Collus PowerStream Corp.

Financial Statements

For the years ended December 31, 2015 and 2014

(expressed in CDN$)

Collus PowerStream Corp.
Financial Statements
For the years ended December 31, 2015 and 2014

Table of Contents

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Collus PowerStream Corp.:

Report on the Financial Statements

We have audited the accompanying financial statements of Collus PowerStream Corp., which comprise the balance sheets as at December 31, 2015, December 31, 2014 and January 1, 2014 and the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and December 31, 2014, and a summary of significant accounting policies and other explanatory informationand.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the corporation'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 corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained 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 Collus PowerStream Corp. 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.

Collins Barrow SGB LLP

Licensed Public Accountants
Collingwood, Ontario
March 14, 2016

This office is independently owned and operated by Collins Barrow SGB LLP.
The Collins Barrow trademarks are used under License.

Collus PowerStream Corp.

Balance Sheets

(expressed in CDN$)

		December 31 2015	December 31 2014	January 1 2014
Assets			(Note 33)	(Note 33)
Current				
Cash and bank	(Note 6)	**$ 2,943,000**	$ 1,490,843	$ 1,604,306
Investments	(Note 7)	**100**	100	100
Accounts receivable	(Note 8)	**4,088,883**	4,631,944	3,546,215
Unbilled energy revenue		**4,232,314**	3,944,854	3,513,375
Inventory		**285,875**	264,373	271,284
Payments in lieu of taxes receivable	(Note 9)	**-**	-	73,420
Prepaid expenses		**466,092**	163,414	130,123
		12,016,264	10,495,528	9,138,823
Deferred taxes	(Note 9)	**681,582**	745,739	742,445
Property, plant and equipment	(Note 10)	**17,240,932**	15,974,884	15,075,219
Computer software	(Note 11)	**67,276**	73,985	44,660
Goodwill		**276,704**	276,704	276,704
Total Assets		**30,282,758**	27,566,840	25,277,851
Regulatory deferrals	(Note 12)	**1,598,265**	2,099,735	2,500,750
Total Assets and Regulatory Deferrals		**$ 31,881,023**	$ 29,666,575	$ 27,778,601
Liabilities and Shareholder's Equity				
Current				
Accounts payable and accruals	(Note 13)	**$ 7,122,561**	$ 8,602,601	$ 6,609,204
Payments in lieu of taxes payable	(Note 9)	**4,317**	27,347	-
Customer deposits and credits	(Note14)	**834,308**	556,281	638,327
Current portion of long-term debt	(Note 16)	**491,505**	378,683	371,884
Deferred program funding		**103,264**	-	302,037
		8,555,955	9,564,912	7,921,452
Long-term customer deposits	(Note14)	**281,455**	285,968	220,874
Long-term debt	(Note 16)	**11,950,730**	10,067,235	10,445,918
Contributions in aid of construction	(Note15)	**1,075,897**	347,075	-
Employee future benefits	(Note 17)	**381,933**	388,763	398,413
Deferred program funding		**-**	139,077	1,622
Total Liabilities		**22,245,970**	20,793,030	18,988,279
Shareholder's Equity				
Share capital	(Note 19)	**5,101,340**	5,101,340	5,101,340
Miscellaneous paid in capital	(Note 20)	**2,966,014**	2,966,014	2,966,014
Retained earnings (deficit)		**738,859**	159,376	(402,278)
Accumulated other comprehensive income		**(58,639)**	(58,639)	(58,639)
Total Shareholder's Equity		**8,747,574**	8,168,091	7,606,437
Total Liabilities and Shareholder's Equity		**30,993,544**	28,961,121	26,594,716
Regulatory deferrals	(Note 12)	**887,479**	705,454	1,183,885
Total Liabilities, Equity and Regulatory Deferrals		**$ 31,881,023**	$ 29,666,575	$ 27,778,601

On behalf of the Board:

______________ Director ______________ Director

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

Collus PowerStream Corp.

Statements of Comprehensive Income

(expressed in CDN$)

For the years ended December 31		2015	2014
			(Note 33)
Revenues			
Sale of energy		**$ 33,644,023**	$ 32,977,774
Regulatory adjustment to sale of energy	(Note12)	**683,495**	(77,416)
Distribution revenue		**6,607,209**	6,487,154
Contributions in aid of construction	(Note15)	**16,751**	4,156
Other revenue		**464,146**	402,716
		41,415,624	39,794,384
Cost of power purchased		**33,644,023**	32,977,774
		7,771,601	6,816,610
Expenses			
Amortization	(Note 24)	**759,348**	812,857
Billing and collecting	(Note 31)	**1,033,827**	971,685
Operations and maintenance	(Note 31)	**2,388,712**	2,169,113
General and administrative	(Note 31)	**1,253,530**	1,388,582
Loss on disposal of property, plant and equipment		**39,307**	22,436
Donations and Low-Income Energy Assistance Program		**13,536**	11,377
		5,488,260	5,376,050
Income from operations		**2,283,341**	1,440,560
Finance income	(Note 32)	**52,563**	59,589
Finance cost	(Note 32)	**(486,122)**	(483,724)
Income before income taxes and regulatory items		**1,849,782**	1,016,425
Net movement on regulatory deferral accounts	(Note12)	**(683,495)**	77,416
Income before provision for payment in lieu of taxes		**1,166,287**	1,093,841
Provision for payment in lieu taxes	(Note 9)	**178,697**	165,187
Net income for the year		**987,590**	928,654
Other comprehensive income		**-**	-
Total income and other comprehensive income		**$ 987,590**	$ 928,654

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

Collus PowerStream Corp.

Statements of Changes in Equity

(expressed in CDN$)

For the years ended December 31, 2015 and 2014

	Share Capital	Miscellaneous Paid In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance January 1, 2014	**$ 5,101,340**	**$ 2,966,014**	**$ (58,639)**	**$ (402,278)**	**$ 7,606,437**
Net income	-	-	-	928,654	928,654
Dividends	-	-	-	(367,000)	(367,000)
Balance December 31, 2014	**5,101,340**	**2,966,014**	**(58,639)**	**159,376**	**8,168,091**
Net income	-	-	-	987,590	987,590
Dividends	-	-	-	(408,107)	(408,107)
Balance December 31, 2015	**5,101,340**	**2,966,014**	**(58,639)**	**738,859**	**8,747,574**

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

Collus PowerStream Corp.
Statements of Cash Flows
(expressed in CDN$)

For the years ended December 31		2015	2014
Cash flows from operating activities			
Total income and other comprehensive income		**$ 987,590**	$ 928,654
Adjustments for items not affecting cash:			
Amortization	(Note 24)	**759,348**	812,857
Vehicle amortization, allocated to other accts	(Note 24)	**231,922**	219,594
Loss on disposal of property, plant and equipment		**39,307**	22,436
Gain on disposal of property, plant and equipment		**(2,715)**	(12,300)
Employee future benefits		**(24,741)**	(27,954)
Contributions in aid of construction		**(16,751)**	(4,156)
Provision for payment in lieu of taxes		**178,697**	165,187
Finance income		**(52,563)**	(59,589)
Finance expense		**486,122**	483,724
		2,586,216	2,528,453
Changes in non-cash working capital:			
Accounts receivable		**543,061**	(1,085,729)
Unbilled energy revenue		**(287,460)**	(431,479)
Inventory		**(21,502)**	6,911
Prepaid expenses		**(302,677)**	(33,291)
Accounts payable and accruals		**(1,484,481)**	1,995,620
Customer deposits and credit balances		**278,027**	(82,046)
Payments in lieu of corporate taxes paid		**(201,727)**	(137,840)
Payments in lieu of corporate taxes received		**-**	73,420
		1,109,457	2,834,019
Cash flows from investing activities			
Purchase of property, plant and equipment	(Note 10)	**(2,430,616)**	(2,091,124)
Proceeds of contributions in aid of construction	(Note 15)	**745,573**	351,231
Purchase of computer software	(Note 11)	**(12,521)**	(51,315)
Proceeds on disposal of property, plant and equipment		**2,825**	12,300
Net increase (decrease) regulatory accounts, after transfers		**918,841**	101,758
Interest received		**34,485**	35,683
		(741,413)	(1,641,467)
Cash flows from financing activities			
Deferred program funding		**(35,813)**	(164,582)
Increase (decrease) in long-term customer deposits		**(4,513)**	65,094
Proceeds of long-term debt		**4,110,170**	-
Repayments of long-term debt		**(2,113,853)**	(371,884)
Interest paid		**(463,771)**	(467,643)
Dividends paid	(Note 21)	**(408,107)**	(367,000)
		1,084,113	(1,306,015)
Increase (decrease) in cash during the year		**1,452,157**	(113,463)
Cash and bank, beginning of year		**1,490,843**	1,604,306
Cash and bank, end of year		**$ 2,943,000**	$ 1,490,843

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

1. Corporate Information

Collus PowerStream Corp. (the "corporation") (formerly known as Collus Power Corp.) was incorporated on April 13, 2000, under the Business Corporations Act (Ontario), and is wholly owned by its parent holding company Collingwood PowerStream Utility Services Corp. The holding company is owned 50% by the Town of Collingwood and 50% by PowerStream Inc. The address of the corporation's office and principal place of business is 43 Stewart Road, Collingwood, Ontario, Canada.

The principal activity of the corporation is to distribute electricity to approximately 17,000 customers in the service area of Collingwood, Thornbury, Stayner, and Creemore in the Province of Ontario, under licences issued by the Ontario Energy Board ("OEB"). The corporation is regulated under the OEB and adjustments to the distribution rates require OEB approval.

As a condition of its distribution licence, the corporation is required to meet specified Conservation and Demand Management ("CDM") targets for reductions in electricity consumption and peak electricity demand. As part of this initiative, the corporation is delivering Ontario Power Authority ("OPA") funded programs in order to meet its target.

Under the Green Energy and Green Economy Act, 2009, the corporation has new opportunities and responsibilities for enabling renewable generation.

2. Basis of Preparation

(a) Statement of compliance

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

These are the corporation's first financial statements prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the corporation is provided in Note 30.

The financial statements were authorized for issue by the Board of Directors on March 14, 2016.

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis.

(c) Presentation currency

The financial statements are presented in Canadian dollars (CDN$), which is also the corporation's functional currency, and all values are rounded to the nearest dollar, unless otherwise indicated.

2. Basis of Preparation Continued

(d) Use of estimates and judgments

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the corporation's accounting policies. The areas involving a higher degree of judgment, complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(e) Explanation of activities subject to rate regulation

The corporation, as an electricity distributor, is both licensed and regulated by the Ontario Energy Board "OEB" which has a legislative mandate to oversee various aspects of the electricity industry. The OEB exercises statutory authority through setting or approving all rates charged by the corporation and establishing standards of service for the corporation's customers.

The OEB has broad powers relating to licensing, standards of conduct and service and the regulation of rates charged by the corporation and other electricity distributors in Ontario. The Ontario government enacted the Energy Competition Act, 1998, to introduce competition to the Ontario energy market. Rates are set by the OEB on an annual basis for May 1 to April 30.

Regulatory risk

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

Recovery risk

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

3. Significant Accounting Policies

The preparation and presentation of financial statements can be significantly affected by the accounting policies selected by the corporation. The financial statements reflect the following significant accounting policies, which are an integral part of understanding them.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS Statement of Financial Position at January 1, 2014 for the purposes of the transition to IFRS, unless otherwise indicated.

(a) Regulatory Deferral Accounts

The corporation has early adopted IFRS 14 Regulatory Deferral Accounts. In accordance with IFRS 14, the corporation has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian GAAP for the recognition, measurement and impairment of assets and liabilities arising from rate regulation. These are referred to as regulatory deferral account balances.

Regulatory deferral account debit balances represent future revenues associated with certain costs incurred in the current period or in prior period(s), that are expected to be recovered from consumers in future periods through the rate-setting process. Regulatory deferral account credit balances are associated with the collection of certain revenues earned in the current period or in prior period(s), that are expected to be returned to consumers in future periods through the rate-setting process. Regulatory deferral account balances can arise from differences in amounts collected from customers (based on regulated rates) and the corresponding cost of non-competitive electricity service incurred by the corporation in the wholesale market administered by the Independent Electricity System Operator (the "IESO") after May 1, 2002. These amounts have been accumulated pursuant to regulation underlying the Electricity Act (the "EA") and deferred in anticipation of their future recovery or expense in electricity distribution service charges.

Explanation of Recognized Amounts

Regulatory deferral account balances are recognized and measured initially and subsequently at cost. They are assessed for impairment on the same basis as other non-financial assets as described below.

Management continually assesses the likelihood of recovery of regulatory deferral accounts. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

3. Significant Accounting Policies Continued

(b) Revenue

Revenue is recognized to the extent that it is probable that economic benefits will flow to the corporation and that the revenue can be reliably measured. Revenue is comprised of sales and distribution of energy, pole use rental, collection charges, and other miscellaneous revenues.

Sale and distribution of energy

The corporation is licensed by the OEB to distribute electricity. As a licensed distributor, the corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the corporation ultimately collects these amounts from customers. The corporation has determined that they are acting as a principal for the electricity distribution and, therefore, have presented the electricity revenues on a gross basis.

Revenues from the sale and distribution of electricity is recognized on an accrual basis, including unbilled revenues accrued in respect of electricity delivered but not yet billed. Sale and distribution of energy revenue is comprised of customer billings for distribution service charges. Customer billings for distribution service charges are recorded based on meter readings.

Other

Other revenues, which include revenues from pole use rental, collection charges and other miscellaneous revenues are recognized at the time services are provided.

Where the corporation has an ongoing obligation to provide services, revenues are recognized as the service is performed and amounts billed in advance are recognized as deferred revenue.

Contributions in aid of construction

Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers when the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as contributions in aid of construction and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset.

(c) Cash and Bank

Cash and bank includes cash on hand, deposits held on demand with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

3. Significant Accounting Policies Continued

(d) Financial Assets

Financial assets - classified as loans and receivables

These include cash and bank, accounts receivable and unbilled energy revenue. Collectability of accounts receivable is reviewed on an ongoing basis. Accounts receivable which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the corporation will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of future cash flows. The amount of the provision is recognized in the statement of comprehensive income.

Financial assets - classified as available for sale

Available for sale financial assets include the corporation's investment in Utility Collaborative Services Inc. (Note 7). This investment does not have a quoted market price in an active market and a reliable fair value cannot be reliably measured. This financial instrument is measured at cost instead of fair value.

(e) Financial Liabilities

Accounts payable and accruals, customer deposits and credits and long-term debt are classified as other financial liabilities. These liabilities are measured at amortized cost.

Customer Deposits

Customers may be required to post security to obtain electricity or other services, which are refundable. Where the security posted is in the form of cash and bank, these amounts are recorded in the accounts as deposits. Deposits to be refunded to customers within the next fiscal year are classified as a current liability. Interest rates paid on customer deposits are based on the Bank of Canada's prime business rate less 2%.

(f) Property, Plant and Equipment

Recognition and measurement

Property, plant and equipment (PP&E) are recognized at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the corporation, including eligible borrowing costs.

Amortization of PP&E is recorded in the statement of comprehensive income on a straight-line basis over the estimated useful life of the related asset. Half of a year's amortization is taken for the first year, regardless of when the property was actually put into service during the year. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3. Significant Accounting Policies Continued

(f) Property, Plant and Equipment Continued

The estimated useful lives are as follows:

Land and Buildings	
Land	Not amortized
Buildings	50 years
Distribution Equipment	
Distribution stations	20 - 45 years
Distribution lines	40 - 60 years
Distribution transformers	40 years
Distribution services	40 years
Distribution meters	15 years
Smart meters	15 years
Vehicles	
Vehicles	5 - 8 years
Other Equipment	
Office equipment	10 years
Tools and equipment	10 years
Communication equipment	10 years
System supervisory equipment	15 years
Work-in-Progress	
Work-in-Progress	Not amortized
Major Spare Parts	Not amortized

Work-in-Progress assets are not amortized until the project is complete and ready for use.

Major spares such as spare transformers and other items kept as standby/back up equipment are accounted for as PP&E since they support the corporation's distribution system reliability. These are included in work-in-progress (Note 10).

Contributions in aid of construction

When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as contributions in aid of construction. The contribution represents the corporation's obligation to continue to provide customers access to the supply of electricity and is amortized to income over the economic useful life of the contributed asset ranging between 40 and 45 years.

Gains and losses on disposal

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the asset, and are included in the statement of comprehensive income when the asset is disposed. When an item of property, plant and equipment with related contributions in aid of construction is disposed, the remaining contributions are recognized in full in the statement of comprehensive income.

3. Significant Accounting Policies Continued

(g) Borrowing Costs

The corporation capitalizes interest expenses and other finance charges directly relating to the acquisition, construction or production of assets that take a substantial period of time to get ready for its intended use. Capitalization commences when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization will be suspended during periods in which active development is interrupted. Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use or sale are complete.

(h) Intangible Assets

Computer software

Computer software that is acquired or developed by the corporation, including software that is not integral to the functionality of equipment purchased, which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses.

Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. Half of a year's amortization is taken for the first year. Amortization methods and useful lives of all intangible assets are reviewed at each reporting date. The estimated useful lives for the current and comparative years are:

Computer software	5 years

Goodwill

Goodwill represents the cost of acquired local distribution companies in Stayner, Creemore and Thornbury in excess of fair value of the net identifiable assets purchased. Goodwill is measured at cost and is not amortized.

(i) Impairment of Non-Financial Assets

At the end of each reporting period, the corporation conducts annual internal assessments of the values of property, plant and equipment, intangible assets and regulatory deferral account debit balances to determine whether there are events or changes in circumstances that indicate that their carrying amount may not be recoverable. Where the carrying value exceeds its recoverable amount, which is the higher of value in use and fair value less costs of disposal, the asset is written down accordingly. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (‘CGU’), which is the lowest group of assets to which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The corporation has one cash-generating unit for which impairment testing is performed. An impairment loss is charged to the statement of comprehensive income, except to the extent it reverses gains previously recognized in other comprehensive income.

At the end of each reporting period or when an indicator for impairment exists, the corporation conducts an internal assessment of goodwill. An impairment loss in respect of goodwill is not reversed.

3. Significant Accounting Policies Continued

(j) Employee Future Benefits

Pension plan

The employees of the corporation participate in the Ontario Municipal Employees Retirement System ("OMERS"). The corporation also makes contributions to the OMERS plan on behalf of its employees. The plan has a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. However, the plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The contribution payable in exchange for services rendered during a period is recognized as an expense during that period. The corporation is only one of a number of employers that participates in the plan and the financial information provided to the corporation on the basis of the contractual agreements is usually insufficient to measure the corporation's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

Post employment medical and life insurance plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The corporation's net obligation on behalf of its retired employees unfunded extended medical and dental benefits is calculated by estimating the amount of future benefits that are expected to be paid out discounted to determine its present value. Any unrecognized past service costs are deducted.

The calculation is performed by a qualified actuary using the projected unit credit method every third year or when there are significant changes to workforce. When the calculation results in a benefit to the corporation, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the corporation if it is realizable during the life of the plan, or on settlement of the plan liabilities.

Defined benefit obligations are measured using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating the terms of the liabilities.

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

Service costs are recognized in operating expenses and include current and past service costs as well as gains and losses on curtailments.

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

3. Significant Accounting Policies Continued

Other long-term service benefits

Other employee benefits that are expected to be settled wholly within 12 months after the end of the reporting period are presented as current liabilities. Other employee benefits that are not expected to be settled wholly within 12 months after the end of the reporting period are presented as non-current liabilities and calculated using the projected unit credit method and then discounted using yields available on high quality corporate bonds that have maturity dates approximating to the expected remaining period to settlement.

(k) Payments in Lieu of Taxes Payable

Tax status

The corporation is a Municipal Electricity Utility ("MEU") for purposes of the payments in lieu of taxes ("PILs") regime contained in the Electricity Act, 1998. As a MEU, the corporation is exempt from tax under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario).

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

Current and deferred tax

Provision in lieu of taxes ("PILs") is comprised of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to items recognized directly in equity or regulatory deferral account balances (See Note 12).

Current PILs are recognized on the taxable income or loss for the current year plus any adjustment in respect of previous years. Current PILs are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base. The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities/(assets) are settled/(recovered). The corporation recognized deferred tax arising from temporary difference on regulatory deferral account balances.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized.

At the end of each reporting period, the corporation reassesses both recognized and unrecognized deferred tax assets. The corporation recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

3. Significant Accounting Policies Continued

(l) Finance Income and Finance Costs

Finance income is comprised of interest income on funds invested such as cash and short-term investments. Interest income is recognized as it accrues in the statement of comprehensive income, using the effective interest method.

Finance cost is comprised of interest payable on debt, impairment losses recognized on financial assets and net interest on employee future benefits.

(m) Inventory

Cost of inventory is comprised of direct materials, which typically consists of distribution assets not deemed as major spares, unless purchased for specific capital projects in process or as spare units. Costs, after deducting rebates and discounts, are assigned to individual items of inventory on the basis of weighted average cost. Decommissioned assets that are transferred to inventory are tested for impairment once they are removed from service and placed in inventory. Inventory is recognized at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(n) Standards, Amendments and Interpretations Not Yet Effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the corporation.

Management anticipates that all of the relevant pronouncements will be adopted in the corporation’s accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the corporation’s financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the corporation’s financial statements and therefore have not been described here.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement

IFRS 9 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 three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The corporation is in the process of evaluating the impact of the new standard.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRS. The effective date for IFRS 15 is January 1, 2018. The corporation is in the process of evaluating the impact of the new standard.

4. Use of Estimates and Judgments

The corporation makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Employee future benefits

The cost of post employment medical and insurance benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions. Due to the complexity of the valuation, the underlying assumptions and its long term nature, post employment medical and insurance benefits are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. See Note 17 Employee Future Benefits.

Payments in lieu of taxes payable

The corporation is required to make payments in lieu of tax calculated on the same basis as income taxes on taxable income earned and capital taxes. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The corporation recognizes liabilities for anticipated tax audit issues based on the corporation's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Accounts receivable impairment

In determining the allowance for doubtful accounts, the corporation considers historical loss experience of account balances based on the aging and arrears status of accounts receivable balances.

5. Seasonality

The corporation's operations are seasonal. The corporation's revenues tend to be higher in the first and third quarters of a year as a result of higher energy consumption for winter heating in the first quarter and air conditioning and cooling in the third quarter. The volume of electricity consumed by customers during any period is governed by events largely outside of the corporation's control (principally, sustained periods of hot or cold weather which increase the consumption of electricity, and sustained periods of moderate weather which decrease the consumption of electricity).

6. Cash and Bank

The corporation's bank account is held at one chartered bank and earns interest based upon its average monthly credit balance. Interest is paid monthly at the bank's monthly average prime rate less 1.70%. As at December 31, 2015 the rate was 1.00% (December 31, 2014 - 1.30%) (January 1, 2014 - 1.30%).

7. Investments

	December 31 2015	December 31 2014	January 1 2014
Utility Collaborative Services Inc. ("UCS") recorded using the cost method, 1 common share, 10% interest	**$ 100**	$ 100	$ 100

Utility Collaborative Services Inc. ("UCS") offers standards-based back office services. The collaboration of nine Local Distribution Companies ("LDCs") plus the management services of Util-Assist Inc. allows leverage in the reduction of costs for items such as information technology hosting and software licensing. (See Note 18 & 26)

8. Accounts Receivable

	December 31 2015	December 31 2014	January 1 2014
Accounts receivable	**$ 3,513,889**	$ 3,912,066	$ 2,921,245
Other accrued and miscellaneous receivable	**198,862**	24,412	42,449
Construction and trade receivable	**386,349**	521,933	330,531
HST receivable	**46,612**	57,062	170,836
Ontario Power Authority receivable	**21,088**	232,905	110,577
Collus PowerStream Solutions Corp.	**-**	-	89,107
	4,166,800	4,748,378	3,664,745
Less: Allowance for bad debts (See Note 25)	**77,916**	116,435	118,530
	$ 4,088,884	$ 4,631,943	$ 3,546,215

Accounts receivable include $747,289 (December 31, 2014 - $764,784 and January 1, 2014 - $596,138) for water and sewer billings.

9. Payments in Lieu of Corporate Taxes

(a) The significant components of the provision for payments in lieu of taxes recognized in net income are as follows:

	2015	2014
Current tax		
Based on current year taxable income	$ 178,697	$ 165,187

Statutory Canadian federal and provincial tax rates for the current year comprise 15% (2014 - 15%) for federal corporate tax and 11.5% (2014 - 11.5%) for corporate tax in Ontario. The PILs expense varies from amounts which would be computed by applying the corporation's combined statutory income tax rate as follows:

	2015	2014
Income before provision for PILs	$ 1,166,287	$ 1,093,841
Statutory Canadian federal and provincial tax rate	26.50%	26.50%
Provision for PILs at statutory rate	$ 309,066	$ 289,868
Increase (decrease) in income tax resulting from:		
Cumulative eligible capital deduction	(8,085)	(8,694)
Amortization expense in excess of capital cost allowance	(113,437)	(112,410)
Change in pension post retirement plan	(1,810)	(2,557)
Meals and entertainment	1,324	1,324
Co-operative education and apprenticeship credits	(8,361)	(2,344)
Total provision	$ 178,697	$ 165,187
Effective tax rate	15.34%	15.18%

(b) The movement in the deferred tax asset is as follows:

	2015	2014
Opening balance, January 1	$ 745,739	$ 742,445
Recognized in regulatory deferral credits	(64,157)	3,294
Closing balance, December 31	$ 681,582	$ 745,739
Deferred tax assets are attributable to the following:		
Employee future benefits	$ 101,212	$ 103,022
Property, plant and equipment	546,278	600,540
Goodwill	34,092	42,177
	$ 681,582	$ 745,739

The utilization of this tax asset is dependent on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences. The corporation believes that this asset should be recognized as it will be recovered through future services.

10. Property, Plant and Equipment

	Land and Buildings	Distribution Equipment	Vehicles	Other Equipment	Work-in Progress	Total
COST						
January 1, 2014	**$ 859,783**	**$ 12,808,265**	**$ 837,693**	**$ 376,288**	**$ 193,190**	**$ 15,075,219**
Additions	-	1,575,570	262,918	86,532	166,104	2,091,124
Disposals	-	(189,158)	-	-	-	(189,158)
December 31, 2014	**859,783**	**14,194,677**	**1,100,611**	**462,820**	**359,294**	**16,977,185**
Additions	2,300	1,804,122	39,114	114,518	470,562	2,430,616
Disposals	-	(225,654)	-	-	-	(225,654)
December 31, 2015	**$ 862,083**	**$ 15,773,145**	**$ 1,139,725**	**$ 577,338**	**$ 829,856**	**$ 19,182,147**
ACCUMULATED AMORTIZATION						
January 1, 2014	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Amortization	9,296	708,270	219,594	65,141	-	1,002,301
Disposals	-	-	-	-	-	-
Impairment Loss	-	-	-	-	-	-
December 31, 2014	**9,296**	**708,270**	**219,594**	**65,141**	**-**	**1,002,301**
Amortization	9,335	645,283	231,921	77,341	-	963,880
Disposals	-	(24,966)	-	-	-	(24,966)
Impairment Loss	-	-	-	-	-	-
December 31, 2015	**$ 18,631**	**$ 1,328,587**	**$ 451,515**	**$ 142,482**	**$ -**	**$ 1,941,215**
CARRYING AMOUNTS						
January 1, 2014	**$ 859,783**	**$ 12,808,265**	**$ 837,693**	**$ 376,288**	**$ 193,190**	**$ 15,075,219**
December 31, 2014	**$ 850,487**	**$ 13,486,407**	**$ 881,017**	**$ 397,679**	**$ 359,294**	**$ 15,974,884**
December 31, 2015	**$ 843,452**	**$ 14,444,558**	**$ 688,210**	**$ 434,856**	**$ 829,856**	**$ 17,240,932**

During the year, the corporation capitalized borrowing costs, related to the duration of capital construction projects greater than four months, amounting to $13,511 (2014 - $NIL).

11. Computer Software

COST	Total
January 1, 2014	$ 44,660
Additions	51,315
December 31, 2014	95,975
Additions	12,521
December 31, 2015	$ 108,496

ACCUMULATED AMORTIZATION	
January 1, 2014	$ -
Amortization	21,990
December 31, 2014	21,990
Amortization	19,230
December 31, 2015	$ 41,220

CARRYING AMOUNTS	
January 1, 2014	$ 44,660
December 31, 2014	$ 73,985
December 31, 2015	$ 67,276

12. 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. Where no recovery period is noted, the deferral amount will be applied for disposition at the time of the next Cost of Service Application to the OEB, which is currently scheduled for 2017. The recovery period will be determined by the OEB at that time.

Due to previous, existing or expected future regulatory articles or decisions, the corporation has the following amounts expected to be recovered by customers (returned to customers) in future periods and as such regulatory deferral account balances are comprised of:

	2014	Disposition May 2015	Balances Arising in the Period	Recovery	2015
Regulatory deferral debits:					
Stranded asset	$ 355,332	$ -	$ 166,622	$ -	**$ 521,954**
Energy East consultation costs	-	-	2,290	-	**2,290**
IFRS transition costs	176,493	-	3,990	-	**180,483**
Late payment penalty settlement	(2,217)	-	-	-	**(2,217)**
Green Energy Renewable Connect	2,699	-	2,755	-	**5,454**
Stranded meters	113,626	-	336	(104,110)	**9,852**
Smart Grid	4,608	-	54	-	**4,662**
PILs tax variance - other	17	-	-	-	**17**
PILs tax variance - Ontario SBD	-	-	35,187	-	**35,187**
LRAMVA	24,405	-	28,325	-	**52,730**
RARA approved May 1, 2013, 2 yr	116,046	-	1,342	(18,752)	**98,636**
RARA approved May 1, 2015, 1 yr	-	1,161,246	5,623	(652,682)	**514,187**
Retail settlement variances	1,043,401	(1,161,246)	117,845	-	**-**
	1,834,410	-	364,369	(775,544)	**1,423,235**
Miscellaneous deferred debits	265,325	-	125	(90,420)	**175,030**
	$ 2,099,735	$ -	$ 364,494	$ (865,964)	**$1,598,265**
Regulatory deferral credits:					
Retail settlement variances	$ -	$ -	$ 249,932	$ -	**$ 249,932**
RARA approved May 1, 2010, 4 yr	(52,538)	-	(3,666)	-	**(56,204)**
RARA approved May 1, 2012, 2 yr	12,253	-	(84)	-	**12,169**
Deferred taxes (See Note 9b)	745,739	-	(64,157)	-	**681,582**
	$ 705,454	$ -	$ 182,025	$ -	**$ 887,479**
Net regulatory asset	$ 1,394,281	$ -	$ 182,469	$ (865,964)	**$ 710,786**

12. Regulatory Deferral Accounts Continued

Carrying charges are calculated monthly on the opening balance of the applicable variance account using the prescribed interest rate set by the OEB. During the year the corporation recorded a net debit balance of $18,078 (2014 - $23,906) to the above regulatory accounts for carrying charges and the related net credit balance is included in finance income (Note 32). The prescribed interest rate history is as follows:

	Q1	Q2	Q3	Q4
2015 OEB quarterly prescribed interest rates	1.47 %	1.10 %	1.10 %	1.10 %
2014 OEB quarterly prescribed interest rates	1.47 %	1.47 %	1.47 %	1.47 %

Stranded Assets

The purpose of this other regulatory deferral account is to record the cost of Sensus ICON model F and model G smart meters net of their accumulated amortization that must be removed from service prematurely before the end of their expected service life and replaced with new meters. These meters are exhibiting communication issues that are causing severe operational issues and are unable to meet new requirements such as data encryption. No amortization expense is recorded on these meters after they have been removed from service. Carrying charges are recorded monthly on the opening principal balance. A total of 4,631 units were replaced between June 2013 and December 31, 2015 at an actual removed net book value of $512,493.

Energy East Consultation Costs

On June 13, 2014, the Board established this deferral account to record the Energy East Pipeline Project consultation costs.

IFRS Transition Costs

The corporation uses this deferral account to record one-time administrative incremental IFRS transition costs, which are not already approved and included for recovery in distribution rates and the associated carrying charges.

Late Payment Penalty ("LPP") Settlement

On July 22, 2010, the Ontario Superior Court of Justice approved a settlement of the LPP Class Action. As its share of this settlement, the corporation was required to pay $46,486 on June 30, 2011 to charity to assist low income electricity users. The corporation received approval from the OEB to recover this amount from ratepayers over a one-year period, starting May 1, 2011.

Green Energy Renewable Connection

Under the Green Energy and Green Economy Act, electricity distributors are required to facilitate the connection of renewable energy sources to their systems and to undertake activities that will lead to a smart grid. The OEB has authorized deferral accounts to record the associated costs and related carrying charges.

Stranded Meters

This account includes the NBV of stranded mechanical meters, which have been replaced by smart meters, plus carrying charges and less rate rider recoveries beginning October 1, 2013 and ending April 30, 2015.

12. Regulatory Deferral Accounts Continued

Smart Grid

Investments related to smart grid demonstration projects and investments undertaken as part of a project to accommodate renewable generation are recorded in the capital deferral account. Operating expenses directly related to smart grid development activities are recorded in the operating deferral account. Both of these deferral accounts attract applicable carrying charges.

Payments in Lieu of Taxes ("PILs") Variances - Other

The PILs variance relates to the differences that have resulted from a legislative or regulatory change to the tax rates or rules assumed in the rate adjustment model. The OEB approved the disposition of a credit balance of $250,601 representing principal and interest to April 30, 2012, over a two year period from May 1, 2012 to April 30, 2014.

Payments in Lieu of Taxes ("PILs") Variances - Ontario Small Business Deduction

Effective for taxation years ending after May 1, 2014, Canadian Controlled Private Corporations with taxable capital of $15 million or more are no longer eligible for the Ontario Small Business Deduction, which is a preferential corporate income tax rate of 4.5% instead of 11.5% on the first $500,000 of active business income. The Board requires any tax changes to be shared equally between ratepayers and the shareholder. The tax change was incorporated into the Incentive Regulation Mechanism ("IRM") with effective rates May 1, 2016.

2014 Impact on Corporate Tax Return	$500,000 x (11.5% - 4.5%) =	$35,000
2015 Impact on Corporate Tax Return	$500,000 x (11.5% - 4.5%) =	$35,000
		$70,000
	50% sharing of tax change	x 50%
		$35,000
	Carrying charges	187
		$35,187

Lost Revenue Adjustment Mechanism Variance Account ("LRAMVA")

This variance account captures the difference between results of actual, verified impacts of authorized CDM activities undertaken and the level of CDM program activities included in the distributor's load forecast and therefore embedded into rates.

Regulatory Asset Recovery Accounts ("RARA")

The RARA is comprised of the cumulative balances of regulatory assets and regulatory liabilities approved for disposition by the OEB, reduced by amounts settled with customers through billing of approved disposition rate riders. The RARA is subject to carrying charges following the OEB prescribed methodology and rates. The number of years over which the recovery has been approved has been noted in the preceding schedule.

12. Regulatory Deferral Accounts Continued

Retail Settlement Variance Accounts ("RSVA")

RSVAs are comprised of the variances between amounts charged by the corporation to its customers, based on regulated rates, and the corresponding cost of non-competitive electricity service incurred by the corporation. The settlement variances relate primarily to service charges, non-competitive electricity charges and the global adjustment. Accordingly, the corporation has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. The balance for settlement variances continues to be calculated and attracts carrying charges in accordance with the OEB's direction.

Low Voltage Variance

This account is included in Retail Settlement Variances and is used to record the variances arising from low voltage transactions that are not part of the electricity wholesale market.

Other Regulatory Assets - Miscellaneous Deferred Debits

The following regulatory group of accounts tracks deferred costs for items that will be included in the expenses of other fiscal periods for purposes of developing the rates that the utility is authorized to charge:

	2015			2014		
	Cost	**Expensed**	**Net Book Value**	Cost	Expensed	Net Book Value
Regulatory expenses	**$ 346,356**	**$ 236,676**	**$ 109,680**	$ 346,356	$ 154,416	$ 191,940
Distribution system plan	**125**	**-**	**125**	-	-	
Expansion charges	**204,914**	**139,689**	**65,225**	204,914	131,529	73,385
	$ 551,395	**$ 376,365**	**$ 175,030**	$ 551,270	$ 285,945	$ 265,325

(a) Misc Deferred Debits - Regulatory Expenses

This account includes 2013 cost of service application expenses, which will have recoveries in future periods and are carried forward and charged to expense over the four year term of the application ending April 30, 2017. Deferred regulatory costs will be expensed to the general and administration category over the next two years as follows:

2016	$ 82,260
2017	27,420
	$ 109,680

(b) Misc Deferred Debits - Expansion Charges

This account includes expenses incurred in the expansion of the service area for Stayner, Creemore, and Thornbury, which will benefit future periods and are carried forward and charged to amortization expense over a twenty-five year period ending December 31, 2024 at an annual amount of $8,160.

12. Regulatory Deferral Accounts Continued

Deferred Taxes Regulatory Liability

This regulatory liability account relates to the expected future electricity distribution rate adjustments for customers arising from timing differences in the recognition of deferred taxes.

Impact in the Absence of Regulatory Accounting

The following impacts would be recognized in the financial statements in the absence of regulatory treatment:

	2015	2014
Statement of Comprehensive Income:		
(Increase) decrease in the sale of energy	$ (802,498)	$ 309,889
(Increase) in distribution revenue	(41,174)	(331,978)
Increase in operating expenses	(75,169)	(79,669)
Loss on disposal of property, plant and equipment	161,271	166,722
Increase in interest expense	18,078	23,906
Decrease in amortization	(8,160)	(8,160)
(Decrease) increase in deferred tax expense	64,157	(3,294)
	(683,495)	77,416
Balance Sheet:		
Increase in retained earnings	1,394,281	1,316,865
	$ 710,786	$ 1,394,281

13. Accounts Payable and Accruals

	December 31 2015	December 31 2014	January 1 2014
Independent Electricity System Operator	**$ 3,363,174**	$ 3,473,425	$ 3,323,281
Hydro One	**747,500**	695,317	707,900
Trade payables	**551,907**	372,167	576,042
Town of Collingwood - Sewer	**1,165,058**	1,762,086	941,841
Town of Collingwood - Interest Payable	**81,575**	83,456	95,427
Collingwood Public Utilities Service Board	**754,389**	1,744,623	606,819
Collus PowerStream Solutions Corp.	**112,361**	107,655	-
Economic evaluations	**129,159**	129,159	154,952
Debt retirement charge payable	**151,598**	164,449	136,284
Other accounts payable and accruals	**29,764**	39,720	33,891
Accrued interest on long-term debt	**36,076**	30,544	32,767
	$ 7,122,561	$ 8,602,601	$ 6,609,204

14. Customer Deposits and Credits

	December 31 2015	December 31 2014	January 1 2014
Customer deposits	**$ 481,279**	$ 494,758	$ 459,052
Construction work deposits	**327,354**	56,974	51,894
Customer credit balances in trade receivables	**307,130**	290,517	348,255
	1,115,763	842,249	859,201
Less long-term portion of customer deposits	**281,455**	285,968	220,874
	$ 834,308	$ 556,281	$ 638,327

15. Contributions in Aid of Construction

	December 31 2015	December 31 2014	January 1 2014
Deferred contributions, net, beginning of year	**$ 347,075**	$ -	$ -
Contributions in aid of construction received	**745,573**	351,231	-
Contributions in aid of construction recognized as distribution revenue	**(16,751)**	(4,156)	-
Deferred contributions, net, end of year	**$ 1,075,897**	$ 347,075	$ -

16. Long-term Debt

	2015	2014
Town of Collingwood - 4.77% (2014 - 4.88%) OEB deemed rate, repaid on December 31, 2015 after receiving a resolution that the promissory note would be called in 2016.	**$ -**	$ 1,710,170
Infrastructure Ontario Debentures - secured by a general security agreement on all assets and real property under a second charge equal priority ranking arrangement with TD.		
• 4.67% fixed rate, $100,000 principal repayable semi-annually plus interest in October and April, due April 2025	**1,900,000**	2,100,000
• 3.84% fixed rate, $32,700 principal and interest repayable monthly, due September 2037	**5,780,010**	5,946,961
• 4.58% fixed rate, $3,563 principal and interest repayable monthly, due December 2043	**677,055**	688,787
• 2.76% fixed rate, $25,000 principal repayable semi-annually plus interest in October and April, due April 2035	**975,000**	-
TD Bank - 3.65% fixed rate, $14,239 combined principal and interest repayable monthly, secured by a general security agreement on all assets and real property under a second charge equal priority ranking arrangement with Infrastructure Ontario, due December 31, 2025	**3,110,170**	-
	12,442,235	10,445,918
Current portion of long-term debt	**491,505**	378,683
	$ 11,950,730	$ 10,067,235

The agreement governing these facilities contains certain covenants as described in Note 28.

The finance agreements with Infrastructure Ontario had total authorizations of $11,000,000. Total advances of $11,000,000 have been approved. At December 31, 2015, the corporation had undrawn credit capacity under this facility of $0 (2014 - $1,000,000).

Principal repayments for each of the five subsequent years and thereafter are as follows:

2016	$ 491,505
2017	503,495
2018	513,377
2019	523,645
2020	534,020
Thereafter	9,876,193
	$ 12,442,235

17. Employee Future Benefits

(a) Pension plan

The employees of the corporation participate in the Ontario Municipal Employees Retirement System ("OMERS"). Although the plan has a defined retirement benefit plan for employees, the related obligation of the corporation cannot be identified. The OMERS plan has several unrelated participating municipalities and costs are not specifically attributed to each participant.

The plan specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The plan is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund. The employer portion of amounts paid to OMERS during the year was $116,455 (2014 - $114,309). The contributions were made for current service and these have been recognized in net income.

Each year, an independent actuary determines the funding status of OMERS Primary Pension Plan by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2014. The results of this valuation disclosed total actuarial liabilities of $77.3 (2013 - $73.3) billion in respect of benefits accrued for service with actuarial assets at that date of $70.2 (2013 - $64.6) billion, indicating an actuarial deficit of $7.1 (2013 - $8.6) billion. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the corporation does not recognize any share of the OMERS pension surplus or deficit.

The contribution rates for normal retirement age 65 members were 9.0% (2014 - 9.0%) for employees earning up to $53,600 (2014 - $52,500) and 14.6% (2014 - 14.6%) thereafter.

(b) Post employment medical and life insurance plan

The corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. All employees who retire from the corporation are eligible for post-retirement life insurance benefits. In addition, employees age 55 or older with a minimum of 25 years of active service are eligible for extended health, dental, and vision benefits until they turn 65.

These benefits are provided through a group defined benefit plan. The corporation has reported its share of the defined benefit costs and related liabilities, as calculated by an actuary, in these financial statements. The accrued benefit liability and the expense for the years ended December 31, 2015 and 2014 were based on results and assumptions determined by actuarial valuation as at January 1, 2014.

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

- Interest rate risk: decreases/increases in the discount rate used (high quality corporate bonds) will increase/decrease the defined benefit obligation.
- Longevity risk: changes in the estimation of mortality rates of current and former employees.
- Health care cost risk: increases in cost of providing health, dental and life insurance benefits.

17. Employee Future Benefits Continued

Information about the group unfunded defined benefit plan as a whole and changes in the present value of the unfunded defined benefit obligation and the accrued benefit liability are as follows:

	2015	2014
Defined benefit obligation, beginning of the year	**$ 388,763**	$ 398,413
Amounts recognized in net income:		
Current service cost	**6,482**	6,185
Interest cost on obligation	**17,911**	18,304
	24,393	24,489
Benefit payments	**(31,223)**	(34,139)
Defined benefit obligation, end of the year	**$ 381,933**	$ 388,763

Actuarial assumptions are as follows:

	2015	2014
Discount rate	**4.80 %**	4.80 %
Consumer price index	**2.00 %**	2.00 %
Rate of compensation increase	**3.50 %**	3.50 %
Health benefits costs escalation	**4.60 %** to **6.70 %**	4.60 % to 7.00 %
Dental benefits costs escalation	**4.60 %**	4.60 %
Retirement age	**59 yrs**	59 yrs

Sensitivity analysis for each significant actuarial assumption to which the corporation is exposed is as follows:

	Discount Rate		Retirement Age		Health Benefits	
	1%+	1%-	2 yrs+	2 yrs-	1%+	1%-
Obligation	$ (41,562)	$ 34,191	$ (34,822)	$ 25,381	$ 15,423	$ (13,866)
Service Cost	(1,347)	1,251	(1,042)	1,317	743	(614)
Interest Cost	1,323	(2,389)	(1,547)	1,102	678	(612)

The weighted average duration of the defined benefit obligation at December 31, 2015 was 10 years (December 31, 2014 - 10 years) (January 1, 2014 - 10 years).

