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FINANCIAL STATEMENTS OF

NEWMARKET-TAY POWER DISTRIBUTION LTD.

December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Newmarket-Tay Power Distribution Ltd.

Opinion
We have audited the financial statements of Newmarket-Tay Power Distribution Ltd., which comprise the statement of financial position as at December 31, 2018, and the statements of changes in equity and accumulated other comprehensive income, income, comprehensive income and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our 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.

Other Matter
The financial statements of the Company as at and for the year ended December 31, 2017 were audited by Collins Barrow Kawarthas LLP, which became Baker Tilly KDN LLP effective January 10, 2019.

Emphasis of Matter
We draw attention to note 1 and note 24 of the financial statements, which describes the purchase of Midland Power Utility Company effective September 7, 2018.

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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT, continued

Auditor's 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 auditor's 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 these 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company 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.

We 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.

Baker Tilly KDN LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
April 30, 2019

NEWMARKET-TAY POWER DISTRIBUTION LTD.
STATEMENT OF FINANCIAL POSITION
As at December 31, 2018

	2018 $	2017 $
ASSETS		
Current assets		
Cash (note 25)	-	10,381,961
Accounts receivable	17,287,521	13,274,180
Inventories	882,196	858,956
Prepaid expenses	447,373	281,898
Income taxes receivable	1,489,892	676,424
Unbilled revenue	11,856,298	9,221,039
	31,963,280	34,694,458
Non current		
Long-term investment (note 4)	100	-
Property, plant and equipment (note 5)	107,395,992	96,737,276
Intangible assets (note 6)	7,681,517	997,723
Goodwill (note 7)	6,864,284	-
Deferred income taxes (note 8)	552,850	2,466,971
Refundable deposit	-	1,000,000
	122,494,743	101,201,970
	154,458,023	135,896,428
Regulatory deferral account debit balances and related deferred tax (note 9)	10,985,630	2,894,845
	165,443,653	138,791,273

The accompanying notes are an integral part of these financial statements

	2018 $	2017 $
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 25)	3,536,972	-
Accounts payable and accrued liabilities (note 10)	15,345,360	12,823,488
Current portion of long-term debt (note 11)	3,232,267	657,006
Current portion of deposits held (note 15)	705,212	498,000
	22,819,811	13,978,494
Non current		
Long-term debt (note 11)	26,072,837	5,076,065
Interest rate swaps (note 12)	1,296,751	-
Subordinate Debt (note 13)	23,742,821	23,742,821
Contributed capital (note 14)	33,141,061	31,358,906
Deferred income taxes (note 8)	1,483,328	-
Advances from parent company (note 17)	2,450,663	2,636,879
Deposits held (note 15)	2,426,324	3,343,159
Employee future benefits (note 16)	1,157,004	1,047,729
	91,770,789	67,205,559
	114,590,600	81,184,053
Shareholders' equity		
Share capital (note 18)	27,140,206	27,140,206
Retained earnings	20,067,228	21,551,925
Accumulated other comprehensive income	32,973	32,973
	47,240,407	48,725,104
	161,831,007	129,909,157
Regulatory deferral account credit balances and related deferred tax (note 9)	3,612,646	8,882,116
	165,443,653	138,791,273

Guarantee (note 19)

Approved on behalf of the Board

_____________________________ Director _____________________________ Director

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.

STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME
For the year ended December 31, 2018

	Share capital $	Retained earnings $	Accumulated other comprehensive income $	Total $
Balance, December 31, 2016	27,140,206	20,663,101	140,871	47,944,178
Net income for the year	-	2,325,824	-	2,325,824
Other comprehensive loss	-	-	(107,898)	(107,898)
Dividends paid	-	(1,437,000)	-	(1,437,000)
Balance, December 31, 2017	27,140,206	21,551,925	32,973	48,725,104
Net income for the year	-	1,572,303	-	1,572,303
Dividends paid	-	(3,057,000)	-	(3,057,000)
Balance, December 31, 2018	27,140,206	20,067,228	32,973	47,240,407

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.
STATEMENT OF INCOME
For the year ended December 31, 2018

	2018 $	2017 $
Revenue		
Distribution revenue	21,616,917	15,108,008
Cost of power revenue	80,224,152	74,225,796
	101,841,069	89,333,804
Cost of power purchased	85,026,423	75,934,541
Gross profit	16,814,646	13,399,263
Other income (note 20)	2,225,644	1,219,972
Gross income from operations	19,040,290	14,619,235
Expenses		
Amortization	6,127,765	3,598,756
Operating expenses (note 21)	11,592,217	9,398,125
Loss on interest rate swap (note 12)	1,296,751	-
Gain on disposal of property, plant and equipment	(469,800)	(23,480)
	18,546,933	12,973,401
Income before undernoted items and income taxes	493,357	1,645,834
Finance income (note 22)	(412,185)	(322,760)
Finance costs (note 22)	1,845,190	1,602,606
Income (loss) before income taxes and net movement in regulatory deferral accounts, net of deferred tax	(939,648)	365,988
Provision for income taxes (note 8)		
Current	877,089	823,576
Deferred	3,397,449	473,987
	4,274,538	1,297,563
Loss before net movement in regulatory deferral accounts, net of deferred tax	(5,214,186)	(931,575)
Net movement in regulatory deferral accounts, net of deferred tax	6,786,489	3,257,399
Net income for the year	1,572,303	2,325,824

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2018

	2018 $	2017 $
Net income for the year	1,572,303	2,325,824
Comprehensive loss		
Actuarial loss, not reclassified to net income	-	(146,800)
Actuarial loss related deferred income tax not reclassed to net income	-	38,902
Comprehensive loss	-	(107,898)
Net income and comprehensive income (loss) for the year	1,572,303	2,217,926

