North Bay Hydro Distribution Limited
Financial Statements
For the year ended December 31, 2017

North Bay Hydro Distribution Limited
Financial Statements
For the year ended December 31, 2017

Table of contents

Tel: 705-495-2000
Fax: 705-495-2001
Toll-Free: 800-461-6324
www.bdo.ca

BDO Canada LLP
101 McIntyre Street W, Suite 301
North Bay ON P1B 2Y5 Canada

Independence Auditor's Report

To the Shareholder of North Bay Hydro Distribution Limited

We have audited the accompanying financial statements of North Bay Hydro Distribution Limited, which comprise the statement of financial position as at December 31, 2017, and the statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2017 and 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.

Auditor's 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 the auditor's 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, the auditor considers 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 North Bay Hydro Distribution Limited as at December 31, 2017 and its financial performance and its cash flows for the year ended December 31, 2017 in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

North Bay, Ontario
March 28, 2018

North Bay Hydro Distribution Limited
Statement of Financial Position
Expressed in Canadian Dollars
For the year ended December 31, 2017

	Note	2017	2016
Assets			
Current assets			
Cash and short-term investments		**$ 12,132,663**	$ 12,270,623
Accounts receivable	**6**	**7,519,215**	7,454,008
Unbilled revenue		**6,329,535**	7,708,360
Payment in lieu of taxes receivable	**7**	**21,050**	282,871
Inventory	**10**	**610,225**	511,305
Prepaid expenses - current		**638,161**	662,674
Total current assets		**27,250,849**	28,889,841
Non-current assets			
Property, plant and equipment	**4**	**65,569,846**	61,257,160
Prepaid expenses – long-term		**254,041**	444,571
Financial instrument asset	**14**	**1,335,704**	445,411
Deferred taxes	**7**	**2,555,522**	2,868,194
Total non-current assets		**69,715,113**	65,015,336
Total assets		**96,965,963**	93,905,177
Regulatory deferral account debit balances	**3**	**450,824**	656,113
Total assets and regulatory deferral account balances		**$ 97,416,787**	$ 94,561,290

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

North Bay Hydro Distribution Limited
Statement of Financial Position (continued)
Expressed in Canadian Dollars
For the year ended December 31, 2017

	Note	2017	2016
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	**$ 10,575,337**	$ 11,133,929
Deferred revenue		**386,415**	109,073
Customer deposits - current	6	**113,244**	90,766
Current portion of long-term debt	14	**2,983,225**	2,484,485
Total current liabilities		**14,058,221**	13,818,253
Long-term liabilities			
Customer deposits - long-term	6	**721,988**	617,324
Contributions in aid of construction	5	**3,022,340**	2,365,572
Employee future benefits	8	**4,559,762**	4,205,564
Long-term debt	14	**33,988,488**	32,040,705
Total non-current liabilities		**42,292,578**	39,229,165
Total liabilities		**56,350,799**	53,047,418
Shareholder's Equity			
Share capital	11	**19,511,601**	19,511,601
Retained earnings		**17,275,704**	16,628,816
Accumulated other comprehensive income (loss)		**(166,308)**	116,116
		17,109,396	16,744,932
Total shareholder's equity		**36,620,997**	36,256,533
Total liabilities and shareholder's equity		**92,971,796**	89,303,951
Regulatory deferral account credit balances	3	**4,444,991**	5,257,339
Total liabilities, equity and regulatory deferral account credit balances		**$ 97,416,787**	$ 94,561,290

Signed on behalf of the Board of Directors by

____________________ Director

____________________ Director

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

North Bay Hydro Distribution Limited
Statement of Comprehensive Income
Expressed in Canadian Dollars
For the year ended December 31, 2017

	Note	2017	2016
Revenue			
Electricity sales		**$ 68,378,071**	$ 74,476,753
Other		**836,408**	918,505
		69,214,479	75,395,258
Expenses			
Cost of power		**56,443,994**	62,782,581
Operating expenses	**12**	**6,576,880**	6,355,463
Depreciation and amortization		**2,677,812**	2,614,481
(Gain) loss on disposal of property, plant and equipment		**154,023**	(115,544)
Loss (gain) on foreign exchange		**10,733**	13,352
		65,863,443	71,650,333
Income from operating activities		**3,351,037**	3,744,925
Finance income	**13**	**302,724**	253,224
Finance costs	**13**	**(1,051,545)**	(1,398,768)
Change in interest rate swap	**14**	**890,292**	672,578
Income before provision for payment in lieu of income taxes		**3,492,508**	3,271,959
Provision for payment in lieu of income taxes			
Current	**7**	**130,864**	165,881
Deferred		**414,498**	1,033,121
		545,362	1,199,002
Profit for the year before net movements in regulatory deferral account balances		**2,947,145**	2,072,957
Net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement	**3**	**431,277**	1,256,121
Profit for the year and net movements in regulatory deferral account balances		**3,378,423**	3,329,078
Other comprehensive income:			
Remeasurement of employee future benefits (net of (2017 – ($101,826) in tax) (2016-$184,700)	**8**	**(282,424)**	512,276
Net and comprehensive income for the year		**$ 3,095,999**	$ 3,841,354

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

North Bay Hydro Distribution Limited
Statement of Changes in Equity
Expressed in Canadian Dollars
For the year ended December 31, 2017

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 2016	**$ 19,511,601**	**$(396,160)**	**$ 13,975,520**	**$ 33,090,961**
Profit for the year and net movements in regulatory deferral account balances	-	-	3,329,078	3,329,078
Other comprehensive Income, net of tax		512,276	-	512,276
Dividends paid	-	-	(675,782)	(675,782)
December 31, 2016	**19,511,601**	**116,116**	**16,628,816**	**36,256,533**
Profit for the year and net movements in regulatory deferral account balances	-	-	3,378,423	3,378,423
Other comprehensive income, net of tax	-	(282,424)	-	(282,424)
Dividends paid	-	-	(2,731,535)	(2,731,535)
Balance at December 31, 2017	**$ 19,511,601**	**$ (166,308)**	**$ 17,275,704**	**$36,620,997**

