Hamilton Utilities Corporation®

Hamilton Utilities Corporation

Auditors' Report to the Shareholders

and Consolidated Financial Statements

Year Ended December 31, 2017

KPMG LLP
Commerce Place
21 King Street West, Suite 700
Hamilton Ontario L8P 4W7
Canada
Telephone (905) 523-8200
Fax (905) 523-2222

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hamilton Utilities Corporation

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

Management's Responsibility for the 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 Hamilton Utilities Corporation as at December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
May 24, 2018

Hamilton Utilities Corporation®

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Consolidated Statement of Financial Position

As at December 31, 2017, with comparative information for 2016
(stated in thousands of Canadian dollars)

	2017	2016
Assets		
Current assets		
Cash *[note 4]*	$ 13,514	$ 7,091
Temporary investments	1,129	1,000
Accounts receivable	2,859	127,013
Inventory *[note 5]*	608	9,631
Payments in lieu of income taxes receivable	323	-
Other assets	266	3,266
	18,699	148,001
Property, plant and equipment *[note 7]*	39,239	497,484
Deferred payments in lieu of income taxes *[note 8]*	1,866	8,409
Intangible assets *[note 9]*	2,359	20,005
Goodwill *[note 10]*	571	18,923
Investment in Alectra Inc. *[note 6]*	347,238	-
	391,273	544,821
Total assets	$ 409,972	$ 692,822
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 4,490	$ 79,625
Derivative liability	19	-
Credit support for service delivery *[note 12]*	-	22,671
Payments in lieu of income taxes payable	150	-
Accounts payable to related parties	168	12,502
Obligations under capital cost recovery agreement *[note 13]*	-	7,101
Reimbursements from Ontario Power Authority	-	4,320
Current portion of long term borrowings *[note 11]*	523	468
	5,350	126,687
Non-current liabilities		
Deferred payments in lieu of income taxes [note 8]	36,272	-
Provision for asset retirement	34	-
Long term borrowings *[note 11]*	10,944	196,656
Employee future benefits *[note 14]*	126	30,157
Deferred revenue	71	36,454
	47,447	263,267
Total liabilities	52,797	389,954
Equity		
Share capital *[note 16]*	129,897	129,897
Contributed surplus	-	15,218
Accumulated other comprehensive income	(1,199)	(4,954)
Retained earnings	228,381	107,624
Total equity attributable to the shareholder	357,079	247,785
Non-controlling interest *[note 17]*	96	55,083
Total equity	357,175	302,868
Total liabilities and equity	$ 409,972	$ 692,822

The accompanying notes are an integral part of these financial statements.

On behalf of the Board:

Director

Director

Hamilton Utilities Corporation®

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2017, with comparative information for 2016
(stated in thousands of Canadian dollars)

	2017	2016
Sale of energy	$ 48,167	$ 619,397
Distribution revenue *[note 18]*	8,906	124,522
Electricity, heating and cooling services charges	5,952	5,154
Telecommunications services charges	3,474	1,364
Other income from operations *[note 19]*	1,468	14,616
Total revenues	67,967	765,053
Expenses:		
Cost of power purchased	56,158	616,404
Operating expenses	11,135	71,442
Depreciation and amortization	4,264	26,523
	71,557	714,369
(Loss) income from operating activities	(3,590)	50,684
Loss on disposal of property, plant and equipment	(49)	(2,115)
Equity income in Alectra Holdings Inc. *[note 6]*	13,659	-
Finance income *[note 20]*	160,257	605
Finance charges *[note 20]*	(1,097)	(7,745)
Income before payments in lieu of income taxes	169,180	41,429
Payments in lieu of income taxes *[note 8]*	33,744	11,786
Net income	135,436	29,643
Items that may be reclassified to income:		
Realized loss in fair value of bond forward	(3,449)	-
Reclassification to net income, loss on bond forward	182	-
Tax impact on net change in value of loss on bond forward	1,063	-
	(2,204)	-
Items that will not subsequently be reclassified to net income:		
Actuarial gain on employee future benefits	(257)	397
Tax impact on remeasurement of employee future benefits	180	-
	(77)	397
Other comprehensive (loss) income	(2,281)	397
Total comprehensive income	$ 133,155	$ 30,040

The accompanying notes are an integral part of these financial statements.

Hamilton Utilities Corporation®

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2017, with comparative information for 2016
(stated in thousands of Canadian dollars)

	2017	2016
Net income attributable to:		
Shareholder of the Corporation	$ 135,435	$ 22,774
Non-controlling interest *[note 17]*	1	6,869
Net income	$ 135,436	$ 29,643
Total comprehensive income attributable to:		
Shareholder of the Corporation	$ 133,154	$ 23,081
Non-controlling interest *[note 17]*	1	6,959
Total comprehensive income	$ 133,155	$ 30,040

The accompanying notes are an integral part of these financial statements.

Hamilton Utilities Corporation®

Consolidated Statement of Changes in Equity

For the year ended December 31, 2017, with comparative information for 2016
(stated in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Non-controlling interest	2017 Total	2016 Total
Balance at January 1, 2017	$ 129,897	$ 15,218	$ 107,624	$ (4,954)	$ 55,083	$ 302,868	$ 283,758
Net income	-	-	135,435	-	1	135,436	29,643
Acquisition	-	-	-	-	95	95	-
Divestiture of investment in Horizon Holdings Inc.	-	(15,218)	-	6,036	(55,083)	(64,265)	-
Other comprehensive (loss) income	-	-	-	(2,281)	-	(2,281)	397
Dividends	-	-	(14,678)	-	-	(14,678)	(10,930)
Balance at December 31, 2017	$ 129,897	$ -	$ 228,381	$ (1,199)	$ 96	$ 357,175	$ 302,868

The accompanying notes are an integral part of these financial statements

Hamilton Utilities Corporation®

Consolidated Statement of Cash Flows

For the year ended December 31, 2017, with comparative information for 2016
(stated in thousands of Canadian dollars)

