Hamilton Utilities Corporation®

Hamilton Utilities Corporation
Auditors' Report to the Shareholder
and Financial Statements
Year Ended December 31, 2018

21 King Street West, Suite 1400 I Hamilton, ON I L8P 4W7 I www.hamiltonucorp.com

Table of Contents

INDEPENDENT AUDITORS' REPORT

Financial statements	
Statement of Financial Position	1
Statement of Income and Comprehensive Income	2
Statement of Changes in Equity	3
Statement of Cash Flows	4
Notes to Financial Statements	5-25

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INDEPENDENT AUDITORS' REPORT

To the Directors of Hamilton Utilities Corporation

Opinion

We have audited the accompanying financial statements of Hamilton Utilities Corporation (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled are other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

May 23, 2019

Statement of Financial Position

As at December 31, 2018, with comparative information for 2017
(stated in thousands of Canadian dollars)

	2018	2017
Assets		
Current assets		
Cash and cash equivalents *[note 5]*	$ 326	$ 11,119
Temporary investments	1,000	1,000
Accounts receivable	8	734
Payments in lieu of income taxes receivable	-	323
Other current assets	56	49
Current portion of long-term receivables *[note 7]*	324	324
	1,714	13,549
Non-current assets		
Investments in Alectra Inc. *[note 6]*	356,595	347,238
Long-term receivables *[note 7]*	6,480	6,804
Notes receivable from corporations under common control *[notes 4, 14]*	51,772	45,184
Deferred payments in lieu of income taxes *[note 8]*	-	853
	414,847	400,079
Total assets	$ 416,561	$ 413,628
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,530	$ 3,722
Payments in lieu of income taxes payable	56	-
Current portion of long-term borrowings *[note 7]*	324	324
	1,910	4,046
Non-current liabilities		
Long-term borrowings *[note 7]*	6,480	6,804
Employee future benefits *[note 9]*	91	102
Deferred payments in lieu of income taxes *[note 8]*	66,405	35,467
	72,976	42,373
Total liabilities	74,886	46,419
Shareholder's equity		
Share capital *[note 11]*	129,897	129,897
Accumulated other comprehensive income	(1,628)	(2,444)
Retained earnings	213,406	239,756
Total shareholder's equity	341,675	367,209
Total liabilities and shareholder's equity	$ 416,561	$ 413,628

The accompanying notes are an integral part of these financial statements. O*n behalf of the Board:*

Director

Director

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Statement of Income and Comprehensive Income

For the year ended December 31, 2018, with comparative information for 2017
(stated in thousands of Canadian dollars)

	2018	2017
Dividends received from subsidiaries	$ -	$ 5,330
Other income	386	439
Total revenue	386	5,769
Expenses:		
Operating expenses	3,150	2,531
	3,150	2,531
(Loss) income from operating activities	(2,764)	3,238
Finance income *[note 12]*	442	257,362
Finance charges *[note 12]*	(282)	(288)
Equity income in Alectra Holdings Inc. *[note 6]*	19,272	13,659
Income before payments in lieu of income taxes	16,668	273,971
Payments in lieu of income taxes (recovery) *[note 8]*	(8,849)	33,814
Net income	25,517	240,157
Other comprehensive income (loss)		
Items that may be reclassified to income:		
Share of Alectra Holdings Inc.’s other comprehensive income	363	(2,541)
Tax impact on Alectra Holdings Inc.’s other comprehensive income	(91)	337
	272	(2,204)
Items that will not be subsequently reclassified to income:		
Remeasurement of defined benefit obligation	-	84
Tax impact on remeasurement of defined benefit obligation	-	(22)
Share of Alectra Holdings Inc.’s other comprehensive income	726	(182)
Tax impact on Alectra Holdings Inc.’s other comprehensive income	(182)	25
Total other comprehensive income (loss)	816	(2,299)
Total comprehensive income	$ 26,333	$ 237,858

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

Statement of Changes in Equity

For the year ended December 31, 2018, with comparative information for 2017
(stated in thousands of Canadian dollars)

	Share capital	Retained earnings	Accumulated other comprehensive loss	2018 Total	2017 Total
Balance at January 1	$ 129,897	$ 239,756	$ (2,444)	$ 367,209	$ 132,580
Net income	-	25,517	-	25,517	240,157
Refundable tax	-	(40,506)	-	(40,506)	-
Other comprehensive loss	-	-	816	816	(2,299)
Dividends	-	(11,361)	-	(11,361)	(13,252)
Fair market value on disposal of shares	-	-	-	-	10,023
Balance at December 31	$ 129,897	$ 213,406	$ (1,628)	$ 341,675	$ 367,209

