

FINANCIAL STATEMENTS OF

**NEWMARKET-TAY POWER
DISTRIBUTION LTD.**

December 31, 2015

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	
FINANCIAL STATEMENTS	
Statement of Financial Position	1 - 2
Statement of Changes in Equity and Accumulated Other Comprehensive Income	3
Statement of Income	4
Statement of Comprehensive Income	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 36

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Newmarket-Tay Power Distribution Ltd.

Report on the Financial Statements

We have audited the accompanying financial statements of Newmarket-Tay Power Distribution Ltd., which comprise the statement of financial position as at December 31, 2015, December 31, 2014 and January 1, 2014, and the statements of changes in equity and accumulated other comprehensive income, income, comprehensive income and cash flows for the years ended December 31, 2015 and December 31, 2014, 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 controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 auditors consider internal controls relevant to the Company'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 Company's internal controls. 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 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 Newmarket-Tay Power Distribution Ltd. as at December 31, 2015, December 31, 2014 and January 1, 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards.

INDEPENDENT AUDITORS' REPORT, continued

Comparative Information

Without modifying our opinion, we draw attention to note 4 to the financial statements which describes that Newmarket-Tay Power Distribution Ltd. adopted International Financial Reporting Standards on January 1, 2015 with a transition date of January 1, 2014. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statement of financial position as at December 31, 2014 and January 1, 2014, and the statements of changes in equity and accumulated other comprehensive income, income, comprehensive income and cash flows for the year ended December 31, 2014 and related disclosures.

Collins Barrow Kawarthas LLP

Chartered Accountants
Licensed Public Accountants

Peterborough, Ontario
May 18, 2016

NEWMARKET-TAY POWER DISTRIBUTION LTD.**STATEMENT OF FINANCIAL POSITION****As at December 31, 2015**

	December 31, 2015	December 31, 2014 Restated (note 4)	January 1, 2014 Restated (note 4)
	\$	\$	\$
ASSETS			
Current assets			
Cash	6,720,248	7,357,053	8,697,037
Short-term investments (note 5)	3,410,393	3,389,515	3,349,379
Accounts receivable	9,206,702	9,755,213	9,394,591
Unbilled revenue	12,286,784	11,764,225	9,819,789
Inventories (note 6)	1,113,359	1,301,688	808,950
Prepaid expenses	492,351	448,952	376,146
Income taxes receivable	691,360	900,312	350,000
	33,921,197	34,916,958	32,795,892
Other assets			
Property, plant and equipment (note 7)	89,075,766	77,979,138	76,600,589
Intangible assets (note 8)	545,438	709,451	935,256
Deferred income taxes (note 9)	3,579,706	3,586,139	3,500,000
	93,200,910	82,274,728	81,035,845
	127,122,107	117,191,686	113,831,737
Regulatory deferral account debit balances (note 10)	3,916,408	2,191,352	1,833,086
	131,038,515	119,383,038	115,664,823

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.**STATEMENT OF FINANCIAL POSITION****As at December 31, 2015**

	December 31, 2015	December 31, 2014 Restated (note 4)	January 1, 2014 Restated (note 4)
	\$	\$	\$
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities (note 11)	11,247,160	13,063,265	12,073,996
Current portion of long-term debt (note 12)	1,625,745	1,000,000	-
Current portion of deposits held (note 13)	425,000	425,000	425,000
	13,297,905	14,488,265	12,498,996
Long-term liabilities			
Long-term debt (note 12)	30,117,076	23,742,821	24,742,821
Contributed capital (note 14)	24,821,517	23,553,032	22,250,508
Deposits held (note 13)	2,764,264	2,537,654	2,875,807
Employee future benefits (note 15)	813,117	830,105	1,016,846
Advances from parent company (note 16)	2,473,010	2,393,957	2,313,323
	60,988,984	53,057,569	53,199,305
Shareholders' equity			
Share capital (note 17)	27,140,206	27,140,206	27,140,206
Retained earnings	18,995,343	17,195,721	15,634,546
Accumulated other comprehensive income	177,006	154,685	-
	46,312,555	44,490,612	42,774,752
	120,599,444	112,036,446	108,473,053
Regulatory deferral account credit balances (note 10)	10,439,071	7,346,592	7,191,770
	131,038,515	119,383,038	115,664,823