	2017	2016
OPERATING ACTIVITIES		
Net income	$ 135,436	$ 29,643
Adjustments for:		
Depreciation and amortization *[notes 7 and 9]*	4,264	26,523
Loss on disposal of property, plant and equipment	49	2,115
Equity income in Alectra Holdings Inc.	(13,659)	
Payments in lieu of income taxes expense *[note 8]*	33,744	11,786
Net finance income *[note 20]*	(159,160)	7,140
Finance charges paid	(1,396)	(7,685)
Finance charges received	610	821
Payments in lieu of income taxes paid	(425)	(5,754)
Payments in lieu of income taxes received	301	91
Amortization of deferred revenue	(88)	(933)
Reductions of proceeds from credit support for service delivery	-	1,217
Contributions received from customers	73	7,648
Change in employee future benefits *[note 14]*	62	744
Change in other assets and liabilities *[note 21]*	2,278	(13,600)
Net cash from operating activities	2,089	59,756
INVESTING ACTIVITIES		
Change in temporary investments	(129)	24,000
Acquisition of subsidiaries, net of cash	(1,432)	-
Acquisition of property, plant and equipment and intangible assets *[notes 7 and 9]*	(13,470)	(59,965)
Proceeds from sale of property, plant and equipment	29	550
Net cash used in investing activities	(15,002)	(35,415)
FINANCING ACTIVITIES		
Reductions of reimbursements from Ontario Power Authority	-	(191)
Issuance of long term borrowings	4,320	-
Obligations under capital cost recovery arrangements	-	(9,525)
Repayment of long term borrowings	(486)	(324)
Finance lease payments	(12)	(144)
Divestiture of Horizon's bank indebtedness	30,192	-
Non-controlling interest dividend paid	(1,426)	(2,401)
Dividends paid	(13,252)	(8,529)
Net cash used in financing activities	19,336	(21,114)
Increase in cash	6,423	3,227
Cash, beginning of year	7,091	3,864
Cash, end of year	$ 13,514	$ 7,091

The accompanying notes are an integral part of these financial statements.

Hamilton Utilities Corporation®

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For the year ended December 31, 2017
(stated in thousands of Canadian dollars)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
(stated in thousands of Canadian dollars)

1. REPORTING ENTITY

On June 1, 2000, Hamilton Utilities Corporation (the “Corporation”) was incorporated under the Business Corporations Act (Ontario). The Corporation is an investment holding company with investments in Alectra Holdings Inc. (“Alectra”), HCE Energy Inc. (“HCE”), HCE Telecom (“Telecom”) and Hamover Power GP. The address of the Corporation’s registered office is 79 Bay Street North, Hamilton, Ontario, Canada.

Alectra is an investment holding company that has investment interests in a regulated electricity distribution company, Alectra Inc., an energy services company, Alectra Energy Solutions Inc. and a solar PV partnership.

HCE operates a district energy plant providing thermal heat, cooling and electrical energy to its customers. HCE also owns 75 units of Hamover Power LP, which is a partnership involved in owning, operating, leasing and investing in energy and related projects. Hamover Power GP is the general partner holding a 25% interest in Hamover Power LP.

Telecom provides voice and data solutions for businesses using fibre optic technologies.

Investments in subsidiaries controlled by the Corporation:

- HCE Energy Inc. (“HCE”) – 100%
  - Hamover Power Limited Partnership (“Hamover LP”) – 75%
    - 2291506 Ontario Inc. – 85%
- HCE Telecom (“Telecom”)
  - Net6 Communications – 100%

Hamover Power General Partnership (“Hamover GP”) – 75%

Investments where the Corporation exercises significant influence:

- Alectra Holdings Inc. (“Alectra”) – 18.15%
  - Alectra Inc.
  - Alectra Energy Solutions Inc.
  - Solar Sunbelt General Partnership
  - Horizon Solar Corporation

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Approval of the financial statements

The financial statements were approved by the Board of Directors on May 24, 2018.

(c) Basis of measurement

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

(d) Functional and presentation currency

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

2. BASIS OF PREPARATION (Continued)

(e) Use of estimates and judgements

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

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

In particular, information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

(i) Note 7 – Property, plant and equipment: estimation of useful lives

(ii) Note 9 – Intangible assets: estimation of useful lives

(iii) Note 10 – Goodwill: key assumptions underlying recoverable amount for goodwill impairment testing

(iv) Note 7, 9, 10 – Property, plant and equipment, intangible assets and goodwill: estimation of fair value of assets acquired

(v) Note 13 – Obligations under capital cost recovery agreements: estimation of capital contribution shortfalls and corresponding intangible assets

(vi) Note 14 – Employee future benefits: key actuarial assumptions

(viiii) Note 23 – Financial instruments and risk management: estimation of allowance for impairment of accounts receivable

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

(i) Note 3 – Revenue: whether the Corporation is a principal or agent for sale of energy

(ii) Note 11 – Long term borrowings: lease classification

(iii) Note 24 – Commitments and contingencies: whether a contingency is a liability

2. BASIS OF PREPARATION (Continued)

(f) Regulation

Alectra is regulated by the Ontario Energy Board ("OEB"). In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that differ from IFRS. The OEB's regulatory accounting treatments require the recognition of regulatory assets and liabilities which do not meet the definition of an asset or liability under IFRS and, as a result, these regulatory assets and liabilities have not been recorded in these IFRS financial statements.

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the OEB increased powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include: approving or fixing rates for the transmission and distribution of electricity; providing continued rate protection for rural and remote residential electricity consumers; and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs") such as the Corporation, which may include, among other things: record keeping; regulatory accounting principles; separation of accounts for distinct business; and filing and process requirements for rate setting purposes.

Rate Setting

The electricity distribution rates and other regulated charges of Alectra are determined in a manner that provides shareholders with opportunity to earn a regulated Maximum Allowable Return on Equity ('MARE") on the amount of shareholder's equity supporting the business of electricity distribution, which is also determined by regulation.