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

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Statement of Cash Flows

For the year ended December 31, 2018, with comparative information for 2017
(stated in thousands of Canadian dollars)

	2018	2017
OPERATING ACTIVITIES		
Net income	$ 25,517	$ 240,157
Adjustments for:		
Equity income in Alectra Holdings Inc.	(19,272)	(13,659)
Deferred payments in lieu of income taxes *[note 8]*	(8,988)	33,701
Payments in lieu of income taxes expense *[note 8]*	139	113
Finance income	(442)	(257,362)
Finance charges	282	288
Finance charges paid	(282)	(288)
Finance income received	442	592
Payments in lieu of income taxes paid	-	-
Payments in lieu of income taxes received	240	1
Change employee future benefits	(11)	2
Change in other assets and liabilities *[note 13]*	(1,473)	2,253
Net cash from operating activities	(3,848)	5,798
INVESTING ACTIVITIES		
Repayment of long term receivables	324	324
Cancellation of long-term receivable	-	2,400
Note receivable from corporation under common control	(6,588)	(8,799)
Dividends received	11,004	11,602
Net cash from (used) in investing activities	4,740	5,527
FINANCING ACTIVITIES		
Dividends paid in the year	(11,361)	(13,252)
Repayment of long-term borrowings	(324)	(324)
Net cash used in financing activities	(11,685)	(13,576)
Decrease in cash and cash equivalents	(10,793)	(2,251)
Cash and cash equivalents, beginning of year	11,119	13,370
Cash and cash equivalents, end of year	$ 326	$ 11,119

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

Notes to Financial Statements

For the year ended December 31, 2018
(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 as follows:

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

Alectra is an investment holding company that has wholly-owned investment interests in a regulated electricity distribution company, Alectra Inc., a non-regulated energy services company, Alectra Energy Solutions Inc., and a solar generation business, Solar Sunbelt General Partnership and Horizon Solar Corporation.

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

1. REPORTING ENTITY (CONTINUED)

During the year, the Corporation underwent a corporate restructuring whereby it transferred its subsidiaries controlled by it to other entities in the corporate group. The investments transferred were HCE Energy Inc., HCE Telecom, Net6 Communications, Hamover Power General Partnership and Hamover Power Limited Partnership and 2291506 Ontario Inc. See notes 3 (h) and 4 for details.

The address of the Corporation's registered office is 79 Bay Street North, Hamilton, Ontario, Canada.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements are prepared by the Corporation for income tax purposes and are intended solely for the use of the Corporation and for the federal and provincial income tax authorities and should not be used by parties other than the Corporation or the federal and provincial income tax authorities.

The Corporation's investment in Alectra Inc. is accounted for using the equity method.

(b) Approval of the financial statements

The financial statements were approved by the Board of Directors on May 23, 2019.

2. BASIS OF PREPARATION (CONTINUED)

(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.

(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.

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

(i) Note 3(d), 9 – Employee future benefits: measurements of the defined benefit obligation and key actuarial assumptions

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

(i) Note 3(j), 16 – Contingencies: whether a contingency is a liability

Notes to Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Financial instruments

All financial assets and all financial liabilities are recognized initially at fair value plus any 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(c).

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

(b) Investment in Alectra Inc.

The Corporation has significant influence, but not control over the financial and operating policies of Alectra. Accordingly, the Corporation's investment in Alectra is accounted for using the equity method and is initially recognized at cost. The financial statements include the Corporation's share of the income and expenses and equity movements of Alectra after adjustments to align the accounting policies with those of the Corporation from the date that significant influence commences until the date that significant influence ceases.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Impairment

(i) Financial assets

A loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for that asset.

(d) Employee future benefits

(i) Pension plan

The Corporation provides a pension plan for all its full-time employees through the 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.

OMERS is a defined benefit plan. However, as OMERS does not track information for individual employers, sufficient information is not available to enable the Corporation to account for the plan as a defined benefit plan, 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 income or loss when they are due.

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Employee future benefits (Continued)

(ii) Other than pension

The Corporation provides 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 has reflected 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 benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted 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 reflect management's best estimate of certain underlying assumptions. Remeasurements 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 the increases are recognized immediately in net income.

