Financial Statements of

Festival Hydro Inc.

Years Ended December 31, 2015 and
December 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Festival Hydro Inc.

We have audited the accompanying financial statements of Festival Hydro Inc. (the "Entity"), which comprise the statements of financial position as at December 31, 2015, December 31, 2014 and January 1, 2014, the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015, and December 31, 2014, and notes, comprising 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits 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 Festival Hydro Inc. 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

May 5, 2016

London, Canada

Festival Hydro Inc.

Statements of Financial Position

Assets	Notes	December 31, 2015	December 31, 2014	January 1, 2014
Current assets				
Accounts receivable	6,19,21	$ 3,840,574	$3,361,960	$3,035,458
Unbilled revenue	21	8,425,940	8,872,992	8,679,666
Marketable securities		–	18,516	18,999
Inventories	7	134,210	102,865	156,243
Prepaid expenses		393,951	518,666	306,032
Income tax receivable		354,548	77,047	200,910
Due from corporations under common control	19	67,446	1,360,918	1,109,088
Total current assets		**13,216,669**	**14,312,964**	**13,506,396**
Non-current assets				
Property, plant and equipment	8	51,628,285	50,857,517	51,332,226
Intangible assets	9	2,095,887	3,244,206	2,943,994
Deferred tax assets	10	841,045	1,935,599	1,498,505
Unrealized gain on interest rate swap	14,21	–	–	711,813
Total non-current assets		**54,565,217**	**56,037,322**	**56,486,538**
Total assets		**67,781,886**	**70,350,286**	**69,992,934**
Regulatory balances	13	2,041,868	4,383,349	2,447,101
Total assets and regulatory balances		**$69,823,754**	**$74,733,635**	**$72,440,035**

Festival Hydro Inc.

Statements of Financial Position

Liabilities and Equity	Notes	December 31, 2015	December 31, 2014	January 1, 2014
Current liabilities				
Bank indebtedness	5	$245,562	$2,670,294	$1,339,170
Accounts payable and accrued liabilities	21	9,177,222	9,500,572	9,015,874
Deferred revenue		7,771	5,892	–
Dividend payable	15,19	399,340	–	–
Long-term debt due within one year	14,21	16,159,213	16,140,761	16,122,581
Customer deposits	11	804,679	853,910	787,929
Due to the Corporation of the City of Stratford	19	638,773	713,740	714,404
Total current liabilities		**27,432,560**	**29,885,169**	**27,979,958**
Non-current liabilities				
Deferred revenue		320,282	157,226	–
Customer deposits	11	536,452	116,951	162,483
Employee future benefits	12	1,379,334	1,357,109	1,219,179
Unrealized loss on interest rate swap	14,21	798,891	536,877	–
Long-term debt	14,21	14,220,869	14,780,081	15,320,842
Total non-current liabilities		17,255,828	16,948,244	16,702,504
Total liabilities		**44,688,388**	**46,833,413**	**44,682,462**
Equity				
Share capital	15	15,568,388	15,568,388	15,568,388
Accumulated other comprehensive (loss) income		(112,048)	(93,530)	18,999
Retained earnings		7,917,403	5,838,557	6,891,829
Total equity		**23,373,743**	**21,313,415**	**22,479,216**
Total liabilities and equity		68,062,131	68,146,828	67,161,678
Regulatory balances	13	1,761,623	6,586,807	5,278,357
Total liabilities, equity and regulatory balances		**$69,823,754**	**$74,733,635**	**$72,440,035**

Commitments and contingencies (note 22)

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

On behalf of the Board:

Director

Director

Festival Hydro Inc.

Statements of Comprehensive Income

Year ended December 31, 2015, with comparative information for 2014

	Notes	2015	2014
Revenues			
Sales of energy		$ 70,555,667	$65,366,444
Distribution revenue		11,543,996	10,850,933
Other income	16,19	956,400	725,504
		83,056,063	**76,942,881**
Operating expenses			
Cost of power purchased		71,472,888	67,087,035
Operating expenses	17,19	5,490,130	5,146,213
Depreciation and amortization	8,9	2,225,052	2,252,147
		79,188,070	**74,485,395**
Income from operating activities		3,867,993	2,457,486
Finance income	18,19	45,560	50,859
Finance costs	18,19	1,949,856	2,964,996
Income (loss) before income taxes		1,963,697	(456,651)
Income tax expense	10	1,193,461	3,726
Net income (loss)		**770,236**	**(460,377)**
Net movement in regulatory balances, net of tax	13	2,488,610	657,620
Net income and net movement in regulatory balances		3,258,846	197,243
Other comprehensive income (loss)			
Items that may be reclassified to profit and loss:			
Change in fair value of available for sale assets		–	(483)
Reclassifications to profit and loss on sale of available for sale assets	16	(18,518)	–
Items that will not be reclassified to profit and loss:			
Remeasurements of employee future benefits		–	(112,046)
Tax on remeasurements	10	4,907	29,820
Net movement in regulatory balances, net of tax		(4,907)	(29,820)
Other comprehensive loss		(18,518)	(112,529)
Total comprehensive income		**$ 3,240,328**	**$ 84,714**

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

Festival Hydro Inc.

