Financial Statements of

NIAGARA-ON-THE-LAKE HYDRO INC.

Years ended December 31, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Niagara-on-the-Lake Hydro Inc.

We have audited the accompanying financial statements of Niagara-on-the-Lake Hydro Inc. ("the Entity"), which comprise the statements of financial position as at December 31, 2015, December 31, 2014 and January 1, 2014, the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015, and December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Niagara-on-the-Lake Hydro Inc. as at December 31, 2015, December 31, 2014 and January 1, 2014, and its financial performance and its cash flows for the years ended December 31, 2015, and December 31, 2014 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 28, 2016
Hamilton, Canada

NIAGARA-ON-THE-LAKE HYDRO INC.

Statements of Financial Position
Year ended December 31, 2015, with comparative information for 2014

	Note	December 31, 2015	December 31, 2014	January 1, 2014
Assets				
Current assets				
Cash and cash equivalents		$ 245,827	$ 340,997	$ 353,577
Accounts receivable	6	3,076,877	2,320,799	1,828,991
Unbilled revenue		2,475,081	2,496,314	2,249,521
Income taxes receivable		415,229	341,907	50,225
Due from related parties	21	484,932	12,027	35,366
Material and supplies	7	306,346	192,033	256,066
Prepaid expenses		83,967	11,494	74,458
Total current assets		7,088,259	5,715,571	4,848,204
Non-current assets				
Property, plant and equipment	8	27,243,307	24,208,088	22,568,622
Deferred tax assets	9	694,080	431,640	671,664
Investment		100	100	9,890
Total non-current assets		27,937,487	24,639,828	23,250,176
Total assets		35,025,746	30,355,399	28,098,380
Regulatory balances	10	1,935,759	1,296,580	1,635,551
Total assets and regulatory balances		$ 36,961,505	$ 31,651,979	$ 29,733,931

	Note	December 31, 2015	December 31, 2014	January 1, 2014
Liabilities				
Current liabilities				
Line of credit		$ 414,091	$ 308,081	$ 348,356
Current portion of long-term debt	12	1,763, 603	2,167,166	2,549,852
Derivatives		134,829	170,962	216,414
Accounts payable and accrued liabilities	11	4,503,295	5,002,173	3,228,686
Customer deposits		245,827	340,997	353,577
Due to related parties	21	629,560	851,448	296,268
Deferred revenue		315,876	-	-
Total current liabilities		8,007,081	8,840,827	6,993,153
Non-current liabilities				
Long-term debt	12	8,705,609	4,321,280	4,917,596
Liability for future benefits	13	324,051	319,731	343,090
Deferred revenue		1,281,565	701,383	-
Total non-current liabilities		10,311,225	5,342,394	5,260,686
Total liabilities		18,318,306	14,183,221	12,253,839
Equity				
Share capital	14	2,632,307	2,632,307	2,632,307
Paid-up capital		4,269,026	4,269,026	4,269,026
Retained earnings		8,314,935	8,100,771	7,235,593
Accumulated other comprehensive income		70,873	70,873	62,622
Total equity		15,287,141	15,072,977	14,199,548
Total liabilities and equity		33,605,447	29,256,198	26,453,387
Regulatory balances	10	3,356,058	2,395,781	3,280,544
Total liabilities, equity and regulatory balances		$ 36,961,505	$ 31,651,979	$ 29,733,931

See accompanying notes to the financial statements.

On behalf of the Board:

_____________________ Director

_____________________ Director

NIAGARA-ON-THE-LAKE HYDRO INC.

Statements of Comprehensive Income
Year ended December 31, 2015, with comparative information for 2014

	Note	2015	2014
Revenue			
Sale of energy		$ 22,506,046	$ 19,095,252
Distribution revenue		4,693,250	4,729,056
Other operating revenue	15	339,818	155,558
		27,539,114	23,979,866
Operating expenses			
Cost of power		23,322,938	19,768,855
Operations and maintenance		1,024,164	904,236
Billing and collection		601,150	559,556
General administration		774,072	777,856
Depreciation and amortization		968,322	919,930
	16	26,690,646	22,930,433
Income from operating activities		848,468	1,049,433
Finance income	17	(25,182)	(22,123)
Finance costs	17	441,386	394,480
Income before income taxes		432,264	677,076
Income tax recovery (expense)	9	602,999	(107,690)
Net income for the year		1,035,263	569,386
Net movement in regulatory balances net of tax		(321,099)	545,792
Net income for the year and net movement in regulatory balances		714,164	1,115,178
Other comprehensive income			
Remeasurements of liability for future benefits	13	-	8,251
Other comprehensive income for the year		-	8,251
Total other comprehensive income for the year		$ 714,164	$ 1,123,429

See accompanying notes to the financial statements.

NIAGARA-ON-THE-LAKE HYDRO INC.