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, 2015

	Share capital \$	Retained earnings \$	Accumulated other comprehensive income \$	Total \$
Balance, January 1, 2014	27,140,206	15,634,546	-	42,774,752
Net income for the year	-	2,998,175	-	2,998,175
Other comprehensive income	-	-	154,685	154,685
Dividends paid	-	(1,437,000)	-	(1,437,000)
Balance, December 31, 2014	27,140,206	17,195,721	154,685	44,490,612
Net income for the year	-	3,236,622	-	3,236,622
Other comprehensive income	-	-	22,321	22,321
Dividends paid	-	(1,437,000)	-	(1,437,000)
Balance, December 31, 2015	27,140,206	18,995,343	177,006	46,312,555

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, 2015

	2015	2014 Restated (note 4)
	\$	\$
Revenue		
Distribution revenue	15,020,342	15,104,369
Cost of power revenue	73,793,907	69,549,614
Contributed capital	558,247	519,222
	89,372,496	85,173,205
Cost of power purchased	72,426,484	69,753,058
Gross profit	16,946,012	15,420,147
Other income (note 18)	857,843	1,031,619
Gross income from operations	17,803,855	16,451,766
Expenses		
Amortization	3,466,023	3,395,416
Operating expenses (note 19)	7,538,124	8,040,746
Loss on disposal of property, plant and equipment	1,159	35,051
	11,005,306	11,471,213
Income before undernoted items and income taxes	6,798,549	4,980,553
Finance income (note 20)	(424,115)	(427,355)
Finance costs (note 20)	1,511,594	1,504,087
Income before income taxes and net movement in regulatory deferral accounts	5,711,070	3,903,821
Provision for (recovery of) income taxes (note 9)		
Current	1,108,640	1,251,000
Deferred	(1,615)	(141,910)
	1,107,025	1,109,090
Income before net movement in regulatory deferral accounts	4,604,045	2,794,731
Net movement in regulatory deferral accounts	1,367,423	(203,444)
Net income for the year	3,236,622	2,998,175

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, 2015**

	2015	2014 Restated (note 4)
	\$	\$
Net income for the year	3,236,622	2,998,175
Comprehensive income		
Actuarial gain, not reclassified to profit or loss	30,369	210,456
Actuarial gain, deferred income tax	(8,048)	(55,771)
Comprehensive income	22,321	154,685
Net income and Comprehensive income for the year	3,258,943	3,152,860

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, 2015**

	2015	2014 Restated (note 4)
	\$	\$
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	3,236,622	2,998,175
Items not affecting cash		
Amortization of property, plant and equipment	3,235,775	3,156,320
Amortization of intangible asset	230,248	239,096
Deferred income taxes	(1,615)	(141,910)
Loss on disposal of property, plant and equipment	1,159	35,051
Employee future benefits	13,381	23,715
Current income tax	1,108,640	1,251,000
Net finance costs	1,087,479	1,076,733
Recognition of contributed capital	(558,247)	(519,222)
	8,353,442	8,118,958
Change in non-cash working capital items (note 21)	(1,915,064)	(3,633,580)
	6,438,378	4,485,378
Investing activities		
Purchase of property, plant and equipment	(14,620,126)	(4,583,122)
Proceeds on disposal of property, plant and equipment	286,564	13,202
Purchase of intangible assets	(66,235)	(13,291)
Regulatory deferral accounts	1,367,423	(203,444)
Proceeds of contributed capital	1,826,732	1,821,746
	(11,205,642)	(2,964,909)
Financing activities		
Proceeds of long-term debt	7,000,000	-
Advances from parent company	79,053	80,634
Interest paid	(1,511,594)	(1,504,087)
Dividends paid	(1,437,000)	(1,437,000)
	4,130,459	(2,860,453)
Decrease in cash	(636,805)	(1,339,984)
Cash - beginning of year	7,357,053	8,697,037
Cash - end of year	6,720,248	7,357,053

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

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. 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 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"). These are the Company's first annual financial statements prepared in accordance with IFRS. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 4.

The financial statements for the year ended December 31, 2015 (including comparatives) were approved and authorized for issue by the board of directors on April 26, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with International Financial Reporting Standards. The significant 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 consolidated 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:

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

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 or 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, 2015 and December 31, 2014 are disclosed in note 10.

(c) *Revenue recognition*

Service revenue is measured based on the OEB approved rate and the meter readings for customer usage, net of sales tax and debt retirement charge. Service 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 is recorded on the basis of the power billed by the Independent Electricity System Operator.

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. Such contributions, whether in cash or in-kind, are recognized as contributions in aid of construction and amortized into income over the life of the related assets. Contributions in aid of construction in-kind are valued at their fair value at the date of their contribution.

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 operating revenue is recorded when services are provided.

(d) *Cash*

Cash consists of balances with financial institutions.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(e) *Short-term investments*

Investments are recorded at fair value. Unrealized gains and losses as a result of fair value adjustments at year end are included in finance income for the year.

