Consolidated Financial Statements of

VERIDIAN CORPORATION

Years ended December 31, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 5, 2018
Vaughan, Canada

VERIDIAN CORPORATION

Consolidated Balance Sheets
(In thousands of dollars)

December 31, 2017 and 2016

	Note	2017	2016
Assets			
Current assets:			
Cash		$ 21,081	$ 18,993
Accounts receivable	2	52,174	66,487
Materials and supplies		3,020	3,031
Prepaid expenses		1,280	1,202
Total current assets		77,555	89,713
Non-current assets:			
Property, plant and equipment	3, 22	256,503	239,542
Intangible assets	4, 22	4,131	4,448
Goodwill		8,746	8,746
Deferred tax assets	7	854	3,738
Other assets	12(c)	243	320
Total non-current assets		270,477	256,794
Total assets		348,032	346,507
Regulatory balances	6	2,852	2,530
Total assets and regulatory balances		$ 350,884	$ 349,037
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	8	$ 41,741	$ 44,467
Short-term debt	9	43,588	43,588
Income taxes payable		79	62
Deferred revenue	10	1,767	1,850
Deposits and developer obligations	11	8,671	8,371
Long-term debt	13	20,283	2,828
Total current liabilities		116,129	101,166
Non-current liabilities:			
Long-term debt	13	65,021	85,532
Deferred contributions	14	23,311	18,683
Employee future benefits	15	2,891	2,771
Unrealized loss on interest rate swaps	23(e)	2,052	3,819
Deferred tax liabilities	7	299	329
Other liabilities	18(b)	1,212	1,212
Total non-current liabilities		94,786	112,346
Total liabilities		210,915	213,512
Shareholders' equity:			
Share capital	16	67,260	67,260
Contributed capital		25	25
Accumulated other comprehensive loss		(316)	(340)
Retained earnings		63,258	58,195
Total shareholders' equity		130,227	125,140
Total liabilities and equity		341,142	338,652
Regulatory balances	6	9,742	10,385
Contingencies and guarantees	18		
Lease commitments	19		
Total liabilities, equity and regulatory balances		$ 350,884	$ 349,037

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, 2017 and 2016

	Note	2017	2016
Revenue:			
Commodity		$ 280,206	$ 338,009
Commodity cost		(277,975)	(331,487)
		2,231	6,522
Distribution revenue		52,225	52,264
Other income	20	2,630	3,171
		57,086	61,957
Expenses:			
Operating and maintenance	21	9,634	9,628
Administration	21	19,983	19,242
Depreciation and amortization	5	12,003	11,350
		41,620	40,220
		15,466	21,737
Finance income		297	226
Finance costs	13	(4,656)	(4,606)
Unrealized gain (loss) on interest rate swaps	23(e)	1,766	(89)
		(2,593)	(4,469)
Income before income taxes		12,873	17,268
Income tax expense	7	3,668	3,448
Net income		9,205	13,820
Net movements in regulatory balances, net of tax:	6		
Net movements in regulatory balances		(1,242)	(5,803)
Income tax on net movements in regulatory balances		2,207	2,431
		965	(3,372)
Net income after net movements in regulatory balances		10,170	10,448
Other comprehensive income (loss), net of tax:			
Remeasurements of employee future benefits		24	(77)
Total comprehensive income		$ 10,194	$ 10,371

See accompanying notes to the consolidated financial statements.

VERIDIAN CORPORATION

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

Years ended December 31, 2017 and 2016

	Note	2017	2016
Share capital		$ 67,260	$ 67,260
Contributed capital		25	25
Accumulated other comprehensive loss		(316)	(340)
		66,969	66,945
Retained earnings, beginning of year		58,195	52,496
Net income after net movements in regulatory balances		10,170	10,448
Dividends paid	17	(5,107)	(4,749)
Retained earnings, end of year		63,258	58,195
Total equity		$ 130,227	$ 125,140

See accompanying notes to the consolidated financial statements.