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

North Bay Hydro Distribution Limited
Statement of Cash Flows
Expressed in Canadian Dollars
For the year ended December 31, 2017

		2017		2016
Cash Flows From Operating Activities				
Profit for the year and net movements in regulatory deferral account balances	$	3,378,423	$	3,329,078
Adjustments to reconcile income to net cash used in operating activities:				
Depreciation and amortization		2,677,812		2,614,481
Amortization of contributions in aid of construction		(71,269)		(46,689)
Deferred income taxes		414,498		1,033,121
Employee future benefit expense		209,666		204,523
(Gain) loss on disposal of property, plant and equipment		184,022		(115,544)
Change in interest rate swap		(890,292)		(672,578)
		5,902,860		6,344,392
Change in non-cash operating working capital:				
Accounts receivable		(65,207)		(65,451)
Unbilled revenue		1,378,825		(943,694)
Inventory		(98,920)		43,559
Prepaid expenses		215,043		217,339
Accounts payable and accrued liabilities		(558,591)		(1,144)
Deferred revenue		277,342		(318,286)
Payment in lieu of taxes		261,821		(109,065)
Customer deposits		127,142		(268,169)
Net cash flows from operating activities		7,440,315		4,899,481
Cash Flows from investing activities				
Proceeds on disposal of property, plant and equipment		-		183,821
Purchase of property, plant and equipment		(7,174,523)		(6,302,354)
Changes in regulatory deferral account balances		(607,059)		(1,119,493)
Cash used in investment activities		(7,781,582)		(7,238,026)
Cash Flows from financing activities				
Contributions received in aid of construction		728,037		352,212
Dividends paid		(2,731,535)		(675,782)
Employee future benefits paid		(239,718)		(238,007)
Repayment of long-term debt		(2,553,477)		(20,859,207)
Advances of long-term debt		5,000,000		24,500,000
Cash provided by financing activities		203,307		3,079,327
Net increase in cash		(137,959)		740,782
Cash, beginning of year		12,270,623		11,529,841
Cash, end of year	$	12,132,663	$	12,270,623

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

1. Corporate Information

North Bay Hydro Distribution Limited's (the "Company") main business activity is the distribution of electricity under authority of the Ontario Energy Board ("OEB") Act, 1998. The Company owns and operates an electricity distribution system, which delivers electricity to approximately 24,325 customers located in North Bay, Ontario.

Operating in a regulated environment exposes the Company to regulatory and recovery risk.

Regulatory risk is the risk that the Province and its regulator, the OEB, could establish a regulatory regime that imposes conditions that restrict the electricity distribution business from achieving an acceptable rate of return that permits financial sustainability of its operations including the recovery of expenses incurred for the benefit of other market participants in the electricity industry such as transition costs and other regulatory balances. All requests for changes in electricity distribution charges require the approval of the OEB.

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect distribution rates and other permitted recoveries in the future. North Bay Hydro Distribution Limited is subject to a cost of service regulatory mechanism under which the OEB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment, or rate base. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The address of the Company's corporate office and principal place of business is 74 Commerce Crescent, North Bay, Ontario, Canada.

The sole shareholder of the Company is the Corporation of the City of North Bay.

2. Basis of Preparation

a) Statement of compliance

The financial statements of North Bay Hydro Distribution Limited have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issue by the Board of Directors on March 28, 2018.

b) Basis of measurement

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Canadian dollars (CDN$), which is also the Company's functional currency, and all values are rounded to the nearest dollar, unless when otherwise indicated.

c) Judgment and Estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving critical judgments and estimates in applying

2. Basis of Preparation (continued)

accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The calculation of the impairment of accounts receivable (Note 6)
- The recognition of regulatory debit and credit balances (Note 3)
- The determination for the provision for Payment in Lieu of Taxes since there are many transactions and calculations for which the ultimate tax determination is uncertain (Note 7); and
- The calculation of the net future obligation for certain unfunded health, dental and life insurance benefits for the Company's retired employees (Note 8).

In addition, in preparing the financial statements the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

3. Regulatory deferral account balances

In accordance with IFRS 14, the Company has continued to apply the accounting policies it applied in accordance with the pre-changeover Canadian GAAP for the recognition, measurement and impairment of assets and liabilities arising from rate regulation. These are referred to as regulatory deferral account balances. Regulatory deferral account balances are recognized and measured initially and subsequently at cost. They are assessed for impairment on the same basis as other non-financial assets.

Regulatory deferral account credit balances are associated with the collection of certain revenues earned in the current period or in prior period(s) that are expected to be returned to consumers in future periods through the rate-setting process.

Regulatory deferral account debit balances represent future revenues associated with certain costs incurred in the current period or in prior period(s) that are expected to be recovered from consumers in future periods through the rate-setting process. Management continually assesses the likelihood of recovery of regulatory balances. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

Expressed in Canadian Dollars

3. REGULATORY DEFERRAL ACCOUNT BALANCES (CONTINUED)

The balances and movements in the regulatory deferral account balances shown below are presented net of related deferred taxes. These deferred taxes are not presented within the total deferred tax asset balances shown in Note 7. All amounts deferred as regulatory deferral account balances are subject to approval by the OEB. As such, amounts subject to deferral could be altered by the regulators. Remaining recovery periods are those expected and the actual recovery or settlement periods could differ based on OEB approval. Due to previous, existing or expected future regulatory articles or decisions, the Company has the following amounts expected to be recovered by customers (returned to customers) in future periods and as such regulatory deferral account balances are comprised of:

