assets:			
Property, plant and equipment	3	239,542	218,159
Intangible assets	4	4,448	4,463
Goodwill		8,746	8,746
Deferred tax assets	7	3,738	6,096
Other assets	11(c)	320	229
Total non-current assets		256,794	237,693
Total assets		346,507	322,191
Regulatory balances	6	2,530	3,170
Total assets and regulatory balances		$ 349,037	$ 325,361
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	8	$ 44,467	$ 44,264
Short-term debt	9	43,588	43,588
Advance payments - construction deposits		629	845
Income taxes payable		62	146
Customer deposits		5,799	5,174
Deferred revenue	10	1,850	1,877
Developer obligations		1,943	1,440
Long-term debt	12	2,828	2,797
Total current liabilities		101,166	100,131
Non-current liabilities:			
Long-term debt	12	85,082	77,910
Long-term debt - embedded derivative		450	690
Deferred contributions	13	18,683	11,543
Employee future benefits	14	2,771	2,616
Unrealized loss on interest rate swaps	22(e)	3,819	3,730
Deferred tax liabilities	7	329	359
Other liabilities	17(b)	1,212	1,212
Total non-current liabilities		112,346	98,060
Total liabilities		213,512	198,191
Shareholders' equity:			
Share capital	15	67,260	67,260
Contributed capital		25	25
Accumulated other comprehensive loss		(340)	(264)
Retained earnings		58,195	52,496
Total shareholders' equity		125,140	119,517
Total liabilities and equity		338,652	317,708
Regulatory balances	6	10,385	7,653
Contingencies and guarantees	17		
Lease commitments	18		
Total liabilities, equity and regulatory balances		$ 349,037	$ 325,361

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

Chair, Board of Directors

Chair
Audit and Risk Management Committee

VERIDIAN CORPORATION

Consolidated Statements of Comprehensive Income
(In thousands of dollars)

Years ended December 31, 2016 and 2015

	Note	2016	2015
Revenue:			
Commodity		$ 338,009	$ 283,052
Commodity cost		(331,487)	(280,564)
		6,522	2,488
Distribution revenue		52,264	51,768
Other income	19	3,171	3,779
		61,957	58,035
Expenses:			
Operating and maintenance	20	9,628	9,253
Administration	20	19,242	17,846
Depreciation and amortization	5	11,350	10,776
		40,220	37,875
		21,737	20,160
Finance income		226	319
Finance costs	12	(4,606)	(4,758)
Unrealized loss on interest rate swaps	22(e)	(89)	(1,434)
		(4,469)	(5,873)
Income before income taxes		17,268	14,287
Income tax expense	7	3,448	3,272
Net income		13,820	11,015
Net movements in regulatory balances, net of tax		(3,372)	(1,465)
Net income after net movements in regulatory balances		10,448	9,550
Other comprehensive loss, net of tax:			
Remeasurements of employee future benefits		(77)	–
Total comprehensive income		$ 10,371	$ 9,550

See accompanying notes to the consolidated financial statements.

VERIDIAN CORPORATION

Consolidated Statements of Changes in Equity
(In thousands of dollars)

Years ended December 31, 2016 and 2015

	Note	2016	2015
Share capital		$ 67,260	$ 67,260
Contributed capital		25	25
Accumulated other comprehensive loss		(340)	(264)
		66,945	67,021
Retained earnings, beginning of year		52,496	49,086
Net income after net movements in regulatory balances		10,448	9,550
Dividends paid	16	(4,749)	(5,450)
Non-cash benefit - embedded derivative		–	(690)
Retained earnings, end of year		58,195	52,496
Total equity		$ 125,140	$ 119,517

See accompanying notes to the consolidated financial statements.

VERIDIAN CORPORATION

Consolidated Statements of Cash Flows
(In thousands of dollars)

Years ended December 31, 2016 and 2015

	Note	2016	2015
Cash provided by (used in):			
Operating activities:			
Net income after net movements in regulatory balances		$ 10,448	$ 9,550
Adjustments:			
Depreciation and amortization	5	12,102	11,497
Amortization of deferred contributions		(318)	(148)
Loss on disposal/retirement of property, plant and equipment		360	357
Employee future benefits		79	102
Unrealized loss on interest rate swaps		89	1,434
Embedded derivative		–	(690)
Change in fair value of embedded derivative		(240)	235
Finance income		(226)	(319)
Finance costs		4,606	4,758
Income tax expense		3,448	3,272
Deferred contributions		7,458	5,789
Customer deposits		625	118
Income taxes paid		(1,426)	(1,368)
Income taxes received		222	230
Other assets		69	69
Net movements in regulatory balances		3,372	1,465
		40,668	36,351
Changes in non-cash operating working capital	21	(8,925)	484
Net cash provided by operating activities		31,743	36,835
Financing activities:			
Interest received		226	319
Repayment of long-term debt		(2,956)	(2,683)
Proceeds from long-term debt		10,000	–
Dividends paid	16	(4,749)	(5,450)
Interest paid		(5,013)	(4,952)
Net cash used in financing activities		(2,492)	(12,766)
Investing activities:			
Additions to property, plant and equipment		(31,821)	(25,853)
Additions to intangible assets		(1,723)	(2,229)
Proceeds from disposal of property, plant and equipment		26	49
Net cash used in investing activities		(33,518)	(28,033)
Decrease in cash		(4,267)	(3,964)
Cash, beginning of year		23,260	27,224
Cash, end of year		$ 18,993	$ 23,260

See accompanying notes to the consolidated financial statements.

Veridian Corporation (the "Corporation") was incorporated on July 1, 1999 under the Ontario Business Corporations Act and was formed to conduct electricity distribution and non-regulated utility service ventures through its subsidiaries. The Corporation's non-regulated ventures include solar electricity generation facilities and systems. The Corporation's registered office is located at 55 Taunton Road East, Ajax, Ontario, L1T 3V3.

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and include the accounts of the Corporation and its two wholly owned subsidiaries, Veridian Connections Inc. ("VCI") and Veridian Energy Inc.

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. The consolidated financial statements have been prepared on the historical cost basis, except for employee future benefits and certain financial instruments that are measured at fair value.

(b) Regulated environment:

VCI is an electricity distributor licensed by the Ontario Energy Board (the "OEB"). It is regulated by the OEB under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility of ensuring that distribution companies fulfill obligations to connect and service customers.

The Ontario Energy Board Act, 1998 sets out guiding objectives for the OEB:

- To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service;
- To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry;

1. Significant accounting policies (continued):

- To promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario, including having regard to the consumer's economic circumstances;

- To facilitate the implementation of a smart grid in Ontario; and

- To promote the use and generation of electricity from renewable energy sources in a manner consistent with the policies of the Government of Ontario, including the timely expansion or reinforcement of transmission systems and distribution systems to accommodate the connection of renewable energy generation facilities.

VCI is responsible for charging its customers the following revenues:

- Commodity revenue - The commodity revenue is pass-through revenue for amounts payable to third parties. This revenue represents the costs of electricity consumed by the customers and passed through to the Independent Electricity System Operator ("IESO"). It also includes global adjustment revenue for non-regulated price plan consumers.

- Wholesale market services ("WMS") revenue - The WMS revenue represents the recovery of wholesale market costs for the IESO to operate the electricity market and maintain the system. This revenue is passed through to the IESO.

- Retail transmission service rate ("RTSR") revenue - The RTSR revenue represents the recovery of costs incurred for transmission of electricity to local distribution networks. This revenue is passed through to operators of transmission facilities.