VERIDIAN CORPORATION

Consolidated Statements of Cash Flows
(In thousands of dollars)

Years ended December 31, 2017 and 2016

	Note	2017	2016
Cash provided by (used in):			
Operating activities:			
Net income after net movements in regulatory balances		$ 10,170	$ 10,448
Adjustments:			
Depreciation and amortization	5	12,797	12,102
Amortization of deferred contributions		(458)	(318)
Loss on disposal/retirement of property, plant and equipment		194	360
Employee future benefits		144	79
Unrealized loss (gain) on interest rate swaps		(1,766)	89
Change in fair value of embedded derivative		(230)	(240)
Finance income		(297)	(226)
Finance costs		4,656	4,606
Income tax expense		3,668	3,448
Deferred contributions		5,086	7,458
Customer deposits		(296)	625
Income taxes paid		(1,079)	(1,426)
Income taxes received		282	222
Other assets		69	69
Net movements in regulatory balances		(965)	3,372
		31,975	40,668
Changes in non-cash operating working capital	22	13,728	(8,925)
Net cash provided by operating activities		45,703	31,743
Financing activities:			
Interest received		297	226
Repayment of long-term debt		(2,818)	(2,956)
Proceeds from long-term debt		–	10,000
Dividends paid	17	(5,107)	(4,749)
Interest paid		(4,682)	(5,013)
Net cash used in financing activities		(12,310)	(2,492)
Investing activities:			
Additions to property, plant and equipment	22	(29,746)	(31,821)
Additions to intangible assets	22	(1,625)	(1,723)
Proceeds from disposal of property, plant and equipment		66	26
Net cash used in investing activities		(31,305)	(33,518)
Increase (decrease) in cash		2,088	(4,267)
Cash, beginning of year		18,993	23,260
Cash, end of year		$ 21,081	$ 18,993

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. 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 November 7, 2016, the Corporation filed a Price Cap Incentive Rate-setting application with the OEB to change distribution rates effective May 1, 2017. The application was approved by the OEB on March 30, 2017.

1. Significant accounting policies (continued):

On October 16, 2017, the Corporation filed a Price Cap Incentive Rate-setting application with the OEB for May 1, 2018 rates. The application was approved and the OEB decision released on March 22, 2018.

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 Chartered Professional Accountants of Canada 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 13 and 14, 2017, the IASB staff informed the IASB board members about the key messages received from members of the IASB Consultative Group for Rate Regulation at the meeting held on October 26, 2017. The IASB staff also provided an update of the proposed timetable for developing the next consultative document for the project.

1. Significant accounting policies (continued):

On February 22, 2018, the IASB tentatively decided: (i) the accounting model will use as its unit of account the individual timing differences that create the incremental rights and obligations arising from the regulatory agreement; (ii) the present regulatory right to charge a rate increased by an amount as a result of past events meets the definition of an asset; and (iii) the present regulatory obligation to provide goods or services at a rate reduced by an amount as a result of past events meets the definition of a liability. This comprehensive project remains ongoing.

The OEB has the general power to include or exclude costs, revenues, 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 available for use.

(In thousands of dollars)

1. Significant accounting policies (continued):

(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.

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.

1. Significant accounting policies (continued):

Construction in progress, land rights, major spare parts and standby equipment are not subject to depreciation until these assets are available for use. 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.

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.

1. Significant accounting policies (continued):

(h) Intangible assets:

Intangible assets acquired, or internally developed, are recognized initially at cost and comprised purchased software, labour, consulting costs, directly attributable overheads and capitalized borrowing costs, if applicable. Intangible assets qualifying for capitalized borrowing costs are considered to be those assets that take in excess of six months to develop. 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%

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.

1. Significant accounting policies (continued):

(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.

(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 1.2% per annum as of December 31, 2017. The Corporation receives advance payments from customers in relation to construction projects and recognizes them as a liability until the projects are completed.

1. Significant accounting policies (continued):

(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.

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.

1. Significant accounting policies (continued):

(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 credit or charge to other comprehensive income or loss. Current service costs are allocated to operating, maintenance and administration expenses and to capital recognized in the consolidated balance sheets.

(m) Income taxes:

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes ("PILs") to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and 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.

1. Significant accounting policies (continued):

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.

(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.

1. Significant accounting policies (continued):

(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 revenues 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.

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 15 - measurement of employee future benefits: key actuarial assumptions;

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

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

(viii) Note 1(c)(i) and note 23(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.

1. Significant accounting policies (continued):

(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 23(c).

(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, 2017, 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 new standards, amendments and interpretations which do not have to be adopted in the current year. The Corporation continues to analyze these standards and interpretations, 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, Revenue, 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 has completed its assessment of revenue streams and adopted IFRS 15 on January 1, 2018 using the modified retrospective approach, recognizing the cumulative effect of applying the new standard, with no restatement of comparative periods presented. Commodity pass-through revenue and distribution revenue account for the majority of the Corporation’s revenues and IFRS 15 does not have a material impact on the Corporation’s 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 completed its assessment of IFRS 9 and adopted IFRS 9 on January 1, 2018. IFRS 9 does not have a material impact on the consolidated financial statements.