	Remaining recovery period (years)		2017		2016
Regulatory Deferral Account Debit Balances					
Cost of Power (i)	1 – 4	$	**273,659**	$	61,376
Disposition/recovery - 2014, 2015, 2016 (iii)	1 – 4		**-**		369,068
LRAMVA (iv)	1 – 4		**104,243**		190,949
Smart meter initiatives	1 - 4		**-**		3,027
Other (vii)	1 – 4		**72,922**		31,693
Total Regulatory Deferral Account Debit Balances		$	**450,824**	$	656,113

	Remaining recovery period (years)		2017		2016
Regulatory Deferral Account Credit Balances and related Deferred Tax					
Cost of Power - Wholesale Market Service (i)	1 – 4	$	**(1,022,273)**	$	(1,453,016)
Cost of Power – Global Adjustment (i)	1 - 4		**(603,238)**		-
Disposition/rec – 2014, 2015, 2016, 2017 (iii)	1 - 4		**(151,268)**		-
IFRS Transition (ii)			**-**		(844,001)
Retail cost variances (v)	1 – 4		**(112,690)**		(89,679)
Deferred income taxes (vi)	5 - 25		**(2,555,522)**		(2,868,194)
Other (vii)	1 – 4		**-**		(2,449)
Total Regulatory Deferral Account Credit Balances and related Deferred Tax		$	**(4,444,991)**	$	(5,257,339)

In the absence of rate regulation, these rate regulated assets and liabilities would be recognized in income in the year in which they relate. As a result, the net effect on income for the period is as stated below.

i. Cost of Power

This account is comprised of the variances between amounts charged by the Company to customers,

3. REGULATORY DEFERRAL ACCOUNT BALANCES (CONTINUED)

based on regulated rates, and the corresponding cost of non-competitive electricity service charged to the Company for the operation of the wholesale electricity market and grid, including commodity and global adjustment, various wholesale market settlement charges and transmission charges. Under the OEB's direction, the Company has deferred the settlement variances that have occurred since May 1, 2002 in accordance with the AP Handbook. Carrying charges are calculated monthly on the opening balance of the applicable variance account using a specific interest rate as outlined by the OEB. The Company did not recognize carrying charge income related to the retail settlement variance accounts for external reporting purposes prior to December 31, 2003.

The OEB allows the variances to be deferred which would normally be recorded as revenue for unregulated businesses under Modified IFRS (MIFRS). In absence of rate regulation, revenues in 2017 would have been lower by $39,789 (2016 - higher by $1,648,784).

As a component of the yearly Incentive Regulation Mechanism (IRM) rate application process, "Group 1" account balances (which are composed of Low Voltage, Wholesale Market, Network, Connection, Power and the Smart Meter Entity charge) are reviewed and will qualify for disposition if balances, including carrying charges, exceed a preset threshold per kWh. The Company has proposed disposition of the 2016 audited deferral account balances, including carrying charges, over a one year disposition period in the pending 2018 IRM application for 2018 rates. In 2017, NBHDL disposed of 2015 audited balances for Group 1 accounts – see Note iii.

ii. IFRS Transition Costs

The Board approved variance Account 1576, Accounting Changes Under CGAAP, for distributors to record the financial differences arising as a result of the election to make accounting changes to depreciation; the difference is a reflection of the revised depreciation expense in comparison to the depreciation that would have been recorded under previous service life terms and thus included in rates charged to customers.

In the 2014 Cost of Service application process, the OEB approved disposition of the net amount owing to customers recorded in Account 1575 and 1576 of ($3,376,003) through a two year rate rider beginning in July 2015. While the rate rider is recorded through the income statement in distribution revenue and the loss on regulatory assets/liabilities expense, the regulatory deferral accounts are reduced through an adjustment to depreciation expense based on a straight line amortization period that spans the same two year period of the rate rider – July 2015 through June 2017. The rate rider expired in June 2017 and as such the deferral accounts were reduced to a net of $Nil (2016 - $844,001) in 2017.

iii. Disposition/recovery – 2014, 2015, 2016, 2017

Disposition/recovery – 2014 On August 30, 2013, the Company filed an IRM application for 2014 distribution rates (EB-2013-0157) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On March 6, 2014, the OEB approved the disposition of net regulatory assets of $864,885 and net regulatory liabilities of $1,594,828 over a one year period commencing May 1, 2014 and ending April 30, 2015. The amounts consisted of principal balances as of December 31, 2012 with carrying charges projected to April 30, 2014. NBHDL will seek

3. REGULATORY DEFERRAL ACCOUNT BALANCES (CONTINUED)

disposition of the net residual balance of $17,703 in a future rate application.

Disposition/recovery – 2015 On December 18, 2014, the Company filed a COS application for 2015 distribution rates (EB-2014-0099) with the OEB which included a request seeking disposition of the balances for regulatory assets and liabilities. On July 16, 2015, the OEB approved the disposition of net regulatory assets of $1,554,186 and net regulatory liabilities of ($4,662,850) which includes Group 1 and 2 balances, CGAAP and LRAMVA accounts. The Group 1 and 2 amounts consisted of principal balances as of December 31, 2013 with carrying charges projected to April 30, 2015 for a net total of $455,076 being collected from customers over a one year period commencing July 1, 2015 and ending June 30, 2016. The PP&E – CGAAP and transitional amounts are being refunded to customers over a two year period beginning July 1, 2015 and ending June 30, 2016. The amount owed to customers includes the disposition of the regulatory liability of ($3,793,377). The LRAMVA amount approved for disposition included the lost revenue for OPA programs up to December 31, 2013 plus carrying charges projected to April 30, 2015 for a total amount of $229,637 being collected from customers over a one year period commencing July 1, 2015 and ending June 30, 2016. NBHDL will seek disposition of the net residual balance of ($6,316) in a future rate application.