Rate Applications

The OEB regulates the electricity distribution rates charged by LDCs, such as Alectra, through periodic rate applications to the OEB and its ongoing monitoring and reporting requirements. At present, LDCs may apply to the OEB for electricity distribution rates under options specified in its Report of the Board – a Renewed Regulatory Framework for Electricity Distributors: A performance-Based Approach ("RRFE"). The three rate-setting methods available to LDCs under the RRFE are: Price Cap Incentive Rate-setting ("Price Cap IR"); Custom Incentive Rate-setting ("Custom IR"); or Annual Incentive Rate-setting Index.

(stated in thousands of Canadian dollars)

2. BASIS OF PREPARATION (Continued)

(f) Regulation (Continued)

Rate Applications (Continued)

Application for approval to amalgamate

On April 18, 2016, the Corporation, PowerStream Inc., and Enersource Hydro Mississauga Inc. submitted a Mergers, Acquisitions, Amalgamations and Divestitures Application ("MAADs Application") to the OEB requesting approval to amalgamate to form a new corporation. It also sought approval for the new corporation to purchase the shares of and amalgamate with Hydro One Brampton Networks Inc. under section 86 of the *Ontario Energy Board Act, 1998* ("Act"). Section 86 of the Act requires that the OEB review applications for a merger, acquisition of shares, amalgamation or divestiture that result in a change of ownership or control of an electricity transmitter or distributor and approve applications which are in the public interest.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Corporation and its subsidiaries, some of which have a minority interest. The principal operating companies and the Corporation's ownership in these companies are as follows:

HCE Energy Inc.	100.00%
Hamover Power LP Inc.	75.00%
2291506 Ontario Inc.	63.75%
HCE Telecom Inc.	100.00%
Net6 Communications	100.00%

These consolidated financial statements include the Corporation's share of the income and expenses and equity movements of the equity accounted investee; Alectra.

All significant inter-company accounts and transactions have been eliminated.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities with the exception of the derivative liability. These financial instruments, except for the derivative liability, are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(g). The derivative liability is classified as a financial liability at fair value through profit or loss. Transaction costs are expensed in the year incurred.

Hedge accounting has not been used in the preparation of these financial statements.

(c) Inventory

Inventory, comprising material and supplies acquired for internal construction, consumption, recoverable work and natural gas, are measured at the lower of cost and net realizable value. The cost of inventory is determined on a weighted average basis, and includes expenditures incurred in acquiring the material and supplies and other costs incurred in bringing them to their existing location and condition. Net realizable value is determined by replacement cost.

(d) Business combinations

The Corporation accounts for business combinations using the acquisition method when control is transferred to the Corporation. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of contingent consideration are recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment

Property, plant and equipment ("PP&E") are measured at historical cost or deemed cost established on the transition date, less accumulated depreciation and accumulated impairment losses, if any. Where an item is transferred from customers, it is measured at fair value at the date of transfer, less accumulated depreciation.

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

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset using the weighted average cost of debt incurred on the Corporation's external borrowings. Qualifying assets are considered to be those that take a substantial period of time to construct.

In circumstances where parts of an item of PP&E have different useful lives, such are accounted for as separate items (major components) of PP&E. Major spare parts and standby equipment are recognized as items of PP&E.

The cost of replacing part of an item of PP&E is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of PP&E are recognized in net income as incurred.

Depreciation is recognized in net income on a straight-line basis over the estimated useful life of each part or component of an item of PP&E.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

Land is not depreciated.

Construction work-in-progress assets are not amortized until the project is complete and available for use.

The estimated useful lives for the current and comparative years are as follows:

Buildings	25 – 40 years
Distribution equipment	15 – 70 years
Heating and electricity generation infrastructure	7 – 50 years
Other PP&E	3 - 15 years

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term.

Other PP&E includes vehicles, office and computer equipment.

Gains and losses on disposal of an item of PP&E are recognized in income and determined by the difference between proceeds from disposal and the carrying amount of PP&E.

Depreciation methods, useful lives and residual values, if any, are reviewed at each reporting date and adjusted prospectively.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets

Intangible assets include computer software, customer contracts, Feed-in Tariff (“FIT”) contracts and licenses.

Computer software is measured at historical cost or deemed cost less accumulated amortization. All other computer software that is acquired or developed by the Corporation, including software that is not integral to the functionality of equipment purchased, which has finite useful lives, is measured at cost less accumulated amortization.

Customer contracts, FIT contracts and licenses are measured at fair value upon acquisition of subsidiaries, less accumulated amortization.

Amortization is recognized in net income on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful life of the intangible assets are as follows:

Computer software	2 - 5 years
Customer contracts	5 years
FIT contracts	20years
Licenses	10 years

Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted prospectively.

(g) Goodwill

Goodwill arising on the acquisition of subsidiaries or on amalgamation is measured at cost and is not amortized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment

(i) Financial assets

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in net income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in net income.

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than inventory and deferred payments in lieu of income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated as at December 31.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment (Continued)

(ii) Non-financial assets (Continued)

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in net income.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Provisions

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

(j) Employee future benefits

(i) Pension plan

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Employee future benefits (Continued)

(i) Pension plan (Continued)

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

(ii) Other than pension

The Corporation provides certain group of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans. These benefits are provided through a group defined benefit plan. The Corporation is the legal sponsor of the Plan. There is a policy in place to allocate the net defined benefit cost to the entities participating in the group plan. The allocation is based on the obligation attributable to the plan participants. The Corporation has incorporated its share of the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements.

The Corporation's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting such to determine its present value. Any unrecognised past service costs are deducted. The discount rate is the yield at the reporting date on high quality debt instruments with duration similar to the duration of the plan.

