Financial Statements of

NIAGARA-ON-THE-LAKE HYDRO INC.

Year ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Niagara-on-the-Lake Hydro Inc. (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2018
- the statements 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 (IFRS).

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

St. Catharines, Canada
April 25, 2019

NIAGARA-ON-THE-LAKE HYDRO INC.

Statement of Financial Position

Year ended December 31, 2018, with comparative information for 2017

	Note		2018		2017
Assets					
Current assets					
Cash	6	$	-	$	366,780
Accounts receivable	7		2,358,148		2,842,744
Unbilled revenue			2,307,020		2,836,515
Income taxes receivable			393,797		-
Due from related parties	23		18,612		9,886
Material and supplies	8		373,453		167,526
Prepaid expenses			91,947		26,524
Total current assets			5,542,977		6,249,975
Non-current assets					
Property, plant and equipment	9		31,394,112		29,622,177
Deferred tax asset	10		1,134,622		1,070,302
Investment			100		100
Total non-current assets			32,528,834		30,692,579
Total assets			38,071,811		36,942,554
Regulatory balances	11		823,319		1,068,620
Total assets and regulatory balances		$	38,895,130	$	38,011,174

	Note	2018	2017
Liabilities			
Current liabilities			
Bank indebtedness	6	$ 54,413	$ -
Current portion of long-term debt	13	2,866,758	1,889,234
Derivatives		9,507	26,340
Accounts payable and accrued liabilities	12	4,602,420	4,354,088
Customer deposits		707,424	377,590
Due to related parties	23	693,150	484,499
Deferred revenue		180,028	128,368
Income tax payable		-	374,929
Total current liabilities		9,113,700	7,635,048
Non-current liabilities			
Long-term debt	13	5,740,538	7,005,567
Liability for future benefits	14	506,322	478,800
Deferred revenue		3,741,257	3,094,653
Deferred tax liability	10	1,478,407	1,073,186
Total non-current liabilities		11,466,524	11,652,206
Total liabilities		20,580,224	19,287,254
Equity			
Share capital	15	2,632,307	2,632,307
Paid-up capital		4,269,026	4,269,026
Retained earnings		10,261,632	9,708,384
Accumulated other comprehensive income		(36,584)	(36,584)
Total equity		17,126,381	16,573,133
Total liabilities and equity		37,706,605	35,860,387
Regulatory balances	11	1,188,525	2,150,787
Total liabilities, equity and regulatory balances		$ 38,895,130	$ 38,011,174

See accompanying notes to the financial statements.

On behalf of the Board:

____________________ Director   ____________________ Director

NIAGARA-ON-THE-LAKE HYDRO INC.

Statement of Comprehensive Income

Year ended December 31, 2018, with comparative information for 2017

	Note	2018	2017
Revenue			
Distribution revenue		$ 5,183,367	$ 5,019,210
Other operating revenue		255,551	377,729
		5,438,918	5,396,939
Sale of energy		23,779,595	24,198,363
Total revenues	19	29,218,513	29,595,302
Operating expenses			
Operations and maintenance		1,109,435	1,114,974
Billing and collection		571,044	573,154
General administration		1,253,993	961,578
Depreciation and amortization	21	1,038,077	1,010,972
	17	3,972,549	3,660,678
Cost of power purchased		24,187,593	23,229,633
Total expenses		28,160,142	26,890,311
Income from operating activities		1,058,371	2,704,991
Finance income	18	108,651	91,936
Finance costs	18	(509,274)	(509,264)
Income before income taxes		657,748	2,287,663
Income tax expense	10	(321,461)	(367,115)
Net income for the year		336,287	1,920,548
Net movement in regulatory balances		508,816	(859,968)
Tax on net movement		208,145	323,875
		716,961	(536,093)
Net income for the year and net movement in regulatory balances, being total comprehensive income		1,053,248	1,384,455
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Re-measurements of post-employment benefits	14	-	146,200
Tax on re-measurements		-	(38,743)
Other comprehensive income for the year		-	107,457
Total comprehensive income for the year		$ 1,053,248	$ 1,276,998

See accompanying notes to the financial statements.

NIAGARA-ON-THE-LAKE HYDRO INC.