Disposition/recovery – 2016 On March 23, 2016, the Company filed an IRM application for 2016 distribution rates (EB-2015-0092) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On May 5, 2016, the OEB issued a decision approving the disposition of net regulatory assets of $935,707. The amounts consisted of principal balances as of December 31, 2014 with carrying charges projected to April 30, 2016. The OEB approved disposition of $950,051 over a one year period commencing May 1, 2016 and ending April 30, 2017 for the Global Adjustment amount; the remaining Group 1 account balances netting ($14,344) will be refunded to customers in a future rate application. NBHDL will seek disposition of the net residual balance of $59,078 in a future rate application.

Disposition/recovery – 2017 On September 26, 2016, the Company filed an IRM application for 2017 distribution rates (EB-2016-0214) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On February 8, 2017, the OEB issued a decision approving the disposition of net regulatory assets of ($691,352). The amounts consisted of principal balances as of December 31, 2015 with carrying charges projected to April 30, 2017. The OEB approved disposition over a one year period commencing May 1, 2017 and ending April 30, 2018. The balance owing as at December 31, 2017 is ($221,734).

iv. Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)

On April 26, 2012 the OEB released the *Guidelines for Electricity Distributor Conservation and Demand Management (EB-2012-0003)* which included accounting direction on the treatment of lost revenues from forecasted/unforecasted Conservation and Demand Management (CDM) results on distribution revenue due to variances from forecasted throughput used to establish distribution rates.

The Board established an LRAM variance account ("LRAMVA") to capture the differences between the results of actual, verified impacts of authorized CDM activities undertaken by electricity distributors between 2011-2014 for both Board-Approved CDM programs and OPA-Contracted Province-Wide CDM programs in relation to activities undertaken by the distributor and/or delivered for the distributor by

3. REGULATORY DEFERRAL ACCOUNT BALANCES (CONTINUED)

a third party under contract (in the distributor's franchise area) and the level of CDM program activities included in the distributor's load forecast (i.e. the level embedded into rates). At a minimum, distributors must apply for disposition of the balance in the LRAMVA the time of their Cost of Service rate applications.

In the 2014 COS application, the OEB approved disposition of LRAMVA amounts related to CDM programs up to December 31, 2013 in the amount of $221,924; this is now included in the disposition/recovery – 2015 account. On February 8, 2017, the OEB approved disposition of LRAMVA amounts related to CDM programs up to December 31, 2014 in the amount of $191,584; this is now included in the disposition/recovery – 2017 account.

v. Retail cost variances

Retail cost variances were established to record the difference between the amount billed and the incremental costs of providing retail services and to record the difference between the amount billed in relation to a service transaction request and the incremental costs of providing the initial screening and actual processing services for the service transaction request. Under the OEB's direction, the Company has deferred the settlement variances that have occurred since May 1, 2002. Accordingly, the Company has deferred these recoveries in accordance with the AP Handbook.

The OEB allows the variances to be deferred which would normally be recorded as revenue for unregulated businesses under IFRS. In absence of rate regulation, revenues in 2017 would have been higher by $23,011 (2016 - higher by $27,867). The deferred balance for unapproved settlement variances continues to be calculated in accordance with the OEB's direction. The OEB approved disposition of audited 2013 balances in the 2014 COS application - see Note iii.

vi. Deferred Income Taxes

The recovery from, or refund to, customers of future income taxes through future rates is recognized as a regulatory deferral account balance. The Company has recognized a deferred tax asset of $2,555,522 (2016 – $2,868,194) arising from the recognition of regulatory deferral account balances and a corresponding regulatory deferral account credit balance of $2,555,522 (2016 - $2,868,194). The deferred tax asset balance is presented within the total regulatory deferral account balances presented in the statement of financial position.

vii. Other

2016 costs relate to carrying charges on accounts included as regulatory credits and increased OEB cost assessments. In 2016, in addition to an increase in the OEB's internal budget, the OEB also revised its Cost Assessment Model to reflect a change in the methodology used to apportion costs. These changes resulted in a material shift in the allocation of costs. The OEB established a variance account for electricity distributors to record any material differences between OEB cost assessments currently built into rates, and cost assessments that will result from the application of the new cost assessment model. NBHDL has recorded $38,744 in incremental cost assessment increases in 2017 ($33,658 – 2016) in the deferral account in accordance with the guidance on the use of the variance account.

Expressed in Canadian Dollars

3. REGULATORY DEFERRAL ACCOUNT BALANCES (CONTINUED)

For certain of the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the regulator in determining the item's treatment for rate-setting purposes. Management continually assesses the likelihood of recovery of regulatory assets and realization of regulatory liabilities. If recovery and realization through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated amortization. Costs may include direct material, labour, contracted services, overhead, engineering costs and interest on funds used during construction that are considered applicable to construction. Major spares such as spare transformers and other items kept as standby/back up equipment are accounted for as property, plant and equipment since they support the Company's distribution system reliability. Upon disposal the cost and accumulated amortization of assets are relieved from the respective accounts and any gain or loss is reflected in operations. Depreciation of property, plant and equipment is recorded in the Statement of Comprehensive Income on a straight-line basis over the estimated useful life of the related asset. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

The estimated useful lives are as follows:

Distribution Assets:	
Building and fixtures	30 - 50 years
Substations	40 - 50 years
Poles, towers and fixtures	45 years
Overhead conductor and devices	60 years
Underground conduit and conductor	40 - 50 years
Distribution transformers	40 years
Overhead and underground services	40 – 60 years
Distribution meters	10 - 25 years
General Assets:	
Buildings	25 – 50 years
Office equipment	10 years
Computer equipment	5 years
Transportation equipment	5 - 8 years
Small tools and miscellaneous equipment	10 years
Load management controls	6 years
System supervisory equipment	15 – 20 years

Land is not depreciated.