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligations and the current service costs are actuarially determined by applying the projected unit credit method and incorporate management's best estimate of certain underlying assumptions. Re-measurements arising from defined benefit plans are recognised immediately in other comprehensive income and reported in retained earnings. When the benefits of a plan are improved, these increases are recognized immediately in net income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Deferred revenue and assets transferred from customers

Deferred revenue represents the Corporation's obligation to continue to provide customers access to telecommunication services and is recognized in profit or loss in the period earned.

(l) Revenue

The Corporation was licensed by the OEB to distribute electricity through its former subsidiary Horizon Holdings Inc. ("Horizon"). As a licensed distributor, the Corporation was responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation was required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers. The Corporation determined that they were acting as a principal for the electricity distribution and therefore have presented the electricity revenues on a gross basis.

Revenue attributable to the delivery of electricity was based upon OEB-approved distribution tariff rates and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution charges and any regulatory charges. Revenue was recognized as electricity is delivered and consumed by customers. Electricity revenue was recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year. Revenue was measured at the fair value of the consideration received or receivable, net of sales tax.

Customer billings for Ontario debt retirement charges was recorded on a net basis as the Corporation was acting as an agent for this billing stream. The Corporation filed to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation ("OEFC") once each year.

Performance incentive payments under CDM programs were recognized by the Corporation when there was reasonable assurance that the program conditions have been satisfied and the incentive payments would be received.

Water billing revenue was recorded net of the water revenue paid to the City of Hamilton and was recognized in the period the billing services are rendered.

Electricity, heating and cooling services charges are recognized when goods are delivered or services are provided. Customer billings for these charges are recorded on the basis of a fixed monthly capacity charge, as well as customer usage to the end of the year.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Revenue (Continued)

Revenue earned from the provision of telecommunication service charges is recognized as the service is rendered. Amounts received in advance are presented as deferred revenue.

All other revenues are recorded on a gross basis and are recognized when services are rendered.

(m) Leased assets

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

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

(n) Finance income and finance charges

Finance income is recognized as it accrues in net income and comprises interest earned on cash and temporary investments.

Finance charges are calculated using the effective interest rate method and are recognized as an expense unless they are capitalized as part of the cost of qualifying assets. Finance charges comprises interest on borrowings, interest and penalties on income tax payments; unrealized losses on derivative liability and bank charges.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Payments in lieu of income taxes

The Corporation and some of its subsidiaries are currently exempt from taxes under the Income Tax Act (Canada) (“ITA”) and the Ontario Corporations Tax Act (“OCTA”) (collectively the “Tax Acts”).

Pursuant to the *Electricity Act, 1998 (Ontario)* (“EA”), and as a consequence of its exemption from income taxes under the Tax Acts, the Corporation is required to make payments in lieu of corporate income taxes (“PILs”) to the Ontario Electricity Financial Corporation (“OEFC”). These payments are calculated in accordance with the Tax Acts. These amounts are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC.

PILs comprises current and deferred payments in lieu of income tax. PILs is recognized in income and loss except to the extent that it relates to items recognized directly in either comprehensive income or in equity, in which case, it is recognized in comprehensive income or in equity.

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

Deferred PILs comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred PILs 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 PILs assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

A deferred PILs asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred PILs assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Set-off and reporting on a net basis

Assets and liabilities and income and expenses are not offset and reported on a net basis unless required or permitted by IFRS. Offsetting is permitted for financial assets and financial liabilities when, and only when, the Corporation has a legally enforceable right to set-off and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(q) Future changes in accounting policy and disclosures

The Corporation is evaluating the adoption of the following new and revised standards along with any subsequent amendments.

Revenue Recognition

The IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). IFRS 15 replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 15 *Agreements for Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC 31 *Revenue - Barter Transactions* and applies to all revenues arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17 *Leases.* The standard requires entities to recognize revenue for the transfer of goods or services to customers measured at the amounts an entity expects to be entitled to in exchange for those goods or services. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Corporation is assessing the impact of IFRS 15 on its results of operations, financial position, and disclosures.

Financial Instruments

In July 2014, the IASB issued a new standard, IFRS 9 *Financial Instruments* ("IFRS 9"), which will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. The Corporation does not expect IFRS 9 to have a material impact on its results of operations, financial position, and disclosures.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Future changes in accounting policy and disclosures (Continued)

Leases

In January 2016, IASB issued IFRS 16 *Leases* ("IFRS 16"), which replaces IAS 17 *Leases* ("IAS 17") and related interpretations. IFRS 16 provides 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 a low value. Lessor accounting remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Corporation is still assessing the impact of IFRS 16 on its results of operations, financial positions, and disclosures.

4. CASH

Cash consist of cash and bank overdrafts, where balances fluctuate frequently from being positive to overdrawn and is utilized as part of the Corporation's overall cash management process.

5. INVENTORY

During the fiscal year 2017, an amount of $nil (2016 - $13) was recorded as an expense for the write-down of obsolete or damaged inventory to net realizable value.

The amount of inventory consumed by the Corporation and recognized as an expense during 2017 was $2,481 (2016 - $491).

6. INVESTMENTS IN ALECTRA INC.

On January 31, 2017, the Corporation disposed of its wholly-owned subsidiary, Horizon Holdings Inc. ("Horizon"). Horizon amalgamated with PowerStream Holdings Inc. ("PowerStream") and Enersource Holdings Inc. ("Enersource") to form Alectra Inc. ("Alectra"). Alectra's primary business is to distribute electricity to customers in municipalities in the greater golden horseshoe area as well as provide non-regulated energy services. In consideration for its disposition of Horizon, the Corporation received an 18.15% ownership interest in Alectra's issued and outstanding common shares. The Corporation has determined it has significant influence over Alectra's financial reporting and operating polices and has accounted for its investment in Alectra under the equity method.

(stated in thousands of Canadian dollars)

6. INVESTMENTS IN ALECTRA INC. (Continued)

Alectra has also issued Class S Shares to the former PowerStream shareholders relating to Ring Fenced Solar Portfolio, a division of Alectra. In accordance with the Solar Services and Indemnity Agreement between the former PowerStream shareholders and Alectra, the solar division within Alectra is beneficially owned indirectly by the former PowerStream shareholders through Alectra's Class S shares. As such, the Corporation does not hold Class S shares of Alectra.