Statements of Changes in Equity
Year ended December 31, 2015, with comparative information for 2014

	Share capital	Paid-up capital	Retained earnings	Accumulated other comprehensive income	Total
Balance at January 1, 2014	$ 2,632,307	$4,269,026	$ 7,235,593	$ 62,622	$ 14,199,548
Net Income and net movement in regulatory balances	-	-	1,115,178	-	1,115,178
Other comprehensive income	-	-	-	8,251	8,251
Dividends	-	-	(250,000)	-	(250,000)
Balance at December 31, 2014	$ 2,632,307	$4,269,026	$ 8,100,771	$ 70,873	$ 15,072,977
Balance at January 1, 2015	$ 2,632,307	$4,269,026	$ 8,100,771	$ 70,873	$ 15,072,977
Net income and net movement in regulatory balances	-	-	714,164	-	714,164
Other comprehensive income	-	-	-	-	-
Dividends	-	-	(500,000)	-	(500,000)
Balance at December 31, 2015	$ 2,632,307	$4,269,026	$ 8,314,935	$ 70,873	$ 15,287,141

See accompanying notes to the financial statements.

NIAGARA-ON-THE-LAKE HYDRO INC.

Statements of Cash Flows
Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Operating activities		
Net Income and net movement in regulatory balances	$ 714,164	$ 1,115,178
Adjustments for:		
Depreciation and amortization	1,021,974	979,962
Amortization of deferred revenue	(20,539)	(7,080)
Post-employment benefits	4,320	(15,108)
Losses on disposal of property, plant and equipment	12,958	24,262
Change in derivatives	(36,133)	(45,452)
Net finance costs	416,204	372,357
Income tax expense (recovery)	(602,999)	107,690
Contributions received from customers	600,721	708,463
Change in non-cash operating working capital:		
Accounts receivable	(756,078)	(491,808)
Unbilled revenue	21,233	(246,793)
Materials and supplies	(114,313)	64,033
Prepaid expenses	(72,473)	62,964
Due from related parties	(472,905)	23,339
Accounts payable and accrued liabilities	(498,879)	1,773,487
Customer deposits	(95,170)	(12,580)
Due to related parties	(221,888)	555,180
Deferred revenue	315,876	-
	216,073	4,968,094
Regulatory balances	321,099	(545,792)
Income tax paid	(90,000)	(327,892)
Income tax received	357,237	168,544
Interest paid	(441,386)	(394,480)
Interest received	25,182	22,123
Net cash from operating activities	388,205	3,890,597
Investing activities		
Purchase of property, plant and equipment	(4,070,151)	(2,688,077)
Proceeds on disposal of property, plant and equipment	-	44,387
Change in investment	-	9,790
Net cash used by investing activities	(4,070,151)	(2,633,900)
Financing activities		
Dividends paid	(500,000)	(250,000)
Repayment of long-term debt	(1,019,234)	(979,002)
Proceeds from long-term debt	5,000,000	-
Net cash used in financing activities	3,480,766	(1,229,002)
Change in cash and cash equivalents (bank indebtedness)	(201,180)	27,695
Cash and cash equivalents, beginning of year	32,916	5,221
Cash and cash equivalents (bank indebtedness), end of year	$ (168,264)	$ 32,916

See accompanying notes to the financial statements.

1. Reporting entity

Niagara-on-the-Lake Hydro Inc. is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Corporation is located in the Town of Niagara-on-the-Lake. The address of the Corporation's registered office is 8 Henegan Road, Virgil, Ontario, L0S 1T0.

The Corporation delivers electricity and related energy services to residential and commercial customers in the Town of Niagara-on-the-Lake. The Corporation is wholly owned by Niagara-on-the-Lake Energy Inc. and the ultimate parent company is the Town of Niagara-on-the-Lake ("Town").

The financial statements are for the Corporation as at and for the year ended December 31, 2015.

2. Basis of presentation

(a) Statement of compliance

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

(b) Adoption of IFRS

These are the Corporation's first financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in note 23.

The financial statements were approved by the Board of Directors on April 28, 2016.

(c) Basis of measurement

These 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.

2. Basis of presentation (continued)

(e) Rate regulation

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

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

Rate setting

Distribution revenue

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

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

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

The Corporation last filed a COS application on September 30, 2013 for rates effective May 1, 2014 to April 30, 2015. The GDP IPI-FDD for 2015 is 1.6%, the Corporation's productivity factor is 0% and the stretch factor is 0.3%, resulting in a net adjustment of 1.3% to the previous year's rates.

2. Basis of presentation (continued)

(e) Rate regulation (continued)

Electricity rates- Commodity

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

(f) Use of estimates and judgments

(i) Assumptions and estimation uncertainty

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

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

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

(i) Note 3(b) – measurement of unbilled revenue
(ii) Notes 8 – estimation of useful lives of its property, plant and equipment
(iii) Note 10 – recognition and measurement of regulatory balances
(iv) Note 13 – measurement of defined benefit obligations: key actuarial assumptions
(v) Note 18 – recognition and measurement of provisions and contingencies

(ii) Judgments

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

(i) Note 20 – leases: classification as financing versus operating

3. Significant accounting policies

The accounting policies set out below have been applied consistently in all years presented in these financial statements and in preparing the opening IFRS statement of financial position at January 1, 2014 for the purpose of the transition to IFRS.

(a) Financial instruments

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities with the exception of derivatives which are classified as financial liabilities at fair value through profit or loss. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(e).