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2018

	2018 $	2017 $
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	1,572,303	2,325,824
Items not affecting cash		
Amortization of property, plant and equipment	5,945,076	3,678,454
Amortization of intangible asset	581,968	175,389
Deferred income taxes	3,397,449	473,987
Loss (gain) on disposal of property, plant and equipment	483,939	(23,480)
Change in employee future benefits	109,275	24,388
Current income tax	877,089	823,576
Net finance costs	1,433,005	1,279,846
Recognition of contributed capital	(1,229,868)	(707,028)
Loss on interest rate swap	1,296,751	-
	14,466,987	8,050,956
Change in non-cash working capital items (note 23)	(6,303,438)	2,391,201
	8,163,549	10,442,157
Investing activities		
Purchase of long-term investment	(100)	-
Purchase of property, plant and equipment	(17,127,731)	(5,454,493)
Proceeds on disposal of property, plant and equipment	-	23,480
Change in regulatory deferral accounts	(13,360,255)	(391,411)
Purchase of intangible assets	(7,225,762)	(737,353)
Refundable deposit	1,000,000	(1,000,000)
Proceeds of contributed capital	3,012,023	1,405,507
Purchase of goodwill	(6,864,284)	-
	(40,566,109)	(6,154,270)
Financing activities		
Repayment of long-term debt	(747,844)	(641,184)
Proceeds of long-term debt	24,319,877	-
Advances from parent company	(186,216)	83,234
Interest paid	(1,845,190)	(1,602,606)
Dividends paid	(3,057,000)	(1,437,000)
	18,483,627	(3,597,556)
Increase (decrease) in cash	(13,918,933)	690,331
Cash - beginning of year	10,381,961	9,691,630
Cash (bank indebtedness) - end of year	(3,536,972)	10,381,961

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS

Newmarket-Tay Power Distribution Ltd. (the "Company") is a subsidiary of Newmarket Hydro Holdings Inc. and was formed as a result of the amalgamation of Newmarket Hydro Ltd. and Tay Hydro Electric Distribution Company Inc. on May 1, 2007. The purchase of Midland Power Utility Corporation ("Midland PUC") was approved by the Ontario Energy Board (OEB) in 2018. Midland PUC was amalgamated by the Company effective September 7, 2018. Tay Hydro Inc. has a 7% non-controlling interest in the Company. The address of its registered office and its principal place of business is 590 Steven Ct, Newmarket, ON L3Y 6Z2.

The principal activity of the Company is to distribute electricity to the residents and businesses in the Town of Newmarket, Town of Midland and the Township of Tay under licence issued by the Ontario Energy Board (OEB). The Company is regulated by the OEB and adjustments to its distribution rates require OEB approval.

2. STATEMENT OF COMPLIANCE

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements for the year ended December 31, 2018 were approved and authorized for issue by the board of directors on April 30, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with International Financial Reporting Standards. The significant accounting policies are detailed as follows:

(a) Basis of measurement

The financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at their fair values, as explained in the relevant accounting policies.

The financial statements are presented in Canadian dollars which is also the Company's functional currency.

(b) Electricity regulation

The Company is licensed and regulated by the Ontario Energy Board (OEB). The OEB is charged with the responsibility of approving rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfil obligations to connect and service customers.

The following regulatory policy is practiced in a rate regulated environment:

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(b) *Electricity regulation, continued*

Regulatory accounts

Regulatory accounts represent future revenue or expenses incurred in the current or prior periods that are expected to be recovered (repaid) through the rate setting process.

These assets and liabilities include various rate and retail variance accounts which arise from differences in amounts billed to customers (based on regulated rates) and the actual cost of electricity services to the Company. These amounts are accumulated for accounting purposes because it is probable that they will be recovered (repaid) in future rates. The Company continually assesses the likelihood of the recovery of regulatory assets and likelihood of repayment of regulatory liabilities. If recovery or repayment is no longer considered probable, the amounts are charged to operations in the year the assessment is made.

Regulatory accounts recognized at December 31, 2018 and December 31, 2017 are disclosed in note 9.

(c) *Revenue recognition*

The Company recognizes revenue when it transfers control over a promised good or service, a performance obligation under the contract, to a customer and where the company is entitled to consideration as a result of completion or the performance obligation.

Prior to January 1, 2018, revenue was recognized to the extent that it was probable that economic benefits will flow to the company and that the revenue can be reliably measured.

Distribution Revenue
Distribution revenue is measured based on the OEB approved rate and the meter readings for customer usage, net of sales tax and debt retirement charge. Distribution revenue also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is recognized as electricity is delivered and consumed by customers and measured.

Cost of Power Revenue
Cost of power revenue is recorded on the basis of the power billed by the Independent Electricity System Operator ("IESO").

Contributed Capital
Contributed capital represent certain items of property, plant and equipment which are acquired or constructed with financial assistance in the form of contributions from developers. Prior to January 1, 2018 such contributions, whether in cash or in-kind, were recognized as contributed capital and amortized into income over the life of the related assets. Contributed capital in-kind were valued at their fair value at the date of their contribution.

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(c) *Revenue recognition, continued*

On implementation of IFRS 15, contributions received from customers where the Company has an ongoing performance obligation to the customer are within the scope of IFRS 15. These contributions will be initially recorded at fair value recognized on a straight-line basis over the estimated life of the contract with the customers. Where contracts are perpetual, the contributed asset will be used to provide ongoing goods or services to customers and, as such, the estimated life of the contract with the customers is estimated to be equivalent to the economical useful life of the asset to which the contribution relates.

Contributions from developers are not within the scope of IFRS 15 as they do not give rise to a contract with a customer. Currently, there is no specific IFRS guidance on accounting for contributions received from developers. The Company has an accounting policy for the initial recognition of such contributions and subsequent recognition of the related revenue, as described in note 3(h).

Conservation and Demand Management Revenue
Revenues related to Conservation and Demand Management ("CDM") agreements with the Independent Electricity System Operator ("IESO") are recognized on a net basis. Performance fees are recognized as CDM programs are delivered.

Other Income
Other operating revenue is recorded when services are provided.

(d) *Cash*

Cash consists of balances with financial institutions.

(e) *Inventories*

Inventories, which consist of parts and supplies acquired for internal construction or consumption, are valued at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis and includes expenditures incurred in acquiring the inventories and other costs to bring the inventories to their existing location and condition.