Statement of Changes in Equity

Year ended December 31, 2018, with comparative information for 2017

	Share capital	Paid-up capital	Retained earnings	Accumulated other comprehensive income	Total
Balance at January 1, 2017	$ 2,632,307	$ 4,269,026	$ 8,823,929	$ 70,873	$ 15,796,135
Net income and net movement in regulatory balances	-	-	1,384,455	-	1,384,455
Other comprehensive income	-	-	-	(107,457)	(107,457)
Dividends	-	-	(500,000)	-	(500,000)
Balance at December 31, 2017	$ 2,632,307	$ 4,269,026	$ 9,708,384	$ (36,584)	$ 16,573,133
Balance at January 1, 2018	$ 2,632,307	$ 4,269,026	$ 9,708,384	$ (36,584)	$ 16,573,133
Net income and net movement in regulatory balances	-	-	1,053,248	-	1,053,248
Other comprehensive income	-	-	-	-	-
Dividends	-	-	(500,000)	-	(500,000)
Balance at December 31, 2018	$ 2,632,307	$ 4,269,026	$ 10,261,632	$ (36,584)	$ 17,126,381

See accompanying notes to the financial statements.

NIAGARA-ON-THE-LAKE HYDRO INC.

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

		2018	2017
Operating activities			
Net Income and net movement in regulatory balances		$ 1,053,248	$ 1,384,455
Adjustments for:			
Depreciation and amortization	21	1,139,742	1,103,773
Amortization of deferred revenue		(77,162)	(65,652)
Post-employment benefits		27,522	2,536
Loss on disposal of property, plant and equipment		265,480	74,446
Change in derivatives		(16,833)	(46,137)
Net finance costs		417,456	463,465
Income tax expense		321,461	367,115
Contributions received from customers		723,766	319,954
		3,854,680	3,603,955
Change in non-cash operating working capital:			
Accounts receivable		484,596	11,860
Unbilled revenue		529,495	290,140
Due from related parties		(8,726)	(132)
Materials and supplies		(205,927)	194,174
Prepaid expenses		(65,423)	57,287
Accounts payable and accrued liabilities		248,332	304,788
Customer deposits		329,834	140,750
Due to related parties		208,651	115,913
Deferred revenue		51,660	-
		5,427,172	4,718,735
Regulatory balances		(716,961)	536,093
Income tax received		-	111,971
Income tax paid		(749,286)	-
Interest paid		(509,274)	(509,263)
Interest received		91,818	45,799
Net cash from operating activities		3,543,469	4,903,335
Investing activities			
Purchase of property, plant and equipment		(3,177,157)	(2,295,611)
Net cash used by investing activities		(3,177,157)	(2,295,611)
Financing activities			
Dividends paid		(500,000)	(500,000)
Repayment of long-term debt		(1,287,505)	(1,316,601)
Proceeds from long-term debt		1,000,000	-
Net cash used in financing activities		(787,505)	(1,816,601)
Change in cash (bank indebtedness)		(421,193)	791,123
Bank indebtedness, beginning of year		366,780	(424,343)
Cash (bank indebtedness), end of year		$ (54,413)	$ 366,780

See accompanying notes to the financial statements.

1. Reporting entity

Niagara-on-the-Lake Hydro Inc. (the “Corporation”) is a wholly owned subsidiary of Niagara-on-the-Lake Energy Inc. and incorporated under the Business Corporations Act (Ontario), in accordance with the Electricity Act. 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’s principal activity is to distribute electricity to the residents and businesses in the Town of Niagara-on-the-Lake under a license issued by the Ontario Energy Board (“OEB”). The Corporation is regulated by the OEB and adjustments to the Corporation’s distribution and power rates require OEB approval. 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 (the “Town”).

The financial statements are for the Corporation as at and for the year ended December 31, 2018.

2. Basis of presentation

(a) Statement of compliance

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

The financial statements were approved by the Board of Directors on April 25, 2019.

(b) Basis of measurement

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

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

(d) 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.

2. Basis of presentation (continued)

(d) Rate regulation (continued)

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

Rate setting

(i) Distribution revenue

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. An IRM Application has been filed in each subsequent year. On August 23, 2018, the Corporation filed a COS application for rates effective May1, 2019 to April 30, 2020. Approval by the OEB is pending.