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

(b) Revenue recognition

Sale and distribution of electricity

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

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

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

3. Significant accounting policies (continued)

(b) Revenue recognition (continued)

Other revenue

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

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

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

(c) Materials and supplies

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

(d) Property, plant and equipment

Items of property, plant and equipment ("PP&E") used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the transition date (see note 23a), less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

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

3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

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

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

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

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

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

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

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

The estimated useful lives are as follows:

Asset	Years
Buildings	30 - 60
Transformer stations	45 - 55
Distribution lines – overhead	45 - 60
Distribution lines – underground	45 - 60
Distribution – transformers	45
Distribution – meters	15 - 40
Equipment, trucks and other	3 - 15

3. Significant accounting policies (continued)

(e) Impairment

(i) Financial assets measured at amortized cost

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

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

(ii) Non-financial assets

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

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

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss

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

(f) Customer deposits

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

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

3. Significant accounting policies (continued)

(g) 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.

(h) Regulatory balances

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

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

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

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

3. Significant accounting policies (continued)

(i) Post-employment benefits

(i) Pension plan

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

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

(ii) Post-employment benefits, other than pension

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

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

3. Significant accounting policies (continued)

(j) Leased assets

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

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

(k) Finance income and finance costs

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

Finance costs comprise interest expense on borrowings, Finance costs are recognized in profit or loss.

(l) Income taxes

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

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

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

3. Significant accounting policies (continued)

(l) Income taxes (continued)

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

4. Standards issued but not yet adopted

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

Revenue Recognition

In July 2015, the IASB announced a one-year deferral of the Revenue from Contracts with Customers (“IFRS 15”) effective date. IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and various interpretations and establishes principles regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. 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, which will replace IAS 39 Financial Instruments: Recognition and Measurement. The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is part of the first phase of this project. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. The Corporation is assessing the impact of IFRS 9 on its results of operations, financial position, and disclosures.

Property, Plant and Equipment and Intangible Assets

In May 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, which are effective for years beginning on or after January 1, 2016. The amendments clarify when revenue-based depreciation methods are permitted. The Corporation is assessing the impact of the amendments on its results of operation, financial positions, and disclosures.

4. Standards issued but not yet adopted (continued)

Leases

In January 2016, IASB issued IFRS 16 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 is assessing the impact of IFRS 16 on its results of operations, financial positions, and disclosures.

5. Cash and cash equivalents

Cash and cash equivalents consist of bank balances.

6. Accounts receivable

	December 31, 2015	December 31, 2014	January 1, 2014
Customer trade receivables	$ 3,113,948	$ 2,380,799	$ 1,873,991
Less: Allowance for doubtful accounts	37,071	60,000	45,000
	$ 3,076,877	$ 2,320,799	$ 1,828,991

7. Materials and supplies

No amounts were written down due to obsolescence in 2015 or 2014.

8. Property, plant and equipment

	January 1, 2015	Additions/ Depreciation	Transfers	Disposals/ Retirements	December 31, 2015
Cost					
Land	$ 307,134	$ -	$ -	$ -	$ 307,134
Buildings	659,742	7,008	-	-	666,750
Transformer stations	4,223,598	2,549,754	-	-	6,773,352
Distribution lines - overhead	5,602,854	343,131	-	207,275	5,738,710
Distribution lines – underground	7,374,421	829,461	-	-	8,203,882
Distribution - transformers	2,532,426	301,873	(73,191)	5,491	2,755,617
Distribution - meters	1,600,156	51,041	-	-	1,651,197
Equipment and trucks	1,391,519	180,679	-	34,599	1,537,599
Work in progress	1,352,830	4,339,783	(4,459,405)	-	1,233,208
	25,044,680	8,602,730	(4,532,596)	247,365	28,867,449
Accumulated Depreciation					
Land	-	-	-	-	-
Buildings	17,413	17,536	-	-	34,949
Transformer stations	99,040	125,558	(39,906)	4,751	179,941
Distribution lines - overhead	75,332	163,951	-	195,057	44,226
Distribution lines - underground	191,400	210,324	-	-	401,724
Distribution - transformers	1,404	87,053	-	-	88,457
Distribution - meters	127,397	130,780	-	-	258,177
Equipment and trucks	324,606	326,661	-	34,599	616,668
Work in progress	-	-	-	-	-
	836,592	1,061,863	(39,906)	234,407	1,624,142
Carrying amount	$ 24,208,088	$ 7,540,867	$ (4,492,690)	$ 12,958	$ 27,243,307

As at December 31, 2015, the property, plant and equipment are subject to a general security agreement.

During the year borrowing costs of $13,000 (2014 - $4,700) were capitalized as part of the cost of property, plant and equipment. A capitalization rate of 2.89% (2014 – 3.17%) was used to determine the amount of borrowing costs to be capitalized.