As a result of the Alectra formation on January 31, 2017, the Corporation derecognized its investment in Horizon. The Corporation recognized its initial 18.15% equity interest in Alectra at fair value of Alectra Inc. in the amount of $341,354 plus final purchase price adjustments of $6,549 resulting in a gain on disposition of $160,008.

The following tables summarizes the financial information of Alectra as included in its own financial statements, adjusted for fair value adjustments at acquisition as well as the removal of Ring Fenced Solar Portfolio's net assets and operating results. The table also reconciles the summarized financial information to the carrying amount of the Corporation's interest in Alectra:

		2017
Current assets	$	702,000
Non-current assets		3,779,000
Current liabilities		(739,000)
Non-current liabilities		(2,094,000)
Net assets (100%)		1,648,000
Ring Fenced Solar Portfolio Net Assets		(30,974)
Fair value bump		296,145
		1,913,171
Carrying value of investment in Alectra at 18.15%	$	347,238

Investment in Alectra Inc.		2017
Opening investment as at January 1	$	-
Initial investment		341,354
Share of income		13,659
Share of OCI		(2,722)
Dividends received		(5,053)
Ending investment as at December 31	$	347,238

Hamilton Utilities Corporation®

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
(stated in thousands of Canadian dollars)

7. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Distribution equipment	Heating and electricity generation infrastructure	Other PP&E	Construction Work-in-Progress	2017 Total	2016 Total
Cost or deemed cost							
Balance at January 1, 2017	36,143	498,034	20,844	38,433	15,166	608,620	551,957
Additions	12	1,313	271	2,226	9,188	13,010	59,984
Acquisition	-	-	5,204	552	-	5,756	
Disposals	(34,456)	(499,347)	-	(34,961)	(13,480)	(582,244)	(3,321)
Balance at December 31, 2017	1,699	-	26,319	6,250	10,874	45,142	608,620

	Land and buildings	Distribution equipment	Heating and electricity generation infrastructure	Other PP&E	Construction Work-in-Progress	2017 Total	2016 Total
Accumulated depreciation							
Balance at January 1, 2017	7,645	77,727	2,912	22,852	-	111,136	88,631
Depreciation	207	1,473	1,136	976	-	3,792	23,161
Disposals	(7,167)	(79,200)	-	(22,658)	-	(109,025)	(656)
Balance at December 31, 2017	685	-	4,048	1,170	-	5,903	111,136
Carrying amounts							
December 31, 2016	28,498	420,307	17,932	15,581	15,166	-	497,484
December 31, 2017	1,014	-	22,271	5,080	10,874	39,239	-

(stated in thousands of Canadian dollars)

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

During the year, finance charges of $nil (2016 $69) were capitalized as part of the cost of property, plant and equipment. A capitalization rate of 3.36% (2016 - 3.36%) was used to determine the amount of finance charges to be capitalized.

The net carrying amount of leased computer equipment is $nil (2016 - $314).

Assets with a carrying value of $9,479 (2016 - $9,910) are pledged as security for the City of Hamilton Loan.

8. PAYMENT IN LIEU OF INCOME TAXES

Payments in lieu income taxes

	2017	2016
Current payments in lieu of income tax expense:		
Current year	657	5,529
Deferred payments in lieu of income tax expense:		
Origination and reversal of temporary differences	33,087	6,257
Payments in lieu of income taxes	33,744	11,786

Reconciliation of effective tax rate

The payment in lieu of income tax expense varies from amounts which would be by applying the Corporation's combined statutory income tax rate as follows:

	2017	2016
Basic rate applied to income before income tax	26.50%	26.50%
Increase (decrease) in income tax resulting from:		
Items not deductible for tax purposes and other	(6.39%)	1.95%
Allowance for deferred tax	(0.16%)	-
Effective rate applied to income before income tax	19.95%	28.45%

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
(stated in thousands of Canadian dollars)

8. PAYMENTS IN LIEU OF INCOME TAXES (Continued)

Deferred payments in lieu of income tax balances

Significant components of the Corporation's deferred payments in lieu of income tax balances are as follows:

	2017	2016
Property, plant and equipment	(1,862)	1,614
Non-capital loss carry forwards	1,720	1,110
Non-deductible reserves	-	9,141
Employee future benefits	33	60
Obligation under capital cost recovery agreements	-	2,015
CMT	113	71
Bond issuance costs	-	(296)
Investment in Alectra Inc.	(33,906)	-
Other	(333)	-
Goodwill	(171)	-
Regulatory liabilities	-	(5,306)
Net deferred payments in lieu of income tax liabilities	(34,406)	8,409

9. INTANGIBLE ASSETS

	CCRA	Computer software	Customer contracts, FIT contracts, licenses	2017 Total	2016 Total
Cost or deemed cost					
Balance at January 1, 2017	18,542	16,280	-	34,822	34,841
Other additions	-	494	-	494	(19)
Acquisition additions	-	65	2,895	2,960	-
Disposals	(18,542)	(16,263)	-	(34,805)	-
Balance at December 31, 2017	-	576	2,895	3,471	34,822
Accumulated depreciation					
Balance at January 1, 2017	3,238	11,579	-	14,817	11,455
Amortization charge	84	287	102	473	3,362
Acquisition additions	-	65	754	819	-
Disposals	(3,322)	(11,675)	-	(14,997)	-
Balance at December 31, 2017	-	256	856	1,112	14,817

(stated in thousands of Canadian dollars)

9. INTANGIBLE ASSETS (CONTINUED)

	CCRA	Computer software	Customer contracts, FIT contracts, licenses	2017 Total	2016 Total
Carrying amounts					
At December 31, 2016	15,304	4,701	-	-	20,005
At December 31, 2017	-	320	2,039	2,359	