(f) *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.

(g) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated amortization 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 amortized using the straight-line over their estimated useful lives. Assets are amortized from the date of acquisition. Internally constructed assets are amortized from the time an asset is capable of operating in the manner intended by management.

In the year of acquisition, amortization is taken at one-half of the below rates.

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

The amortization rates applicable for each class of asset are as follows:

Building	25 to 30 years
Distribution equipment	10 to 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.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(h) Intangible assets

Intangible assets include computer software and land rights. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. 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 straight-line
Land rights	30 years straight-line

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, (expenditure 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.

(i) Contributed capital

Contributions for capital construction consist of third party and related party contributions toward the cost of constructing distribution assets. The contributions are calculated through an economic evaluation as per the OEB Distribution Service Code. Contributed capital amounts are recorded as received and amortized over the same period as the asset to which they relate being 30 to 50 years.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(j) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets 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.

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, but 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.

(k) 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 16.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(l) 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 benefit 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 valuation performed was as at December 31, 2014. 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 15.

(m) 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 future income taxes. Additional details related to the calculation and method of accounting for PILS is included in note 9.

NEWMARKET-TAY POWER DISTRIBUTION LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(n) 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:

Unbilled revenue - The measurement of unbilled revenue is based on an estimate of the amount of electricity delivered to customers between the date of the last bill and the end of the year.

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 historical loss experience of account balances based on the aging and arrears status of accounts receivable balances.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(o) Provisions

A provision is recognized in the balance sheet 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.

(p) Financial instruments

Financial assets and financial liabilities are initially measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. Transactions to purchase or sell these items are recorded on the trade date. During the year, there has been no reclassification of financial instruments.

Financial liabilities measured at fair value through profit or loss

Derivative financial instruments in the form of interest rate swap contracts are used to manage exposure to fluctuations in interest rates on the Company's long-term debt. The contracts are not designated as hedges, and therefore any gain or loss, is measured through profit or loss.

Loans and receivables

The Company has classified cash, short-term investments, accounts receivable and unbilled revenue as loans and receivables.

Loans and receivables are subsequently measured at their amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, plus or minus any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in total comprehensive income upon de-recognition or impairment.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(p) *Financial instruments, continued*

Financial liabilities measured at amortized cost

The Company has classified accounts payable and accrued liabilities, long-term debt, advances from parent company and deposits held as financial liabilities measured at amortized cost.

Financial liabilities measured at amortized cost are measured at their amortized cost subsequent to initial recognition. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in total comprehensive income upon de-recognition or impairment.

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

The following pronouncements issued by the IASB will become effective for annual periods beginning on or after January 1, 2016, with earlier adoption permitted.

IFRS 14 Regulatory Deferral Accounts, an interim standard, permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with previous GAAP requirements when they adopt IFRS, with the effect of rate regulation presented separately from other items. The Company has early adopted this IFRS and such continues to recognize rate regulated activities.

IAS 1 Presentation of Financial Statements: Amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements.

The following pronouncement issued by the IASB will become effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

IFRS 9 - Financial Instruments addresses the classification and measurement of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The new standard also requires a single impairment method to be used. Additionally, a new hedge accounting model that will allow entities to better reflect their risk management activities has been included in the standard.

IFRS 15 Revenue from Contracts with Customers is a new standard issued by the IASB. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the Company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The Company has not yet completed its evaluations of the effect of adopting IAS 1, IFRS 9 or IFRS 15 and the impact it may have on its consolidated financial statements.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

4. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING

These are the Company's first financial statements prepared in accordance with IFRS.

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

IFRS 1 sets out the procedures that the Company must follow when it adopts IFRS for the first time as the basis for preparing its financial statements. The Company is, in general, required to apply these policies retrospectively to determine the IFRS opening Statement of Financial Position as at its date of transition, January 1, 2014.

In preparing its opening IFRS Statement of Financial Position, the Company has adjusted amounts reported previously in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and performance is set out in the following tables and notes.

IFRS 1 also provides a number of exemptions to the retrospective restatement of the opening Statement of Financial Position. The Company has applied the following exemptions in its transition from Canadian GAAP to IFRS:

Deemed cost

IFRS 1 provides an optional exemption for a first-time adopter with rate-regulated activities to use the carrying amount of PP&E as deemed cost on transition date when the carrying amount includes costs that do not qualify for capitalization in accordance with IFRS. The Company elected this exemption and used the carrying amount of the PP&E under Canadian GAAP as deemed cost on transition date.