8. Property, plant and equipment (continued)

	January 1, 2014	Additions/ Depreciation	Transfers	Disposals/ Retirements	December 31, 2014
Cost					
Land	$ 307,134	$ -	$ -	$ -	$ 307,134
Buildings	654,025	5,717	-	-	659,742
Transformer stations	4,207,816	15,782	-	-	4,223,598
Distribution lines - overhead	5,258,231	462,204	-	117,581	5,602,854
Distribution lines - underground	6,271,143	1,103,278	-	-	7,374,421
Distribution - transformers	2,469,385	225,445	(73,534)	88,870	2,532,426
Distribution - meters	1,567,281	38,443	-	5,568	1,600,156
Equipment and trucks	1,255,598	135,921	-	-	1,391,519
Other	8,555	-	(8,555)	-	-
Work in progress	569,454	1,863,581	(1,080,205)	-	1,352,830
	22,568,622	3,850,371	(1,162,294)	212,019	25,044,680
Accumulated Depreciation					
Land	-	-	-	-	-
Buildings	-	17,413	-	-	17,413
Transformer stations	-	99,040	-	-	99,040
Distribution lines - overhead	-	158,160	-	82,828	75,332
Distribution lines - underground	-	191,400	-	-	191,400
Distribution - transformers	-	92,171	(32,985)	57,782	1,404
Distribution - meters	-	128,907	-	1,510	127,397
Equipment and trucks	-	324,606	-	-	324,606
Other	-	1,252	-	1,252	-
Work in progress	-	-	-	-	-
	-	1,012,949	(32,985)	143,372	836,592
Carrying amount	$22,568,622	$ 2,837,422	$ (1,129,309)	$ 68,647	$ 24,208,088

9. Income tax expense

Current tax expense

		2015		2014
Current period	$	340,559	$	132,334
	$	340,559	$	132,334

Deferred tax expense

		2015		2014
Origination and reversal of temporary differences	$	(262,440)	$	240,024
	$	(262,440)	$	240,024

Reconciliation of effective tax rate

		2015		2014
Income before taxes	$	432,264	$	677,076
Canada and Ontario statutory Income tax rates		26.5%		26.5%
Expected tax provision on income at statutory rates		114,550		179,425
Increase (decrease) in income taxes resulting from:				
Under (over) provided in prior periods		32,391		(71,735)
Regulatory adjustments		(749,940)		-
Income tax expense	$	602,999	$	107,690

Significant components of the Corporation's deferred tax balances

		2015		2014		January 1, 2014
Deferred tax assets:						
Property, plant and equipment	$	582,910	$	304,713	$	537,540
Post-employment benefits		85,874		101,852		102,844
Cumulative eligible capital		2,251		2,423		2,605
Other		23,045		22,652		28,675
	$	694,080	$	431,640	$	671,644

10. Regulatory balances

Reconciliation of the carrying amount for each class of regulatory balances

Regulatory deferral account debit balances	January 1, 2015	Additions	Recovery/ reversal	December 31, 2015	Remaining recovery/ reversal years
Group 1 deferred accounts	$ 678,830	$ 529,852	$ 476,679	$ 1,685,361	1
Other regulatory accounts	207,596	(282,972)	325,774	250,398	1-2
Income tax	410,154	-	(410,154)	-	-
	$ 1,296,580	$ 246,880	$ 392,299	$ 1,935,759	

Regulatory deferral account debit balances	January 1, 2014	Additions	Recovery/ reversal	December 31, 2014	Remaining years
Group 1 deferred accounts	$ 431,262	$ 409,365	$ (161,797)	$ 678,830	1
Storm damage costs	55,564	-	(55,564)	-	1
Other regulatory accounts	522,181	(34,446)	(280,139)	207,596	1-2
Income tax	626,544	-	(216,390)	410,154	-
	$ 1,635,551	$ 374,919	$ (713,890)	$ 1,296,580	

Regulatory deferral account credit balances	January 1, 2015	Additions	Recovery/ reversal	December 31, 2015	Remaining years
Group 1 deferred accounts	$ (807,731)	$ (408,503)	$ 31,498	$ (1,184,736)	1
Other regulatory accounts	(1,170,180)	(240,666)	429,232	(981,614)	1-2
Income tax	(417,870)	(771,838)	-	(1,189,708)	-
	$ (2,395,781)	$ (1,421,007)	$ 460,730	$ (3,356,058)	

Regulatory deferral account credit balances	January 1, 2014	Additions	Recovery/ reversal	December 31, 2014	Remaining years
Group 1 deferred accounts	$ (1,667,279)	$ (763,997)	$ 1,623,545	$ (807,731)	1
Other regulatory accounts	(878,376)	(326,186)	34,382	(1,170,180)	1-2
Income tax	(734,889)	-	317,019	(417,870)	-
	$ (3,280,544)	$ (1,090,183)	$ 1,974,946	$ (2,395,781)	

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

10. Regulatory balances (continued)

Settlement of the Group 1 deferral accounts is done through an application to the OEB. The OEB authorized the Corporation to dispose of $(671,921) through rate riders that operated throughout 2015 and to dispose of $(694,561) through rate riders that expired on April 30, 2015. The OEB authorized the Corporation to dispose of $(503,742) through rate riders that took effect May 1, 2015. The OEB authorized the Corporation to dispose of $364,613 through rate riders that take effect May 1, 2016. The Corporation has received approval from the OEB to recover its wind storm damage costs and is expecting to recover the balance in the regulatory deferral debit account. The balance is to be recovered over a period of 12 months. The OEB requires the Corporation to estimate its income taxes when it files a COS application to set its rates. As a result, the Corporation has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be recovered from/paid back to its customers. This balance will fluctuate as the Corporation's deferred tax balance fluctuates.

Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. In 2015 the average rate was 1.19%.

11. Accounts payable and accrued liabilities

	2015	2014	January 1, 2014
Trade payables	$ 2,884,721	$ 2,587,128	$ 2,973,448
Accounts payable – energy purchases	1,492,394	2,286,654	238,058
Debt retirement charge payable to OEFC	116,059	108,370	92
Payroll payable	10,121	20,021	17,088
	$ 4,503,295	$ 5,002,173	$ 3,228,686

12. Long-term debt

	2015	2014	January 1, 2014
Notes payable	$ 7,788,942	$ 3,304,613	$ 3,800,929
Demand loan	1,663,603	2,067,166	2,449,852
Ontario Infrastructure loans	1,016,667	1,116,667	1,216,667
	10,469,212	6,488,446	7,467,448
Current portion	1,763,603	2,167,166	2,549,852
Long-term portion	$ 8,705,609	$ 4,321,280	$ 4,917,596

12. Long-term debt (continued)

The notes payable consist of three notes payable. The first note bears interest at 7.25%. The outstanding principal is $3,035,009 as of December 31, 2015. This note is unsecured with no fixed terms of repayment. The second note bears interest at 3% and is due on February 1, 2025. The outstanding balance is $2,782,581 at December 31, 2015. The third note bears interest at 3% and is due October 1, 2025. The outstanding balance is $1,971,352 at December 31, 2015. The second and third loans are due on demand to the Town. The Town has waived its right to demand payment until January 1, 2017. These loans are postponed in favour of the demand instalment loan described below.

The Corporation has two demand instalment loans bearing interest at prime plus 0.75%. The loans are secured by a general security agreement under the assets of the Corporation and are repayable in monthly instalments of $28,889. The loans are guaranteed by the parent, Niagara-on-the-Lake Energy Inc. and a related company, Energy Services Niagara Inc.

The Company has entered into interest rate swap agreements to fix the interest rates on the demand instalment loans fixing the interest rates at 6.03% and 5.38% with maturity dates of August 2018 and October 2020.

The Corporation obtained an Ontario Infrastructure Projects Corporation (“OIPC”) Fixed Term Debenture of $1,500,000 on February 15, 2011 due February 16, 2026. The debenture bears interest at a rate of 4.27%. The loan is payable in the amount of $8,333 monthly principal and varying interest amount. The loan is secured by a general security agreement over the assets of the Corporation.

13. Post-employment benefits

(a) OMERS pension plan

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2015, the Corporation made employer contributions of $137,003 to OMERS (2014 - $130,254), of which $38,157 (2014 - $34,103) has been capitalized as part of PP&E and the remaining amount of $98,846 (2014 - $96,151) has been recognized in profit or loss. The Corporation estimates that a contribution of $137,000 to OMERS will be made during the next fiscal year.

As at December 31, 2014, OMERS had approximately 451,115 members, of whom 19 are current employees of the Corporation. The most recently available OMERS annual report is for the year ended December 31, 2014, which reported that the plan was 90.8% funded, with an unfunded liability of $7.1 billion. This unfunded liability is likely to result in future payments by participating employers and members.

13. Post-employment benefits (continued)

(b) Post-employment benefits other than pension

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

Reconciliation of the obligation		2015		2014
Defined benefit obligation, beginning of year	$	319,731	$	343,090
Included in profit or loss				
Current service cost		21,524		14,939
Interest cost		12,500		12,550
		353,755		370,579
Included in other comprehensive income				
Actuarial gains arising from:				
changes in financial assumptions		-		(8,251)
		-		(8,251)
Benefits paid		(29,704)		(42,597)
Defined benefit obligation, end of year	$	324,051	$	319,731

Actuarial assumptions	2015	2014
General inflation	2.00%	2.00%
Discount (interest) rate	4.10%	4.10%
Salary levels	3.30%	3.30%
Medical costs	6.50%	6.93%
Dental costs	4.50%	4.80%

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by $43,949. A 1% decrease in the assumed discount rate would result in the defined benefits obligation increasing by $42,051.

14. Share capital

	2015	2014
Authorized:		
Unlimited number of common shares		
Issued:		
1,001 common shares	$ 2,632,307	$ 2,632,307

Dividends

The holders of the common shares are entitled to receive dividends as declared by the Corporation.

The Corporation paid dividends in the year on common shares of $500 per share (2014 - $250) which amount to total dividends paid in the year of $500,000 (2014 - $250,000).

15. Other revenue

	2015	2014
CDM program revenue, net	$ 84,095	$ (29,647)
Amortization of deferred revenue	20,540	7,081
Pole rental	72,017	72,168
Late payment charges	60,802	46,083
Change of occupancy	34,230	29,130
Other	68,134	30,743
	$ 339,818	$ 155,558

16. Operating expenses

	2015	2014
Salaries and benefits	$ 1,135,841	$ 1,015,090
Depreciation and amortization	968,322	919,930
Contracted Services/Labour	671,302	536,233
Vehicle maintenance	50,473	75,807
Other	541,770	614,518
	$ 3,367,708	$ 3,161,578

17. Finance income and costs

		2015		2014
Finance income				
Interest income on bank deposits	$	25,182	$	22,123
Finance costs				
Interest expense on long-term debt		454,394		399,206
Less capitalized borrowing costs		(13,008)		(4,726)
		441,386		394,480
Net finance costs recognized in profit or loss	$	(416,204)	$	(372,357)

18. Commitments and contingencies

General

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

As of December 31, 2015, the Town has accrued for a settlement related to the Corporation for $100,000.