Statements of Changes in Equity

Year ended December 31, 2015, with comparative information for December 31, 2014

	Share capital	Retained earnings	Accumulated other comprehensive (loss) income	Total
Balance at January 1, 2014	**$ 15,568,388**	**$ 6,891,829**	**$ 18,999**	**$ 22,479,216**
Net income after net movements in regulatory balances	–	197,243	–	197,243
Other comprehensive loss	–	–	(112,529)	(112,529)
Dividends	–	(1,250,515)	–	(1,250,515)
Balance at December 31, 2014	**$ 15,568,388**	**$ 5,838,557**	**$ (93,530)**	**$ 21,313,415**
Balance at January 1, 2015	**$ 15,568,388**	**$ 5,838,557**	**$ (93,530)**	**$ 21,313,415**
Net income after net movements in regulatory balances	–	3,258,846	–	3,258,846
Other comprehensive loss	–	–	(18,518)	(18,518)
Dividends, paid or payable	–	(1,180,000)	–	(1,180,000)
Balance at December 31, 2015	**$15,568,388**	**$7,917,403**	**$(112,048)**	**$ 23,373,743**

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

Festival Hydro Inc.

Statements of Cash Flows
Year ended December 31, 2015, with comparative information for 2014

	Notes	2015	2014
Operating activities:			
Net income after net movement in regulatory balances		$ 3,258,846	$ 197,243
Adjustments for:			
Depreciation - property, plant and equipment	8	2,064,877	2,073,160
Amortization - intangible assets	9	160,175	178,987
Losses on disposal of property, plant and equipment		3,024	35,295
Amortization of deferred revenue		(5,892)	(2,006)
Employee future benefits		22,225	25,884
Transfer to regulatory balances		-	696,826
Impact of permanent bypass agreement ruling		1,062,454	-
Net finance costs	18	1,904,296	2,914,137
Income tax expense	10	1,193,461	3,726
		9,663,466	6,123,252
Changes in non-cash operating working capital:			
Accounts receivables		(478,614)	(326,502)
Unbilled revenue		447,052	(193,326)
Inventories		(31,345)	53,378
Prepaid expenses		124,715	(212,634)
Accounts payable and accrued liabilities		(323,350)	484,698
Due from related parties		1,293,472	(251,830)
Due from the City of Stratford		(74,967)	(664)
Dividend payable	15	399,340	-
Customer deposits		370,270	20,449
		1,726,573	(426,431)
Regulatory balances	13	(2,488,610)	(657,620)
Interest paid		(1,687,842)	(1,716,306)
Interest received		45,560	50,859
Income tax paid		(369,976)	(287,135)
Net cash from (used in) operating activities		**6,889,171**	**3,086,619**
Investing activities			
Purchase of property, plant and equipment	8	(2,838,669)	(2,340,322)
Proceeds on disposal of property, plant and equipment		-	9,750
Purchase of intangible assets	9	(475,177)	(479,199)
Contributions received from customers		170,827	165,124
Net cash from (used in) investing activities		(3,143,019)	(2,644,647)
Financing activities			
Dividends paid	15	(780,660)	(1,250,515)
Repayment of long-term debt		(540,760)	(522,581)
Net cash from (used in) financing activities		(1,321,420)	(1,773,096)
Changes in cash and cash equivalents		2,424,732	(1,331,124)
Bank indebtedness, beginning of the year		(2,670,294)	(1,339,170)
Bank indebtedness, end of the year		**$ (245,562)**	**$ (2,670,294)**

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

1. Reporting entity:

Festival Hydro Inc. (the "Corporation") is a wholly-owned subsidiary of the City of Stratford. The Corporation was incorporated on July 11, 2000 under the Business Corporations Act (Ontario) pursuant to Section 142 of the Electricity Act Laws of the Province of Ontario, Canada. The address of the Corporation's registered office is 187 Erie Street, Stratford, Ontario, Canada.

The principal activity of the Corporation is to distribute electricity to the residents and businesses in the City of Stratford and the towns of Brussels, Dashwood, Hensall, Seaforth, St. Marys and Zurich, under a license issued by the Ontario Energy Board ("OEB"). The Corporation is regulated by the Ontario Energy Board and adjustments to the Corporation's distribution and power rates require OEB approval.

The financial statements are for the Corporation as at and for the year ended December 31, 2015.

2. Basis of preparation:

(a) Statement of compliance

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

(b) Adoption of IFRS

These are the Corporation's first financial statements prepared in accordance with IFRS. In prior years, the Corporation prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP" or "CGAAP"). The Corporation has restated its opening statement of financial position as at January 1, 2014, its IFRS transition date, by applying IFRS retrospectively, except with regard to specific items, in respect of which IFRS1: *First-time Adoption of IFRS* either, prohibits or modifies the retrospective application of IFRS.