18. Commitments

Cornerstone Hydro Electric Concepts ("CHEC")

Cornerstone Hydro Electric Concepts Association Inc. ("CHEC") is an association of fifteen LDCs modelled after a co-operative to share resources and proficiencies. (See Note 26)

The corporation may terminate its membership at any time upon the following terms:

(a) giving written notice 60 days in advance of termination;

(b) and by making a pre-payment in full of the balance of its contract service costs to CHEC. The amount of the pre-payment cost shall be the total cost which the corporation would have paid over the three year term of the agreement less amounts already paid by it to the date of the termination. The current three year term for the CHEC commitment goes to December 31, 2017. The pre-payment cost of termination is a settlement of the corporation's obligation under the agreement by reason of termination of its membership before the expiry of the term. The amount is liquidated damages and not a penalty for early termination and is intended to leave the remaining members in the same position as if the corporation had not terminated the agreement. As at December 31, 2015 the obligation to CHEC includes 2016 and 2017 membership dues of approximately $46,500 per year, $93,000 total.

Utility Collaborative Services Inc. ("UCS")

The corporation has the right to redeem its shares in UCS by retraction upon the following terms:

(a) notice of such retraction shall be given 120 days prior to the effective date;

(b) and a retraction fee shall be paid equal to the previous three years worth of the average purchases from UCS for services or products; or in alternative to paying such fees, the corporation may elect in writing to provide three years' written notice of the retraction, provided that the corporation continues to receive services at the same or greater average volume as those received at the time the notice was given. As at December 31, 2015 the obligation to UCS includes 2016 to 2018 fees of approximately $180,000 per year, $540,000 total.

In January 2016 notice was provided to UCS indicating the corporation's intent to retract their shares with an effective date of May 25, 2016. The corporation will continue to receive services for the three year notice period ending May 25, 2019.

19. Share Capital

(a) Ordinary shares

The authorized share capital of the corporation is an unlimited number of common shares. The shares have no par value. All shares are ranked equally with regards to the corporation's residual assets. There are no preference shares. The issued and fully paid share capital is as follows:

		December 31 2015	December 31 2014	January 1 2014
5,101,340	Common shares	**$ 5,101,340**	$ 5,101,340	$ 5,101,340

(b) Movement in ordinary share capital

No movement in ordinary share capital has occurred during 2015 or 2014.

20. Miscellaneous Paid In Capital

Collingwood Public Utilities Commission was restructured November 1, 2000. The Ontario Government enacted the Energy Competition Act, 1998 which introduced competition to the Ontario electricity market. Net electricity distribution assets and liabilities of the original Collingwood Public Utilities Commission were transferred to the newly created corporations on November 1, 2000.

Net assets & liabilities	$ 9,777,524
Promissory note - Town of Collingwood	(1,710,170)
Common shares	(5,101,340)
Miscellaneous Paid In Capital	$ 2,966,014

The promissory note to the Town of Collingwood was repaid on December 31, 2015 and replaced with a loan from the TD Bank.

21. Dividends

Dividends in the amount of $408,107 (2014 - $367,000) were declared and paid to Collingwood PowerStream Utility Services Corp. (See Note 26).

The amount of dividends declared in any given year is at the discretion of the Board of Directors of the corporation. The dividend policy states that the corporation shall normally pay a minimum of 50% of the prior year annual net income, as dividends, with consideration given to the cash position, working capital, net capital expenditures, and other cash requirements.

22. Liability Insurance

The corporation belongs to the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a self-insurance plan that pools the risks of all of its members. Any losses experienced by MEARIE are shared amongst its members. As at December 31, 2015, the corporation has not been made aware of any assessments for losses. Insurance premiums charged to each member consist of a levy per thousand of dollars of service revenue subject to a credit or surcharge based on each member's claims experience. The maximum coverage in a joint policy with Collus PowerStream Solutions Corp. is $24,000,000 for liability insurance, $14,414,851 for property insurance, and $15,000,000 for vehicle insurance.

23. Credit Facilities

The credit facility agreement contains certain covenants as described in Note 28.

Line of Credit

The corporation has a line of credit, secured by a general security agreement, with an authorized limit of $500,000 available under a credit facility agreement with a Canadian chartered bank. Interest on advances is calculated using the bank's prime rate less 0.30% per annum, calculated and payable monthly. As at December 31, 2015 the balance was $NIL (2014 - $NIL) on this credit facility and the rate was 2.40% (2014 - 2.70%).

Letter of Credit ("LOC")

As at December 31, 2015, the corporation had utilized $2,326,160 (2014 - $2,326,160) of the $2,417,179 uncommitted Letter of Guarantee facility for a letter of credit that was provided to the IESO to mitigate the risk of default on energy payments. The IESO could draw on the LOC if the corporation defaults on its payment. The standby LOC fee is charged annually at a rate of 0.50% (2014 - 0.50%). For the year ended December 31, 2015 the fee incurred was $11,631 (2014 - $11,631).

Credit Card

The corporation has a VISA account, secured by a general security agreement, with an authorized limit of $25,000 available under a credit facility agreement with a Canadian chartered bank.

24. Amortization

	2015	2014
Property, plant and equipment	$ 731,958	$ 782,707
Software	19,230	21,990
Deferred charges	8,160	8,160
	759,348	812,857
Vehicles, allocated to other accounts	231,922	219,594
	$ 991,270	$ 1,032,451

25. Bad Debt Expense (Included in Billing and Collecting)

	2015	2014
Bad Debt Expense - Electric Receivables:		
Write-offs during the year	$ 55,536	$ 49,544
Recoveries during the year	(13,576)	(15,607)
Opening allowance	(90,964)	(97,409)
Closing allowance	77,916	90,964
	$ 28,912	$ 27,492

Allowance For Bad Debts: (See Note 8)

	2015	2014
Collus PowerStream Corp.	$ 77,916	$ 90,964
Collingwood Public Utilities Service Board - Water	-	9,423
Town of Collingwood - Waste Water	-	16,048
	$ 77,916	$ 116,435

26. Related Party Transactions

(a) The ultimate parent

Collingwood PowerStream Utility Services Corp. (owned 50% by the Town of Collingwood and 50% by PowerStream Inc., which in turn is owned by the Cities of Barrie, Vaughan, and Markham) is the holding company for the following three wholly-owned subsidiaries:

(i) Collus PowerStream Corp. - Electricity distributor
(ii) Collus PowerStream Solutions Corp. - Administrative service provider
(iii) Collus PowerStream Energy Corp. - Inactive

Since the ultimate parent constitutes local government, the corporation is exempt from some of the general disclosure requirements of IAS 24 with relation to transactions with government-related parties, and has applied the government-related disclosure requirements.

26. Related Party Transactions Continued

(b) Transactions with related parties

The following summarizes the corporation's related party transactions for the year. These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product or provision of service.

2015

	50% Share-holder of Parent	50% Share-holder of Parent	Parent	Wholly owned subsidiary of Parent	Wholly owned subsidiary of Parent	Water service board of Collingwood
	Town of Collingwood	PowerStream Inc.	Collingwood PowerStream Utility Services Corp.	Collus PowerStream Solutions Corp.	Collus PowerStream Energy Corp.	Collingwood Public Utilities Service Board
Revenue:						
Streetlight maintenance	$ 49,548	$	$	$	$	$
Disbursements:						
Property taxes	18,782					
Property maintenance	7,500					
Interest	81,575					
Services		20,246				
Shared employee charge				1,068,008		37,743
Computer lease						21,792
Building lease						216,000
Conservation program		140,103				
Dividends paid			408,107			

2014

Revenue:						
Streetlight maintenance	$ 48,465	$	$	$	$	$
Disbursements:						
Property taxes	18,229					
Property maintenance	5,250					
Interest	83,456					
Services		26,129				
Shared employee charge				1,276,072		49,446
Computer lease						21,792
Building lease						216,000
Conservation program		212,517				
Dividends paid			367,000			

26. Related Party Transactions Continued

At the end of the year, the amounts due from and due (to) related parties are as follows:

2015

	50% Share-holder of Parent	50% Share-holder of Parent	Parent	Wholly owned subsidiary of Parent	Wholly owned subsidiary of Parent	Water service board of Collingwood
	Town of Collingwood	PowerStream Inc.	Collingwood PowerStream Utility Services Corp.	Collus PowerStream Solutions Corp.	Collus PowerStream Energy Corp.	Collingwood Public Utilities Service Board
Trade receivable	$ 16,233	$	$	$	$	$ 34,412
Trade payable	(2,599)	(13,947)		(112,361)		(754,389)
Interest payable	(81,575)					
Sewer payable	(1,165,058)					
	$ (1,232,999)	$ (13,947)	$	$ (112,361)	$	$ (719,977)

2014

	Town of Collingwood	PowerStream Inc.	Collingwood PowerStream Utility Services Corp.	Collus PowerStream Solutions Corp.	Collus PowerStream Energy Corp.	Collingwood Public Utilities Service Board
Trade receivable	$ 76,725	$ 36,517	$	$	$	$ 111,811
Trade payable	(39,249)	(6,289)		(107,655)		(1,767,118)
Interest payable	(83,456)					
Sewer payable	(1,762,086)					
Long-term debt	(1,710,170)					
	$ (3,518,236)	$ 30,228	$	$ (107,655)	$	$ (1,655,307)

The corporation paid $59,892 (2014 - $61,684) in fees to Cornerstone Hydro Electric Concepts Association Inc. ("CHEC") (See Note 18).

The corporation paid $179,287 (2014 - $181,116) in fees to Utility Collaborative Services Inc. ("UCS") for items such as information technology hosting and software licensing (See Note 18).

(c) Key management personnel compensation comprised:

The key management personnel of the corporation has been identified as members of its board of directors and management team members, including management fees paid to Collus PowerStream Solutions Corp.

	2015	2014
Board of directors' fees	**$ 71,812**	$ 56,236
Short-term employment benefits and salaries	**754,962**	789,861
Post-employment benefits	**16,411**	15,689
	$ 843,185	$ 861,786

27. Financial Instruments

The corporation's carrying value and fair value of financial instruments consist of the following:

	2015		2014	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Assets				
Cash and bank	**$ 2,943,000**	**$ 2,943,000**	$ 1,490,843	$ 1,490,843
Investments	**100**	**undeterminable**	100	undeterminable
Accounts receivable	**4,088,883**	**4,088,883**	4,631,944	4,631,944
Unbilled energy revenue	**4,232,314**	**4,232,314**	3,944,854	3,944,854
Liabilities				
Accounts payable & accruals	**$ 7,122,561**	**$ 7,122,561**	$ 8,602,601	$ 8,602,601
Customer deposits	**1,115,763**	**1,115,763**	842,249	842,249
Long-term debt	**12,442,235**	**12,442,235**	10,445,918	10,445,918

The estimated fair values of financial instruments as at December 31, 2015 and December 31, 2014 are based on relevant market prices and information available at the time. The fair value estimates are not necessarily indicative of the amounts that the corporation may receive or incur in actual market transactions. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Determination of fair values

(a) The fair values of cash and bank, accounts receivable, unbilled energy revenue, current customer deposits and credit balances, and accounts payable and accruals approximate their carrying values because of the short-term nature of these instruments.

(b) Investments include common shares of a private company accounted for by the cost method. These investments are not publicly traded and, therefore, fair values are not practicable to determine.

(c) The fair value of each of the corporation's long-term debt instruments is based on the amount of future cash flows associated with each instrument discounted using an estimate of what the corporation's current borrowing rate for similar debt instruments of comparable maturity would be.

It is management's intention not to renew the long-term debt until its maturity.

Financial Instruments which are disclosed at fair value are to be classified using a three-level hierarchy. Each level reflects the inputs used to measure the fair values disclosed of the financial liabilities and are as follows:

- Level 1: Inputs are unadjusted quoted prices of identical instruments in active markets;

27. Financial Instruments Continued

- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3: Inputs for the liabilities that are not based on observable market data (unobservable inputs)

The corporation's fair value hierarchy is classified as Level 2 for long-term debt. The classification has been calculated using the discounted cash flow model based on the contractual terms of the instrument discounted using an appropriate market rate of interest.

28. Capital Disclosures

The corporation considers its capital to be its share capital, miscellaneous paid in capital, retained earnings (deficit) and accumulated other comprehensive income. The corporation's main objectives when managing capital are to: i) ensure sufficient liquidity to maintain and improve its electricity distribution system, support its financial obligations and execute its operating and strategic plans, ii) minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions, iii) maintain an optimal capital structure that provides necessary financial flexibility and considers recoveries of financing charges permitted by the OEB, while also ensuring compliance with any financial covenants, and iv) provide an adequate return to its shareholders.

The corporation relies on its cash flow from operations to fund its dividend distributions to its shareholders.

As part of existing debt agreements, financial covenants are monitored and communicated, as required by the terms of credit agreements, on an annual basis by management to ensure compliance with the agreements.

The covenants require the corporation to provide notification prior to any new debt issuance. The most restrictive covenants from each credit agreement require maintaining a Debt Service Coverage Ratio of 1.15 to 1 or higher, a maximum debt to capital ratio of 0.60 to 1, and a minimum current ratio of 1.10 to 1. All covenants are to be tested and calculated as of the end of each fiscal year. The corporation is in compliance with these covenants as at December 31, 2015.

Management monitors the following key ratios to effectively manage capital:

		2015	2014
a) Debt Service Coverage Ratio:	(must be at least 1.15)	**1.45**:**1**	1.29:1
b) Debt to Capital:	(must not exceed 0.60)	**0.59**:**1**	0.57:1
c) Current ratio:	(must be at least 1.10)	**1.40:1**	1.10:1

Infrastructure Ontario agrees to revise the required financial ratios should the difference between the current accounting rules and the adoption of International Financial Reporting Standards have a material impact on the financial ratios. The revision shall be based on the original intent of the required ratios in the agreement but allow for reconciliation of the current accounting rules and International Financial Reporting Standards.

29. Financial Risk Management

As part of its operations, the corporation carries out transactions that expose it to financial risks such as credit, liquidity and market risks. The following is a discussion of risks and related mitigation strategies that have been identified by the corporation for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks identified.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation. The maximum credit exposure is limited to the carrying amount of cash and bank, accounts receivable, and unbilled energy revenue presented on the balance sheet.

The corporation limits its exposure to credit loss by placing its cash with a high credit quality financial institution. The corporation maintains cash with only one major financial institution. Eligible deposits per financial institution are insured to a maximum basic insurance level of $100,000, including principal and interest by the Canada Deposit Insurance Corporation.

The corporation is exposed to credit risk related to accounts receivable and unbilled energy revenue arising from its day-to-day electricity and service revenue. Exposure to credit risk is limited due to the corporation's large and diverse customer base. The corporation has approximately 17,000 customers, the majority of which are residential. No single customer accounts for revenue in excess of 10% of total revenue. The corporation limits its credit risk by collecting deposits (See Note 14), purchasing commercial account credit insurance, following collection policies, monitoring accounts receivable aging, and utilizing collection agencies. The Ontario Energy Board has prescribed certain rules for the payment of deposits by customers. Although these rules limit the risk of the corporation, no deposits are required by customers who have shown good payment history for the previous 24 month period. The corporation does not have any material accounts receivable balances greater than 90 days outstanding. The corporation believes that its accounts receivable represent a low credit risk.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in net income. The provision is based on account age and customer standing. Subsequent recoveries of receivables previously provisioned are credited to net income. (See Note 25)

The value of accounts receivable, by age, and the related bad debt provision are presented in the following table. Unbilled energy revenue which is not included in the table below is considered all current.

	2015	2014
Under 30 days	**$ 4,056,322**	$ 4,663,396
30 to 60 days	**79,379**	52,274
61 to 90 days	**15,115**	11,263
Over 90 days	**15,983**	21,446
	4,166,799	4,748,379
Provision	**77,916**	116,435
Total accounts receivable	**$ 4,088,883**	$ 4,631,944

29. Financial Risk Management Continued

(b) Liquidity risk

Liquidity risk is the risk that the corporation will encounter difficulty in meeting obligations associated with financial liabilities. The corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the corporation's reputation. The corporation's exposure is reduced by cash generated from operations and undrawn credit facilities. The corporation engages in borrowing to meet financing needs that exceed cash from operations. Exposure to such risks is significantly reduced through close monitoring of cash flows and budgeting. Liquidity risks associated with financial commitments are as follows:

	0 - 3 mo	3 mo - 1 yr	1 - 5 yr	Thereafter	Total
Accounts payable	$ 6,993,402	$ 129,159	$ -	$ -	$ 7,122,561
Payments in lieu of taxes	4,317	-	-	-	4,317
Customer deposits/credits	-	834,308	281,455	-	1,115,763
Long-term debt	58,031	433,474	2,074,537	9,876,193	12,442,235
Total	$ 7,055,750	$ 1,396,941	$ 2,355,992	$ 9,876,193	$ 20,684,876

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the corporation's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits.

The corporation does not have any direct exposure to foreign currency exchange rate risk or commodity price risk. The corporation had no forward exchange rate contracts or commodity price contracts in place as at or during the year ended December 31, 2015.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The corporation is exposed to interest rate fluctuations on its cash and bank and undrawn bank credit facilities. The corporation is protected from interest rate fluctuations on long-term debt for Infrastructure Ontario and TD Bank loans, which bear fixed rates of interest. As at December 31, 2015, if interest rates had been 1% lower or higher with all other variables held constant, net income for the year would not have been impacted materially.

30. Economic Dependence

The corporation receives management, administration, billing, collecting and information technology services from Collus PowerStream Solutions Corp. ("Solutions") under a shared services agreement between the corporation, Solutions and the Collingwood Public Utilities Service Board. The agreement is currently under review and the impact of any changes to the agreement is unknown at this time.

31. Expenses by Nature

		2015	2014
Billing and collecting:			
After hours call centre		$ 13,488	$ -
Bad debts	(Note 25)	28,912	27,592
Bank charges		15,639	13,111
Billing supplies and services provided		124,847	146,219
Collection agency costs		2,733	5,592
Conservation and community safety programs		5,175	-
Control room		2,400	2,400
Disconnection and collection service subcontractor		26,685	30,924
Information technology		16,801	13,707
Insurance - Business credit collections		22,611	23,840
Meter reading - manual		6,573	6,912
Office and general		13,170	11,396
Postage		108,690	87,910
Retailer Settlement Expenses		86,000	88,502
Salaries and benefits		348,653	310,574
Smart meter reading and operations		199,932	192,977
Telephone		4,892	3,657
Training and travel		5,580	5,643
Vehicle burden allocation		1,046	729
		$ 1,033,827	$ 971,685
Operations and maintenance:			
Materials, supplies, small tools		$ 137,580	$ 142,960
Office and general		4,781	5,939
Property taxes		22,167	21,507
Rent - operations facility and yard		172,800	172,800
Rent - joint pole use		19,999	11,702
Salaries, benefits and burdens		1,391,127	1,347,991
Subcontractor and service providers		316,840	210,759
Telephone		18,163	19,548
Training and travel		51,320	32,720
Utilities		7,647	7,343
Vehicle burden allocation		246,288	195,844
		$ 2,388,712	$ 2,169,113

31. Expenses by Nature Continued

		2015		2014
General and administration:				
Advertising and sponsorships	**$**	**23,418**	$	25,942
Actuary		**-**		5,521
Audit		**27,600**		29,400
Building maintenance		**30,730**		29,320
Computer lease		**21,792**		21,792
Conferences, events, training, meetings and travel		**70,392**		60,156
Consulting		**26,018**		75,132
Information technology		**25,644**		29,283
Insurance		**75,188**		85,542
Legal		**25,368**		6,007
Memberships, fees and dues		**102,799**		100,530
Office supplies and materials		**4,569**		11,755
Regulatory		**122,296**		122,730
Rent - administration building		**43,200**		43,200
Salaries and benefits		**644,763**		732,444
Telephone		**9,753**		9,828
	$	**1,253,530**	$	1,388,582

32. Finance Income and Finance Cost

		2015		2014
Finance Income:				
Interest earned on bank account	**$**	**34,485**	$	35,683
Carrying charges on regulatory deferrals		**18,078**		23,906
	$	**52,563**	$	59,589
Finance Cost:				
Net interest on employee future benefits	**$**	**17,911**	$	18,304
Interest on customer deposits		**4,524**		6,595
Interest on Letter of Credit		**11,631**		9,250
Interest on long-term debt		**452,056**		449,575
	$	**486,122**	$	483,724

33. First Time Adoption of International Financial Reporting Standards

IFRS 1, *First Time Adoption of International Financial Reporting Standards*, requires that comparative financial information be provided. As a result, the first date at which the corporation has applied IFRS was January 1, 2014 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the corporation will be December 31, 2015. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time IFRS adoption. Prior to transition to IFRS, the corporation prepared its financial statements in accordance with Canadian generally accepted accounting principles ("pre-changeover Canadian GAAP").

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

Mandatory exceptions:

Derecognition of financial assets and liabilities

The corporation has applied the derecognition requirements in IAS 39 prospectively for transactions occurring on or after January 1, 2014. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized in accordance with pre-changeover Canadian GAAP as a result of a transaction that occurred before January 1, 2014, have not been recognized in accordance with IFRS unless they qualify for recognition as a result of a later transaction or event.

Estimates

The estimates previously made by the corporation under pre-changeover Canadian GAAP were not revised for the application of IFRS, except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result, the corporation has not used hindsight to revise estimates.

Optional elections:

Borrowing costs

The corporation has elected to apply the transitional provisions of IAS 23 Borrowing Costs which permits prospective capitalization of borrowing costs on qualifying assets from the Transition Date.

Deemed cost for operations subject to rate regulation

The corporation has elected the deemed cost exemption applicable to entities subject to rate regulation as described under IFRS 1. The election permits the corporation, at the date of transition to IFRS, to use the previous Canadian GAAP carrying amount of items of PP&E and intangible assets as deemed cost (thereby eliminating any accumulated amortization balances existing at the date of transition); hence there will be no impact on retained earnings for opening balances of PP&E and intangible assets at the date of transition. In accordance with the election, the corporation has tested these items of PP&E and intangible assets at the date of transition to IFRS. No impairment losses were recognized.

Transfers of assets from customers

The corporation has elected to apply IFRS 1 election to only apply IFRIC 18 prospectively from the date of transition to non-repayable supply contribution made by customers.

33. First Time Adoption of International Financial Reporting Standards Continued

Impact of transition

IFRS 1 requires an entity to explain how the transition from its previous GAAP to IFRS affected its reported financial position, financial performance, and cash flows by providing reconciliations of shareholders' equity, comprehensive income, and cash flows for prior periods. The explanations for the impact of the transition to IFRS on the specific accounts and reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS are provided below.

	December 31 2014	January 1 2014
Retained earnings as reported under Canadian GAAP	$ 154,135	$ (402,278)
Adjustments to retained earnings:		
Employee future benefits	5,241	-
Retained earnings as reported under IFRS	$ 159,376	$ (402,278)
Accumulated other comprehensive income as reported under Canadian GAAP	$ -	$ -
Adjustments for transition:		
Employee future benefits	(58,639)	(58,639)
Accumulated other comprehensive income as reported under IFRS	$ (58,639)	$ (58,639)
Share capital as reported under Canadian GAAP	$ 5,101,340	$ 5,101,340
Adjustments for transition	-	-
Share capital as reported under IFRS	$ 5,101,340	$ 5,101,340

i) Regulatory assets and liabilities

Regulatory assets and liabilities that were recognized under pre-changeover Canadian GAAP have been reclassified to the regulatory deferral account balance as either a debit balance or a credit balance. This transitional adjustment is a reclassification on the Balance Sheets and has no impact on the Statements of Changes in Equity or the Statements of Comprehensive Income.

33. First Time Adoption of International Financial Reporting Standards Continued

ii) Employee Future Benefits

Under IFRS, the corporation recognizes remeasurements in other comprehensive income. These amounts are not reclassified in subsequent periods. Employee benefits expected to be settled wholly within 12 months after the end of the reporting period are short-term benefits, and are not discounted. Under previous pre-changeover Canadian GAAP, the corporation amortized the excess of the net actuarial gains or losses over 10% of the accrued benefit into the statement of comprehensive income on a straight-line basis over the average remaining service period of active employees to full eligibility. At the date of transition, all previously unamortized actuarial gains or losses were recognized in other comprehensive income.

The transitional adjustment for employee future benefits results in a decrease in operating and increase in finance expenses and an increase in other comprehensive income on the Statements of Comprehensive Income.

iii) Contributions in Aid of Construction

Under IFRS Contributions in aid of construction are recognized as deferred revenue and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset in the Statement of Comprehensive Income. The impact of this transitional adjustment related to Contributions in Aid of Construction is an increase in assets and an increase in liabilities on the Balance Sheets. (See Note 15)

iv) Borrowing Costs

Borrowing costs that were not recognized as a regulatory asset or liability were previously expenses under pre-changeover Canadian GAAP. Under IFRS, borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Since the corporation has elected to take the Borrowing Costs exemption, there is no transitional adjustment.

v) Deferred Taxes

The above changes have decreased the deferred tax asset based on a tax rate of 26.50%.

An explanation of how the transition from Canadian GAAP to IFRS has affected the corporation's financial position and performance is set out in the following tables.

Opening, prior period reconciliation	Canadian GAAP January 1 2014	IFRS Adjustments	IFRS January 1 2014
Assets and regulatory deferrals			
Deferred taxes	$ 721,810	$ 20,635	$ 742,445
Regulatory deferrals	2,521,385	(20,635)	2,500,750
Liabilities			
Employee future benefits	339,774	58,639	398,413
Shareholder's equity			
Accumulated other comprehensive income	-	(58,639)	(58,639)

33. First Time Adoption of International Financial Reporting Standards Continued

Ending, prior period reconciliation	Canadian GAAP December 31 2014	IFRS Adjustments	IFRS December 31 2014
Assets			
Deferred taxes	$ 731,589	$ 14,150	$ 745,739
Property, plant and equipment	15,627,809	347,075	15,974,884
Liabilities and regulatory deferrals			
Employee future benefits	335,365	53,398	388,763
Contributions in aid of construction	-	347,075	347,075
Regulatory deferrals	691,304	14,150	705,454
Shareholder's equity			
Retained earnings	154,135	5,241	159,376
Accumulated other comprehensive income	-	(58,639)	(58,639)
Income Statement			
Net income	$ 923,413	$ 5,241	$ 928,654

Adjustments to net income consist of the following:

Revenue			
Amortization of contributions in aid of construction	$ -	$ 4,156	$ 4,156
Expense			
Amortization expense	808,701	4,156	812,857
Employee future benefits expense	(4,409)	(5,241)	(9,650)

Collus PowerStream Corp.

Financial Statements

For the year ended December 31, 2016

(expressed in CDN$)

Collus PowerStream Corp.
Financial Statements
For the year ended December 31, 2016

Table of Contents

INSERT AUDIT REPORT HERE
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Collus PowerStream Corp.:

Report on the Financial Statements

We have audited the accompanying financial statements of Collus PowerStream Corp., which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the corporation'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 corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained 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 Collus PowerStream Corp. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Audit Company LLP

Licensed Public Accountants
Collingwood, Ontario
March 23, 2017

Collus PowerStream Corp.
Balance Sheet
(expressed in CDN$)

As at December 31		2016	2015
Assets			
Current			
Cash and bank	(Note 6)	**$ 940,680**	$ 2,943,000
Investments	(Note 7)	**-**	100
Accounts receivable	(Note 8)	**4,850,878**	4,088,883
Unbilled energy revenue		**4,852,979**	4,232,314
Inventory		**310,242**	285,875
Payments in lieu of taxes receivable	(Note 9)	**27,203**	-
Prepaid expenses		**355,964**	466,092
		11,337,946	12,016,264
Deferred taxes	(Note 9)	**560,930**	681,582
Property, plant and equipment	(Note 10)	**19,736,310**	17,240,932
Intangibles	(Note 11)	**936,002**	343,980
Total Assets		**32,571,188**	30,282,758
Regulatory deferrals	(Note 12)	**1,566,053**	1,598,265
Total Assets and Regulatory Deferrals		**$ 34,137,241**	$ 31,881,023
Liabilities and Shareholder's Equity			
Current			
Accounts payable and accruals	(Note 13)	**$ 7,688,912**	$ 7,225,825
Payments in lieu of taxes payable	(Note 9)	**-**	4,317
Customer deposits and credits	(Note 14)	**599,416**	834,308
Current portion of long-term debt	(Note 16)	**503,495**	491,505
		8,791,823	8,555,955
Long-term customer deposits	(Note 14)	**278,020**	281,455
Long-term debt	(Note 16)	**11,447,235**	11,950,730
Contributions in aid of construction	(Note 15)	**2,769,851**	1,075,897
Employee future benefits	(Note 17)	**838,844**	381,933
Total Liabilities		**24,125,773**	22,245,970
Commitments	(Note 18)		
Shareholder's Equity			
Share capital	(Note 19)	**5,101,340**	5,101,340
Miscellaneous paid in capital	(Note 20)	**2,966,014**	2,966,014
Retained earnings		**1,574,153**	738,859
Accumulated other comprehensive deficit		**(152,567)**	(58,639)
Total Shareholder's Equity		**9,488,940**	8,747,574
Total Liabilities and Shareholder's Equity		**33,614,713**	30,993,544
Regulatory deferrals	(Note 12)	**522,528**	887,479
Total Liabilities, Equity and Regulatory Deferrals		**$ 34,137,241**	$ 31,881,023

On behalf of the Board:

_______________ Director _______________ Director

Collus PowerStream Corp.

Statement of Comprehensive Income

(expressed in CDN$)

For the year ended December 31		2016	2015
Revenues			
Sale of energy		**$ 36,500,735**	$ 34,446,520
Distribution revenue		**6,741,148**	6,648,383
Other revenue		**595,882**	480,897
		43,837,765	41,575,800
Cost of power purchased		**36,667,055**	33,644,023
		7,170,710	7,931,777
Expenses			
Amortization	(Note 24)	**836,935**	751,188
Billing and collecting	(Note 33)	**1,054,295**	1,036,537
Operations and maintenance	(Note 33)	**2,482,131**	2,388,712
General and administrative	(Note 33)	**1,354,024**	1,175,650
Loss on disposal of property, plant and equipment		**62,919**	200,578
Donations and Low-Income Energy Assistance Program		**10,108**	13,536
		5,800,412	5,566,201
Income from operations		**1,370,298**	2,365,576
Finance income	(Note 32)	**32,790**	34,485
Finance cost	(Note 32)	**(506,604)**	(486,122)
Income before income taxes and net regulatory movements		**896,484**	1,913,939
Income taxes (Note 9)			
Current		**150,279**	178,697
Deferred		**145,543**	64,157
		295,822	242,854
Income before net regulatory movements		**600,662**	1,671,085
Net movement on regulatory deferral accounts	(Note 12)	**357,630**	(683,495)
Net income and regulatory movements		**958,292**	987,590
Other comprehensive income: items that will not be reclassified to profit or loss, net of income tax			
Remeasurement of defined benefit pension plan, net of tax		**(69,037)**	-
Net movement on regulatory deferral accounts	(Note 12)	**(24,891)**	-
		(93,928)	-
Total income and other comprehensive income		**$ 864,364**	$ 987,590

Collus PowerStream Corp.
Statement of Changes in Equity
(expressed in CDN$)

For the year ended December 31

	Share Capital	Miscellaneous Paid In Capital	Accumulated Other Comprehensive Deficit	Retained Earnings	Total
Balance January 1, 2015	**$ 5,101,340**	**$ 2,966,014**	**$ (58,639)**	**$ 159,376**	**$ 8,168,091**
Net income and regulatory movements	-	-	-	987,590	987,590
Dividends	-	-	-	(408,107)	(408,107)
Balance December 31, 2015	**$ 5,101,340**	**$ 2,966,014**	**$ (58,639)**	**$ 738,859**	**$ 8,747,574**
Net income and regulatory movements	-	-	-	958,292	958,292
Other comprehensive income	-	-	**(93,928)**	-	(93,928)
Dividends	-	-	-	(122,998)	(122,998)
Balance December 31, 2016	**$ 5,101,340**	**$ 2,966,014**	**$ (152,567)**	**$ 1,574,153**	**$ 9,488,940**

Collus PowerStream Corp.
Statement of Cash Flows
(expressed in CDN$)

For the year ended December 31		**2016**	2015
Cash flows from operating activities			
Total income and other comprehensive income		**$ 864,364**	$ 987,590
Adjustments for items not affecting cash:			
Amortization	(Note 24)	**836,935**	751,188
Vehicle amortization, allocated to other accts	(Note 24)	**224,957**	231,922
Loss on disposal of property, plant and equipment		**62,919**	200,578
Gain on disposal of property, plant and equipment		**(23,506)**	(2,715)
Contributions in aid of construction		**(45,635)**	(16,751)
Provision for payment in lieu of taxes		**270,931**	242,854
Finance income		**(32,790)**	(34,485)
Finance expense		**506,604**	486,122
		2,664,779	2,846,303
Changes in non-cash working capital:			
Accounts receivable		**(761,995)**	543,061
Unbilled energy revenue		**(620,665)**	(287,460)
Inventory		**(24,367)**	(21,502)
Prepaid expenses		**110,129**	(302,677)
Accounts payable and accruals		**468,388**	(1,484,481)
Customer deposits and credit balances		**(234,892)**	278,027
Employee future benefits		**439,097**	(24,741)
Payments in lieu of corporate taxes paid		**(183,057)**	(201,727)
		1,857,417	1,344,803
Cash flows from investing activities			
Purchase of property, plant and equipment	(Note 10)	**(3,696,344)**	(2,430,616)
Proceeds of contributions in aid of construction	(Note 15)	**1,739,589**	745,573
Purchase of computer software	(Note 11)	**(69,340)**	(12,521)
Proceeds on disposal of property, plant and equipment		**130,393**	2,825
Proceeds from disposal of investment		**100**	-
Capital contributions in aid of construction paid	(Note 11)	**(553,415)**	-
Net increase (decrease) regulatory accounts		**(332,739)**	683,495
Interest received		**32,790**	34,485
		(2,748,966)	(976,759)
Cash flows from financing activities			
Deferred program funding		**-**	(35,813)
Increase (decrease) in long-term customer deposits		**(3,435)**	(4,513)
Proceeds of long-term debt		**-**	4,110,170
Repayments of long-term debt		**(491,505)**	(2,113,853)
Interest paid		**(492,833)**	(463,771)
Dividends paid	(Note 21)	**(122,998)**	(408,107)
		(1,110,771)	1,084,113
Decrease (increase) in cash during the year		**(2,002,320)**	1,452,157
Cash and bank, beginning of year		**2,943,000**	1,490,843
Cash and bank, end of year		**$ 940,680**	$ 2,943,000

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

1. Corporate Information

Collus PowerStream Corp. (the "corporation") (formerly known as Collus Power Corp.) was incorporated on April 13, 2000, under the Business Corporations Act (Ontario), and is wholly owned by its parent holding company Collingwood PowerStream Utility Services Corp. The holding company is owned 50% by the Town of Collingwood and 50% by PowerStream Inc. The address of the corporation's office and principal place of business is 43 Stewart Road, Collingwood, Ontario, Canada.

The principal activity of the corporation is to distribute electricity to approximately 17,000 customers in the service area of Collingwood, Thornbury, Stayner, and Creemore in the Province of Ontario, under licences issued by the Ontario Energy Board ("OEB"). The corporation is regulated under the OEB and adjustments to the distribution rates require OEB approval.

As a condition of its distribution licence, the corporation is required to meet specified Conservation and Demand Management ("CDM") targets for reductions in electricity consumption and peak electricity demand. As part of this initiative, the corporation is delivering Ontario Power Authority ("OPA") funded programs in order to meet its target.

Under the Green Energy and Green Economy Act, 2009, the corporation has new opportunities and responsibilities for enabling renewable generation.

2. Basis of Preparation

(a) Statement of compliance

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

The financial statements were authorized for issue by the Board of Directors on March 23, 2017.

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis.

(c) Presentation currency

The financial statements are presented in Canadian dollars (CDN$), which is also the corporation's functional currency, and all values are rounded to the nearest dollar, unless otherwise indicated.

2. Basis of Preparation Continued

(d) Use of estimates and judgments

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the corporation's accounting policies. The areas involving a higher degree of judgment, complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(e) Explanation of activities subject to rate regulation

The corporation, as an electricity distributor, is both licensed and regulated by the Ontario Energy Board "OEB" which has a legislative mandate to oversee various aspects of the electricity industry. The OEB exercises statutory authority through setting or approving all rates charged by the corporation and establishing standards of service for the corporation's customers.

The OEB has broad powers relating to licensing, standards of conduct and service and the regulation of rates charged by the corporation and other electricity distributors in Ontario. The Ontario government enacted the Energy Competition Act, 1998, to introduce competition to the Ontario energy market. Rates are set by the OEB on an annual basis for May 1 to April 30.

Regulatory risk

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

Recovery risk

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

3. Significant Accounting Policies

The preparation and presentation of financial statements can be significantly affected by the accounting policies selected by the corporation. The financial statements reflect the following significant accounting policies, which are an integral part of understanding them.

(a) Regulatory Deferral Accounts

The corporation has early adopted IFRS 14 Regulatory Deferral Accounts. In accordance with IFRS 14, the corporation has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian GAAP for the recognition, measurement and impairment of assets and liabilities arising from rate regulation. These are referred to as regulatory deferral account balances.

Regulatory deferral account debit balances represent future revenues associated with certain costs incurred in the current period or in prior period(s), that are expected to be recovered from consumers in future periods through the rate-setting process. Regulatory deferral account credit balances are associated with the collection of certain revenues earned in the current period or in prior period(s), that are expected to be returned to consumers in future periods through the rate-setting process. Regulatory deferral account balances can arise from differences in amounts collected from customers (based on regulated rates) and the corresponding cost of non-competitive electricity service incurred by the corporation in the wholesale market administered by the Independent Electricity System Operator (the "IESO") after May 1, 2002. These amounts have been accumulated pursuant to regulation underlying the Electricity Act (the "EA") and deferred in anticipation of their future recovery or expense in electricity distribution service charges.

Explanation of Recognized Amounts

Regulatory deferral account balances are recognized and measured initially and subsequently at cost. They are assessed for impairment on the same basis as other non-financial assets as described below.

Management continually assesses the likelihood of recovery of regulatory deferral accounts. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

3. Significant Accounting Policies Continued

(b) Revenue

Revenue is recognized to the extent that it is probable that economic benefits will flow to the corporation and that the revenue can be reliably measured. Revenue is comprised of sales and distribution of energy, pole use rental, collection charges, and other miscellaneous revenues.

Sale and distribution of energy

The corporation is licensed by the OEB to distribute electricity. As a licensed distributor, the corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the corporation ultimately collects these amounts from customers. The corporation has determined that they are acting as a principal for the electricity distribution and, therefore, have presented the electricity revenues on a gross basis.

Revenues from the sale and distribution of electricity is recognized on an accrual basis, including unbilled revenues accrued in respect of electricity delivered but not yet billed. Sale and distribution of energy revenue is comprised of customer billings for distribution service charges. Customer billings for distribution service charges are recorded based on meter readings.

Other

Other revenues, which include revenues from pole use rental, collection charges and other miscellaneous revenues are recognized at the time services are provided.

Where the corporation has an ongoing obligation to provide services, revenues are recognized as the service is performed and amounts billed in advance are recognized as deferred revenue.

Contributions in aid of construction

Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers when the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as contributions in aid of construction and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset.

(c) Cash and Bank

Cash and bank includes cash on hand, deposits held on demand with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

3. Significant Accounting Policies Continued

(d) Financial Assets

Financial assets - classified as loans and receivables

These include cash and bank, accounts receivable and unbilled energy revenue and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short-term maturity of these instruments.

Collectability of accounts receivable is reviewed on an ongoing basis. Accounts receivable which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the corporation will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of future cash flows. The amount of the provision is recognized in the statement of comprehensive income.

Financial assets - classified as available for sale

Available for sale financial assets include the corporation's investment in Utility Collaborative Services Inc. (Note 7). This investment does not have a quoted market price in an active market and a reliable fair value cannot be reliably measured. This financial instrument is measured at cost instead of fair value.

Impairment of Financial assets

A financial asset not carried at fair value through income is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The corporation considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the corporation uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

3. Significant Accounting Policies Continued

(d) Financial Assets continued

Impairment of Financial assets continued

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income.

(e) Financial Liabilities

Accounts payable and accruals, customer deposits and credits and long-term debt are classified as other financial liabilities. These liabilities are measured at amortized cost.

Customer Deposits

Customers may be required to post security to obtain electricity or other services, which are refundable. Where the security posted is in the form of cash and bank, these amounts are recorded in the accounts as deposits. Deposits to be refunded to customers within the next fiscal year are classified as a current liability. Interest rates paid on customer deposits are based on the Bank of Canada's prime business rate less 2%.

(f) Property, Plant and Equipment

Recognition and measurement

Property, plant and equipment (PP&E) are recognized at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the corporation, including eligible borrowing costs.

Amortization of PP&E is recorded in the statement of comprehensive income on a straight-line basis over the estimated useful life of the related asset. Half of a year's amortization is taken for the first year, regardless of when the property was actually put into service during the year. The estimated useful lives, residual values and amortization methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3. Significant Accounting Policies Continued

(f) Property, Plant and Equipment Continued

The estimated useful lives are as follows:

Land and Buildings	
Land	Not amortized
Buildings	50 years
Distribution Equipment	
Distribution stations	20 - 45 years
Distribution lines	40 - 60 years
Distribution transformers	40 years
Distribution services	40 years
Distribution meters	15 years
Smart meters	15 years
Vehicles	
Vehicles	5 - 8 years
Other Equipment	
Office equipment	10 years
Computer equipment	3 years
Tools and equipment	10 years
Communication equipment	10 years
System supervisory equipment	15 years
Work-in-Progress	
Work-in-Progress	Not amortized
Major Spare Parts	Not amortized

Work-in-Progress assets are not amortized until the project is complete and ready for use.

Major spares such as spare transformers and other items kept as standby/back up equipment are accounted for as PP&E since they support the corporation's distribution system reliability. These are included in work-in-progress (Note 10).

Contributions in aid of construction

When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as contributions in aid of construction. The contribution represents the corporation's obligation to continue to provide customers access to the supply of electricity and is amortized to income over the economic useful life of the contributed asset ranging between 40 and 45 years.

Gains and losses on disposal

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the asset, and are included in the statement of comprehensive income when the asset is disposed. When an item of property, plant and equipment with related contributions in aid of construction is disposed, the remaining contributions are recognized in full in the statement of comprehensive income.

3. Significant Accounting Policies Continued

(g) Borrowing Costs

The corporation capitalizes interest expenses and other finance charges directly relating to the acquisition, construction or production of assets that take a substantial period of time to get ready for its intended use. Capitalization commences when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization will be suspended during periods in which active development is interrupted. Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use or sale are complete.

(h) Intangible Assets

Paid Capital Contributions include amounts paid by the corporation for capital expenditures under a Capital Cost Recovery Agreement. The contribution is measured at cost less accumulated amortization and accumulated impairment losses. They are not amortized until put into use.

Computer software that is acquired or developed by the corporation, including software that is not integral to the functionality of equipment purchased, which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. Half of a year's amortization is taken for the first year in service. Amortization methods and useful lives of all intangible assets are reviewed at each reporting date. The estimated useful lives for the current and comparative years are:

Paid Capital Contributions	40 years
Computer software	5 years

Goodwill represents the cost of acquired local distribution companies in Stayner, Creemore and Thornbury in excess of fair value of the net identifiable assets purchased. Goodwill is measured at cost and is not amortized.

(i) Impairment of Non-Financial Assets

At the end of each reporting period, the corporation conducts annual internal assessments of the values of property, plant and equipment, intangible assets and regulatory deferral account debit balances to determine whether there are events or changes in circumstances that indicate that their carrying amount may not be recoverable. Where the carrying value exceeds its recoverable amount, which is the higher of value in use and fair value less costs of disposal, the asset is written down accordingly. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (‘CGU’), which is the lowest group of assets to which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The corporation has one cash-generating unit for which impairment testing is performed. An impairment loss is charged to the statement of comprehensive income, except to the extent it reverses gains previously recognized in other comprehensive income.

At the end of each reporting period or when an indicator for impairment exists, the corporation conducts an internal assessment of goodwill. An impairment loss in respect of goodwill is not reversed.

3. Significant Accounting Policies Continued

(j) Employee Future Benefits

Pension plan

The employees of the corporation participate in the Ontario Municipal Employees Retirement System ("OMERS"). The corporation also makes contributions to the OMERS plan on behalf of its employees. The plan has a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. However, the plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The contribution payable in exchange for services rendered during a period is recognized as an expense during that period. The corporation is only one of a number of employers that participates in the plan and the financial information provided to the corporation on the basis of the contractual agreements is usually insufficient to measure the corporation's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

Post employment medical and life insurance plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The corporation's net obligation on behalf of its retired employees unfunded extended medical and dental benefits is calculated by estimating the amount of future benefits that are expected to be paid out discounted to determine its present value. Any unrecognized past service costs are deducted.

The calculation is performed by a qualified actuary using the projected unit credit method every third year or when there are significant changes to workforce. When the calculation results in a benefit to the corporation, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the corporation if it is realizable during the life of the plan, or on settlement of the plan liabilities.

Defined benefit obligations are measured using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating the terms of the liabilities.

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

Service costs are recognized in operating expenses and include current and past service costs as well as gains and losses on curtailments.