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset or its development when those costs are necessarily incurred for the asset to function in the manner intended by management. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

All assets having limited useful lives are depreciated using the straight-line or declining balance method over their estimated useful lives. Assets are depreciated from the date of acquisition. Internally constructed assets are depreciated from the time an asset is capable of operating in the manner intended by management.

In the year of acquisition, depreciation is taken at one-half of the below rates on buildings, distribution equipment, transportation equipment, office and other.

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date.

The methods of depreciation and depreciation rates applicable for each class of asset are as follows:

Buildings	25-30 years
Distribution equipment	10-50 years
Transportation equipment	5-10 years
Office and other	5-10 years

An impairment loss is recognized when the carrying amount of these assets is not recoverable and exceeds their fair value.

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(g) *Goodwill and intangible assets*

Intangible assets include computer software, land rights, licensed customer lists and goodwill. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, if applicable. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. The useful lives of the intangibles are as follows:

Computer software	3-5 years
Land rights	30 years
Licensed customer list	not amortized
Goodwill	not amortized

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software, (expenditures relating to patches and other minor updates as well as their installation), are expensed as incurred.

Land rights are capitalized based on the payments made for easements, right of access and right of use over land for which the Company does not hold title. Land rights are measured at cost less accumulated amortization and accumulated impairment losses.

The licensed customer list is measured at cost and not amortized but assessed for impairment annually.

Goodwill represents the cost of acquired local distribution companies in Midland in excess of fair value of the net identifiable assets purchased. Goodwill is measured at cost and is not amortized but assessed for impairment annually.

(h) *Contributed capital*

Contributions for capital construction consists of contributions from customers and developers toward the cost of constructing distribution assets. The contributions are calculated through an economic evaluation as per the OEB Distribution Service Code (represents fair value) and are recorded as received. Contributed capital is amortized over the same period as the asset to which they relate, 10 to 50 years.

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(i) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, intangible assets, goodwill and regulatory deferral account debit balances to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(j) Related parties

Related party transactions are in the normal course of operations and have been measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Details of related party transactions and balances are disclosed in note 17.

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(k) Employee future benefits

The Company accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi employer public sector pension fund, as a defined contribution plan. Both participating employers and employees are required to make plan contributions based on the participating employees' contributory earnings. The Company recognizes the expense related to this plan as contributions are made. No liability has been established for this plan.

The Company pays certain medical and life insurance benefits on behalf of its retired employees. These plans are not funded and accordingly have no plan assets. The Company's net obligation is calculated by estimating the amount of future benefits that are expected to be paid out discounted to determine its present value. This calculation is actuarially performed using the projected unit credit method. The last full valuation performed was as at December 31, 2017 for Newmarket-Tay Power Distribution Limited and December 31, 2016, updated to September 7, 2018, for Midland Power Utility Company ("Midland PUC"). Service costs are recognized in the Statement of Income in operating expenses, and include current and past service costs as well as gains and losses on curtailment. Net interest expense is included in finance costs.

Details related to the post-employment benefits are detailed in note 16.

(l) Income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes (PILS) to the Ontario Electricity Financial Corporation (OEFC). Deferred income taxes are calculated using the liability method of tax accounting. In providing for income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as deferred income taxes. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate deferred income taxes. Additional details related to the calculation and method of accounting for PILS is included in note 8.

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(m) Significant accounting estimates and judgements

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant accounting estimates, judgements and assumptions include the following:

Useful lives of depreciable assets - Depreciation and amortization expense is based on estimates of the useful lives of property, plant and equipment and intangible assets. The Company estimates the useful lives of its property, plant and equipment and intangible assets based on management's judgment, historical experience and an asset study conducted by an independent consulting firm.

Payment in lieu of taxes payable - The company is required to make payments in lieu of taxes calculated on the same basis as income taxes on taxable income earned. Significant judgement is required in determining the provision and liability or asset for income taxes. Changes in deferred taxes may be required due to changes in future tax rates.

Employee future benefits - The cost of providing certain health, dental and life insurance benefits on behalf of its retired employees are determined using actuarial valuations. The actuarial valuation uses managements assumptions which have been outlined in note 15.

Accounts receivable impairment - In determining the allowance for doubtful accounts, the Company considers the life-time expected credit losses that result from all possible default events over the expected life of the account balance.

(n) Provisions

A provision is recognized in the Statement of Financial Position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

Some of the Company's assets may have provision obligations. As the Company expects to use the majority of its fixed assets for an indefinite period, no removal costs can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations has not been made at this time.

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(o) *Financial Instruments*

Financial assets are identified and classified based on the business model used by the Company for managing those financial assets, as one of the following: at amortized cost, at fair value through other comprehensive income, or at fair value through profit or loss. Prior to January 1, 2018, the financial assets were identified and classified as one of the following: measured at fair value through profit or loss or loans and receivables. Financial assets that were not classified in any of the above categories were designated as available-for-sale financial assets. Financial liabilities continue to be classified as measured at fair value through profit or loss or at amortized cost, as there is no change in classification of financial liabilities under IFRS 9.

Financial assets and financial liabilities are presented on a net basis when the Company has a legally enforceable right to offset the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

At amortized cost
Accounts receivable, due from related parties and unbilled revenue are classified as financial assets at amortized cost. These financial assets are recognized initially at fair value plus directly attributable transaction costs, if any. After initial recognition, they are measured at amortized cost when they are held for collection of cash flows, where those cash flows solely represent payments of principal and interest using the effective interest rate. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset, or a shorter period when appropriate, to the gross carrying amount of the financial asset.

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(o) *Financial Instruments, continued*

The Company's bank indebtedness, accounts payable and accrued liabilities, customer deposits, subordinate debt, due to related parties and long term debt are classified as financial liabilities at amortized cost and recognized on the date at which the Company becomes a party to the contractual arrangement. Financial liabilities are derecognized when the contractual obligations are are discharged, cancelled or expire. Financial liabilities are initially recognized at fair value including discounts and premiums, plus directly attributable transaction costs, such as issue expenses, if any. Subsequently, these liabilities are measured at amortized cost using the effective interest rate method.