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 23. The financial statements were approved by the Board of Directors on May 5, 2016.

(c) Basis of measurement

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

(d) Functional and presentation currency

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

2. Basis of preparation (continued):

(e) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

Note 6	Receivables: estimates of customer usage for unbilled revenue.
Note 8	Property, plant and equipment: useful lives and the identification of significant components of property, plant and equipment.
Note 9	Intangible assets: useful lives and goodwill impairment testing.
Note 12	Employee future benefits: measurement of the defined benefit obligation using key actuarial assumptions.
Note 13	Recognition and measurement of regulatory assets and liabilities.
Note 22	Recognition and measurement of commitments and contingencies.

(f) Rate regulation

The Corporation is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act, 1998. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs"), such as the Corporation, which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

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

2. Basis of preparation (continued):

(f) Rate regulation (continued)

Rate setting

Distribution revenue

For the distribution revenue included in sale of energy, the Corporation files a "Cost of Service" ("COS") rate application with the OEB every five years where rates are determined through a review of the forecasted annual amount of operating and capital expenditures, debt and shareholder's equity required to support the Corporation's business. The Corporation estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and interveners and rates are approved based upon this review, including any revisions resulting from that review.

In the intervening years, an Incentive Rate Mechanism application ("IRM") is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year's rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflator for Final Domestic Demand ("GDP IPI-FDD") net of a productivity factor and a "stretch factor" determined by the relative efficiency of an electricity distributor.

As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers.

On May 27, 2014, the Corporation filed its 2015 Cost of Service application. The OEB issued its final Decision and Order dated June 5, 2015. The Decision allows for a total service revenue requirement of $11,210,828 based on a total rate base of $61,778,759. The deemed debt portion of the rate base (60%) at $27,067,256 earns a weighted average rate of 4.05%. The deemed equity portion of the rate base (40%) at $24,711,504 earns a deemed return on equity of 9.30%. The rates were effective May 1, 2015 with an implementation date of June 1, 2015. The Corporation originally filed for new rates effective January 1, 2015 but due to the timing of the approval the OEB deemed the rates to be effective May 1, 2015. The OEB approved disposition of the ICM rate rider balance in its entirety. In addition, the Corporation received approval to recover the net book value of stranded meters totalling $234,537. A number of other rate riders were approved as part of the 2015 COS rate filing. All rate riders had a sunset date of December 31, 2015 with the exception of the Permanent Bypass Expenditure Rate Rider which is effective until December 31, 2017.

The OEB, in its 2015 COS Decision and Order also ordered that the Permanent Bypass agreement, which was included in the Corporation's 2013 and 2014 financial statements as an intangible asset, be expensed in its entirety in the amount of $932,094 and to recover this expenditure over a 31 month period ending December 31, 2017. Due to the certainty of collecting the amount, the OEB allowed the Corporation to record $649,816 in accounts receivable at December 31, 2015 equal to the amount to be recovered in 2016 and 2017. The $282,278 expenditure in 2015 has been recorded as an operating expense on the statement of comprehensive income. Recoveries during 2015 totalling $282,278 have been recorded as distribution revenue.

2. Basis of preparation (continued):

(f) Rate regulation (continued)

On August 17, 2015, Festival filed its 2016 Price Cap IR application for distribution rates effective January 1, 2016. The Corporation's approved adjustment to distribution rates was 1.65%, as a result of an OEB approved inflation factor of 2.10%, less a stretch factor of 0.45% determined by the relative efficiency of the Corporation. The new rates were implemented effective January 1, 2016. The application also included the approval of rate riders for the recovery of certain deferral and variance balances.

Electricity rates

The OEB sets electricity prices for low-volume consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers pay the market price for electricity and the global adjustment. The Corporation is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently in all years presented in these financial statements and in preparing the opening IFRS statement of financial position at January 1, 2014 for the purpose of the transition to IFRS.

(a) Regulatory balances

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the deferred cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or other comprehensive income ("OCI"). When the customer is billed at rates approved by the OEB for the recovery of the deferred costs, the customer billings are recognized in revenue. The regulatory debit balance is reduced by the amount of these customer billings with the offset to net movement in regulatory balances in profit or loss or OCI.

The probability of recovery of the regulatory deferral account debit balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover the balance. The assessment of likelihood of recovery is based upon previous decisions made by the OEB for similar circumstances, policies or guidelines issued by the OEB. Any resulting impairment loss is recognized in profit or loss in the year incurred.

When the Corporation is required to refund amounts to ratepayers in the future, the Corporation recognizes a regulatory deferral account credit balance. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. The amounts returned to the customers are recognized as a reduction of revenue. The credit balance is reduced by the amount of these customer repayments with the offset to net movement in regulatory balances in profit or loss or OCI.