- Electricity distribution revenue - The electricity distribution revenue represents the recovery of costs incurred by VCI in delivering the electricity to its customers.

1. Significant accounting policies (continued):

Electricity distribution rates:

Electricity distribution rates include both fixed monthly rates per customer and variable rates per kWh usage or kW demand. In 2015, the OEB released a policy that for residential electricity customers only, distribution delivery costs will be recovered through a monthly, fixed service charge. The policy set out that the transition to a fully fixed rate would occur over four years beginning in 2016. The fixed rate will increase gradually and the variable rate will decline. These distribution rates are subject to regulation by the OEB.

The OEB regulates electricity rates for distributors through three different rate setting options: Price Cap Incentive Rate-setting, Custom Incentive Rate-setting, and Annual Incentive Rate-setting Index. The Price Cap Incentive Rate-setting method sets a distributor's rates through a formula-based mechanism using a price cap index.

(c) Revenue recognition:

(i) Electricity distribution and sale:

Revenue from the sale of electricity is recognized on an accrual basis driven by cyclical billings based on electricity usage billed at OEB-approved distribution rates. Revenue from the sale of electricity includes an estimate of unbilled revenue accrued in respect of electricity delivered but not yet billed at year end. Unbilled revenue is calculated based on OEB-approved rates for electricity consumption and electricity demand driven by number of days between a customer's last meter reading in the year and December 31, 2016. Actual billed revenue could differ from estimates due to energy demand, weather, line losses and changes in the composition of customer classes.

The difference between the amounts charged to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs billed monthly by the IESO, is recorded as a settlement variance. In accordance with IFRS 14, Regulatory Deferral Accounts ("IFRS 14"), which permits a rate-regulated entity to continue to recognize and measure regulatory deferral account balances in accordance with its previous generally accepted accounting principles ("GAAP"), this settlement variance is presented within regulatory balances on the consolidated balance sheets and within net movements in regulatory balances, net of tax on the consolidated statements of comprehensive income.

1. Significant accounting policies (continued):

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by the Corporation in delivering electricity to customers. Distribution revenue also includes revenue related to collection of OEB-approved rate riders.

The carrying amount of accounts receivable is reduced through an allowance for doubtful accounts, if applicable, and all impairment losses are recognized in net income. When the Corporation considers that there are no realistic prospects of recovery of an account receivable, the relevant amount is determined to be impaired and is written off. If the amount of impairment loss subsequently decreases due to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through net income.

(ii) Other income:

Other income, which includes revenue from electricity distribution-related services, is recognized as services are rendered. Capital contributions received from electricity customers to construct or acquire property, plant and equipment ("PP&E") for the purpose of connecting a customer to a network are recorded as deferred contributions and amortized into other income at an equivalent rate to that used for the depreciation of the related PP&E. Government grants and the related performance incentive payments under Conservation and Demand Management ("CDM") programs are recognized as income in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

(iii) Deferred revenue:

Amounts received in advance in relation to the IESO supported CDM initiatives are presented as deferred revenue (note 10).

(d) Rate setting:

The electricity distribution rates of the Corporation are subject to regulation by the OEB and these rates are based on a revenue requirement that includes a rate of return of 9.36% effective May 1, 2014.

On September 28, 2015, the Corporation filed a Price Cap Incentive Rate-setting application with the OEB to change distribution rates effective May 1, 2016. The application was approved by the OEB on March 17, 2016.

1. Significant accounting policies (continued):

On November 7, 2016, the Corporation filed a Price Cap Incentive Rate-setting application with the OEB for May 1, 2017 rates. The OEB decision on this application has not been received at this time.

On January 30, 2014, the IASB issued an interim standard, IFRS 14, to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. IFRS 14 describes regulatory deferral account balances as amounts of expense or income that would not be recognized as assets or liabilities in accordance with other standards, but that qualify to be deferred in accordance with this standard because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate-regulated goods or services.

The scope of this standard is limited to first-time adopters of IFRS and will remain in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB. The interim standard introduced new presentation requirements and permitted first-time adopters to continue to recognize amounts related to rate regulation in accordance with CPA Handbook Part V - Pre-changeover Accounting Standards (subsequently referred to as "previous Canadian GAAP") requirements and was effective from January 1, 2016, with early application permitted. The Corporation elected to early adopt IFRS 14 in its 2015 consolidated financial statements under IFRS, with a transition date of January 1, 2014 and determined that regulatory balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the "Accounting Procedures Handbook for Electricity Distributors".

The IASB's comprehensive project on rate-regulated activities is addressing whether IFRSs should require entities operating in rate-regulated environments to recognize assets and liabilities arising from the effects of rate regulation. On December 12, 2016, the IASB staff met with the IASB board members to discuss their preliminary proposals for an accounting model for rate-regulated entities and highlighted the input received from the Accounting Standards Advisory Forum and other stakeholders. This comprehensive project remains ongoing.

1. Significant accounting policies (continued):

The OEB has the general power to include or exclude costs, revenue, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in the timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory balances. The Corporation's regulatory debit balances represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Corporation has recorded regulatory credit balances, which represent obligations that are expected to be refunded to customers. The netting of regulatory debit and credit balances is not permitted under IFRS 14.

(e) Cash and cash equivalents:

Cash and cash equivalents are defined as cash and bank term deposits or equivalent financial instruments with original maturities upon issue of less than 90 days.

(f) Materials and supplies:

Materials and supplies, which consists 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.

Any write-downs taken on materials and supplies are reversed if and when net realizable value subsequently recovers. Major spare parts and standby equipment are recorded as part of PP&E and depreciated once they are put into use.

(g) Property, plant and equipment:

PP&E purchased or constructed by the Corporation are recorded at cost less accumulated depreciation. Costs include contracted services, materials, labour, engineering costs, directly attributable overheads and capitalized borrowing costs during construction when applied. Subsequent costs are capitalized only when it is probable that the future economic benefits associated with the costs will flow to the Corporation and the costs can be measured reliably. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers. These contributions are used to connect customers to the Corporation's network and provide them with ongoing access to the supply of electricity. The contributions are recognized as deferred contributions and amortized into other income over the life of the related asset.

(In thousands of dollars)

1. Significant accounting policies (continued):

Upon energization of residential subdivision assets, a developer liability is accrued (as per the offer to connect contract) for the amounts payable to the developer for the Corporation's investment in the subdivision.

Depreciation of PP&E is charged to net income on a straight-line basis over their estimated service lives at the following annual rates:

Land rights	2.0%
Buildings	2.0% - 6.7%
Distribution station equipment	1.7% - 4.0%
Transmission and distribution system	1.7% - 10.0%
Meters	4.0% - 6.7%
Office equipment	10.0%
Computer hardware	20.0% - 33.3%
Vehicle fleet	6.7% - 16.7%
Renewable power generation	4.0%

The depreciation method, useful lives, and residual values are reviewed each financial year-end with the effect of any changes in estimate being accounted for on a prospective basis. Estimated useful lives reflect the best estimate and actual lives of assets may vary from estimated useful lives.

Construction in progress comprises PP&E under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed.

Construction in progress, land rights, major spare parts and standby equipment are not subject to depreciation until these assets are put into service. Land is not depreciated.

Borrowing costs directly attributable to the acquisition, construction or development of qualifying assets that necessarily take a substantial period of time to prepare for their intended use are capitalized, until such time as the assets are substantially ready for their intended use. The weighted average cost of long-term borrowings is used as the capitalization rate. Qualifying assets are considered to be those that take in excess of six months to construct.