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

3. Significant Accounting Policies Continued

(j) Employee Future Benefits Continued

Other long-term service benefits

Other employee benefits that are expected to be settled wholly within 12 months after the end of the reporting period are presented as current liabilities. Other employee benefits that are not expected to be settled wholly within 12 months after the end of the reporting period are presented as non-current liabilities and calculated using the projected unit credit method and then discounted using yields available on high quality corporate bonds that have maturity dates approximating to the expected remaining period to settlement.

(k) Payments in Lieu of Taxes Payable

Tax status

The corporation is a Municipal Electricity Utility ("MEU") for purposes of the payments in lieu of taxes ("PILs") regime contained in the Electricity Act, 1998. As a MEU, the corporation is exempt from tax under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario).

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

Current and deferred tax

Provision in lieu of taxes ("PILs") is comprised of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to items recognized directly in equity or regulatory deferral account balances (See Note 12).

Current PILs are recognized on the taxable income or loss for the current year plus any adjustment in respect of previous years. Current PILs are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base. The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities/(assets) are settled/(recovered). The corporation recognized deferred tax arising from temporary difference on regulatory deferral account balances.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized.

At the end of each reporting period, the corporation reassesses both recognized and unrecognized deferred tax assets. The corporation recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

3. Significant Accounting Policies Continued

(l) Finance Income and Finance Costs

Finance income is comprised of interest income on funds invested such as cash and short-term investments. Interest income is recognized as it accrues in the statement of comprehensive income, using the effective interest method.

Finance cost is comprised of interest payable on debt, impairment losses recognized on financial assets and net interest on employee future benefits.

(m) Inventory

Cost of inventory is comprised of direct materials, which typically consists of distribution assets not deemed as major spares, unless purchased for specific capital projects in process or as spare units. Costs, after deducting rebates and discounts, are assigned to individual items of inventory on the basis of weighted average cost. Decommissioned assets that are transferred to inventory are tested for impairment once they are removed from service and placed in inventory. Inventory is recognized at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(n) Standards, Amendments and Interpretations Not Yet Effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the corporation.

Management anticipates that all of the relevant pronouncements will be adopted in the corporation’s accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the corporation’s financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the corporation’s financial statements and therefore have not been described here.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement

IFRS 9 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 three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The corporation is in the process of evaluating the impact of the new standard.

3. Significant Accounting Policies Continued

(n) Standards, Amendments and Interpretations Not Yet Effective Continued

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRS. The effective date for IFRS 15 is January 1, 2018. The corporation is in the process of evaluating the impact of the new standard.

IFRS 16 Leases

IFRS 16 is effective for periods beginning on or after January 1, 2019. The new requirements eliminate nearly all off balance sheet accounting for leases and redefine many commonly used financial ratios and performance metrics. This will increase comparability, but may also affect covenants, credit ratings, borrowing costs and stakeholder perceptions. IFRS 16 does not require a company to capitalize leases of low-value assets that, at the time of issuing IFRS 16 would have a capital value of $5,000 US or less. Management has yet to fully assess the impact of the Standard. However, management has identified that the corporation currently only has the following two leases:

- Three separate photocopier leases for an aggregate annual lease cost of $8,616, with a term of 36 months, beginning February 1, 2017
- Building lease with the Town of Collingwood for $216,000 annually, currently on a month-to month basis with one year notice required

In order to determine the impact management is in the process of deciding which transitional provision to adopt, assessing current disclosures for leases as these are likely to form the basis of the amounts to be capitalized and become right-of-use assets, and assessing the additional disclosures that will be required.

4. Use of Estimates and Judgments

The corporation makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Employee future benefits

The cost of post employment medical and insurance benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions. Due to the complexity of the valuation, the underlying assumptions and its long term nature, post employment medical and insurance benefits are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. See Note 17 Employee Future Benefits.

4. Use of Estimates and Judgments Continued

Payments in Lieu of Taxes Payable and Deferred Taxes

The corporation is required to make payments in lieu of tax calculated on the same basis as income taxes on taxable income earned and capital taxes. Significant judgment is required in determining the provision for income taxes and deferred taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The corporation recognizes liabilities for anticipated tax audit issues based on the corporation's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Accounts Receivable Impairment

In determining the allowance for doubtful accounts, the corporation considers historical loss experience of account balances based on the aging and arrears status of accounts receivable balances.

Estimate of Useful Life of Assets

The estimates and assumptions made to determine the useful life of property, plant and equipment and certain intangibles are determined by management at the time the asset is acquired and reviewed annually for appropriateness based on industry standards, historical experience, and technological obsolescence.

Regulatory Estimates

Certain estimates are necessary given that the regulatory environment in which the corporation operates often requires amounts to be recorded at estimated values until finalization and adjustment, pursuant to subsequent OEB regulatory proceedings or decisions.

5. Seasonality

The corporation's operations are seasonal. The corporation's revenues tend to be higher in the first and third quarters of a year as a result of higher energy consumption for winter heating in the first quarter and air conditioning and cooling in the third quarter. The volume of electricity consumed by customers during any period is governed by events largely outside of the corporation's control (principally, sustained periods of hot or cold weather which increase the consumption of electricity, and sustained periods of moderate weather which decrease the consumption of electricity).

6. Cash and Bank

The corporation's bank account is held at one chartered bank and earns interest based upon its average monthly credit balance. Interest is paid monthly at the bank's monthly average prime rate less 1.70%. As at December 31, 2016 the rate was 1.00% (December 31, 2015 - 1.00%).

7. Investments

	2016	2015
Utility Collaborative Services Inc. ("UCS") recorded using the cost method, 100 common shares, 10% interest	**$ -**	$ 100

Utility Collaborative Services Inc. ("UCS") offers standards-based back office services. The collaboration of nine Local Distribution Companies ("LDCs") plus the management services of Util-Assist Inc. allows leverage in the reduction of costs for items such as information technology hosting and software licensing. (See Note 18 & 26)

On May 25, 2016 the corporation redeemed 100 common shares and received $100.

8. Accounts Receivable

	2016	2015
Accounts receivable	**$ 3,978,432**	$ 3,513,888
Other accrued and miscellaneous receivable	**172,390**	198,862
Construction and trade receivable	**414,573**	386,349
HST receivable	**160,477**	46,612
Ontario Power Authority receivable	**-**	21,088
Collus PowerStream Solutions Corp.	**200,022**	-
	4,925,894	4,166,799
Less: Allowance for bad debts (See Note 25)	**75,016**	77,916
	$ 4,850,878	$ 4,088,883

Accounts receivable include $752,890 (December 31, 2015 - $747,289) for water and sewer billings.

9. Payments in Lieu of Corporate Taxes

(a) The significant components of the provision for payments in lieu of taxes recognized in net income are as follows:

	2016	2015
Current tax		
Based on current year taxable income	**$ 150,279**	$ 178,697
Deferred tax		
Origination and reversal of temporary differences	**145,543**	64,157
	$ 295,822	$ 242,854

The significant components of the tax effect of the amount recognized in other comprehensive income are composed of:

	2016	2015
Deferred tax		
Remeasurement of defined benefit plan	**$ (24,891)**	$ -

Statutory Canadian federal and provincial tax rates for the current year comprise 15% (2015 - 15%) for federal corporate tax and 11.5% (2015 - 11.5%) for corporate tax in Ontario. The PILs expense varies from amounts which would be computed by applying the corporation's combined statutory income tax rate as follows:

	2016	2015
Net income and regulatory movement	**$ 864,364**	$ 987,590
Plus current income taxes	**150,279**	178,697
Net income before income taxes	**1,014,643**	1,166,287
Statutory Canadian federal and provincial tax rate	**26.50%**	26.50%
Provision for PILs at statutory rate	**$ 268,880**	$ 309,066
Increase (decrease) in income tax resulting from:		
Reassessment 2012	**5,041**	-
Cumulative eligible capital deduction	**(7,519)**	(8,085)
Interest and penalties on taxes	**333**	-
Amortization expense in excess of capital cost allowance	**(133,853)**	(113,437)
Change in pension post retirement plan	**31,236**	(1,810)
Meals and entertainment	**1,271**	1,324
Co-operative education and apprenticeship credits	**(16,174)**	(8,361)
Taxable gain and net capital losses	**1,453**	-
Miscellaneous other	**708**	-
Investment income	**585**	-
Dividend tax credit	**(1,682)**	-
Total provision	**$ 150,279**	$ 178,697
Effective tax rate	**14.81%**	15.32%

9. Payments in Lieu of Corporate Taxes Continued

(b) The movement in the deferred tax asset is as follows:

		2016		2015
Opening balance, January 1	**$**	**681,582**	$	745,739
Recognized in net income		**(145,543)**		(64,157)
Recognized in other comprehensive income		**24,891**		-
Closing balance, December 31	**$**	**560,930**	$	681,582

Deferred tax assets are attributable to the following:

Employee future benefits	**$**	**222,294**	$	101,212
Property, plant and equipment		**312,063**		546,278
Goodwill		**26,573**		34,092
	$	**560,930**	$	681,582

The utilization of this tax asset is dependent on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences. The corporation believes that this asset should be recognized as it will be recovered through future services.

10. Property, Plant and Equipment

	Land and Buildings	Distribution Equipment	Vehicles	Other Equipment	Work-in Progress	Total
COST						
January 1, 2015	**$ 859,783**	**$ 14,194,677**	**$ 1,100,611**	**$ 462,820**	**$ 359,294**	**$ 16,977,185**
Additions	2,300	1,804,122	39,114	114,518	470,562	2,430,616
Disposals	-	(225,654)	-	-	-	(225,654)
December 31, 2015	**862,083**	**15,773,145**	**1,139,725**	**577,338**	**829,856**	**19,182,147**
Additions	-	3,737,887	354,140	86,911	(482,594)	3,696,344
Disposals	**(106,886)**	(69,254)	**-**	(1,503)	-	(177,643)
December 31, 2016	**$ 755,197**	**$ 19,441,778**	**$ 1,493,865**	**$ 662,746**	**$ 347,262**	**$ 22,700,848**
ACCUMULATED AMORTIZATION						
January 1, 2015	**$ 9,296**	**$ 708,270**	**$ 219,594**	**$ 65,141**	**- $**	**1,002,301**
Amortization	9,335	645,283	231,921	77,341	-	963,880
Disposals	-	(24,966)	-	-	-	(24,966)
Impairment Loss	-	-	-	-	-	-
December 31, 2015	**18,631**	**1,328,587**	**451,515**	**142,482**	**-**	**1,941,215**
Amortization	9,399	706,284	224,957	94,549	-	1,035,189
Disposals	-	(11,080)	-	(786)	-	(11,866)
December 31, 2016	**$ 28,030**	**$ 2,023,791**	**$ 676,472**	**$ 236,245**	**- $**	**2,964,538**
CARRYING AMOUNTS						
December 31, 2015	**$ 843,452**	**$ 14,444,558**	**$ 688,210**	**$ 434,856**	**$ 829,856**	**$ 17,240,932**
December 31, 2016	**$ 727,167**	**$ 17,417,987**	**$ 817,393**	**$ 426,501**	**$ 347,262**	**$ 19,736,310**

During the year, the corporation capitalized borrowing costs, related to the duration of capital construction projects greater than four months, amounting to $NIL (2015 - $13,511).

11. Intangibles

	Paid Capital Contributions	Software	Goodwill	Total
COST				
January 1, 2015	**$ -**	**$ 95,975**	**$ 276,704**	**$ 372,679**
Additions	-	12,521	-	12,521
Disposals	-	-	-	-
December 31, 2015	**-**	**108,496**	**276,704**	**385,200**
Additions	553,415	69,340	-	622,755
Disposals	-	(5,035)	-	(5,035)
December 31, 2016	**$ 553,415**	**$ 172,801**	**$ 276,704**	**$ 1,002,920**
ACCUMULATED AMORTIZATION				
January 1, 2015	**$ -**	**$ 21,990**	**$ -**	**$ 21,990**
Additions	-	19,230	-	19,230
Disposals	-	-	-	-
December 31, 2015	**-**	**41,220**	**-**	**41,220**
Additions	-	26,705	-	26,705
Disposals	-	(1,007)	-	(1,007)
December 31, 2016	**$ -**	**$ 66,918**	**$ -**	**$ 66,918**
CARRYING AMOUNTS				
December 31, 2015	**$ -**	**$ 67,276**	**$ 276,704**	**$ 343,980**
December 31, 2016	**$ 553,415**	**$ 105,883**	**$ 276,704**	**$ 936,002**

12. 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. Where no recovery period is noted, the deferral amount will be applied for disposition at the time of the next Cost of Service Application to the OEB, which is currently scheduled for 2017. The recovery period will be determined by the OEB at that time.

Due to previous, existing or expected future regulatory articles or decisions, the corporation has the following amounts expected to be recovered by customers (returned to customers) in future periods and as such regulatory deferral account balances are comprised of:

	2015	Disposition May 2016	Balances Arising in the Period	Recovery	2016
Regulatory deferral debits:					
Stranded assets	$ 521,954	$ -	$ 5,637	$ -	**$ 527,591**
OEB Cost assessment variance	-	-	27,817	-	**27,817**
Energy East consultation costs	2,290	-	25	-	**2,315**
IFRS transition costs	180,484	-	20,802	-	**201,286**
Late payment penalty settlement	(2,217)	-	-	-	**(2,217)**
Green Energy Renewable Connection	5,454	-	3,258	-	**8,712**
Stranded meters	9,852	-	40	-	**9,892**
Smart Grid	4,661	-	49	-	**4,710**
PILs tax variance - other	17	-	-	(17)	**-**
PILs tax variance - Ontario SBD	35,187	-	385	-	**35,572**
LRAMVA	52,730	-	50,810	-	**103,540**
RARA approved May 1, 2013, 2 yr	98,637	-	1,182	-	**99,819**
RARA approved May 1, 2015, 1 yr	514,186	-	2,277	(356,915)	**159,548**
Retail settlement variances	-	-	272,404	-	**272,404**
	1,423,235	-	384,686	(356,932)	**1,450,989**
Miscellaneous deferred debits	175,030	-	30,454	(90,420)	**115,064**
	$ 1,598,265	$ -	$ 415,140	$ (447,352)	**$1,566,053**
Regulatory deferral credits:					
Retail settlement variances	$ 249,932	$ -	$ (249,932)	$ -	**$ -**
RARA approved May 1, 2010, 4 yr	(56,204)	-	5,727	-	**(50,477)**
RARA approved May 1, 2012, 2 yr	12,169	-	(77)	(17)	**12,075**
Deferred taxes (See Note 9b)	681,582	-	(120,652)	-	**560,930**
	$ 887,479	$ -	$ (364,934)	$ (17)	**$ 522,528**
Net regulatory asset	$ 710,786	$ -	$ 780,074	$ (447,335)	**$1,043,525**

12. Regulatory Deferral Accounts Continued

Carrying charges are calculated monthly on the opening balance of the applicable variance account using the prescribed interest rate set by the OEB. During the year the corporation recorded a net debit balance of $5,829 (2015 - $18,078) to the above regulatory accounts for carrying charges and the related net credit balance is included in finance income (Note 32). The prescribed interest rate history is as follows:

	Q1	Q2	Q3	Q4
2016 OEB quarterly prescribed interest rates	1.10 %	1.10 %	1.10 %	1.10 %
2015 OEB quarterly prescribed interest rates	1.47 %	1.10 %	1.10 %	1.10 %

Stranded Assets

The purpose of this other regulatory deferral account is to record the cost of Sensus ICON model F and model G smart meters net of their accumulated amortization that must be removed from service prematurely before the end of their expected service life and replaced with new meters. These meters are exhibiting communication issues that are causing severe operational issues and are unable to meet new requirements such as data encryption. No amortization expense is recorded on these meters after they have been removed from service. Carrying charges are recorded monthly on the opening principal balance. A total of 4,631 units were replaced between June 2013 and December 31, 2015 at an actual removed net book value of $512,493.

OEB Cost Assessment Variance

On February 9, 2016, the Board established this deferral account to record material differences between the quarterly OEB cost assessments currently built into rates and the cost assessments that will result from the application of the new Cost Assessment Model.

Energy East Consultation Costs

On June 13, 2014, the Board established this deferral account to record the Energy East Pipeline Project consultation costs.

IFRS Transition Costs

The corporation uses this deferral account to record one-time administrative incremental IFRS transition costs, which are not already approved and included for recovery in distribution rates and the associated carrying charges.

Late Payment Penalty ("LPP") Settlement

On July 22, 2010, the Ontario Superior Court of Justice approved a settlement of the LPP Class Action. As its share of this settlement, the corporation was required to pay $46,486 on June 30, 2011 to charity to assist low income electricity users. The corporation received approval from the OEB to recover this amount from ratepayers over a one-year period, starting May 1, 2011.

Green Energy Renewable Connection

Under the Green Energy and Green Economy Act, electricity distributors are required to facilitate the connection of renewable energy sources to their systems and to undertake activities that will lead to a smart grid. The OEB has authorized deferral accounts to record the associated costs and related carrying charges.

12. Regulatory Deferral Accounts Continued

Stranded Meters

This account includes the NBV of stranded mechanical meters, which have been replaced by smart meters, plus carrying charges and less rate rider recoveries beginning October 1, 2013 and ending April 30, 2015.

Smart Grid

Investments related to smart grid demonstration projects and investments undertaken as part of a project to accommodate renewable generation are recorded in the capital deferral account. Operating expenses directly related to smart grid development activities are recorded in the operating deferral account. Both of these deferral accounts attract applicable carrying charges.

Payments in Lieu of Taxes ("PILs") Variances - Other

The PILs variance relates to the differences that have resulted from a legislative or regulatory change to the tax rates or rules assumed in the rate adjustment model. The OEB approved the disposition of a credit balance of $250,601 representing principal and interest to April 30, 2012, over a two year period from May 1, 2012 to April 30, 2014.

Payments in Lieu of Taxes ("PILs") Variances - Ontario Small Business Deduction (SBD)

Effective for taxation years ending after May 1, 2014, Canadian Controlled Private Corporations with taxable capital of $15 million or more are no longer eligible for the Ontario Small Business Deduction, which is a preferential corporate income tax rate of 4.5% instead of 11.5% on the first $500,000 of active business income. The Board requires any tax changes to be shared equally between ratepayers and the shareholder. The tax change was incorporated into the Incentive Regulation Mechanism ("IRM") with effective rates May 1, 2016.

2014 Impact on Corporate Tax Return	$500,000 x (11.5% - 4.5%) =	$35,000
2015 Impact on Corporate Tax Return	$500,000 x (11.5% - 4.5%) =	$35,000
		$70,000
	50% sharing of tax change	x 50%
		$35,000
	Carrying charges	572
		$35,572

Lost Revenue Adjustment Mechanism Variance Account ("LRAMVA")

This variance account captures the difference between results of actual, verified impacts of authorized CDM activities undertaken and the level of CDM program activities included in the distributor's load forecast and therefore embedded into rates.

12. Regulatory Deferral Accounts Continued

Regulatory Asset Recovery Accounts ("RARA")

The RARA is comprised of the cumulative balances of regulatory assets and regulatory liabilities approved for disposition by the OEB, reduced by amounts settled with customers through billing of approved disposition rate riders. The RARA is subject to carrying charges following the OEB prescribed methodology and rates. The number of years over which the recovery has been approved has been noted in the preceding schedule.

Retail Settlement Variance Accounts ("RSVA")

RSVAs are comprised of the variances between amounts charged by the corporation to its customers, based on regulated rates, and the corresponding cost of non-competitive electricity service incurred by the corporation. The settlement variances relate primarily to service charges, non-competitive electricity charges and the global adjustment. Accordingly, the corporation has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. The balance for settlement variances continues to be calculated and attracts carrying charges in accordance with the OEB's direction.

Low Voltage Variance

This account is included in Retail Settlement Variances and is used to record the variances arising from low voltage transactions that are not part of the electricity wholesale market.

Other Regulatory Assets - Miscellaneous Deferred Debits

The following regulatory group of accounts tracks deferred costs for items that will be included in the expenses of other fiscal periods for purposes of developing the rates that the utility is authorized to charge:

	2016			2015		
	Cost	**Expensed**	**Net Book Value**	Cost	Expensed	Net Book Value
Regulatory expenses	**$ 346,356**	**$ 318,936**	**$ 27,420**	$ 346,356	$ 236,676	$ 109,680
Distribution system plan	**30,579**	**-**	**30,579**	125	-	125
Expansion charges	**204,914**	**147,849**	**57,065**	204,914	139,689	65,225
	$ 581,849	**$ 466,785**	**$ 115,064**	$ 551,395	$ 376,365	$ 175,030

Regulatory expenses include 2013 cost of service application expenses, which will have recoveries in future periods and are carried forward and charged to expense over the four year term of the application ending April 30, 2017. Deferred regulatory costs of $27,420 will be expensed to the general and administration category over the next four months.

The distribution system plan is currently in progress for the upcoming cost of service application.

Expansion charges includes expenses incurred in the expansion of the service area for Stayner, Creemore, and Thornbury, which will benefit future periods and are carried forward and charged to amortization expense over a twenty-five year period ending December 31, 2024 at an annual amount of $8,160.

12. Regulatory Deferral Accounts Continued

Deferred Taxes Regulatory Liability

This regulatory liability account relates to the expected future electricity distribution rate adjustments for customers arising from timing differences in the recognition of deferred taxes.

Impact in the Absence of Regulatory Accounting

The following impacts are recognized in the financial statements as a result of IFRS regulatory treatment:

	2016	2015
Statement of Comprehensive Income:		
(Increase) decrease in the sale of energy	**$ 166,320**	$ (802,498)
(Increase) decrease in distribution revenue	**50,238**	(41,174)
(Decrease) in operating expenses	**(2,140)**	(75,169)
Loss on disposal of property, plant and equipment	**-**	161,271
Increase in interest expense	**5,829**	18,078
(Decrease) in amortization	**(8,160)**	(8,160)
Increase in deferred tax expense	**145,543**	64,157
	357,630	(683,495)
Statement of Other Comprehensive Income:		
(Decrease) in deferred tax expense related to OCI	**(24,891)**	-
Net movement on regulatory deferral accounts	**332,739**	(683,495)
Balance Sheet:		
Increase in retained earnings	**710,786**	1,394,281
	$ 1,043,525	$ 710,786

13. Accounts Payable and Accruals

	2016	2015
Independent Electricity System Operator	**$ 3,994,330**	$ 3,363,174
Hydro One	**795,110**	747,500
Trade payables	**744,252**	664,268
Town of Collingwood - Sewer	**1,137,903**	1,165,058
Town of Collingwood - Interest Payable	**-**	81,575
Town of Collingwood - Water	**638,157**	754,389
Economic evaluations	**66,989**	129,159
Debt retirement charge payable	**87,801**	151,598
Other accounts payable and accruals	**66,282**	29,764
Accrued interest on long-term debt	**30,775**	36,076
Deferred conservation program funding	**127,313**	103,264
	$ 7,688,912	$ 7,225,825

14. Customer Deposits and Credits

	2016	2015
Customer deposits	**$ 480,169**	$ 481,279
Construction work deposits	**96,146**	327,354
Customer credit balances in trade receivables	**301,121**	307,130
	877,436	1,115,763
Less long-term portion of customer deposits	**278,020**	281,455
	$ 599,416	$ 834,308

15. Contributions in Aid of Construction

	2016	2015
Deferred contributions, net, beginning of year	**$ 1,075,897**	$ 347,075
Contributions in aid of construction received	**1,739,589**	745,573
Contributions in aid of construction recognized as distribution revenue	**(45,635)**	(16,751)
Deferred contributions, net, end of year	**$ 2,769,851**	$ 1,075,897

16. Long-term Debt

	2016	2015
Infrastructure Ontario Debentures - secured by a general security agreement on all assets and real property under a second charge equal priority ranking arrangement with TD		
• 4.67% fixed rate, $100,000 principal repayable semi-annually plus interest in October and April, due April 2025	**$ 1,700,000**	$ 1,900,000
• 3.84% fixed rate, $32,700 principal and interest repayable monthly, due September 2037	**5,606,535**	5,780,010
• 4.58% fixed rate, $3,563 principal and interest repayable monthly, due December 2043	**664,778**	677,055
• 2.76% fixed rate, $25,000 principal repayable semi-annually plus interest in October and April, due April 2035	**925,000**	975,000
TD Bank - 3.65% fixed rate, $14,239 combined principal and interest repayable monthly, secured by a general security agreement on all assets and real property under a second charge equal priority ranking arrangement with Infrastructure Ontario, due December 31, 2025	**3,054,417**	3,110,170
	11,950,730	12,442,235
Current portion of long-term debt	**503,495**	491,505
	$ 11,447,235	$ 11,950,730

The agreement governing these facilities contains certain covenants as described in Note 28.

The finance agreements with Infrastructure Ontario had total authorizations of $11,000,000. Total advances of $11,000,000 have been approved. At December 31, 2016, the corporation had undrawn credit capacity under this facility of $NIL (2015 - $NIL).

Principal repayments for each of the five subsequent years and thereafter are as follows:

2017	$ 503,495
2018	513,377
2019	523,645
2020	534,020
2021	545,390
Thereafter	9,330,803
	$ 11,950,730

Subsequent to year-end, on March 10th, 2017 the corporation received a $3,100,000 loan advance from TD bank.

17. Employee Future Benefits

(a) Pension plan

The employees of the corporation participate in the Ontario Municipal Employees Retirement System ("OMERS"). Although the plan has a defined retirement benefit plan for employees, the related obligation of the corporation cannot be identified. The OMERS plan has several unrelated participating municipalities and costs are not specifically attributed to each participant.

The plan specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The plan is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund. The employer portion of amounts paid to OMERS during the year was $185,757 (2015 - $116,455). The contributions were made for current service and these have been recognized in net income.

Each year, an independent actuary determines the funding status of OMERS Primary Pension Plan by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2015. The results of this valuation disclosed total actuarial liabilities of $82.4 (2014 - $77.3) billion in respect of benefits accrued for service with actuarial assets at that date of $75.4 (2014 - $70.2) billion, indicating an actuarial deficit of $7.0 (2014 - $7.1) billion. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the corporation does not recognize any share of the OMERS pension surplus or deficit.

The contribution rates for normal retirement age 65 members were 9.0% (2015 - 9.0%) for employees earning up to $54,900 (2015 - $53,600) and 14.6% (2015 - 14.6%) thereafter.

(b) Post employment medical and life insurance plan

The corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. All employees who retire from the corporation are eligible for post-retirement life insurance benefits. In addition, employees age 55 or older with a minimum of 25 years of active service are eligible for extended health, dental, and vision benefits until they turn 65.

These benefits are provided through a group defined benefit plan. The corporation has reported its share of the defined benefit costs and related liabilities, as calculated by an actuary, in these financial statements. The accrued benefit liability and the expense for the years ended December 31, 2016 and 2015 were based on results and assumptions determined by actuarial valuation as at December 31, 2016 and January 1, 2014 respectively.

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

- Interest rate risk: decreases/increases in the discount rate used (high quality corporate bonds) will increase/decrease the defined benefit obligation.
- Longevity risk: changes in the estimation of mortality rates of current and former employees.
- Health care cost risk: increases in cost of providing health, dental and life insurance benefits.

17. Employee Future Benefits Continued

Information about the group unfunded defined benefit plan as a whole and changes in the present value of the unfunded defined benefit obligation and the accrued benefit liability are as follows:

	2016	2015
Defined benefit obligation, beginning of the year	**$ 381,933**	$ 388,763
Amounts recognized in net income:		
Current service cost	**6,793**	6,482
Interest cost on obligation	**17,814**	17,911
	24,607	24,393
Amounts recognized in other comprehensive income:		
Actuarial loss from financial assumption	**93,928**	-
Benefit payments	**(21,646)**	(31,223)
Assumption of related company employee future benefits	**360,022**	-
Defined benefit obligation, end of the year	**$ 838,844**	$ 381,933

Actuarial assumptions are as follows:

	2016	2015
Discount rate	**3.90 %**	4.80 %
Consumer price index	**2.00 %**	2.00 %
Rate of compensation increase	**3.50 %**	3.50 %
Health benefits costs escalation	**4.50 %** to **5.99 %**	4.60 % to 6.70 %
Dental benefits costs escalation	**4.50 %**	4.60 %
Retirement age	**59 yrs**	59 yrs

Sensitivity analysis for each significant actuarial assumption to which the corporation is exposed is as follows:

	Discount Rate		Retirement Age		Health Benefits	
	1%+	1%-	2 yrs+	2 yrs-	1%+	1%-
Obligation	$ (41,000)	$ 52,000	$ (16,000)	$ 16,000	$ 10,000	$ (10,000)
Service Cost	(2,000)	4,000	(2,000)	2,000	2,000	(1,000)
Interest Cost	2,000	(3,000)	(1,000)	-	-	(1,000)

The weighted average duration of the defined benefit obligation at December 31, 2016 was 12 years (December 31, 2015 - 10 years).

18. Commitments

Cornerstone Hydro Electric Concepts ("CHEC")

Cornerstone Hydro Electric Concepts Association Inc. ("CHEC") is an association of fifteen LDCs modelled after a co-operative to share resources and proficiencies. (See Note 26)

The corporation may terminate its membership at any time upon the following terms:

(a) giving written notice 60 days in advance of termination;

(b) and by making a pre-payment in full of the balance of its contract service costs to CHEC. The amount of the pre-payment cost shall be the total cost which the corporation would have paid over the three year term of the agreement less amounts already paid by it to the date of the termination. The current three year term for the CHEC commitment goes to December 31, 2017. The pre-payment cost of termination is a settlement of the corporation's obligation under the agreement by reason of termination of its membership before the expiry of the term. The amount is liquidated damages and not a penalty for early termination and is intended to leave the remaining members in the same position as if the corporation had not terminated the agreement. As at December 31, 2016 the obligation to CHEC includes 2017 membership dues of approximately $46,500.

Utility Collaborative Services Inc. ("UCS")

The corporation had the right to redeem its shares in UCS by retraction upon the following terms:

(a) notice of such retraction shall be given 120 days prior to the effective date;

(b) and a retraction fee shall be paid equal to the previous three years worth of the average purchases from UCS for services or products; or in alternative to paying such fees, the corporation may elect in writing to provide three years' written notice of the retraction, provided that the corporation continues to receive services at the same or greater average volume as those received at the time the notice was given.

In January 2016 notice was provided to UCS indicating the corporation's intent to retract their shares with an effective date of May 25, 2016. The corporation will continue to receive services for the three year notice period ending May 25, 2019. The corporation is paying the first eighteen months of the three year notice period as normally billed each month. The corporation prepaid the last eighteen months of the three year notice period in the amount of $197,387. The prepaid expense will be recognized in the income statement as follows:

2017	$ 10,966
2018	131,591
2019	54,830

As at December 31, 2016 the estimated future obligation to UCS includes fees of approximately $227,640 payable as follows:

2017	$ 171,999
2018	39,034
2019	16,607

19. Share Capital

(a) Ordinary shares

The authorized share capital of the corporation is an unlimited number of common shares. The shares have no par value. All shares are ranked equally with regard to the corporation's residual assets. There are no preference shares. The issued and fully paid share capital is as follows:

		2016	2015
5,101,340	Common shares	**$ 5,101,340**	$ 5,101,340

(b) Movement in ordinary share capital

No movement in ordinary share capital has occurred during 2016 or 2015.

20. Miscellaneous Paid In Capital

Collingwood Public Utilities Commission was restructured November 1, 2000. The Ontario Government enacted the Energy Competition Act, 1998 which introduced competition to the Ontario electricity market. Net electricity distribution assets and liabilities of the original Collingwood Public Utilities Commission were transferred to the newly created corporations on November 1, 2000.

Net assets & liabilities	$ 9,777,524
Promissory note - Town of Collingwood	(1,710,170)
Common shares	(5,101,340)
Miscellaneous Paid In Capital	$ 2,966,014

The promissory note to the Town of Collingwood was repaid on December 31, 2015 and replaced with a loan from the TD Bank.

21. Dividends

Dividends in the amount of $122,998 (2015 - $408,107) were declared and paid to Collingwood PowerStream Utility Services Corp. (See Note 26).

The amount of dividends declared in any given year is at the discretion of the Board of Directors of the corporation. The dividend policy states that the corporation shall normally pay a minimum of 50% of the prior year annual net income, as dividends, with consideration given to the cash position, working capital, net capital expenditures, and other cash requirements.

22. Liability Insurance

The corporation belongs to the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a self-insurance plan that pools the risks of all of its members. Any losses experienced by MEARIE are shared amongst its members. As at December 31, 2016, the corporation has not been made aware of any assessments for losses. Insurance premiums charged to each member consist of a levy per thousand of dollars of service revenue subject to a credit or surcharge based on each member's claims experience. The maximum coverage in a joint policy with Collus PowerStream Solutions Corp. is $24,000,000 for liability insurance, $14,414,851 for property insurance, and $15,000,000 for vehicle insurance.

23. Credit Facilities

The credit facility agreement contains certain covenants as described in Note 28.

Line of Credit

The corporation has a line of credit, secured by a general security agreement, with an authorized limit of $500,000 available under a credit facility agreement with a Canadian chartered bank. Interest on advances is calculated using the bank's prime rate less 0.30% per annum, calculated and payable monthly. As at December 31, 2016 the balance was $NIL (2015 - $NIL) on this credit facility and the rate was 2.40% (2015 - 2.70%).

Letter of Credit ("LOC")

As at December 31, 2016, the corporation had utilized $2,326,160 (2015 - $2,326,160) of the $2,417,179 uncommitted Letter of Guarantee facility for a letter of credit that was provided to the IESO to mitigate the risk of default on energy payments. The IESO could draw on the LOC if the corporation defaults on its payment. The standby LOC fee is charged annually at a rate of 0.50% (2015 - 0.50%). For the year ended December 31, 2016 the fee incurred was $11,695 (2015 - $11,631).

Credit Card

The corporation has a VISA account, secured by a general security agreement, with an authorized limit of $25,000 available under a credit facility agreement with a Canadian chartered bank.

24. Amortization

	2016	2015
Property, plant and equipment	**$ 810,230**	$ 731,958
Software	**26,705**	19,230
Deferred charges	**8,160**	8,160
	845,095	759,348
Less net regulatory movement related to deferred charges	**(8,160)**	(8,160)
	836,935	751,188
Vehicles, allocated to other accounts	**224,957**	231,922
	$ 1,061,892	$ 983,110

25. Bad Debt Expense (Included in Billing and Collecting)

	2016	2015
Write-offs during the year	**$ 74,862**	$ 55,536
Recoveries during the year	**(13,580)**	(13,576)
Opening allowance	**(77,916)**	(90,964)
Closing allowance	**75,016**	77,916
	$ 58,382	$ 28,912

26. Related Party Transactions

(a) The ultimate parent

Collingwood PowerStream Utility Services Corp. (owned 50% by the Town of Collingwood and 50% by PowerStream Inc., which in turn is owned by the Cities of Barrie, Vaughan, and Markham) is the holding company for the following three wholly-owned subsidiaries:

(i) Collus PowerStream Corp. - Electricity distributor
(ii) Collus PowerStream Solutions Corp. - Administrative service provider
(iii) Collus PowerStream Energy Corp. - Inactive

Since the ultimate parent constitutes local government, the corporation is exempt from some of the general disclosure requirements of IAS 24 with relation to transactions with government-related parties, and has applied the government-related disclosure requirements.

26. Related Party Transactions Continued

(b) Transactions with related parties

The following summarizes the corporation's related party transactions for the year. These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product or provision of service.

	2016				
	50% Shareholder of Parent	50% Shareholder of Parent	Parent	Wholly owned subsidiary of Parent	Wholly owned subsidiary of Parent
	Town of Collingwood	PowerStream Inc.	Collingwood PowerStream Utility Services Corp.	Collus PowerStream Solutions Corp.	Collus PowerStream Energy Corp.
Receipts:					
Shared employee services	$	$	$	$ 181,183	$
Streetlight maintenance	41,638				
Conservation funding from IESO		40,000			
Emergency assistance		12,999			
	$ 41,638	$ 52,999	$	$ 181,183	$
Disbursements:					
Property taxes	$ 18,662	$	$	$	$
Property maintenance	5,000				
Board payments	2,100				
Services		20,973			
Shared employee charge	43,331	143,291		694,586	
Computer lease	21,792				
Building lease	216,000				
Conservation program		12,750			
Misc and shared invoices	13,812	1,960			
Emergency assistance		5,796			
Inventory and capital materials		36,394			
	$ 320,697	$ 221,164	$	$ 694,586	$
Dividends paid	$	$	$ 122,998	$	$

26. Related Party Transactions Continued

	2015				
	50% Share-holder of Parent	50% Share-holder of Parent	Parent	Wholly owned subsidiary of Parent	Wholly owned subsidiary of Parent
	Town of Collingwood	PowerStream Inc.	Collingwood PowerStream Utility Services Corp.	Collus PowerStream Solutions Corp.	Collus PowerStream Energy Corp.
Receipts:					
Streetlight maintenance	$ 49,548	$	$	$	$
Conservation funding from IESO		40,000			
	$ 49,548	$ 40,000	$	$	$
Disbursements:					
Property taxes	$ 18,782	$	$	$	$
Property maintenance	7,500				
Interest	81,575				
Services		20,246			
Shared employee charge	37,743			1,068,008	
Computer lease	21,792				
Building lease	216,000				
Conservation program		140,103			
	$ 383,392	$ 160,349	$	$ 1,068,008	$
Dividends paid	$	$	$ 408,107	$	$

26. Related Party Transactions Continued

At the end of the year, the amounts due from and due (to) related parties are as follows:

2016

	50% Share-holder of Parent	50% Share-holder of Parent	Parent	Wholly owned subsidiary of Parent	Wholly owned subsidiary of Parent
	Town of Collingwood	PowerStream Inc.	Collingwood PowerStream Utility Services Corp.	Collus PowerStream Solutions Corp.	Collus PowerStream Energy Corp.
Trade receivable	$ 85,426	$ 14,689	$	$ 200,022	$
Trade payable	(24,883)	(18,049)			
Waste water collections payable	(1,137,903)				
Water collections payable	(638,157)				
	$ (1,715,517)	$ (3,360)	$	$ 200,022	$

2015

	Town of Collingwood	PowerStream Inc.	Collingwood PowerStream Utility Services Corp.	Collus PowerStream Solutions Corp.	Collus PowerStream Energy Corp.
Trade receivable	$ 50,645	$	$	$	
Trade payable	(2,599)	(13,947)		(112,361)	
Interest payable	(81,575)				
Waste water collections payable	(1,165,058)				
Water collections payable	(754,389)				
	$ (1,952,976)	$ 13,947	$	$ (112,361)	$

The corporation paid $58,290 (2015 - $59,892) in fees to Cornerstone Hydro Electric Concepts Association Inc. ("CHEC") (See Note 18).

The corporation paid $374,425 (2015 - $179,287) in fees to Utility Collaborative Services Inc. ("UCS") for items such as information technology hosting and software licensing (See Note 18).

(c) Key management personnel compensation comprised:

The key management personnel of the corporation has been identified as members of its board of directors and management team members, including management fees paid to Collus PowerStream Solutions Corp.

	2016	2015
Board of directors' fees	**$ 49,992**	$ 71,812
Short-term employment benefits and salaries	**899,824**	754,962
Post-employment benefits	**25,284**	16,411
	$ 975,100	$ 843,185

27. Financial Instruments

The corporation's carrying value and fair value of financial instruments consist of the following:

	2016		2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Assets				
Cash and bank	**$ 940,680**	**$ 940,680**	$ 2,943,000	$ 2,943,000
Investments	**-**	**-**	100	undeterminable
Accounts receivable	**4,850,878**	**4,850,878**	4,088,883	4,088,883
Unbilled energy revenue	**4,852,979**	**4,852,979**	4,232,314	4,232,314
Liabilities				
Accounts payable & accruals	**$ 7,688,912**	**$ 7,688,912**	$ 7,225,825	$ 7,225,825
Customer deposits	**877,436**	**877,436**	1,115,763	1,115,763
Long-term debt	**11,950,730**	**11,950,730**	12,442,235	12,442,235

The estimated fair values of financial instruments as at December 31, 2016 and December 31, 2015 are based on relevant market prices and information available at the time. The fair value estimates are not necessarily indicative of the amounts that the corporation may receive or incur in actual market transactions. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Determination of fair values

(a) The fair values of cash and bank, accounts receivable, unbilled energy revenue, current customer deposits and credit balances, and accounts payable and accruals approximate their carrying values because of the short-term nature of these instruments.

(b) Investments include common shares of a private company accounted for by the cost method. These investments are not publicly traded and, therefore, fair values are not practicable to determine.

(c) The fair value of each of the corporation's long-term debt instruments is based on the amount of future cash flows associated with each instrument discounted using an estimate of what the corporation's current borrowing rate for similar debt instruments of comparable maturity would be.

It is management's intention not to renew the long-term debt until its maturity.

Financial Instruments which are disclosed at fair value are to be classified using a three-level hierarchy. Each level reflects the inputs used to measure the fair values disclosed of the financial liabilities and are as follows:

- Level 1: Inputs are unadjusted quoted prices of identical instruments in active markets;

27. Financial Instruments Continued

- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3: Inputs for the liabilities that are not based on observable market data (unobservable inputs)

The corporation's fair value hierarchy is classified as Level 2 for long-term debt. The classification has been calculated using the discounted cash flow model based on the contractual terms of the instrument discounted using an appropriate market rate of interest.

28. Capital Disclosures

The corporation considers its capital to be its share capital, miscellaneous paid in capital, retained earnings and accumulated other comprehensive income. The corporation's main objectives when managing capital are to: i) ensure sufficient liquidity to maintain and improve its electricity distribution system, support its financial obligations and execute its operating and strategic plans, ii) minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions, iii) maintain an optimal capital structure that provides necessary financial flexibility and considers recoveries of financing charges permitted by the OEB, while also ensuring compliance with any financial covenants, and iv) provide an adequate return to its shareholders.

The corporation relies on its cash flow from operations to fund its dividend distributions to its shareholders.

As part of existing debt agreements, financial covenants are monitored and communicated, as required by the terms of credit agreements, on an annual basis by management to ensure compliance with the agreements.

The covenants require the corporation to provide notification prior to any new debt issuance. All covenants are to be tested and calculated as of the end of each fiscal year. The corporation was in compliance with these covenants during the year and as at December 31, 2016.

Management monitors the following key ratios to effectively manage capital:

		2016	2015
a) Debt Service Coverage Ratio IO:	(must be at least 1.30)	**1.52:1**	2.17:1
b) Debt Service Coverage Ratio TD:	(must be at least 1.20)	**1.21:1**	1.45:1
d) Debt to Total Assets IO:	(must not exceed 0.60)	**0.35:1**	0.39:1
c) Debt to Capital TD:	(must not exceed 0.60)	**0.50:1**	0.57:1
e) Current ratio IO:	(must be at least 1.10)	**1.29:1**	1.40:1

29. Financial Risk Management

As part of its operations, the corporation carries out transactions that expose it to financial risks such as credit, liquidity and market risks. The following is a discussion of risks and related mitigation strategies that have been identified by the corporation for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks identified.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation. The maximum credit exposure is limited to the carrying amount of cash and bank, accounts receivable, and unbilled energy revenue presented on the balance sheet.

The corporation limits its exposure to credit loss by placing its cash with a high credit quality financial institution. The corporation maintains cash with only one major financial institution. Eligible deposits per financial institution are insured to a maximum basic insurance level of $100,000, including principal and interest by the Canada Deposit Insurance Corporation.

The corporation is exposed to credit risk related to accounts receivable and unbilled energy revenue arising from its day-to-day electricity and service revenue. Exposure to credit risk is limited due to the corporation's large and diverse customer base. The corporation has approximately 17,000 customers, the majority of which are residential. No single customer accounts for revenue in excess of 10% of total revenue. The corporation limits its credit risk by collecting deposits (See Note 14), purchasing commercial account credit insurance, following collection policies, monitoring accounts receivable aging, and utilizing collection agencies. The Ontario Energy Board has prescribed certain rules for the payment of deposits by customers. Although these rules limit the risk of the corporation, no deposits are required by customers who have shown good payment history for the previous 24 month period. The corporation does not have any material accounts receivable balances greater than 90 days outstanding. The corporation believes that its accounts receivable represent a low credit risk.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in net income. The provision is based on account age and customer standing. Subsequent recoveries of receivables previously provisioned are credited to net income. (See Note 25)

The value of accounts receivable, by age, and the related bad debt provision are presented in the following table. Unbilled energy revenue which is not included in the table below is considered all current. Receivables greater than 30 days are considered past due.

	2016	2015
Under 30 days	**$ 4,608,460**	$ 4,056,322
30 to 60 days	**171,114**	79,379
61 to 90 days	**50,589**	15,115
Over 90 days	**95,731**	15,983
	4,925,894	4,166,799
Provision	**75,016**	77,916
Total accounts receivable	**$ 4,850,878**	$ 4,088,883

29. Financial Risk Management Continued

(b) Liquidity risk

Liquidity risk is the risk that the corporation will encounter difficulty in meeting obligations associated with financial liabilities. The corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the corporation's reputation. The corporation's exposure is reduced by cash generated from operations and undrawn credit facilities. The corporation engages in borrowing to meet financing needs that exceed cash from operations. Exposure to such risks is significantly reduced through close monitoring of cash flows and budgeting. Liquidity risks associated with financial commitments are as follows:

	0 - 3 mo	3 mo - 1 yr	1 - 5 yr	Thereafter	Total
Accounts payable	$ 7,621,923	$ 66,989	$ -	$ -	$ 7,688,912
Payments in lieu of taxes	-	-	-	-	-
Customer deposits/credits	-	599,416	278,020	-	877,436
Long-term debt	62,847	440,648	2,116,432	9,330,803	11,950,730
Total	$ 7,684,770	$ 1,107,053	$ 2,394,452	$ 9,330,803	$ 20,517,078

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the corporation's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits.