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. IFRS 16 introduces a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has low value. 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 completed its assessment of operating leases and early adopted IFRS 16 on January 1, 2018. IFRS 16 does not have a material impact on the consolidated financial statements.

(iv) IFRIC 23, Uncertainty over Income Tax Treatments:

On June 7, 2017, the IASB issued IFRIC Interpretation 23, Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

The Interpretation requires an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution. It also requires an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

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

(In thousands of dollars)

2. Accounts receivable:

	2017	2016
Energy revenue	$ 21,065	$ 29,497
Unbilled revenue	29,880	33,740
Project expenditures recoverable	1,358	3,281
Pole rentals and other	941	1,039
	53,244	67,557
Less allowance for doubtful accounts	1,070	1,070
	$ 52,174	$ 66,487

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, 2017:

	December 31, 2016	Additions/ depreciation	Disposals/ retirements	December 31, 2017
Cost				
Land	$ 1,777	$ –	$ –	$ 1,777
Land rights	395	9	–	404
Buildings	17,110	185	–	17,295
Distribution station equipment	28,018	1,311	–	29,329
Transmission and distribution system	182,153	20,257	(230)	202,180
Meters	14,867	1,022	(85)	15,804
Office equipment	1,408	45	–	1,453
Computer hardware	2,379	687	–	3,066
Vehicle fleet	6,032	1,760	33	7,825
Renewable power generation	759	–	–	759
Construction in progress	12,684	2,987	–	15,671
	267,582	28,263	(282)	295,563
Accumulated depreciation				
Land rights	33	11	–	44
Buildings	3,434	1,134	–	4,568
Distribution station equipment	2,544	956	–	3,500
Transmission and distribution system	14,740	6,085	(55)	20,770
Meters	3,694	1,346	(28)	5,012
Office equipment	596	216	–	812
Computer hardware	1,103	500	–	1,603
Vehicle fleet	1,806	761	61	2,628
Renewable power generation	90	33	–	123
	28,040	11,042	(22)	39,060
	$ 239,542	$ 17,221	$ (260)	$ 256,503

(In thousands of dollars)

3. Property, plant and equipment (continued):

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	16,360	750	–	17,110
Distribution station equipment	25,217	2,801	–	28,018
Transmission and distribution system	159,055	23,431	(333)	182,153
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	968	(54)	6,032
Renewable power generation	767	(8)	–	759
Construction in progress	10,362	2,322	–	12,684
	235,719	32,392	(529)	267,582
Accumulated depreciation				
Land rights	22	11	–	33
Buildings	2,320	1,114	–	3,434
Distribution station equipment	1,637	907	–	2,544
Transmission and distribution system	9,271	5,530	(61)	14,740
Meters	2,433	1,297	(36)	3,694
Office equipment	388	208	–	596
Computer hardware	719	384	–	1,103
Vehicle fleet	713	1,138	(45)	1,806
Renewable power generation	57	33	–	90
	17,560	10,622	(142)	28,040
	$ 218,159	$ 21,770	$ (387)	$ 239,542

During the year, borrowing costs of $309 (2016 - $313) 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 3.80% (2016 - 3.94%).

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

(In thousands of dollars)

4. Intangible assets:

December 31, 2017:

	December 31, 2016	Additions/ amortization	Disposals/ retirements	December 31, 2017
Cost				
Application software and other	$ 9,256	$ 1,473	$ –	$ 10,729
Construction in progress related to application software and other	184	(35)	–	149
Capital contributions	1,212	–	–	1,212
	10,652	1,438	–	12,090
Accumulated amortization				
Application software and other	6,204	1,755	–	7,959
	$ 4,448	$ (317)	$ –	$ 4,131

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

No borrowing costs were capitalized on intangible assets under development in 2017 or 2016.