3. **Significant accounting policies (continued):**

(b) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts. On the statement of cash flows, cash and cash equivalents includes bank overdrafts (revolving credit facility) that are repayable on demand and form an integral part of the Corporation's cash management.

(c) Financial instruments

All financial assets are classified as loans and receivables, except for marketable securities which are classified as available for sale and derivatives which are measured as fair value through profit and loss. All financial liabilities are classified as other financial liabilities. These financial instruments are recognized initially at fair value adjusted for any directly attributable transaction costs.

Loans and receivables and other financial liabilities are subsequently measured at amortized cost using the effective interest method less any impairment for the financial assets.

Available for sale financial assets are subsequently measured at fair value, within the changes therein recognized in other comprehensive income until the assets are sold. Upon sale of an available for sale asset, the Corporation has elected to record the accumulated unrealized change in value of the asset as a transfer through other comprehensive income into profit and loss.

The Corporation holds derivative financial instruments to manage its interest rate risk exposures. Derivatives are initially measured at fair value; any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein, are recognized in the statement of comprehensive income. Hedge accounting has not been used in the preparation of these financial statements.

(d) Inventories

Inventories are stated at lower of cost and net realizable value and consist of maintenance materials and supplies. Cost is determined on a weighted average basis, net of a provision for obsolescence, as applicable. The Corporation classifies all major construction related component of its electricity distribution infrastructure to property, plant and equipment.

(e) Property, plant and equipment ("PP& E")

Items of property, plant and equipment used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the transition date, or, where the item is transferred from customers, its fair value, less accumulated depreciation and accumulated impairment losses. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

3. Significant accounting policies (continued):

e) Property, plant and equipment (continued)

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Borrowing costs on qualifying assets are capitalized as part of the cost of the asset and are based on the Corporation's cost of borrowing. For construction projects of less than one year in length, borrowing costs are not capitalized unless specific identifiable loans are acquired for the express purpose of financing a specific construction activity.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognized.

The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment. Land is not depreciated. Construction in progress assets are not amortized until the project is complete and in service.

Depreciation begins when an asset becomes available for use. Depreciation is provided on a straight-line basis over the estimated useful lives. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The estimated useful lives for the current and comparative years are as follows:

Buildings	10 to 60 years
Distribution substation equipment	30 to 60 years
Distribution system equipment	30 to 60 years
Transformers	35 to 40 years
Meters	15 to 40 years
Other capital assets	4 to 60 years

Other capital assets includes vehicles, office and computer equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized within other income in the statement of comprehensive income.

3. Significant accounting policies (continued):

(f) Intangible assets

Intangible assets include goodwill, computer software and capital contributions paid under capital cost recovery agreements ("CCRAs").

(i) Goodwill

Goodwill represents the excess of cost over fair value of net assets which arose upon amalgamation of the former electrical distribution entities. Goodwill is measured at cost less accumulated impairment losses.

(ii) Computer software

Computer software acquired prior to January 1, 2014, is measured at deemed cost less accumulated depreciation. All other 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.

(iii) Capital contributions paid under capital cost recovery agreements ("CCRAs")

Capital contributions paid under capital cost recover agreements ("CCRAs") are measured at cost less accumulated amortization and accumulated impairment losses.

(iv) 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. The estimated useful lives for the current and comparative years are:

Computer software	5 years
CCRAs	15 to 25 years

Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted if appropriate.

3. Significant accounting policies (continued):

(g) Impairment:

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than regulatory assets, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated as at December 31 of each year.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The Corporation has determined that it has one cash generating unit. 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. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss in respect of goodwill is not reversed. In respect of other 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 change in the estimates used to determine the recoverable amount. 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.

3. Significant accounting policies (continued):

(h) Provisions

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

(i) Employee benefits

(i) Pension plan

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System (OMERS). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"). The Fund is a contributory defined benefit pension plan which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund.

OMERS is a defined benefit plan, however, as the plan assets and pension obligations are not segregated in separate accounts for each member entity, sufficient information is not available to enable the Corporation to directly account for the plan. As such, the plan has been accounted for as a defined contribution plan. The contribution payable is recognized as an employee benefit expense in the statement of comprehensive income in the period in which the service was rendered by the employee, since it is not practicable to determine the Corporation's portion of person obligations of the fair value of plan assets.

(ii) Employee future benefits, other than pension

The Corporation has an unfunded benefit plan providing post-employment benefits (other than pension) to its employees. The Corporation provides its retired employees (20 years service; less than age 65) with life insurance and medical benefits beyond those provided by government sponsored plans. Life insurance is provided for current retirees over age 65.

The obligations for these post-employment benefit plans are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Remeasurements of the net defined benefit obligations, including actuarial gains and losses, are recognized immediately in other comprehensive income. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

3. **Significant accounting policies (continued):**

(j) Deferred revenue and assets transferred from customers

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. Cash contributions are initially recorded under current liabilities as customer deposits. Once the distribution system asset is completed or modified, as outlined in the terms of the contract, the contribution amount is transferred to deferred revenue.