General Liability Insurance

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2015, no assessments have been made.

19. Amortization

		2015		2014
Amortization				
Amortization of capital assets charged to operations	$	968,322	$	919,930
Amortization of capital assets charged to capital assets		93,541		93,019
	$	1,061,863	$	1,012,949

20. Operating Leases

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

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

	2015	2014	January 1, 2014
Less than one year	$ 5,212	$ 16,511	$ 16,511
Between one and five years	14,233	-	16,511
	$ 19,445	$ 16,511	$ 33,022

During the year ended December 31, 2015 an expense of $16,511 (2014 - $16,511) was recognized in net income in respect of operating leases.

21. Related party transactions

(a) Parent and ultimate controlling party

The sole shareholder of the Corporation is Niagara-on-the-Lake Energy Inc., which in turn is wholly-owned by the Town. The Town produces consolidated financial statements that are available for public use.

(b) Outstanding balances due from(to) related parties

	2015	2014	January 1, 2014
Energy Niagara Services Inc.	$ 469,609	$ (562,185)	$ 26,539
Niagara-on-the-Lake Energy Inc.	15,323	12,027	8,827
Town of Niagara-on-the-Lake	(629,560)	(289,263)	(296,268)
	$ (144,628)	$ (839,421)	$ (260,902)

Amounts are non-interest bearing with no fixed terms of repayment.

(c) Transactions with companies under common control

The Corporation received $154,530 (2014 - $138,252) for operations, billing and administrative services from a company under common control.

21. Related party transactions (continued)

(d) Transactions with ultimate parent (the Town)

The Corporation had the following significant transactions with its ultimate parent, a government entity:

The Corporation delivers electricity to Town throughout the year for the electricity needs of the Town and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB. The Corporation also provides water and waste water billing services.

(e) Key management personnel

The key management personnel of the Corporation have been defined as members of and the Board of Directors and executive managerial team members:

The compensation paid or payable is as follows:

	2015	2014
Salaries and other compensation	$ 341,089	$ 341,089
Employee benefits	49,181	40,204
Directors' fees	27,474	27,474
	$ 417,744	$ 408,767

22. Financial instruments and risk management

Fair value disclosure

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

The fair value of the long-term debt at December 31, 2015 is $9,654,000. The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at December 31, 2015 ranged from 1.89% to 2.54% based upon the outstanding term of the loan.

22. 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.

(a) Credit risk

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the Town. No single customer accounts for a balance in excess of 3% of total accounts receivable.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in profit or loss. Subsequent recoveries of receivables previously provisioned are credited to profit or loss. The balance of the allowance for impairment at December 31, 2015 is $37,071 (2014 - $60,000). An impairment loss of $61,280 (2014 - $93,036) was recognized during the year.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2015, $57,803 (2014 - $11,359) is considered 60 days past due. The Corporation has approximately 9 thousand customers, the majority of whom are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2015, the Corporation holds security deposits in the amount of $245,827 (2014 - $340,997).

(b) Market risk

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

22. Financial instruments and risk management (continued)

(c) 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 has access to a $2,000,000 credit facility and monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they become due. As at December 31, 2015, $414,091 (2014 – $308,081) had been drawn under the Corporation's credit facility.

The Corporation also has a bilateral facility for $1,400,000 (the "LC" facility) for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which $nil million has been drawn and posted with the IESO (2014 - $nil).

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

(d) Capital disclosures

The main objectives of the Corporation, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2015, shareholder's equity amounts to $15,287,141 (2014 - $15,072,977) and long-term debt amounts to $8,705,609 (2014 - $4,321,280).

23. Explanation of transition to IFRS

As stated in note 2(b), these are the Corporation's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2015, the comparative information presented in these financial statements for the year ended December 31, 2014, and in the preparation of the opening IFRS Statement of Financial Position as at January 1, 2014 (the Corporation's date of transition).

In preparing its opening IFRS Statement of Financial Position, the Corporation has adjusted the amounts reported previously in the financial statements prepared in accordance with Canadian general accepted accounting principles (CGAAP). An explanation of how the transition from CGAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows is set out in the following tables and the notes accompanying the tables.

Regulatory accounts

IFRS 14: *Regulatory Deferral Accounts*, permits an entity to continue to account for regulatory deferral account balances in its financial statements in accordance with its previous GAAP when it adopts IFRS. An entity is permitted to apply the requirements of this standard in its first IFRS financial statements if and only if it conducts rate-regulated activities and recognized amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP. This standard exempts an entity from applying paragraph 11 of IAS 8: *Accounting policies, changes in accounting estimates and errors*, to its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances.

IFRS 14 is effective from periods beginning on or after January 1, 2016, however, early application is permitted. The Corporation has elected to apply this Standard in its first IFRS financial statements.