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:

	2017	2016
Total depreciation and amortization expense	$ 12,797	$ 12,102
Allocated to:		
Depreciation/amortization of vehicle fleet included in operating and maintenance expenses	761	719
Depreciation/amortization of assets in non-regulated utility operations included in other income	33	33
	794	752
Depreciation and amortization expense	$ 12,003	$ 11,350

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, 2017	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2017	Remaining recovery/ reversal period (years)
Approved settlement variances (a)	$ 89	$ –	$ –	$ (89)	$ –	Note 3
One-time IFRS conversion costs (b)	479	5	–	–	484	Note 1
IFRS transitional adjustments (e)	1,119	156	–	–	1,275	Note 1
Other (f)	843	819	(521)	(48)	1,093	Note 1, 3
	$ 2,530	$ 980	$ (521)	$ (137)	$ 2,852	

	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	

(In thousands of dollars)

6. Regulatory balances (continued):

Credit balances comprise of the following:

	January 1, 2017	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2017	Remaining recovery/ reversal period (years)
Future settlement variances (a)	$ 7,808	$ 1,968	$ (726)	$ –	$ 9,050	Note 1
Approved settlement variances (a)	–	85	373	(89)	369	1 year
Stranded meters (c)	18	1	–	–	19	Note 1
Other (f)	48	–	–	(48)	–	Note 1
Deferred taxes (g)	2,511	(2,207)	–	–	304	Note 2
	$ 10,385	(153)	$ (353)	$ (137)	$ 9,742	

	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	

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, 2017 and December 31, 2016.

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 2017, the OEB approved the disposition of the Corporation's retail settlement variance accounts as at December 31, 2015.

(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:

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 increase or reduction for customers arising from timing difference in the recognition of deferred tax assets.

The amounts reclassified under IFRS 14 include the deferred tax liability related to regulatory balances of $906 as at December 31, 2017 (2016 - $626).

The deferred tax amount related to the expected future electricity distribution rate increase for customers was $602 as at December 31, 2017 (2016 - rate reduction $1,885).

(In thousands of dollars)

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:

	2017	2016
Income before income taxes	$ 12,873	$ 17,268
Federal and Ontario statutory income tax rate	26.50%	26.50%
Provision for income taxes at statutory rate	$ 3,411	$ 4,576
Increase (decrease) resulting from:		
Temporary differences expected to be recovered from customers	(1,812)	(1,857)
Current year losses for which no deferred tax asset is recognized	329	293
Over provided in prior years	(219)	(167)
Other miscellaneous	(248)	(1,828)
Income taxes recorded in regulatory balances movements	2,207	2,431
Income tax expense	$ 3,668	$ 3,448
Allocated:		
Current	$ 813	$ 1,120
Deferred	648	(103)
Income taxes recorded in regulatory balances movements	2,207	2,431
Total income tax expense	$ 3,668	$ 3,448

(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:

	2017	2016
Deferred tax assets:		
Property, plant and equipment and intangible assets (a)	$ (2,278)	$ 172
Employee future benefits	1,042	999
Sick leave liability	358	352
Non-capital losses and other	968	698
Unrealized loss on interest rate swaps	544	1,012
Deferred revenue, contingent liability and others	905	927
	1,539	4,160
Valuation allowance	(984)	(751)
	555	3,409
Deferred tax liabilities:		
Regulatory balances	906	626
Moved to regulatory deferral account credit balances	(906)	(626)
	–	–
Deferred tax assets	$ 555	$ 3,409

(a) Taxable temporary difference, book value is more than tax value.

The Corporation has non-capital losses for income tax purposes of $3,252 (2016 - $2,012) available to reduce future years' income for tax purposes, which will expire between 2031 and 2037. 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:

	2017	2016
Power bill accrual	$ 23,207	$ 28,896
Customer credit balances	7,698	3,783
Other accounts payable and accrued liabilities	10,836	11,788
	$ 41,741	$ 44,467

9. Credit facilities and short-term debt:

Credit facilities:

As at December 31, 2017, 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 13);

(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 13); and

(d) Committed or demand revolver facility (note 13) 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, 2017, nil was drawn out of the facility (a); $4,034 was outstanding out of facility (b); $38,844 was outstanding out of facility (c) and $25,000 was outstanding out of facility (d) above (note 13). 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, 2017, 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.

(In thousands of dollars)

10. Deferred revenue (continued):

An 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. This CDM plan was most recently updated on April 18, 2017 and conditionally approved by the IESO on May 12, 2017.

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. Deposits and developer obligations:

	2017	2016
Advance payments - construction deposits	$ 348	$ 629
Customer deposits	5,503	5,799
Developer obligations	2,820	1,943
Deposits and developer obligations	$ 8,671	$ 8,371

12. 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, 2017 was $9,169 (2016 - $8,889).