Expressed in Canadian Dollars

4. Property, Plant and Equipment (continued)

	Electrical Distribution Assets	General Assets	Work in process	Total
Cost				
Balance at January 1, 2016	**$ 103,235,445**	**$ 11,237,497**	**$ 896,580**	**$ 115,369,522**
Additions	4,720,227	850,317	731,810	6,302,354
Disposals	(331,172)	(208,400)		(539,572)
Balance at December 31, 2016	**107,624,500**	**11,879,414**	**1,628,390**	**121,132,304**
Balance at January 1, 2017	**107,624,500**	**11,879,414**	**1,628,390**	**121,132,304**
Additions	5,584,343	607,498	982,681	7,174,523
Disposals	(863,965)	(310,374)		(1,174,339)
Balance at December 31, 2017	**112,344,878**	**12,176,538**	**2,611,071**	**127,132,488**
Depreciation and impairment losses				
Balance at January 1, 2016	**49,834,914**	**7,897,045**	-	**57,731,959**
Depreciation for the year	1,969,842	644,639	-	2,614,481
Disposals	(262,896)	(208,400)	-	(471,296)
Balance at December 31, 2016	**$ 51,541,860**	$ **8,333,284**	**$ -**	**$ 59,875,144**
Balance at January 1, 2017	**51,541,860**	**8,333,284**	**-**	**59,875,144**
Depreciation for the year	2,091,199	586,613	-	2,677,812
Disposals	(679,940)	(310,374)	-	(990,314)
Balance at December 31, 2017	**$ 52,953,119**	**$ 8,609,523**	**$ -**	**$ 61,562,642**
Carrying amounts:				
At December 31, 2016	**$ 56,082,640**	**$ 3,546,130**	**$ 1,628,390**	**$ 61,257,160**
At December 31, 2017	**$ 59,391,760**	**$ 3,567,015**	**$ 2,611,071**	**$ 65,569,846**

Expressed in Canadian Dollars

5. Revenue Recognition

Revenue from the sale and distribution of electricity is recognized on an accrual basis. Distribution revenue is comprised of customer billings for distribution service charges. Customer billings for distribution service charges are recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the fiscal year. Actual results could differ from estimates made of customer electricity usage.

As a licensed distributor, the Company 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 Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers. The Company has determined that they are acting as a principal for the electricity distribution and, therefore, have presented the electricity revenues on a gross basis.

Other revenues, which include revenues from pole use rental, collection charges and other miscellaneous revenues are recognized at the time services are provided. Where the Company has an ongoing obligation to provide services, revenues are recognized as the service is performed and amounts billed in advance are recognized as deferred revenue.

Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions vary by project and are based on the criteria set forth in the Distribution System Code. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as contributions in aid of construction and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset.

When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as contributions in aid of construction.

The continuity of deferred contributions in aid of construction is as follows:

		December 31 2017		December 31 2016
Deferred contributions, net, beginning of year	**$**	**2,365,572**	$	2,061,938
Contributions in aid of construction received		**728,037**		352,323
Contributions in aid of construction recognized as distribution revenue		**(71,269)**		(48,689)
Deferred contributions, net, end of year	**$**	**3,022,340**	$	2,365,572

All contributions in aid of construction are cash contributions. There have not been any contributions of property plant and equipment.

Expressed in Canadian Dollars

6. Accounts Receivable and Customer Deposits

	December 31 2017	December 31 2016
Accounts receivable due from related parties	**$ 828,567**	$ 545,005
Other accounts receivable	**6,732,023**	6,986,912
Allowance for doubtful accounts	**(41,375)**	(77,909)
Total accounts receivable	**$ 7,519,215**	$ 7,454,008

Due to its short-term nature, the carrying amount of the accounts receivable due from related parties and other accounts receivable approximates its fair value. In determining the allowance for doubtful accounts, the Company considers historical loss experience of account balances based on the aging and arrears status of accounts receivable balances. The change in allowance for doubtful accounts related to a $163,484 bad debt expense for the year and accounts receivable write off of $200,018.

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 the income statement. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2017 is $41,375 (2016 - $77,909). The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2017, approximately $183,011 (2016 - $204,234) is considered 60 days past due. The Company has approximately 24,325 customers, the majority of which are residential.

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits, which are reported separately from the Company's own cash and cash equivalents. Deposits to be refunded to customers within the next fiscal year are classified as a current liability. Interest rates paid on customer deposits are based on the Bank of Canada's prime business rate less 2%.

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

Customer deposits represents cash deposits from electricity distribution customers and retailers, as well as construction deposits. Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

	December 31 2017	December 31 2016
Customer deposits – current	**$ 113,244**	$ 90,766
Customer deposits – long-term	**721,988**	617,324
Total customer deposits	**$ 835,232**	$ 708,090

Expressed in Canadian Dollars

7. PAYMENTS IN LIEU OF TAXES PAYABLE

The Company is a Municipal Electricity Utility ("MEU") for purposes of the PIL's regime contained in the Electricity Act, 1998. As a MEU the Company is exempt from tax under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario).

Under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate income taxes each year to Ontario Electricity Financial Corporation ("OEFC"), commencing October 1, 2001. These payments are calculated in accordance with the rules for computing taxable income and other relevant amounts contained in the Income Tax Act (Canada) and the Corporation Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

PILs expense comprises of current and deferred tax. Current tax and deferred tax are recognized in comprehensive income except to the extent that it relates to items recognized directly in equity or regulatory deferral account balances.