IFRS 1 Exemptions

IFRS 1 *First-time adoption of International Financial Reporting Standards* sets out the procedures that the Corporation must follow when it adopts IFRS for the first time as the basis for preparing its financial statements. The Corporation is required to establish its IFRS accounting policies as at December 31, 2015 and, in general, apply these retrospectively to determine the IFRS opening statement of financial position as its date of transition, January 1, 2014. This standard provides a number of mandatory and optional exemptions to this general principle. These are set out below, together with a description in each case of the exemption adopted by the Corporation.

23. Explanation of transition to IFRS (continued)

(a) Transfer of assets from customers

The corporation has elected to apply the transitional provisions in IFRIC 18 *Transfers of Assets from Customers.* This provision states that the effective date of this standard should be July 1, 2009 or the date of transition to IFRS whichever is later.

(b) Deemed cost

IFRS 1 provides an optional exemption for a first-time adopter with rate-regulated activities to use the carrying amount of PP&E and intangible assets as deemed cost on transition date when the carrying amount includes costs that do not quality for capitalization in accordance with IFRS. The Corporation elected this exemption and used the carrying amount of the PP&E and intangible assets under CGAPP as deemed cost on transition date. The carrying amount used as deemed cost is $22,568,622 for PP&E.

If an entity applies this exemption, at the date of transition to IFRS, it shall test for impairment each item for which this exemption is used. The assets were tested for impairment at the date of transition and it was determined that the assets were not impaired.

23. Explanation of transition to IFRS (continued)

Reconciliation of statement of financial position and statement of changes in equity

January 1, 2014	Note	CGAAP	Presentation differences	Measurement & recognition differences	IFRS
Cash and cash equivalents	-	$ 353,577	$ -	$ -	$ 353,577
Accounts receivable	-	1,828,991	-	-	1,828,991
Unbilled revenue	-	2,249,521	-	-	2,249,521
Income taxes receivable	-	50,225	-	-	50,225
Due from related parties	-	35,366	-	-	35,366
Inventories	-	256,066	-	-	256,066
Prepaid expenses	-	74,458	-	-	74,458
Property, plant and equipment	a,b	22,567,588	-	1,034	22,568,622
Deferred tax assets	-	1,320,786	(626,544)	(22,578)	671,664
Investments	-	9,890	-	-	9,890
Total assets		28,746,468	(626,544)	(21,544)	28,098,380
Regulatory balances	f	-	1,635,551	-	1,635,551
Total assets and regulatory balances		$ 28,746,468	$ 1,009,007	$ (21,544)	$ 29,733,931
Line of credit	-	$ 348,356	$ -	$ -	$ 348,356
Current portion of long-term debt	-	2,549,852	-	-	2,549,852
Derivatives	-	216,414	-	-	216,414
Accounts payable and accrued liabilities	-	3,228,686	-	-	3,228,686
Customer deposits	-	353,577	-	-	353,577
Due to related parties	-	296,268	-	-	296,268
Long-term debt	-	4,917,596	-	-	4,917,596
Employee future benefits	e	428,290	-	(85,200)	343,090
Deferred revenue	-	-	-	-	-
Total liabilities		12,339,039	-	(85,200)	12,253,839
Share capital	-	2,632,307	-	-	2,632,307
Paid-up capital	-	4,269,026	-	-	4,269,026
Retained earnings	-	7,234,559	-	1,034	7,235,593
Accumulated other comprehensive Income	-	-	-	62,622	62,622
Total liabilities and equity	-	26,474,931	-	(21,544)	26,453,387
Regulatory balances	f	2,271,537	1,009,007	-	3,280,544
Total liabilities, equity and regulatory balances		$ 28,746,468	$ 1,009,007	$ (21,544)	$ 29,733,931

23. Explanation of transition to IFRS (continued):

Reconciliation of statement of financial position and statement of changes in equity

December 31, 2014	Note	CGAAP	Presentation differences	Measurement & recognition differences	IFRS
Cash and cash equivalents	-	4 340,997	$ -	$ -	$ 340,997
Accounts receivable	-	2,320,799	-	-	2,320,799
Unbilled revenue	-	2,496,314	-	-	2,496,314
Income taxes receivable	-	341,907	-	-	341,907
Due from related parties	-	12,027	-	-	12,027
Inventories	-	192,033	-	-	192,033
Prepaid expenses	-	11,494	-	-	11,494
Property, plant and equipment	a,b,c	23,500,945	701,383	5,760	24,208,088
Deferred tax assets	h	864,372	(410,154)	(22,578)	431,640
Investment	-	100	-	-	100
Total assets	-	30,080,988	291,229	(16,818)	30,355,399
Regulatory balances	f	-	1,296,580	-	1,296,580
Total assets and regulatory balances		$ 30,080,988	$ 1,587,809	$ (16,818)	$ 31,651,979
Line of credit	-	$ 308,081	$ -	$ -	$ 308,081
Current portion of long-term liabilities	-	2,167,166	-	-	2,167,166
Derivatives	-	170,962	-	-	170,962
Accounts payable and accrued liabilities	-	5,002,173	-	-	5,002,173
Customer deposits	-	340,997	-	-	340,997
Due to related parties	-	851,448	-	-	851,448
Long-term debt	-	4,321,280	-	-	4,321,280
Employee future benefits	e	409,548	-	(89,817)	319,731
Deferred revenue	c	-	701,383	-	701,383
Total liabilities		13,571,655	701,383	(89,817)	14,183,221
Share capital	-	2,632,307	-	-	2,632,307
Paid-up capital	-	4,269,026	-	-	4,269,026
Accumulated other comprehensive Income	-	-	-	70,873	70,873
Retained earnings	-	8,098,645	-	2,126	8,100,771
Total liabilities and equity		28,571,633	701,383	(16,818)	29,256,198
Regulatory balances	f	1,509,355	886,426	-	2,395,781
Total liabilities, equity and regulatory balances		$ 30,080,988	$ 1,587,809	$ (16,818)	$ 31,651,979