10. GOODWILL

Hamover Power LP ("Hamover") acquired control of 2291506 Ontario Inc. ("the company') through a share purchase of 85% of the voting shares of the company for cash consideration of $720,000. Hamover incurred no costs with respect to this acquisition. The purchase price was allocated to the following tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as follows:

Working capital	$	(3)
Leasehold improvements		46
Provision for asset retirement		(46)
FIT contract		850
Future income taxes		(213)
Goodwill		213
		847
Less non-controlling interest		127
Total consideration	$	720

(stated in thousands of Canadian dollars)

10. GOODWILL (Continued)

On February 23, 2017, Telecom obtained control of Sunrise Interactive Solutions Inc. (also known as NET6 Communications) (the "Company") through a share purchase agreement. The Telecom acquired 100% of the outstanding common shares of the Company in exchange for cash consideration of $929 as follows:

Cash consideration after closing adjustments	$	929
Repayment of shareholder loans		1,225
Total consideration	$	2,154

The Corporation incurred $7 with respect to legal costs on acquisition.

The purchase price was allocated to the following tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as follows:

Working capital	$	181
Property, plant and equipment		552
Licences		950
Customer contracts		553
Long term debt		(144)
Future income taxes		(349)
Goodwill		411
	$	2,154

(stated in thousands of Canadian dollars)

11. LONG TERM BORROWINGS

Long term borrowings comprise:

	2017	2016
Senior unsecured debentures bearing interest at 3.03% and due July 25, 2022	-	150,000
Senior unsecured debentures bearing interest at 4.77% and due July 21, 2020	-	40,000
City of Hamilton loan bearing interest at 4.06% and due January 1, 2040 (i)	7,128	7,452
Secured bank loans (ii, iii)	4,339	-
Finance lease liabilities	-	315
Transaction costs	-	(1,329)
Net long-term borrowings	11,467	196,438
Accreted interest	-	686
Total long-term borrowings	11,467	197,124
Current	523	468
Non-current	10,944	196,656
	11,467	197,124

Long-term borrowings comprise the following:

i. Loan with the City of Hamilton to finance HCE's acquisition of the City's Central Utilities Plant (CUP). The loan bears interest at 4.06% per annum and is payable $324 annually principal plus interest and is due January 1, 2019 with four 5 year renewals. The borrowings are secured by the assets of the CUP.

ii. $4,189 secured bank loan - The bank loan bears interest at the cost of funds index plus 0.85% plus stamping fees of the BA rate plus 1.54% and is repayable in blended monthly instalments of principal and interest of $34,911. The loan is due January 12, 2022 and is secured by guarantees of the Corporation and a registered security interest in the rooftop solar power generation equipment owned by Hamover Power LP. The loan is further secured by an assignment of the Feed-In Tariff contracts held by the Corporation. The Corporation entered into an interest rate swap agreement with a notional value of $5,760,000. Under the terms of the agreement, the Corporation has contracted to pay interest at a fixed rate of 2.46% while receiving a variable rate equivalent to the one month Canadian Dollar Offer Rate. The interest swap agreement is recorded at fair value and is in a net unfavorable position of $19 (2016 - $nil).

(stated in thousands of Canadian dollars)

11. LONG TERM BORROWINGS (Continued)

iii. $150 secured bank loans – The Corporation holds two loans with commercial institutions under normal lending terms covered under a general security agreement secured in the assets of the Corporation. The balances outstanding at year end are $31 and $119, bearing interest at 6.20% with blended monthly payments of $3 and $2 respectively. The loans are due December, 2018 and November, 2023 respectively.

The Corporation paid interest in respect of the debentures of $548 (2016 - $7,648).

Interest expense on the City of Hamilton loan was $288 (2016 - $308).
Principal payments on the borrowings are as follows:

2018	523
2019	498
2020	505
2021	514
2022	4,074
Thereafter	5,353
	11,467

12. CREDIT SUPPORT FOR SERVICE DELIVERY

Credit support for service delivery represents cash deposits from electricity distribution customers and retailers, as well as construction deposits. These customer deposits bear interest at Canada's Prime Business rate less 2.0%, which is 0.7% per annum as of December 31, 2016.

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

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

	2017	2016
Customer deposits	-	13,239
Construction deposits	-	9,432
Total credit support for service delivery	-	22,671

13. OBLIGATIONS UNDER CAPITAL COST RECOVERY AGREEMENTS

The Corporation was party to connection and cost recovery agreements ("CCRA(s)"), through its former subsidiary Horizon, with Hydro One Networks Inc. ("HONI"). Such agreements provide for the construction by HONI of transformer stations ("TS(s)") to the distribution system for the purpose of serving the Corporation's customers, including anticipated electricity load growth.

Under the CCRAs, the Corporation was required to provide HONI with an initial capital contribution ("Initial Capital Contribution") based on the difference (the "Difference") between the total capital cost of constructing the TS and a projection of transformation revenue ("HONI Revenue") earned on the conveyance of electricity through such TS. The Difference represented a debt obligation of the Corporation based on the extent that historical actual and forecast HONI Revenue through the CCRA term was less than the amount of HONI revenue projected as a basis for the determination of the Initial Capital Contribution. Conversely, the Corporation was entitled to a rebate of the Initial Capital Contribution based on the extent that historical actual and forecast HONI Revenue through the CCRA term was greater than the amount of HONI revenue projected as a basis for the determination of the Initial Capital Contribution.

Based on a review of two CCRAs with HONI for TS facilities constructed in 2003, the Corporation estimated a shortfall in HONI for TS Revenue relative to that projected as bases for the determination of respective Initial Capital Contributions. As a result of such a shortfall and based on the terms of the CCRAs, the Corporation recorded Obligations under Capital Cost Recovery Agreements and a corresponding intangible asset of $10,000 as at December 31, 2012.