On October 16, 2017, the Corporation submitted an IRM Application to the OEB requesting approval to change distribution rates effective May 1, 2018. The IRM Application, which provided a mechanistic and formulaic adjustment to distribution rates and charges, was approved by the OEB on March 22, 2018. The GDP IPI-FDD for 2018 is 1.2%, the Corporation’s stretch factor is 0.30% and the productivity factor determined by the OEB is 0%, resulting in an overall 0.9% increase in distribution rates.

The OEB issued a new distribution rate design for residential electricity customers which will be phased in over a four year period commencing January 2016. Under this new policy, electricity distributors will structure residential rates so that all the distribution charges will be collected through a fully fixed monthly charge instead of the current fixed and variable rate charge.

2. Basis of presentation (continued)

(d) Rate regulation (continued)

(ii) Electricity rates

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. In 2017, the OEB set new lower Regulated Price Plan ("RPP") prices established under the *Fair Hydro Act, 2017*. 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 by the Independent Electricity System Operator and passes this cost on to the customer at cost without a mark-up.

(e) 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) Notes 3(b) – measurement of unbilled revenue
(ii) Notes 3(d), 9 – estimation of useful lives of its property, plant and equipment
(iii) Notes 3(h), 11 – recognition and measurement of regulatory balances
(iv) Notes 3(i) 14 – measurement of defined benefit obligations: key actuarial assumptions
(v) Notes 3(g) 20 – 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) Notes 3(j), 22 – leases: classification as financing versus operating

(ii) Note 3(b) – determination of the performance obligation for contributions from customers and the related amortization period

3. Significant accounting policies

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

(a) Financial instruments

All financial assets and all financial liabilities with the exception of derivatives are recognized initially at fair value plus any directly attributable transaction costs. Derivatives are classified as financial liabilities at fair value through profit or loss. 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

The performance obligations for the sale and distribution of electricity are recognized over time using an output method to measure the satisfaction of the performance obligation. The value of the electricity services transferred to the customer is determined on the basis of cyclical meter readings plus estimated customer usage since the last meter reading date to the end of the year and represents the amount that the Corporation has the right to bill. 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)

Capital contributions

Developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. The developer is not a customer and therefore the contributions are scoped out of IFRS 15 *Revenue from Contracts with Customers*. Cash contributions, received from developers 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.

Certain customers are also required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. These contributions fall within the scope of IFRS 15 *Revenue from Contracts with Customers*. The contributions are received to obtain a connection to the distribution system in order receive ongoing access to electricity. The Corporation has concluded that the performance obligation is the supply of electricity over the life of the relationship with the customer which is satisfied over time as the customer receives and consumes the electricity. Revenue is recognized on a straight-line basis over the useful life of the related asset.

Other revenue

Revenue earned from the provision of services is recognized as the service is rendered.

Government grants and the related performance incentive payments under Conservation and Demand Management (“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.

3. Significant accounting policies (continued)

(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, 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.

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. Work-in-progress assets are not depreciated until the project is complete and the asset is available for use.

4. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

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 and trucks	3 - 15

(e) Impairment

(i) Financial assets measured at amortized cost

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 the asset.

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than materials and supplies, 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.

3. Significant accounting policies (continued)

(e) Impairment (continued)

(ii) Non-financial assets (continued)

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.

(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.

3. Significant accounting policies (continued)

(h) Regulatory balances (continued)

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.

(i) Liability for future benefits

(i) Pension plan

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, local boards 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) Liability for future 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 balance and gain on derivatives.

Finance costs comprise interest expense on borrowings. Finance costs are recognized in profit or loss unless capitalized for qualifying assets.

(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.

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

Leases

In January 2016, the IASB issued IFRS 16 to establish principles for the recognition, measurement, presentation and disclosures of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 replaces IAS17 and it is effective for annual periods beginning on or after January 1, 2019. The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Corporation does not expect the standard to have a material impact on the financial statements.

5. Change in accounting policy

The Corporation has initially applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from January 1, 2018 on a retrospective basis. The following practical expedients have been used in the initial application of these new standards:

For complete contracts, the Corporation did not restate contracts that:

(i) Began and ended within the same annual reporting period; or

(ii) Were completed at the beginning of January 1, 2016

There are no transitional impacts to report as adoption of these standards did not have a material on impact comparative information.