At fair value through other comprehensive income
Financial assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows solely represent payments of principal and interest, are classified as financial assets at fair value through other comprehensive income. These financial assets are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, these financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income, except for the recognition of impairment losses, reversal of impairment losses, interest income and foreign exchange gains and losses, gain or loss previously recognized in net income. On de-recognition of the financial asset, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to net income. Interest income from these financial assets is recognized as other income using the effective interest rate method. As at December 31, 2018, the Company does not have any financial assets, classified at fair value through other comprehensive income.

At fair value through profit or loss
Financial instruments at fair value through profit or loss include instruments that are designated as financial instruments at fair value through profit or loss or those financial instruments that do not meet the criteria for classification under any other category. Upon initial recognition, directly attributable transaction costs are recognized in net income as incurred. Changes in fair value of financial instruments measured at fair value through profit or loss are recognized in net income.

Impairment of financial assets at amortized cost
The policy for accounts receivable and unbilled revenue allowances is to measure at an amount equal to the life-time expected credit losses that result from all possible default events over the expected life of a financial instrument. The policy for other financial assets is at life-time expected credit loss if credit risk increased significantly, if not, then at 12-month expected loss.

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(p) *Change in Accounting Policies*

IFRS 9 Financial Instruments

The Company adopted IFRS 9 using the retrospective approach. The adoption resulted in no impact to the opening balances of retained earnings as of January 1, 2018. IFRS 9 replaces IAS 30 - Financial Instruments: Recognition and Measurement. The new standard amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 retains but simplifies the mixed measurement model and establishes 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 Company's updated accounting policies resulting from implementation of the new standard, along with analysis of the changes from the previous accounting standard as set out in the Financial Instruments section of the significant accounting policies.

IFRS 15 Revenue from Contracts with Customers

The Company adopted IFRS 15 using the modified retrospective approach with the cumulative effect of any adjustments recognized in the opening balance of retained earnings as of January 1, 2018. However, the implementation of IFRS 15 did not result in any adjustment to the retained earnings or to the presentation of the financial statements. IFRS 15 is based on the core principal to recognize revenue to depict the transfer of goods and 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 IAS 11 - Construction Contracts and IAS 18 - Revenue and related interpretations. The Company's updated accounting policies resulting from implementation of the new standard, along with analysis of the changes from the previous accounting standard are set out in the Revenue Recognition section of the significant accounting policies.

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(q) *New Standards and interpretations not yet effective or adopted*

Effective for annual periods beginning on or after January 1, 2019

IFRS 16 replaces IAS 17 Leases and brings leases onto companies' balance sheets, increasing the visibility of their assets and liabilities. IFRS 16 removes the classification of leases as either operating or finance leases for the lessee treating all leases as finance leases. Short term and low value assets are exempt from these requirements.

IFRIC 23 Uncertainty over Income Tax Treatments provides guidance on the recognition and measurement of current and deferred tax assets and liabilities under IAS 12 - Income Taxes, where there is uncertainty over income tax treatments.

Effective for annual periods beginning on or after January 1, 2020

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors have been amended by the IASB in October 2018. The amendments clarify the definition of material and how it should be applied. The amendments ensure that the definition is consistent across all IFRS standards. Early adoption is permitted.

The Company is currently assessing the impact that the standards will have on the statements.

4. **LONG-TERM INVESTMENT**

	2018 $	2017 $
Utility Collaborative Services Inc. (UCS), recorded using the cost method, 100 common shares, 16.7% interest	100	-

Utility Collaborative Services Inc. (UCS) provides billing, mailing, call centre and IT infrastructure services for Midland PUC customers. The Company has given formal notice of retraction of the shares in UCS on January 16, 2019 effective May 16, 2019. The notice period is 3 years or a penalty equal to the previous 3 years of service fees will be levied.

5. PROPERTY, PLANT AND EQUIPMENT

	Land and building $	Distribution equipment $	Transportation equipment $	Office and other $	Total $
Cost					
At January 1, 2018	5,766,004	100,777,027	1,584,860	2,045,656	110,173,547
Additions	20,000	18,329,033	1,276,849	644,025	20,269,907
Disposals	(69,278)	(602,099)	(311,366)	(16,637)	(999,380)
At December 31, 2018	5,716,726	118,503,961	2,550,343	2,673,044	129,444,074
Amortization					
At January 1, 2018	36,181	11,577,090	866,789	956,211	13,436,271
Additions	(11,186)	8,291,633	585,132	180,741	9,046,320
Disposals	(8,264)	(182,859)	(226,749)	(16,637)	(434,509)
At December 31, 2018	16,731	19,685,864	1,225,172	1,120,315	22,048,082
Net book amount at December 31, 2018	5,699,995	98,818,097	1,325,171	1,552,729	107,395,992

5. **PROPERTY, PLANT AND EQUIPMENT, continued**

	Land and building $	Distribution equipment $	Transportation equipment $	Office and other $	Total $
Cost					
At January 1, 2017	5,753,667	96,257,378	1,446,777	1,261,232	104,719,054
Additions	12,337	4,519,649	138,083	784,424	5,454,493
At December 31, 2017	5,766,004	100,777,027	1,584,860	2,045,656	110,173,547
Amortization					
At January 1, 2017	27,069	8,348,700	591,468	790,580	9,757,817
Additions	9,112	3,228,390	275,321	165,631	3,678,454
At December 31, 2017	36,181	11,577,090	866,789	956,211	13,436,271
Net book amount at December 31, 2017	5,729,823	89,199,937	718,071	1,089,445	96,737,276

Included in distribution equipment additions is amortization expense of $86,445 (2017 - $255,087) and work in progress of $1,968,992 (2017 - $15,115). Included in land and building is land with a value of $5,576,475 (2017 - $5,556,475). Included in the 2018 cost additions are amounts related to the Midland PUC purchase. Refer to note 24.