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 contributions in aid of construction account, which represents the Corporation's obligation to continue to provide the customers access to the supply of electricity, is reported as deferred revenue, and is amortized to other income on a straight-line basis over the terms of the agreement with the customer or the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

(k) Customer deposits

Security deposits from electricity customers are cash collections to guarantee the payment of electricity bills. The electricity customer security deposits liability includes related interest amounts, calculated using OEB prescribed interest rates, and owed to the customers with a corresponding amount charged to finance costs. Deposits that are refundable upon demand are classified as a current liability. Annually, accrued interest is applied directly to the customers' accounts.

Security deposits on offers to connect are cash collections from specific customers to guarantee the payment of additional costs relating to expansion projects. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits are classified as a current liability when the Corporation no longer has an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

(l) Revenue recognition

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.

Revenue attributable to the delivery of electricity is based upon OEB-approved distribution tariff rates and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution charges and any regulatory charges. Revenue is recognized as electricity is delivered and consumed by customers. Energy revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year. Revenue is measured at the fair value of the consideration received or receivable, net of sales tax.

3. Significant accounting policies (continued):

(l) Revenue recognition (continued)

The difference between the amounts charged by the Corporation to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs billed monthly by the IESO and Hydro One to the Corporation is recorded as a settlement variance. In accordance with IFRS 14, these settlement variances are presented within regulatory balances on the statement of financial position and within net movements in regulatory balances, net of tax on the statement of comprehensive income.

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDCs in delivering electricity to customers. Distribution revenue also includes revenue related to the collection of OEB approved rate riders.

Other revenue, which includes revenue from services ancillary to the distribution of electricity and as revenue from the delivery of other services, is recognized as the services are rendered. When services are made up of different components which are not separately identifiable, the related other revenues are recognized on a straight-line basis over the term of the contract.

Water and sewage billing and collection revenue is charged on a per-bill fee basis and the amounts are recognized in the period in which the billing services are rendered.

Revenues and costs associated with CDM programs are presented using the net basis of accounting. Cost efficiency incentives related to the CDM programs and OEB performance incentives, included as part of other revenue, are recognized when it is probable that future economic benefits will flow to the entity and the amount can be reasonably measured.

Customer billings for Debt retirement charges and the Ontario Clean Energy Benefit are recorded on a net basis as the Corporation is acting as an agent for this revenue stream. The Corporation may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation ("OEFC") once each year.

Deferred revenue relating to contributions in aid of construction is amortized to income on a straight-line basis over the terms of the agreement with the customer or the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

All other revenues are recorded on a gross basis and are recognized when services are rendered.

(m) Leased assets

Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are classified as operating leases and the leased assets are not recognized on the Corporation's statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

3. **Significant accounting policies (continued):**

(n) Finance income and finance costs

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest earned on cash and cash equivalents.

Finance costs comprise interest expense on customer deposits, the demand notes payable, revolving credit facility and long-term borrowings.

(o) Income taxes

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act. Pursuant to the Electricity Act, 1998 (Ontario), the Corporation makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes.

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to other comprehensive income or items recognized directly in equity, in which case, it is recognized in accumulated comprehensive income or retained earnings, respectively.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

Rate-regulated accounting requires the recognition of regulatory balances and related deferred tax assets and liabilities for the amount of deferred taxes expected to be refunded to or recovered from customers through future electricity distribution rates. A gross up to reflect the income tax benefits associated with reduced revenues resulting from the realization of deferred tax assets is recorded within regulatory credit or debt balances. Deferred taxes that are not included in the rate-setting process are charged or credited to the statements of comprehensive income.

The benefits of the refundable and non-refundable apprenticeship and other ITCs are credited against the related expense in the statements of comprehensive income.

4. Standards issued but not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these financial statements. The Corporation continues to analyze these standards and has determined that the following could have an impact on its financial statements.

Annual Improvements to IFRS (2012-2014) cycle

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Each of the amendments has its own specific transition requirements.
Amendments were made to clarify the following in their respective standards:

- Changes in method for disposal under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- 'Continuing involvement' for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7 Financial Instruments: Disclosures;
- Discount rate in a regional market sharing the same currency under IAS 19 Employee Benefits;
- Disclosure of information 'elsewhere in the interim financial report' under IAS 34 Interim Financial Reporting;

The Corporation intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

Disclosure Initiative: Amendments to IAS 1

On December 18, 2014 the IASB issued amendments to IAS 1 *Presentation of Financial Statements* as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The Corporation intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Corporation does not expect the amendments to have a material impact on the financial statements.

IFRS 15 Revenue from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue Bartering Contracts*.