1. Significant accounting policies (continued):

When portions of the Corporation's distribution facilities are replaced or relocated, the associated costs less the salvage value of any material returned to materials and supplies are capitalized to the new asset. Depreciation is then recorded at the same rate used for the original asset.

Some of the Corporation's distribution assets, particularly those located on unowned easements and rights-of-way, may have decommissioning obligations, constructive or otherwise. The majority of the Corporation's easements and rights-of-way are subject to extension or renewal and are expected to be available for a perpetual duration. As the Corporation expects to use the majority of its installed assets into perpetuity, no removal date can be determined and consequently no reasonable estimate of the fair value of such asset retirement obligations can be made. If, at some future date, it becomes possible to estimate the fair value cost of removing the assets that the Corporation is legally or constructively required to remove, a related asset retirement obligation will be recognized at that time. The discounted amount is not material.

Assets are derecognized at their carrying value upon retirement or when no remaining economic benefits are expected from its use. The related gain or loss arising on the disposal or retirement is determined as the difference between the proceeds from sale and the carrying value of the asset and is included in net income for the related fiscal year. The cost of replacing a part of an item of PP&E is recognized as an addition to the carrying amount of the asset and the carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of PP&E assets is recognized in net income as incurred.

(h) Intangible assets:

Intangible assets separately acquired or internally developed are measured on initial recognition at cost which comprises purchased software, labour, including employee benefits and consulting, engineering, directly attributable overheads and capitalized borrowing costs, if applicable. Following initial recognition, intangible assets are carried at cost, net of any accumulated amortization and accumulated impairment losses.

Amortization of intangible assets is provided on a straight-line basis over the estimated service lives at the following annual rates:

Application software and intellectual property	33.3%
Internally generated software	20.0%

1. Significant accounting policies (continued):

Software in development is not subject to amortization. The above-noted amortization rates apply to assets held within the application software and other intangible asset grouping (note 4). The amortization method, useful lives, and residual values are reviewed each financial year-end with the effect of any changes in estimate being accounted for on a prospective basis. Estimated useful lives reflect the best estimate and actual lives of assets may vary from estimated useful lives.

(i) Goodwill:

Goodwill relates to the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased and is evaluated for impairment at each reporting date. Goodwill is measured at cost and is not amortized. Impairment testing for goodwill is always carried out in the context of the cash generating unit ("CGU") as goodwill does not generate cash flows independently of other assets. The Corporation has determined that goodwill is not impaired.

(j) Impairment of non-financial assets:

The carrying costs of non-financial assets: PP&E, intangible assets and goodwill are reviewed for impairment at each reporting date to determine whether there is any indication of impairment, in which case, the asset's recoverable amount is estimated.

For the regulated business, the carrying costs of most of the Corporation's non-financial assets are included in rate base (the aggregate of approved investment in PP&E and intangible assets excluding work in progress, less accumulated depreciation and amortization and unamortized capital contributions from customers, plus an allowance for working capital) where they earn an OEB-approved rate of return. Asset carrying values and the related return are recovered through approved rates. As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is judged to be probable.

Impairment is tested at the CGU level, which is the smallest identifiable group of assets that generates independent cash flows. The Corporation has only one CGU, the regulated business unit. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount and is recognized in net income.

1. Significant accounting policies (continued):

(k) Customer deposits and advance payments:

Customers may be required to post security deposits to obtain electricity or other services. Interest is paid on customer deposits at rates prescribed by the OEB: this is currently interest at Canada's prime business rate less 2%, which was 0.7% per annum as of December 31, 2016. The Corporation receives advance payments from customers in relation to construction projects and recognizes them as a liability until the projects are completed.

(l) Employee benefits:

(i) Short-term employee benefits:

The Corporation provides short-term employee benefits, such as: salaries, employment insurance, short-term compensated absences, health and dental care. These benefits are recognized as the related service is rendered and is measured on an undiscounted basis. Short-term employee benefits are recognized as an expense unless they qualify for capitalization as part of the cost of an item of materials and supplies, PP&E, intangible assets or recoverable projects. A liability is recognized in respect of any unpaid short-term employee benefits for services rendered in the reporting period.

The Corporation recognizes a current liability for the expected cost of accumulated non-vested sick leave benefits at the end of the reporting period. The assumptions used for estimating the amount of the liability are analogous to those used in the valuation of employee future benefits.

(ii) Defined benefit pension plan:

The Corporation accounts for its participation in the Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan.

1. Significant accounting policies (continued):

OMERS plan is a multi-employer defined benefit plan providing pension to employees of municipalities, local boards, public utilities and school boards. It is funded by equal contributions from participating employers and employees as well as by investment earnings of the plan. Each year an independent actuary determines the plan's funded status by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. OMERS does not track its investments by employer and actuarial assumptions are developed based on the entire plan membership on a commingled basis and, therefore, information for individual plans cannot be determined. As a result, the Corporation accounts for the OMERS plan as a defined contribution plan and contributions to the plan are recognized as an employee benefit expense.

(iii) Employee future benefits:

The Corporation provides all employees with life insurance benefits as well as a Health Care Spending Account ("HCSA") for those employees retiring post April 1, 2011 having completed a minimum of 20 years of service with the Corporation. This benefit is available until age sixty five.

The Corporation actuarially determines the cost of employee future benefits offered to employees. These unfunded plans are accounted for as defined benefit obligations. The Corporation applies the projected benefit method, prorated on service and based on management's best estimates and assumptions. Under this method, the projected employee future benefits is deemed to be earned on a pro rata basis over the years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits.

Remeasurements of the net benefit liability comprise actuarial gains or losses that are recognized in the consolidated balance sheets with a charge or credit to other comprehensive income or loss. Current service costs are allocated to operating, maintenance and administration expenses and to capital and recoverable projects recognized in the consolidated balance sheets.

1. Significant accounting policies (continued):

(m) Income taxes:

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

The Corporation uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and the tax bases of the Corporation's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Corporation's income taxes payable in the year or a later period.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of comprehensive income in the year that includes the date of enactment or substantive enactment.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefits will be realized. Previously unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. A valuation allowance is recorded against a deferred tax asset to the extent that the Corporation determines that it is probable that a deferred income tax asset will not be realized in the future.

Where the Corporation expects the deferred taxes to be recovered from or refunded to customers as part of the rate setting process, the deferred income tax assets and liabilities result in regulatory deferral debit balances or credit balances, respectively. Deferred tax assets that are not included in the rate-setting process result in a deferred tax provision that is charged or credited to the consolidated statements of comprehensive income.

1. Significant accounting policies (continued):

(n) Provisions and contingencies:

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

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

(o) Use of judgments and estimates:

The preparation of the consolidated financial statements requires management to make estimates, judgments and assumptions: within reasonable limits of materiality and within the framework of the significant accounting policies, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the years. Due to inherent uncertainty involved in making such estimates, actual results reported in future years could differ from those estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by the OEB or the Minister of Energy.

1. Significant accounting policies (continued):

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

(i) Note 1(c)(i) - measurement of unbilled revenue;

(ii) Note 1(g) - environmental and decommissioning liabilities;

(iii) Notes 1(g), (h) - estimation of useful lives of PP&E and intangible assets;

(iv) Note 1(c)(i), 1(d) and note 6 - recognition and measurement of regulatory balances;

(v) Notes 1(l)(ii)(iii) and note 14 - measurement of employee future benefits: key actuarial assumptions;

(vi) Note 1(n) - recognition and measurement of provision and contingencies;

(vii) Note 1(m) and note 7 - recognition of deferred tax assets - availability of future taxable profit against which tax losses carried forward can be used; and

(viii) Note 1(c)(i) and note 22(c) - allowance for doubtful accounts.

Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors that are considered to be relevant.

(p) Non-derivative financial instruments:

All non-derivative financial assets are classified as loans and receivables and all non-derivative 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 costs using the effective interest method less any impairment for the financial assets, as described in note 22(c).

1. Significant accounting policies (continued):

(q) Derivative financial instruments:

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date.

The Corporation has not elected to apply hedge accounting for its interest rate swap contracts and does not enter into derivative agreements for speculative purposes. Changes in the fair value of the derivatives are recorded each year in the consolidated statements of comprehensive income.

The Corporation separates embedded derivatives from host contracts in circumstances when it is determined that an embedded amount is not closely related to the host contract.

(r) Capital disclosures:

The Corporation's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis, at reasonable rates, and to deliver the appropriate financial returns. As at December 31, 2016, the Corporation's definition of capital includes shareholders' equity, short-term and long-term debt (including the shareholders' promissory notes), less cash and cash equivalents.

During the year, there have been no changes to how the Corporation assesses its capital structure.

1. Significant accounting policies (continued):

(s) New standards and interpretations not yet adopted:

The IASB issues amendments to standards and interpretations which do not have to be adopted in the current year. The Corporation is still evaluating the adoption of the following new and revised standards, described below, which the Corporation anticipates might have an impact on its consolidated financial statements or note disclosures:

(i) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

In May 2014, the IASB issued IFRS 15. The standard outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers. It supersedes current revenue recognition guidance including International Accounting Standard ("IAS") 18, Revenues, IAS 11, Construction Contracts and related interpretations. The new revenue model applies to all contracts with customers except those that are within the scope of other IFRSs, such as leases, insurance contracts and financial instruments. IFRS 15 specifies how and when the entity should recognize revenue and additional disclosure requirements. The new standard is effective for annual periods beginning on or after January 1, 2018. The Corporation intends to adopt IFRS 15 and the clarifications in its consolidated 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 consolidated financial statements.

(ii) IFRS 9, Financial Instruments ("IFRS 9"):

The IASB published the final version of IFRS 9 in July 2014. The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. IFRS 9 has an expected credit loss model for a timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. It also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Corporation intends to adopt IFRS 9 in its consolidated 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 consolidated financial statements.

(In thousands of dollars)

1. Significant accounting policies (continued):

(iii) IFRS 16, Leases ("IFRS 16"):

The IASB published IFRS 16 in January 2016. It replaces the previous leases standard, IAS 17, Leases, and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. IFRS 16 is effective from January 1, 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15. The Corporation intends to early adopt IFRS 16 in its consolidated 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 consolidated financial statements.

2. Accounts receivable:

	2016	2015
Energy revenue	$ 29,497	$ 19,513
Unbilled revenue	33,740	34,781
Project expenditures recoverable	3,281	3,522
Pole rentals and other	1,039	1,275
	67,557	59,091
Less allowance for doubtful accounts	1,070	1,070
	$ 66,487	$ 58,021

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at the period end. Unbilled revenue is considered current with no allowance for doubtful accounts.

(In thousands of dollars)

3. Property, plant and equipment:

December 31, 2016:

	December 31, 2015	Additions/ depreciation	Disposals/ retirements	December 31, 2016
Cost				
Land	$ 1,777	$ –	$ –	$ 1,777
Land rights	392	3	–	395
Buildings	16,530	801	–	17,331
Distribution station equipment	25,217	2,801	–	28,018
Transmission and distribution system	158,885	23,380	(333)	181,932
Meters	13,855	1,154	(142)	14,867
Office equipment	1,276	132	–	1,408
Computer hardware	1,540	839	–	2,379
Vehicle fleet	5,118	549	(54)	5,613
Renewable power generation	767	(8)	–	759
Construction in progress	10,362	2,322	–	12,684
	235,719	31,973	(529)	267,163
Accumulated depreciation				
Land rights	22	11	–	33
Buildings	2,330	1,120	–	3,450
Distribution station equipment	1,637	907	–	2,544
Transmission and distribution system	9,261	5,524	(61)	14,724
Meters	2,433	1,297	(36)	3,694
Office equipment	388	208	–	596
Computer hardware	719	384	–	1,103
Vehicle fleet	713	719	(45)	1,387
Renewable power generation	57	33	–	90
	17,560	10,203	(142)	27,621
	$ 218,159	$ 21,770	$ (387)	$ 239,542

(In thousands of dollars)

3. Property, plant and equipment (continued):

December 31, 2015:

	December 31, 2014	Additions/ depreciation	Disposals/ retirements	December 31, 2015
Cost				
Land	$ 1,777	$ –	$ –	$ 1,777
Land rights	385	7	–	392
Buildings	15,945	585	–	16,530
Distribution station equipment	23,109	2,108	–	25,217
Transmission and distribution system	138,593	20,662	(370)	158,885
Meters	13,148	804	(97)	13,855
Office equipment	1,207	69	–	1,276
Computer hardware	1,365	175	–	1,540
Vehicle fleet	3,820	1,298	–	5,118
Renewable power generation	630	137	–	767
Construction in progress	9,556	806	–	10,362
	209,535	26,651	(467)	235,719
Accumulated depreciation				
Land rights	11	11	–	22
Buildings	1,154	1,176	–	2,330
Distribution station equipment	785	852	–	1,637
Transmission and distribution system	4,371	4,934	(44)	9,261
Meters	1,203	1,247	(17)	2,433
Office equipment	191	197	–	388
Computer hardware	425	294	–	719
Vehicle fleet	35	678	–	713
Renewable power generation	27	30	–	57
	8,202	9,419	(61)	17,560
	$ 201,333	$ 17,232	$ (406)	$ 218,159

During the year, borrowing costs of $313 (2015 - $254) were capitalized to PP&E and credited to finance costs. Weighted average cost of short-term debt with a maturity date of November 1, 2039 and long-term borrowings in VCI is used for capitalizing borrowing costs as part of PP&E with an average rate of 3.94% (2015 - 4.00%).

Additions to construction in progress are net of transfers to other PP&E categories.

(In thousands of dollars)

4. Intangible assets:

December 31, 2016:

	December 31, 2015	Additions/ amortization	Disposals/ retirements	December 31, 2016
Cost				
Application software and other	$ 7,431	$ 1,825	$ –	$ 9,256
Construction in progress related to application software and other	126	58	–	184
Capital contributions	1,212	–	–	1,212
	8,769	1,883	–	10,652
Accumulated amortization				
Application software and other	4,306	1,898	–	6,204
	$ 4,463	$ (15)	$ –	$ 4,448

December 31, 2015:

	December 31, 2014	Additions/ amortization	Disposals/ retirements	December 31, 2015
Cost				
Application software and other	$ 5,654	$ 1,777	$ –	$ 7,431
Construction in progress related to application software and other	9	117	–	126
Capital contributions	1,212	–	–	1,212
	6,875	1,894	–	8,769
Accumulated amortization				
Application software and other	2,229	2,077	–	4,306
	$ 4,646	$ (183)	$ –	$ 4,463

No borrowing costs were capitalized on intangible assets under development in 2016 or 2015.

Application software and other includes externally acquired, as well as internally generated computer software. The remaining amortization period is between 1 to 5 years.