Business combinations

IFRS 1 provides an optional exemption whereby a first-time adopter may elect not to apply IFRS retrospectively to business combinations that occurred prior to the date of transition. The Company elected this exemption and did not restate business combinations that occurred prior to the date of transition.

Employee benefits

The Company has elected, under IFRS 1, to recognize all cumulative actuarial gains and losses that were previously deferred under Canadian GAAP through opening retained earnings at the date of transition for all of its employee benefit plans.

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

4. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING, continued*(a) Opening statement of financial position at January 1, 2014:*

	As previously reported \$	Effects of transition \$	As restated \$
ASSETS			
Property, plant and equipment (i)	55,285,337	21,315,252	76,600,589
Intangible assets (ii)	-	935,256	935,256
Regulatory assets (ii)	-	1,833,086	1,833,086
LIABILITIES AND SHAREHOLDERS' EQUITY			
Contributed capital (i)	-	22,250,508	22,250,508
Regulatory liabilities (ii)	5,358,684	1,833,086	7,191,770
Employee future benefits (iii)	1,107,432	(90,586)	1,016,846
Shareholders' equity			
Retained earnings (iii)	15,543,960	90,586	15,634,546
	22,010,076	24,083,594	46,093,670

(b) Statement of financial position at December 31, 2014:

	As previously reported \$	Effects of transition \$	As restated \$
ASSETS			
Property, plant and equipment (i)	55,135,557	22,843,581	77,979,138
Intangible assets (i)	-	709,451	709,451
Regulatory assets (ii)	-	2,191,352	2,191,352
Deferred income tax (iii)	3,674,000	(87,861)	3,586,139
LIABILITIES AND SHAREHOLDERS' EQUITY			
Contributed capital (i)	-	23,553,032	23,553,032
Regulatory liabilities (ii)	5,155,240	2,191,352	7,346,592
Employee future benefits (iii)	1,162,477	(332,372)	830,105
Shareholders' equity			
Retained earnings (iii)	17,105,895	89,826	17,195,721
Other comprehensive income (iii)	-	154,685	154,685
	17,105,895	244,511	17,350,406
	23,423,612	25,656,523	49,080,135

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

4. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING, continued

(i) Increase in property, plant and equipment (PP&E) is the result of reclassifying intangible assets and contributed capital to their own lines on the statement of financial position.

Under IFRS, intangible assets are accounted for separately from PP&E with no change to the cost or amortization expense and contributed capital is accounted for separately from PP&E, with the amortization being shown as revenue, not netted against the amortization expense. The impact of showing contributed capital in accordance with IFRS is an increase in assets, liabilities and revenue and a decrease in amortization expense.

(ii) IFRS 14 permits a first-time adopter of IFRS to retrospectively account for regulatory deferral account balances in accordance with its previous GAAP. The impact of this standard on the Company is that the account balances must be presented separately from all other account debit and credit balances on the statement of financial position, and any profit or loss related to these accounts must be reported below continuing operations.

(iii) The Company has adopted IAS 19, Employee Benefits, on January 1, 2014 and now accounts for its employee benefits as described in its accounting policies. Actuarial gains and loss have been accounted for in other comprehensive income, net of deferred tax and all other changes have been accounted for through retained earnings.

(c) *Statement of income, for the year ended December 31, 2014:*

	As previously reported \$	Effects of transition \$	As restated \$
Revenue (iv)	84,857,427	315,778	85,173,205
Other revenue (v)	1,271,768	(240,149)	1,031,619
Cost of power purchased and expenses (vi)	(82,053,260)	(247,743)	(82,301,003)
Provision for income taxes (vii)	(1,077,000)	(32,090)	(1,109,090)
Income before net movement in regulatory accounts	2,998,935	(204,204)	2,794,731
Net movement in regulatory accounts	-	203,444	203,444
Net income	2,998,935	(760)	2,998,175

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

4. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING, continued

(iv) The change in revenue is the result reclassifying contributed capital from amortization and net movement in regulatory accounts.

(v) The change in other revenue is the result of the reclassifying interest income from other revenue to finance income.

(vi) The change in cost of power purchased and expenses is the result of reclassifying interest expense to finance costs and decreased amortization expense as a result of contributed capital recognized in other revenue.

(vii) The change in the provision for income taxes was a result of the change in the employee future benefit balance and the resulting deferred income tax effect.

5. SHORT-TERM INVESTMENTS

	December 31, 2015 \$	December 31, 2014 \$	January 1, 2014 \$
Money market accounts	3,410,393	3,389,515	3,349,379

Included in finance income (note 20) is a loss on investments of \$26,029 (2014 - \$32,231 gain).