(e) Finance income and finance charges

Finance income is recognized in income or loss as it accrues, using the effective interest method. Finance income comprises interest earned on cash and cash equivalents and long-term receivables and gains on disposal of 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 expense on borrowings and interest and penalties on income tax payments and foreign exchange losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Payments in lieu of income taxes

The Corporation is 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.

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

Current PILs is the expected tax 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 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 income in the year that includes the date of enactment or substantive enactment.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax 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)

(g) Revenue recognition

Other revenue

The performance obligations for the provision of services is recognized over time using an input method based on labour hours and resources consumed to measure the satisfaction of the performance obligation. The value of services transferred to the customer is determined based on the agree-upon price with the customer and represents the amount that the customer has the right to bill for services completed to date.

Dividends received from subsidiaries

Dividend income is recognized in the year declared and collection is reasonably assured.

(h) Business reorganizations between entities under common control

Business reorganizations between entities under common control are accounted for at book value on a retrospective basis with comparative information restated to present financial information as if the restructuring had occurred prior to January 1, 2017.

(i) 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.

(j) Provisions

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

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) New standards and interpretations not yet adopted

The Corporation is still evaluating the adoption of the following new standards

Leases

In January 2016, IASB issued IFRS 16, *Leases* to establish principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 replaces IAS 17 and it is effective for annual periods beginning on or after January 1, 2019. The Corporation has determined that IFRS 16 will not have a significant impact on its results of operations, financial position and disclosures.

Notes to Financial Statements

4. BUSINESS REORGANIZATIONS WITH CORPORATIONS UNDER COMMON CONTROL

On December 31, 2018, the Corporation underwent a corporate restructuring whereby it transferred its investment in subsidiaries and partnership to newly formed entities owned by the Corporation's parent. The transfer was made in return for notes receivable which were valued at the fair value of the underlying shares and units of the companies and partnerships transferred. As a result, the Corporation recognized notes receivable having a value of $20,775. The difference between the book value of the investments and the value of the notes receivable was recognized directly in equity. Other intercompany balances held by the Corporation have been transferred at book value to the new entities. The comparative information has been restated to reflect the restructuring as of January 1, 2017.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of overnight deposits in Canadian chartered banks.

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 a 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 resulting in a gain on disposition of $256,770 after taking into account final purchase price adjustments of $6,549.

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:

	2018	2017
Current assets	$ 663,000	$ 702,000
Non-current assets	3,992,000	3,779,000
Current liabilities	(788,000)	(739,000)
Non-current liabilities	(2,178,000)	(2,094,000)
Net assets (100%)	1,689,000	1,648,000
Ring Fenced Solar Portfolio Net Assets	(20,209)	(30,974)
Fair value bump	296,145	296,145
	1,964,936	1,913,171
Carrying value of investment in Alectra at 18.15%	$ 356,595	$ 347,238

Investment in Alectra Inc.	2018	2017
Opening investment as at January 1	$ 347,238	$ -
Initial investment	-	341,354
Share of income	19,272	13,659
Share of OCI	1,089	(2,722)
Dividends received	(11,004)	(5,053)
Ending investment as at December 31	$ 356,595	$ 347,238

The following provides condensed supplementary financial information for the operations of Alectra Inc. for the year ended December 31, 2017.

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

6. INVESTMENTS IN ALECTRA INC. (CONTINUED)

	2018	2017
Revenue	$ 3,452,000	$ 3,125,000
Depreciation and amortization	(140,000)	(124,000)
Other expenses	(3,101,000)	(2,844,000)
Finance income	1,000	2,000
Finance expense	(64,000)	(55,000)
Income tax expense	(39,000)	(30,000)
Net income	109,000	74,000
Ring Fenced Solar Portfolio net income (loss)	2,816	(1,257)
Net income attributable to common shareholders	106,184	75,257
Share of income at 18.15%	$ 19,272	$ 13,659
Other comprehensive income (loss)	6,000	(15,000)
Ring Fenced Solar Portfolio other comprehensive income	-	1
Other comprehensive income attributable to common shareholders	6,000	(14,999)
Share of other comprehensive income (loss) at 18.15%	$ 1,089	$ (2,722)

7. LONG-TERM RECEIVABLES AND BORROWINGS

Long-term receivables relate to a loan between the Corporation and HCE Energy ("HCE"), a corporation under common control relating to HCE's acquisition of the City of Hamilton's Central Utilities Plant (CUP).