(In thousands of dollars)

5. Depreciation and amortization:

	2016	2015
Total depreciation and amortization expense	$ 12,102	$ 11,497
Allocated to:		
Depreciation/amortization of vehicle fleet included in operating and maintenance expenses	719	678
Depreciation/amortization of assets in non-regulated utility operations included in other income	33	43
	752	721
Depreciation and amortization expense	$ 11,350	$ 10,776

6. Regulatory balances:

Regulatory balances can arise out of the rate-making process. Specifically, the following regulatory treatments have resulted in accounting treatments that differ from IFRS for enterprises operating in a non-regulated environment and regulated entities that did not adopt IFRS 14:

(i) The Corporation records the difference between the borrowing costs capitalization rate prescribed by the OEB and the weighted average cost of borrowings rate used to capitalize PP&E under IFRS. This amount is recognized as a regulatory debit or credit balance to be recovered or paid respectively to the customers through future rates;

(ii) The Corporation records regulatory debit balances arising from derecognition of assets under IFRS. These amounts will be sought for disposition through the next cost of service rebasing application and recovered from customers through future rates;

(iii) The Corporation records deferred tax assets and a corresponding regulatory tax liability, as the recovery from, or refund to, customers is expected to be included in future distribution rates for its regulated business activities;

(iv) The Corporation has deferred certain retail settlement variances which comprise the variances between amounts charged by the Corporation to customers based on regulated rates and wholesale rates incurred for the cost of electricity service; and

(v) The Corporation has deferred costs related to: IFRS implementation, lost revenue adjustment mechanism costs, and OEB assessment costs.

(In thousands of dollars)

6. Regulatory balances (continued):

Debit balances comprise of the following:

	January 1, 2016	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2016	Remaining recovery/ reversal period (years)
Approved settlement variances (a)	$ 1,371	$ 5	$ (1,287)	$ –	$ 89	1 year
One-time IFRS conversion costs (b)	473	6	–	–	479	Note 1
Extraordinary costs related to ice storm restoration (d)	205	–	(205)	–	–	
IFRS transitional adjustments (e)	852	267	–	–	1,119	Note 1
Other (f)	269	574	–	–	843	Note 1
	$ 3,170	$ 852	$ (1,492)	$ –	$ 2,530	

	January 1, 2015	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2015	Remaining recovery/ reversal period (years)
Approved settlement variances (a)	$ 821	$ 2,830	$ (2,280)	$ –	$ 1,371	1 year
Future settlement variances (a)	2,633	–	–	(2,633)	–	Note 3
One-time IFRS conversion costs (b)	469	4	–	–	473	Note 1
Stranded meters (c)	1,457	–	–	(1,457)	–	Note 3
Extraordinary costs related to ice storm restoration (d)	728	7	(530)	–	205	1 year
IFRS transitional adjustments (e)	494	358	–	–	852	Note 1
Other (f)	162	107	–	–	269	Note 1
	$ 6,764	$ 3,306	$ (2,810)	$ (4,090)	$ 3,170	

(In thousands of dollars)

6. Regulatory balances (continued):

Credit balances comprise of the following:

	January 1, 2016	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2016	Remaining recovery/ reversal period (years)
Future settlement variances (a)	$ 2,646	$ 5,162	$ –	$ –	$ 7,808	Note 1
Stranded meters (c)	18	–	–	–	18	Note 1
Other (f)	47	1	–	–	48	Note 1
Deferred taxes (g)	4,942	(2,431)	–	–	2,511	Note 2
	$ 7,653	$ 2,732	$ –	$ –	$ 10,385	

	January 1, 2015	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2015	Remaining recovery/ reversal period (years)
Future settlement variances (a)	$ –	$ 2,448	$ 2,831	$ (2,633)	$ 2,646	Note 1
Approved IFRS transitional adjustments (e)	3,049	–	(3,049)	–	–	
Stranded meters (c)	–	(4)	1,479	(1,457)	18	Note 1
Other (f)	40	25	(18)	–	47	Note 1
Deferred taxes (g)	6,694	(1,752)	–	–	4,942	Note 2
	$ 9,783	$ 717	$ 1,243	$ (4,090)	$ 7,653	

[Note 1] The Corporation intends to seek recovery or refund in future rate applications to the OEB.

[Note 2] The Corporation will not seek disposition of the balance since it will be reversed through timing differences in the recognition of deferred tax assets.

[Note 3] These balances have been reclassified to regulatory credit balances.

The balances arising in the period column are new additions (for both debits and credits). The recovery/reversal column are amounts: collected or refunded through rate riders, disposition of OEB-approved regulatory balances, or other transactions which reduces existing regulatory balances. The other movements column consists of impairment (if the OEB disallowed certain amounts), carrying cost adjustments, and reclassification between the regulatory debit and credit balances. There is no impairment recorded for the years ended December 31, 2016 and December 31, 2015.

6. Regulatory balances (continued):

Regulatory balances descriptions:

(a) Settlement variances:

The amounts include the variances between the amount charged by the IESO for the operation of the markets and grid, as well as various wholesale market settlement charges and transmission charges, as compared to the amount billed to consumers based on the OEB-approved rates. This amount also includes variances between the amounts charged by Hydro One Networks Inc. ("Hydro One") for low voltage services and the amount billed to consumers based on the OEB-approved rates. Also included are retail cost variances, being the differences between the revenue charged to retailers and the retail services costs associated with providing the retail services.

In 2015, the OEB approved the disposition of the Corporation's retail settlement variance accounts as at December 31, 2013.

(b) One-time IFRS conversion costs:

In accordance with an OEB directive, a deferral account has been established for the one-time administrative costs during transition to IFRS. These amounts will be sought for disposition in the Corporation's first cost of service rebasing application under IFRS.

(c) Stranded meters:

These amounts are related to the provincial government's directive for licensed distributors to install smart meters for specific customer classes and represent the net book value of stranded meter assets arising from the Corporation's smart metering program.

In 2014, the OEB approved the Corporation's request for recovery of these regulatory balances through a rate rider with a one-year term.

This rate rider expired April 30, 2015 with the balance to be refunded in a future rate application to the OEB.

6. Regulatory balances (continued):

(d) Extraordinary costs related to ice storm restoration:

In December 2013, the Corporation recorded deferred power restoration costs related to a severe ice storm as a regulatory balance for disposition to be sought in the future.

On February 19, 2015, the OEB approved the Corporation's application for recovery of these costs through a rate rider which ended February 28, 2016.

(e) IFRS transitional adjustments:

Approved amounts:

In 2012, the Corporation began recording regulatory credit balances arising from changes in estimates of useful lives of PP&E and increases in operating expenses resulting from changes in estimation and allocation of overheads.

In 2014, the OEB approved the Corporation's request for refund of the amount of $6,278 to ratepayers through a rate rider with a one-year term. This rate rider expired April 30, 2015.

Future amounts:

Commencing in 2014, the Corporation has recorded regulatory debit balances arising from derecognition of assets under IFRS and capitalized borrowing costs difference between weighted average long-term borrowing costs under IFRS and OEB guidelines. These amounts will be sought for disposition in the Corporation's first cost of service rebasing application under IFRS.

(f) Other:

These amounts relate to the deferral of costs related to lost revenue adjustment mechanism costs, renewable generation connection funding adder, OEB assessment costs and other regulatory balances.

(g) Deferred taxes:

This regulatory credit balance includes both deferred tax amounts reclassified under IFRS 14 and expected future electricity distribution rate reduction for customers arising from timing difference in the recognition of deferred tax assets.

(In thousands of dollars)

6. Regulatory balances (continued):

The amounts reclassified under IFRS 14 include the deferred tax liability related to regulatory balances $626 as at December 31, 2016 (2015 - $399).