6. INVENTORIES

Inventory recognized in cost of sales during the year amounted to \$74,739 (2014 - \$80,034).

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

7. PROPERTY, PLANT AND EQUIPMENT

	Land and building \$	Distribution equipment \$	Transportation equipment \$	Office and other \$	Total \$
Cost					
At January 1, 2015	4,550,851	74,391,365	1,170,368	1,022,874	81,135,458
Additions	1,667,783	12,765,391	35,831	151,121	14,620,126
Disposals	(105,109)	(230,448)	(32,310)	(341)	(368,208)
At December 31, 2015	6,113,525	86,926,308	1,173,889	1,173,654	95,387,376
Amortization					
At January 1, 2015	8,901	2,626,688	233,074	287,657	3,156,320
Additions	9,084	2,748,106	178,356	300,229	3,235,775
Disposals	-	(47,834)	(32,310)	(341)	(80,485)
At December 31, 2015	17,985	5,326,960	379,120	587,545	6,311,610
Net book amount at December 31, 2015	6,095,540	81,599,348	794,769	586,109	89,075,766
	Land and building \$	Distribution equipment \$	Transportation equipment \$	Office and other \$	Total \$
Cost					
At January 1, 2014, restated (note 4)	4,422,019	70,345,143	1,027,045	806,382	76,600,589
Additions	128,832	4,094,475	143,323	216,492	4,583,122
Disposals	-	(48,253)	-	-	(48,253)
At December 31, 2014, restated (note 4)	4,550,851	74,391,365	1,170,368	1,022,874	81,135,458
Amortization					
Additions	8,901	2,626,688	233,074	287,657	3,156,320
At December 31, 2014, restated (note 4)	8,901	2,626,688	233,074	287,657	3,156,320
Net book amount at December 31, 2014, restated (note 4)	4,541,950	71,764,677	937,294	735,217	77,979,138

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

8. INTANGIBLE ASSETS

	Cost \$	Accumulated amortization \$	December 31, 2015 Net book value \$
Land rights	400,358	31,459	368,899
Computer software	614,424	437,885	176,539
	1,014,782	469,344	545,438
	Cost \$	Accumulated amortization \$	December 31, 2014 Net book value \$
Land rights	400,358	15,730	384,628
Computer software	548,189	223,366	324,823
	948,547	239,096	709,451
	Restated (note 4) \$	Accumulated amortization \$	January 1, 2014 Net book value \$
Land rights	400,358	-	400,358
Computer software	534,898	-	534,898
	935,256	-	935,256

During the year, additions of \$66,235 (2014 - \$13,291) and amortization of \$230,248 (2014 - \$239,096) were noted.

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2015****9. INCOME TAXES**

(a) The components of deferred income tax balances are as follows:

	2015	2014 Restated (note 4)
	\$	\$
Deferred income tax asset		
Tax basis of equipment in excess of carrying amount	3,008,948	2,993,853
Reserves deductible when paid	215,477	219,978
Cumulative eligible capital available for tax purposes	233,973	251,000
Timing difference - revenue recognition	121,308	121,308
	3,579,706	3,586,139

(b) 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 26.5% (2014 - 26.5%) to the income for the years as follows:

	2015	2014 Restated (note 4)
	\$	\$
Income for the year before income taxes	5,711,000	3,904,000
Net movement in regulatory deferral accounts	(1,367,423)	203,444
	4,343,577	4,107,444
Anticipated income tax	1,151,000	1,088,000
Tax effect of the following:		
Permanent expense differences	4,000	12,000
Dividend refund	(30,500)	-
Impact of tax rate change and other	(17,475)	9,090
Provision for income taxes	1,107,025	1,109,090

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

9. INCOME TAXES, continued

	Opening balance at January 1, 2015, as restated (note 4) \$	Recognize in net income \$	Closing balance at December 31, 2015 \$
Deferred tax assets			
Property, plant and equipment	3,244,853	(1,932)	3,242,921
Employee future benefits	219,978	(4,501)	215,477
Timing difference - revenue recognition	121,308	-	121,308
	3,586,139	(6,433)	3,579,706
	Opening balance at January 1, 2014 \$	Recognize in net income \$	Closing balance at December 31, 2014, as restated (note 4) \$
Deferred tax assets			
Property, plant and equipment	3,221,000	23,853	3,244,853
Employee future benefits	279,000	(59,022)	219,978
Timing difference - revenue recognition	-	121,308	121,308
	3,500,000	86,139	3,586,139
	December 31, 2015 \$	December 31, 2014 Restated (note 4) \$	January 1, 2014 Restated (note 4) \$
Deferred tax assets to be recovered after more than 12 months	3,579,706	3,586,139	3,500,000