Based on a review of three additional CCRAs with HONI for TS facilities constructed in 2006, 2011, and 2013, the Corporation estimated additional shortfalls to HONI for TS Revenue relative to that projected as bases for the determination of respective Initial Capital Contributions. As a result of such shortfalls and based on the terms of the CCRAs, the Corporation recorded incremental Obligations Under Capital Cost Recovery Agreements and a corresponding intangible asset of $6,626 as at August 31, 2015. Total Obligations Under Capital Cost Recovery Agreements amounted to $16,626 as at December 31, 2015.

In 2015 the Corporation received and accepted a settlement proposal from HONI in respect of three of the aforementioned CCRAs in the amount of $9,022. The related payment of this settlement occurred on February 19, 2016. In 2016, the Corporation received and accepted a settlement proposal from HONI in respect of the remaining two aforementioned CCRAs in the amount of $7,101. The related payment of this settlement occurred on January 19, 2017. In totality, the settlement amounts for these CCRAs were $504 lower than the estimated shortfalls recorded as Obligations Under Capital Cost Agreements.

(stated in thousands of Canadian dollars)

13. OBLIGATIONS UNDER CAPITAL COST RECOVERY AGREEMENTS (Continued)

In general terms, investments in regulated electricity distribution assets are recoverable from ratepayers in future rate applications based on the rate-making policies of the OEB.

14. EMPLOYEE FUTURE BENEFITS

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of certain group of its retired employees. The Corporation has reported the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements. The accrued benefit liability and the expense for December 31 was based on results and assumptions determined by actuarial valuation as at December 31, 2017.

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

	2017	2016
Defined benefit obligation, beginning of year	30,157	29,952
Current service cost	162	1,848
Interest	9	8
Benefits paid during the year	(109)	(1,112)
Actuarial gain recognized in other comprehensive income	(106)	(539)
Disposal of Horizon Holdings Inc.	(29,987)	-
Defined benefit obligation, end of year	126	30,157

(stated in thousands of Canadian dollars)

14. EMPLOYEE FUTURE BENEFITS (Continued)

The main actuarial assumptions underlying the valuation are as follows:

(a) General inflation

The health care cost trend for prescription drugs is estimated to increase at a declining rate from 6.20% to 4.5% over seven years. Other medical and dental expenses are assumed to increase at 4.50% per year.

The approximate effect on the accrued benefit obligation ("ABO") and the estimated net benefit expense if the health care trend rate assumption was increased or decreased by 1% is as follows:

	Period Benefit Cost	ABO
1% increase in health care trend rate	1	9
1% decrease in health care trend rate	(1)	(8)

(b) Discount (interest) rate

The obligation at the period end and the present value of future liabilities were determined using a discount rate of 3.40% (2016 - 3.90%) representing an estimate of the yield on high quality corporate bonds as at the valuation date.

(c) Salary levels

Future general salary and wage levels were assumed to increase at 3.30% (2016 - 2.50%) per year.

15. PENSION PLAN

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined benefit pension plan with equal contributions by the employer and its employees. In 2017, the Corporation made employer contributions of $631 to OMERS (2016 - $4,132). The Corporation's net benefit expense has been allocated as follows:

i) $50 (2016 - $616) capitalized as part of PP&E; and

ii) $581 (2016 - $3,283) charged to net income.

The Corporation estimates a contribution of $423 to OMERS during the next fiscal year.

(stated in thousands of Canadian dollars)

16. SHARE CAPITAL

	2017	2016
Unlimited number of common shares		
(1,000 issued and outstanding)	129,897	129,897

Dividends

The holder of the common shares is entitled to receive dividends as declared from time to time.

The Corporation paid a dividend of $14.678 per share (2016 - $10.930) on the common shares during the year, amounting to a total dividend of $14,678 (2016 - $10,930).

17. NON-CONTROLLING INTEREST

Non-controlling interest previously represented St. Catharines Hydro Inc.'s 21.1% common share ownership in Horizon Holdings Inc. and currently represents Green Energy Nexus 2 Renewable Co-operative Corporation's 15% common share ownership in 2291506 Ontario Inc. Non-controlling interest comprises:

	2017	2016
Non-controlling interest, beginning of year	55,083	50,525
Net comprehensive income (loss)	1	6,959
Dividends paid to non-controlling interest	-	(2,401)
Disposal of Horizon Holdings Inc.	(55,083)	-
Acquisition of 2291506 Ontario Inc.	95	-
Non-controlling interest, end of year	96	55,083

18. DISTRIBUTION REVENUE

	2017	2016
Gross customer billings	56,453	736,680
Less: Pass through charges billed by the Corporation		
Electricity charges paid through to generators	(39,827)	(522,243)
Transmission and miscellaneous charges	(5,543)	(67,909)
Market service charges	(2,177)	(22,006)
Distribution revenue	8,906	124,522

(stated in thousands of Canadian dollars)

19. OTHER INCOME FROM OPERATIONS

	2017	2016
Water and waste water billing and customer charges	466	5,072
CDM revenue and performance incentives	-	595
Collection and other service charges	109	1,430
Pole and other rental income	138	1,577
Late payment charges	88	967
Management and other support services	348	631
Scrap sales	31	568
Meter services	66	946
Solar PV revenue	38	1,399
Miscellaneous	184	1,431
Total other revenue	1,468	14,616

20. FINANCE INCOME AND CHARGES

	2017	2016
Interest income	249	605
Gain on disposal of Horizon Holdings Inc.	160,008	-
Finance income	160,257	605
Interest expense	(1,072)	(7,745)
Unrealized loss on derivative liability	(19)	-
Bank charges	(6)	-
Finance charges	(1,097)	(7,745)
Net finance income (charges) recognized in net income	159,160	(7,140)

(stated in thousands of Canadian dollars)

21. CASH FLOW INFORMATION

Net change in other assets and liabilities:

	2017	2016
Accounts receivable	5,837	(12,144)
Inventory	(641)	(1,133)
Other assets	(838)	(84)
Accounts payable and accrued liabilities	(3,986)	504
Accounts payable to parent	1,906	(743)
	2,278	(13,600)

22. RELATED PARTY TRANSACTIONS

(a) Parent and ultimate controlling party

The sole shareholder and parent company of the Corporation is the City of Hamilton. The City of Hamilton produces financial statements that are available for public use.