The corporation does not have any direct exposure to foreign currency exchange rate risk or commodity price risk. The corporation had no forward exchange rate contracts or commodity price contracts in place as at or during the year ended December 31, 2016.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Note 17 describes the interest rate risk associated with Employee Future Benefits. The corporation is also exposed to interest rate fluctuations on its cash and bank and undrawn bank credit facilities. The corporation is protected from interest rate fluctuations on long-term debt for Infrastructure Ontario and TD Bank loans, which bear fixed rates of interest. As at December 31, 2016, if interest rates had been 1% lower or higher with all other variables held constant, net income for the year would not have been impacted materially.

30. Financial Statement Presentation

Certain comparative figures have been reclassified to conform with current financial statement presentation.

31. Economic Dependence

The corporation receives management, administration, billing, collecting and information technology services from Collus PowerStream Solutions Corp. ("Solutions") under a shared services agreement between the corporation, Solutions and the Town of Collingwood. The agreement is currently under review and the impact of any changes to the agreement is unknown at this time.

32. Finance Income and Finance Cost

	2016	2015
Finance Income:		
Interest earned on bank account	**$ 32,790**	$ 34,485
Finance Cost:		
Net interest on employee future benefits	**$ 17,814**	$ 17,911
Interest on customer deposits	**3,354**	4,524
Interest on Letter of Credit	**11,695**	11,631
Interest on long-term debt	**472,483**	452,056
Interest other	**1,258**	-
	$ 506,604	$ 486,122

33. Expenses by Nature

		2016	2015
Billing and collecting:			
After hours call centre		**$ 15,521**	$ 15,888
Bad debts	(Note 25)	**58,382**	28,912
Bank charges		**16,027**	15,639
Billing supplies and services provided		**150,401**	124,847
Collection agency costs		**2,233**	2,733
Conservation and community safety programs		**-**	5,175
Disconnection and collection service subcontractor		**36,046**	26,685
Information technology		**16,403**	16,801
Insurance - Business credit collections		**21,760**	22,611
Meter reading - manual		**10,120**	6,573
Office and general		**8,167**	13,170
Postage		**67,693**	108,690
Retailer Settlement Expenses		**85,048**	86,000
Survey		**9,700**	-
Salaries and benefits		**320,937**	348,653
Smart meter reading and operations		**227,790**	199,932
Telephone		**2,246**	4,892
Training and travel		**1,706**	5,580
Vehicle burden allocation		**932**	1,046
		$ 1,051,112	$ 1,033,827
Add regulatory movement		**3,183**	2,710
		$ 1,054,295	$ 1,036,537
Operations and maintenance:			
Materials, supplies, small tools		**$ 72,128**	$ 137,580
Office and general		**3,356**	4,781
Property taxes		**22,082**	22,167
Rent - operations facility and yard		**172,800**	172,800
Rent - joint pole use		**20,790**	19,999
Salaries, benefits and burdens		**1,677,799**	1,391,127
Subcontractor and service providers		**195,531**	316,840
Telephone		**13,850**	18,163
Training and travel		**21,069**	51,320
Utilities		**8,821**	7,647
Vehicle burden allocation		**273,905**	246,288
		$ 2,482,131	$ 2,388,712

33. Expenses by Nature Continued

	2016	2015
General and administrative:		
Advertising and sponsorships	**$ 14,203**	$ 23,418
Actuary	**7,757**	-
Audit	**33,000**	27,600
Building maintenance	**393**	30,730
Computer lease	**21,792**	21,792
Conferences, events, training, meetings and travel	**31,626**	70,392
Consulting	**26,703**	26,018
Information technology	**30,201**	25,644
Insurance	**72,984**	75,188
Legal	**59,143**	25,368
Memberships, fees and dues	**102,203**	102,799
Office supplies and materials	**9,044**	4,569
Regulatory	**125,798**	122,296
Rent - administration building	**43,200**	43,200
Salaries and benefits	**774,442**	644,763
Telephone	**6,859**	9,753
	$ 1,359,348	$ 1,253,530
Less regulatory movement	**(5,324)**	(77,880)
	$ 1,354,024	$ 1,175,650

Consolidated Financial Statements of

EPCOR UTILITIES INC.

Years ended December 31, 2015 and 2014

Management's responsibility for financial reporting

The preparation and presentation of the accompanying consolidated financial statements of EPCOR Utilities Inc. are the responsibility of management and the consolidated financial statements have been approved by the Board of Directors. In management's opinion, the consolidated financial statements have been prepared within reasonable limits of materiality in accordance with International Financial Reporting Standards. The preparation of financial statements necessarily requires judgment and estimation when events affecting the current year depend on determinations to be made in the future. Management has exercised careful judgment where estimates were required, and these consolidated financial statements reflect all information available to March 3, 2016. Financial information presented elsewhere is consistent with that in the consolidated financial statements.

To discharge its responsibility for financial reporting, management maintains systems of internal controls designed to provide reasonable assurance that the Company's assets are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis. The internal control systems are monitored by management, and evaluated by an internal audit function that regularly reports its findings to management and the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited by KPMG LLP, the Company's external auditors. The external auditors are responsible for auditing the consolidated financial statements and expressing their opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The auditors' report outlines the scope of their audit and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, which is composed of independent directors, meets regularly with management, the internal auditors and the external auditors to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The Audit Committee reviews the consolidated financial statements and management's discussion and analysis and recommends their approval to the Board of Directors. The external auditors have full and open access to the Audit Committee, with and without the presence of management. The Audit Committee is also responsible for reviewing and recommending the annual appointment of the external auditors and approving the annual external audit plan.

On behalf of management,

Stuart Lee
President and Chief Executive Officer

Guy Bridgeman
Senior Vice President and Chief Financial Officer

March 3, 2016

EPCOR UTILITIES INC.
Consolidated Financial Statements

Years ended December 31, 2015 and 2014

KPMG LLP
Chartered Professional Accountants
10125-102 Street
Commerce Place
Edmonton AB
T5J 3V8

Telephone (780) 429-7300
Fax (780) 429-7379
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholder of EPCOR Utilities Inc.

We have audited the accompanying consolidated financial statements of EPCOR Utilities Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EPCOR Utilities Inc. as at December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
March 3, 2016
Edmonton, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

EPCOR UTILITIES INC.

Consolidated Statements of Comprehensive Income
(In millions of Canadian dollars)

Years ended December 31, 2015 and 2014

	2015	2014
Revenues and other income:		
Revenues (note 5)	$ 1,996	$ 1,904
Other income (note 5)	22	23
	2,018	1,927
Operating expenses:		
Energy purchases and system access fees	792	868
Other raw materials and operating charges	229	173
Staff costs and employee benefits expenses (note 6)	298	292
Depreciation and amortization (note 6)	178	159
Franchise fees and property taxes	97	94
Other administrative expenses (note 6)	59	56
	1,653	1,642
Operating income	365	285
Finance expenses (note 7)	(117)	(119)
Gains on equity investment in Capital Power (note 15)	60	-
Impairment of available-for-sale investment in Capital Power (note 15)	(60)	-
Dividend income from available-for-sale investment in Capital Power	10	-
Equity share of income of Capital Power (note 15)	5	15
Gain on dilution of equity interest in Capital Power (note 15)	-	8
Income before income taxes	263	189
Income tax recovery (expense) (note 8)	(3)	2
Net income for the year – all attributable to the Owner of the Company	260	191
Other comprehensive income (loss):		
Item that will not be reclassified to net income:		
Re-measurements of net defined benefit plans[1]	2	(7)
Items that may subsequently be reclassified to net income:		
Equity share of other comprehensive income of Capital Power[2] (note 15)	2	8
Equity share of other comprehensive income of Capital Power realized in net income[3] (note 15)	(9)	-
Fair value loss on available-for-sale investment in Capital Power (note 15)	(60)	-
Impairment of available-for-sale investment in Capital Power reclassified to net income (note 15)	60	-
Unrealized gain on foreign currency translation	61	27
	54	35
	56	28
Comprehensive income for the year - all attributable to the Owner of the Company	$ 316	$ 219

1 For the years ended December 31, 2015 and 2014, net of income tax recovery of nil and $2 million, respectively.

2 For the years ended December 31, 2015 and 2014, net of income tax expense of nil and $2 million, respectively.

3 For the years ended December 31, 2015 and 2014, net of reclassification of income tax expense of $2 million and nil, respectively.

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

EPCOR UTILITIES INC.

Consolidated Statements of Financial Position
(In millions of Canadian dollars)

December 31, 2015 and 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents (note 9)	$ 36	$ 37
Trade and other receivables (note 10)	620	333
Inventories (note 11)	15	14
	671	384
Non-current assets:		
Finance lease receivables (note 12)	1	118
Other financial assets (note 13)	316	408
Deferred tax assets (note 14)	77	69
Investment in Capital Power (note 15)	-	393
Available-for-sale investment in Capital Power (note 15)	167	-
Property, plant and equipment (note 16)	4,568	4,112
Intangible assets and goodwill (note 17)	288	254
	5,417	5,354
TOTAL ASSETS	$ 6,088	$ 5,738
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables (note 18)	$ 259	$ 248
Loans and borrowings (note 19)	242	117
Deferred revenue (note 20)	32	23
Provisions (note 21)	37	38
Derivatives (note 22)	2	3
Other liabilities (note 23)	27	25
	599	454
Non-current liabilities:		
Loans and borrowings (note 19)	1,875	1,963
Deferred revenue (note 20)	920	847
Deferred tax liabilities (note 14)	35	19
Provisions (note 21)	123	97
Derivatives (note 22)	10	6
Other liabilities (note 23)	11	12
	2,974	2,944
Total liabilities	3,573	3,398
Equity attributable to the Owner of the Company:		
Share capital (note 24)	24	24
Accumulated other comprehensive income (note 25)	97	41
Retained earnings	2,394	2,275
Total equity	2,515	2,340
TOTAL LIABILITIES AND EQUITY	$ 6,088	$ 5,738

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

EPCOR UTILITIES INC.

Consolidated Statements of Changes in Equity
(In millions of Canadian dollars)

December 31, 2015 and 2014

		Accumulated other comprehensive income (loss)						
	Share capital (note 24)	Cash flow hedges (note 25)	Available-for-sale financial assets (note 25)	Cumulative translation account (note 25)	Employee benefits account (note 25)	Investment in Capital Power (note 25)	Retained earnings	Equity attributable to the Owner of the Company
Equity at December 31, 2014	$ 24	$ (5)	$ 1	$ 44	$ (11)	$ 12	$ 2,275	$ 2,340
Net income for the year	-	-	-	-	-	-	260	260
Other comprehensive income (loss):								
Re-measurements of net defined benefit plans	-	-	-	-	2	-	-	2
Equity share of other comprehensive income of Capital Power	-	-	-	-	-	2	-	2
Equity share of other comprehensive income of Capital Power realized in net income	-	5	-	-	-	(14)	-	(9)
Fair value loss on available-for-sale investment in Capital Power	-	-	(60)	-	-	-	-	(60)
Impairment of available-for-sale investment in Capital Power reclassified to net income	-	-	60	-	-	-	-	60
Unrealized gain on foreign subsidiary	-	-	-	61	-	-	-	61
Total comprehensive income (loss)	-	5	-	61	2	(12)	260	316
Dividends	-	-	-	-	-	-	(141)	(141)
Equity at December 31, 2015	$ 24	$ -	$ 1	$ 105	$ (9)	$ -	$ 2,394	$ 2,515

		Accumulated other comprehensive income (loss)						
	Share capital (note 24)	Cash flow hedges (note 25)	Available-for-sale financial assets (note 25)	Cumulative translation account (note 25)	Employee benefits account (note 25)	Investment in Capital Power (note 25)	Retained earnings	Equity attributable to the Owner of the Company
Equity at December 31, 2013	$ 24	$ (5)	$ 1	$ 17	$ (4)	$ 4	$ 2,225	$ 2,262
Net income for the year	-	-	-	-	-	-	191	191
Other comprehensive income (loss):								
Re-measurements of net defined benefit plans	-	-	-	-	(7)	-	-	(7)
Equity share of other comprehensive income of Capital Power	-	-	-	-	-	8	-	8
Unrealized gain on foreign subsidiary	-	-	-	27	-	-	-	27
Total comprehensive income (loss)	-	-	-	27	(7)	8	191	219
Dividends	-	-	-	-	-	-	(141)	(141)
Equity at December 31, 2014	$ 24	$ (5)	$ 1	$ 44	$ (11)	$ 12	$ 2,275	$ 2,340

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

EPCOR UTILITIES INC.

Consolidated Statements of Cash Flows
(In millions of Canadian dollars)

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from (used in) operating activities:		
Net income for the year	$ 260	$ 191
Reconciliation of net income for the year to cash from (used in) operating activities:		
Interest paid	(120)	(118)
Finance expenses (note 7)	117	119
Income taxes recovered (paid)	1	(9)
Income tax expense (recovery) (note 8)	3	(2)
Depreciation and amortization (note 6)	178	159
Change in employee benefits provisions	(3)	12
Contributions received (note 20)	30	23
Deferred revenue recognized (note 20)	(24)	(23)
Fair value change on derivative instruments (note 22)	3	8
Gain on dilution of equity interest in Capital Power (note 15)	-	(8)
Gains on equity investment in Capital Power (note 15)	(60)	-
Impairment of available-for-sale investment in Capital Power (note 15)	60	-
Equity share of income from Capital Power (note 15)	(5)	(15)
Dividend income from available-for-sale investment in Capital Power (note 15)	(10)	-
Other	5	-
Funds from operations	435	337
Change in non-cash operating working capital (note 26)	(19)	17
Net cash flows from operating activities	416	354
Cash flows from (used in) investing activities:		
Acquisition or construction of property, plant and equipment and other assets[1]	(463)	(385)
Proceeds on disposal of property, plant and equipment	24	2
Change in non-cash investing working capital (note 26)	3	(2)
Advances on finance lease receivables and other financial assets	(55)	(23)
Payment of Gold Bar transfer fees	(1)	(6)
Net proceeds on sale of a portion of investment in Capital Power	216	-
Distributions received from Capital Power	19	24
Net cash flows used in investing activities	(257)	(390)
Cash flows from (used in) financing activities:		
Proceeds from issuance (repayment) of short-term loans and borrowings	(5)	103
Repayment of long-term loans and borrowings	(10)	(16)
Provisions	(4)	(3)
Dividends paid	(141)	(141)
Net cash flows used in financing activities	(160)	(57)
Decrease in cash and cash equivalents	(1)	(93)
Cash and cash equivalents, beginning of year	37	130
Cash and cash equivalents, end of year	$ 36	$ 37

[1] Interest payment of $6 million (2014 – $5 million) is included in acquisition or construction of property, plant and equipment and other assets.

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

1. Nature of operations

EPCOR Utilities Inc. (the Company or EPCOR) builds, owns and operates electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure, and provides electricity and water services and products to residential and commercial customers.

The Company operates in Canada and the United States (U.S.) with its registered head office located at 2000, 10423 - 101 Street NW, Edmonton, Alberta, Canada, T5H 0E8.

The common shares of EPCOR are owned by The City of Edmonton (the City). The Company was established by Edmonton City Council under City Bylaw 11071.

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 3, 2016.

(b) Basis of measurement

The Company's consolidated financial statements are prepared on the historical cost basis, except for its beneficial interest in the sinking fund held with the City, available-for-sale investment in Capital Power and its derivative financial instruments, which are measured at fair value.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements unless otherwise indicated.

(a) Basis of consolidation

These consolidated financial statements include the accounts of EPCOR, its wholly owned subsidiaries and joint arrangements at December 31, 2015. Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from the performance of the entity and has the ability to affect those returns through its control over the entity. Subsidiaries are fully consolidated from the date on which EPCOR obtains control, and continue to be consolidated until the date that such control ceases to exist. All intercompany balances and transactions have been eliminated on consolidation. Unrealized gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Company’s interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. The financial statements of the subsidiaries are prepared for the same reporting period as EPCOR, using consistent accounting policies.

(b) Changes in significant accounting policies

The Company adopted amendments to various accounting standards effective January 1, 2015, that did not have a significant impact on these financial statements.

(c) Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition in exchange for control of the acquired business. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognized in net income. Transaction costs that the Company incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted for within equity. Subsequent changes in the fair value of the contingent consideration are recognized in net income.

Goodwill is initially recorded at the consideration paid at acquisition less the fair value of the net assets of the consolidated business acquired. Subsequently, goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the carrying amount may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit to which goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognized.

(d) Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company for the provision of goods or services and where the revenue can be reliably measured. Revenues are measured at the fair value of the consideration received or to be received, excluding discounts, rebates and sales taxes or duty.

Certain water services contracts contain multiple-deliverables arrangements. Each deliverable that is considered to be a separate unit of account is accounted for individually. Significant judgment is required to determine an appropriate allocation of the total contract value to each unit of account based on the relative fair values of each unit. If the fair value of the delivered item is not reliably measurable, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered units of account. The primary identifiable deliverables under such contracts are plant construction and project upgrades and expansions, financing or leasing of upgrades, facilities operations and maintenance.

The Company’s principal sources of revenue and recognition of these revenues for financial statement purposes are as follows:

Sale of goods

Revenues from sales of electricity and water are recognized upon delivery. These revenues include an estimate of the value of electricity and water consumed by customers billed subsequent to the reporting period.

Revenues from the sale of other goods are recognized when the products have been delivered and collectability is reasonably assured.

Provision of services

Revenues from the provision of electricity distribution and transmission services and wastewater treatment services are recognized over the period in which the service is performed and collectability is reasonably assured. Revenues from the provision of other services are recognized when the services have been rendered and collectability is reasonably assured.

Construction contracts

Contract revenue from the construction of water and wastewater treatment plants and other project upgrades and expansions provided to customers is recognized in profit or loss on the percentage of completion basis when the projected final cost of a construction contract can be reliably estimated. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be reliably measured. Percentage of completion is estimated based on an assessment of progress towards the completion of contract tasks. These estimates may result in the recognition of unbilled receivables when the revenues are earned prior to billing customers. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as deferred revenue in the statement of financial position. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

Provisions for estimated losses on uncompleted contracts are made for the full amount of the projected loss in the period in which the losses are identified. Revenues and costs related to variations are included in the total estimated contract revenue and expenses when it is probable that the customer will approve the variation and the amount of revenue arising from the variation can be reliably measured.

Revenues earned under finance leases

Finance income earned from arrangements where the Company leases water and wastewater assets to customers are accounted for as finance leases, as described in note 3(h).

Interest income

Revenue from the financing of project upgrades and expansions is recognized over the term of each contract using the effective interest method based on the fair value of the loan calculated at inception for each contract.

Interest income related to the loans receivable from Capital Power are recognized over the terms of the loans based on the interest rate applicable to each loan.

(e) Income taxes

Under the Income Tax Act (Canada) (ITA), a municipally owned corporation is subject to income tax on its taxable income if the income from activities for any relevant period that was earned outside the geographical boundaries of the municipality exceeds 10% of the corporation's total income for that period. As a result of these and other provisions, certain Canadian subsidiaries of the Company are taxable under the ITA and provincial income tax acts. The U.S. subsidiaries are subject to income taxes pursuant to U.S. federal and state income tax laws.

Current income taxes for the current or prior periods are measured at the amount expected to be recovered from or payable to the taxation authorities based on the tax rates that are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted rates of tax expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the date of enactment or substantive enactment. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates and interests in joint arrangements except where the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries and interests in joint ventures are only recognized to the extent that the temporary difference will reverse in the foreseeable future and the Company judges that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill arising from a business combination or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting income.

Current and deferred taxes are recognized in profit or loss, except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

(f) Cash and cash equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Inventories

Small parts and other consumables, the majority of which are consumed by the Company in the provision of its goods and services, are valued at the lower of cost and net realizable value. Cost includes the purchase price, transportation costs and other costs to bring the inventories to their present location and condition. The costs of inventory items that are interchangeable are determined on an average cost basis. For inventory items that are not interchangeable, cost is assigned using specific identification of their individual costs. Previous write downs of inventories from cost to net realizable value can be fully or partially reversed if supported by economic circumstances. The Company estimates the value of inventory that is expected to be used in the construction of property, plant and equipment (PP&E) and reports this value as construction work in progress under PP&E. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Lease arrangements

At the inception of an arrangement entered into for the use of PP&E, the Company determines whether such an arrangement is, or contains, a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of the specific asset and the arrangement conveys a right to use the asset. An arrangement conveys the right to use the asset if the right to control the use of the underlying asset is transferred. Where it is determined that the arrangement contains a lease, the Company classifies the lease as either a finance or operating lease dependent on whether substantially all the risks or rewards of ownership of the asset have been transferred.

Where the Company is the lessor, finance income related to leases or arrangements accounted for as finance leases is recognized in a manner that produces a constant rate of return on the net investment in the lease. The net investment in the lease is the aggregate of net minimum lease payments and unearned finance income discounted at the interest rate implicit in the lease. Unearned finance income is deferred and recognized in net income over the lease term.

Where the Company is the lessee, leases or other arrangements that transfer substantially all of the benefits and risks of ownership of property to the Company are classified as finance leases. All other arrangements that are determined to contain a lease are classified as operating leases. Rental payments under arrangements classified as operating leases are expensed on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(i) Investment in Capital Power

In these consolidated financial statements, Capital Power refers to Capital Power Corporation and its subsidiaries, including Capital Power L.P., except where otherwise noted or the context indicates otherwise.

Prior to April 2, 2015, the Company held 18.8 million exchangeable limited partnership units of Capital Power L.P. (exchangeable for common shares of Capital Power Corporation on a one-for-one basis) representing an 18% interest in Capital Power. Each exchangeable limited partnership unit was accompanied by a special voting share in Capital Power Corporation which entitled the holder to a vote at Capital Power Corporation shareholder meetings, subject to the restriction that such special voting shares must at all times represent not more than 49% of the votes attached to all Capital Power Corporation common shares and special voting shares, taken together. The special voting shares also entitled EPCOR, voting separately as a class, to nominate and elect a maximum of two directors, and reduced to no directors when ownership fell below 10%. A key judgment in determining the appropriate accounting treatment for the investment in Capital Power was that EPCOR exercised significant influence over Capital Power as it was entitled to nominate a certain number of directors of Capital Power Corporation but did not control Capital Power's operations as it did not have the power to direct the activities of Capital Power. Accordingly, EPCOR applied the equity method to account for its investment in Capital Power prior to April 2, 2015.

On April 2, 2015, EPCOR exchanged 9,450,000 limited partnership units for an equal number of common shares of Capital Power Corporation which were immediately sold through secondary offering. In addition, EPCOR also exchanged all of its remaining 9,391,000 exchangeable limited partnership units for common shares of Capital Power Corporation and forfeited the attached special voting rights as well as right to appoint directors of Capital Power Corporation. Immediately following the completion of the offering, EPCOR directly owned 9% of Capital Power Corporation and accordingly, the Company no longer exerted significant influence over Capital Power and has reclassified its remaining investment in Capital Power as an available-for-sale asset.

The Company applies judgment at each reporting date to determine whether there is objective evidence that the investment in Capital Power is impaired. Previously, when Capital Power was accounted for as equity investment, impairment was being recorded when the carrying amount of its investment in Capital Power exceeded its estimated recoverable amount. The recoverable amount was being determined as the higher of the investment’s fair value less costs to sell the investment, and its value in use.

Subsequent to reclassification of the investment in Capital Power as available-for-sale asset, evidence of impairment is deemed to exist when there is a significant or prolonged decline in the fair value of the investment below its value on initial recognition as available-for-sale. If objective evidence of impairment exists, any impaired amount previously recorded as an unrealized loss in accumulated other comprehensive income is reclassified in net income. Any subsequent increase in the fair value is recognized in other comprehensive income and the impairment is not reversed.

The fair value of the investment is based on the market price of Capital Power Corporation common shares (CPX) traded on the Toronto Stock Exchange. The value in use of an asset is the present value of estimated future cash flows, applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(j) Property, plant and equipment

PP&E are recorded at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Cost includes contracted services, materials, direct labor, directly attributable overhead costs, borrowing costs on qualifying assets and decommissioning costs. Where parts of an item of PP&E have different estimated economic useful lives, they are accounted for as separate items (major components) of PP&E.

The cost of major inspections and maintenance is recognized in the carrying amount of the item if the asset recognition criteria are satisfied. The carrying amount of a replaced part is derecognized. The costs of day-to-day servicing are expensed as incurred.

Depreciation of cost less residual value is charged on a straight-line basis over the estimated economic useful lives of items of each depreciable component of PP&E, from the date they are available for use, as this most closely reflects the expected usage of the assets. Land and construction work in progress are not depreciated. Estimating the appropriate economic useful lives of assets requires significant judgment and is generally based on estimates of life characteristics of similar assets. The estimated economic useful lives, methods of depreciation and residual values are reviewed annually with any changes adopted on a prospective basis.

The ranges of estimated economic useful lives for PP&E assets used are as follows:

Water and wastewater treatment and distribution	3 – 95 years
Electricity transmission and distribution	3 – 65 years
Retail systems and equipment	4 – 20 years
Corporate information systems and equipment	2 – 20 years
Leasehold improvements	5 – 25 years

Gains and losses on the disposal of PP&E are determined as the difference between the net disposal proceeds and the carrying amount at the date of disposal. The gains or losses are included within depreciation and amortization.

(k) Capitalized borrowing costs

The Company capitalizes interest during construction of a qualifying asset using the weighted average cost of debt incurred on the Company's external borrowings or specific borrowings used to finance qualifying assets. Qualifying assets are considered to be those that take a substantial period of time to construct.

(l) Intangible assets

Intangible assets with finite lives are stated at cost, net of accumulated amortization and impairment losses, if any. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair value.

Customer rights represent the costs to acquire the rights to provide electricity services to particular customer groups for a finite period of time. Customer rights are recorded at cost at the date of acquisition. A subsequent expenditure is capitalized only when it increases the future economic benefit in the specific asset to which it relates.

Other rights represent the costs to acquire the rights, for finite periods of time, to access electricity delivery corridors, to the supply of water, to provide sewage treatment and transportation services, to withdraw groundwater and to the supply of potable water for emergency and peak purposes.

The cost of intangible software includes the cost of license acquisitions, contracted services, materials, direct labor, along with directly attributable overhead costs and borrowing costs on qualifying assets.

Amortization of the cost of finite life intangible assets is recognized on a straight-line basis over the estimated economic useful lives of the assets, from the date they are available for use, as this most closely reflects the expected usage of the asset. Work in progress is not amortized. The estimated economic useful lives and methods of amortization are reviewed annually with any changes adopted on a prospective basis.

The estimated economic useful lives for intangible assets with finite lives are as follows:

Customer rights	20 years
Software	2 – 20 years
Other rights	50 years
Water rights	100 years

Certificates of convenience and necessity (CCN) represent the costs to acquire the exclusive rights for the Company to serve within its specified geographic areas in the U.S. for an indefinite period of time. CCN are not amortized but are subject to review for impairment at the end of each reporting period.

Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount at the date of disposal. The gains or losses are included within depreciation and amortization.

(m) Service concession arrangements

Service concession arrangements are contracts between the Company and government entities and can involve the design, build, finance, operate and maintenance of public infrastructure in which the government entity controls (i) the services provided by the Company and (ii) significant residual interest in the infrastructure. Service concession arrangements are classified in one of the following categories:

(i) financial asset
The Company recognizes a financial asset arising from service concession arrangement when it has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement. The financial asset is measured at the fair value of consideration received or receivable. When the Company delivers more than one category of activities in a service concession arrangement, the consideration received or receivable is allocated by reference to the relative fair value of the activity, when amounts are separately identifiable.

(ii) intangible asset
The Company recognizes an intangible asset arising from service concession arrangement when it has a right to charge for usage of the public infrastructure. The intangible asset, recognized as consideration for providing construction or upgrade services under a service concession arrangement, is measured at fair value upon initial recognition. Subsequent to initial recognition, the intangible asset is measured at cost less accumulated amortization and impairment losses, if any.

Revenue under the service concession arrangements is recognized as per the revenue recognition policy of the Company described in note 3(d) by reference to each activity when the amount of revenue is separately identifiable.

The accounting for investment in contracts with government entities requires the application of judgment in determining if they fall within the scope of IFRIC 12 – Service Concession Arrangements (IFRIC 12). Additional judgment also needs to be exercised when determining, among other things, the classification to be applied to the service concession asset (i.e. financial asset or intangible asset), allocation of consideration between revenue generating activities, classification of cost incurred on such concessions and the effective interest rate to be applied to the service concession asset. Contracts falling under IFRIC 12 require use of estimates over the term of the arrangement, and therefore any change in the long term estimates could result in significant variation in the amounts recognized under service concession arrangements.

(n) Deferred revenue

Certain assets may be acquired or constructed using non-repayable government grants or contributions from developers or customers. Non-refundable contributions received towards construction or acquisition of an item of PP&E which are used to provide ongoing service to a customer are recorded as deferred revenue and are amortized on a straight line basis over the estimated economic useful lives of the assets to which they relate.

(o) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as a financing expense over the estimated time period until settlement of the obligation.

The Company recognizes a decommissioning provision in the period in which a legal or constructive obligation is incurred. A corresponding asset for the decommissioning cost is added to the carrying amount of the associated PP&E, and is depreciated over the estimated useful life of the asset.

The Company may receive contributions from customers, homebuilders, real estate developers, and others to fund construction necessary to extend service to new areas. Certain of these contributions may be refunded for a limited period of time as new customers begin to receive service or other contractual obligations are fulfilled. The portion of contributions which are estimated to be refunded in the future are recorded as provisions. The remaining contributions are classified as deferred revenue.

(p) Employee benefits

The employees of the Company are either members of the Local Authorities Pension Plan (LAPP) or other defined benefit or defined contribution pension plans.

The LAPP is a multi-employer defined benefit pension plan. The trustee of the plan is the Alberta President of Treasury Board and Minister of Finance and the plan is administered by a Board of Trustees. The Company and its employees make contributions to the plan at rates prescribed by the Board of Trustees to cover costs and an unfunded liability under the plan. The rates are based on a percentage of the pensionable salary. The most recent actuarial report of the plan discloses an unfunded liability. It is accounted for as a defined contribution plan as the LAPP is not able to provide information which reflects EPCOR's specific share of the defined benefit obligation or plan assets that would enable the Company to account for the plan as a defined benefit plan. Accordingly, the Company does not recognize its share of any plan surplus or deficit.

The Company maintains additional defined contribution and defined benefit pension plans to provide pension benefits to those employees who are not otherwise served by the LAPP, including employees of new or acquired operations. Employees participating in such defined benefit and contribution plans comprise less than 17% of total employees (2014 – 16%).

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability for short-term employee benefits is recognized for the amount expected to be paid if the Company has a legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Company recognizes the contribution payable to a defined contribution plan as an expense and a liability in the period during which the service is rendered.

(q) Derivative financial instruments

The Company uses various risk management techniques to reduce its exposure to movements in electricity prices, interest rates and foreign currency exchange rates. These include the use of derivative financial instruments such as forward contracts or contracts-for-differences and interest rate swaps. Such instruments may be used to establish a fixed price for electricity, fixed interest rates for borrowings or anticipated transactions denominated in a foreign currency. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

The Company sells electricity to customers under a Regulated Rate Tariff (RRT). As part of the RRT, the amount of electricity to be economically hedged, the hedging method and the electricity selling prices to be charged to these customers is determined by a regulatory approved Energy Price Setting Plan (EPSP). Under the EPSP, the Company manages its exposure to fluctuating wholesale electricity spot prices by entering into financial electricity purchase contracts up to 120 days in advance of the month of consumption in order to economically hedge the price of electricity under a well-defined risk management process set out in the EPSP. Under these instruments, the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the Alberta Electric System Operator (AESO) market price and the fixed contract price for a specified volume of electricity for the forward months, all in accordance with the EPSP. The Company may enter into additional financial electricity purchase contracts outside the EPSP to further economically hedge the price of electricity.

Interest rates swaps are used by the Company to manage interest rate risks associated with long-term loans and borrowings and result in securing fixed interest rates over the term of the loans and borrowings against the floating interest rate.

Foreign exchange forward contracts may be used by the Company to manage foreign exchange exposures, consisting mainly of U.S. dollar exposures, resulting from anticipated transactions denominated in foreign currencies.

All derivative financial instruments are recorded at fair value as derivative assets or derivative liabilities on the statement of financial position, to the extent they have not been settled, with all changes in the fair value of derivatives recorded in net income. At initial recognition, attributable transaction costs are recognized in net income.

The fair value of derivative financial instruments reflects changes in the electricity prices, interest rate and foreign exchange rates. Fair value is determined based on exchange or over-the-counter price quotations by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data, such as forward prices, interest rates, foreign exchange rates and discount rates for time value. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

(r) Non-derivative financial instruments

Financial assets are identified and classified as one of the following: measured at fair value through profit or loss, loans and receivables, or available-for-sale financial assets. Financial assets are measured at fair value through profit or loss if classified as held for trading or designated as such upon initial recognition. Financial liabilities are classified as measured at fair value through profit or loss or as other liabilities.

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

Financial instruments at fair value through profit or loss

The Company may designate financial instruments as measured at fair value through profit or loss when such financial instruments have a reliably determinable fair value and where doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognizing gains and losses on them on a different basis.

Upon initial recognition, directly attributable transaction costs are recognized in net income as incurred. Changes in fair value of financial assets measured at fair value through profit or loss are recognized in net income.

Loans and receivables

Cash and cash equivalents, trade and other receivables, and other financial assets are classified as loans and receivables.

The Company's loans and receivables are recognized initially at fair value plus directly attributable transaction costs, if any. After initial recognition, they are measured at amortized cost using the effective interest method less any impairment as described in note 3(s). The effective interest method calculates the amortized cost of a financial asset or liability and allocates the finance income or expense over the term of the financial asset or liability using an effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period when appropriate, to the net carrying amount of the financial asset or financial liability.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in other categories. These assets are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value with unrealized gains and losses, other than impairment losses, recognized in other comprehensive income and presented within equity in the fair value reserve. On derecognition of an available-for-sale financial asset, the cumulative gain or loss that was previously held in equity is transferred to net income.

The Company's beneficial interest in the sinking fund with the City and available-for-sale investment in Capital Power do not meet the criteria for classification in any of the previous categories and are classified as available-for-sale financial assets and measured at fair value with changes in fair value reported in other comprehensive income until it is disposed of or becomes impaired, as described in note 3(s).

Other liabilities

The Company’s trade and other payables, loans and borrowings and other liabilities are recognized on the date at which the Company becomes a party to the contractual arrangement. Other liabilities are derecognized when the contractual obligations are discharged, cancelled or expire.

Other liabilities are recognized initially at fair value including debenture 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.

(s) Impairment of financial assets

The Company's financial assets held as loans and receivables or available-for-sale assets are assessed for indicators of impairment at each reporting date. An impairment loss for financial assets is recorded when it is identified that there is objective evidence that one or more events has occurred, after the initial recognition of the asset, that has had a negative impact on the estimated future cash flows of the asset and that can be reliably estimated. The objective evidence for these types of assets is as follows:

(i) For listed and unlisted investments in equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment. Impairment losses recognized are not reversed in subsequent periods.

(ii) For all other financial assets, including finance lease receivables, objective evidence of impairment includes significant financial difficulty of the counterparty or default or delinquency in interest or principal payments.

(iii) Trade receivables and other assets that are not assessed for impairment individually are assessed for impairment on a collective basis. Objective evidence of impairment includes the Company's past experience of collecting payments as well as observable changes in national or local economic conditions.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is adjusted within net income.

(t) Impairment of non-financial assets

The carrying amounts of the Company’s non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. Non-financial assets include PP&E, intangible assets and goodwill. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or CGU). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Company’s corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a fundamental change, since the date of impairment, which may improve the financial performance of the non-financial asset. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(u) Foreign currency transactions and translation

Foreign currency transactions

Transactions denominated in currencies other than the Canadian dollar are translated at exchange rates in effect at the transaction date. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the end of the reporting period. Other non-monetary assets and liabilities are not re-translated unless they are carried at fair value. Revenues and expenses are translated at average exchange rates prevailing during the period. The resulting foreign exchange gains and losses are included in net income.

Foreign operations

On consolidation, the assets and liabilities of foreign operations that have a functional currency other than Canadian dollars are translated into Canadian dollars at the exchange rates in effect at the end of the reporting period. Revenues and expenses are translated at average exchange rates prevailing during the period. The resulting translation gains and losses are deferred and included in the cumulative translation account in accumulated other comprehensive income. The functional currency of the Company's U.S. operations is the U.S. dollar.

(v) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Transactions between segments are made under terms that approximate market value. The accounting policies of the segments are the same as those described in note 3 and other relevant notes and are measured in a manner consistent with that of the consolidated financial statements. All operating segments' results are reviewed regularly by the Company's management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to management include items directly attributable to a segment as well as those that can be allocated on a reasonable and consistent basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire or construct PP&E and intangible assets other than goodwill.

The Canadian and U.S. water operating segments are aggregated as one reportable segment since both operating segments offer similar water and wastewater services, the processes to treat water and wastewater are similar in both operating segments, the customer bases for each operating segment are similar, and both segments operate under similar rate-regulations.

(w) Standards and interpretations not yet applied

A number of new standards, amendments to standards and interpretations were issued by the IASB and the International Financial Reporting Interpretations Committee for application beginning on or after January 1, 2016. Those which may be relevant to the Company and may impact the accounting policies of the Company are set out below. The Company does not plan to adopt these standards early. The extent of the impact of adoption of the standards has not yet been determined.

IFRS 9 – Financial Instruments (IFRS 9), which replaces IAS 39 – Financial Instruments: Recognition and Measurement, eliminates the existing classification of financial assets and requires financial assets to be measured based on the business model in which they are held and the characteristics of their contractual cash flows. Gains and losses on re-measurement of financial assets at fair value will be recognized in profit or loss, except for an investment in an equity instrument which is not held-for-trading. Changes in fair value attributable to changes in credit risk of financial liabilities measured under the fair value option will be recognized in other comprehensive income with the remainder of the change recognized in profit or loss unless an accounting mismatch in profit or loss occurs at which time the entire change in fair value will be recognized in profit or loss. Derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument must be measured at fair value. The impairment model has also been amended by introducing a new 'expected credit loss' model for calculating impairment, and new general hedge accounting requirements. The effective date for implementation of IFRS 9 has been set for annual periods beginning on or after January 1, 2018.

IFRS 15 - Revenue from Contracts with Customers (IFRS 15), which replaces IAS 11 - Construction Contracts and IAS 18 - Revenue and related interpretations is effective for annual periods commencing on or after January 1, 2018. IFRS 15 introduces a new single revenue recognition model for contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and / or timing of revenue recognized. The requirements of the standard also apply to the recognition and measurement of gains and losses on sale of some non-financial assets that are not part of the entity's ordinary activities.

IFRS 16 – Leases (IFRS 16) which replaces IAS 17 – Leases (IAS 17), is effective for annual periods commencing on or after January 1, 2019. IFRS 16 combines the existing dual model of operating and finance leases in IAS 17 into a single lessee model. This requires a lessee to recognize assets and liabilities for the rights and obligations created by the lease. It would also cause expenses to be higher at the beginning of a lease and lower towards the end of a lease, even when payments are consistent. A lessee would recognize assets and liabilities for leases of more than twelve months. A lessee with leases less than twelve months would not recognize assets and liabilities, and expense payments over the term of the lease agreement.

4. Use of judgments and estimates

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make judgments in the application of accounting policies, and estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements.

(a) Judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are included in notes:

Note 3(d) – Revenue recognition
Note 3(i) – Investment in Capital Power
Note 3(m) – Service concession arrangements
Note 3(v) – Segment reporting

(b) Estimates

The Company reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgment in making these estimates and assumptions. Adjustments to previous estimates, which may be material, are recorded in the period in which they become known. Actual results may differ from these estimates.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Assumptions and uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include:

Revenues

By regulation, electricity wire service providers in Alberta have four months to submit the final electricity load settlement data after the month in which such electricity was consumed. The data and associated processes and systems used by the Company to estimate electricity revenues and costs, including unbilled consumption, are complex. The Company's estimation procedures will not necessarily detect errors in underlying data provided by industry participants including wire service providers and load settlement agents.

Fair value measurement

For accounting measures such as determining asset impairments, purchase price allocations for business combinations, recording financial assets and liabilities, recording and disclosure of certain non-financial assets, the Company is required to estimate the fair value of certain assets or obligations. Estimates of fair value may be based on readily determinable market values or on depreciable replacement cost or discounted cash flow techniques employing estimated future cash flows based on a number of assumptions and using an appropriate discount rate. Financial instruments that are not classified as loans and receivables are recorded at fair value, which may require the use of estimated future prices.

Deferred taxes

Significant estimation and judgment is required in determining the provision for income taxes. Recognition of deferred tax assets in respect of deductible temporary differences and unused tax losses and credits is based on management's estimation of future taxable profit against which the deductible temporary differences and unused tax losses and credits can be utilized. The actual utilization of these deductible temporary differences and unused tax losses and credits may vary materially from the amounts estimated.

5. Revenues and other income

	2015	2014
Revenue		
Energy and water sales	$ 1,307	$ 1,326
Provision of services	573	510
Construction revenues	102	53
Finance lease income	14	15
	1,996	1,904
Other income		
Interest income on long-term receivable from Capital Power	21	22
Other	1	1
	22	23
	$ 2,018	$ 1,927

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

6. Expense analysis

	2015	2014
Included in staff costs and employee benefits expenses		
Post-employment defined contribution plan expense	$ 36	$ 32
Post-employment defined benefit plan expense	5	4
Included in depreciation and amortization		
Depreciation of property, plant and equipment	152	134
Amortization of intangible assets	18	17
Loss on disposal of assets	8	8
	178	159
Included in other administrative expenses		
Operating lease expenses	15	15
Lease recoveries through sub-lease	(5)	(6)

7. Finance expenses

	2015	2014
Interest on loans and borrowings	$ 123	$ 124
Capitalized interest (note 16)	(6)	(5)
	$ 117	$ 119

8. Income tax recovery (expense)

	2015	2014
Current income tax recovery (expense)	$ 1	$ (7)
Deferred income tax recovery (expense)		
Relating to origination and reversal of temporary differences	(25)	1
Change in tax rates	13	-
Recognition of previously unrecognized deferred tax assets	8	8
	(4)	9
Total income tax recovery (expense)	$ (3)	$ 2

Income taxes differ from the amounts that would be computed by applying the federal and provincial income tax rates as follows:

	2015	2014
Income before taxation	$ 263	$ 189
Income tax at the statutory rate of 26% (2014 – 25%)	(68)	(47)
(Increase) decrease resulting from:		
Income exempt from income taxes at statutory rates	53	42
Non-taxable amounts	2	-
Recognition of deferred tax assets	(1)	10
Change in tax rates on deferred taxes	13	-
Effect of higher tax rate in the U.S.	(1)	(3)
Other	(1)	-
Total income tax recovery (expense)	$ (3)	$ 2

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

During the year, the Government of Alberta increased the provincial corporate tax rate from 10% to 12% effective July 1, 2015. Accordingly, the change in provincial corporate tax rate has increased the Company's tax rate for the year ended December 31, 2015, to 26% and for the years 2016 onward to 27%.

9. Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit with various financial institutions.

Restricted balances

Under certain agreements between the Company and the Natural Gas Exchange (NGX) for the purchase of electricity derivative financial instruments, the Company established separate bank accounts through which the settlement of the electricity derivative financial contracts are processed in conjunction with letters of credit and cash as collateral. As security for the payment and performance of its obligations, the Company assigned a first ranking security interest on the balance of these accounts to the NGX. The Company's use of this cash is restricted to these purposes. At December 31, 2015, $3 million (2014 – $17 million) was held in these bank accounts.

10. Trade and other receivables

	2015	2014
Trade receivables	$ 216	$ 203
Accrued revenues	120	111
Gross accounts receivable	336	314
Allowance for doubtful accounts	(3)	(3)
Net accounts receivable	333	311
Income tax recoverable	2	2
Prepaid expenses	5	4
	340	317
Current portion of finance lease receivables (note 12)	103	4
Current portion of long-term receivables (note 13)	177	12
	$ 620	$ 333

Details of the aging of accounts receivable and analysis of the changes in the allowance for doubtful accounts are provided in note 29.

11. Inventories

During the year ended December 31, 2015, $23 million (2014 – $22 million) was expensed to other raw materials and operating charges.

No significant inventory write-downs were recognized in the years ended December 31, 2015 or 2014. No significant reversals of previous write-downs were recorded in the years ended December 31, 2015 or 2014.

At December 31, 2015 or 2014, no inventories were pledged as security for liabilities.