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

10. 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, 2014, as restated (note 4) \$	Net balances arising/ recovered in the period \$	December 31, 2015 \$
Regulatory deferral account debit					
Cost of power	i	A	1,577,301	1,383,346	2,960,647
Recovery account	ii	1-2	174,293	251,193	425,486
Low voltage	iii	A	186,969	141,069	328,038
Other	iv	A	252,789	(50,552)	202,237
			2,191,352	1,725,056	3,916,408

	Note	Remaining recovery/ reversal period (years)	December 31, 2014, as restated (note 4) \$	Net balances arising/ recovered in the period \$	December 31, 2015 \$
Regulatory deferral account credit					
Cost of power	i	A	926,390	2,214,935	3,141,325
Other	iv	A	577,386	(28,943)	548,443
Recovery account	ii	1-2	1,249,470	(463,248)	786,222
IFRS conversion	v	A	4,593,346	1,369,735	5,963,081
			7,346,592	3,092,479	10,439,071

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

10. REGULATORY DEFERRAL ACCOUNTS, continued

(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 five years.

(i) Power purchased for resale and retail settlement and others represent the difference between the amount paid by the Company to the Independent Electricity System Operator ("IESO") for the cost of energy and the amount billed by the Company to its customers as energy sales, and related carrying costs. These amounts are recorded on the statement of financial position until their disposition is decided by the Ontario Energy Board through a rate filing process.

(ii) Recovery accounts are items approved for settlement which consists of various deferred amounts in connection with global adjustment dispositions, and other amounts approved by the OEB. Costs incurred with respect to these various activities are included in rate recoveries effective until 2016.

Pursuant to The Ontario Energy Board Decision on EB 2011-0184 the Company has returned charges related to Payments in Lieu of Taxes. These charges were collected from 2002 to 2006. The remaining balance of \$37,000 (2014 - \$110,000) will be repaid through the next cost of service filing.

(iii) This account is used to record the variances arising from low voltage transactions which are not part of the electricity wholesale market. The account is used to record the net of the amount charged by a host distributor to an embedded distributor for transmission or low voltage services and the amount billed to the embedded distributor's customers based on the embedded distributor's approved rates.

(iv) Included in other is the Smart Meter variance account which represents the estimated net payable value of smart meter monies advanced before these assets were transferred into the Rate Base of the Company in 2010.

Also included in other is retail cost variance accounts. These accounts are used to record the revenue derived, including accruals from establishing service agreements, distributor-consolidated billing, retailer-consolidated billing, Service Transaction Request services and charged by the distributor, in the form of a request fee, processing fee, information request fee, default fee, and other associated costs.

(v) In 2012, the Company adjusted the estimated useful life related to the amortization period for certain capital assets, based upon the Ontario Energy's Board 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 \$5,963,081 (2014 - \$4,593,346) and a reduction in service revenue of \$1,336,735 in 2015 (2014 - \$1,473,041).

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2015****11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	December 31, 2015 \$	December 31, 2014 \$	January 1, 2014 \$
Accounts payable - purchased power	6,332,580	6,811,291	5,189,751
Other trade accounts payable and accrued liabilities	1,793,110	2,843,268	3,685,979
Water and sewer billings payable (note 16)	1,890,178	1,941,311	1,704,054
Credits on customer accounts	1,220,670	1,365,229	901,976
Independent Electric System Operator	-	-	75,198
Ontario Power Authority program	10,622	102,166	517,038
	11,247,160	13,063,265	12,073,996

12. LONG-TERM DEBT

	December 31, 2015 \$	December 31, 2014 \$	January 1, 2014 \$
Note payable, 5.48% - Town of Newmarket	22,000,000	22,000,000	22,000,000
Note payable, 5.48% - Township of Tay	1,742,821	1,742,821	1,742,821
Committed term facility, 3.07%.	1,000,000	1,000,000	1,000,000
Bank loan payable, 2.44% fixed rate, payable in blended monthly payments of \$65,742	7,000,000	-	-
	31,742,821	24,742,821	24,742,821
Less principal payments due within one year	1,625,745	1,000,000	-
Due beyond one year	30,117,076	23,742,821	24,742,821
Estimated principal repayments are as follows:			\$
2016			1,625,745
2017			641,184
2018			657,006
2019			673,217
2020			4,402,848
Unspecified (A)			23,742,821
			31,742,821

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

12. LONG-TERM DEBT, continued

(A) The notes payable are unsecured and have no specific terms of repayment. Since the holders of the notes have confirmed they will not request repayment of this amount during the next fiscal year, these amounts have been classified as a non-current liability in the accompanying financial statements.