As at December 31, 2017, accounts receivable includes $959 (2016 - $716) due from the shareholders.

12. Related party transactions (continued):

Finance costs includes interest of $2,981 (2016 - $2,981) on the notes payable to the shareholders.

The Corporation paid $408 (2016 - $429) in property taxes to the shareholders.

The Corporation paid $2,311 (2016 - $2,185) 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 $5,107 (2016 - $4,749) to its shareholders.

All intercompany related party transactions and outstanding balances are eliminated in the Corporation's consolidated statements.

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. Recent applications for project contracts were rejected by the IESO. This non-regulated venture remains dormant with no capital injection 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. Recent applications for project contracts were rejected by the IESO. This non-regulated venture remains dormant with no capital injection by the joint parties.

(In thousands of dollars)

12. Related party transactions (continued):

(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 $151 (net of repayments and intercompany funding) is included in other assets of the Corporation as at December 31, 2017. 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%.

13. Long-term debt:

	2017	2016
Notes payable to the shareholders, maturing 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)	4,034	6,051
Long-term debt from the Bank, maturing on March 2, 2045 (note 9)	38,844	39,653
Long-term debt from the Bank, repayable no later than December 28, 2019 (note 9)	25,000	25,000
Long term debt-embedded derivative	220	450
	85,304	88,360
Less current portion	20,283	2,828
	$ 65,021	$ 85,532

(In thousands of dollars)

13. Long-term debt (continued):

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.

Scheduled principal repayments for the next five years and thereafter as of December 31, 2017:

2018	$ 20,283
2019	27,888
2020	905
2021	939
2022	974
Thereafter	34,315
	85,304
Less current portion	20,283
	$ 65,021

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

2017	$ 2,828
2018	20,513
2019	27,888
2020	905
2021	939
Thereafter	35,287
	88,360
Less current portion	2,828
	$ 85,532

(In thousands of dollars)

13. Long-term debt (continued):

Scheduled interest payments for the next five years and thereafter as of December 31, 2017:

2018	$ 4,966
2019	3,806
2020	3,317
2021	3,282
2022	3,246
Thereafter	49,303
	$ 67,920

Expected weighted average borrowing cost:

2018	3.86%
2019	3.03%
2020	3.14%
2021	4.11%
2022	4.12%

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

	2017	2016
Interest on:		
Notes payable and loans	$ 4,915	$ 4,852
Customer deposits and other	50	67
	4,965	4,919
Less capitalized borrowing costs	309	313
	$ 4,656	$ 4,606

(In thousands of dollars)

14. 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:

	2017	2016
Deferred contributions, beginning of year	$ 18,683	$ 11,543
Contributions received	5,086	7,458
Contributions amortized as other income	(458)	(318)
Deferred contributions, end of year	$ 23,311	$ 18,683

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

15. Employee future benefits:

(a) Pensions:

During 2017, the Corporation made contributions totalling $2,200 (2016 - $2,187) to OMERS.

(b) Post-retirement benefits other than pensions:

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)

15. Employee future 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:

	2017	2016
Accrued benefit liability recognized, January 1	$ 2,771	$ 2,616
Current service costs	78	74
Past service costs	80	–
Interest costs	105	100
Benefit payments	(119)	(96)
Remeasurements recognized in other comprehensive income	(24)	77
Accrued benefit liability, December 31	$ 2,891	$ 2,771

The amounts presented are based upon an actuarial valuation performed as at December 31, 2017. The next valuation is expected to be performed for the year ending December 31, 2020.

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 3.50% (2016 - 3.90%).

(iii) Salary levels:

Future general salary and wage levels were assumed to increase at 3.20% (2016 - 3.60%) per annum.

(iv) Health and dental care:

The health and dental care cost increases are 6.20% and 4.50% (2016 - 6.31% and 4.60%), respectively.

(In thousands of dollars)

15. Employee future 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.

16. Share capital:

	2017		2016	
	Number of shares	Amount	Number of shares	Amount
Authorized:				
Unlimited common shares				
Issued	10,000	$ 67,260	10,000	$ 67,260

17. 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 2017, the Board of Directors of the Corporation declared and paid dividends totalling $5,107 (2016 - $4,749) to the shareholders.

18. 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 $30,000 per occurrence for liability insurance, $21,000 for vehicle insurance, and $119,736 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.