12. Leases

Finance lease receivables

In 2009, the Company acquired potable water and wastewater treatment plant assets for approximately $100 million and agreed to lease the assets back to Suncor for a 20-year term after which Suncor had the option to purchase the assets from the Company for a specified price. As part of the arrangement, the Company also agreed to construct additional water and wastewater treatment plant assets for Suncor and to operate and maintain the original assets acquired and leased back to Suncor and the additional constructed assets over the 20-year lease term.

In February 2015, Suncor gave notice to the Company that it will exercise its contractual rights to buy back the leased assets and terminate the related financing (note 13) and operating agreements. The transfer of assets and operations back to Suncor is to take place over an 18-month period. The first transfer of assets was completed in September 2015 and the remaining assets will be transferred by September 2016 unless otherwise agreed by the parties. Consequently, the Company has reclassified its finance lease receivables and other financial assets from Suncor under trade and other receivables (note 10). This is not expected to have any material impact on the Company or its operations.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Approximate future payments to the Company are as follows:

	Minimum lease receivable		Present value of minimum lease receivable	
	2015	2014	2015	2014
Within one year	$ 110	$ 15	$ 103	$ 4
Between one and five years	-	60	-	22
More than five years	1	145	1	96
Less: unearned finance income	(7)	(98)	-	-
	104	122	104	122
Less: current portion[1] (included in trade and other receivables) (note 10)	103	4	103	4
	$ 1	$ 118	$ 1	$ 118

1 Net of unearned finance income

Operating leases payable

The Company has entered into operating leases for premises.

In 2007, the Company entered into a long-term agreement to lease commercial space in a new office tower in Edmonton, Canada, primarily for its head office (head office lease). The agreement, which became effective in the fourth quarter of 2011, has an initial lease term of approximately 20 years, expiring on December 31, 2031, and provides for three successive five-year renewal options. The Company's annual lease commitments, net of annual payments to be paid to the Company by Capital Power and another company under the sub-leases receivable discussed below, under the terms of the lease are as follows:

	Minimum lease payable	
	2015	2014
January 1, 2016 through December 31, 2022	$ 6	$ 6
January 1, 2023 through December 31, 2023	7	7
January 1, 2024 through December 31, 2031	8	8

Approximate gross future payments under this and other operating leases payable for premises are as follows:

	Minimum lease payable	
	2015	2014
Within one year	$ 14	$ 15
Between one to five years	53	53
More than five years	131	143
	$ 198	$ 211

Operating lease receivable

The Company has sub-leased a portion of the space under its head office lease to Capital Power under the same terms and conditions as the Company's lease with its landlord.

Effective November 1, 2013, the Company also sub-leased a portion of the space under its head office lease to a third party. The term of the sub-lease to the third party expires on October 31, 2023 with two renewal options of four years each.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Approximate future payments to the Company under the sub-leases receivable are as follows:

	Minimum lease receivable	
	2015	2014
Within one year	$ 5	$ 5
Between one to five years	20	21
More than five years	48	53
	$ 73	$ 79

13. Other financial assets

	2015	2014
Long-term loans receivable from Capital Power	$ 323	$ 332
Long-term receivables from service concession arrangements	135	47
Loans and other long-term receivables	34	40
Other	1	1
	493	420
Less: current portion (included in trade and other receivables) (note 10)	177	12
	$ 316	$ 408

Long-term loans receivable from Capital Power

On July 9, 2009, EPCOR received $896 million in long-term loans receivable from Capital Power as part of the consideration on the sale of the power generation business. These loans effectively mirror certain long-term debt obligations of EPCOR. The interest rates on the long-term loans receivable range from 5.8% to 9.0% and the remaining balance to be repaid at various dates out to June 30, 2018 as follows:

	2015	2014
Within one year	$ 139	$ 9
Between one to five years	184	323
	$ 323	$ 332

Service concession arrangements

The Company has executed service concession arrangements to design, build, upgrade, finance, operate and maintain, under public private partnerships, wastewater treatment facilities with the City of Regina and water and wastewater treatment facilities with Her Majesty the Queen in Right of Alberta for Kananaskis Village. The consideration under the service concession arrangements constitute rights to a financial asset and have been classified as a financial asset and recorded as a long-term receivable under other financial assets. The significant terms of the arrangement are summarized below:

(a) **City of Regina**

EPCOR won a bid to design, build, finance, operate and maintain a new wastewater treatment facility in the city of Regina under a public private partnership, for which the contract was signed in July 2014. In August 2014, EPCOR took over the operations of the existing wastewater treatment plant in Regina. Construction on the new plant is in progress and is expected to be completed by December 2016. The contract includes operation of the new and existing facilities for a term of 30 years. Contracted undiscounted cash flows from this project are estimated to be $444 million. As of December 31, 2015, an amount of $129 million (2014 – $41 million) has been recorded as a financial asset which will be recovered along with financing cost at the interest rate established in the arrangement over the life of the arrangement.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

(b) **Kananaskis Village**

The Company won a bid to design, build, finance, upgrade, operate and maintain the water and wastewater treatment facility in Kananaskis Village in October 2012. The arrangement includes operation of the facilities for a term of 10 years after completion of construction. The construction of the new facility was completed in August 2014 following which the Company started operating and maintaining the facility. At December 31, 2015, an amount of $6 million (2014 – $6 million) recognized as a financial asset pertaining to Kananaskis Village will be recovered along with financing cost at the interest rate established in the arrangement over the life of the arrangement.

The aggregate amount of revenues and operating income relating to construction services for financial assets under service concession arrangements for the year ended December 31, 2015, is $89 million (2014 – $49 million) and $2 million (2014 – $1 million), respectively.

14. Deferred tax assets / liabilities

Deferred tax assets are attributable to the following:

	2015	2014
Losses carried forward	$ 78	$ 78
Investment in partnerships	5	-
Canadian resource expenditures	8	7
Provisions	8	-
Deferred revenue	106	78
Other items	-	12
Tax assets	205	175
Set off by tax liabilities	(128)	(106)
Net tax assets	$ 77	$ 69

Deferred tax liabilities are attributable to the following:

	2015	2014
Investment in partnerships	$ -	$ 4
Other financial assets	3	-
Intangible assets	12	8
Goodwill	5	3
Property, plant and equipment	142	103
Other items	1	7
Tax liabilities	163	125
Set off by tax assets	(128)	(106)
Net tax liabilities	$ 35	$ 19

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The changes in temporary differences during the years ended December 31, 2015 and 2014, were as follows:

	Balance, beginning of 2015	Recognized in net income	Recognized in other comprehensive income, net of re-classes to net income	Other	Balance, end of 2015
Losses carried forward	$ 78	$ (2)	$ -	$ 2	$ 78
Investment in partnerships	(4)	7	2	-	5
Canadian resource expenditures	7	1	-	-	8
Provisions	-	1	-	7	8
Deferred revenue	78	12	-	16	106
Other financial assets	-	-	-	(3)	(3)
Intangible assets	(8)	(2)	-	(2)	(12)
Goodwill	(3)	(1)	-	(1)	(5)
Property, plant and equipment	(103)	(18)	-	(21)	(142)
Other items	5	(2)	-	(4)	(1)
	$ 50	$ (4)	$ 2	$ (6)	$ 42

	Balance, beginning of 2014	Recognized in net income	Recognized in other comprehensive income, net of re-classes to net income	Other	Balance, end of 2014
Losses carried forward	$ 38	$ 39	$ -	$ 1	$ 78
Investment in partnerships	(2)	(4)	(2)	4	(4)
Canadian resource expenditures	5	2	-	-	7
Decommissioning provisions and assets	14	(14)	-	-	-
Deferred revenue	67	4	-	7	78
Intangible assets	(2)	(1)	-	(5)	(8)
Goodwill	(1)	(2)	-	-	(3)
Property, plant and equipment	(79)	(15)	-	(9)	(103)
Other items	1	-	2	2	5
	$ 41	$ 9	$ -	$ -	$ 50

The Company has the following deductible temporary differences for which no deferred tax assets have been recognized:

	2015	2014
Non-capital losses	$ 125	$ 137
Capital losses	265	339
Other deductible temporary differences	115	60

The Company also has taxable temporary differences of $155 million (2014 - $105 million), associated with investments in subsidiaries and partnerships, for which no deferred tax liability has been recognized. In addition, no deferred tax liability has been recognized in respect of unremitted earnings of subsidiaries as the Company is in a position to control the timing of the reversal of temporary difference and it is probable that such differences will not be reversed in the foreseeable future.

The non-capital losses expire between the years 2028 and 2035.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Deferred tax assets have been recognized to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilized. The Company has recognized deferred tax assets in the amount of $77 million (2014 – $69 million), the utilization of which is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. The recognition of these deferred tax assets is based on taxable income forecasts that incorporate existing circumstances that will result in positive taxable income against which non-capital loss carry-forwards can be utilized as well as management's intention to implement specific income tax planning strategies that will allow for the offset of remaining deductible temporary differences against future earnings of taxable entities within the consolidated group.

15. Investment in Capital Power

Capital Power builds, owns and operates power plants in North America and manages its related electricity and natural gas portfolios by undertaking trading and marketing activity. On December 31, 2014, the Company owned 18.8 million exchangeable limited partnership units of Capital Power L.P. (exchangeable for common shares of Capital Power Corporation on a one-for-one basis), representing an 18% economic interest in Capital Power. The investment in Capital Power represented an investment subject to significant influence and was accounted for using the equity method.

As per the terms of the partnership agreement with Capital Power, the income of the partnership is allocated to each partner, who was a partner during the year, based on the annual income of Capital Power L.P. and its percentage of distributions received in the year. In view of the above provision, the Company's share of income from Capital Power was calculated based on the annual income of Capital Power L.P. with corresponding adjustments made to amounts recognized during interim periods when annual income became available.

On April 2, 2015, EPCOR exchanged 9,450,000 limited partnership units for an equal number of common shares of Capital Power Corporation, which were immediately sold at an offering price of $23.85 per share for aggregate gross proceeds of $225 million. As a result of this transaction, the Company recognized a net gain before income tax of $24 million in net income, including $5 million on items previously recognized in other comprehensive income. In addition, EPCOR exchanged all of its remaining 9,391,000 exchangeable limited partnership units for common shares of Capital Power Corporation. Following the completion of the offering, EPCOR directly owned approximately 9% of Capital Power and as a result, the Company no longer exerts significant influence over Capital Power. Accordingly, the Company reclassified its remaining investment in Capital Power as an available-for-sale asset on at the market value of $24.11 per share. On initial recognition of the investment in Capital Power as an available-for-sale asset, the Company recognized a net gain before income tax of $36 million in net income including $6 million on items previously recognized in other comprehensive income.

Management has used judgment to determine that the fair value of the investment in Capital Power has declined significantly since it was initially reclassified as available-for-sale asset. Accordingly, management concluded that the available-for-sale investment in Capital Power was impaired. As a result, the Company recognized an impairment and reclassified the accumulated loss of $60 million before tax from other comprehensive income to net income during the year ended December 31, 2015.

Details of gains on equity investment in Capital Power realized in net income are as follows:

		2015
Gain on sale of a portion of investment	$	24
Gain on reclassification of investment as available-for-sale asset		36
	$	60

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Details of equity share of other comprehensive income of Capital Power, reclassified in net income are as follows:

		2015
Amount realized on sale of portion of investment[1]	$	(4)
Amount realized on reclassification of investment as available-for-sale asset[2]		(5)
	$	(9)

1 Net of reclassification of income tax expense of $1 million.
2 Net of reclassification of income tax expense of $1 million.

The change in investment in Capital Power is detailed as follows:

		2015		2014
Balance, beginning of year	$	393	$	385
Equity share of net income		5		15
Equity share of other comprehensive income		2		10
Distributions declared		(6)		(25)
Gain on dilution of equity interest		-		8
Sale of a portion of the investment		(197)		-
Reclassification of investment as available-for-sale asset		(197)		-
Balance, end of year	$	-	$	393

The change in available-for-sale investment in Capital Power is detailed as follows:

		2015
Transfer on reclassification from investment in Capital Power	$	197
Net gain on initial recognition as available-for-sale asset		30
Fair value loss for the period recorded in other comprehensive income[1]		(60)
Balance, end of year	$	167

1 The fair value loss recorded in other comprehensive income was reclassified to net income as an impairment of the available-for-sale investment in Capital Power.

The common shares of Capital Power Corporation are listed on the Toronto Stock Exchange under the symbol CPX. At December 31, 2015, the quoted market price of the common shares of Capital Power Corporation was $17.77 per share.

Summarized financial information of Capital Power up to the period it was considered as an associate of the Company is as follows:

		2015[1]		2014
Statements of Financial Position				
Current assets	$	-	$	487
Non-current assets		-		4,956
Current liabilities		-		(877)
Non-current liabilities		-		(1,732)

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

	2015	2014
Statements of Comprehensive Income		
Revenue and other income	$ 1,245	$ 1,220
Net income attributable to non-controlling interests	(8)	(10)
Net income attributable to partners	120	73
Total net income	112	63
Other comprehensive income all attributable to the partners of Capital Power L.P.	46	52
Total comprehensive income	$ 158	$ 115

1 The Company does not consider Capital Power as an associate effective April 2, 2015, accordingly, balances of assets and liabilities of Capital Power as at December 31, 2015, have not been reported.

Other information on EPCOR's investment in Capital Power:

	2015	2014
Weighted average percentage of ownership interest in Capital Power L.P.	4%	19%
Fair value adjustments at acquisition	$ 2	$ 6

16. Property, plant and equipment

	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance, beginning of 2015	$ 146	$ 55	$ 3,064	$ 2,023	$ 3	$ 82	$5,373
Additions[1]	439	-	52	7	-	4	502
Disposals and retirements	-	(1)	(14)	(14)	-	(32)	(61)
Disposals through divesture[2]	(6)	-	(20)	-	-	-	(26)
Transfers into service	(447)	-	229	217	-	1	-
Transfers	-	-	-	2	-	-	2
Foreign currency valuation adjustments	7	1	145	-	-	-	153
Balance, end of 2015	139	55	3,456	2,235	3	55	5,943
Accumulated depreciation							
Balance, beginning of 2015	-	-	686	526	1	48	1,261
Depreciation	-	-	82	62	1	7	152
Disposals and retirements	-	-	(10)	(8)	-	(32)	(50)
Disposals through divesture[2]	-	-	(7)	-	-	-	(7)
Foreign currency valuation adjustments	-	-	19	-	-	-	19
Balance, end of 2015	-	-	770	580	2	23	1,375
Net book value, end of 2015	$ 139	$ 55	$ 2,686	$ 1,655	$ 1	$ 32	$4,568

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance, beginning of 2014	$ 121	$ 48	$ 2,812	$ 1,849	$ 7	$ 81	$4,918
Additions	374	-	42	4	-	4	424
Disposals and retirements	-	-	(14)	(9)	(4)	(3)	(30)
Transfers into service	(353)	7	167	179	-	-	-
Foreign currency valuation adjustments	4	-	57	-	-	-	61
Balance, end of 2014	146	55	3,064	2,023	3	82	5,373
Accumulated depreciation							
Balance, beginning of 2014	-	-	617	479	3	43	1,142
Depreciation	-	-	72	53	1	8	134
Disposals and retirements	-	-	(9)	(6)	(3)	(3)	(21)
Foreign currency valuation adjustments	-	-	6	-	-	-	6
Balance, end of 2014	-	-	686	526	1	48	1,261
Net book value, end of 2014	$ 146	$ 55	$ 2,378	$ 1,497	$ 2	$ 34	$4,112

1 Additions include non-cash contributed assets of $62 million (2014 – $51 million).

2 As per the terms of agreement with the City of White Rock, the Company sold the White Rock utility operations to the City of White Rock.

Borrowing costs capitalized during the year ended December 31, 2015, were $6 million (2014 – $5 million) (note 7). The weighted average rates used to determine the borrowing costs eligible for capitalization ranged from 3.91% to 5.78% (2014 – 4.30% to 5.85%).

There are no security charges over the Company's property, plant and equipment.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

17. Intangible assets and goodwill

	Goodwill	Customer rights	Other rights	CCN	Software	Total
Cost						
Balance, beginning of 2015	$ 42	$ 51	$ 54	$ 75	$ 183	$ 405
Additions through acquisition	-	-	7	3	25	35
Internally generated additions	-	-	-	-	1	1
Disposals and retirements	-	-	-	-	(34)	(34)
Change in construction work in progress	-	-	(3)	-	(6)	(9)
Transfers	-	-	-	-	(2)	(2)
Foreign currency translation adjustments	8	-	8	14	-	30
Balance, end of 2015	50	51	66	92	167	426
Accumulated amortization						
Balance, beginning of 2015	-	36	4	-	111	151
Amortization	-	2	1	-	15	18
Disposals and retirements	-	-	-	-	(32)	(32)
Foreign currency translation adjustments	-	-	1	-	-	1
Balance, end of 2015	-	38	6	-	94	138
Net book value, end of 2015	$ 50	$ 13	$ 60	$ 92	$ 73	$ 288

	Goodwill	Customer rights	Other rights	CCN	Software	Total
Cost						
Balance, beginning of 2014	$ 39	$ 51	$ 48	$ 68	$ 173	$ 379
Additions through acquisition	-	-	-	-	10	10
Additions through business combination	-	-	-	-	5	5
Internally generated additions	-	-	3	-	-	3
Disposals and retirements	-	-	-	-	(7)	(7)
Change in construction work in progress	-	-	-	-	2	2
Foreign currency translation adjustments	3	-	3	7	-	13
Balance, end of 2014	42	51	54	75	183	405
Accumulated amortization						
Balance, beginning of 2014	-	33	3	-	103	139
Amortization	-	3	1	-	13	17
Disposals and retirements	-	-	-	-	(5)	(5)
Balance, end of 2014	-	36	4	-	111	151
Net book value, end of 2014	$ 42	$ 15	$ 50	$ 75	$ 72	$ 254

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

There are no security charges over the Company's intangible assets. Included in customer rights are the Company's customer rights to operate in the FortisAlberta service territory which expire on December 31, 2020.

For purposes of impairment testing, CCN has been allocated to cash-generating units as follows:

	2015	2014
Cash generating unit:		
Water segment – Water Arizona	$ 88	$ 72
Water segment – Others	4	3
	$ 92	$ 75

For purposes of impairment testing, goodwill acquired through business combinations has been allocated to cash-generating units as follows:

	2015	2014
Cash generating unit:		
Water segment – Chaparral	$ 12	$ 10
Water segment – Water Arizona	31	26
Water segment – Others	7	6
	$ 50	$ 42

The most recent reviews of goodwill were performed in the fourth quarter for each cash generating unit. Management reviewed conditions since the last review was performed and determined that no circumstances occurred since then to require a revision to the assumptions used in the value in use calculations.

The recoverable amount of the cash generating units was determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a twenty year period. The projections were based on cash flow projections for the most recent long-term plan, which covered periods up to five years, with the projections for the balance of the twenty-year period extrapolated using growth rates between 1.80% and 2.63% (2014 – between 1.71% and 3.58%) that are in line with the long-term average growth rate for the industry. The pre-tax discount rates applied to cash flow projections are as follows:

	2015	2014
Cash generating unit:		
Water segment – Chaparral	8.46%	8.46%
Water segment – Water Arizona	6.23%	6.23%
Water segment – Others	6.34%	6.59%

Key assumptions used in value-in-use calculations

The future cash flows of the underlying businesses are relatively stable, since they relate to ongoing water supply in a rate-regulated environment. As the cash generating units operate under a rate-regulated environment, revenues are set by the regulators to cover operating costs and to earn a return on the rate base, which is set at the regulator's approved weighted average cost of capital for the underlying utility.

The calculation of value in use for the cash generating units is most sensitive to the following assumptions:

Discount rates

The discount rates used were estimated based on the weighted average cost of capital for the cash generating unit, which is the approved rate of return on capital allowed by the regulators. This rate was further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash flows have not been adjusted.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Timing of future rate increases

Revenue growth is forecast to continue at the same rate as operating costs. If future rate filings are delayed, rate increases and increased cash flows from revenues would be affected.

Sensitivity to changes in assumptions

Assumptions have been tested using reasonably possible alternative scenarios. For all scenarios considered, the recoverable value remained above the carrying amount of the cash generating unit.

18. Trade and other payables

	2015	2014
Trade payables	$ 160	$ 129
Accrued liabilities	54	63
Accrued interest	27	27
Due to related parties	6	13
Due to employees	12	16
	$ 259	$ 248

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

19. Loans and borrowings

	Effective interest rate	2015	2014
Long-term loans and borrowings			
Obligation to the City, net of sinking fund			
Due in 1-5 years at 8.50% (2014 – 8.50%)	11.04%	$ 19	$ 26
Due in 6-10 years at 7.01% (2014 – 7.01%)	7.01%	16	17
Due in 16-25 years at 5.20% (2014 – 5.20%)	5.36%	70	76
		105	119
Public debentures			
At 6.75%, due in 2016	6.94%	130	130
At 5.80%, due in 2018	6.02%	400	400
At 6.80%, due in 2029	7.05%	150	150
At 5.65%, due in 2035	5.88%	200	200
At 6.65%, due in 2038	6.83%	200	200
At 5.75%, due in 2039	5.88%	200	200
At 4.55%, due in 2042	4.65%	300	300
		1,580	1,580
Private debt notes			
Bonds at 3.74%, due in 2021	3.80%	191	160
Bonds at 5.00%, due in 2041	5.08%	155	130
		346	290
		2,031	1,989
Other borrowings			
Deferred debt issue costs		(12)	(12)
Total long-term loans and borrowings		2,019	1,977
Short-term loans – commercial paper	0.84%	98	103
Total Loans and borrowings		2,117	2,080
Less: current portion		242	117
		$ 1,875	$ 1,963

Obligation to the City

Debentures were issued, on behalf of the Company, pursuant to the City Bylaw authorization. The outstanding debentures are a direct, unconditional obligation of the City. The Company's obligation to the City matches the City's obligation pursuant to the debentures. The 8.50% debentures, maturing in the year 2018 and totaling $19 million, rank as subordinated debt. In the event of default on other interest obligations, the coupon and sinking fund payments on the subordinated debt may be deferred for a period of up to five years, not exceeding the maturity date. If still in default at the end of five years, all unpaid payments plus accrued interest thereon may be repaid by issuing common shares to the City. Except for the subordinated debt, the obligation to the City will rank at least equal to all future debt that may be issued by the Company.

The Company makes annual contributions into the sinking fund of the City pertaining to certain debenture issues. These payments constitute effective settlement of the respective debt as the sinking fund accumulates to satisfy the underlying debenture maturity. For any specific City debenture sinking fund requirements, the payment obligation ceases on maturity of the debenture. The sinking fund is measured at fair value and presented net of its related debenture.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

In 2009, the City transferred the Gold Bar wastewater treatment plant (Gold Bar) to EPCOR. Pursuant to the Gold Bar asset transfer agreement, EPCOR issued $112 million of long-term debt to the City representing EPCOR's proportionate share of the City's debt obligations in respect of Gold Bar assets. The long-term debt to the City was repaid in full during the year. The long-term debt bore interest at a weighted average rate of approximately 5.20%.

Public debentures

The public debentures are unsecured direct obligations of the Company and, subject to statutory preferred exemptions, rank equally with all other unsecured and unsubordinated indebtedness of the Company. The debentures are redeemable by the Company prior to maturity at the greater of par and a price specified under the terms of the debenture.

Private debt notes

The private debt notes due in 2021 and 2041 were issued in U.S. dollars, are unsecured direct obligations of the Company and, subject to statutory preferred exemptions, rank equally with all other unsecured and unsubordinated indebtedness of the Company. The private debt notes are redeemable by the Company prior to maturity at the greater of par and a price specified under the terms of the private debt notes.

Commercial paper and bankers' acceptances

In the normal course of business, the Company provides financial support and performance assurances including guarantees, letters of credit and surety bonds to third parties in respect of its subsidiaries. Bank lines of credit are unsecured and are available to the Company up to an amount of $575 million (2014 – $575 million), comprised of committed amounts of $550 million (2014 – $550 million) and uncommitted amounts of $25 million (2014 – $25 million) as described in note 29. Letters of credit totaling $48 million (2014 – $82 million) have been issued under these facilities to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements. Amounts borrowed and letters of credit issued, if any, under these facilities which are not payable within one year are classified as non-current loans and borrowings.

The Company’s commercial paper program has an authorized capacity of $350 million (2014 – $350 million). At December 31, 2015 commercial paper totaling $98 million (2014 – $103 million) was outstanding.

20. Deferred revenue

	2015	2014
Balance, beginning of year	$ 870	$ 806
Contributions received	74	70
Revenue recognized	(24)	(23)
Transfer on sale of business	(5)	-
Foreign currency valuation adjustments	38	16
Other	(1)	1
	952	870
Less: current portion	32	23
Balance, end of year	$ 920	$ 847

Contributions received include non-cash contributions of $39 million (2014 – $47 million).

21. Provisions

	2015	2014
Contributions from customers and developers	$ 62	$ 35
Employee benefits	98	100
	160	135
Less: current portion	37	38
	$ 123	$ 97

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Contributions from customers and developers

	2015	2014
Balance, beginning of year	$ 35	$ 31
Contributions received	30	7
Contributions refunded	(3)	(3)
Balance, end of year	$ 62	$ 35

Contributions received include non-cash contributions of $23 million (2014 – $4 million).

Employee benefits

	2015	2014
Other short-term employee benefit obligation	$ 29	$ 27
Post-employment benefit obligation	48	45
Other long-term employee benefit obligation	21	28
	$ 98	$ 100

Post-employment benefits

Total cash payments for pension benefits for the year ended December 31, 2015, consisting of cash contributed by the Company to the LAPP, other defined contribution and benefit plans, and cash payments directly to beneficiaries for their unfunded pension plan, were $39 million (2014 – $35 million). Total contributions expected to be paid in 2016 to the LAPP, other defined contribution and benefit plans, and cash payments directly to beneficiaries for their unfunded pension plan are $40 million.

Other long-term employee benefits

Other long-term employee benefits consist mainly of obligations for benefits provided to employees on long-term disability leaves.

22. Derivatives

Derivative financial instruments are held for the purpose of electricity price risk management and interest rate risk management.

The derivative instruments assets and liabilities used for risk management purposes as described in note 29 consist of the following assets and liabilities:

Derivative financial liabilities

	2015	2014
Electricity price forward contracts	$ 2	$ 3
Interest rate swaps (note 29)	10	6
	$ 12	$ 9
Current	$ 2	$ 3
Non-current	10	6
	$ 12	$ 9

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Electricity price forward contracts

The forward contracts used to mitigate electricity price risk management consist of the following:

	2015	2014
Derivative instruments liabilities		
Fair value	$ 9	$ 10
Cash paid to counterparty	(7)	(7)
Net fair value	$ 2	$ 3
Net notional buys		
Terawatt hours of electricity	1.2	1.3
Range of contract terms (in years)	0.1 to 0.3	0.1 to 0.3

The fair value of electricity derivative financial instruments reflects changes in the forward electricity prices, net of cash payments to or from the counterparty. During the course of the contract, daily payments are made to or received from the counterparty to settle the fair value of the contracts.

Fair value is determined based on quoted exchange index prices by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data such as forward electricity prices. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

Changes in fair value on electricity derivative financial instruments are recorded in energy purchases and system access fees.

23. Other liabilities

	2015	2014
Gold Bar transfer fee payable	$ -	$ 1
Customer deposits	27	24
Leasehold inducements	11	12
	38	37
Less: current portion	27	25
	$ 11	$ 12

24. Share capital

Authorized shares

Unlimited number of voting common shares without nominal or par value.

Issued shares

Three common shares to the City.

25. Accumulated other comprehensive income

Cash flow hedges

This comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that had not yet occurred prior to the disposal of the power generation business in 2009. Consequent to the partial sell down of investment in Capital Power and reclassification of remaining investment as available-for-sale asset, the Company reclassified and realized the remaining portion of cash flow hedging instruments in net income.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Available-for-sale financial assets

This comprises the cumulative net change in the fair value of the Company's beneficial interest in the sinking fund and investment in Capital Power Corporation, until the investments are derecognized or impaired.

Cumulative translation accounts

The cumulative translation accounts for foreign operations represent the cumulative portion of gains and losses on retranslation of foreign operations that have a functional currency other than Canadian dollars. The cumulative deferred gain or loss on the foreign operation is reclassified to net income only on disposal of the foreign operation.

Employee benefits account

The employee benefits account represents the cumulative impact of actuarial gains and losses, and return on plan assets excluding interest income from the Company's defined benefit pension plans.

Investment in Capital Power

The investment in Capital Power comprises the Company's equity share in other comprehensive income and loss of Capital Power. Consequent to the partial sell down of investment in Capital Power and reclassification of remaining investment as available-for-sale asset, the Company reclassified and realized the remaining portion of its share of other comprehensive income from Capital Power in net income.

26. Change in non-cash working capital

	2015	2014
Trade receivables (note 10)	$ (22)	$ 11
Income tax recoverable (note 10)	-	(2)
Prepaid expenses (note 10)	(1)	-
Inventories	(1)	-
Trade and other payables (note 18)	11	3
	$ (13)	$ 12

	2015	2014
Included in specific items on statements of cash flows:		
Interest paid	$ -	$ (1)
Income taxes recovered (paid)	-	(2)
Distributions from Capital Power	3	-
	3	(3)
Operating activities	(19)	17
Investing activities	3	(2)
	$ (13)	$ 12

27. Related party balances and transactions

Compensation of key management personnel

	2015	2014
Short-term employee benefits	$ 5	$ 5
Post-employment benefits	2	1
Other long-term benefits	3	2
	$ 10	$ 8

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The Company provides utility services to key management personnel as it is the sole provider of certain services. Such services are provided in the normal course of operations and are based on normal commercial rates, as approved by regulation.

Other related party transactions

The Company is 100% owned by the City. The Company provides maintenance, repair and construction services, and customer billing services to the City, and purchases printing services and supplies, mobile equipment services, public works and various other services pursuant to service agreements. Sales between the Company and the City are in the normal course of operations, and are generally based on normal commercial rates, or as agreed to by the parties.

The following summarizes the Company's related party transactions with the City:

	2015	2014
Consolidated Statements of Comprehensive Income		
Revenues (a)	$ 87	$ 84
Other raw materials and operating charges (b)	9	10
Franchise fees and property taxes (c)	90	88
Finance expense (d)	10	11

(a) Included within revenues are electricity and water sales of $4 million (2014 – $4 million), service revenue including the provision of maintenance, repair and construction services of $75 million (2014 – $73 million) and customer billing services of $8 million (2014 – $7 million).

(b) Includes certain costs of printing services and supplies, mobile equipment services, public works and various other services pursuant to service agreements.

(c) Composed of franchise fees of $55 million at 0.72 cents per kilowatt hour of electric distribution sales volume (2014– $56 million at 0.72 cents per kilowatt hour), franchise fees of $20 million at 8% (2014 – $19 million at 8%) of qualifying revenues of water services and waste water services, and property taxes of $15 million (2014 – $13 million) on properties owned within the City municipal boundaries.

(d) Composed of interest expense on the obligation to the City at interest rates ranging from 5.20% to 8.50% (2014 – 5.20% to 8.50%).

The following summarizes the Company's related party balances with the City:

	2015	2014
Consolidated Statements of Financial Position		
Trade and other receivables	$ 50	$ 36
Property, plant and equipment (e)	4	6
Trade and other payables (f)	6	10
Loans and borrowings (note 19)	105	119
Deferred revenue (g)	1	25
Other liabilities (h)	-	1
Equity attributable to the Owner of the Company	24	24

(e) Costs of capital construction for water distribution mains and infrastructure.

(f) Includes $1 million (2014 – $2 million) for drainage and construction services provided by the City.

(g) Capital contributions received for capital projects and rebates relating to maintenance, repair and construction services.

(h) Relates to a transfer fee payable to the City for Gold Bar of nil (2014 – $1 million).

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The Company had an 18% economic interest in Capital Power and was considered an associate of the Company prior to April 2, 2015. The Company provides electricity distribution and transmission services to Capital Power. Transactions are in the normal course of operations and are based on normal commercial or regulated rates.

The following summarizes the Company's related party transactions with Capital Power prior to April 2, 2015:

	Prior to April 2, 2015	Year ended December 31, 2014
Consolidated Statements of Comprehensive Income		
Revenues (i)	$ 2	$ 8
Other income (j)	6	22
Energy purchases and system access fees (k)	3	2
Other raw materials and operating charges (l)	4	13
Other administrative expenses (m)	(2)	(7)
Equity share of income of Capital Power (note 15)	5	15
Gain on dilution of interest in Capital Power (note 15)	-	8
Equity share of other comprehensive income (note 15)	2	10

(i) Relates to electricity distribution and transmission services provided to Capital Power by EPCOR.

(j) Relates to financing revenue on the long-term receivable.

(k) Relates to electricity purchases by EPCOR from Capital Power under service agreements.

(l) Relates to utility bills and charges for provision of transitional services by Capital Power to EPCOR under services agreements.

(m) Relates to the provision of services by EPCOR to Capital Power under services agreements.

The following summarizes the Company's related party balances with Capital Power:

	2015[1]	2014
Consolidated Statements of Financial Position		
Trade and other receivables (n)	$ -	$ 14
Other financial assets (note 13)	-	332
Trade and other payables	-	3
Deferred revenue (o)	-	(6)

1 Consequent to partial sell down of the investment in Capital Power, Capital Power is no longer considered a related party effective April 2, 2015. Accordingly, balances on December 31, 2015, are in the normal course of business with Capital Power and are no longer considered related party balances for disclosure purposes.

(n) 2014 includes $6 million relating to the accrued interest on the long-term receivable from Capital Power (note 13).

(o) Contributions for the construction of aerial and underground transmission lines.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

28. Financial instruments

Classification

The classification of the Company's financial instruments at December 31, 2015 and 2014, is summarized as follows:

	Classification				
	Fair value through profit or loss	Loans and receivables	Other liabilities	Available-for-sale	Fair value hierarchy
Measured at fair value					
Beneficial interest in sinking fund (note 19)				X	Level 1
Available-for-sale investment in Capital Power (note 15)				X	Level 1
Derivatives (note 22)					
Financial electricity purchase contracts – designated	X				Level 1
Interest rate swaps – designated	X				Level 2
Measured at amortized cost					
Cash and cash equivalents (note 9)		X			Level 1
Trade and other receivables (note 10)		X			Level 3
Other financial assets (note 13)		X			Level 2
Trade and other payables (note 18)			X		Level 3
Debentures and borrowings (note 19)			X		Level 2
Gold Bar transfer fee payable (note 23)			X		Level 3
Customer deposits (note 23)			X		Level 3

Fair value

The carrying amounts of cash and cash equivalents, trade and other receivables, current portion of other financial assets, trade and other payables and certain other liabilities (including customer deposits and Gold Bar transfer fee payable) approximate their fair values due to the short-term nature of these financial instruments.

The carrying amounts and fair values of the Company's remaining financial assets and liabilities are as follows:

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current portion of other financial assets (note 13)	$ 316	$ 330	$ 408	$ 443
Available-for-sale investment in Capital Power (note 15)	167	167	-	-
Loans and borrowings (note 19)				
Debentures and borrowings	2,198	2,554	2,154	2,579
Beneficial interest in sinking fund	(81)	(81)	(74)	(74)
Derivatives (note 22)	12	12	9	9

Fair value hierarchy

The financial instruments of the Company that are recorded at fair value have been classified into levels using a fair value hierarchy. A Level 1 valuation is determined by unadjusted quoted prices in active markets for identical assets or liabilities.

A Level 2 valuation is based upon inputs other than quoted prices included in Level 1 that are observable for the instruments either directly or indirectly. A Level 3 valuation for the assets and liabilities are not based on observable market data.

Loans and other long-term receivables

The fair value of the Company's unsecured long-term receivable from Capital Power is based on a current yield for the Company's receivable at December 31, 2015 and 2014. This yield is based on an estimated credit spread for Capital Power over the yields of long-term Government of Canada bonds that have similar maturities to the Company's receivable. The estimated credit spread is based on Capital Power's indicative spread as published by independent financial institutions.

The fair values of the Company’s other long-term loans and receivables are based on the estimated interest rates implicit in comparable loan arrangements plus an estimated credit spread based on the counterparty risks at December 31, 2015 and 2014.

Loans and borrowings

The fair value of the Company’s long-term loans and borrowings is based on determining a current yield for the Company’s debt at December 31, 2015 and 2014. This yield is based on an estimated credit spread for the Company over the yields of long-term Government of Canada bonds for Canadian dollar loans and U.S. Treasury bonds for U.S. dollar loans that have similar maturities to the Company’s debt. The estimated credit spread is based on the Company’s indicative spread as published by independent financial institutions. The Company’s long-term loans and borrowings (including the current portion) include City debentures which are offset by payments made by the Company into the sinking fund. The Company’s beneficial interest in the sinking fund is a related party balance and has been recorded at fair value as it has been classified as an available-for-sale financial asset. The fair value of the beneficial interest in the sinking fund is based on quoted market values as determined by the City at or near the reporting date.

Short-term loans and borrowings are measured at amortized cost and their carrying value approximate their fair value due to the short-term nature of these financial instruments.

Available-for-sale investment in Capital Power

The available-for-sale investment in Capital Power represents an investment in common shares of Capital Power Corporation. The fair value of the investment is based on the quoted price of common shares of Capital Power Corporation (CPX) on the Toronto Stock Exchange at December 31, 2015.

Derivatives

The fair value of the Company’s financial electricity purchase contracts is determined based on exchange index prices in active markets. Fair value amounts reflect management’s best estimates using external readily observable market data such as forward electricity prices.

The fair value of the Company’s interest rate swaps is based on valuations obtained from the counterparty. The fair value is determined by the counterparty using a discounted cash flow model. The inputs used include notional amounts, the quoted forward Canadian Dealer Offering Rate (CDOR) curve, the contractual fixed settlement rate and an applicable discount factor.

It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

29. Financial risk management

Overview

The Company is exposed to a number of different financial risks, arising from business activities and its use of financial instruments, including market risk, credit risk, and liquidity risk. The Company’s overall risk management process is designed to identify, assess, measure, manage, mitigate and report on business risk which includes financial risk. Enterprise risk management is overseen by the Board of Directors and senior management is responsible for fulfilling objectives, targets, and policies approved by the Board of Directors. EPCOR's Corporate Treasurer in conjunction with the Company's Internal Audit function provides the Board of Directors with an enterprise risk assessment quarterly. Risk management strategies, policies and limits are designed to help ensure the risk exposures are managed within the Company's business objectives and risk tolerance. The Company's financial risk management objective is to protect and minimize volatility in earnings and cash flow.

Financial risk management including foreign exchange risk, interest rate risk, liquidity risk and the associated credit risk management is carried out by the centralized Treasury function in accordance with applicable policies. The Audit Committee of the Board of Directors, in its oversight role, performs regular and ad-hoc reviews of risk management controls and procedures to help ensure compliance.

Risks related to Capital Power

Significant reliance is placed on the capacity of Capital Power to honor its back-to-back debt obligations with EPCOR. Should Capital Power fail to satisfy these obligations, EPCOR's capacity to satisfy its debt obligations would be reduced and EPCOR would need to satisfy its own debt obligations by other means. As per agreement, the back-to-back debt obligations may be called by EPCOR for repayment. Repayment must occur within 180 days of notice if the principal balance outstanding is less than $200 million or within 365 days of notice if the principal balance outstanding is equal to or greater than $200 million.

While EPCOR receives dividends from Capital Power, the Company does not rely on them as a source of funding. There can be no assurance that Capital Power will continue to pay dividends at current levels as they may be reduced or eliminated entirely in the future.

Capital Power has indemnified EPCOR for any losses arising from its inability to discharge its liabilities, including any amounts owing to EPCOR in relation to the long-term loans receivable.

Market risk

Market risk is the risk of loss that results from changes in market factors such as electricity prices, foreign currency exchange rates, interest rates and equity prices. The level of market risk to which the Company is exposed at any point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the Company's financial assets and liabilities held, non-trading physical asset and contract portfolios, and trading portfolios. The Company's financial exposure management policy is approved by the Board of Directors and the associated procedures and practices are designed to manage the foreign exchange risk and interest rate risk throughout the Company.

To manage the exposure related to changes in market risk, the Company may use various risk management techniques including derivative financial instruments such as forward contracts, contracts-for-differences or interest rate swaps. Such instruments may be used for an anticipated transaction to establish a fixed price denominated in a foreign currency or electricity or to secure fixed interest rates.

The sensitivities provided in each of the following risk discussions disclose the effect of reasonable changes in relevant prices and rates on net income at the reporting date. The sensitivities are hypothetical and should not be considered to be predictive of future performance or indicative of earnings on these instruments. The Company's actual exposure to market risks is constantly changing as the Company's portfolio of debt, equity instruments, foreign currency and commodity contracts changes. Changes in fair values or cash flows based on market variable fluctuations cannot be extrapolated since the relationship between the change in the market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company.

Electricity price and volume risk

EPCOR sells electricity to regulated rate option (RRO) customers under a RRT. All electricity for the RRO customers is purchased in real time from the AESO in the spot market. Under the RRT, the amount of electricity to be economically hedged, the hedging method and the electricity selling prices to be charged to these customers is determined by the EPSP. Under the EPSP, the Company uses financial contracts to economically hedge the RRO requirements and incorporate the price into customer rates for the applicable month. Fixed volumes of electricity are economically hedged using financial contracts-for-differences up to 120 days in advance of the month in which the electricity (load) is consumed by the RRO customers. The volume of electricity economically hedged in advance is based on load (usage) forecasts for the consumption month. When consumption varies from forecast consumption patterns, EPCOR is exposed to prevailing market prices when the volume of electricity economically hedged is short of actual load requirements or greater than the actual load requirements (long). Exposure to variances in electricity volume can be exacerbated by other events such as unexpected generation plant outages and unusual weather patterns.

Under contracts-for-differences the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the AESO electricity spot market price and the fixed contract price for a specified volume of electricity up to 120 days in advance of the consumption date, all in accordance with the EPSP. The contracts-for-differences are referenced to the AESO electricity spot price and any movement in the AESO price results in changes in the contract settlement amount. If the risks of the EPSP were to become untenable, EPCOR could test the market and potentially re-contract the procurement risk under an outsourcing arrangement at a certain cost that would likely increase procurement costs and reduce margins. The Company may enter into additional financial electricity purchase contracts outside the EPSP to further economically hedge the price of electricity.

At December 31, 2015, holding all other variables constant, a $5 per megawatt hour increase / decrease in the forward electricity spot price would increase / decrease net income by approximately $6 million (2014 – $6 million). In preparing the sensitivity analysis, the Company compared average AESO electricity spot prices to the forward index price for the past 24 months. Based on historical fluctuations, the Company estimates that the fair value of the contracts could increase or decrease by up to $37 million (2014 – $40 million) with a corresponding change to net income.

Foreign exchange risk

The Company is exposed to foreign exchange risk on foreign currency denominated future transactions and firm commitments, and monetary assets and liabilities denominated in a foreign currency and on its net investments in foreign subsidiaries.

The Company's financial exposure management policy attempts to minimize material exposures arising from movements in the Canadian dollar relative to the U.S. dollar or other foreign currencies. The Company's direct exposure to foreign exchange risk arises on commitments denominated in U.S. dollars. The Company coordinates and manages foreign exchange risk centrally by identifying opportunities for naturally occurring opposite movements and then dealing with any material residual foreign exchange risks.

The Company may use foreign currency forward contracts to fix the functional currency of its non-functional currency cash flows thereby reducing its anticipated foreign currency denominated transactional exposure. The Company looks to limit foreign currency exposures as a percentage of estimated future cash flows.

At December 31, 2015, holding all other variables constant, a 10% change in exchange rate would change the private debt balance by $35 million (2014 – $29 million).

Interest rate risk

The Company is exposed to changes in interest rates on its cash and cash equivalents, and floating-rate short-term loans and obligations. The Company is also exposed to interest rate risk from the possibility that changes in the interest rates will affect future cash flows or the fair values of its financial instruments. Interest rate risk associated with short-term loans and borrowings is immaterial due to its short-term maturity. At December 31, 2015 and 2014, all long-term debt was fixed rate.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The Company entered into the following interest rate swaps to manage its interest rate risk in the Regina Wastewater project as described below:

Type	Term	Notional amount	Fixed rate	Floating rate index
Pay fixed, receive floating	August 1, 2014 – January 3, 2017	Range of $18 – $136	1.55%	1-month CDOR
Pay fixed, receive floating	January 3, 2017 – June 1, 2044	$67	3.51%	1-month CDOR

The counterparty to the swap arrangements is a major Canadian financial institution. During their respective terms, the swaps are being net cash settled on a monthly basis. The Company does not anticipate any material adverse effect on its financial covenants resulting from its involvement in this type of swap arrangement, nor does it anticipate non-performance by the counterparty. At December 31, 2015, the maximum exposure to credit risk of the interest rate swaps is equal to their carrying amounts, which is a net liability of $10 million (2014 - $6 million) (note 22).