6. INTANGIBLE ASSETS

	Cost $	Accumulated amortization $	2018 Net book value $
Computer software	1,047,092	722,237	324,855
Land rights	417,871	76,576	341,295
Licensed customer list	7,015,367	-	7,015,367
	8,480,330	798,813	7,681,517

	Cost $	Accumulated amortization $	2017 Net book value $
Computer software	1,413,910	753,635	660,275
Land rights	400,375	62,927	337,448
	1,814,285	816,562	997,723

During the year, the Company had additions of $7,225,762 (2017 - $737,353), disposals of $559,717 (2017 - $Nil) and amortization of $581,968 (2017 - $175,389). Additions are a result of the acquisition of Midland PUC during 2018. Refer to Note 24 for business combination disclosures.

7. GOODWILL

	Cost $	Accumulated amortization $	2018 Net book value $
Goodwill	6,864,284	-	6,864,284

7. **GOODWILL, continued**

Goodwill, representing 4.2% of the Company's total assets, is allocated to the entire business as a cash generating unit. The goodwill at December 31, 2018 of $6,864,334 (2017 - $Nil) represents the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased and is not amortized.

Based on the results of the annual goodwill impairment test, the Company determined that the recoverable amount of the cash generating unit is more than its carrying value. No impairment has been recorded in the period ended December 31, 2018.

The impairment analysis involves the use of an income approach that relies on estimating the net future cash flows and applying the appropriate discount rate to those future cash flows. This approach employs several assumptions: projected revenue growth, market expectations, financial margin, operating and administrative expenses, working capital requirements, future capital expenditure requirements, income tax rates, regulatory capital management requirements, as well as an appropriate discount rate. If future growth and results of the CGU differs significantly from management's current best estimates, it is reasonably possible that this could have an adverse impact on the estimate recoverable amounts of the CGU, including the amounts allocated to goodwill.

8. **INCOME TAXES**

Deferred income taxes assets are calculated using the liability method of tax accounting. In providing for income taxes, temporary differences between the tax basis of the underlying assets and their carrying amounts as per the financial statements are reflected as deferred income taxes. When the tax basis is greater than the carrying amount, a deferred tax asset is created. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate deferred income taxes.

	Opening balance at January 1, 2018 $	Recognize in net income $	Closing balance at December 31, 2018 $
Deferred tax assets			
Property, plant and equipment and cumulative eligible capital	2,189,320	(2,189,320)	-
Reserves deductible when paid	277,651	275,199	552,850
	2,466,971	(1,914,121)	552,850

8. **INCOME TAXES, continued**

	Opening balance at January 1, 2017 $	Recognize in net income $	Closing balance at December 31, 2017 $
Deferred tax assets			
Property, plant and equipment and cumulative eligible capital	1,859,780	329,540	2,189,320
Reserves deductible when paid	232,275	45,376	277,651
	2,092,055	374,916	2,466,971

Deferred income taxes assets are calculated using the liability method of tax accounting. In providing for income taxes, temporary differences between the tax basis of the underlying liabilities and their carrying amounts as per the financial statements are reflected as deferred income taxes. When the tax basis is less than the carrying amount, a deferred tax liability is created. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate deferred income taxes.

	Opening balance at January 1, 2018 $	Recognize in net income $	Closing balance at December 31, 2018 $
Deferred tax liabilities			
Property, plant and equipment	-	1,483,328	1,483,328

	2018 $	2017 $
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	552,850	2,466,971

	2018 $	2017 $
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	1,483,328	-

Included in reserves deductible when paid are post-employment benefits and net unrealized losses. Included in tax basis of property, plant and equipment are goodwill and intangible assets.

8. INCOME TAXES, continued

The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 39.5% (2017 - 39.5%) to the income (loss) for the years as follows:

	2018 $	2017 $
Income (loss) for the year before income taxes	(939,648)	365,988
Net movement in regulatory deferral accounts	4,802,272	3,522,000
	3,862,624	3,887,988
Anticipated income tax	1,525,736	1,535,755
Tax effect of the following:		
Permanent expense differences	7,739	230,026
Other comprehensive income	-	(57,986)
General rate reduction	(502,141)	131,523
Impact of deferred taxes and other	3,243,204	(541,755)
Provision for income taxes	4,274,538	1,297,563

9. REGULATORY DEFERRAL ACCOUNTS

All amounts deferred as regulatory deferral account debit 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 in future periods which are comprised of the following:

	Note	Remaining recovery/ reversal period (years)	December 31, 2017 $	Net balances arising in the period $	Recovered in the period $	December 31, 2018 $
Regulatory deferral account debit						
Retail settlement variance account	i	1	(54,843)	4,438,205	-	4,383,362
Other	ii	A	758,386	1,588,549	-	2,346,935
Deferred tax debit balance	iii	A	2,191,302	2,064,031	-	4,255,333
			2,894,845	8,090,785	-	10,985,630
Regulatory deferral account credit						
Recovery Account	iv	A	508,729	209,795	(688,655)	29,869
Other	ii	A	203,217	(111,505)	-	91,712
IFRS Conversion	v	1	7,648,830	(645,620)	(4,378,158)	2,625,052
Deferred tax credit balance	iii	A	521,340	344,673	-	866,013
			8,882,116	(202,657)	(5,066,813)	3,612,646

(A) These amounts are expected to reverse when the company submits their next cost of service filing which is anticipated to be within the next ten years.

9. REGULATORY DEFERRAL ACCOUNTS, continued

(i) Retail Settlement Variance Account variances represent the difference between the amounts charged by the company to its customers, and the amounts paid by the company to the Independent Electricity System Operator ("IESO") and Hydro One for the cost of energy. The settlement variances include network and connection service charges, energy sales and the global adjustment. The balance for settlement variances and carrying charges are calculated and recorded on a monthly basis.

(ii) Other Deferral Accounts include debit and credit balances in other regulatory assets, including Lost Revenue Adjustment Mechanism variances, Smart Metering Entity Charge variances, Retail Cost variances, IFRS transition expenditures, payments in lieu of taxes and Smart Meter expenditures. The costs incurred in these deferral accounts have been captured for future recovery or settlement. Carrying charges are recorded monthly on the opening balances.

(iii) Deferred tax on the regulatory balances that will ultimately be recovered from/paid back to its customers.

(iv) Recovery Accounts are used to record the disposition of deferral and variance account balances that have been approved by the OEB. The variances are to be recovered or settled when the company submits their next Cost of Service filing.