The committed term facility was drawn for the purpose of the purchase of smart meters. The Company is required to make monthly interest payments only with 100% of the remaining balance due December 31, 2015. This balance was paid in January 2016 and therefore is still accounted for as a current liability as at December 31, 2015. At December 31, 2015, the Company was in compliance with all covenants. A general security agreement covering all assets of the Company and assignment of business/liability insurance has been pledged as security for the committed term facility.

The bank loan payable is a 5 year term loan due December 10, 2020 with a payment due at maturity of \$3,771,150. To reduce exposure to interest rate fluctuations, the Company has entered into an interest rate swap where they pay a fixed interest rate over of the term of the loan.

13. 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).

Upon commissioning of the Expansion Facilities and upon payment by the developer of all fees associated with the installation, inspection, testing and commissioning of work done by the Company, the Company may reduce the deposit to 10% of financial guarantee. The remaining letter of credit will be held for a two year period to cover any defects arising from the work done by the developer and its contractor.

	December 31, 2015 \$	December 31, 2014 \$	January 1, 2014 \$
Customer deposits	2,697,240	2,717,399	2,754,067
Construction deposits	492,024	245,255	546,740
	3,189,264	2,962,654	3,300,807

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

14. CONTRIBUTED CAPITAL

	December 31, 2015	December 31, (restated, note 4)
	\$	\$
Deferred contributions, net, beginning of year	23,553,032	22,250,508
Contributed capital received	1,826,732	1,821,746
Contributed capital recognized as revenue	(558,247)	(519,222)
Deferred contributions, net, end of year	24,821,517	23,553,032

15. 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, 2014.

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

	2015 \$	2014 as restated (noted 4) \$
Accrued benefit obligation, beginning of period	830,105	1,016,846
Current service cost	30,327	29,161
Interest expense	32,221	38,794
Benefits paid	(49,167)	(44,240)
	843,486	1,040,561
Actuarial loss	(30,369)	(210,456)
	813,117	830,105

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

15. EMPLOYEE FUTURE BENEFITS, continued

Current service costs and interest on accrued benefit obligation are recognized in the statement of income. Actuarial gains (loss) arising from changes in financial assumptions are accounted for in other comprehensive income. The total benefit costs for the year is \$32,179 (2014 - \$(142,502)).

The actuarial assumptions used in the valuation are the consumer price index at 2% (2014 - 2.5%), discount rate of 4.3% (2014 - 4.0%), salary increase rate of 2.5% (2014 - 3.3%), cost trend including health benefits of 6.5% (2014 - 7.47%) and dental benefits 4.5% (2014 - 4.8%) and retirement age of 61 (2014 - 60). The health benefits are expected to decrease at 0.25% per year until 2023 when it reaches 4.50% and dental benefits will remain at 4.50% to 2023.

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

	Reasonable possible change \$	Defined benefit obligation Change \$	Current service costs change \$	Interest cost change \$
Discount rate	+1%	(106,000)	(5,000)	3,000
Discount rate	-1%	137,000	5,000	(4,000)
Retirement age	62	(75,000)	(6,000)	(3,000)
Retirement age	60	74,000	5,000	3,000
Cost trends	+1%	34,000	3,000	2,000
Cost trends	-1%	(31,000)	(4,000)	(1,000)

16. RELATED PARTY TRANSACTIONS AND ADVANCES FROM PARENT COMPANY

- (a) During the year, 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 11) 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 and remitted on their behalf.

Included in long term debt (note 12) are notes payable to related parties.

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2015****16. RELATED PARTY TRANSACTIONS, continued****(b) Transactions**

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

	December 31, 2015 \$	December 31, 2014 \$	January 1, 2014 \$
Revenue			
Energy sales	3,410,483	3,596,417	2,995,243
Services - Street light capital	96,827	57,765	12,147
Services - Street light maintenance	245,491	267,809	267,809
	3,752,801	3,921,991	3,275,199
Expenses			
Interest	1,205,600	1,205,600	1,205,600
Rent and property tax	377,439	375,601	386,770
	1,583,039	1,581,201	1,592,370

- (c) The following amount is due from the Town of Newmarket and included in the financial statements:

	December 31, 2015 \$	December 31, 2014 \$	January 1, 2014 \$
Accounts receivable	289,015	380,484	333,155

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

16. RELATED PARTY TRANSACTIONS, continued

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

	December 31, 2015 \$	December 31, 2014 \$	January 1, 2014 \$
Newmarket Hydro Holdings Inc.	2,473,010	2,393,957	2,313,323

Advances from the parent company, Newmarket Hydro Holdings Inc. consist of promissory notes in the amount of \$2,153,000 (2013 - \$2,153,000) and are due within 13 months of notice provided. The remainder of the balance has no specific terms of repayment. As the parent company has indicated that it is not their intention to 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 2015 (2014 - 5.48%).