The long-term borrowings are a loan between the City of Hamilton (the "City") and the Corporation relating to HCE's acquisition of the City's Central Utilities Plant (CUP).

The receivable and borrowings bear interest at 4.06% per annum and are repayable $324 annually principal plus interest and are due January 1, 2019 with four 5 year renewal terms. At December 31, 2018, the Corporation has not received any notice that the City will elect not to renew the loan agreement and as such, the loan remains in long-term borrowings.

The borrowings are secured by way of a cross-company guarantee for the assets of the CUP held by HCE with a net book value of $10,154 (2017 - $10,509).

Interest expense for the long-term borrowings was $268 (2017 - $288). Interest revenue received was $268 (2017 - $288).

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

7. LONG-TERM RECEIVABLES AND BORROWINGS (CONTINUED)

Principal payments on the long-term borrowings and receivables are due as follows:

	Receivables	Borrowings
2019	$ 324	$ 324
2020	324	324
2021	324	324
2022	324	324
2023	324	324
Thereafter	5,184	5,184
	$ 6,804	6,804

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

8. PAYMENTS IN LIEU OF INCOME TAXES

Deferred and current payments in lieu of income taxes

		2018		2017
Current payments in lieu of income taxes:				
Current year	$	139	$	113
Deferred payments in lieu of income taxes:				
Origination and reversal of temporary differences		(8,988)		33,701
Payments in lieu of income taxes	$	(8,849)	$	33,814

Reconciliation of effective tax rate

The PILs varies from amounts which would be computed by applying the Corporation's combined statutory income tax rate as follows:

	2018	2017
Basic rate applied to net income before payments in lieu of income taxes	26.50%	26.50%
Increase (decrease) in payments in lieu of income taxes resulting from:		
Non-taxable dividend received	(24.07)	26.50
Items not deductible for tax purposes and other	(55.53)	(12.50)
Effective rate applied to income before payment in lieu of income taxes	(53.10)%	12.35%

Deferred tax balances

Significant components of the Corporation's deferred tax balances are as follows:

		2018		2017
Deferred payments in lieu of income taxes:				
Capital assets	$	74	$	-
Non-capital losses		-		826
Employee future benefits		24		27
Investment in Alectra Inc.		(66,503)		(36,320)
Deferred payments in lieu of income taxes	$	(66,405)	$	(35,467)

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

9. EMPLOYEE FUTURE BENEFITS

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. These benefits are provided through a defined benefit plan. The Corporation has reflected the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements. The defined benefit liability and the expense for the year ended December 31, 2017 was based on results and assumptions determined by an actuarial valuation as at December 31, 2017.

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

	2018	2017
Defined benefit obligation, beginning of year	$ 102	$ 184
Current service cost	1	5
Interest cost	4	7
Benefits paid during the year	(16)	(10)
Actuarial (gain) loss recognized in other comprehensive income	-	(84)
Defined benefit obligation, end of year	$ 91	$ 102

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 6.2% to 4.5% over 8 years from the date of valuation. Other medical and dental expenses are assumed to increase at 4.5% 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	8
1% decrease in health care trend rate	(1)	(7)

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

9. EMPLOYEE FUTURE BENEFITS (CONTINUED)

b) Interest (discount) rate

The obligation at the period end and the present value of future liabilities were determined using a discount rate of 4.0% (2017 – 3.4%) 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 3.3% (2017 – 3.3%) per year.

10. PENSION

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 2018 the Corporation made employer contributions of $176 to OMERS (2017 - $144).

The Corporation expects to make a contribution of $176 to OMERS during the next fiscal year.

11. SHARE CAPITAL

	2018	2017
Unlimited number of common shares (1,000 issued and outstanding)	$ 129,897	$ 129,897

Any invitation to the public to subscribe for shares of the Corporation is prohibited.

Dividends

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

The Corporation paid a dividend of $11.361 per share (2017 - $13.252) on the common shares during the year, amounting to a total dividend of $11,361 (2017 - $13,252).