Significant judgment is required in determining the provision for PILs. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on the Company’s current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Significant components of the payments in lieu of taxes expense are as follows:

a. Expense

The Company's provision for PILs is calculated as follows:

	2017	2016
Income before provision for payment in lieu of income taxes	**$ 3,492,508**	$ 3,271,959
Regulatory assets/liabilities added (deducted) for tax purposes	**(294,387)**	(40,208)
Net change in reserves (EFB)	**(30,052)**	(51,215)
Capital cost allowance (greater than) less than amortization expense	**(1,845,871)**	(1,796,819)
Other items	**(53,302)**	50,530
Unrealized (gain) loss	**(890,292)**	(672,578)
(Gain) loss on disposal of assets	**154,022**	(115,544)
Income (loss) for tax purposes	**532,626**	646,125
Statutory Canadian federal and provincial tax rate	**26.50%**	26.50%
Provision for PILs	**141,146**	171,223
Prior year over provision	**(10,282)**	(5,342)
Total tax provision	**$ 130,864**	$ 165,881

Expressed in Canadian Dollars

7. Payments in Lieu of Taxes Payable (continued)

b. Deferred Taxes

Components of deferred taxes are as follows:

	2017	2016
Property, plant and equipment	**$ 965,944**	$ 1,433,169
Employee future benefits	**1,208,337**	1,114,474
Regulatory Assets / Liabilities	**381,241**	320,551
Total deferred tax assets	**$ 2,555,522**	$ 2,868,194

8. Employee Future Benefits

Employee future benefits other than pension provided by the Company include medical and insurance benefits. These benefit plans provide benefits to certain employees when they are no longer providing active service.

The cost of these benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, the cost of these benefits are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The calculation is performed by a qualified actuary using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities. The valuation is performed every third year or when there are significant changes to workforce. A full valuation was performed in 2016.

Remeasurements of the defined benefit obligation are recognized directly within equity in other comprehensive income. The remeasurements include actuarial gains and losses.

Service costs are recognized in the Statement of Comprehensive Income in operating expenses, and include current and past service costs as well as gains and losses on curtailments.

Net interest expense is recognized on the Statement of Comprehensive Income in finance costs, and is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the balance of the net defined benefit obligation, considering the effects of benefit payments during the period. Gains or losses arising from changes to defined benefits or plan curtailment are recognized immediately in the Statement of Comprehensive Income. Settlements of defined benefit plans are recognized in the period in which the settlement occurs.

The plan is exposed to a number of risks, including:

Interest rate risk: decreases/increases in the discount rate used (high quality corporate bonds) will increase/decrease the defined benefit obligation.

Longevity risk: changes in the estimation of mortality rates of current and former employees.

Expressed in Canadian Dollars

8. EMPLOYEE FUTURE BENEFITS (CONTINUED)

Health care cost risk: increases in cost of providing health, dental and life insurance benefits.

The Company has a defined benefit life insurance and health care plan covering substantially all unionized employees and most retirees. Information about the Company's defined benefit life insurance and health care plan is as follows:

	2017	2016
Prepaid benefit liability, beginning of year	**$ 4,205,564**	$ 4,936,024
Expense for the year	**209,666**	204,523
Benefits paid during the year	**(239,718)**	(238,007)
Recognized in Other Comprehensive Income	**384,250**	(696,976)
Prepaid benefit liability, end of year	**$ 4,559,762**	$ 4,205,564
Fair value of plan assets	**$NIL**	$NIL

Included in wages and employee benefits and finance costs respectively, is a net benefit expense as follows:

	2017	2016
Total service cost of the plan for the year	**$ 62,024**	$ 31,406
Interest on average liabilities	**147,642**	173,117
Total Expense for the year	**$ 209,666**	$ 204,523

The main actuarial assumptions employed for the valuations are based on the full actuarial report performed in 2016, except where noted below. In 2017, the Company hired an outside consulting firm to update the actuarial valuation report based on the changes noted below, including an update of employee and retiree status.

Expected average remaining service life of active employees 13 years

a. General Inflation

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.0% per annum (2016 - 2.0%).

b. Interest (Discount) Rate

The obligation at year end, of the present value of future liabilities and the expense for the year ended, were determined using a discount rate of 3.4% (2016- 3.8%). The discount rate for 2017 reflects the assumed long term yield on high quality bonds as at December 29, 2017 (most recent valuation date).

c. Salary Levels

Future general salary and wage levels were assumed to increase at 3.3% (2016- 3.3%) based on expected CPI adjusted for productivity, merit and promotion as at December 31, 2016.

8. EMPLOYEE FUTURE BENEFITS (CONTINUED)

d. Medical Costs

Medical costs were updated to reflect cost increase assumptions for 2018 and assumed to increase 5.78% in 2019, 5.56% in 2020, 5.56% in 2021, 5.14% in 2022, 4.93% in 2023, 4.41% in 2024 and 4.5% thereafter.

e. Dental Costs

Dental costs were updated to reflect cost increase assumptions for 2018 and assumed to increase at 4.5% annually.

The Company's sick accrual is included above in the amount of $198,800 (2016 - $200,400) and is the accumulation of non-vested sick leave benefits under IAS 19 standards for financial reporting purposes. The Company hired an outside consulting firm to assess the future payments to be made as a result of the Company's employees' sick leave bank hours in 2015. The discount rate used in 2017 was 3.4% (2016 – 3.8%). The Future general salary and wage levels were assumed to increase at 3.3% per annum.

Other employee benefits that are expected to be settled wholly within 12 months after the end of the reporting period are presented as current liabilities.

9. RELATED PARTY TRANSACTIONS

The Company provides administrative and other services to an affiliated company, North Bay Hydro Services Inc ("Services").

The Corporation of the City of North Bay (the "City") is the 100% owner of North Bay Hydro Holdings Inc. which is the parent company of North Bay Hydro Distribution Limited and North Bay Hydro Services Inc.

Electrical energy is sold to the City at the same prices and terms as other electricity customers consuming equivalent amounts of electricity. Streetlight maintenance services are provided at rates determined in relation to other service providers. Other construction services are provided at cost.

The following tables summarize the transactions that occurred between North Bay Hydro Distribution Limited and its affiliates.