The standard contains a single model that applies to 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 new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The Corporation intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

4. Standards issued but not yet adopted (continued):

IFRS 9 *Financial Instruments*

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 16 *Leases*

On January 13, 2016 the IASB issued IFRS 16 *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

5. **Bank indebtedness:**

	December 31, 2015	December 31, 2014	January 1, 2014
Cash	$ 1,660	$ 1,060	$1,060
Revolving credit facility	(247,222)	(2,671,354)	(1,340,230)
Bank indebtedness	**$ (245,562)**	**$ (2,670,294)**	**$(1,339,170)**

6. **Accounts receivable:**

	December 31, 2015	December 31, 2014	January 1, 2014
Energy, water and sewage	$2,883,589	$3,147,572	$2,824,337
Other	956,985	214,388	211,121
Total	**$3,840,574**	**$3,361,960**	**$3,035,458**

Included in accounts receivable is $517,116 (2014 - $466,681) of customer receivables for water consumption and sewage ("water & sewage") that the Corporation bills and collects on behalf of the City of Stratford. As the Corporation does not assume liability for collection of these amounts, any amount related to water & sewage that is determined to be uncollectible is charged to the City of Stratford. At year end, there is nothing (2014 - nil) included in the provision for impairment for uncollectable amounts relating to water and sewage.

Included in sundry receivables is an amount authorized by the OEB to be recovered through rates over a 31 month period commencing June 1, 2015 related to the cost of a permanent bypass arrangement. The amount remaining at December 31, 2015 totalled $649,816 (2014 - nil).

7. **Inventories:**

The amount of inventories consumed by the Corporation and recognized as an expense during 2015 was $117,091 (2014 - $121,711). During fiscal year 2015, an amount of $16,050 (2014 – $16,939) was recorded as an expense for the write-down of obsolete or damaged inventory to net realizable value.

8. Property, plant and equipment:

a) Cost or deemed cost

	Land and buildings	Distribution substation equipment	Other distribution system equipment	Transformer station	Total
Balance at January 1, 2014	$1,666,927	$33,606,865	$2,123,276	$13,935,158	$51,332,226
Additions	58,882	2,065,064	216,376	-	2,340,322
Disposals/retirements	(7,778)	(715,792)	(18,301)	-	(741,871)
Balance at December 31, 2014	$1,718,031	$34,956,137	$2,321,351	$13,935,158	$52,930,677
Balance at January 1, 2015	$1,718,031	$34,956,137	$2,321,351	$13,935,158	$52,930,677
Additions	141,389	2,401,271	296,009	-	2,838,669
Disposals/retirements	-	(6,731)	(27,740)	-	(34,471)
Balance at December 31, 2015	**$1,859,420**	**$37,350,677**	**$2,589,620**	**$13,935,158**	**$55,734,875**

b) Accumulated depreciation

	Land and buildings	Distribution substation equipment	Other distribution system equipment	Transformer station	Total
Balance at January 1, 2014	-	-	-	-	-
Depreciation	$35,923	$1,438,209	$278,840	$320,188	$2,073,160
Disposals/retirements	-	-	-	-	-
Balance at December 31, 2014	$35,923	$1,438,209	$278,840	$320,188	$2,073,160
Balance at January 1, 2015	$35,923	$1,438,209	$278,840	$320,188	$2,073,160
Depreciation	34,332	1,420,587	289,766	320,192	2,064,877
Disposals/retirements	-	(3,707)	(27,740)	-	(31,447)
Balance at December 31, 2015	**$70,255**	**$2,855,089**	**$540,866**	**$640,380**	**$4,106,590**

c) Carrying amounts

	Land and buildings	Distribution substation equipment	Other distribution system equipment	Transformer station	Total
January 1, 2014	$1,666,927	$33,606,865	$2,123,276	$13,935,158	$51,332,226
December 31, 2014	1,682,108	33,517,928	2,042,511	13,614,970	50,857,517
December 31, 2015	1,789,165	34,495,588	2,048,754	13,294,778	51,628,285

d) Borrowing costs

During the year, borrowing costs of nil (2014 – nil) were capitalized as part of the cost of property, plant and equipment.

9. Intangible assets:

a) Cost or deemed cost

	Goodwill	Computer software	CCRA's	Total
Balance at January 1, 2014	$515,359	$301,874	$ 2,126,761	$2,943,994
Additions	-	245,904	233, 295	479,199
Balance at December 31, 2014	$515,359	$547,778	$2,360,056	$3,423,193
Balance at January 1, 2015	$515,359	$547,778	$2,360,056	$3,423,193
Additions	-	404,977	70,200	475,177
Disposals	-	-	(1,463,321)	(1,463,321)
Balance at December 31, 2015	**$515,359**	**$952,755**	**$966,935**	**$2,435,049**

Upon direction of the OEB, the permanent bypass agreement originally recognized as an intangible at a value of $1,436,321 was removed from intangible assets effective May 1, 2015.