(v) In 2012, the Company adjusted the estimated useful life related to the amortization period for certain capital assets, based upon the Ontario Energy Board's regulatory accounting direction as contained in the revised 2012 Accounting Procedures Handbook for Electricity Distributors. As a result of OEB direction related to the settlement of these amounts, the company has recorded a payable in the deferral account of $2,625,052 (2017 - $7,648,830).

In 2018, the Company was approved through its annual Incentive Regulation Mechanism (IRM) application to the OEB for the settlement of this balance. The Company is continuing to refund this balance until April 30th of 2019, after which any remainder is expected to be approved for settlement through their 2019 IRM and the amount will be refunded to its respective customers by class over a one year period. This balance also includes $569,566 of carrying charges based on the Company's weighted average cost of capital.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018 $	2017 $
Accounts payable - purchased power	6,371,866	5,201,533
Other trade accounts payable and accrued liabilities	4,719,980	3,239,529
Water and sewer billings payable (note 17)	2,490,850	2,606,698
Credits on customer accounts	1,430,903	1,482,348
Conservation demand management programs	331,761	293,380
	15,345,360	12,823,488

11. LONG-TERM DEBT

	2018 $	2017 $
(a) Bank loan payable, 4.41% fixed rate, payable in blended monthly payments of $50,957	10,142,213	-
(b) Bank loan payable, 4.4% fixed rate, payable in blended monthly payments of $42,611	7,721,893	-
(c) Bank loan payable, 2.44% fixed rate, payable in blended monthly payments of $65,738	5,076,065	5,733,071
(d) Bank loan payable, 4.26% fixed rate, payable in blended monthly payments of $33,088	4,364,933	-
(e) Bank loan payable, 30 day bankers acceptances, interest only, no defined terms of repayment	2,000,000	-
	29,305,104	5,733,071
Less principal payments due within one year	3,232,267	657,006
Due beyond one year	26,072,837	5,076,065

(a) The bank loan payable is a 30 year term loan due October 9, 2048 with a payment due at maturity of $50,957. Refer to note 12 and 28 for details on interest rate swap agreements.

(b) The bank loan payable is a 10 year term loan due October 10, 2028 with a payment due at maturity of $5,633,365. Refer to note 12 and 28 for details on interest rate swap agreements.

(c) The bank loan payable is a 5 year term loan due December 10, 2020 with a payment due at maturity of $3,771,150. Refer to note 12 and 28 for details on interest rate swap agreements.

(d) The bank loan payable is a 15 year term loan due October 11, 2033 with a payment due at maturity of $33,088. Refer to note 12 and 28 for details on interest rate swap agreements.

(e) The Company has $4,000,000 available in the form of a demand loan bearing interest at prime plus 0%. As at year-end $2,000,000 has been drawn upon.

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11. **LONG-TERM DEBT, continued**

Estimated principal repayments are as follows:

	$
2019	3,232,267
2020	4,986,701
2021	609,758
2022	636,812
2023	665,066
Subsequent years	19,174,500
	29,305,104

12. **INTEREST RATE SWAPS**

To reduce exposure to interest rate fluctuations, the Company entered into four interest rate swaps during the year where they pay a fixed interest rate over the term of the loan. As at December 31, 2018, the mark-to-market loss related to the swap agreement is $1,296,751.

13. **SUBORDINATE DEBT**

	2018 $	2017 $
Note payable, 5.48% - Township of Newmarket	22,000,000	22,000,000
Note payable, 5.48% - Township of Tay	1,742,821	1,742,821
	23,742,821	23,742,821

Estimated principal repayments are as follows:

	$
Unspecified	23,742,821

These promissory notes are subordinated and postponed to all the bank loans payable listed in Note 11. No repayment of this subordinated debt is permissible until all payment obligations of the bank loans payable listed in Note 11 are fulfilled.

14. CONTRIBUTED CAPITAL

	December 31, 2018 $	December 31, 2017 $
Deferred contributions, net, beginning of year	31,358,906	30,660,427
Contributed capital received	3,012,023	1,405,507
Contributed capital recognized as revenue (note 20)	(1,229,868)	(707,028)
	33,141,061	31,358,906

15. DEPOSITS HELD

Deposits held represent 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.

Construction Deposits represent cash payments from developers in order to secure the performance of the developer's obligations under the Construction Agreement for Expansion Facilities and Connection Assets Supplied by Developer - Residential Subdivision (The Construction Agreement).

	2018 $	2017 $
Current portion of customer deposits	705,212	498,000

Long-term portion of customer deposits	2,208,681	2,322,251
Long-term portion of construction deposits	217,643	1,020,908
	2,426,324	3,343,159

16. EMPLOYEE FUTURE BENEFITS

The Company provides certain health, dental and life insurance benefits for retired employees pursuant to the Company's policy. The accrued benefit obligation and net periodic expense for the year were determined by an actuarial valuation. The most recent valuation was performed for December 31, 2017 for Newmarket-Tay Hydro Distribution Limited and December 31, 2016 for Midland PUC, updated for September 7, 2018.

Information about the Company's defined benefit plan is as follows:

16. **EMPLOYEE FUTURE BENEFITS, continued**

	2018 $	2017 $
Accrued benefit obligation, beginning of year	1,047,729	876,508
Accrued benefit obligation, Midland PUC, September 7, 2018	92,705	-
Current service cost	30,207	38,200
Interest expense	36,945	33,300
Benefits paid	(57,174)	(47,079)
Actuarial loss	6,592	146,800
	1,157,004	1,047,729

Current service costs and interest on accrued benefit obligation are recognized in the statement of income. Actuarial losses arising from changes in financial assumptions are accounted for in other comprehensive income. The total benefit costs for the year is $73,744 (2017 - $218,300).

The actuarial assumptions used in the valuation of Newmarket-Tay staff are the discount rate of 3.4% (2017 - 3.4%), salary increase rate of 2.8% (2017 - 2.8%), cost trend including health benefits of 5.96% (2017 - 6.20%) and dental benefits 4.5% (2017 - 4.5%) and retirement age of 65 (2017 - 65). The health benefits are expected to decrease at 0.25% per year until 2025 when it reaches 4.50% and dental benefits will remain at 4.50% to 2025. The actuarial assumptions used in the valuation of Midland PUC is a discount rate of 3.7%.