Expressed in Canadian Dollars

9. RELATED PARTY TRANSACTIONS (CONTINUED)

	Sale of Goods		Purchase of Goods		Amounts owed to (from)	
	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2016
NBHS						
Contract services and other	$ 380,270	$ 511,573	$ -	$ -	$ -	$ -
Contracted services	-	-	399,335	246,480	-	-
Total statement of earnings and retained earnings	380,270	511,573	399,335	246,480	-	-
Accounts payable	-	-	-	-	221,433	344,436
Loan receivable	-	-	-	-	(275,265)	-
Asset (proceeds) / sale	(18,691)	22,450	-	-	-	-
Total balance sheet	$ (18,691)	$ 22,450	$ -	$ -	$ (53,832)	$ 344,436
Hydro Holdings						
Administration fees	$ -	$ -	$ 12,000	$ 12,000	$ -	$ -
Holdco total	$ -	$ -	$ 12,000	$ 12,000	$ -	$ -
City of North Bay						
Electrical energy sales	$ 3,900,717	$ 3,992,929	$ -	$ -	$ -	$ -
Construction activity sales	10,849	106,355	-	-	-	-
Street light maintenance	23,703	1,003	-	-	-	-
Fuel / water / other	-	-	325,766	328,502	-	-
CDM initiatives	-	-	6,654		-	-
Donations	-	-	1,250	1,250	-	-
Interest on promissory note	-	-		814,543	-	-
Total statement of earnings and retained earnings	$ 3,935,269	$ 4,100,287	$ 333,670	$ 1,144,295	$ -	$ -
Accounts receivable	-	-	-	-	368,953	396,551
Accounts payable	-	-	-	-	(130,685)	(133,997)
Total balance sheet	$ -	$ -	$ -	$ -	$ 238,268	$ 262,554

Management Compensation

During the year the Company compensated its senior management group $976,900 (2016 - $887,000), including salaries and benefits.

Expressed in Canadian Dollars

10. INVENTORY

Cost of inventories comprised of direct materials, which typically consists of distribution assets not deemed as major spares, unless purchased for specific capital projects in process or as spare units. Costs, after deducting rebates and discounts, are assigned to individual items of inventory on the basis of weighted average cost. Decommissioned assets that are transferred to inventory are tested for impairment once they are removed from service and placed in inventory. Inventory is recognized at the lower of cost and net realizable value. The amount of inventories consumed by the Company and recognized as an expense during 2017 was $86,833 (2016 - $135,407).

Inventory consists of parts, supplies and materials held for future capital expansion or maintenance and are valued at the lower of cost, determined by the weighted average method, and replacement cost.

11. SHARE CAPITAL

Authorized:

Unlimited Common shares

The issued share capital is as follows:

	2017	2016
1,001 Common Shares	**$ 19,511,601**	$ 19,511,601

12. OPERATING EXPENSES BY NATURE

	2017	2016
Repairs and maintenance	**$ 1,025,289**	$ 1,103,929
Staff costs	**3,457,066**	3,440,927
General administration and overhead	**1,850,811**	1,657,940
Bad debts	**163,484**	72,850
Property taxes	**80,230**	79,817
	$ 6,576,880	$ 6,355,463

Expressed in Canadian Dollars

13. FINANCE INCOME AND FINANCE COST

	2017	2016
Finance Income:		
Interest income on receivables	**$ 161,950**	$ 145,466
Interest income on bank deposits	**140,774**	107,758
	$ 302,724	$ 253,224
Finance Cost:		
Interest on long-term debt	**$ 903,903**	$ 1,225,651
Net interest on employee future benefits	**147,642**	173,117
	$ 1,051,545	$ 1,398,768

14. LONG-TERM DEBT

The Company negotiated a loan with the Ontario Infrastructure Projects Corporation to provide funding for the Smart Meter project. The loan is a 10 year serial loan at an interest rate of 3.90% calculated on a semi-annual basis. The loan will be repaid in 120 monthly installments which will include both principal and interest. The loan balance at the end of the year was $1,166,667 (2016 - $1,516,667), of which $350,000 is repayable within one year.

The Company's agreement with the Ontario Infrastructure Projects Corporation requires a debt service coverage ratio of 1.3 or higher, a debt to capital ratio lower than 60%, and a current ratio of 1.1:1 or higher. As part of the financing proposal, the OIPC agreed to waive any debt service coverage violation if working capital surplus was greater than the loan amount. The agreement also prevents the Company from making loans or paying dividends that would cause the violation of these covenants. As at December 31, 2017 the Company was in compliance with these covenants.

The Company has four term loans in the amounts of $4,000,000, $6,000,000, and two $5,000,000 loans with a Canadian Financial Institution and has entered into interest rate derivative agreements to manage the volatility of interest rates on long-term debt for each. Four of these loans are to be repaid over 120 months and one over 240 months with combined repayments of $190,047 per month principal and interest having fixed rates at 3.095%, 2.45%, 2.36%, and 2.88% respectively.

The Company entered into a term loan in the amount of $19,500,000 to replace the existing loan agreement with the City of North Bay. This loan is to be repaid over 240 months with repayments of $103,331 per month principal and interest at a rate of 2.5%.

The fair value of these loans are $35,636,009 (2016- $34,079,779) which is estimated by obtaining market-to-market quotes from the Company’s lending institutions. The quoted prices generally reflect the estimated amount that the Company would pay (receive) to settle these agreements at the statement of financial

Expressed in Canadian Dollars

14. Long-term Debt (continued)

position date. These represent a receivable (liability) position in the amount of $1,335,702 (2016 – $445,411) for the Company as interest rates at the statement of financial position date were higher than the fixed rate specified in the swap agreements resulting in an unrealized gain of $890,292 (2016- $672,578) on the statement of comprehensive income.