The deferred tax amount related to the expected future electricity distribution rate reduction for customers was $1,885 as at December 31, 2016 (2015 - $4,543).

7. Income taxes:

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

	2016	2015
Income before income taxes	$ 17,268	$ 14,287
Federal and Ontario statutory income tax rate	26.50%	26.50%
Provision for income taxes at statutory rate	$ 4,576	$ 3,786
Increase (decrease) resulting from:		
Temporary differences expected to be recovered from customers	(1,857)	(1,373)
Current year losses for which no deferred tax asset is recognized	293	85
Over provided in prior years	(167)	(96)
Other miscellaneous	(1,828)	(882)
Income taxes recorded in regulatory balances movements	2,431	1,752
Income tax expense	$ 3,448	$ 3,272
Allocated:		
Current	$ 1,120	$ 1,418
Deferred	(103)	102
Income taxes recorded in regulatory balances movements	2,431	1,752
Total income tax expense	$ 3,448	$ 3,272

(In thousands of dollars)

7. Income taxes (continued):

Deferred tax assets and liabilities arise from differences between the carrying amounts and tax bases of the Corporation's assets and liabilities. The tax effects of these differences are as follows:

	2016	2015
Deferred tax assets:		
Property, plant and equipment and intangible assets	$ 172	$ 2,618
Employee future benefits	999	943
Sick leave liability	352	352
Non-capital losses and other	698	391
Unrealized loss on interest rate swaps	1,012	988
Deferred revenue, contingent liability and others	927	935
	4,160	6,227
Valuation allowance	(751)	(490)
	3,409	5,737
Deferred tax liabilities:		
Regulatory balances	626	399
Moved to regulatory deferral account credit balances	(626)	(399)
	–	–
Deferred tax assets	$ 3,409	$ 5,737

The Corporation has non-capital losses for income tax purposes of $2,012 (2015 - $907) available to reduce future years' income for tax purposes, which will expire between 2031 and 2035. The potential deferred tax benefit of these losses has not been recognized since management has determined that it is probable that these amounts will not be realized in the foreseeable future.

(In thousands of dollars)

8. Accounts payable and accrued liabilities:

	2016	2015
Power bill accrual	$ 28,896	$ 26,803
Customer credit balances	3,783	6,357
Other accounts payable and accrued liabilities	11,788	11,104
	$ 44,467	$ 44,264

9. Credit facilities and short-term debt:

Credit facilities:

As at December 31, 2016, the Corporation had the following external credit facilities with a Canadian chartered bank (the "Bank"):

(a) Uncommitted revolving demand credit facility. The facility at all times is required to be no greater than $30,000 with a letter of credit ("L/C") carve-out availability;

(b) Committed reducing term facility with a credit limit of $20,000 and amortization term of 10 years (note 12);

(c) Committed reducing term facility with a credit limit of $40,999 and amortization term of 30 years with an optional exit strategy at 10 years, 15 years, 20 years and 25 years (note 12); and

(d) Committed or demand revolver facility (note 12) with a combined total no greater than $70,000 at all times.

The financial covenants to the above facilities require a funded debt to capitalization ratio of no greater than 0.60:1, and to maintain a debt service coverage ratio of not less than 1.20:1. The Corporation has been in compliance with all the covenants.

9. Credit facilities and short-term debt (continued):

As at December 31, 2016, nil was drawn out of the facility (a); $6,051 was outstanding out of facility (b); $39,653 was outstanding out of facility (c) and $25,000 was outstanding out of facility (d) above (note 12). To cover the risk of fluctuating interest rates, facilities (b) and (c) were structured with interest rate swap agreements with the Bank, effectively converting the obligations into fixed interest rate loans of approximately 4.76% and 3.715%, respectively.

The Corporation utilized (a) for: $807 to issue an irrevocable L/C in favour of the IESO and $100 to issue an irrevocable L/C in favour of the Ministry of Environment.

The IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the L/C if the Corporation defaults on its payment.

The Ministry of Environment requires security to ensure adequate funds are available, to effect suitable remedial action, if an event occurs resulting in a health and safety hazard to any person, or the natural environment.

Short-term debt:

As at December 31, 2016, the Corporation had $43,588 notes payable to the shareholders with the maturity date of November 1, 2039, at a rate equal to the OEB-deemed long-term debt rate less 30 basis points. The noteholders have a right to demand repayment of this note (in whole or in part) at any time upon six months prior written notice to the Corporation provided that a duly enacted resolution or by-law is passed by the noteholders certifying that the funds are required for municipal purposes. As the Corporation does not have any unconditional right to defer settlement of this liability for at least twelve months after the reporting period, the notes are classified as short-term debt.

10. Deferred revenue:

Deferred revenue represents the balance at year end of unearned revenue from funding received from the IESO to deliver CDM programs. On February 3, 2011, the Corporation entered into an agreement to deliver these CDM programs. These programs were to cover the period from January 1, 2011 to December 31, 2014. The agreement was amended on November 14, 2014, and was extended until December 31, 2015. All programs are fully funded and paid in advance by the IESO. Amounts received but not yet spent are presented on the consolidated balance sheets under current liabilities as deferred revenue.

10. Deferred revenue (continued):

A new agreement was entered with the IESO on December 16, 2014 and on June 8, 2015, whereby the IESO conditionally approved a CDM plan that was jointly submitted by the Corporation and Whitby Hydro Electric Corporation to deliver CDM programs covering the period from January 1, 2015 to December 31, 2020.

In accordance with the funding model that was approved in the Joint CDM Plan, all programs to be delivered under the IESO agreement are expected to be fully funded and paid by the IESO. The IESO is invoiced monthly for the costs incurred on various CDM programs. The Corporation received some initial funding from the IESO for the delivery of CDM programs under the energy conservation agreement. Amounts received but not yet spent are presented on the consolidated balance sheets under current liabilities as deferred revenue.

11. Related party transactions:

The Corporation provides electricity and services to its principal shareholders, the Town of Ajax, the Municipality of Clarington, the City of Pickering and the City of Belleville (collectively, the "shareholders"). Electrical energy is sold to the shareholders at the same prices and terms as other electricity customers consuming equivalent amounts of electricity.

The electricity and services amounts charged by the Corporation to the shareholders for the year ended December 31, 2016 was $8,889 (2015 - $8,276).

As at December 31, 2016, accounts receivable includes $716 (2015 - $1,028) due from the shareholders.

Finance costs includes interest of $2,981 (2015 - $2,981) on the notes payable to the shareholders.

The Corporation paid $429 (2015 - $435) in property taxes to the shareholders.

The Corporation paid $2,185 (2015 - $1,896) in compensation to the Corporation's key management personnel, comprising of the senior management team and members of the Board of Directors. The compensation includes salaries, performance pay, taxable benefits and OMERS contributions.

The Corporation declared and paid a dividend of $4,749 (2015 - $5,450) to its shareholders.

11. Related party transactions (continued):

The Corporation has renewable generation projects and holds interest in the following entities and joint operation:

(a) Quinte Solar Generation Inc.:

The Corporation, the Corporation of the City of Belleville and Solera Sustainable Energies Company Limited holds 70%, 15% and 15% equity interest respectively in the above company, incorporated to own, operate and maintain projects related to solar electricity generation facilities and systems at some specific locations. This non-regulated venture is currently in the application stage with the IESO and has not yet been injected with capital by the joint parties.

(b) Quinte Hydraulic Generation Inc.:

The Corporation, the Corporation of the City of Belleville and Peterborough Utilities Inc. holds 42.5%, 15% and 42.5% equity interest respectively in the above company, incorporated to own, operate and maintain hydraulic electricity generation facilities and systems at some specific locations. This non-regulated venture is currently in the application stage with the IESO and has not yet been injected with capital by the joint parties.