6. Cash (bank indebtedness)

	2018	2017
Cash balances	$ 756,952	$ 371,956
Bank overdrafts used for cash management purposes	(811,665)	(5,476)
Petty cash	300	300
	$ (54,413)	$ 366,780

7. Accounts receivable

	2018	2017
Customer trade receivables	$ 2,412,434	$ 2,938,162
Less: Allowance for doubtful accounts	(54,286)	(95,418)
	$ 2,358,148	$ 2,842,744

8. Materials and supplies

No amounts were written down due to obsolescence in 2018 or 2017.

9. Property, plant and equipment

	January 1, 2018	Additions/ Depreciation	Transfers	Disposals/ Retirements	December 31, 2018
Cost					
Land	$ 307,134	$ -	$ -	$ -	$ 307,134
Buildings	797,582	51,004	-	-	848,586
Transformer stations	6,714,868	129,531	-	(335,048)	6,509,351
Distribution lines - overhead	6,400,719	1,253,034	-	(503,076)	7,150,677
Distribution lines – underground	9,650,933	709,808	-	-	10,360,741
Distribution - transformers	3,574,067	579,913	(79,963)	(54,808)	4,019,209
Distribution - meters	1,855,746	116,150	-	(12,323)	1,959,573
Equipment and trucks	1,983,392	443,135	-	(250,400)	2,176,127
Work in progress	1,494,499	3,056,227	(3,101,176)	-	1,449,550
	32,778,940	6,338,802	(3,181,139)	(1,155,655)	34,780,948
Accumulated Depreciation					
Buildings	72,629	19,879	-	-	92,508
Transformer stations	325,798	155,688	-	(106,374)	375,112
Distribution lines - overhead	72,810	186,281	-	(487,975)	(228,884)
Distribution lines - underground	876,050	255,950	-	-	1,132,000
Distribution - transformers	104,716	114,988	(19,494)	(37,680)	162,530
Distribution - meters	531,797	146,518	-	(7,745)	670,570
Equipment and trucks	1,172,963	260,438	-	(250,401)	1,183,000
Work in progress	-	-	-	-	-
	3,156,763	1,139,742	(19,494)	(890,175)	3,386,836
Carrying amount	$ 29,622,177	$ 5,199,060	$ (3,161,645)	$ (265,480)	$ 31,394,112

As at December 31, 2018, the property, plant and equipment are subject to a general security agreement as described in note 13.

There were no borrowing costs capitalized as part of the cost of property, plant and equipment in 2018 or 2017.

9. Property, plant and equipment (continued)

	January 1, 2017	Additions/ Depreciation	Transfers	Disposals/ Retirements	December 31, 2017
Cost					
Land	$ 307,134	$ -	$ -	$ -	$ 307,134
Buildings	747,892	49,690	-	-	797,582
Transformer stations	6,831,363	44,135	-	(160,630)	6,714,868
Distribution lines - overhead	6,249,512	410,769	-	(259,562)	6,400,719
Distribution lines – underground	9,219,648	431,285	-	-	9,650,933
Distribution - transformers	3,419,357	320,117	(96,633)	(68,774)	3,574,067
Distribution - meters	1,777,437	79,767	-	(1,458)	1,855,746
Equipment and trucks	1,715,912	267,480	-	-	1,983,392
Work in progress	775,198	1,910,129	(1,190,828)	-	1,494,499
	31,043,453	3,513,372	(1,287,461)	(490,424)	32,778,940
Accumulated Depreciation					
Buildings	53,268	19,361	-	-	72,629
Transformer stations	332,751	153,677	-	(160,630)	325,798
Distribution lines - overhead	108,690	171,269	-	(207,149)	72,810
Distribution lines - underground	631,704	244,346	-	-	876,050
Distribution - transformers	112,839	108,413	(69,700)	(46,836)	104,716
Distribution - meters	391,938	141,222	-	(1,363)	531,797
Equipment and trucks	907,478	265,485	-	-	1,172,963
Work in progress	-	-	-	-	-
	2,538,668	1,103,773	(69,700)	(415,978)	3,156,763
Carrying amount	$ 28,504,785	$ 2,409,599	$ (1,217,761)	$ (74,446)	$ 29,622,177