(b) Key management personnel

The key management personnel of the Corporation has been defined as members of its executive management team.

Key management compensation

	2017	2016
Salaries and other short-term benefits	1,751	3,146
Bonuses	159	919
Employee future benefits	-	24
Termination	288	66
Other long-term benefits	117	598
Total	2,315	4,753

The Corporation provides utility services to key management personnel. All energy charges of the Corporation to key management personnel were at prices and under terms approved by the OEB.

22. RELATED PARTY TRANSACTIONS (Continued)

(c) Transactions with shareholder

The Corporation entered into a borrowing agreement with the City of Hamilton as described in note 10.

In the ordinary course of business, the Corporation delivers electricity to the City of Hamilton. Electricity is billed to the City of Hamilton at the prices and terms as approved by the OEB.

The Corporation also provides certain water and waste water billing and customer care services to the City of Hamilton. Other revenue includes $419 (2016 - $5,072) earned with respect to these services. Accounts payable and accrued liabilities includes $nil (2016 - $14,480) owing to the City of Hamilton for amounts collected on behalf of the City of Hamilton.

Electricity, heating and cooling services charges include $2,378 (2016 - $1,916) received from the City of Hamilton pursuant to agreements to produce, sell and distribute thermal energy and electricity. The agreements expire December 31, 2027. Accounts receivable from the City of Hamilton was $597 (2016 - $426) at the end of the year. Cooling charges related to the Central Utilities Plant include $1,802 (2016 - $1,788) attributable to the City of Hamilton. The agreement will expire December 31, 2039. Accounts receivable from the City of Hamilton is $237 (2016 - $2,756) at the end of the year.

The Corporation provides ongoing fibre services to the City of Hamilton. Other revenue includes $1,077 (2016 - $780) earned from the City of Hamilton related to these fibre services. Accounts receivable from the City of Hamilton was $171 (2016- $166) at the end of the year.

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value disclosure

The carrying values of cash, temporary investments, accounts receivable, bank and bank indebtedness, accounts payable and accrued liabilities, and reimbursements from IESO approximates fair values because of the short maturity of these instruments. The carrying value of the credit support for service delivery approximates fair value because the amounts are payable on demand.

The fair value of the long-term borrowings is $11,800. The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date.

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Financial risks

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

(i) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Corporation, such as cash and accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Hamilton and throughout the Province of Ontario. One customer, the City of Hamilton, accounts for 3.79% (2016 - 3.78%) of revenue. No other single customer in either year would account for revenue in excess of 1% of the respective reported balances.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in net income. Subsequent recoveries of receivables previously recorded as impaired are credited to net income. The balance of the allowance for impairment as at December 31, 2017 is $13 (2016 - $1,750). An impairment loss of $48 was recognized during the year (2016 - $1,058).

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Financial risks (Continued)

(ii) Market risk

Market risk primarily refers to the risk of loss that results from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have commodity or foreign exchange risk. The Corporation is subject to interest rate risk since certain long-term debt bears interest at a floating rate. For a fixed interest rate of 2.46% for the entire term of the contract through the use of derivative instruments in order to hedge its exposure to interest rate risk.

(iii) Liquidity risk

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The majority of accounts payable, as reported on the Statement of Financial Position, are due within 60 days.

(iv) Capital disclosures

The main objectives of the Corporation when managing financial capital include:

- ensuring ongoing cost effective access to such to provide adequate investment in support of its regulated electricity distribution and other businesses;
- compliance with covenants within its financial instruments;
- prudently manage its capital structure, with regard for maintaining a high level of creditworthiness;
- deliver reasonable returns on the investments of its shareholders.

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Financial risks (Continued)

(iv) Capital disclosures (Continued)

The Corporation's definition of capital includes: shareholder's equity; indebtedness under existing credit facilities; and long-term borrowings, which includes the current portion of long term borrowings.

The Corporation has customary covenants typically associated with long-term borrowings. The Corporation is in compliance with all credit agreement covenants and limitations associated with its long-term borrowings.

24. COMMITMENTS AND CONTINGENCIES

Commitments

Contractual Obligations

Maintenance contracts

Pursuant to the terms of a Maintenance Contract dated August 25, 2003, the Corporation has agreed to purchase engine maintenance services for a period of 15 years or 60,000 engine hours, whichever comes first. The total commitment over the term of the agreement is approximately $1,941 and the remaining commitment at year-end is approximately $520 (2016 - $645).

Pursuant to the terms of a maintenance contract dated December 9, 2016, the Corporation has agreed to purchase Preventative Maintenance services at McMaster Innovation Park for a period of 3 years. The total commitment over the term of the agreement is approximately $34 and the remaining commitment at year-end is approximately $23.

Pursuant to the terms of a maintenance contract dated December 9, 2016, the Corporation has agreed to purchase Preventative Maintenance services at CUP and FOC for a period of 3 years. The total commitment over the term of the agreement is approximately $103 and the remaining commitment at year-end is approximately $70.

(stated in thousands of Canadian dollars)

24. COMMITMENTS AND CONTINGENCIES (Continued)

Commitments (Continued)

Leases

The Corporation has entered into operating lease agreements with various landlords which provide for the leasing of building rooftops for purposes of installing and operating Solar PV Property. Future minimum annual lease payments are as follows:

2018	79
2019	79
2020	79
2021	79
2022	79
Thereafter	799
	1,194

Contingencies

General

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

General Liability Insurance

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to 5 years. As at December 31, 2016, no assessments have been made.

25. COMPARATIVE INFORMATION

Certain comparative information has been reclassified to conform to the presentation adopted in the current year. There is no impact to retained earnings or total comprehensive income as a result of the reclassification.