b) Accumulated amortization

	Goodwill	Computer software	CCRA's	Total
Balance at January 1, 2014	-	-	-	-
Amortization	-	$99,602	$79,385	$178,987
Balance at December 31, 2014	-	$99,602	$79,385	$178,987
Balance at January 1, 2015	-	$99,602	$79,385	$178,987
Amortization	-	137,906	22,269	160,175
Disposals	-	-	-	-
Balance at December 31, 2015	-	**$237,508**	**$101,654**	**$339,162**

c) Carrying amounts

	Goodwill	Computer software	CCRA's	Total
January 1, 2014	$515,359	$301,874	$2,126,761	$2,943,994
December 31, 2014	515,359	448,176	2,280,671	3,244,206
December 31, 2015	515,359	715,247	865,281	2,095,887

d) Goodwill impairment

Management has determined that the Corporation's rate regulated operations are one cash generating unit. Therefore, the goodwill was allocated to the Corporation as a whole. The annual impairment test is based on the Corporation's value in use. Value in use was determined by discounting the future cash flows of the Corporation and was based on the following key assumptions:

- A detailed valuation of the Corporation was undertaken based on financial results of the Corporation as at December 31, 2013. Cash flows were projected based on actual operating results and the cost of capital and rates of return as approved in the 2010 Cost of Service application. Using a weighted average cost of capital of 7.20%, the cash flow projections were for a twenty five year period. Cash flows for the 25 year period were extrapolated using a constant growth rate of 2.0% for the first five years, which does not exceed the long-term average growth rate for the industry and reflects the estimated cost of the annual price escalator. The recoverable amount of the Corporation was greater than the carrying value of goodwill and no impairment was recorded as at January 1, 2014, December 31, 2014 or December 31, 2015.

10. Income taxes:

Income tax expense

	2015	2014
Current tax expense:		
Current year	$65,000	$384,000
Prior year	29,000	27,000
Total current tax expense	94,000	411,000
Deferred tax expense:		
Change in recognized deductible temporary differences	1,099,461	(407,274)
Total current and deferred income tax in profit or loss, before movement of regulatory balance	1,193,461	3,726
Other comprehensive income:		
Employee future benefits	(4,907)	(29,820)
Total current and deferred tax, before movement in regulatory balances	1,188,554	(26,094)
Net movement in regulatory balances	(1,094,554)	437,094
Income tax expense recognized in statement of comprehensive Income	$94,000	$411,000

Reconciliation of effective tax rate

	2015	2014
Income before taxes	$3,334,329	$495,714
Canada and Ontario statutory income tax rates	26.5%	26.5%
Expected tax provision on income tax at statutory rates	883,597	131,364
Increase (decrease) in income tax resulting from:		
Permanent differences	80,457	4,252
Recognized deductible temporary difference due to/from customers	(1,094,554)	437,094
Other	224,500	(161,710)
Income tax expense	$94,000	$411,000

10. Income taxes (continued):

Significant components of the Corporation's deferred tax balances:

	December 31, 2015	December 31, 2014	January 1, 2014
Deferred tax assets (liabilities):			
Property, plant and equipment	$567,223	$1,666,649	$1,172,113
Cumulative eligible capital	(345,316)	(228,050)	148,122
Employee future benefits	365,524	359,634	323,082
Other	253,614	137,366	(144,812)
	$841,045	$1,935,599	$1,498,505

11. Customer deposits:

Customer deposits represent cash deposits from electricity distribution customers as well as construction deposits. These customer deposits bear interest at the OEB's prescribed interest rate of the Bank of Canada's prime business rate less 2%.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service. Due to the demand nature of these deposits, they are classified as current liabilities.

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

Customer deposits comprise:

	December 31, 2015	December 31, 2014	January 1, 2014
Electricity deposits	$790,050	$777,627	$784,311
Construction deposits	551,081	193,234	166,101
Total customer deposits	**$1,341,131**	**$970,861**	**$950,412**
Consisting of:			
Short-term	$804,679	$853,910	$787,929
Long-term	536,452	116,951	162,483

12. Employee future benefits:

(a) Employee future benefits, other than pension

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. These benefits are provided through a group defined benefit plan. The Corporation has reflected its share of the defined benefit costs and related liabilities, as calculated by the 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.

Changes in the present value of the defined benefit unfunded obligation and the accrued benefit liability:

	2015	2014
Defined benefit obligation, beginning of year	$ 1,357,109	$1,219,179
Included in profit or loss:		
Current service cost	30,008	25,315
Interest cost	51,766	54,834
	81,774	80,149
Included in OCI:		
Actuarial losses arising from changes in financial assumptions	-	112,046
Benefits paid during the year	(59,549)	(54,265)
Defined benefit obligation, end of year	**$1,379,334**	**$1,357,109**

The significant actuarial assumptions used in the valuation are as follows:

	2015	2014
Discount rate	3.90%	3.90%
Rate of compensation increase	2.60%	2.60%
Initial health care cost trend rate	6.70%	7.00%
Cost trend rate declines to	4.60%	4.60%
Year that rate reaches the rate it is assumed to	2022	2022
Health and dental benefit cost trend rate	4.60%	4.60%