10. Income tax expense

Current tax expense

	2018	2017
Current period	$ (19,154)	$ 374,929
Prior Period True-up	(286)	25,507
	$ (19,440)	$ 400,436

Deferred tax expense (recovery)

	2018	2017
Origination and reversal of temporary differences	$ 340,901	$ (33,321)

Reconciliation of effective tax rate

	2018	2017
Income before taxes	$ 657,748	$ 2,287,663
Canada and Ontario statutory Income tax rates	26.5%	26.5%
Expected tax provision on income at statutory rates	174,303	606,231
Increase (decrease) in income taxes resulting from:		
Permanent differences	2,368	474
Over provided in prior periods	(671)	(9,699)
Regulatory adjustments	134,836	(227,884)
CMT	12,532	-
Other	(1,907)	(2,007)
Income tax expense	$ 321,461	$ 367,115

Significant components of the Corporation's deferred tax balances

	2018	2017
Deferred tax assets (liabilities):		
Property, plant and equipment	$(1,478,407)	$(1,073,186)
Deferred revenue – contributed capital	991,433	820,083
Post-employment benefits	140,611	126,882
Other	2,578	123,337
	$ (343,785)	$ (2,884)

11. Regulatory balances

Reconciliation of the carrying amount for each class of regulatory balances

Regulatory deferral account debit balances	January 1, 2018	Additions	Recovery/ reversal	December 31, 2018	Remaining recovery/ reversal years
Group 1 deferred accounts	$ 408,112	$ 76,756	$ (178,711)	$ 306,157	1
Other regulatory accounts	660,508	217,793	(361,139)	517,162	1-2
	$ 1,068,620	$ 294,549	$ (539,850)	$ 823,319	

Regulatory deferral account debit balances	January 1, 2017	Additions	Recovery/ reversal	December 31, 2017	Remaining recovery/ reversal years
Group 1 deferred accounts	$ 1,031,768	$ 20,727	$ (644,383)	$ 408,112	2
Other regulatory accounts	926,326	(160,136)	(105,682)	660,508	1-3
	$ 1,958,094	$ (139,409)	$ (750,065)	$ 1,068,620	

Regulatory deferral account credit balances	January 1, 2018	Additions	Recovery/ reversal	December 31, 2018	Remaining years
Group 1 deferred accounts	$ (1,054,985)	$ 217,302	$ 510,352	$ (327,331)	1
Other regulatory accounts	(824,104)	(7,971)	34,434	(797,641)	1-2
Income tax	(271,698)	-	208,145	(63,553)	***
	$ (2,150,787)	$ 209,331	$ 752,931	$ (1,188,525)	

Regulatory deferral account credit balances	January 1, 2017	Additions	Recovery/ reversal	December 31, 2017	Remaining years
Group 1 deferred accounts	$ (1,131,272)	$ (820,526)	$ 896,813	$ (1,054,985)	3
Other regulatory accounts	(777,323)	213,485	(260,266)	(824,104)	1-3
Income tax	(595,573)	-	323,875	(271,698)	***
	$ (2,504,168)	$ (607,041)	$ 960,422	$ (2,150,787)	

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.

*** These balances will reverse as the related deferred tax balance reverses.

11. Regulatory balances (continued)

Settlement of the regulatory and deferral accounts is done through an application to the OEB. The OEB authorized the Corporation to dispose of a credit balance of $287,426 as of December 31, 2016 through rate riders that take effect May 1, 2018 to April 30, 2019. 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 2018 the average rate was 1.86%.

12. Accounts payable and accrued liabilities

	2018	2017
Accounts payable – energy purchases	$ 2,060,209	$ 1,981,134
Trade payables	2,486,870	2,321,050
Payroll payable	49,274	51,904
Other liabilities	6,067	-
	$ 4,602,420	$ 4,354,088

13. Long-term debt

	2018	2017
Notes payable	$ 5,483,863	$ 6,288,901
Demand loans	2,406,766	1,789,233
Ontario Infrastructure debenture	716,667	816,667
	8,607,296	8,894,801
Current portion	(2,866,758)	(1,889,234)
Long-term portion	$ 5,740,538	$ 7,005,567