The actuarial assumptions used in the valuation of Midland PUC staff for post-retirement life insurance is an assumed 10% of the total benefit obligation (2017 - 10%).

The impact of a change in the actuarial assumptions would have the following impact on the obligation:

	Reasonable possible change %	Defined benefit obligation change $	Difference $	Difference %
Discount rate	1	1,017,100	(139,904)	(12)
Discount rate	(1)	1,335,100	178,096	15

17. **RELATED PARTY TRANSACTIONS AND ADVANCES FROM PARENT COMPANY**

(a) The Company entered into transactions with its majority parent, Newmarket Hydro Holdings Inc. (NHHI) and with The Town of Newmarket which is the sole shareholder of Newmarket Hydro Holdings Inc. Revenue charged during the year included energy, street light capital and street light maintenance charged at commercial rates to the Town of Newmarket.

Included in accounts payable (note 10) are water and sewer amounts collected which are due to the Town. These amounts are collected and remitted in accordance with a contract with URB Olameter.

Included in subordinate debt (note 13) are notes payable to related parties.

(b) Transactions

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

	2018 $	2017 $
Revenue		
Energy sales	2,707,348	2,035,574
Services - Street light capital	1,380	25,770
Services - Street light maintenance	19,686	59,268
	2,728,414	2,120,612
Expenses		
Interest	1,205,600	1,205,600
Rent and property tax	440,874	424,988
	1,646,474	1,630,588

(c) The following amounts are due from the Town of Newmarket and Envi Networks Ltd. and included in the financial statements:

	2018 $	2017 $
Town of Newmarket accounts receivable	310,709	310,627
Envi Networks Ltd. accounts receivable	153,451	-
	464,160	310,627

17. **RELATED PARTY TRANSACTIONS, continued**

(d) The following amount is due to the parent company:

	2018 $	2017 $
Newmarket Hydro Holdings Inc.	2,450,663	2,636,879

Advances from the parent company, Newmarket Hydro Holdings Inc. includes promissory notes in the amount of $2,153,000 (2017 - $2,153,000) which are due March 16, 2022. The remainder of the balance has no specific terms of repayment. As the parent company has confirmed they will not request repayment of this amount during the next fiscal year, the amount has been classified as a non-current liability in the financial statements.

The balances are unsecured and bear interest at the OEB deemed debt rate of 5.48% for 2018 (2017 - 5.48%).

The key management personnel of the company has been defined as members of its board of directors, executives, and other management personnel. Total wages and benefits to these individuals total $2,606,622 (2017 - $2,136,294).

18. **SHARE CAPITAL**

Authorized

Unlimited number of common shares

Issued

	2018 $	2017 $
10,000 Common shares	27,140,206	27,140,206

19. **GUARANTEE**

The Company has guaranteed loans of Envi Networks Ltd., a related company, to a maximum of $3,500,000. As at December 31, 2018 Envi Networks Ltd. had $1,225,000 of loans outstanding to which the guarantee applies.

20. **OTHER INCOME**

Other income consists of the following:

	2018 $	2017 $
Account set up fees	132,142	121,290
Pole and building rentals	237,278	137,535
Collection charges	125,994	133,932
Non rate-regulated utility operations, net	214,034	-
Recognition of contributed capital (note 14)	1,229,868	707,028
Other	286,328	120,187
	2,225,644	1,219,972

21. **OPERATING EXPENSES**

Operating expenses consist of the following:

	2018 $	2017 $
Wages and benefits	5,295,734	4,253,254
Materials, equipment and other operating expenses	2,098,184	1,678,827
Administration and overhead	4,198,299	3,466,044
	11,592,217	9,398,125

The prior year amounts have been restated to conform to current year classifications.

22. **FINANCE INCOME AND FINANCE COSTS**

Finance income recognized in net income consists of the following:

	2018 $	2017 $
Interest income on accounts receivable	188,978	186,503
Income on cash balance	130,245	109,120
Interest income on regulatory balances	92,962	27,137
	412,185	322,760

Finance costs recognized in net income consists of the following:

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22. FINANCE INCOME AND FINANCE COSTS, continued

	2018 $	2017 $
Interest on long-term debt	1,804,387	1,569,558
Customer deposit interest	40,803	33,048
	1,845,190	1,602,606

23. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2018 $	2017 $
Decrease (increase) in accounts receivable	(4,013,341)	824,122
Decrease (increase) in inventories	(23,240)	16,195
Decrease (increase) in prepaid expenses	(165,475)	201,361
Decrease (increase) in unbilled revenue	(2,635,259)	2,145,538
Increase (decrease) in accounts payable and accrued liabilities	2,521,872	(1,641,204)
Increase (decrease) in deposits held	(709,623)	833,681
Interest received	412,185	322,760
Taxes paid	(1,690,557)	(1,500,000)
Taxes received	-	1,188,748
	(6,303,438)	2,391,201

24. BUSINESS COMBINATIONS

Effective September 7, 2018, the Company acquired all issued and outstanding common shares of Midland PUC, an Ontario regulated local distribution company, from the Corporation of the Town of Midland. The acquisition was accounted for by the purchase method. The total purchase price for Midland PUC was $21,969,487 plus a working capital adjustment of $256,147. The results of operations are included in the accounts from the effective date of acquisition. Details of the acquisition are as follows:

	$
Fair value of net assets acquired:	
Cash and cash equivalents	291,344
Property, plant and equipment	13,911,878
Intangible assets	7,073,929
Regulatory assets	989,212
Goodwill	6,695,577
Long-term investments	100
Deferred Taxes	24,103
Working capital	(449,651)
Contributions in aid of construction	(2,142,898)
Customer and construction deposits	(223,845)
Long-term debt	(3,577,070)
Employee future benefits	(92,705)
Deferred taxes	(274,339)
	22,225,635

	$
Consideration given:	22,225,635

Goodwill of approximately $5,435,577 arising from the Midland PUC acquisition consists largely of the synergies and economies of scale expected from combining the operations of Newmarket and Midland PUC. This is in addition to goodwill of $1,260,000 previously recorded as an asset by Midland PUC. Midland PUC contributed revenues of $6,040,431 and $285,871 of net loss to the Company's financial results for the year ended December 31, 2018. All costs related to the acquisition have been expensed through the Statement of Comprehensive Income.