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

12. FINANCE INCOME AND CHARGES

		2018		2017
Interest income on bank deposits	$	115	$	381
Interest income – Intercompany		327		211
Gain on disposal of investment		-		256,770
Finance income		442		257,362
Interest expense – Intercompany		(268)		(288)
Loss on foreign currency exchange		(14)		-
Finance charges		(282)		(288)
Net finance income recognized in income	$	160	$	257,074

13. CASH FLOW INFORMATION

Net change in other assets and liabilities:

		2018		2017
Accounts receivable	$	726	$	(626)
Other current assets		(7)		(18)
Accounts payable and accrued liabilities		(2,192)		2,897
	$	(1,473)	$	2,253

14. RELATED PARTY TRANSACTIONS

(a) Parent and ultimate controlling party

The parent company and ultimate controlling party is the City of Hamilton. The City of Hamilton produces financial statements that are available for public use.

The Corporation earns its revenue primarily from its investment in Alectra.

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Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

14. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with ultimate parent (the City)

The Corporation entered into a borrowing agreement with its ultimate parent, a government entity as described in note 7.

(c) Transactions with corporations under common control

Outstanding balances with related parties are as follows:

	2018	2017
Hamilton Enterprises Holding Corporation	$ 13,512	$ 7,942
Hamilton Ventures Corporation	17,484	14,207
New Energy Co. HCE Energy – 2017	-	2,260
Notes receivable in exchange for shares (note 4)		
Hamilton Enterprises Holding Corporation	19,987	19,987
New Energy Co. HCE Energy - 2017	788	788
Hamilton Ventures Corporation	-	-
	$ 51,771	$ 45,184

The Corporation has entered into a loan agreement with a subsidiary as described in note 7. The Corporation paid management and administrative and billing fees to a subsidiary in the amount of $71 (2017 - $75).

The Corporation incurs certain overhead costs for the benefit of the whole group and allocates these costs to its subsidiaries. The Corporation received $nil (2017 - $364) in management fees from subsidiaries. Allocated expenses in 2018 total $nil (2017 - $770).

The Corporation provides routine advances to corporations under common control for various projects and cash flow requirements. Amounts owing to and from corporations under common control are non-interest bearing with no fixed terms of repayment.

(d) Key management personnel

The key management personnel of the Corporation has been defined as members of its board of directors and executive management team members. Total key management compensation for the Corporation in 2018 consisted of salaries and other short-term benefits as well as bonuses and amounted to $1,186 (2017 - $1,128).

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value disclosure

The carrying values of cash and cash equivalents, temporary investments, accounts receivable and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

The fair value of the long-term borrowings and long-term receivables is $7,124.

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 counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable and notes receivable, expose it to credit risk. The majority of accounts receivable was collected subsequent to year end. The notes receivable are receivable from corporations under common control.

The carrying amount of accounts receivable is reduced through an allowance for estimated credit losses and the amount of the related impairment loss is recognized in profit or loss. Subsequent recoveries of receivables previously provisioned are credited to profit or loss. The balance of the allowance for impairment at December 31, 2018 is $nil (2017 - $3).

(ii) Market risk

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity, foreign exchange or interest rate risk.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(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 majority of accounts payable, as reported on the balance sheet, are due within 30 days.

(iv) Capital disclosures

The main objectives of the Corporation, when managing capital, are to ensure on-going access to dividends from its investment in Alectra to deliver appropriate financial returns. The Corporation's definition of capital includes shareholder's equity and long-term borrowings. As at December 31, 2018, shareholder's equity amounts to $375,165 (2017 - $369,769) and long-term borrowings amounts to $6,804 (2017 - $7,128).

16. CONTINGENCIES

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.

17. ADOPTION OF NEW ACCOUNTING STANDARDS

During the year, the Corporation adopted IFRS 15 *Revenue from Contracts with Customers and* IFRS 9 *Financial Instruments* from January 1, 2018 on a retrospective basis. There is no transitional adjustments as a result of adoption of these new standards.

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

18. SUBSEQUENT EVENT

On January 1, 2019, Alectra Inc. amalgamated with Guelph Hydro Electric Systems Inc. ("GHESI"). Alectra Inc. issued 485,000 Class G Common Shares to Guelph Municipal Holdings Inc. ("GMHI") in consideration for all the issued and outstanding shares of GHESI. The common shares issuance by Alectra Inc. represents an effective 4.6% interest in its aggregate issued and outstanding classes of common shares. The new shareholder ownership structure has resulted in a decrease to the Corporation's investment from 18.15% to 17.3%, effective January 1, 2019.