13. Long-term debt (continued)

The notes payable consist of three notes payable to the Corporation's parent company. The first note bears interest at 7.25%. The outstanding principal is $2,098,770 (2017 - $2,433,659) as of December 31, 2018. This note is unsecured and is repayable annually in the aggregate principal and interest of $500,000 to The Corporation of the Town of Niagara-on-the-Lake. There are no fixed terms of repayment. The second note bears interest at 3% and is due on February 1, 2025 and is repayable in blended monthly payments of $29,409. The outstanding balance is $1,954,691 (2017 - $2,239,035) at December 31, 2018. The third note bears interest at 3% and is due October 1, 2025 and is repayable in blended monthly payments of $19,640. The outstanding balance is $1,430,402 (2017 - $1,616,207) at December 31, 2018. The second and third loans are due on demand to the Town. The Town has waived its right to demand payment until January 1, 2020. These loans are postponed in favour of the demand instalment loan described below.

The Corporation has one demand instalment loans bearing interest at prime plus 0.75%. The loan is secured by a general security agreement over the assets of the Corporation and are repayable in monthly principal and interest instalments of $13,333. The loan is guaranteed by the parent, Niagara-on-the-Lake Energy Inc. and a related company, Energy Services Niagara Inc.

The Corporation has a second demand instalment loans which bears interest at the underlying market rate for banker's acceptance notes. The loan is secured by a general security agreement over the assets of the Corporation and is repayable in equal monthly principal and interest instalments beginning January, 2019. Until such time repayment is not required. The loan is guaranteed by the parent, Niagara-on-the-Lake Energy Inc. and a related company, Energy Services Niagara Inc.

The Corporation has entered into interest rate swap agreements to fix the interest rates on one of the demand instalment loans at 5.38% with a maturity date of October 2020.

The Corporation has an Ontario Infrastructure Projects Corporation ("OIPC") fixed term debenture due February 16, 2026. The debenture bears interest at a rate of 4.27% per annum. The loan is payable in monthly principal payments amount of $8,333 plus interest. The loan is secured by a general security agreement over the assets of the Corporation.

The Corporation has available a $3,000,000 revolving demand facility, which when drawn bears interest at prime plus 0.15%. As of December 31, 2018 the amount drawn is $nil (2017 - $nil).

14. 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 benefit pension plan with equal contributions by the employer and its employees. In 2018, the Corporation made employer contributions of $158,796 to OMERS (2017 - $154,013), of which $24,077 (2017 - $33,689) has been capitalized as part of PP&E and the remaining amount of $134,819 (2017 - $120,326) has been recognized in profit or loss. The Corporation estimates that a contribution of $162,287 to OMERS will be made during the next fiscal year.

14. Post-employment benefits (continued)

(a) OMERS pension plan (continued)

As at December 31, 2018, OMERS had approximately 496,000 members, of whom 17 are current employees of the Corporation. The most recently available OMERS annual report is for the year ended December 31, 2018, which reported that the plan was 96% funded, with an unfunded liability of $4.2 billion. This unfunded liability is likely to result in future payments by participating employers and members.

(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	2018	2017
Defined benefit obligation, beginning of year	$ 478,800	$ 330,064
Included in profit or loss		
Current service cost	36,266	23,336
Interest cost	16,319	12,843
	531,385	366,243
Included in OCI		
Actuarial loss arising from changes in financial assumptions	-	146,200
	531,385	512,443
Benefits paid	(25,063)	(33,643)
Defined benefit obligation, end of year	$ 506,322	$ 478,800

Actuarial assumptions	2018	2017
General inflation	2.00%	2.00%
Discount (interest) rate	3.50%	3.50%
Salary levels	3.30%	3.30%
Medical costs	6.20%	6.20%
Dental costs	4.50%	4.50%

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by approximately $59,900. A 1% decrease in the assumed discount rate would result in the defined benefits obligation increasing by approximately $76,800.

15. Share capital

	2018	2017
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 (2017 - $500) which amount to total dividends paid in the year of $500,000 (2017 - $500,000).