25. SHORT TERM CREDIT FACILITIES

The Company has $7,250,000 available in operating facilities from a major chartered bank, reduced from $11,750,000 in the year. The facilities include a 364 day committed revolving operating loan, bearing interest at prime plus 0%, to be repaid within one year from date of acquisition unless extended by the bank. A commitment fee of 0.125% per annum, payable quarterly applies to any unused portion of the facility. As at December 31, 2018 the Company has $2,865,805 (2017 - $Nil) on this facility with reconciling items of $915,182. The operating loan includes restrictive clauses with respect to repayment.

The Company has provided prudential support in the amount of $3,861,670 to the Independent Electricity System Operator. The prudential support is secured by a letter of credit with a major chartered bank for $3,861,670, contains restrictive clauses with respect to debt repayments and bears interest at 0.5% per annum.

A general security agreement covering all assets of the Company and assignment of business/liability insurance has been pledged as security for the operating facilities. At December 31, 2018, the Company was in compliance with all covenants.

Included in the Company's bank indebtedness balance is restricted cash in the amount of $244,015, which consists of monies received by the Company from the Ontario provincial government to administer the Affordability Fund Trust (AFT) program.

The AFT was established as part of the Fair Hydro Act, to serve house-holds not eligible for income qualified electricity support services. The AFT exists as a legal trust and the Company is only able to offer disbursements to qualified beneficiaries.

26. PENSION AGREEMENT

The Company makes contributions to the Ontario Municipal Employees' Retirement Fund (O.M.E.R.S.), which is a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on the length of service and rates of pay.

The amount contributed to O.M.E.R.S. for the year ended was $511,737 (2017 - $423,036).

27. CAPITAL DISCLOSURES

The Company's primary objective when managing capital is to address the expectations as provided in the Shareholder Agreement between the Company's parent company, Newmarket Hydro Holdings Inc. and its shareholder, the Town of Newmarket. The expectation is that the Company will maintain a prudent financial structure in order to safeguard the Company's assets and to provide adequate returns for its shareholders and benefits to the stakeholders.

Changes to the Company's capital structure are constrained by existing covenants contained in the banking agreement. The Company must maintain a maximum debt to capitalization ratio of 0.60 to 1 and maintain a debt service coverage ratio of 1.2. As at year end the Company is compliant with these covenants.

28. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash, accounts receivable and unbilled revenue which will result in future cash receipts, as well as accounts payable and accrued liabilities, deposits held, advances from parent company and long-term debt which will result in future cash outflows.

The Company does not believe that it is exposed to significant foreign exchange risk.

The Company is exposed to the following risks in respect of certain financial instruments held:

(a) Interest rate risk

The Company manages exposure to interest rate risk through a combination of fixed and floating rate borrowings. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent that the floating rate credit facility bears interest at a floating rate. The Company is also exposed to interest rate price risk to the extent that loans bear interest at fixed rates and has entered into an interest rate swap arrangement to manage the impact of fluctuating interest rates on bank loan payable. The swaps require the periodic exchange of interest payments without the exchange of the notional principal amount on which the payments are based (notes 11, 12 and 17).

(b) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers located in the service area. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of related impairment loss is recognized in the statement of income. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2018 is $93,428 (2017 - $80,360). The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has approximately 43,970 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. As at December 31, 2018, the Company holds security deposits in the amount of $3,131,536 (2017 - $3,841,159). The Company's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk. The accounts receivable balance is expected to be fully repaid within 90 days excluding the allowance for doubtful accounts portion of the balance.

28. **FINANCIAL INSTRUMENTS, continued**

(c) Liquidity risk

The Company does have a liquidity risk in accounts payable and accrued liabilities of $15,345,360 (2017 - $12,823,488). Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due, maintains an adequate line of credit to repay trade creditors and repays long-term debt interest and principal as they become due. In the opinion of management the liquidity risk exposure to the Company is low and is not material.

The following are contractual maturities of financial liabilities, including estimated interest payments:

	Between 0-3 months $	Between 4 - 12 months $	Over 1 year $
Accounts payable and accrued liabilities	15,345,360	-	-
Deposits held	176,303	528,909	2,426,324
Long-term debt	808,067	2,424,200	49,815,658
Employee future benefits	-	-	1,157,004
Advances from parent company	-	-	2,450,663
	16,329,730	2,953,109	55,849,649

29. **COMMITMENT**

The Company is in negotiations with the Town of Newmarket on a new lease agreement for the building which was not finalized as of the report date.

The Company entered into a 10 year lease agreement on September 7, 2018, with the Town of Midland, to rent office space for minimum lease payments of $7,896 per month. In addition, an agreement was entered into with the Town of Midland to lease various substation properties for a period of twelve years at $49,980 per annum for the first five years, followed by fair market rental rate per annum for the remaining term of the lease.

30. **CONTINGENT LIABILITIES**

(a) In the normal course of business, the Company enters into agreements that meet the definition of a guarantee. The guarantees include indemnities under lease agreements, purchase and sale agreements, confidentiality agreements, outsourcing, service and information agreements. The nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability related to the likelihood and predictability of future events. Historically, the Company has not made any significant payments under similar indemnification agreements and therefore no amount has been accrued in the statement of financial position with respect to these agreements.

(b) Indemnity has been provided to all directors and/or officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential suits or actions. The amount of any potential future liability which exceeds the amount of insurance coverage cannot reasonably be determined.

(c) The Company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the Company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual losses, claims and costs experienced.

31. **COMPARATIVE FIGURES**

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. Due to a special audit performed in 2018, there was a reclass of $1,813,255 between cost of power purchased and net movement in regulatory deferral accounts. The changes do not affect retained earnings or equity and is solely a reclass between accounts receivable and the regulatory deferral account balances on the balance sheet.