(c) Claremont Community Centre Solar:

VCI, Queen Street Solar Co-Operative Corporation and Solera Sustainable Energies Company Limited entered into a joint operation agreement with an equity interest of 39%, 51% and 10% respectively, to build, own, operate and maintain a solar generation project at Claremont Community Centre owned by the City of Pickering, located at 4941 Old Brock Road, Pickering, Ontario L1V 7E2. This project is approved under the Feed-in Tariff government program.

In 2016, the Corporation financed the above project for an amount of $264 for a 15 year term at an interest rate of 5.00%. An amount of $158 (net of repayments) is included in other assets of the Corporation as at December 31, 2016. The funding provided by the Corporation was in the same proportion as the equity interest: VCI 39%, Queen Street Solar Co-Operative Corporation 51% and Solera Sustainable Energies Company Limited 10%.

(In thousands of dollars)

12. Long-term debt:

	2016	2015
Notes payable to the shareholders, due on December 31, 2018, at a rate equal to the greater of 6% or the OEB-deemed long-term debt rate	$ 17,206	$ 17,206
Long-term debt from the Bank, maturing on December 23, 2019 (note 9)	6,051	8,068
Long-term debt from the Bank, maturing on March 2, 2045 (note 9)	39,653	40,433
Long-term debt from the Bank, repayable no later than December 28, 2019 (note 9)	25,000	15,000
	87,910	80,707
Less current portion	2,828	2,797
	$ 85,082	$ 77,910

The notes payable with the maturity date of December 31, 2018 are convertible on or before the maturity date at the option of the noteholders on the basis of one common share for each $1 of principal amount.

(In thousands of dollars)

12. Long-term debt (continued):

Scheduled principal repayments for the next five years and thereafter as of December 31, 2016:

2017	$ 2,826
2018	20,063
2019	27,888
2020	905
2021	939
Thereafter	35,289
	87,910
Less current portion	2,828
	$ 85,082

Scheduled principal repayments for the next five years and thereafter as of December 31, 2015:

2016	$ 2,797
2017	2,826
2018	20,063
2019	17,888
2020	905
Thereafter	36,228
	80,707
Less current portion	2,797
	$ 77,910

(In thousands of dollars)

12. Long-term debt (continued):

Scheduled interest payments for the next five years and thereafter as of December 31, 2016:

2017	$ 5,093
2018	4,966
2019	3,806
2020	3,317
2021	3,282
Thereafter	52,549
	$ 73,013

Expected weighted average borrowing cost:

2017	4.19%
2018	4.18%
2019	3.86%
2020	4.11%
2021	4.11%

Finance costs related to short-term and long-term debt comprises:

	2016	2015
Interest on:		
Notes payable and loans	$ 4,852	$ 4,970
Customer deposits and other	67	42
	4,919	5,012
Less capitalized borrowing costs	313	254
	$ 4,606	$ 4,758

(In thousands of dollars)

13. Deferred contributions:

Deferred contributions are the capital contributions received from electricity customers, which have not yet been recognized into other income.

The continuity of deferred contributions is as follows:

	2016	2015
Deferred contributions, beginning of year	$ 11,543	$ 5,903
Contributions received	7,458	5,828
Contributions amortized as other income	(318)	(188)
Deferred contributions, end of year	$ 18,683	$ 11,543

Customer contributions for the acquisition or construction of PP&E are considered to be deferred contributions and are recognized over the useful lives of the related assets as other income.

14. Employee benefits:

(a) Pensions:

During 2016, the Corporation made contributions totalling $2,187 (2015 - $2,078) to OMERS.

(b) Employee future benefits:

The Corporation pays certain benefits on behalf of its retired employees and recognizes these post-retirement costs in the period in which the employees render the services.

(In thousands of dollars)

14. Employee benefits (continued):

Information about the Corporation's non-contributory defined benefit plan to fund life insurance, health and dental care benefits and a retiree HCSA, is as follows:

	2016	2015
Accrued benefit liability recognized, January 1	$ 2,616	$ 2,514
Current service costs	74	72
Interest expense on accrued benefit obligation	100	101
Benefit payments	(96)	(71)
Remeasurements recognized in other comprehensive income	77	–
Accrued benefit liability, December 31	$ 2,771	$ 2,616

The amounts presented are based upon an actuarial valuation performed as at December 31, 2014 with a measurement date of January 1, 2014. The next valuation is expected to be performed for the year ending December 31, 2017.

The main actuarial assumptions employed for the valuations are as follows:

(i) General inflation:

Future general inflation levels, as measured by changes in the Consumer Price Index, are assumed at 2.00% for future years.

(ii) Interest (discount) rate:

Amounts were determined using an annual discount rate of 3.90% (2015 - 4.10%).

(iii) Salary levels:

Future general salary and wage levels were assumed to increase at 3.60% (2015 - 3.60%) per annum.

(iv) Health and dental care:

The health and dental care cost increases are 6.31% and 4.60% (2015 - 6.66% and 4.60%), respectively.

(In thousands of dollars)

14. Employee benefits (continued):

(c) Risks associated with the plan:

Significant actuarial assumptions related to discount rates, future health and dental costs, mortality rates, retirement age, and utilization rate of the HCSA etc. may affect the valuation of expected accrued benefit liability.

15. Share capital:

	2016		2015	
	Number of shares	Amount	Number of shares	Amount
Authorized:				
Unlimited common shares				
Issued	10,000	$ 67,260	10,000	$ 67,260

16. Dividends:

The Corporation's current dividend policy states:

(a) a base annual dividend to the shareholders be set at $4,700 from 2012 to 2017;

(b) the base dividend to the shareholders may be:

(i) increased due to earnings favourable to the forecast;

(ii) increased if there is any cash surplus available; and

(iii) increased/decreased due to higher/lower dividends from VCI to the Corporation.

During 2016, the Board of Directors of the Corporation declared and paid dividends totalling $4,749 (2015 - $5,450) to the shareholders.

17. Contingencies and guarantees:

(a) Insurance claims:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"), which was created on January 1, 1987. A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE provides general liability insurance to member electric utilities. MEARIE also provides vehicle and property insurance to the Corporation.

Insurance premiums charged to each member electric utility consist of a levy per $1 of service revenue subject to a credit or surcharge based on each electric utility's claims experience. The maximum coverage is $24,000 per occurrence for liability insurance, $15,000 for vehicle insurance, and $98,685 for property insurance; plus $10,000 excess coverage on top of the regular liability and vehicle coverage.

(b) Contractual obligation - Hydro One Networks Inc.:

The Corporation's subsidiary, VCI, is party to a connection and cost recovery agreement with Hydro One related to the construction by Hydro One of a transformer station designated to meet VCI's anticipated electricity load growth. Construction of the project was completed during 2007 and VCI connected to the transformer station during 2008.

To the extent that the cost of the project is not recoverable from future transformation connection revenues, VCI is obligated to pay a capital contribution equal to the difference between these revenues and the construction costs allocated to VCI. The construction costs allocated to VCI for the project are $9,975.

(In thousands of dollars)

17. Contingencies and guarantees (continued):

The Corporation has recorded a liability and a corresponding intangible asset for $1,212 as at December 31, 2016 (2015 - $1,212), based on management's best estimate of the future transformation connection revenue shortfall. Hydro One is expected to perform a true-up based on actual load at the end of the tenth and fifteenth anniversaries of the in-service date.