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements
Year ended December 31, 2015

23. Explanation of transition to IFRS (continued)

Reconciliation of net income for 2014

	Note	CGAAP	Presentation differences	Measurement & recognition differences	IFRS
Revenue					
Sale of energy	g	$ 20,290,110	$ (1,194,858)	$ -	$ 19,095,252
Distribution revenue	g	4,729,056	-	-	4,729,056
Other	c,g	148,477	7,081	-	155,558
Operating expenses					
Cost of power purchased	g	(20,290,110)	521,255	-	19,768,855
Distribution operations	g	(904,236)	-	-	904,236
Billing and collections	g	(559,556)	-	-	559,556
General administration	e,g	(774,222)	-	(3,634)	777,856
Depreciation and amortization	c	(912,849)	(7,081)	-	919,930
Regulatory adjustment	g	(223,974)	223,974	-	-
Finance income	-	17,657	4,466	-	(22,123)
Finance cost	b,g	(399,206)	-	4,726	394,480
Income tax expense	h	(7,061)	(100,629)	-	107,690
Net income for the year		1,114,086	(545,792)	1,092	569,386
Net movement in regulatory balances, net of tax	g	-	545,792	-	545,792
Net income and net movement in regulatory balances		1,114,086	-	1,092	1,115,178
Other comprehensive income					
Remeasurement of post-employment benefits	e	-	-	8,251	8,251
Total comprehensive income for the year		$ 1,114,086	$ -	$ 9,343	$ 1,123,429

23. Explanation of transition to IFRS (continued)

Notes to the reconciliations

The impact on deferred tax of the adjustments described below is set out in note (h).

(a) The Corporation has elected under IFRS 1 to use the carrying value of items of PP&E and intangible assets as the deemed cost at the date of transition. Therefore, there has been no change to the net PP&E and intangible assets at January 1, 2014. The effect of this transitional adjustment is a decrease to the original cost and accumulated depreciation of the affected PP&E by $23,016,744, the CGAAP accumulated depreciation amount, on January 1, 2014.

(b) IFRS requires that borrowing costs related to the construction of the qualifying assets be capitalized. The Corporation has applied IAS 23 to all qualifying assets that were in progress or commenced since January 1, 2014. Borrowing costs of $4,726 were capitalized for the year ended December 31, 2014.

(c) Under CGAAP, customer contributions were netted against the cost of PP&E and amortized to profit or loss as an offset to depreciation expense, on the same basis as the related assets. Under IFRS, customer contributions are recognized as deferred revenue, not netted against PP&E, and amortized into profit or loss over the life of the related asset.

The effect of the above is to increase deferred revenue by $nil at January 1, 2014 and by $701,383 at December 31, 2014; to increase PP&E by $nil at January 1, 2014 and $701,383 at December 31, 2014 and to increase other revenue and depreciation expense by $7,081 for the year ended December 31, 2014.

(d) Under CGAAP for rate regulated entities, the Corporation removed assets from the accounts at the end of their estimated useful lives. IFRS requires assets to be removed from the accounts when they have been removed from service.

No assets were removed from service in 2014.

(e) The Corporation adopted the revised Employee Benefits standard effective January 1, 2014. This revised standard requires recognition of actuarial gains and losses through other comprehensive income. This decreased post-employment benefits and increased other comprehensive income by $85,200 at January 1, 2014. This increased post-employment benefits by $89,817, increased other comprehensive income by $8,251 and increased general administrative expenses by $3,634 at December 31, 2014.

(f) Regulatory accounts on the balance sheet have been reclassified according to their balances. If the account has a debit balance it has been classified as a non-current regulatory asset. Likewise, if the account has a credit balance it has been reclassified as a non-current regulatory liability.

(g) The Corporation recognized the differences in the regulatory assets/liabilities for the year as transactions on the Statements of Comprehensive Income. These entries were offset by an equal amount in the Net movement in regulatory balances, net of tax. There was no change in the total comprehensive Income.

23. Explanation of transition to IFRS (continued)

(h) The above changes decreased the deferred tax asset as follows based on a tax rate of 26.5%:

	Note	2014	January 1, 2014
Post employment benefits	f	$ 22,578	$ 22,578
Decreases in deferred tax asset	-	$ 22,578	$ 22,578

The effect on the statement of comprehensive income for the year ended December 31, 2014 was to increase the previously reported income taxes by $22,578.

Explanation of material adjustments to the statement of cash flows for 2014

There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under CGAAP.