The Company must maintain Debt Service Coverage (DSC) ratio of not less than 1.20:1 on to remain in compliance with outstanding debt obligations. The Company has met these covenants at year-end.

Principal repayments for the next five years and thereafter are as follows:

	2017
2018	$ 2,983,225
2019	3,049,425
2020	3,120,889
2021	2,960,930
2022	2,919,600
Thereafter	21,937,644
	$ 36,971,713

The interest rates on these financial instruments are fixed and therefore the Company is not exposed to fluctuations in short-term interest rates in relation to these debts.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an on-going basis. The Company strives to maintain a liquidity level that allows for sufficient funds to meet operational requirements so that obligations can be met as they become due.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

December 31, 2016	**60 days**	**< 1 year**	**1 - 5 years**	**> 5 years**
Accounts payable	$ 11,133,929	$ -	$ -	$ -
Loans	410,621	2,074,166	12,698,987	19,341,416
	$11,544,550	**$2,074,166**	**$12,698,987**	**$19,341,416**

December 31, 2017	**60 days**	**< 1 year**	**1 - 5 years**	**> 5 years**
Accounts payable	$10,575,337	$ -	$ -	$ -
Loans	509,558	2,473,666	15,047,796	18,940,691
	$11,084,895	**$2,473,666**	**$15,047,796**	**$18,940,691**

15. Contingencies

The Company belongs to the Municipal Electrical Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a self-insurance plan that pools the risks of all of its members. Any losses experienced by MEARIE are shared amongst its members. As at December 31, 2017, the Company has not been made aware of any assessments for losses. The Company has one outstanding claim against it and expects that any potential liability under this claim will be covered under the MEARIE liability policy.

16. Commitments

On October 9, 2009 the Company entered into a 15 year contract with Sensus Metering Systems Inc. to maintain and further develop the AMI system that meets the MEU functional specifications related to the Smart Meter Project. The contract contains 3 renewal terms of 5 years each. The Company elected to have the monthly fees billed in US dollars, instead of having the currency rate set on an annual basis in October of each year. Termination penalties apply if the Company cancels the contract without cause, the related fees are based on a sliding scale for the year this takes place and the fees associated with the service option selected. Annual fees in the amount of approximately $206,000 are expected to be incurred under this contract, however can fluctuate based on several factors including performance. This contract exposes the Company to currency risk with fluctuations in currency prices when it purchases US dollars to meet the payable commitments.

17. Credit Facility / Letters of Credit

The Company has an authorized line of credit under a credit facility agreement with a Canadian chartered bank. The maximum draw permitted under this agreement is $1,000,000. At year end the Company had drawn $Nil (2016 - $Nil) under this facility.

The Company has available a revolving term facility to a maximum draw of $1,000,000 to finance the purchase of capital assets. At year end the Company had drawn $Nil (2016 - $Nil) under this facility.

The Company has a $3.6 million letter of credit with its bank provided to the IESO to secure the Company's hydro purchase obligations. The Company has provided its financial institution with a General Security Agreement as security for this obligation.

The Company's general banking agreement which encompasses the line of credit, revolving term facility and the letter of credit contains financial covenants which include a debt to capital ratio lower than 60% and a debt service coverage ratio of not less than 1:1 and positive free cash flow. Distributions in excess of free cash flow are permitted when financed by cash on hand. As at December 31, 2017 the Company was in compliance with these covenants.

The Company strives to maintain a liquidity level that allows for sufficient funds to meet operational requirements so that obligations can be met as they become due while minimizing interest expense. The Company monitors cash balances regularly and has access to short-term borrowings, should they be required, under its credit facility agreement. If the Company were to utilize this facility it would be exposed to fluctuations in short-term interest rates.

18. Pension Agreements

The Company makes contributions to the OMERS, which is a multi-employer pension plan, on behalf of all full-time members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The Administration Corporation Board of Directors, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. OMERS provides pension services to more than 482,000 active and retired members and approximately 1,000 employers.

Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2017. The results of this valuation disclosed total actuarial liabilities of $94,431 million in respect of benefits accrued for service with actuarial assets at that date of $89,028 million indicating an actuarial deficit of $5,403 million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the Company does not recognize any share of the OMERS pension surplus or deficit. The amount contributed to OMERS for 2017 was $437,730 (2016 - $420,679).

19. Capital Disclosures

The Company considers its capital to comprise its common share capital, retained earnings, and long-term debt.

In managing its capital, the Company's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and through the payment of periodic dividends to its common shareholders. The Company also seeks to ensure that access to funding is available in order to maintain and improve the equipment used in operations and maintain financial ratios within the recommended guidelines as prescribed by the OEB. In order to achieve these objectives, the Company develops detailed annual operating budgets and seeks to maintain distribution revenue levels and control costs to enable the Company to meet its working capital requirements and strategic investment needs. In making decisions to adjust its capital structure to achieve these objectives, the Company considers both its short-term position and long-term operational and strategic objectives.

As at December 31, 2017 the Company is party to debt agreements that contain various covenants and is restricted from offering loans or paying dividends that would cause a violation of those covenants.

20. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2017 or later years. The Company has not yet determined the extent of the impact of the following new standards, interpretations and amendments, which have not been applied in these financial statements:

- IFRS 9 – Financial Instruments; amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Company is in the process of evaluating the impact of the new standard but does not expect there to be a significant impact on the recognition and measurement of its financial instruments.
- IFRS 15 – Revenue from Contracts with Customers; based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRSs. The effective date for IFRS 15 is January 1, 2018. The Company is in the process of evaluating the impact of the new standard but does not expect there to be a significant impact on its recognition of revenue.
- IFRS 16 – Leases; (supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The company is in the process of evaluating the impact of the new standard standard.

21. COMPARATIVE FIGURES

Certain comparative figures have been modified to comply with current year presentation.