(c) General claims:

From time to time, the Corporation is involved in various lawsuits, claims and regulatory proceedings in the normal course of business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Corporation's consolidated financial position and results of operations or cash flows.

18. Lease commitments:

Future minimum lease payment obligations under operating leases are as follows:

2017	$	41
2018		41
2019		33
2020		32
2021		33
Thereafter		60
	$	240

(In thousands of dollars)

19. Other income (loss):

	2016	2015
Third party revenue (a)	$ 381	$ 1,057
Late payment charges	510	493
Customer charges (b)	1,846	1,974
Pole rentals	483	484
Disposal of PP&E	(360)	(357)
Foreign exchange	(7)	(20)
Amortization of deferred contributions	318	148
	$ 3,171	$ 3,779

(a) Mainly includes revenue for CDM incentives related to 2011-14 programs received from IESO.

(b) Includes reconnection/disconnection, collection and change of occupancy charges from customers.

20. Operating, maintenance and administration expenses:

	Operating and maintenance		Administration	
	2016	2015	2016	2015
Salaries and benefits	$ 5,819	$ 5,656	$ 11,377	$ 10,490
External services	2,778	2,585	2,790	2,409
Materials and supplies	140	139	1	5
Vehicle	494	534	50	43
Other	397	339	5,024	4,899
	$ 9,628	$ 9,253	$ 19,242	$ 17,846

(In thousands of dollars)

21. Consolidated statements of cash flows:

Changes in non-cash operating working capital provided by (used in) includes the following:

	2016	2015
Accounts receivable	$ (8,466)	$ 670
Materials and supplies	(389)	(275)
Prepaid expenses	(627)	389
Accounts payable and accrued liabilities	297	(151)
Advance payments - construction deposits	(216)	(285)
Deferred revenue	(27)	601
Developer obligations	503	(465)
	$ (8,925)	$ 484

22. Financial instruments and risk management:

(a) Market risk:

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Corporation does not have commodity risk due to the flow through nature of energy purchases and costs. All variances due to timing of customer billing or regulated pricing are recorded in retail settlement variance accounts and are recovered from or returned to customers in accordance with regulatory directives. The foreign exchange risk is considered not material and is limited to U.S. dollar cash and cash equivalents holdings of $132 (2015 - $77) as at December 31, 2016.

(b) Interest rate risk:

The Corporation enters into fixed interest rate long-term debt agreements to minimize cash flow and interest rate fluctuation exposure. Long-term debt for $20,000 for a 10-year fixed rate term loan was arranged in 2010. In February 2015, a $40,999, 30-year fixed rate term loan was arranged from the Bank to blend and extend a $30,000 and a $15,000 loan. The Corporation entered into interest rate swap derivative agreements with the Bank to exchange interest rate cash flows. Under these agreements, the Corporation and the Bank have the periodic exchange of payments without exchanging the notional principal amount on which the payments are based. This effectively provided the Corporation with fixed rate loans, which reduces the impact of fluctuating interest rates on long-term debt. The Corporation does not enter into any such financial instrument for speculative purposes.

22. Financial instruments and risk management (continued):

(c) Credit risk:

Financial assets create credit risk that a counterparty will fail to discharge an obligation, causing a financial loss. The Corporation's distribution revenue is earned on a broad base of customers. As a result, the Corporation did not earn a significant amount of revenue from any individual customer. As at December 31, 2016, there were no significant balances of accounts receivable due from any single customer.

The Corporation manages counterparty credit risk through various techniques, including limiting total exposure levels with individual counterparties consistent with the Corporation's policies and monitoring the financial condition of counterparties.

Management believes that the credit risk of accounts receivable is limited due to the following reasons:

(i) There is a broad base of customers with no one customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance.

(ii) The Corporation, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or L/C from customers to mitigate risk of payment default.

(iii) The percentage of accounts receivable that is outstanding more than 90 days is approximately 1.36% (2015 - 1.59%) of the total net outstanding balance.

(iv) The Corporation includes an amount of accounts receivable write-offs within net income for rate-setting purposes.

(In thousands of dollars)

22. Financial instruments and risk management (continued):

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

	2016	2015
Total accounts receivable	$ 67,557	$ 59,091
Less allowance for doubtful accounts	1,070	1,070
Total accounts receivable, net	$ 66,487	$ 58,021
Of which:		
Unbilled revenue	$ 33,740	$ 34,781
Outstanding 1 day but not more than 30 days	30,725	22,052
Outstanding 31 days but not more than 60 days	1,788	982
Outstanding 61 days but not more than 90 days	399	355
Outstanding 91 days but not more than 120 days	437	412
Outstanding more than 120 days	468	509
	67,557	59,091
Less allowance for doubtful accounts	1,070	1,070
	$ 66,487	$ 58,021

(d) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. Short-term liquidity is provided through cash and cash equivalents on hand and funds from operations. Short-term liquidity is expected to be sufficient to fund normal operating requirements. The liquidity risks associated with financial commitments are as follows:

(In thousands of dollars)

22. Financial instruments and risk management (continued):

Financial commitments as of December 31, 2016:

	Due within one year	Due between one and five years	Due past five years
Financial liabilities:			
Accounts payable and accrued liabilities	$ 44,467	$ –	$ –
Short-term debt (note 9)	43,588	–	–
Long-term debt	2,828	49,794	35,288
Long-term debt - embedded derivative	230	220	–
Lease commitments	41	139	60

Financial commitments as of December 31, 2015:

	Due within one year	Due between one and five years	Due past five years
Financial liabilities:			
Accounts payable and accrued liabilities	$ 44,264	$ –	$ –
Short-term debt (note 9)	43,588	–	–
Long-term debt	2,797	41,682	36,228
Long-term debt - embedded derivative	240	450	–
Lease commitments	34	26	62

(e) Fair values:

The Corporation included $3,819 of unrealized loss (2015 - $3,730) in its consolidated financial statements. This is the fair value of the interest rate swap derivatives which represents the amount that the Corporation would have paid to unwind its position as at December 31, 2016. This unrealized loss is not expected to affect cash as the Corporation intends to hold the financial instruments until its maturity.

(In thousands of dollars)

22. Financial instruments and risk management (continued):

Fair value measurements recognized in the consolidated statements of comprehensive income are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for assets and liabilities that are not based on observable market data.

The interest rate swap derivatives are all Level 2 and the embedded derivative is Level 3 as at December 31, 2016. The embedded derivative is valued using a discounted cash flow methodology which values the instrument at the present value of its cash flows.

There were no transfers between levels during the year.

The carrying amounts of all financial instruments, except the following: short-term debt with a maturity date of November 1, 2039, and long-term debt; approximate fair values due to the immediate or short-term maturity of these financial instruments. The estimated fair values of the loans payable, including related party loans, are as follows:

	2016	2015
Fair value	$ 136,114	$ 118,400
Carrying value (notes 9 and 12)	131,498	124,295

(In thousands of dollars)

22. Financial instruments and risk management (continued):

(f) Capital management:

The Corporation considers its capital structure to consist of shareholders' equity, short-term debt, long-term debt, less cash and cash equivalents. The Corporation's capital structure was as follows:

	2016	2015
Cash	$ (18,993)	$ (23,260)
Short-term debt	43,588	43,588
Long-term debt	87,910	80,707
	131,498	124,295
Share capital	67,260	67,260
Retained earnings	58,195	52,496
Contributed capital	25	25
Accumulated other comprehensive loss	(340)	(264)
	125,140	119,517
Total capital	$ 237,645	$ 220,552

23. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.