The interest rate swap at a fixed rate of 1.55% has monthly notional amounts that mirror the expected net development funding requirements over the project's construction term. For both swaps, the Company used the forward CDOR rate as of December 31, 2015, to determine the estimated contractual obligations of the Company. Future cash flows may differ from the amounts noted below due to changes in the monthly CDOR rate. At December 31, 2015 and 2014, the undiscounted cash flow requirements and contractual maturities of the interest rate swaps were as follows:

December 31, 2015	2016	2017	2018	2019	2020	2021 and thereafter	Total contractual cash flows
Carrying value – net	$ 1	$ 2	$ 2	$ 1	$ 1	$ 5	$ 12

December 31, 2014	2015	2016	2017	2018	2019	2020 and thereafter	Total contractual cash flows
Carrying value - net	$ -	$ -	$ 1	$ 1	$ 1	$ 4	$ 7

At December 31, 2015, a 50 basis point increase in the forward CDOR rate would increase fair value of the interest rate swaps by a combined amount of $5 million (2014 - $5 million) and a 50 basis point decrease in the forward CDOR rate would decrease fair value of the interest rate swaps by a combined amount of $6 million (2014 - $6 million). This analysis assumes that all other variables remain constant.

Equity Price Risk

Equity price risk refers to the risk that the fair value of an investment will fluctuate as a result of changes in equity markets. The Company is exposed to equity price risk arising from its available-for-sale investment in the common shares of Capital Power Corporation which are listed on TSX. At December 31, 2015, an increase or decrease of $1.00 in market price of common shares of Capital Power Corporation will result in an increase or decrease of $9 million in the fair value of Company's available-for-sale investment in Capital Power, respectively. The Company closely monitors the equity price movement in common shares of Capital Power to determine the appropriate course of action to be taken by the Company.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Credit risk

Credit risk is the possible financial loss associated with the inability of counterparties to satisfy their contractual obligations to the Company, including payment and performance. The Company's counterparty credit risk management policy is approved by the Board of Directors and the associated procedures and practices are designed to manage the credit risks associated with the various business activities throughout the Company. Credit and counterparty risk management procedures and practices generally include assessment of individual counterparty creditworthiness and establishment of exposure limits prior to entering into a transaction with the counterparty. Exposures and concentrations are subsequently monitored and are regularly reported to senior management. Creditworthiness continues to be evaluated after transactions have been initiated, at a minimum, on an annual basis. Credit risk includes the Capital Power back-to-back debt obligations with EPCOR as described above. To manage and mitigate credit risk, the Company employs various credit mitigation practices such as master netting agreements, pre-payment arrangements from retail customers, credit derivatives and other forms of credit enhancements including cash deposits, parent company guarantees, and bank letters of credit.

Maximum credit risk exposure

The Company's maximum credit exposure is represented by the carrying amount of the following financial assets:

	2015	2014
Cash and cash equivalents[1] (note 9)	$ 36	$ 37
Trade and other receivables[2] (note 10)	333	313
Finance lease receivables (note 12)	104	122
Loans and other long-term receivables (note 13)	493	420
	$ 966	$ 892

1 This table does not take into account collateral held. At December 31, 2015, the Company held cash deposits of $27 million (2014 – $40 million) as security for certain counterparty accounts receivable and derivative contracts. The Company is not permitted to sell or re-pledge this collateral in the absence of default of the counterparties providing the collateral.

2 The Company's maximum exposures related to trade and other receivables by major credit concentration is composed of $209 million (2014 – $246 million) related to rate-regulated customer balances. At December 31, 2015, the Company held credit enhancements to mitigate credit risk on trade and other receivables in the form of letters of credit of $1 million (2014 – $2 million) and parental guarantees of $252 million (2014 – $253 million).

Credit quality and concentrations

The Company is exposed to credit risk on outstanding trade receivables associated with its energy and water sales activities and agreements with the AESO and on electricity supply agreements with wholesale and retail customers. The Company is also exposed to credit risk from its cash and cash equivalents, derivative instruments and long-term financing arrangements receivable.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The credit quality of the Company's trade and other receivables, by major credit concentrations, finance lease receivables, and other financial assets at December 31, 2015 and 2014, was as follows:

	2015		2014	
	Investment grade or secured[1,2] %	Unrated %	Investment grade or secured[1,2] %	Unrated %
Trade and other receivables				
Rate-regulated customers[3]	-	34	-	74
Non rate-regulated customers	62	4	21	5
Total trade and other receivables	62	38	21	79
Cash and cash equivalents	100	-	100	-
Loans and other long-term receivables	100	-	100	-

1 Credit ratings are based on the Company's internal criteria and analyses, which take into account, among other factors, the investment grade ratings of external credit rating agencies when available.

2 Certain trade receivables and other financial assets are considered to have low credit risk as they are either secured by the underlying assets, secured by other forms of credit enhancements, or the counterparties are local or provincial governments.

3 Rate-regulated customer trade receivables include distribution and transmission, water sales, rate-regulated and default electricity supply receivables. Under the Electric Utilities Act (Alberta), the Company provides electricity supply in its service area to residential, agricultural and small commercial customers at regulated rates, and to those commercial and industrial customers who have not chosen a competitive offer and consume electricity under default supply arrangements.

Rate-regulated customer credit risk

Credit risk exposure for residential and commercial customers under regulated electricity and water supply rates is generally limited to amounts due from customers for electricity and water consumed but not yet paid for. The Company mitigates credit risk from counterparties by performing credit checks and on higher risk customers, by taking pre-payments or cash deposits. The Company monitors credit risk for this portfolio at the gross exposure level.

Trade and other receivables and allowance for doubtful accounts

Trade and other receivables consist primarily of amounts due from retail customers including commercial customers, other retailers, government-owned or sponsored entities, regulated public utility distributors, and other counterparties. Commercial customer contracts provide performance assurances through letters of credit, irrevocable guarantees and bonds. For other retail customers, represented by a diversified customer base, credit losses are generally low and the Company provides for an allowance for doubtful accounts on estimated credit losses.

The aging of accounts receivables was as follows:

December 31, 2015	Gross accounts receivables	Allowance for doubtful accounts	Net accounts receivables
Current[1]	$ 293	$ -	$ 293
Outstanding 31 to 60 days	20	-	20
Outstanding 61 to 90 days	5	1	4
Outstanding more than 90 days	18	2	16
	$ 336	$ 3	$ 333

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

December 31, 2014		Gross accounts receivables		Allowance for doubtful accounts		Net accounts receivables
Current[1]	$	282	$	-	$	282
Outstanding 31 to 60 days		19		-		19
Outstanding 61 to 90 days		6		1		5
Outstanding more than 90 days		9		2		7
	$	316	$	3	$	313

1 Current amount represents trade and other receivables outstanding up to 30 days. Amounts outstanding for more than 30 days are considered past due.

Bad debt expense of $5 million (2014 – $5 million) recognized in the year relates to customer amounts that the Company determined would not be fully collectable. Allowances for doubtful accounts are determined by each business unit considering the unique factors of the business unit's trade and other receivables. Allowances and write-offs are determined either by applying specific risk factors to customer groups' aged balances in trade and other receivables or by reviewing material accounts on a case-by-case basis. Reductions in trade and other accounts receivable and the related allowance for doubtful accounts are recorded when the Company has determined that recovery is not possible.

The change in the allowance for doubtful accounts was as follows:

		2015		2014
Balance, beginning of year	$	3	$	4
Additional allowances created		5		5
Recovery of receivables		1		1
Receivables written off		(6)		(7)
Balance, end of year	$	3	$	3

At December 31, 2015, the Company held $27 million (2014 – $24 million) of customer deposits for the purpose of mitigating the credit risk associated with trade and other receivables from residential and business customers.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's liquidity is managed centrally by the Company’s Treasury function. The Company manages liquidity risk through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and by matching the maturity profiles of financial assets and liabilities to identify financing requirements. The financing requirements are addressed through a combination of committed and demand revolving credit facilities and financings in public or private debt capital markets.

The Company has revolving extendible credit facilities, which are used principally for the purpose of backing the Company’s commercial paper program and providing letters of credit, as outlined below:

December 31, 2015	Expiry		Total facilities		Banking commercial paper issued		Letters of credit and other facility draws		Net amounts available
Committed									
Syndicated bank credit facility[1]	November 2018	$	200	$	-	$	48	$	152
Syndicated bank credit facility	November 2020		350		98		-		252
Total committed			550		98		48		404
Uncommitted									
Bank line of credit	No expiry		25		-		-		25
		$	575	$	98	$	48	$	429

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

December 31, 2014	Expiry	Total facilities	Banking commercial paper issued	Letters of credit and other facility draws	Net amounts available
Committed					
Syndicated bank credit facility[1]	December 2017	$ 200	$ -	$ 82	$ 118
Syndicated bank credit facility	December 2019	350	103	-	247
Total committed		550	103	82	365
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
		$ 575	$ 103	$ 82	$ 390

1 Restricted to letters of credit.

The Company's $350 million committed syndicated bank credit facility is available and primarily used for short-term borrowing and backstopping EPCOR's $350 million commercial paper program. The committed syndicated bank credit facilities cannot be withdrawn by the lenders until expiry, provided that the Company operates within the related terms and covenants. The extension feature of EPCOR's committed syndicated bank credit facilities give the Company the option each year to re-price and extend the terms of the facilities by one or more years subject to agreement with the lending syndicate. The Company regularly monitors market conditions and may elect to enter into negotiations to extend the maturity dates.

The Company has credit ratings of A- and A (low), assigned by Standard and Poor's and DBRS Limited, respectively.

The Company has a Canadian base shelf prospectus under which it may raise up to $1 billion of debt with maturities of not less than one year. At December 31, 2015, the available amount remaining under this Canadian base shelf prospectus was $1 billion. The Canadian base shelf prospectus expires in December 2017.

The undiscounted cash flow requirements and contractual maturities of the Company's financial liabilities, including interest payments, are as follows:

At December 31, 2015:

	2016	2017	2018	2019	2020	2021 and thereafter	Total contractual cash flows
Trade and other payables[1]	$ 232	$ -	$ -	$ -	$ -	$ -	$ 232
Loans and borrowings[2]	242	15	413	7	7	1,445	2,129
Interest payments on loans and borrowings	115	111	99	78	78	1,184	1,665
Other liabilities	27	1	1	1	1	7	38
	$ 616	$ 127	$ 513	$ 86	$ 86	$ 2,636	$ 4,064

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

At December 31, 2014:

	2015	2016	2017	2018	2019	2020 and thereafter	Total contractual cash flows
Trade and other payables[1]	$ 221	$ -	$ -	$ -	$ -	$ -	$ 221
Loans and borrowings[2]	117	144	15	413	7	1,396	2,092
Interest payments on loans and borrowings	118	113	108	96	76	1,232	1,743
Other liabilities	24	1	1	1	1	8	36
Gold Bar transfer fee liability[3]	1	-	-	-	-	-	1
	$ 481	$ 258	$ 124	$ 510	$ 84	$ 2,636	$ 4,093

1 Excluding accrued interest on loans and borrowings of $27 million (2014 – $27 million).

2 Excluding deferred debt issue costs of $12 million (2014 – $12 million).

3 In 2009, the City transferred Gold Bar to EPCOR. In exchange for the net assets transferred, EPCOR agreed to pay a total transfer fee of $75 million, of which nil (2014 – $1 million) remains payable.

The Company's undiscounted cash flow requirements and contractual maturities in the next twelve months of $616 million (2014 – $481 million) are expected to be funded from operating cash flows, interest and principal payments related to the unsecured long-term receivable from Capital Power, lease repayments from Suncor, commercial paper issuance and the Company's credit facilities. In addition, the Company may issue medium-term notes or sell a portion of available-for-sale investment in Capital Power or other assets to fund its obligations or investments. The key factors in determining whether to issue medium-term notes or sell a portion of the available-for-sale investment in Capital Power are the expected interest rates for medium-term notes, the estimated demand by investors for EPCOR debt, the state of debt capital markets generally, the quoted price of Capital Power common shares and the state of equity capital markets.

The Company has long-term loans receivable from Capital Power which effectively match certain of the long-term loans and borrowings above. The following are the undiscounted maturities of the long-term loans receivable and interest payments from Capital Power:

At December 31, 2015:

	2016	2017	2018	2019	2020	2021 and thereafter	Total
Long-term loans receivable from Capital Power (note 13)	$ 139	$ 10	$ 174	$ -	$ -	$ -	$ 323
Interest payments on loans receivable from Capital Power	16	11	6	-	-	-	33
	$ 155	$ 21	$ 180	$ -	$ -	$ -	$ 356

At December 31, 2014:

	2015	2016	2017	2018	2019	2020 and thereafter	Total
Long-term loans receivable from Capital Power (note 13)	$ 9	$ 139	$ 10	$ 174	$ -	$ -	$ 332
Interest payments on loans receivable from Capital Power	21	16	11	6	-	-	54
	$ 30	$ 155	$ 21	$ 180	$ -	$ -	$ 386

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The payments from Capital Power fund a portion of the Company's contractual debt obligations. Should Capital Power be unable to make its scheduled payments to EPCOR, then the Company will rely more heavily on its credit facilities and its ability to issue medium-term notes or potentially sell a portion of its interest in Capital Power to fund its obligations.

30. Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, pay dividends to its shareholder in accordance with the Company's dividend policy, maintain a suitable credit rating, and to facilitate the acquisition or development of projects in Canada and the U.S. consistent with the Company's growth strategy. The Company manages its capital structure in a manner consistent with the risk characteristics of the underlying assets. This overall objective and policy for managing capital remained unchanged in the current year from the prior year.

The Company manages capital through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and reviewing monthly financial results. The Company matches the maturity profiles of financial assets and liabilities to identify financing requirements to help ensure an adequate amount of liquidity.

The Company considers its capital structure to consist of long-term and short-term debt net of cash and cash equivalents and shareholder's equity. The following table represents the Company's total capital:

	2015	2014
Loans and borrowing (including current portion) (note 19)	$ 2,117	$ 2,080
Cash and cash equivalents (note 9)	(36)	(37)
Net debt	2,081	2,043
Total equity	2,515	2,340
Total capital	$ 4,596	$ 4,383

EPCOR has the following externally imposed financial covenants on its capital as a result of its credit facilities and outstanding debt:

- Maintenance of modified consolidated net tangible assets to consolidated net tangible assets ratio, as defined in the debt agreements, of not less than 85%;
- Maintenance of consolidated senior debt to consolidated capitalization ratio, as defined in the debt agreements, of not more than 70%;
- Maintenance of interest coverage ratio, as defined in the debt agreements, of not less than 1.75 to 1.00 if the Company's credit rating falls below investment grade; and
- Limitation on external debt issued by subsidiaries.

These capital restrictions are defined in accordance with the respective agreements. For the years ended December 31, 2015 and 2014, the Company complied with all externally imposed capital restrictions.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

31. Commitments, contingencies and guarantees

Commitments

The following represent the Company's commitments not otherwise disclosed in these financial statements:

At December 31, 2015:

	2016	2017	2018	2019	2020	2021 and thereafter	Total
Water services segment projects[1]	$ 33	$ 21	$ -	$ -	$ -	$ -	$ 54
Water services power contracts[2]	8	9	2	-	-	-	19
Water purchase and transportation of water agreements[3]	8	1	-	-	-	3	12
Billing and customer care services agreement[4]	6	4	4	4	3	3	24
	$ 55	$ 35	$ 6	$ 4	$ 3	$ 6	$ 109

At December 31, 2014:

	2015	2016	2017	2018	2019	2020 and thereafter	Total
Distribution and Transmission segment capital projects[5]	$ 8	$ 37	$ 2	$ -	$ -	$ -	$ 47
Water Services segment projects[1]	87	50	-	-	-	-	137
Water purchase and transportation of water agreements[3]	7	1	-	-	1	3	12
Billing and customer care services agreement[4]	5	5	3	3	3	7	26
	$ 107	$ 93	$ 5	$ 3	$ 4	$ 10	$ 222

1 The Company has commitments to several Water Services projects in Canada through contract agreements.

2 The Company has commitments to purchase power for its wastewater treatment plant, water treatment plants and distribution sites. The agreements expire on or before December 31, 2018. Under the terms of the agreements, the Company is committed to purchase minimum and maximum contracted quantities at a fixed price. There are no early termination or cancellation clauses in these agreements.

3 Water Arizona maintains agreements with the Central Arizona Water Conservation District for the purchase and transportation of water. These agreements are for terms of 100 years expiring at the end of 2107. Under the terms of these agreements, certain minimum payments of approximately $0.5 million are due each year in order to maintain the agreements until they expire. The Company is committed for the amount of water ordered in the fall of each year to be purchased and transported the following year.

Water New Mexico maintains agreements with the various well owners for the purchase of water. These agreements are generally for terms of ten years. Under the terms of these agreements, certain minimum purchases are due each year in order to maintain the agreements until they expire.

4 The Company has entered into an agreement for billing and customer care services for Water Arizona and Water New Mexico. The contract term is ten years, expiring on August 31, 2021.

5 The Company was committed to various Distribution and Transmission segment projects as directed by the AESO. These projects have been cancelled.

Contingencies

The Company and its subsidiaries are subject to various legal claims that arise in the normal course of business. Management believes that the aggregate contingent liability of the Company arising from these claims is immaterial and therefore no provision has been made.

Guarantees

The Company in the normal course of business issues payment guarantees on behalf of its subsidiaries to meet the conditions of the agreements with third parties. At December 31, 2015, guarantees totaling $408 million (2014 – $396 million) have been issued to various third parties.

32. Segment disclosures

The Company operates in the following reportable business segments, which follow the organization, management and reporting structure within the Company.

Water Services

Water Services is primarily involved in the treatment, distribution and sale of water and the treatment of wastewater within Edmonton and other communities throughout Western Canada and the Southwestern U.S.

Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within Edmonton. This segment also provides commercial services including the maintenance and repair of the City-owned street lighting and transportation support facilities.

Energy Services

Energy Services is primarily involved in the provision of regulated tariff electricity service and default supply electricity services to residential, small commercial and agricultural customers in Alberta. Energy Services also provides competitive electricity and natural gas products through Encor.

Corporate

Corporate reflects the costs of the Company's net unallocated corporate office expenses and financing revenues on the long-term receivable from Capital Power. Corporate also holds the available-for-sale investment in Capital Power.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Lines of business information

Year ended December 31, 2015	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 688	$ 436	$ 872	$ 22	$ -	$ 2,018
Inter-segment revenue	-	164	11	-	(175)	-
Total revenues and other income	688	600	883	22	(175)	2,018
Energy purchases and system access fees	-	175	770	-	(153)	792
Other raw materials and operating charges	203	35	-	1	(10)	229
Staff costs and employee benefits expenses	136	100	27	36	(1)	298
Depreciation and amortization	89	69	6	14	-	178
Franchise fees and property taxes	28	69	-	-	-	97
Other administrative expenses	23	15	24	8	(11)	59
Operating expenses	479	463	827	59	(175)	1,653
Operating income (loss) before corporate charges	209	137	56	(37)	-	365
Corporate (charges) income	(28)	(26)	(9)	63	-	-
Operating income	181	111	47	26	-	365
Finance (expenses) recoveries	(91)	(48)	(3)	25	-	(117)
Gains on equity investment in Capital Power	-	-	-	60	-	60
Impairment of available-for-sale investment in Capital Power	-	-	-	(60)	-	(60)
Dividend income from available-for-sale investment in Capital Power	-	-	-	10	-	10
Equity share of income of Capital Power	-	-	-	5	-	5
Income tax (expense) recovery	(10)	-	-	7	-	(3)
Net income	$ 80	$ 63	$ 44	$ 73	$ -	$ 260
Total assets	$ 3,375	$ 1,907	$ 175	$ 3,270	$ (2,639)	$ 6,088
Total liabilities	2,682	1,273	160	2,097	(2,639)	3,573
Capital additions	214	235	1	13	-	463

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Year ended December 31, 2014	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 578	$ 401	$ 925	$ 23	$ -	$ 1,927
Inter-segment revenue	-	146	11	-	(157)	-
Total revenues and other income	578	547	936	23	(157)	1,927
Energy purchases and system access fees	-	156	846	-	(134)	868
Other raw materials and operating charges	143	39	-	1	(10)	173
Staff costs and employee benefits expenses	126	102	25	40	(1)	292
Depreciation and amortization	78	59	8	14	-	159
Franchise fees and property taxes	25	69	-	-	-	94
Other administrative expenses	23	13	23	9	(12)	56
Operating expenses	395	438	902	64	(157)	1,642
Operating income (loss) before corporate charges	183	109	34	(41)	-	285
Corporate (charges) income	(27)	(27)	(9)	63	-	-
Operating income	156	82	25	22	-	285
Finance (expenses) recoveries	(84)	(43)	(6)	14	-	(119)
Equity share of income of Capital Power	-	-	-	15	-	15
Gain on dilution of interest in Capital Power	-	-	-	8	-	8
Income tax (expense) recovery	(10)	-	(6)	18	-	2
Net income	$ 62	$ 39	$ 13	$ 77	$ -	$ 191
Total assets	$ 2,956	$ 1,728	$ 200	$ 3,199	$ (2,345)	$ 5,738
Investment in Capital Power	-	-	-	393	-	393
Total liabilities	2,353	1,171	189	2,030	(2,345)	3,398
Capital additions	175	200	2	8	-	385

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Geographic information

	Year ended December 31, 2015				Year ended December 31, 2014			
	Canada	U.S.	Inter-segment eliminations	Total	Canada	U.S.	Inter-segment eliminations	Total
External revenues and other income	$ 1,825	$ 193	$ -	$ 2,018	$ 1,764	$ 163	$ -	$1,927
Inter-segment revenues	175	-	(175)	-	157	-	(157)	-
Total revenues and other income	$ 2,000	$ 193	$ (175)	$ 2,018	$ 1,921	$ 163	$ (157)	$1,927

Non-current assets

	December 31, 2015	December 31, 2014
Canada	$ 4,362	$ 4,512
U.S.	1,055	842
	$ 5,417	$ 5,354

Consolidated Financial Statements of

EPCOR UTILITIES INC.

Years ended December 31, 2016 and 2015

Management's responsibility for financial reporting

The preparation and presentation of the accompanying consolidated financial statements of EPCOR Utilities Inc. are the responsibility of management and the consolidated financial statements have been approved by the Board of Directors. In management's opinion, the consolidated financial statements have been prepared within reasonable limits of materiality in accordance with International Financial Reporting Standards. The preparation of financial statements necessarily requires judgment and estimation when events affecting the current year depend on determinations to be made in the future. Management has exercised careful judgment where estimates were required, and these consolidated financial statements reflect all information available to March 2, 2017. Financial information presented elsewhere is consistent with that in the consolidated financial statements.

To discharge its responsibility for financial reporting, management maintains systems of internal controls designed to provide reasonable assurance that the Company's assets are safeguarded, that transactions are properly authorized and that relevant financial information is reliable, accurate and available on a timely basis. The internal control systems are monitored by management, and evaluated by an internal audit function that regularly reports its findings to management and the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited by KPMG LLP, the Company's external auditors. The external auditors are responsible for auditing the consolidated financial statements and expressing their opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The auditors' report outlines the scope of their audit and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, which is composed of independent directors, meets regularly with management, the internal auditors and the external auditors to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The Audit Committee reviews the consolidated financial statements and management's discussion and analysis and recommends their approval to the Board of Directors. The external auditors have full and open access to the Audit Committee, with and without the presence of management. The Audit Committee is also responsible for reviewing and recommending the annual appointment of the external auditors and approving the annual external audit plan.

On behalf of management,

Stuart Lee
President and Chief Executive Officer

Guy Bridgeman
Senior Vice President and Chief Financial Officer

March 2, 2017

EPCOR UTILITIES INC.

Consolidated Financial Statements

Years ended December 31, 2016 and 2015

KPMG LLP
2200, 10175 101 St NW
Edmonton AB T5J 0H3
Telephone (780) 429-7300
Fax (780) 429-7379
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholder of EPCOR Utilities Inc.

We have audited the accompanying consolidated financial statements of EPCOR Utilities Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EPCOR Utilities Inc. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
March 2, 2017
Edmonton, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

EPCOR UTILITIES INC.

Consolidated Statements of Comprehensive Income
(In millions of Canadian dollars)

Years ended December 31, 2016 and 2015

	2016	2015
Revenues and other income:		
Revenues (note 5)	$ 1,932	$ 1,996
Other income (note 5)	14	22
	1,946	2,018
Operating expenses:		
Energy purchases and system access fees	722	792
Other raw materials and operating charges	201	242
Staff costs and employee benefits expenses (note 6)	275	275
Depreciation and amortization (note 6)	189	178
Franchise fees and property taxes	99	97
Other administrative expenses (note 6)	81	69
	1,567	1,653
Operating income	379	365
Finance expenses (note 7)	(112)	(117)
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income on sale of portion of investment (note 11)	42	-
Gains on equity accounted investment in Capital Power L.P. (note 11)	-	60
Impairment of available-for-sale investment in Capital Power (note 11)	-	(60)
Dividend income from available-for-sale investment in Capital Power	9	10
Equity share of income of Capital Power L.P.	-	5
Income before income taxes	318	263
Income tax expense (note 8)	(9)	(3)
Net income for the year – all attributable to the Owner of the Company	309	260
Other comprehensive income (loss):		
Item that will not be reclassified to net income:		
Re-measurements of net defined benefit plans	(1)	2
Items that have been or may subsequently be reclassified to net income:		
Equity share of other comprehensive income of Capital Power L.P.	-	2
Equity share of other comprehensive income of Capital Power L.P. realized in net income[1] (note 11)	-	(9)
Fair value gain (loss) on available-for-sale investment in Capital Power (note 11)	43	(60)
Fair value gain on available-for-sale investment in Capital Power reclassified to net income on sale of portion of investment (note 11)	(42)	-
Impairment of available-for-sale investment in Capital Power reclassified to net income (note 11)	-	60
Unrealized gain (loss) on foreign currency translation	(11)	61
	(10)	54
	(11)	56
Comprehensive income for the year - all attributable to the Owner of the Company	$ 298	$ 316

1 For the years ended December 31, 2016 and 2015, net of reclassification of income tax expense of nil and $2 million, respectively.

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

EPCOR UTILITIES INC.

Consolidated Statements of Financial Position
(In millions of Canadian dollars)

December 31, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents (note 9)	$ 191	$ 36
Trade and other receivables (note 10)	325	620
Available-for-sale investment in Capital Power (note 11)	6	-
Inventories (note 12)	14	15
	536	671
Non-current assets:		
Other financial assets (note 13)	265	317
Deferred tax assets (note 14)	84	77
Available-for-sale investment in Capital Power (note 11)	-	167
Property, plant and equipment (note 15)	4,983	4,568
Intangible assets and goodwill (note 16)	293	288
	5,625	5,417
TOTAL ASSETS	$ 6,161	$ 6,088
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables (note 17)	$ 299	$ 259
Loans and borrowings (note 18)	15	242
Deferred revenue (note 19)	25	32
Provisions (note 20)	25	37
Derivatives (note 21)	-	2
Other liabilities (note 22)	26	27
	390	599
Non-current liabilities:		
Loans and borrowings (note 18)	1,905	1,875
Deferred revenue (note 19)	1,016	959
Deferred tax liabilities (note 14)	46	35
Provisions (note 20)	86	84
Derivatives (note 21)	-	10
Other liabilities (note 22)	46	11
	3,099	2,974
Total liabilities	3,489	3,573
Equity attributable to the Owner of the Company:		
Share capital (note 23)	24	24
Accumulated other comprehensive income (note 24)	86	97
Retained earnings	2,562	2,394
Total equity	2,672	2,515
TOTAL LIABILITIES AND EQUITY	$ 6,161	$ 6,088

Approved on behalf of the Board,

Hugh J. Bolton
Director and Chairman of the Board

Vito Culmone
Director and Chairman of the Audit Committee

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

EPCOR UTILITIES INC.

Consolidated Statements of Changes in Equity
(In millions of Canadian dollars)

December 31, 2016 and 2015

	Share capital (note 23)	Accumulated other comprehensive income (loss) Cash flow hedges (note 24)	Investment in Capital Power (note 24)	Available-for-sale financial assets (note 24)	Cumulative translation account (note 24)	Employee benefits account (note 24)	Retained earnings	Equity attributable to the Owner of the Company
Equity at December 31, 2014	$ 24	$ (5)	$ 12	$ 1	$ 44	$ (11)	$ 2,275	$ 2,340
Net income for the year	-	-	-	-	-	-	260	260
Other comprehensive income (loss):								
Re-measurements of net defined benefit plans	-	-	-	-	-	2	-	2
Equity share of other comprehensive income of Capital Power L.P.	-	-	2	-	-	-	-	2
Equity share of other comprehensive income of Capital Power L.P. realized in net income	-	5	(14)	-	-	-	-	(9)
Fair value loss on available-for-sale investment in Capital Power	-	-	-	(60)	-	-	-	(60)
Impairment of available-for-sale investment in Capital Power reclassified to net income	-	-	-	60	-	-	-	60
Unrealized gain on foreign currency translation	-	-	-	-	61	-	-	61
Total comprehensive income (loss)	-	5	(12)	-	61	2	260	316
Dividends	-	-	-	-	-	-	(141)	(141)
Equity at December 31, 2015	24	-	-	1	105	(9)	2,394	2,515
Net income for the year	-	-	-	-	-	-	309	309
Other comprehensive income (loss):								
Re-measurements of net defined benefit plans	-	-	-	-	-	(1)	-	(1)
Fair value gain on available-for-sale investment in Capital Power	-	-	-	43	-	-	-	43
Fair value gain on available-for-sale investment in Capital Power reclassified to net income on sale of portion of investment	-	-	-	(42)	-	-	-	(42)
Unrealized loss on foreign currency translation	-	-	-	-	(11)	-	-	(11)
Total comprehensive income (loss)	-	-	-	1	(11)	(1)	309	298
Dividends	-	-	-	-	-	-	(141)	(141)
Equity at December 31, 2016	$ 24	$ -	$ -	$ 2	$ 94	$ (10)	$ 2,562	$ 2,672

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

EPCOR UTILITIES INC.

Consolidated Statements of Cash Flows
(In millions of Canadian dollars)

Years ended December 31, 2016 and 2015

	2016	2015
Cash flows from (used in) operating activities:		
Net income for the year	$ 309	$ 260
Reconciliation of net income for the year to cash from (used in) operating activities:		
Interest paid	(128)	(116)
Finance expenses (note 7)	112	117
Income taxes recovered	1	1
Income tax expense (note 8)	9	3
Depreciation and amortization (note 6)	189	178
Change in employee benefits provisions	(8)	(3)
Contributions received (note 19)	21	30
Deferred revenue recognized (note 19)	(37)	(24)
Fair value change on derivative instruments (note 21)	(2)	(1)
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income on sale of portion of investment (note 11)	(42)	-
Gains on equity accounted investment in Capital Power L.P. (note 11)	-	(60)
Impairment of available-for-sale investment in Capital Power (note 11)	-	60
Equity share of income from Capital Power L.P.	-	(5)
Dividend income from available-for-sale investment in Capital Power	(9)	(10)
Other	(3)	5
Funds from operations	412	435
Change in non-cash operating working capital (note 26)	63	(19)
Net cash flows from operating activities	475	416
Cash flows from (used in) investing activities:		
Acquisition or construction of property, plant and equipment and intangible assets[1]	(502)	(463)
Business acquisitions (note 25)	(51)	-
Proceeds on disposal of property, plant and equipment	19	24
Change in non-cash investing working capital (note 26)	5	3
Net payments received (advances) on other financial assets (note 13)	314	(55)
Payment of Gold Bar transfer fees	-	(1)
Net proceeds on sale of a portion of available-for-sale investment in Capital Power	204	-
Net proceeds on sale of a portion of equity accounted investment in Capital Power L.P.	-	216
Distributions received from Capital Power	12	19
Net cash flows from (used) in investing activities	1	(257)
Cash flows from (used in) financing activities:		
Net repayment of short-term loans and borrowings	(98)	(5)
Proceeds from issuance of long-term loans and borrowings	52	-
Repayment of long-term loans and borrowings	(141)	(10)
Provisions	7	(4)
Dividends paid	(141)	(141)
Net cash flows used in financing activities	(321)	(160)
Increase (decrease) in cash and cash equivalents	155	(1)
Cash and cash equivalents, beginning of year	36	37
Cash and cash equivalents, end of year	$ 191	$ 36

1 Interest payment of $5 million (2015 – $6 million) is included in acquisition or construction of property, plant and equipment and intangible assets.

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

1. Nature of operations

EPCOR Utilities Inc. (the Company or EPCOR) builds, owns and operates electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure, and provides electricity, water and natural gas products and services to residential and commercial customers.

The Company operates in Canada and the United States (U.S.) with its registered head office located at 2000, 10423 - 101 Street NW, Edmonton, Alberta, Canada, T5H 0E8.

The common shares of EPCOR are owned by The City of Edmonton (the City). The Company was established by Edmonton City Council under City Bylaw 11071.

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 2, 2017.

(b) Basis of measurement

The Company's consolidated financial statements are prepared on the historical cost basis, except for its beneficial interest in the sinking fund held with the City, available-for-sale investment in Capital Power, derivative financial instruments and contingent consideration, which are measured at fair value.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements unless otherwise indicated.

(a) Basis of consolidation

These consolidated financial statements include the accounts of EPCOR and its wholly owned subsidiaries at December 31, 2016. Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from the performance of the entity and has the ability to affect those returns through its control over the entity. Subsidiaries are fully consolidated from the date on which EPCOR obtains control, and continue to be consolidated until the date that such control ceases to exist. All intercompany balances and transactions have been eliminated on consolidation. Unrealized gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. The financial statements of the subsidiaries are prepared for the same reporting period as EPCOR, using consistent accounting policies.

(b) Changes in significant accounting policies

The Company adopted amendments to various accounting standards effective January 1, 2016 and the amendments did not have a significant impact on these consolidated financial statements.

(c) Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The determination of whether or not an acquisition meets the definition of business combination under IFRS requires judgment and is assessed on a case by case basis. The consideration for an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition in exchange for control of the acquired business. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognized in net income. Transaction costs that the Company incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity then it is not re-measured and settlement is accounted for within equity. Subsequent changes in the fair value of contingent consideration that is not classified as equity are recognized in net income.

Goodwill is measured as the excess of the fair value of the consideration transferred less the fair value of the identifiable assets acquired and liabilities assumed. Subsequently, goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the carrying amount may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit to which goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognized.

(d) Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company for the provision of goods or services and where the revenue can be reliably measured. Revenues are measured at the fair value of the consideration received or to be received, excluding discounts, rebates and sales taxes or duty.

Certain water services contracts contain multiple-deliverables arrangements. Each deliverable that is considered to be a separate unit of account is accounted for individually. Significant judgment is required to determine an appropriate allocation of the total contract value to each unit of account based on the relative fair values of each unit. If the fair value of the delivered item is not reliably measurable, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered units of account. The primary identifiable deliverables under such contracts are plant construction and project upgrades and expansions, financing or leasing of upgrades, and facilities operations and maintenance.

The Company's principal sources of revenue and recognition of these revenues for financial statement purposes are as follows:

Sale of goods

Revenues from sales of electricity and water are recognized upon delivery. These revenues include an estimate of the value of electricity and water consumed by customers and billed subsequent to the reporting period.

Revenues from the sale of other goods are recognized when the products have been delivered and collectability is probable.

Provision of services

Revenues from the provision of electricity distribution and transmission services and wastewater treatment services are recognized over the period in which the service is performed and collectability is reasonably assured. Revenues from the provision of other services are recognized when the services have been rendered and collectability is probable.

Construction contracts

Contract revenue from the construction of water and wastewater treatment plants and other project upgrades and expansions provided to customers is recognized in profit or loss on the percentage of completion basis when the projected final cost of a construction contract can be reliably estimated. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be reliably measured. Percentage of completion is estimated based on an assessment of progress towards the completion of contract tasks. These estimates may result in the recognition of unbilled receivables when the revenues are earned prior to billing customers. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as deferred revenue in the statement of financial position. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

Provisions for estimated losses on uncompleted contracts are made for the full amount of the projected loss in the period in which the losses are identified. Revenues and costs related to variations are included in the total estimated contract revenue and expenses when it is probable that the customer will approve the variation and the amount of revenue arising from the variation can be reliably measured.

Revenues earned under finance leases

Finance income earned from arrangements where the Company leases water and wastewater assets to customers are accounted for as finance leases, as described in note 3(h).

Interest income

Revenue from the financing of project upgrades and expansions is recognized over the term of each contract using the effective interest method based on the fair value of the loan calculated at inception for each contract.

Interest income related to the loans receivable from Capital Power are recognized over the terms of the loans based on the interest rate applicable to each loan.

(e) Income taxes

Under the Income Tax Act (Canada) (ITA), a municipally owned corporation is subject to income tax on its taxable income if the income from activities for any relevant period that was earned outside the geographical boundaries of the municipality exceeds 10% of the corporation’s total income for that period. As a result of these and other provisions, certain Canadian subsidiaries of the Company are taxable under the ITA and provincial income tax acts. The U.S. subsidiaries are subject to income taxes pursuant to U.S. federal and state income tax laws.

Current income taxes for the current or prior periods are measured at the amount expected to be recovered from or payable to the taxation authorities based on the tax rates that are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted rates of tax expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the date of enactment or substantive enactment. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries except where the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries are only recognized to the extent that the temporary difference will reverse in the foreseeable future and the Company judges that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill arising from a business combination or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting income.

Current and deferred taxes are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

(f) Cash and cash equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Inventories

Small parts and other consumables, the majority of which are consumed by the Company in the provision of its goods and services, are valued at the lower of cost and net realizable value. Cost includes the purchase price, transportation costs and other costs to bring the inventories to their present location and condition. The costs of inventory items that are interchangeable are determined on an average cost basis. For inventory items that are not interchangeable, cost is assigned using specific identification of their individual costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Previous write downs of inventories from cost to net realizable value can be fully or partially reversed if supported by economic circumstances. The Company estimates the value of inventory that is expected to be used in the construction of property, plant and equipment (PP&E) and reports this value as construction work in progress under PP&E.

(h) Lease arrangements

At the inception of an arrangement entered into for the use of an asset, the Company determines whether such an arrangement is, or contains, a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of the specific asset and the arrangement conveys a right to use the asset. An arrangement conveys the right to use the asset if the right to control the use of the underlying asset is transferred. Where it is determined that the arrangement contains a lease, the Company classifies the lease as either a finance or operating lease dependent on whether substantially all the risks or rewards of ownership of the asset have been transferred.

Where the Company is the lessor, finance income related to leases or arrangements accounted for as finance leases is recognized in a manner that produces a constant rate of return on the net investment in the lease. The net investment in the lease is the aggregate of net minimum lease payments and unearned finance income discounted at the interest rate implicit in the lease. Unearned finance income is deferred and recognized in net income over the lease term.

Where the Company is the lessee, leases or other arrangements that transfer substantially all of the benefits and risks of ownership of property to the Company are classified as finance leases. All other arrangements that are determined to contain a lease are classified as operating leases. Rental payments under arrangements classified as operating leases are expensed on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(i) Property, plant and equipment

PP&E are recorded at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Cost includes contracted services, materials, direct labor, directly attributable overhead costs, borrowing costs on qualifying assets and decommissioning costs. Where parts of an item of PP&E have different estimated economic useful lives, they are accounted for as separate items (major components) of PP&E.

The cost of major inspections and maintenance is recognized in the carrying amount of the item if the asset recognition criteria are satisfied. The carrying amount of a replaced part is derecognized. The costs of day-to-day servicing are expensed as incurred.

Depreciation of cost less residual value is charged on a straight-line basis over the estimated economic useful lives of items of each depreciable component of PP&E, from the date they are available for use, as this most closely reflects the expected usage of the assets. Land and construction work in progress are not depreciated. Estimating the appropriate economic useful lives of assets requires significant judgment and is generally based on estimates of life characteristics of similar assets. The estimated economic useful lives, methods of depreciation and residual values are reviewed annually with any changes adopted on a prospective basis.

The ranges of estimated economic useful lives for PP&E assets used are as follows:

Water and wastewater treatment and distribution	3 – 95 years
Electricity transmission and distribution	3 – 65 years
Retail systems and equipment	3 – 8 years
Corporate information systems and equipment	2 – 15 years
Leasehold improvements	5 – 25 years

Gains and losses on the disposal of PP&E are determined as the difference between the net disposal proceeds and the carrying amount at the date of disposal. The gains or losses are included within depreciation and amortization.

(j) Capitalized borrowing costs

The Company capitalizes interest during construction of a qualifying asset using the weighted average cost of debt incurred on the Company's external borrowings or specific borrowings used to finance qualifying assets. Qualifying assets are considered to be those that take a substantial period of time to construct.

(k) Intangible assets

Intangible assets with finite lives are stated at cost, net of accumulated amortization and impairment losses, if any. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair value.

Customer rights represent the costs to acquire the rights to provide electricity services to particular customer groups for a finite period of time. Other rights represent the costs to acquire the rights, for finite periods of time, to access electricity delivery corridors, to the supply of water, to provide sewage treatment and transportation services, to withdraw groundwater and to the supply of potable water for emergency and peak purposes. Customer and other rights are recorded at cost at the date of acquisition. A subsequent expenditure is capitalized only when it increases the future economic benefit in the specific asset to which it relates.

The cost of intangible software includes the cost of license acquisitions, contracted services, materials, direct labor, along with directly attributable overhead costs and borrowing costs on qualifying assets.

Amortization of the cost of finite life intangible assets is recognized on a straight-line basis over the estimated economic useful lives of the assets, from the date they are available for use, as this most closely reflects the expected usage of the asset. Work in progress is not amortized. The estimated economic useful lives and methods of amortization are reviewed annually with any changes adopted on a prospective basis.

The estimated economic useful lives for intangible assets with finite lives are as follows:

Customer rights	20 years
Software	2 – 20 years
Other rights	12 – 50 years
Water rights	100 years

Certificates of convenience and necessity (CCN) represent the costs to acquire the exclusive rights for the Company to serve within its specified geographic areas in the U.S. for an indefinite period of time. CCN are not amortized but are subject to review for impairment at the end of each reporting period.

Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount at the date of disposal. The gains or losses are included within depreciation and amortization.

(l) Service concession arrangements

Service concession arrangements are contracts between the Company and government entities and can involve the design, build, finance, operation and maintenance of public infrastructure in which the government entity controls (i) the services provided by the Company and (ii) significant residual interest in the infrastructure. Service concession arrangements are classified in one of the following categories:

(i) financial asset
The Company recognizes a financial asset arising from service concession arrangement when it has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement. The financial asset is measured at the fair value of consideration received or receivable. When the Company delivers more than one category of activities in a service concession arrangement, the consideration received or receivable is allocated by reference to the relative fair value of the activity, when amounts are separately identifiable.

(ii) intangible asset
The Company recognizes an intangible asset arising from service concession arrangement when it has a right to charge for usage of the public infrastructure. The intangible asset, recognized as consideration for providing construction or upgrade services under a service concession arrangement, is measured at fair value upon initial recognition. Subsequent to initial recognition, the intangible asset is measured at cost less accumulated amortization and impairment losses, if any.

Revenue under the service concession arrangements is recognized as per the revenue recognition policy of the Company described in note 3(d) by reference to each activity when the amount of revenue is separately identifiable.

The accounting for investment in contracts with government entities requires the application of judgment in determining if they fall within the scope of IFRIC 12 – Service Concession Arrangements (IFRIC 12). Additional judgment also needs to be exercised when determining, among other things, the classification to be applied to the service concession asset (i.e. financial asset or intangible asset), allocation of consideration between revenue generating activities, classification of cost incurred on such concessions and the effective interest rate to be applied to the service concession asset. Contracts falling under IFRIC 12 require use of estimates over the term of the arrangement, and therefore any change in the long term estimates could result in significant variation in the amounts recognized under service concession arrangements.

(m) Deferred revenue

Certain assets may be acquired or constructed using non-repayable government grants or contributions from developers or customers. Non-refundable contributions received towards construction or acquisition of an item of PP&E which are used to provide ongoing service to a customer are recorded as deferred revenue and are amortized on a straight line basis over the estimated economic useful lives of the assets to which they relate.

(n) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as a financing expense over the estimated time period until settlement of the obligation. Significant judgment is required to determine whether a past event results in a liability that is recognized in the statement of financial position. In addition, quantifying such provision also involves a certain amount of estimation in respect of the amount and timing of outflows of economic benefits and therefore it is possible that the assumptions used in measuring the provision may differ from future outcomes and the impact of such variations could be material.

The Company recognizes a decommissioning provision in the period in which a legal or constructive obligation is incurred. A corresponding asset for the decommissioning cost is added to the carrying amount of the associated PP&E, and is depreciated over the estimated useful life of the asset.

The Company may receive contributions from customers, homebuilders, real estate developers, and others to fund construction necessary to extend service to new areas. Certain of these contributions may be refunded over a limited period of time as new customers begin to receive service or other contractual obligations are fulfilled. The portion of contributions which are estimated to be refunded in the future are recorded as provisions. The remaining contributions are classified as deferred revenue.

(o) Employee benefits

The employees of the Company are either members of the Local Authorities Pension Plan (LAPP) or other defined benefit or defined contribution pension plans.