16. Other revenue

	2018	2017
Pole rental	$ 73,705	$ 73,364
Late payment charges	48,345	45,411
Amortization of deferred revenue	77,162	65,652
Change of occupancy	22,380	31,080
Other	33,959	162,222
	$ 225,551	$ 377,729

17. Operating expenses

	2018	2017
Salaries and benefits	$ 1,475,038	$ 1,319,545
Depreciation and amortization	1,038,077	1,010,972
Contracted Services/Labour	809,384	752,889
Vehicle maintenance	98,896	88,822
Other	551,154	488,450
	$ 3,972,549	$ 3,660,678

18. Finance income and costs

	2018	2017
Finance income		
Interest income on bank deposits	$ 91,818	$ 45,799
Unrealized gain on swap adjustment	16,833	46,137
Finance costs		
Interest expense on long-term debt	(509,274)	(509,264)
Net finance costs recognized in profit or loss	$ (400,623)	$ (417,328)

19. Revenue from contracts with customers and other sources

	2018	2017
Revenue from contracts with customers:		
Energy sales	$ 23,779,595	$ 24,198,363
Distribution revenue	5,183,367	5,019,210
Revenue from other sources:		
Amortization of deferred revenue	77,162	65,652
Other	178,389	312,077
	$ 29,218,513	$ 29,595,302

The following table disaggregates revenues from contracts with customers by type of customer:

	2018	2017
Revenue from contracts with customers:		
Residential	$ 2,814,005	$ 2,755,292
Commercial	2,076,288	1,973,538
Other customers	293,074	290,380
Other	23,779,595	24,198,363
	$ 28,962,962	$ 29,217,573

20. 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.

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, 2018, no assessments have been made.

21. Amortization

	2018	2017
Amortization		
Amortization of capital assets charged to operations	$ 1,038,077	$ 1,010,972
Amortization of capital assets charged to capital assets through overhead capitalization	101,665	92,801
	$ 1,139,742	$ 1,103,773

22. 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:

		2018		2017
Less than one year	$	5,112	$	5,112
Between one and five years		6,695		11,807
	$	11,807	$	16,919

During the year ended December 31, 2018 an expense of $5,112 (2017 - $5,112) was recognized in profit or loss in respect of operating leases.

23. 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 of Niagara-on-the-Lake (the "Town'). The Town produces consolidated financial statements that are available for public use.

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

		2018		2017
Energy Niagara Services Inc.	$	(10,411)	$	(13,037)
Niagara-on-the-Lake Energy Inc.		29,023		22,923
Town of Niagara-on-the-Lake		(693,150)		(484,499)
	$	(674,537)	$	(474,613)

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

(c) Transactions with companies under common control

The Corporation received $150,086 (2017 - $147,578) for operations, billing and administrative services from a company under common control.

23. 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 the Town throughout the year for the electricity needs of the Town and its related organizations in the amount of $902,131 (2017 - $896,678). Electricity delivery charges are at prices and under terms approved by the OEB.

(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:

	2018	2017
Salaries and benefits	$ 413,166	$ 324,418
OMERS contributions	32,665	36,948
Directors' fees	36,242	21,650
	$ 482,076	$ 383,016

24. Financial instruments and risk management

Fair value disclosure

The carrying values of cash balances, accounts receivable, unbilled revenue, due from/to related parties, bank indebtedness, line of credit 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, 2018 is $8,048,534. The fair value is calculated based on the present value of future principal repayments, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at December 31, 2018 ranged from 2.91% to 3.22% based upon the outstanding term of the loan.

24. 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 10% of total accounts receivable.

The carrying amount of accounts receivable is reduced through the use of 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 $54,286 (2017 - $95,418). An impairment loss of $18,000 (2017 - $17,789) 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, 2018, $91,068 (2017 - $156,938) 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, 2018, the Corporation holds security deposits in the amount of $707,424 (2017 - $377,590).

(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. The Corporation's demand loans have a variable interest rate based on prime plus a margin. As a result, the Corporation is exposed to interest rate risk due to fluctuations in the prime rate.

24. 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 $3,000,000 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, 2018, $2,000,000 (2017 - $1,000,000) 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 $1,349,498 has been drawn and posted with the IESO (2017 - $1,349,198).

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, 2018, shareholder's equity amounts to $17,126,381 (2017 - $16,573,133) and long-term debt amounts to $5,740,538 (2017 - $7,005,567).