The key management personnel of the Company has been defined as members of its board of directors, and supervisory personnel. The compensation is comprised of director's fees, management salaries and wages, short-term employee benefits and post employment benefits totaling \$2,243,793 (2014 - \$2,399,308).

17. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued

	December 31, 2015 \$	December 31, 2014 \$	January 1, 2014 \$
10,000 common shares	27,140,206	27,140,206	27,140,206

NEWMARKET-TAY POWER DISTRIBUTION LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

18. OTHER INCOME

Other income consists of the following:

	2015 \$	2014 \$
Account set up fees	111,852	110,266
Pole rentals	140,256	140,309
Collection charges	271,672	258,428
Administration charges	125,330	124,352
Conservation demand management	618	243,679
Other	208,115	154,585
Operating income	857,843	1,031,619

19. OPERATING EXPENSES

Operating expenses consist of the following:

	2015 \$	2014 \$
Wages and benefits	4,648,063	4,818,973
Materials, equipment and other operating expenses	1,951,291	2,280,851
Administration and overhead	938,770	940,922
Operating expenses	7,538,124	8,040,746

20. FINANCE INCOME AND FINANCE COSTS

Finance income recognized in profit or loss consists of the following:

	2015 \$	2014 \$
Interest income on receivables	262,354	240,149
Income on short term investments	161,761	187,206
	424,115	427,355

Finance costs recognized in profit or loss consists of the following:

	2015 \$	2014 \$
Interest on long term debt	1,487,043	1,471,407
Customer deposit interest	24,551	32,680
	1,511,594	1,504,087

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

21. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2015	2014 Restated (note 4)
	\$	\$
Increase in short-term investments	(20,878)	(40,136)
Decrease (increase) in accounts receivable	548,511	(360,622)
Increase in unbilled revenue	(522,559)	(1,944,436)
Decrease (increase) in inventories	188,329	(492,738)
Increase in prepaid expenses	(43,399)	(72,806)
Increase (decrease) in accounts payable and accrued liabilities	(1,816,105)	989,269
Increase (decrease) in deposits held	226,610	(338,153)
Interest received	424,115	427,354
Taxes paid	(1,800,000)	(1,801,312)
Taxes received	900,312	-
	(1,915,064)	(3,633,580)

22. SHORT TERM CREDIT FACILITIES

The Company has \$4,000,000 available in operating facilities from a major chartered bank. The facilities are 364 day revolving operating loan, bearing interest at prime plus 0.5%, 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 the report date, the Company has no balance outstanding (2014 - Nil) on this facility. The operating loan includes restrictive clauses with respect to repayment.

The Company has provided prudential support in the amount of \$2,765,940 to the Independent Electricity System Operator. The prudential support is secured by a letter of credit with a major chartered bank for \$2,765,940, 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, 2015, the Company was in compliance with all covenants.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

23. 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 \$430,916 (2014 - \$430,840).

24. 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.

25. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash, mutual funds, accounts receivable, unbilled revenue which will result in future cash receipts, as well as accounts payable and accrued liabilities, deposits held, accounts payable and accruals, 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 arrangements 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 12 and 16).

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

25. FINANCIAL INSTRUMENTS, continued

(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, 2015 is \$223,619 (2014 - \$215,429). The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has approximately 10,000 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, 2015, the Company holds security deposits in the amount of \$3,189,264 (2014 - \$2,962,654). 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.

(c) Market risk

The securities held as short term investments exposes the Company to market risk due to the potential for changes in market prices.

(d) Liquidity risk

The Company does have a liquidity risk in the accounts payable and accrued liabilities of \$11,247,160 (2014 - \$13,063,265). 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	11,247,160	-	-
Deposits held	106,250	318,750	2,764,264
Long term debt	1,155,009	470,736	30,117,076
Employee future benefits	-	-	813,117
	12,508,419	789,486	33,694,457

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015

26. COMMITMENT

The Company has an operating lease agreement with the Town of Newmarket, expiring December 31, 2017 for the rental of the building. Minimum lease payments over the term of the lease are as follows;

	\$
2016	275,000
2017	275,000
	550,000

27. 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.