The Corporation has recorded a liability and a corresponding intangible asset for $1,212 as at December 31, 2017 (2016 - $1,212), based on management's best estimate of the future transformation connection revenues 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.

(In thousands of dollars)

18. Contingencies and guarantees (continued):

(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.

19. Lease commitments:

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

2018	$ 41
2019	33
2020	32
2021	24
2022	2
Thereafter	58
	$ 190

20. Other income (loss):

	2017	2016
Late payment charges	$ 413	$ 510
Customer charges (a)	1,095	1,846
Pole rentals	490	483
Disposal of PP&E	(194)	(360)
Foreign exchange	3	(7)
Amortization of deferred contributions	458	318
Miscellaneous revenue	365	381
	$ 2,630	$ 3,171

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

(In thousands of dollars)

21. Operating, maintenance and administration expenses:

	Operating and maintenance		Administration	
	2017	2016	2017	2016
Salaries and benefits	$ 5,586	$ 5,819	$ 10,983	$ 11,377
External services	2,977	2,778	3,055	2,790
Materials and supplies	208	140	–	–
Vehicle	539	494	49	50
Other	324	397	5,896	5,025
	$ 9,634	$ 9,628	$ 19,983	$ 19,242

22. Consolidated statements of cash flows:

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

	2017	2016
Accounts receivable	$ 14,313	$ (8,466)
Materials and supplies	11	(389)
Prepaid expenses	(78)	(627)
Accounts payable and accrued liabilities	(1,031)	297
Advance payments - construction deposits	(281)	(216)
Deferred revenue	(83)	(27)
Developer obligations	877	503
	$ 13,728	$ (8,925)

Reconciliation between the amount presented on the consolidated statements of cash flows and total additions to property, plant and equipment and intangible assets:

	2017	2016
Purchase of PP&E, cash basis	$ 29,746	$ 31,821
Net change in accruals related to PP&E	(1,483)	571
Total additions to PP&E	$ 28,263	$ 32,392
Purchase of intangible assets, cash basis	$ 1,625	$ 1,723
Net change in accruals related to intangible assets	(187)	160
Total additions to intangible assets	$ 1,438	$ 1,883

23. 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 $204 (2016 - $132) as at December 31, 2017.

(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 loan 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.

(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, 2017, 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.

(In thousands of dollars)

23. Financial instruments and risk management (continued):

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 0.92% (2016 - 1.36%) of the total net outstanding balance.

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

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

	2017	2016
Total accounts receivable	$ 53,244	$ 67,557
Less allowance for doubtful accounts	1,070	1,070
Total accounts receivable, net	$ 52,174	$ 66,487
Of which:		
Unbilled revenue	$ 29,880	$ 33,740
Outstanding 1 day but not more than 30 days	21,601	30,725
Outstanding 31 days but not more than 60 days	1,007	1,788
Outstanding 61 days but not more than 90 days	275	399
Outstanding 91 days but not more than 120 days	209	437
Outstanding more than 120 days	272	468
	53,244	67,557
Less allowance for doubtful accounts	1,070	1,070
	$ 52,174	$ 66,487

(In thousands of dollars)

23. Financial instruments and risk management (continued):

(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:

Financial commitments as of December 31, 2017:

	Due within one year	Due between one and five years	Due past five years
Financial liabilities:			
Accounts payable and accrued liabilities	$ 41,741	$ –	$ –
Short-term debt (note 9)	43,588	–	–
Long-term debt	20,063	30,706	34,315
Long-term debt - embedded derivative	220	–	–
Lease commitments	41	91	58

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

(In thousands of dollars)

23. Financial instruments and risk management (continued):

(e) Fair values:

The Corporation included $2,052 of unrealized loss (2016 - $3,819) 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, 2017. This unrealized loss is not expected to affect cash as the Corporation intends to hold the financial instruments until its maturity.

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, 2017. 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:

	2017	2016
Fair value	$ 128,259	$ 136,114
Carrying value (notes 9 and 13)	128,892	131,948

(In thousands of dollars)

23. 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:

	2017	2016
Cash	$ (21,081)	$ (18,993)
Short-term debt	43,588	43,588
Long-term debt (excluding embedded derivative)	85,084	87,910
	128,672	131,498
Share capital	67,260	67,260
Retained earnings	63,258	58,195
Contributed capital	25	25
Accumulated other comprehensive loss	(316)	(340)
	130,227	125,140
Total capital	$ 237,818	$ 237,645

24. Comparative information:

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