The LAPP is a multi-employer defined benefit pension plan. The trustee of the plan is the Alberta President of Treasury Board and Minister of Finance and the plan is administered by a Board of Trustees. The Company and its employees make contributions to the plan at rates prescribed by the Board of Trustees to cover costs and an unfunded liability under the plan. The rates are based on a percentage of the pensionable salary. The most recent actuarial report of the plan discloses an unfunded liability. It is accounted for as a defined contribution plan as the LAPP is not able to provide information which reflects EPCOR's specific share of the defined benefit obligation or plan assets that would enable the Company to account for the plan as a defined benefit plan. Accordingly, the Company does not recognize its share of any plan surplus or deficit.

The Company maintains additional defined contribution and defined benefit pension plans to provide pension benefits to certain management employees and employees who are not otherwise served by the LAPP, including employees of new or acquired operations. Employees not otherwise served by LAPP comprise less than 17% of total employees (2015 – 17%).

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability for short-term employee benefits is recognized for the amount expected to be paid if the Company has a legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Company recognizes the contribution payable to a defined contribution plan as an expense and a liability in the period during which the service is rendered.

(p) Derivative financial instruments

The Company uses various risk management techniques to reduce its exposure to movements in electricity prices, interest rates and foreign currency exchange rates. These include the use of derivative financial instruments such as forward contracts or contracts-for-differences and interest rate swaps. Such instruments may be used to establish a fixed price for electricity, fixed interest rates for borrowings or anticipated transactions denominated in a foreign currency. Embedded derivatives are separated from the host contract and accounted for as a derivative if certain criteria are met.

The Company sells electricity to customers under a Regulated Rate Tariff (RRT). As part of the RRT, the amount of electricity to be economically hedged, the hedging method and the electricity selling prices to be charged to these customers is determined by a regulatory approved Energy Price Setting Plan (EPSP). Under the EPSP, the Company manages its exposure to fluctuating wholesale electricity spot prices and consumption volume by entering into financial electricity purchase contracts up to 120 days in advance of the month of consumption in order to economically hedge the price of electricity under a well-defined risk management process set out in the EPSP. Under these instruments, the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the Alberta Electric System Operator (AESO) market price and the fixed contract price for a specified volume of electricity for the forward months, all in accordance with the EPSP. The Company may enter into additional financial electricity purchase contracts outside the EPSP to further economically hedge the price of electricity.

Interest rates swaps are used by the Company to manage interest rate risks associated with long-term loans and borrowings and result in securing fixed interest rates over the term of the loans and borrowings against the floating interest rate.

Foreign exchange forward contracts may be used by the Company to manage foreign exchange exposures, consisting mainly of U.S. dollar exposures, resulting from anticipated transactions denominated in foreign currencies.

All derivative financial instruments are recorded at fair value as derivative assets or derivative liabilities on the statement of financial position, to the extent they have not been settled, with all changes in the fair value of derivatives recorded in net income. At initial recognition, transaction costs attributable to the derivative financial instruments are recognized in net income.

The fair value of derivative financial instruments reflects changes in the electricity prices, interest rates and foreign exchange rates. Fair value is determined based on exchange or over-the-counter price quotations by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data, such as forward prices, interest rates, foreign exchange rates and discount rates for time value. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

(q) Non-derivative financial instruments

Financial assets are identified and classified as one of the following: measured at fair value through profit or loss, loans and receivables, or available-for-sale financial assets. Financial assets are measured at fair value through profit or loss if classified as held for trading or designated as such upon initial recognition. Financial liabilities are classified as measured at fair value through profit or loss or as other financial liabilities.

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

Financial instruments at fair value through profit or loss

The Company may designate financial instruments as measured at fair value through profit or loss when such financial instruments have a reliably determinable fair value and where doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognizing gains and losses on them on a different basis.

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.

Loans and receivables

Cash and cash equivalents, trade and other receivables, and other financial assets are classified as loans and receivables.

The Company's loans and receivables are recognized initially at fair value plus directly attributable transaction costs, if any. After initial recognition, they are measured at amortized cost using the effective interest method less any impairment as described in note 3(r). The effective interest method calculates the amortized cost of a financial asset or liability and allocates the finance income or expense over the term of the financial asset or liability using an effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period when appropriate, to the net carrying amount of the financial asset or financial liability.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in other categories. These assets are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value with unrealized gains and losses, other than impairment losses, recognized in other comprehensive income and presented within equity in the fair value reserve. On derecognition of an available-for-sale financial asset, the cumulative gain or loss that was previously held in equity is transferred to net income.

The Company's beneficial interest in the sinking fund with the City and available-for-sale investment in Capital Power do not meet the criteria for classification in any of the previous categories and are classified as available-for-sale financial assets and measured at fair value with changes in fair value reported in other comprehensive income until it is disposed of or becomes impaired, as described in note 3(r).

Other financial liabilities

The Company’s trade and other payables, debentures and borrowings, contributions from customers and developers and other liabilities are classified as other financial liabilities and recognized on the date at which the Company becomes a party to the contractual arrangement. Other financial liabilities are derecognized when the contractual obligations are discharged, cancelled or expire.

Other financial liabilities are initially recognized at fair value including debenture 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.

(r) Impairment of financial assets

The Company's financial assets held as loans and receivables or available-for-sale assets are assessed for indicators of impairment at each reporting date. An impairment loss for financial assets is recorded when it is identified that there is objective evidence that one or more events has occurred, after the initial recognition of the asset, that has had a negative impact on the estimated future cash flows of the asset and that can be reliably estimated. The objective evidence for these types of assets is as follows:

(i) For listed and unlisted investments in equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment. Impairment losses recognized are not reversed in subsequent periods.

(ii) For all other financial assets, including finance lease receivables, objective evidence of impairment includes significant financial difficulty of the counterparty or default or delinquency in interest or principal payments.

(iii) Trade receivables and other assets that are not assessed for impairment individually are assessed for impairment on a collective basis. Objective evidence of impairment includes the Company's past experience of collecting payments as well as observable changes in national or local economic conditions.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is adjusted within net income.

(s) Impairment of non-financial assets

The carrying amounts of the Company’s non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. Non-financial assets include PP&E, intangible assets and goodwill. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or CGU). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a fundamental change, since the date of impairment, which may improve the financial performance of the non-financial asset. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(t) Foreign currency transactions and translation

Foreign currency transactions

Transactions denominated in currencies other than the Canadian dollar are translated at exchange rates in effect at the transaction date. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the end of the reporting period. Other non-monetary assets and liabilities are not retranslated unless they are carried at fair value. The resulting foreign exchange gains and losses are included in net income.

Foreign operations translation

On consolidation, the assets and liabilities of foreign operations that have a functional currency other than Canadian dollars are translated into Canadian dollars at the exchange rates in effect at the end of the reporting period. Revenues and expenses are translated at the average monthly exchange rates prevailing during the period. The resulting translation gains and losses are deferred and included in the cumulative translation account in accumulated other comprehensive income. The functional currency of the Company's U.S. operations is the U.S. dollar.

(u) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Transactions between segments are made under terms that approximate market value. The accounting policies of the segments are the same as those described in note 3 and other relevant notes and are measured in a manner consistent with that of the consolidated financial statements. The results for all operating segments, for which discrete financial information is available, are reviewed regularly by the Company's management to assess its performance and make decisions about resources to be allocated to the segment.

Segment results that are reported to management include items directly attributable to the segment as well as those that can be allocated on a reasonable and consistent basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire or construct PP&E and intangible assets other than goodwill.

The Company uses significant judgment in identification and aggregation of business segments. In particular, the Canadian and U.S. water operating segments are aggregated as one reportable segment since both operating segments offer similar water and wastewater services, the processes to treat water and wastewater are similar in both operating segments, the customer bases for each operating segment are similar, and both segments operate under similar rate-regulations.

(v) Standards and interpretations not yet applied

A number of new standards, amendments to standards and interpretations have been issued by the IASB and the International Financial Reporting Interpretations Committee the application of which is effective for periods beginning on or after January 1, 2017. Those which may be relevant to the Company and may impact the accounting policies of the Company are set out below. The Company does not plan to adopt these standards early. The extent of the impact of adoption of the standards has not yet been determined.

IFRS 9 – Financial Instruments (IFRS 9), which replaces IAS 39 – Financial Instruments: Recognition and Measurement, eliminates the existing classification of financial assets and requires financial assets to be measured based on the business model in which they are held and the characteristics of their contractual cash flows. Gains and losses on re-measurement of financial assets at fair value will be recognized in profit or loss, except for an investment in an equity instrument which is not held-for-trading. Changes in fair value attributable to changes in credit risk of financial liabilities measured under the fair value option will be recognized in other comprehensive income with the remainder of the change recognized in profit or loss unless an accounting mismatch in profit or loss occurs at which time the entire change in fair value will be recognized in profit or loss. Derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument must be measured at fair value. The impairment model has also been amended by introducing a new ‘expected credit loss’ model for calculating impairment, and new general hedge accounting requirements. The effective date for implementation of IFRS 9 has been set for annual periods beginning on or after January 1, 2018.

IFRS 15 - Revenue from Contracts with Customers (IFRS 15), which replaces IAS 11 - Construction Contracts and IAS 18 - Revenue and related interpretations, is effective for annual periods commencing on or after January 1, 2018. IFRS 15 introduces a new single revenue recognition model for contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and / or timing of revenue recognized. The requirements of the standard also apply to the recognition and measurement of gains and losses on sale of some non-financial assets that are not part of the entity’s ordinary activities.

IFRS 16 – Leases (IFRS 16), which replaces IAS 17 – Leases (IAS 17), is effective for annual periods commencing on or after January 1, 2019. IFRS 16 combines the existing dual model of operating and finance leases in IAS 17 into a single lessee model. Under the new single lessee model, a lessee will recognize lease assets and lease liabilities on the statement of financial position initially measured at the present value of unavoidable lease payments. IFRS 16 will also cause expenses to be higher at the beginning and lower towards the end of a lease, even when payments are consistent throughout the term. Leases for duration of twelve months or less and leases of low value assets are exempted from recognition on the statement of financial position. Lessors will continue with a dual lease classification model and the classification will determine how and when a lessor will recognize lease revenue and what assets will be recorded.

4. Use of judgments and estimates

The preparation of the Company’s consolidated financial statements in accordance with IFRS requires management to make judgments in the application of accounting policies, and estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements.

(a) Judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are included in notes:

Note 3(c) – Business acquisitions
Note 3(d) – Revenue recognition
Note 3(l) – Service concession arrangements
Note 3(n) – Provisions
Note 3(u) – Segment reporting

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

(b) Estimates

The Company reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgment in making these estimates and assumptions. Adjustments to previous estimates, which may be material, are recorded in the period in which they become known. Actual results may differ from these estimates.

Assumptions and uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include:

Revenues

By regulation, electricity wire service providers in Alberta have four months to submit the final electricity load settlement data after the month in which such electricity was consumed. The data and associated processes and systems used by the Company to estimate electricity revenues and costs, including unbilled consumption, are complex. The Company's estimation procedures will not necessarily detect errors in underlying data provided by industry participants including wire service providers and load settlement agents.

Fair value measurement

For accounting measures such as determining asset impairments, purchase price allocations for business combinations, recording financial assets and liabilities, and the recording and disclosure of certain non-financial assets, the Company is required to estimate the fair value of certain assets or obligations. Estimates of fair value may be based on readily determinable market values or on depreciable replacement cost or discounted cash flow techniques employing estimated future cash flows based on a number of assumptions and using an appropriate discount rate. Financial instruments, other than those classified as loans and receivables and other financial liabilities, are recorded at fair value which may require the use of estimated future prices.

Deferred taxes

Significant estimation and judgment is required in determining the provision for income taxes. Recognition of deferred tax assets in respect of deductible temporary differences and unused tax losses and credits is based on management's estimation of future taxable profit against which the deductible temporary differences and unused tax losses and credits can be utilized. The actual utilization of these deductible temporary differences and unused tax losses and credits may vary materially from the amounts estimated.

5. Revenues and other income

	2016	2015
Revenue		
Energy and water sales	$ 1,268	$ 1,314
Provision of services	600	566
Construction revenues	50	102
Finance lease income	14	14
	1,932	1,996
Other income		
Interest income on long-term receivable from Capital Power	14	21
Other	-	1
	14	22
	$ 1,946	$ 2,018

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

6. Expense analysis

	2016	2015
Included in staff costs and employee benefits expenses		
Post-employment defined contribution plan expense	$ 36	$ 36
Post-employment defined benefit plan expense	6	5
Included in depreciation and amortization		
Depreciation of property, plant and equipment	168	152
Amortization of intangible assets	19	18
Loss on disposal of assets	2	8
	189	178
Included in other administrative expenses		
Operating lease expenses	16	15
Lease recoveries through sub-lease	(6)	(5)

7. Finance expenses

	2016	2015
Interest on loans and borrowings	$ (117)	$ (123)
Capitalized interest (note 15)	5	6
	$ (112)	$ (117)

8. Income tax expense

	2016	2015
Current income tax recovery (expense)	$ (4)	$ 1
Deferred income tax recovery (expense)		
Relating to origination and reversal of temporary differences	(11)	(25)
Change in tax rates	-	13
Recognition of previously unrecognized deferred tax assets	6	8
	(5)	(4)
Total income tax expense	$ (9)	$ (3)

Income taxes differ from the amounts that would be computed by applying the federal and provincial income tax rates as follows:

	2016	2015
Income before taxation	$ 318	$ 263
Income tax at the statutory rate of 27% (2015 – 26%)	(86)	(68)
(Increase) decrease resulting from:		
Income exempt from income taxes at statutory rates	59	53
Non-taxable amounts	2	2
Change in recognition of deferred tax assets	18	(1)
Change in tax rates on deferred taxes	-	13
Effect of higher tax rate in the U.S.	(3)	(1)
Other	1	(1)
Total income tax expense	$ (9)	$ (3)

During the year ended December 31, 2015, the Government of Alberta increased the provincial corporate tax rate from 10% to 12% effective July 1, 2015. Accordingly, the change in provincial corporate tax rate increased the Company's tax rate for the year ended December 31, 2015, to 26% and for the years 2016 onward to 27%.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

9. Cash and cash equivalents

		2016		2015
Cash on deposit	$	137	$	36
Cash equivalents		54		-
	$	191	$	36

Restricted balances

Under certain agreements between the Company and the Natural Gas Exchange (NGX) for the purchase of electricity derivative financial instruments, the Company established separate bank accounts through which the settlement of the electricity derivative financial contracts are processed in conjunction with letters of credit and cash as collateral. As security for the payment and performance of its obligations, the Company assigned a first ranking security interest on the balance of these accounts to the NGX. The Company's use of this cash is restricted to these purposes. At December 31, 2016, $2 million (2015 – $3 million) was held in these bank accounts.

10. Trade and other receivables

		2016		2015
Trade receivables	$	179	$	216
Accrued revenues		125		120
Gross accounts receivable		304		336
Allowance for doubtful accounts		(5)		(3)
Net accounts receivable		299		333
Income tax recoverable		2		2
Prepaid expenses		6		5
		307		340
Current portion of long-term receivables (note 13)		18		280
	$	325	$	620

Details of the aging of accounts receivable and analysis of the changes in the allowance for doubtful accounts are provided in note 29.

11. Investment in Capital Power

In these consolidated financial statements, Capital Power refers to Capital Power Corporation and its subsidiaries, including Capital Power L.P., except where otherwise noted or the context indicates otherwise. Capital Power builds, owns and operates power plants in North America and manages its related electricity and natural gas portfolios by undertaking trading and marketing activity.

At December 31, 2015 the Company owned 9,391,000 common shares of Capital Power Corporation representing approximately 9% of the issued and outstanding common shares of Capital Power Corporation. During the year ended December 31, 2016, the Company sold 9,141,636 common shares of Capital Power Corporation for net proceeds of $204 million. The Company also reclassified fair value gains of $42 million to net income, representing the realized portion of fair value gains on available-for-sale investment in Capital Power Corporation previously recognized in other comprehensive income. At December 31, 2016, the Company owned 249,364 common shares of Capital Power Corporation.

In January 2017 the Company sold the remaining 249,364 common shares of Capital Power Corporation for net proceeds of $6 million.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The change in available-for-sale investment in Capital Power is detailed as follows:

	2016	2015
Balance, beginning of the year	$ 167	$ -
Transfer on reclassification from investment in Capital Power L.P.	-	197
Net gain on initial recognition as available-for-sale asset	-	30
Fair value gain (loss) recorded in other comprehensive income	43	(60)
Sale of portion of investment	(204)	-
Balance, end of year	$ 6	$ 167

The common shares of Capital Power Corporation are listed on the Toronto Stock Exchange under the symbol CPX. At December 31, 2016, the quoted market price of the common shares of Capital Power Corporation was $23.23 per share (2015 – $17.77 per share).

Prior to April 2, 2015, the Company owned 18,841,000 equity accounted limited partnership units of Capital Power L.P. which were exchanged on April 2, 2015 for an equal number of common shares of Capital Power Corporation. On the same date, the Company sold 9,450,000 shares and reclassified the remaining 9,391,000 shares as an available-for-sale investment. Details of gains on equity accounted investment in Capital Power L.P. realized in net income during the year ended December 31, 2015 are as follows:

	2015
Gain on sale of a portion of investment	$ 24
Gain on reclassification of investment as available-for-sale asset	36
	$ 60

Details of equity share of other comprehensive income of Capital Power L.P., reclassified in net income during the year ended December 31, 2015 are as follows:

	2015
Amount realized on sale of portion of investment[1]	$ (4)
Amount realized on reclassification of investment as available-for-sale asset[2]	(5)
	$ (9)

1 Net of reclassification of income tax expense of $1 million.

2 Net of reclassification of income tax expense of $1 million.

Subsequent to reclassification of the investment as available-for-sale, the Company determined that the fair value of the investment in Capital Power Corporation had declined significantly since it was initially reclassified as an available-for-sale asset. Accordingly, it was concluded that the available-for-sale investment in Capital Power was impaired and as a result, the Company recognized an impairment and reclassified the accumulated loss of $60 million before tax from other comprehensive income to net income during the year ended December 31, 2015.

12. Inventories

During the year ended December 31, 2016, $25 million (2015 – $23 million) was expensed to other raw materials and operating charges.

No significant inventory write-downs were recognized in the years ended December 31, 2016 or 2015. No significant reversals of previous write-downs were recorded in the years ended December 31, 2016 or 2015.

At December 31, 2016 or 2015, no inventories were pledged as security for liabilities.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

13. Other financial assets

	2016	2015
Long-term loans receivable from Capital Power	$ 184	$ 323
Long-term receivables from service concession arrangements	82	135
Finance lease receivables	1	104
Loans and other long-term receivables	15	34
Other	1	1
	283	597
Less: current portion (included in trade and other receivables) (note 10)	18	280
	$ 265	$ 317

Long-term loans receivable from Capital Power

On July 9, 2009, EPCOR received $896 million in long-term loans receivable from Capital Power as part of the consideration on the sale of the power generation business. These loans effectively mirror certain long-term debt obligations of EPCOR. The interest rates on the long-term loans receivable range from 5.8% to 9.0%.

Service concession arrangements

The Company has executed service concession arrangements to design, build, upgrade, finance, operate and maintain, under public private partnerships, wastewater treatment facilities with the City of Regina and water and wastewater treatment facilities with Her Majesty the Queen in Right of Alberta for Kananaskis Village. The consideration under the service concession arrangements constitute rights to financial assets and have been classified as financial assets and recorded as a long-term receivable under other financial assets. The significant terms of the arrangement are summarized below:

(a) **City of Regina**

In July 2014, EPCOR entered into an agreement with the City of Regina to operate and maintain an existing facility and design, build, finance, operate and maintain a new wastewater treatment facility under a public private partnership, for which the contract was signed in July 2014. In August 2014, EPCOR took over the operations of the existing wastewater treatment plant in Regina. Construction of the new plant reached substantial completion in December 2016 with the 30 day performance test to be completed in early 2017. The contract includes operation of both facilities for a term of 30 years. Contracted undiscounted cash flows from this project are estimated to be $444 million. As of December 31, 2016, an amount of $76 million (2015 – $129 million) has been recorded as a financial asset which will be recovered along with financing cost at the interest rate established in the arrangement over the life of the arrangement.

(b) **Kananaskis Village**

The Company won a bid to design, build, finance, upgrade, operate and maintain the water and wastewater treatment facilities in Kananaskis Village in October 2012. The arrangement includes operation of the facilities for a term of 10 years after completion of construction. The construction of the new facility was completed in August 2014 following which the Company started operating and maintaining the facility. At December 31, 2016, an amount of $5 million (2015 – $6 million) recognized as a financial asset pertaining to Kananaskis Village will be recovered along with financing cost at the interest rate established in the arrangement over the life of the arrangement.

The aggregate amount of revenues and operating income relating to construction services for financial assets under service concession arrangements for the year ended December 31, 2016, is $31 million (2015 – $89 million) and nil (2015 – $2 million), respectively.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Finance lease receivables

Approximate future payments to the Company are as follows:

	Minimum lease receivable		Present value of minimum lease receivable	
	2016	2015	2016	2015
Within one year	$ -	$ 110	$ -	$ 103
After one year but not more than five years	1	-	1	-
More than five years	-	1	-	1
Less: unearned finance income	-	(7)	-	-
	$ 1	$ 104	$ 1	$ 104

In 2009, the Company acquired potable water and wastewater treatment plant assets for approximately $100 million and agreed to lease the assets back to Suncor for a 20-year term after which Suncor had the option to purchase the assets from the Company for a specified price. As part of the arrangement, the Company also agreed to construct additional water and wastewater treatment plant assets for Suncor and to operate and maintain the original assets acquired and leased back to Suncor and the additional constructed assets over the 20-year lease term.

In February 2015, Suncor gave notice to the Company that it would exercise its contractual rights to buy back the leased assets and terminate the related financing and operating agreements. In accordance with the terms of the notice, the transfer of assets and operations back to Suncor was completed by August 2016.

14. Deferred tax assets / liabilities

Deferred tax assets are attributable to the following:

	2016	2015
Losses carried forward	$ 83	$ 78
Investment in partnerships	6	5
Canadian resource expenditures	8	8
Provisions	8	8
Deferred revenue	108	106
Other items	16	-
Tax assets	229	205
Set off by tax liabilities	(145)	(128)
Net tax assets	$ 84	$ 77

Deferred tax liabilities are attributable to the following:

	2016	2015
Other financial assets	$ 1	$ 3
Intangible assets and goodwill	18	17
Property, plant and equipment	172	142
Other items	-	1
Tax liabilities	191	163
Set off by tax assets	(145)	(128)
Net tax liabilities	$ 46	$ 35

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The changes in temporary differences during the years ended December 31, 2016 and 2015 were as follows:

	Balance, beginning of 2016	Recognized in net income	Recognized on business acquisitions	Foreign currency valuation adjustment and other	Balance, end of 2016
Losses carried forward	$ 78	$ 5	$ -	$ -	$ 83
Investment in partnerships	5	1	-	-	6
Canadian resource expenditures	8	-	-	-	8
Provisions	8	-	-	-	8
Deferred revenue	106	4	1	(3)	108
Other financial assets	(3)	2	-	-	(1)
Intangible assets and goodwill	(17)	(4)	3	-	(18)
Property, plant and equipment	(142)	(11)	(22)	3	(172)
Other items	(1)	(2)	18	1	16
	$ 42	$ (5)	$ -	$ 1	$ 38

	Balance, beginning of 2015	Recognized in net income	Recognized in other comprehensive income, net of re-classes to net income	Foreign currency valuation adjustment and other	Balance, end of 2015
Losses carried forward	$ 78	$ (2)	$ -	$ 2	$ 78
Investment in partnerships	(4)	7	2	-	5
Canadian resource expenditures	7	1	-	-	8
Provisions	-	1	-	7	8
Deferred revenue	78	12	-	16	106
Other financial assets	-	-	-	(3)	(3)
Intangible assets and goodwill	(11)	(3)	-	(3)	(17)
Property, plant and equipment	(103)	(18)	-	(21)	(142)
Other items	5	(2)	-	(4)	(1)
	$ 50	$ (4)	$ 2	$ (6)	$ 42

The Company has the following deductible temporary differences for which no deferred tax assets have been recognized:

	2016	2015
Non-capital losses	$ 106	$ 125
Capital losses	280	265
Other deductible temporary differences	46	115

The Company also has taxable temporary differences of $174 million (2015 - $155 million), associated with investments in subsidiaries, for which no deferred tax liability has been recognized. In addition, no deferred tax liability has been recognized in respect of unremitted earnings of subsidiaries as the Company is in a position to control the timing of the reversal of temporary difference and it is probable that such differences will not be reversed in the foreseeable future.

The non-capital losses expire between the years 2028 and 2036.

Deferred tax assets have been recognized to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilized. The Company has recognized deferred tax assets in the amount of $84 million (2015 – $77 million), the utilization of which is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. The recognition of these deferred tax assets is based on taxable income forecasts that incorporate existing circumstances that will result in positive taxable income against which non-capital loss carry-forwards can be utilized as well as management's intention to implement specific income tax planning strategies that will allow for the offset of remaining deductible temporary differences against future earnings of taxable entities within the consolidated group.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

15. Property, plant and equipment

	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance, beginning of 2016	$ 139	$ 55	$ 3,456	$ 2,235	$ 3	$ 55	$5,943
Additions[1]	472	1	74	3	-	4	554
Additions through business acquisitions	-	-	71	-	-	-	71
Disposals and retirements	-	(8)	(14)	(22)	(1)	(4)	(49)
Transfers into service	(453)	-	202	249	-	2	-
Transfers	-	-	-	1	-	-	1
Foreign currency valuation adjustments	(1)	-	(24)	-	-	-	(25)
Balance, end of 2016	157	48	3,765	2,466	2	57	6,495
Accumulated depreciation							
Balance, beginning of 2016	-	-	770	580	2	23	1,375
Depreciation	-	-	92	70	-	6	168
Disposals and retirements	-	-	(10)	(13)	(1)	(4)	(28)
Foreign currency valuation adjustments	-	-	(3)	-	-	-	(3)
Balance, end of 2016	-	-	849	637	1	25	1,512
Net book value, end of 2016	$ 157	$ 48	$ 2,916	$ 1,829	$ 1	$ 32	$4,983

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance, beginning of 2015	$ 146	$ 55	$ 3,064	$ 2,023	$ 3	$ 82	$5,373
Additions[1]	439	-	52	7	-	4	502
Disposals and retirements	-	(1)	(14)	(14)	-	(32)	(61)
Disposals through divesture[2]	(6)	-	(20)	-	-	-	(26)
Transfers into service	(447)	-	229	217	-	1	-
Transfers	-	-	-	2	-	-	2
Foreign currency valuation adjustments	7	1	145	-	-	-	153
Balance, end of 2015	139	55	3,456	2,235	3	55	5,943
Accumulated depreciation							
Balance, beginning of 2015	-	-	686	526	1	48	1,261
Depreciation	-	-	82	62	1	7	152
Disposals and retirements	-	-	(10)	(8)	-	(32)	(50)
Disposals through divesture[2]	-	-	(7)	-	-	-	(7)
Foreign currency valuation adjustments	-	-	19	-	-	-	19
Balance, end of 2015	-	-	770	580	2	23	1,375
Net book value, end of 2015	$ 139	$ 55	$ 2,686	$ 1,655	$ 1	$ 32	$4,568

1 Additions include non-cash contributed assets of $65 million (2015 – $62 million).

2 As per the terms of an agreement with the City of White Rock, the Company sold the White Rock utility operations to the City of White Rock.

Borrowing costs capitalized during the year ended December 31, 2016, were $5 million (2015 – $6 million) (note 7). The weighted average rates used to determine the borrowing costs eligible for capitalization ranged from 4.21% to 5.84% (2015 – 3.91% to 5.78%).

There are no security charges over the Company's property, plant and equipment.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

16. Intangible assets and goodwill

	Goodwill	Customer rights	Other rights	CCN	Software	Total
Cost						
Balance, beginning of 2016	$ 50	$ 51	$ 66	$ 92	$ 167	$ 426
Additions through acquisition	-	-	-	-	6	6
Additions through business acquisitions	3	-	13	-	-	16
Internally generated additions	-	-	-	-	1	1
Disposals and retirements	-	-	-	-	(6)	(6)
Change in construction work in progress	-	-	-	-	7	7
Transfers	-	-	-	-	(1)	(1)
Foreign currency translation adjustments	(1)	-	(1)	(3)	-	(5)
Balance, end of 2016	52	51	78	89	174	444
Accumulated amortization						
Balance, beginning of 2016	-	38	6	-	94	138
Amortization	-	3	2	-	14	19
Disposals and retirements	-	-	-	-	(6)	(6)
Balance, end of 2016	-	41	8	-	102	151
Net book value, end of 2016	$ 52	$ 10	$ 70	$ 89	$ 72	$ 293

	Goodwill	Customer rights	Other rights	CCN	Software	Total
Cost						
Balance, beginning of 2015	$ 42	$ 51	$ 54	$ 75	$ 183	$ 405
Additions through acquisition	-	-	7	3	25	35
Internally generated additions	-	-	-	-	1	1
Disposals and retirements	-	-	-	-	(34)	(34)
Change in construction work in progress	-	-	(3)	-	(6)	(9)
Transfers	-	-	-	-	(2)	(2)
Foreign currency translation adjustments	8	-	8	14	-	30
Balance, end of 2015	50	51	66	92	167	426
Accumulated amortization						
Balance, beginning of 2015	-	36	4	-	111	151
Amortization	-	2	1	-	15	18
Disposals and retirements	-	-	-	-	(32)	(32)
Foreign currency translation adjustments	-	-	1	-	-	1
Balance, end of 2015	-	38	6	-	94	138
Net book value, end of 2015	$ 50	$ 13	$ 60	$ 92	$ 73	$ 288

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

There are no security charges over the Company's intangible assets. Included in customer rights are the Company's customer rights to operate in the FortisAlberta service territory which expire on December 31, 2020.

For purposes of impairment testing, CCN has been allocated to cash-generating units as follows:

	2016	2015
Cash generating unit:		
Water segment – Water Arizona	$ 86	$ 88
Water segment – Others	3	4
	$ 89	$ 92

For purposes of impairment testing, goodwill acquired through business combinations has been allocated to cash-generating units as follows:

	2016	2015
Cash generating unit:		
Water segment – Chaparral	$ 12	$ 12
Water segment – Water Arizona	31	31
Water segment – Others	9	7
	$ 52	$ 50

The most recent reviews of goodwill were performed in the fourth quarter for each cash generating unit. Management reviewed conditions since the last review was performed and determined that no circumstances occurred since then to require a revision to the assumptions used in the value in use calculations.

The recoverable amount of the regulated cash generating units was determined based on a value in use calculation using cash flow projections from financial budgets prepared by senior management covering a twenty year period. The recoverable amount for the non-regulated cash generating unit was calculated using the projected cash flows for the life of the project. The projections were based on cash flow projections for the most recent long-term plan, which covered periods up to five years, with the projections for the balance of the period extrapolated using growth rates between 1.90% and 4.43% (2015 – between 1.80% and 2.63%) that are in line with the long-term average growth rate for the industry. The pre-tax discount rates applied to cash flow projections are as follows:

	2016	2015
Cash generating unit:		
Water segment – Chaparral	8.96%	8.46%
Water segment – Water Arizona	6.39%	6.23%
Water segment – Others	7.06%	6.34%

Key assumptions used in value-in-use calculations

The future cash flows of the underlying businesses are relatively stable since they relate primarily to ongoing water supply in a rate-regulated environment. In the case of cash generating units operating under a rate-regulated environment, revenues are set by the regulators to cover operating costs and to earn a return on the rate base, which is set at the regulator's approved weighted average cost of capital for the underlying utility. For non-regulated cash generating units, revenues are estimated based on long-term water supply contracts executed with the customers, which include escalation in rates and volumes over the term of the contracts.

The calculation of value in use for the cash generating units is most sensitive to the following assumptions:

Discount rates

The discount rates used were estimated based on the weighted average cost of capital for the cash generating unit, which, in the case of rate-regulated businesses, are the approved rate of return on capital allowed by the regulators. These rates were further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash flows have not been adjusted.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Timing of future rate increases

Revenue growth is forecast to continue at the same rate as operating costs. In the case of rate-regulated businesses, if future rate filings are delayed then rate increases and increased cash flows from revenues would be affected.

Sensitivity to changes in assumptions

Assumptions have been tested using reasonably possible alternative scenarios. For all scenarios considered, the recoverable value remained above the carrying amount of the cash generating unit.

17. Trade and other payables

	2016	2015
Trade payables	$ 186	$ 160
Accrued liabilities	65	54
Accrued interest	24	27
Due to related parties	6	6
Due to employees	13	12
Income tax payable	5	-
	$ 299	$ 259

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

18. Loans and borrowings

	Effective interest rate	2016	2015
Long-term loans and borrowings			
Obligation to the City, net of sinking fund			
Due in 1-5 years at 8.50% (2015 – 8.50%)	11.04%	$ 13	$ 19
Due in 6-10 years at 7.01% (2015 – 7.01%)	7.01%	14	16
Due in 16-25 years at 5.20% (2015 – 5.20%)	5.36%	64	70
		91	105
Public debentures			
At 6.75%, due in 2016	6.94%	-	130
At 5.80%, due in 2018	6.02%	400	400
At 6.80%, due in 2029	7.05%	150	150
At 5.65%, due in 2035	5.88%	200	200
At 6.65%, due in 2038	6.83%	200	200
At 5.75%, due in 2039	5.88%	200	200
At 4.55%, due in 2042	4.65%	300	300
		1,450	1,580
Private debt notes			
Bonds at 3.74%, due in 2021	3.80%	185	191
Bonds at 5.00%, due in 2041	5.08%	150	155
Bonds at 3.94% due in 2029	4.01%	1	-
Bonds at 3.63% due in 2041	3.70%	54	-
		390	346
		1,931	2,031
Other borrowings			
Deferred debt issue costs		(11)	(12)
Total long-term loans and borrowings		1,920	2,019
Short-term loans – commercial paper		-	98
Total Loans and borrowings		1,920	2,117
Less: current portion		15	242
		$ 1,905	$ 1,875

Obligation to the City

Debentures were issued, on behalf of the Company, pursuant to the City Bylaw authorization. The outstanding debentures are a direct, unconditional obligation of the City. The Company's obligation to the City matches the City's obligation pursuant to the debentures. The 8.50% debentures, maturing in the year 2018 and totaling $13 million (2015 - $19 million) rank as subordinated debt. In the event of default on other interest obligations, the coupon and sinking fund payments on the subordinated debt may be deferred for a period of up to five years, not exceeding the maturity date. If still in default at the end of five years, all unpaid payments plus accrued interest thereon may be repaid by issuing common shares to the City. Except for the subordinated debt, the obligation to the City will rank at least equal to all future debt that may be issued by the Company.

The Company makes annual contributions into the sinking fund of the City pertaining to certain debenture issues. These payments constitute effective settlement of the respective debt as the sinking fund accumulates to satisfy the underlying debenture maturity. For any specific City debenture sinking fund requirements, the payment obligation ceases on maturity of the debenture. The sinking fund is measured at fair value and presented net of its related debenture.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Public debentures

The public debentures are unsecured direct obligations of the Company and, subject to statutory preferred exemptions, rank equally with all other unsecured and unsubordinated indebtedness of the Company. The debentures are redeemable by the Company prior to maturity at the greater of par and a price specified under the terms of the debenture.

Private debt notes

During the year, the Company issued US$40 million private debt notes maturing in 2041 at an interest rate of 3.63%. The private debt notes were issued in U.S. dollars, are unsecured direct obligations of the Company and, subject to statutory preferred exemptions, rank equally with all other unsecured and unsubordinated indebtedness of the Company. The private debt notes are redeemable by the Company prior to maturity at the greater of par and a price specified under the terms of the private debt notes.

Commercial paper and bankers' acceptances

In the normal course of business, the Company provides financial support and performance assurances including guarantees, letters of credit and surety bonds to third parties in respect of its subsidiaries. Bank lines of credit are unsecured and are available to the Company up to an amount of $575 million (2015 – $575 million), comprised of committed amounts of $550 million (2015 – $550 million) and uncommitted amounts of $25 million (2015 – $25 million) as described in note 29. Letters of credit totaling $73 million (2015 – $48 million) have been issued under these facilities to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements. Amounts borrowed and letters of credit issued, if any, under these facilities which are not payable within one year are classified as non-current loans and borrowings.

The Company's commercial paper program has an authorized capacity of $350 million (2015 – $350 million). At December 31, 2016 commercial paper totaling nil (2015 – $98 million) was outstanding.

19. Deferred revenue

	2016	2015
Balance, beginning of year	$ 991	$ 870
Contributions received	83	74
Revenue recognized	(37)	(24)
Transfers from provisions	10	39
Recognized on business acquisition	1	-
Transfer on sale of business	-	(5)
Foreign currency valuation adjustments	(7)	38
Other	-	(1)
	1,041	991
Less: current portion	25	32
Balance, end of year	$ 1,016	$ 959

Contributions received include non-cash contributions of $62 million (2015 – $39 million).

The deferred revenue balance as of December 31, 2015 has been recast by $39 million (note 20).

20. Provisions

	2016	2015
Contributions from customers and developers	$ 21	$ 23
Employee benefits	89	98
Other	1	-
	111	121
Less: current portion	25	37
	$ 86	$ 84

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Contributions from customers and developers

	2016	2015
Balance, beginning of year	$ 23	$ 35
Contributions received	13	22
Transfers to deferred revenue	(10)	(39)
Contributions refunded	(3)	(3)
Foreign currency valuation adjustment	(2)	8
Balance, end of year	$ 21	$ 23

Contributions received include non-cash contributions of $3 million (2015 – $23 million).

During the fourth quarter of 2016, the Company determined that certain contributions received from customers and developers, which had previously been recognized as provisions throughout each quarter in 2016 and at December 31, 2015, were no longer refundable at the respective reporting dates. Accordingly, the Company has reclassified $10 million (2015 recast $39 million) from provisions to deferred revenue in the consolidated statements of financial position.

Employee benefits

	2016	2015
Other short-term employee benefit obligation	$ 18	$ 29
Post-employment benefit obligation	51	48
Other long-term employee benefit obligation	20	21
	$ 89	$ 98

Post-employment benefits

Total cash payments for pension benefits for the year ended December 31, 2016, consisting of cash contributed by the Company to the LAPP, other defined contribution and benefit plans, and cash payments directly to beneficiaries for their unfunded pension plan, were $39 million (2015 – $39 million). Total contributions expected to be paid in 2017 to the LAPP, other defined contribution and benefit plans, and cash payments directly to beneficiaries for their unfunded pension plan are $39 million.

Other long-term employee benefits

Other long-term employee benefits consist mainly of obligations for benefits provided to employees on long-term disability leaves.

21. Derivatives

Derivative financial instruments are held for the purpose of electricity price risk management and interest rate risk management.

The derivative financial instruments used for risk management purposes as described in note 29 consist of the following assets and liabilities:

Derivative financial liabilities

	2016	2015
Electricity price forward contracts	$ -	$ 2
Interest rate swaps (note 29)	-	10
	$ -	$ 12
Current	$ -	$ 2
Non-current	-	10
	$ -	$ 12

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Electricity price forward contracts

The forward contracts used to mitigate electricity price risk management consist of the following:

	2016	2015
Derivative instruments liabilities		
Fair value	$ 1	$ 9
Cash paid to counterparty	(1)	(7)
Net fair value	$ -	$ 2
Net notional buys		
Terawatt hours of electricity	1.1	1.2
Range of contract terms (in years)	0.1 to 0.3	0.1 to 0.3

The fair value of electricity derivative financial instruments reflects changes in the forward electricity prices, net of cash payments to or from the counterparty. During the course of the contract, daily payments are made to or received from the counterparty to settle the fair value of the contracts.

Fair value is determined based on quoted exchange index prices by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data such as forward electricity prices. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

Changes in fair value on electricity derivative financial instruments are recorded in energy purchases and system access fees.

22. Other liabilities

	2016	2015
Customer deposits	$ 26	$ 27
Contingent consideration	36	-
Leasehold inducements	10	11
	72	38
Less: current portion	26	27
	$ 46	$ 11

Contingent consideration

The contingent consideration is the present value of the Company's commitment to pay Blue Water Project 130 L.P. (Blue Water) approximately US$34 million on occurrence of future events (note 25). The Company is reasonably certain that it will be required to settle this commitment by way of cash payments and has accordingly recognized the liability for contingent consideration in the consolidated statements of financial position. The change in the liability for contingent consideration is as follows:

	2016
Contingent consideration recognized on business acquisition	$ 34
Foreign currency valuation adjustments	2
	$ 36

23. Share capital

Authorized shares

Unlimited number of voting common shares without nominal or par value.

Issued shares

Three common shares to the City.

24. Accumulated other comprehensive income

Cash flow hedges

This comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that had not yet occurred prior to the disposal of the power generation business in 2009. Consequent to the partial sell down of the equity accounted investment in Capital Power L.P. and reclassification of the remaining investment as available-for-sale asset in the year ended December 31, 2015, the Company reclassified and realized the remaining portion of cash flow hedging instruments in net income.

Investment in Capital Power

The investment in Capital Power was comprised of the Company's equity share in other comprehensive income and loss of Capital Power L.P. Consequent to the partial sell down of the equity accounted investment in Capital Power L.P. and reclassification of remaining investment as available-for-sale asset in the year ended December 31, 2015, the Company reclassified and realized the remaining portion of its share of other comprehensive income from Capital Power L.P. in net income.

Available-for-sale financial assets

This comprises the cumulative net change in the fair value of the Company's beneficial interest in the sinking fund and investment in Capital Power Corporation, until the investments are derecognized or impaired.

Cumulative translation account

The cumulative translation account represents the cumulative portion of gains and losses on retranslation of foreign operations that have a functional currency other than Canadian dollars. The cumulative deferred gain or loss on the foreign operation is reclassified to net income only on disposal of the foreign operation.

Employee benefits account

The employee benefits account represents the cumulative impact of actuarial gains and losses, and return on plan assets excluding interest income from the Company's defined benefit pension plans.

25. Business acquisitions

Blue Water 130 Pipeline

On August 19, 2016, the Company completed the acquisition of the assets of Blue Water Project 130 L.P. (Blue Water) and Cross County Water Supply Corporation (CCWSC) through its wholly owned U.S. subsidiaries EPCOR 130 Project Inc. and 130 Regional Water Supply Corporation respectively for total consideration of $82 million (US$64 million).

The assets acquired from Blue Water and CCWSC include an 85 kilometer (53 mile) water supply pipeline, near Austin, Texas, U.S., with designed capacity of nearly 18 million gallons per day along with groundwater well production systems and long term wholesale water supply agreements.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition, in Canadian dollars as follows:

		2016
Fair value of net assets acquired:		
Intangible assets	$	13
Goodwill		2
Property, plant and equipment		68
Deferred revenue		(1)
Net assets acquired at fair value	$	82
Consideration:		
Cash	$	48
Contingent consideration		34
Total consideration	$	82

To fund the acquisition, the Company issued US$40 million private debt notes (note 18).

The intangible assets of $13 million consist of the right to receive groundwater up to the maximum capacity of the pipeline for a period of at least 99 years.

The goodwill recognized at fair value of $2 million includes the value of the expected benefits to the Company by providing a commercial platform to develop other similar projects and future cost synergies which may result from the Company's expanded operations in the State of Texas, U.S. The goodwill will be deductible for income tax purposes.

Contingent consideration with a fair value of $34 million was recognized at the date of acquisition. The contingent consideration consists of the Company's commitment to pay Blue Water (i) a fee of up to US$32 million based on securing newly executed long term contracts for the supply of water and (ii) US$2 million upon execution of certain pending agreements with third parties, being facilitated by Blue Water. There is no time limit related to the contingent consideration. These amounts are included within other liabilities on the consolidated statements of financial position.

The transaction has been accounted for using the acquisition method in conformity with IFRS 3 Business Combinations with the results of operations included in the consolidated financial statements from the date of acquisition. Total revenue and net income included in the consolidated statements of comprehensive income since the date of acquisition to December 31, 2016 was $1 million and nil respectively. The consolidated statements of comprehensive income up to December 31, 2016 would have included estimated revenue and net income of $4 million and nil respectively had the acquisition of assets occurred on January 1, 2016.

Management used assumptions and estimates about future events in the determination of fair values. The assumptions and estimates with respect to the determination of the fair value of PPE, intangible assets and contingent consideration required the most judgment. Based on those assumptions and estimates the purchase price was allocated to the identified assets and liabilities including goodwill and contingent consideration. The fair value was estimated by applying standard valuation techniques. The fair value measurement is based on significant inputs which are not observable in the market. The key assumptions in determination of fair value included the discount rate, future growth rates and expected execution of new contracts for the supply of water. The allocation of the purchase price was internally determined based on the relative fair values of the assets and liabilities. Goodwill was estimated based on the applicable incremental benefits of the acquisition. The fair value of contingent consideration was based on management's expectation of execution of new long-term water supply contracts with customers and the execution of pending agreements, discounted to their present value.

Willow Valley Water Company

On May 9, 2016, the Company completed the acquisition of the regulated water utility assets of Willow Valley Water Company, providing water services in the Bullhead City area of Arizona, U.S., for cash consideration of $3 million (US$2 million).

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Natural Resource Gas Limited

On November 7, 2016, the Company entered into a definitive asset purchase agreement to acquire substantially all of the assets of Natural Resource Gas Limited (NRGL) for consideration of $21 million, subject to certain adjustments. NRGL is a natural gas distributor in southwestern Ontario near London, providing services to approximately 8,000 residential, commercial and industrial customers in the counties of Elgin, Middlesex, Oxford and Norfolk. The arrangement requires regulatory approval from the Ontario Energy Board, for which an application has been filed. The Company expects to complete the transaction in mid-2017.

26. Change in non-cash working capital

	2016	2015
Trade receivables (note 10)	$ 34	$ (22)
Prepaid expenses (note 10)	(1)	(1)
Inventories	1	(1)
Trade and other payables (note 17)	40	11
	$ 74	$ (13)

	2016	2015
Included in specific items on consolidated statements of cash flows:		
Interest paid	$ (2)	$ -
Income taxes recovered	5	-
Distributions received from Capital Power	3	3
	6	3
Operating activities	63	(19)
Investing activities	5	3
	$ 74	$ (13)

27. Related party balances and transactions

Compensation of key management personnel

	2016	2015
Short-term employee benefits	$ 5	$ 5
Post-employment benefits	1	2
Other long-term benefits	2	3
	$ 8	$ 10

The Company provides utility services to key management personnel as it is the sole provider of certain services. Such services are provided in the normal course of operations and are based on normal commercial rates, as approved by regulation.

Other related party transactions

The Company is 100% owned by the City. The Company provides maintenance, repair and construction services, and customer billing services to the City, and purchases printing services and supplies, mobile equipment services, public works and various other services pursuant to service agreements. Sales between the Company and the City are in the normal course of operations, and are generally based on normal commercial rates, or as agreed to by the parties.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The following summarizes the Company's related party transactions with the City:

	2016	2015
Consolidated Statements of Comprehensive Income		
Revenues (a)	$ 94	$ 87
Other raw materials and operating charges (b)	9	9
Franchise fees and property taxes (c)	92	90
Finance expense (d)	9	10

(a) Included within revenues are electricity and water sales of $4 million (2015 – $4 million), service revenue including the provision of maintenance, repair and construction services of $82 million (2015 – $75 million) and customer billing services of $8 million (2015 – $8 million).

(b) Includes certain costs of printing services and supplies, mobile equipment services, public works and various other services pursuant to service agreements.

(c) Composed of franchise fees of $57 million at 0.39 cents per kilowatt hour of electric distribution sales volume for direct connect customers and 0.76 cents per kilowatt hour for all other customers (2015– $55 million at 0.72 cents per kilowatt hour for all customers), franchise fees of $20 million at 8% (2015 – $20 million at 8%) of qualifying revenues of water services and waste water services, and property taxes of $15 million (2015 – $15 million) on properties owned within the City municipal boundaries.

(d) Composed of interest expense on the obligation to the City at interest rates ranging from 5.20% to 8.50% (2015 – 5.20% to 8.50%).

The following summarizes the Company's related party balances with the City:

	2016	2015
Consolidated Statements of Financial Position		
Trade and other receivables	$ 34	$ 50
Property, plant and equipment (e)	5	4
Trade and other payables (f)	8	7
Loans and borrowings (note 19)	90	105
Deferred revenue (g)	2	1

(e) Costs of capital construction for electric and water distribution infrastructure.

(f) Includes nil (2015 – $1 million) for drainage and construction services provided by the City.

(g) Contributions received for capital projects.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

28. Financial instruments

Classification

The classification of the Company's financial instruments at December 31, 2016 and 2015 is summarized as follows:

	Classification				
	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Available-for-sale	Fair value hierarchy
Measured at fair value					
Available-for-sale investment in Capital Power (note 11)				X	Level 1
Beneficial interest in sinking fund (note 18)				X	Level 1
Derivatives (note 21)					
Financial electricity purchase contracts – designated	X				Level 1
Interest rate swaps – designated	X				Level 2
Other liabilities (note 22)					
Contingent consideration – designated	X				Level 3
Measured at amortized cost					
Cash and cash equivalents (note 9)		X			Level 1
Trade and other receivables (note 10)		X			Level 3
Other financial assets (note 13)		X			Level 2
Trade and other payables (note 17)			X		Level 3
Debentures and borrowings (note 18)			X		Level 2
Other liabilities (note 22)					
Customer deposits			X		Level 3

Fair value

The carrying amounts of cash and cash equivalents, trade and other receivables, current portion of other financial assets, trade and other payables and certain other liabilities (including customer deposits) approximate their fair values due to the short-term nature of these financial instruments.

The carrying amounts and fair values of the Company's remaining financial assets and liabilities are as follows:

	2016		2015	
	Carrying amount	Fair value	Carrying Amount	Fair value
Available-for-sale investment in Capital Power (note 11)	$ 6	$ 6	$ 167	$ 167
Non-current portion of other financial assets (note 13)[1]	264	275	316	330
Loans and borrowings (note 18)				
Debentures and borrowings	2,007	2,328	2,198	2,527
Beneficial interest in sinking fund	(87)	(87)	(81)	(81)
Derivatives (note 21)	-	-	12	12
Other liabilities (note 22)				
Contingent consideration	36	36	-	-

1 Excluding finance lease receivables $1 million (2015 – $1 million).

Fair value hierarchy

The financial instruments of the Company that are recorded at fair value have been classified into levels using a fair value hierarchy. A Level 1 valuation is determined by unadjusted quoted prices in active markets for identical assets or liabilities. A Level 2 valuation is based upon inputs other than quoted prices included in Level 1 that are observable for the instruments either directly or indirectly. A Level 3 valuation for the assets and liabilities are not based on observable market data.

Available-for-sale investment in Capital Power

The available-for-sale investment in Capital Power represents an investment in common shares of Capital Power Corporation. The fair value of the investment is based on the quoted price of common shares of Capital Power Corporation (CPX) on the Toronto Stock Exchange at December 31, 2016 and 2015.

Other financial assets

The fair value of the Company's unsecured long-term receivable from Capital Power is based on a current yield for the Company's receivable at December 31, 2016 and 2015. This yield is based on an estimated credit spread for Capital Power over the yields of long-term Government of Canada bonds that have similar maturities to the Company's receivable. The estimated credit spread is based on Capital Power's indicative spread as published by independent financial institutions.

The fair values of the Company's other long-term loans and receivables are based on the estimated interest rates implicit in comparable loan arrangements plus an estimated credit spread based on the counterparty risks at December 31, 2016 and 2015.

Loans and borrowings

The fair value of the Company's long-term public debt is based on the pricing sourced from market data as of December 31, 2016 and 2015. The fair value of the Company's remaining long-term loans and borrowings is based on determining a current yield for the Company's debt at December 31, 2016 and 2015. This yield is based on an estimated credit spread for the Company over the yields of long-term Government of Canada bonds for Canadian dollar loans and U.S. Treasury bonds for U.S. dollar loans that have similar maturities to the Company's debt. The estimated credit spread is based on the Company's indicative spread as published by independent financial institutions. The Company's long-term loans and borrowings (including the current portion) include City debentures which are offset by payments made by the Company into the sinking fund. The Company's beneficial interest in the sinking fund is a related party balance and has been recorded at fair value as it has been classified as an available-for-sale financial asset. The fair value of the beneficial interest in the sinking fund is based on quoted market values as determined by the City at or near the reporting date.

Short-term loans and borrowings are measured at amortized cost and their carrying value approximate their fair value due to the short-term nature of these financial instruments.

Contingent consideration

The payment of contingent consideration is mainly dependent on securing newly executed long term contracts for the supply of water, the timing of which is uncertain. The fair value of the Company's contingent consideration is determined based on the expected timing of execution of such new contracts and the resulting cash flows are then discounted at risk adjusted discount rates. Any change in the timing of execution of new contracts, discount rate or foreign exchange rate can have material impact on the fair value of contingent consideration.

Timing of execution of new contracts

If the timing of execution of new contracts is advanced by 2 years then the fair value of the contingent consideration will increase by $4 million. Alternatively, if the timing of execution of new contracts is delayed by 2 years then the fair value of the contingent consideration will decrease by $5 million.

Discount rate

A 50 basis point change in discount rate will change the fair value of the contingent consideration by $1 million.

Foreign exchange rate

A 10% change in the foreign exchange rate will change the fair value of the contingent consideration by $4 million.

Derivatives

The fair value of the Company's financial electricity purchase contracts is determined based on exchange index prices in active markets. Fair value amounts reflect management's best estimates using external readily observable market data such as forward electricity prices.

The fair value of the Company's interest rate swaps is based on valuations obtained from the counterparty. The fair value is determined by the counterparty using a discounted cash flow model. The inputs used include notional amounts, the quoted forward Canadian Dealer Offering Rate (CDOR) curve, the contractual fixed settlement rate and an applicable discount factor.

It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

29. Financial risk management

Overview

The Company is exposed to a number of different financial risks arising from business activities and its use of financial instruments, including market risk, credit risk, and liquidity risk. The Company's overall risk management process is designed to identify, assess, measure, manage, mitigate and report on business risk which includes financial risk. Enterprise risk management is overseen by the Board of Directors and senior management is responsible for fulfilling objectives, targets, and policies approved by the Board of Directors. EPCOR's Corporate Treasurer in conjunction with the Company's Internal Audit function provides the Board of Directors with an enterprise risk assessment quarterly. Risk management strategies, policies and limits are designed to help ensure the risk exposures are managed within the Company's business objectives and risk tolerance. The Company's financial risk management objective is to protect and minimize volatility in earnings and cash flow.

Financial risk management including foreign exchange risk, interest rate risk, liquidity risk and the associated credit risk management is carried out by the centralized Treasury function in accordance with applicable policies. The Audit Committee of the Board of Directors, in its oversight role, performs regular and ad-hoc reviews of risk management controls and procedures to help ensure compliance.

Risks related to Capital Power

Significant reliance is placed on the capacity of Capital Power to honor its back-to-back debt obligations with EPCOR. Should Capital Power fail to satisfy these obligations, EPCOR's capacity to satisfy its debt obligations would be reduced and EPCOR would need to satisfy its own debt obligations by other means. As per agreement, the back-to-back debt obligations may be called by EPCOR for repayment. Repayment must occur within 180 days of notice.

Capital Power has indemnified EPCOR for any losses arising from its inability to discharge its liabilities, including any amounts owing to EPCOR in relation to the long-term loans receivable.

Market risk

Market risk is the risk of loss that results from changes in market factors such as electricity prices, foreign currency exchange rates, interest rates and equity prices. The level of market risk to which the Company is exposed at any point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the Company's financial assets and liabilities held, non-trading physical asset and contract portfolios, and trading portfolios. The Company's financial exposure management policy is approved by the Board of Directors and the associated procedures and practices are designed to manage the foreign exchange risk and interest rate risk throughout the Company.

To manage the exposure related to changes in market risk, the Company may use various risk management techniques including derivative financial instruments such as forward contracts, contracts-for-differences or interest rate swaps. Such instruments may be used for an anticipated transaction to establish a fixed price denominated in a foreign currency or electricity or to secure fixed interest rates.

The sensitivities provided in each of the following risk discussions disclose the effect of reasonable changes in relevant prices and rates on net income at the reporting date. The sensitivities are hypothetical and should not be considered to be predictive of future performance or indicative of earnings on these instruments. The Company's actual exposure to market risks is constantly changing as the Company's portfolio of debt, equity instruments, foreign currency and commodity contracts changes. Changes in fair values or cash flows based on market variable fluctuations cannot be extrapolated since the relationship between the change in the market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company.

Electricity price and volume risk

EPCOR sells electricity to regulated rate option (RRO) customers under a RRT. All electricity for the RRO customers is purchased in real time from the AESO in the spot market. Under the RRT, the amount of electricity to be economically hedged, the hedging method and the electricity selling prices to be charged to these customers is determined by the EPSP. Under the EPSP, the Company uses financial contracts to economically hedge the RRO requirements and incorporate the price into customer rates for the applicable month. Fixed volumes of electricity are economically hedged using financial contracts-for-differences up to 120 days in advance of the month in which the electricity (load) is consumed by the RRO customers. The volume of electricity economically hedged in advance is based on load (usage) forecasts for the consumption month. When consumption varies from forecast consumption patterns, EPCOR is exposed to prevailing market prices when the volume of electricity economically hedged is short of actual load requirements or greater than the actual load requirements (long). Exposure to variances in electricity volume can be exacerbated by other events such as unexpected generation plant outages and unusual weather patterns.

Under contracts-for-differences the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the AESO electricity spot market price and the fixed contract price for a specified volume of electricity up to 120 days in advance of the consumption date, all in accordance with the EPSP. The contracts-for-differences are referenced to the AESO electricity spot price and any movement in the AESO price results in changes in the contract settlement amount. If the risks of the EPSP were to become untenable, EPCOR could test the market and potentially re-contract the procurement risk under an outsourcing arrangement at a certain cost that would likely increase procurement costs and reduce margins. The Company may enter into additional financial electricity purchase contracts outside the EPSP to further economically hedge the price of electricity.

At December 31, 2016, holding all other variables constant, a $5 per megawatt hour increase / decrease in the forward electricity spot price would increase / decrease net income by approximately $5 million (2015 – $6 million). In preparing the sensitivity analysis, the Company compared average AESO electricity spot prices to the forward index price for the past 24 months. Based on historical fluctuations, the Company estimates that the fair value of the contracts could increase or decrease by up to $22 million (2015 – $35 million) with a corresponding change to net income.

Foreign exchange risk

The Company is exposed to foreign exchange risk on foreign currency denominated future transactions and firm commitments, and monetary assets and liabilities denominated in a foreign currency and on its net investments in foreign subsidiaries.

The Company's financial exposure management policy attempts to minimize material exposures arising from movements in the Canadian dollar relative to the U.S. dollar or other foreign currencies. The Company's direct exposure to foreign exchange risk arises on commitments denominated in U.S. dollars. The Company coordinates and manages foreign exchange risk centrally by identifying opportunities for naturally occurring opposite movements and then dealing with any material residual foreign exchange risks.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The Company may use foreign currency forward contracts to fix the functional currency of its non-functional currency cash flows thereby reducing its anticipated foreign currency denominated transactional exposure. The Company looks to limit foreign currency exposures as a percentage of estimated future cash flows.

At December 31, 2016, holding all other variables constant, a 10% change in exchange rate would change the private debt balance by $39 million (2015 – $35 million).

Interest rate risk

The Company is exposed to changes in interest rates on its cash and cash equivalents, and floating-rate short-term loans and obligations. The Company is also exposed to interest rate risk from the possibility that changes in the interest rates will affect future cash flows or the fair values of its financial instruments. Interest rate risk associated with short-term loans and borrowings is immaterial due to its short-term maturity. At December 31, 2016 and 2015, all long-term debt was fixed rate.

The Company entered into the following interest rate swaps to manage its interest rate risk in the Regina Wastewater project as described below:

Type	Term	Notional amount	Fixed rate	Floating rate index
Pay fixed, receive floating	August 1, 2014 – January 3, 2017	Range of $18 – $136	1.55%	1-month CDOR
Pay fixed, receive floating	January 3, 2017 – June 1, 2044	$67	3.51%	1-month CDOR

The counterparty to the swap arrangements is a major Canadian financial institution. During their respective terms, the swaps are being net cash settled on a monthly basis. The Company does not anticipate any material adverse effect on its financial covenants resulting from its involvement in this type of swap arrangement, nor does it anticipate non-performance by the counterparty.

During the year, the Company terminated the long term “pay fixed, receive floating” interest rate swap by settlement of the outstanding liability of $14 million to the counterparty. Subsequent to the year ended December 31, 2016, the remaining short term interest rate swap was also settled on January 3, 2017.

Equity Price Risk

Equity price risk refers to the risk that the fair value of an investment will fluctuate as a result of changes in equity markets. The Company is exposed to equity price risk arising from its available-for-sale investment in the common shares of Capital Power Corporation which are listed on TSX. At December 31, 2016, an increase or decrease of $1.00 in market price of common shares of Capital Power Corporation will result in an increase or decrease of nil (2015 - $9 million) in the fair value of Company’s available-for-sale investment in Capital Power, respectively.

Credit risk

Credit risk is the possible financial loss associated with the inability of counterparties to satisfy their contractual obligations to the Company, including payment and performance. The Company’s counterparty credit risk management policy is approved by the Board of Directors and the associated procedures and practices are designed to manage the credit risks associated with the various business activities throughout the Company. Credit and counterparty risk management procedures and practices generally include assessment of individual counterparty creditworthiness and establishment of exposure limits prior to entering into a transaction with the counterparty. Exposures and concentrations are subsequently monitored and are regularly reported to senior management. Creditworthiness continues to be evaluated after transactions have been initiated, at a minimum, on an annual basis. Credit risk includes the Capital Power back-to-back debt obligations with EPCOR as described above. To manage and mitigate credit risk, the Company employs various credit mitigation practices such as master netting agreements, pre-payment arrangements from retail customers, credit derivatives and other forms of credit enhancements including cash deposits, parent company guarantees, and bank letters of credit.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Maximum credit risk exposure

The Company's maximum credit exposure is represented by the carrying amount of the following financial assets:

	2016	2015
Cash and cash equivalents[1] (note 9)	$ 191	$ 36
Trade and other receivables[2] (note 10)	299	333
Other financial assets (note 13)	283	597
	$ 773	$ 966

1 This table does not take into account collateral held. At December 31, 2016, the Company held cash deposits of $26 million (2015 – $27 million) as security for certain counterparty accounts receivable and derivative contracts. The Company is not permitted to sell or re-pledge this collateral in the absence of default of the counterparties providing the collateral.

2 The Company's maximum exposures related to trade and other receivables by major credit concentration is composed of $212 million (2015 – $209 million) related to rate-regulated customer balances. At December 31, 2016, the Company held credit enhancements to mitigate credit risk on trade and other receivables in the form of letters of credit of $1 million (2015 – $1 million), performance bonds of $1 million (2015 – nil) and parental guarantees of $263 million (2015 – $252 million).

Credit quality and concentrations

The Company is exposed to credit risk on outstanding trade receivables associated with its energy and water sales activities and agreements with the AESO and on electricity supply agreements with wholesale and retail customers. The Company is also exposed to credit risk from its cash and cash equivalents, derivative instruments and long-term financing arrangements receivable.

The credit quality of the Company's trade and other receivables, by major credit concentrations, finance lease receivables, and other financial assets at December 31, 2016 and 2015, was as follows:

	2016		2015	
	Investment grade or secured[1,2]	Unrated	Investment grade or secured[1,2]	Unrated
	%	%	%	%
Trade and other receivables				
Rate-regulated customers[3]	-	24	-	34
Non rate-regulated customers	65	11	62	4
Total trade and other receivables	65	35	62	38
Cash and cash equivalents	100	-	100	-
Loans and other long-term receivables	100	-	100	-

1 Credit ratings are based on the Company's internal criteria and analyses, which take into account, among other factors, the investment grade ratings of external credit rating agencies when available.

2 Certain trade receivables and other financial assets are considered to have low credit risk as they are either secured by the underlying assets, secured by other forms of credit enhancements, or the counterparties are local or provincial governments.

3 Rate-regulated customer trade receivables include distribution and transmission, water sales, rate-regulated and default electricity supply receivables. Under the Electric Utilities Act (Alberta), the Company provides electricity supply in its service area to residential, agricultural and small commercial customers at regulated rates and to those commercial and industrial customers who have not chosen a competitive offer and consume electricity under default supply arrangements.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Rate-regulated customer credit risk

Credit risk exposure for residential and commercial customers under regulated electricity and water supply rates is generally limited to amounts due from customers for electricity and water consumed but not yet paid for. The Company mitigates credit risk from counterparties by performing credit checks and on higher risk customers, by taking pre-payments or cash deposits. The Company monitors credit risk for this portfolio at the gross exposure level.

Trade and other receivables and allowance for doubtful accounts

Trade and other receivables consist primarily of amounts due from retail customers including commercial customers, other retailers, government-owned or sponsored entities, regulated public utility distributors, and other counterparties. Commercial customer contracts provide performance assurances through letters of credit, irrevocable guarantees and bonds. For other retail customers, represented by a diversified customer base, credit losses are generally low and the Company provides for an allowance for doubtful accounts on estimated credit losses.

The aging of accounts receivables was as follows:

December 31, 2016	Gross accounts receivables	Allowance for doubtful accounts	Net accounts receivables
Current[1]	$ 279	$ -	$ 279
Outstanding 31 to 60 days	11	-	11
Outstanding 61 to 90 days	5	2	3
Outstanding more than 90 days	9	3	6
	$ 304	$ 5	$ 299

December 31, 2015	Gross accounts receivables	Allowance for doubtful accounts	Net accounts receivables
Current[1]	$ 293	$ -	$ 293
Outstanding 31 to 60 days	20	-	20
Outstanding 61 to 90 days	5	1	4
Outstanding more than 90 days	18	2	16
	$ 336	$ 3	$ 333

1 Current amount represents trade and other receivables outstanding up to 30 days. Amounts outstanding for more than 30 days are considered past due.

Bad debt expense of $9 million (2015 – $5 million) recognized in the year relates to customer amounts that the Company determined may not be fully collectable. Allowances for doubtful accounts are determined by each business unit considering the unique factors of the business unit's trade and other receivables. Allowances and write-offs are determined either by applying specific risk factors to customer groups' aged balances in trade and other receivables or by reviewing material accounts on a case-by-case basis. Reductions in trade and other accounts receivable and the related allowance for doubtful accounts are recorded when the Company has determined that recovery is not possible.

The change in the allowance for doubtful accounts was as follows:

	2016	2015
Balance, beginning of year	$ 3	$ 3
Additional allowances created	9	5
Recovery of receivables	2	1
Receivables written off	(9)	(6)
Balance, end of year	$ 5	$ 3

At December 31, 2016, the Company held $24 million (2015 – $27 million) of customer deposits for the purpose of mitigating the credit risk associated with trade and other receivables from residential and business customers.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's liquidity is managed centrally by the Company's Treasury function. The Company manages liquidity risk through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and by matching the maturity profiles of financial assets and liabilities to identify financing requirements. The financing requirements are addressed through a combination of committed and demand revolving credit facilities and financings in public or private debt capital markets.

The Company has revolving extendible credit facilities, which are used principally for the purpose of backing the Company's commercial paper program and providing letters of credit, as outlined below:

December 31, 2016	Expiry	Total facilities	Banking commercial paper issued	Letters of credit and other facility draws	Net amounts available
Committed					
Syndicated bank credit facility[1]	November 2019	$ 200	$ -	$ 73	$ 127
Syndicated bank credit facility	November 2020	350	-	-	350
Total committed		550	-	73	477
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
		$ 575	$ -	$ 73	$ 502

December 31, 2015	Expiry	Total facilities	Banking commercial paper issued	Letters of credit and other facility draws	Net amounts available
Committed					
Syndicated bank credit facility[1]	November 2018	$ 200	$ -	$ 48	$ 152
Syndicated bank credit facility	November 2020	350	98	-	252
Total committed		550	98	48	404
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
		$ 575	$ 98	$ 48	$ 429

1 Restricted to letters of credit.

The Company's $350 million committed syndicated bank credit facility is available and primarily used for short-term borrowing and backstopping EPCOR's $350 million commercial paper program. The committed syndicated bank credit facilities cannot be withdrawn by the lenders until expiry, provided that the Company operates within the related terms and covenants. The extension feature of EPCOR's committed syndicated bank credit facilities give the Company the option each year to re-price and extend the terms of the facilities by one or more years subject to agreement with the lending syndicate. The Company regularly monitors market conditions and may elect to enter into negotiations to extend the maturity dates.

The Company has credit ratings of A- and A (low), assigned by Standard and Poor's and DBRS Limited, respectively.

The Company has a Canadian base shelf prospectus under which it may raise up to $1 billion of debt with maturities of not less than one year. At December 31, 2016, the available amount remaining under this Canadian base shelf prospectus was $1 billion. The Canadian base shelf prospectus expires in December 2017.

The undiscounted cash flow requirements and contractual maturities of the Company's non-derivative financial liabilities, including interest payments, are as follows:

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

At December 31, 2016:

	2017	2018	2019	2020	2021	2022 and thereafter	Total contractual cash flows
Trade and other payables[1]	$ 275	$ -	$ -	$ -	$ -	$ -	$ 275
Loans and borrowings[2]	15	413	7	7	192	1,297	1,931
Interest payments on loans and borrowings	112	100	80	79	79	1,141	1,591
Other liabilities	26	3	1	1	34	7	72
	$ 428	$ 516	$ 88	$ 87	$ 305	$ 2,445	$ 3,869

At December 31, 2015:

	2016	2017	2018	2019	2020	2021 and thereafter	Total contractual cash flows
Trade and other payables[1]	$ 232	$ -	$ -	$ -	$ -	$ -	$ 232
Loans and borrowings[2]	242	15	413	7	7	1,445	2,129
Interest payments on loans and borrowings	115	111	99	78	78	1,184	1,665
Other liabilities	27	1	1	1	1	7	38
	$ 616	$ 127	$ 513	$ 86	$ 86	$ 2,636	$ 4,064

1 Excluding accrued interest on loans and borrowings of $24 million (2015 – $27 million).

2 Excluding deferred debt issue costs of $11 million (2015 – $12 million).

The Company's undiscounted cash flow requirements and contractual maturities in the next twelve months of $428 million (2015 – $616 million) are expected to be funded from operating cash flows, interest and principal payments related to the unsecured long-term receivable from Capital Power, proceeds from the sale of a portion of available-for-sale investment in Capital Power, commercial paper issuance and the Company's credit facilities. In addition, the Company may issue medium-term notes or other instruments to fund its obligations or investments. The key factors in determining whether to issue medium-term notes are the expected interest rates for medium-term notes, the estimated demand by investors for EPCOR debt and the general state of debt capital markets.

The Company has long-term loans receivable from Capital Power which effectively match certain of the long-term loans and borrowings above. The following are the undiscounted maturities of the long-term loans receivable and interest payments from Capital Power:

At December 31, 2016:

	2017	2018	Total
Long-term loans receivable from Capital Power (note 13)	$ 10	$ 174	$ 184
Interest payments on loans receivable from Capital Power	10	6	16
	$ 20	$ 180	$ 200

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

At December 31, 2015:

	2016	2017	2018	Total
Long-term loans receivable from Capital Power (note 13)	$ 139	$ 10	$ 174	$ 323
Interest payments on loans receivable from Capital Power	16	11	6	33
	$ 155	$ 21	$ 180	$ 356

The payments from Capital Power fund a portion of the Company's contractual debt obligations. Should Capital Power be unable to make its scheduled payments to EPCOR, then the Company will rely more heavily on its credit facilities and its ability to issue medium-term notes to fund its obligations.

30. Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, pay dividends to its shareholder in accordance with the Company's dividend policy, maintain a suitable credit rating, and to facilitate the acquisition or development of projects in Canada and the U.S. consistent with the Company's growth strategy. The Company manages its capital structure in a manner consistent with the risk characteristics of the underlying assets. This overall objective and policy for managing capital remained unchanged in the current year from the prior year.

The Company manages capital through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and reviewing monthly financial results. The Company matches the maturity profiles of financial assets and liabilities to identify financing requirements to help ensure an adequate amount of liquidity.

The Company considers its capital structure to consist of long-term and short-term debt net of cash and cash equivalents and shareholder's equity. The following table represents the Company's total capital:

	2016	2015
Long-term Loans and borrowing (including current portion) (note 18)[1]	$ 1,931	$ 2,031
Short-term loans (note 18)	-	98
Cash and cash equivalents (note 9)	(191)	(36)
Net debt	1,740	2,093
Total equity	2,672	2,515
Total capital	$ 4,412	$ 4,608

1 Excluding deferred debt issue costs of $11 million (2015 – $12 million).

EPCOR has the following externally imposed financial covenants on its capital as a result of its credit facilities and outstanding debt:

- Maintenance of modified consolidated net tangible assets to consolidated net tangible assets ratio, as defined in the debt agreements, of not less than 80% (2015 – 85%);
- Maintenance of consolidated senior debt to consolidated capitalization ratio, as defined in the debt agreements, of not more than 75% (2015 – 70%) ;
- Maintenance of interest coverage ratio, as defined in the debt agreements, of not less than 1.75 to 1.00 if the Company's credit rating falls below investment grade; and
- Limitation on external debt issued by subsidiaries.

These capital restrictions are defined in accordance with the respective agreements. For the years ended December 31, 2016 and 2015, the Company complied with all externally imposed capital restrictions.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

31. Commitments, contingencies and guarantees

Commitments

The following represent the Company's commitments not otherwise disclosed in these consolidated financial statements:

At December 31, 2016:

	2017	2018	2019	2020	2021	2022 and thereafter	Total
Distribution and Transmission segment projects[1]	$ 24	$ 40	$ 13	$ 7	$ 7	$ -	$ 91
Water Services segment projects[2]	13	-	-	-	-	-	13
Water Services power contracts[3]	9	6	3	3	3	-	24
Water purchase and transportation of water agreements[4]	9	2	-	-	-	4	15
Billing and customer care services agreement[5]	4	4	4	3	3	-	18
Operating leases payable[6]	15	15	14	13	12	119	188
	$ 74	$ 67	$ 34	$ 26	$ 25	$ 123	$ 349

At December 31, 2015:

	2016	2017	2018	2019	2020	2021 and thereafter	Total
Water Services segment projects[2]	$ 33	$ 21	$ -	$ -	$ -	$ -	$ 54
Water Services power contracts[3]	8	9	2	-	-	-	19
Water purchase and transportation of water agreements[4]	8	1	-	-	-	3	12
Billing and customer care services agreement[5]	6	4	4	4	3	3	24
Operating leases payable[6]	14	14	14	13	12	131	198
	$ 69	$ 49	$ 20	$ 17	$ 15	$ 137	$ 307

1 The Company has commitments for several Distribution and Transmission projects as directed by the AESO.

2 The Company has commitments for several Water Services projects in Canada through contract agreements.

3 The Company has commitments to purchase power for its Edmonton wastewater treatment plant, water treatment plants and distribution sites. The agreements expire on or before December 31, 2021. Under the terms of the agreements, the Company is committed to purchase minimum contracted quantities at a fixed price. There are no early termination or cancellation clauses in these agreements.

4 Water Arizona maintains agreements with the Central Arizona Water Conservation District for the purchase and transportation of water. These agreements are for terms of 100 years expiring at the end of 2107. Under the terms of these agreements, the Company is committed for the amount of water ordered in the fall of each year to be purchased and transported the following year.

Water New Mexico maintains agreements with the various well owners for the purchase of water. These agreements are generally for terms of ten years. Under the terms of these agreements, certain minimum purchases are due each year in order to maintain the agreements until they expire.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

5 The Company has entered into an agreement for billing and customer care services for Water Arizona and Water New Mexico. The contract term is ten years, expiring on August 31, 2021.

6 Represents the Company's gross future operating leases payable for its head office and other premises.

In 2007, the Company entered into a long-term agreement to lease commercial space in a new office tower in Edmonton, Canada, primarily for its head office (head office lease). The agreement, which became effective in the fourth quarter of 2011, has an initial lease term of approximately 20 years, expiring on December 31, 2031, and provides for three successive five-year renewal options. Under the terms of the lease, the Company's annual lease commitments, net of annual payments to be paid to the Company by Capital Power and another company under the sub-leases receivable discussed below, are as follows:

	Minimum lease payable
January 1, 2017 through December 31, 2022	$ 6
January 1, 2023 through December 31, 2023	7
January 1, 2024 through December 31, 2031	8

The Company has sub-leased a portion of the space under its head office lease to Capital Power under the same terms and conditions as the Company's lease with its landlord.

Effective November 1, 2013, the Company also sub-leased a portion of the space under its head office lease to a third party. The term of the sub-lease to the third party expires on October 31, 2023 with two renewal options of four years each.

Approximate future payments to the Company under the sub-leases receivable are as follows:

	Minimum lease receivable	
	2016	2015
Within one year	$ 5	$ 5
After one year but not more than five years	20	20
More than five years	43	48
	$ 68	$ 73

Contingencies

The Company and its subsidiaries are subject to various legal claims that arise in the normal course of business. Management believes that the aggregate contingent liability of the Company arising from these claims is immaterial and therefore no provision has been made.

Guarantees

The Company in the normal course of business issues payment guarantees on behalf of its subsidiaries to meet the conditions of the agreements with third parties. At December 31, 2016, guarantees totaling $429 million (2015 – $408 million) have been issued to various third parties.

32. Segment disclosures

The Company operates in the following reportable business segments, which follow the organization, management and reporting structure within the Company.

Water Services

Water Services is primarily involved in the treatment, distribution and sale of water and the treatment of wastewater within Edmonton and other communities throughout Western Canada and the Southwestern U.S. This segment also provides commercial services including construction, operation and maintenance of water and wastewater treatment plants.

Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within Edmonton. This segment also provides commercial services including the maintenance and repair of the City-owned street lighting and transportation support facilities.

Energy Services

Energy Services is primarily involved in the provision of regulated tariff electricity service and default supply electricity services to residential, small commercial and agricultural customers in Alberta. Energy Services also provides competitive electricity and natural gas products through Encor.

Corporate

Corporate reflects the costs of the Company's net unallocated corporate office expenses and financing revenues on the long-term receivable from Capital Power. Corporate also holds the available-for-sale investment in Capital Power.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Lines of business information

Year ended December 31, 2016	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 663	$ 457	$ 812	$ 14	$ -	$ 1,946
Inter-segment revenue	-	177	11	-	(188)	-
Total revenues and other income	663	634	823	14	(188)	1,946
Energy purchases and system access fees	-	182	707	-	(167)	722
Other raw materials and operating charges	159	49	-	1	(8)	201
Staff costs and employee benefits expenses	128	85	28	37	(3)	275
Depreciation and amortization	91	80	6	12	-	189
Franchise fees and property taxes	28	71	-	-	-	99
Other administrative expenses	33	16	27	15	(10)	81
Operating expenses	439	483	768	65	(188)	1,567
Operating income (loss) before corporate charges	224	151	55	(51)	-	379
Corporate income (charges)	(30)	(29)	(10)	69	-	-
Operating income	194	122	45	18	-	379
Finance recoveries (expenses)	(95)	(51)	(3)	37	-	(112)
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income on sale of portion of investment	-	-	-	42	-	42
Dividend income from available-for-sale investment in Capital Power	-	-	-	9	-	9
Income tax recovery (expense)	(14)	-	-	5	-	(9)
Net income	$ 85	$ 71	$ 42	$ 111	$ -	$ 309
Capital additions	$ 206	$ 281	$ 4	$ 11	$ -	$ 502

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Year ended December 31, 2015	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 688	$ 436	$ 872	$ 22	$ -	$ 2,018
Inter-segment revenue	-	164	11	-	(175)	-
Total revenues and other income	688	600	883	22	(175)	2,018
Energy purchases and system access fees	-	175	770	-	(153)	792
Other raw materials and operating charges	203	48	-	1	(10)	242
Staff costs and employee benefits expenses	127	86	27	36	(1)	275
Depreciation and amortization	89	69	6	14	-	178
Franchise fees and property taxes	28	69	-	-	-	97
Other administrative expenses	32	16	24	8	(11)	69
Operating expenses	479	463	827	59	(175)	1,653
Operating income (loss) before corporate charges	209	137	56	(37)	-	365
Corporate income (charges)	(28)	(26)	(9)	63	-	-
Operating income	181	111	47	26	-	365
Finance recoveries (expenses)	(91)	(48)	(3)	25	-	(117)
Gains on equity accounted investment in Capital Power L.P.	-	-	-	60	-	60
Impairment of available-for-sale investment in Capital Power	-	-	-	(60)	-	(60)
Dividend income from available-for-sale investment in Capital Power	-	-	-	10	-	10
Equity share of income of Capital Power L.P.	-	-	-	5	-	5
Income tax recovery (expense)	(10)	-	-	7	-	(3)
Net income	$ 80	$ 63	$ 44	$ 73	$ -	$ 260
Capital additions	$ 214	$ 235	$ 1	$ 13	$ -	$ 463

The Company's assets and liabilities by lines of business at December 31, 2016 and 2015 are summarized as follows:

December 31, 2016	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
Total assets	$ 3,520	$ 2,080	$ 163	$ 3,272	$ (2,874)	$ 6,161
Total liabilities	2,769	1,407	150	2,037	(2,874)	3,489

December 31, 2015	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
Total assets	$ 3,375	$ 1,907	$ 175	$ 3,270	$ (2,639)	$ 6,088
Total liabilities	2,682	1,273	160	2,097	(2,639)	3,573

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Geographic information

	Year ended December 31, 2016				Year ended December 31, 2015			
	Canada	U.S.	Inter-segment eliminations	Total	Canada	U.S.	Inter-segment eliminations	Total
External revenues and other income	$ 1,732	$ 214	$ -	$ 1,946	$ 1,825	$ 193	$ -	$2,018
Inter-segment revenues	188	-	(188)	-	175	-	(175)	-
Total revenues and other income	$ 1,920	$ 214	$ (188)	$ 1,946	$ 2,000	$ 193	$ (175)	$2,018

Non-current assets

	2016	2015
Canada	$ 4,469	$ 4,362
U.S.	1,156	1,055
	$ 5,625	$ 5,417

33. Comparative information

The comparative information in these consolidated financial statements have been reclassified, where applicable, to conform to current year presentation.

Schedule H – Pro Forma Financials

$ 000's CAD **INCOME STATEMENT**	**2019**
Revenue	45,391
Cost of Sales	-38,231
Net Distribution Revenue	7,160
less: Operating Expenses*	-5,872
Income before undernoted items and income taxes	1,288
Other Income (Expenses)	579
EBITDA	1,867
less: Depreciation	-1,166
less: Interest Expense	-1,139
EBT	-438
Income Tax	0
Net Income	-438

**Includes one-time transaction costs*

$ 000's CAD **BALANCE SHEET**	**2019**
ASSETS	
Current Assets	7,617
PP&E	27,033
Goodwill	21,482
Other long-term asset	440
Total Assets	56,572
Total Regulatory Debits	1,598
Total Assets and Regulatory Debits	58,170
LIABILITIES	
Current Liabilities	8,225
Long-term Liabilities	28,483
Deferred Revenue	3,525
Total Liabilities	40,233
SHAREHOLDER'S EQUITY	
Share Capital	17,802
Retained Earnings	-438
Total Shareholder's Equity	17,364
Regulatory Credits	573
Total Liabilities, Shareholder's Equity and Regulatory Credits	58,170

<u>**CERTIFIED EXCERPT OF THE RESOLUTIONS OF EPCOR UTILITIES INC.**</u>

EPCOR UTILITIES INC.

Resolution of the Board of Directors
Approving the Acquisition of Collus PowerStream Corp.

Moved and seconded, that the following resolutions be approved:

1. That EPCOR Utilities Inc., or its designate (collectively "EPCOR") is authorized to enter into a binding share purchase agreement to purchase all of the shares of Collingwood PowerStream Utility Services Corp. for a maximum purchase price of $43,000,000.00 in Canadian funds, subject to certain adjustments, all as described in the records provided to the directors accompanying this resolution (the "Transaction").

2. The authorization contained in paragraph 1 expressly extends to non-material variations, alterations or modifications to the Transaction as any two officers of EPCOR (the "Officers") determine to be necessary or desirable and in the best interests of EPCOR, provided that: (i) one of the Officers is the Chief Executive Officer, the Chief Financial Officer or the sponsoring Senior Vice President, and (ii) both Officers have knowledge of and are fully aware of the business purpose and risks of the Transaction.

3. EPCOR is authorized to make arrangements for the structuring and financing of the Transaction as the Officers determine to be necessary or desirable and in the best interests of EPCOR.

4. The Officers are authorized to:

   a. perform or cause to be performed on behalf of EPCOR all acts, approvals and other things to give effect to the foregoing resolutions as those persons determine to be necessary or desirable and in the best interests of EPCOR; and

   b. negotiate and settle the terms of, and execute and deliver on behalf of and in the name of EPCOR, with or without EPCOR's seal, all agreements, documents and other instruments to give effect to the foregoing resolutions as those persons determine to be necessary or desirable and in the best interests of EPCOR, and any things performed or to be performed, and any instruments executed and delivered, by those persons shall be conclusive evidence that those things and instruments have been determined by those persons to be necessary or desirable and in the best interest of EPCOR.

5. Any act or thing done or performed prior to the date of these resolutions, by the Officers in relation to the Transaction, to give effect to or to implement any of the foregoing resolutions, is hereby ratified, approved and confirmed.

CERTIFICATION

The undersigned, Jennifer Addison, in her capacity as Corporate Secretary of EPCOR Utilities Inc., and not in her personal capacity, hereby certifies that the foregoing resolutions attached were passed on October 13, 2017 by the Board of Directors of EPCOR Utilities Inc. and the resolutions are in full force and effect, unamended, as of the date hereof.

DATED this 21st day of December, 2017.

JENNIFER ADDISON
CORPORATE SECRETARY

TOWN OF COLLINGWOOD

SPECIAL COUNCIL MINUTES

October 23, 2017

"Collingwood is a responsible, sustainable, and accessible community that leverages its core strengths: a vibrant downtown, a setting within the natural environment, and an extensive waterfront. This offers a healthy, affordable, and four-season lifestyle to all residents, businesses, and visitors."

A special meeting of Council was held Monday, October 23, 2017 in the Council Chambers, Town Hall, Collingwood commencing at **4:00 p.m.** for the specific reasons provided below.

MAYOR COOPER CALLED COUNCIL TO ORDER

Members of Council Present:

Mayor Sandra Cooper
Deputy Mayor Brian Saunderson
Councillor Tim Fryer
Councillor Mike Edwards
Councillor Cam Ecclestone
Councillor Kathy Jeffery
Councillor Deb Doherty
Councillor Bob Madigan
Councillor Kevin Lloyd – left @ 5:52 p.m.

Staff Present at the Public Session:

Sara Almas, Clerk
Marjory Leonard, Treasurer
Dan Thurman, Deputy Fire Chief
Jennett Mays, Communications Officer

ADOPTION OF AGENDA

No. 321-17 ***Moved by Deputy Mayor Saunderson***
Seconded by Councillor Madigan

THAT the content of the Special Council Agenda for October 23, 2017 be adopted as presented.

CARRIED

DECLARATIONS OF PECUNIARY INTEREST - Nil

IN-CAMERA *(Braniff Room)*

No. 322-17 ***Moved by Councillor Edwards***
Seconded by Deputy Mayor Saunderson

THAT this Council proceeds in camera in order to address a matter pertaining to:
- ☑ advice that is subject to solicitor/client privilege, including communications necessary for that purpose.

Items for discussion: a) Hydro Share Sale

CARRIED

Council proceeded to in-camera session as previously resolved.

Rise & Report (Public Session 5:00 p.m., Council Chambers)

Moved by Councillor Edwards
Seconded by Councillor Doherty

THAT Council rise from in-camera and return to public session. *(5:01p.m.)*

CARRIED

No. 323-17 ***Moved by Deputy Mayor Saunderson***
Seconded by Councillor Ecclestone

THAT By-law No. 2017-076, being a by-law to authorize the Town of Collingwood to enter into agreements with EPCOR Utilities Inc. for the purchase or sale of its shares in Collingwood PowerStream Utility Services Corporation, be enacted and passed this 23rd day of October, 2017.

CARRIED (Recorded Vote)

COUNCIL	Yea	Nay
Cooper		X
Saunderson	X	
Fryer	X	
Edwards	X	
Ecclestone	X	
Jeffery	X	
Doherty	X	
Madigan	X	
Lloyd		X
TOTAL	7	2

Council recessed at 5:25 p.m. and reconvened at 5:51 p.m.
Councillor Lloyd left the meeting.

PRESENTATION

- ***Hydro Share Sale Presentation***

Mark Rodger, Solicitor, BLG provided a detailed explanatory presentation of the processes taken to date and Council's decision this evening to sell the Town's shares in Collingwood PowerStream Utility Services Corporation. Mr. Rodger explained the process leading to the issuance of the Town's offers, including the 'buy / sell conditions'. Alectra, formerly known as PowerStream has 20 days to decide whether it wishes to become 100% owner or allow Epcor to become 100% owner of the utility. In both options, the Town would receive between $12.5 Million and $13 Million for its shares. In 2012, the Town received $8 Million for selling its 50% to PowerStream. Mr. Rodger outlined the conditions which protect Collingwood ratepayers, taxpayers as well as Collus PowerStream employees.

The Town will hold a Public Information Session to provide further details of the agreement, once Alectra's decision is known.

Residents were assured that electricity distribution rates are set, and will continue to be set by the Ontario Energy Board (OEB) and that the premium provided for the shares cannot be recoverable through the hydro rates.

CONFIRMATORY BY-LAW

No. 324-17 ***Moved by Councillor Jeffery***
Seconded by Councillor Madigan

THAT By-law No. 2017-077, being a by-law to confirm the proceedings of the special meeting of Council held October 23rd, 2017, be enacted and passed this 23rd day of October, 2017.

CARRIED

ADJOURNMENT

Moved by Councillor Jeffery

THAT the meeting of Council be hereby adjourned at 6:19 p.m.

CARRIED

Sandra Cooper
MAYOR

CLERK