Significant actuarial assumptions for benefit obligation measurement purposes are the discount rate and assumed medical and dental cost trend rates. The sensitivity analysis below has been determined based on reasonably possible changes in the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change since it is unlikely these changes in assumptions would occur in isolation from each other. The approximate effect on the accrued benefit obligation of the entire plan and the estimated net benefit expense of the entire plan if the health care trend rate assumption was increased or decreased by 1%, and all other assumptions were held constant, is as follows:

	2015
Benefit Obligation, end of year	$1,379,334
1% increase in health care trend rate	49,000
1% decrease in health care trend rate	(44,000)
1% increase in discount rate	(154,000)
1% decrease in discount rate	194,000

12. Employee future benefits (continued):

(b) Pension plan

The Corporation provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). The plan is a multi-employer, contributory defined benefit pension plan. In 2015, the Corporation made employer contributions of $351,496 to OMERS (2014 - $370,220). The Corporation's net benefit expense has been allocated as follows:

- $71,474 (2014 - $69,442) capitalized as part of PP & E
- $259,404 (2014 - $279,130) charged to operating expenses
- $20,618 (2014 - $21,648) charged to CDM and billable work

The Corporation expects to contribute approximately $360,000 to the OMERS plan in 2016.

As at December 31, 2015, OMERS state that their plan was 91.5% funded (December 31, 2014 – 90.8%). OMERS has a strategy to return the plan to a fully funded position. The Corporation is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions. The Corporation's contributions represent less than 1% of the total annual contributions to the OMERS plan.

13. Regulatory assets and liabilities:

The regulatory balances are recovered or settled through rates approved by the OEB which are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Corporation has received approval from the OEB to establish its regulatory balances.

In the tables below, the "Additions" column consists of new additions to regulatory balances (for both debits and credits). The "Recovery/reversal" column consists of amounts collected through rate riders or transactions reversing an existing regulatory balance. The "Other movements" column consists of reclassification between the regulatory debit and credit balances. For the years ended December 31, 2014 and 2015, the Corporation did not record any impairments related to regulatory debit or credit balances.

13. Regulatory assets and liabilities (continued):

	January 1, 2015	Additions	Recovery/ reversal	Other	December 31, 2015	Notes
Regulatory deferral account debit balances						
Settlement (Group 1) variances	$ 3,651,100	$ (379,996)	$ (2,130,632)	$ 472,586	$ 1,613,058	(1)
Stranded meters	234,537	1,065	(233,605)	-	1,997	(2)
LRAM	281,735	97,102	(179,451)	-	199,386	(1)
Rate application costs	3,725	283,827	(60,125)	-	227,427	(3)
IFRS transition costs	115,083	-	(115,083)	-	-	(1)
Other	97,169	-	(97,169)	-	-	(1)
	$4,383,349	**$ 1,998**	**(2,816,065)**	**$472,586**	**$ 2,041,868**	

	January 1, 2014	Additions	Recovery/ reversal	Other	December 31, 2014	Notes
Regulatory deferral account debit balances						
Settlement (Group 1) variances	$2,100,679	$1,550,421	$ -	$ -	$3,651,100	(1)
Stranded meters	-	234,537	-	-	234,537	(2)
LRAM	121,555	160,180	-	-	281,735	(1)
Rate application costs	15,725	-	(12,000)	-	3,725	(3)
IFRS transition costs	113,398	1,685	-	-	115,083	(1)
Other	95,744	1,425	-	-	97,169	(1)
	$2,447,101	**$1,948,248**	**$(12,000)**	**$ -**	**$4,383,349**	

	January 1, 2015	Additions	Recovery/ reversal	Other	December 31, 2015	Notes
Regulatory deferral account credit balances						
Deferred taxes	$(1,935,599)	$ 1,094,554	$ -	$ -	$ (841,045)	(4)
Settlement (Group 1) variances	(2,516,537)	(577,472)	2,656,066	(472,586)	(910,529)	(5)
IFRS transition adjustments	(1,448,220)	(89,789)	1,527,960	-	(10,049)	(6)
Incremental Capital Rate rider	(504,420)	(269,708)	774,128	-	-	(7)
Tax related variances	(182,031)	-	182,031	-	-	(5)
	$(6,586,807)	**$ 157,585**	**$ 5,140,184**	**$(472,586)**	**$ (1,761,623)**	

	January 1, 2014	Additions	Recovery/ reversal	Other	December 31, 2014	Notes
Regulatory deferral account credit balances						
Deferred taxes	$(1,498,505)	$ (437,094)	$ -	$ -	$ (1,935,599)	(4)
Settlement (Group 1) variances	(2,725,795)	17,374	191,884	-	(2,516,537)	(5)
IFRS transition adjustments	(696,846)	(751,374)	-	-	(1,448,220)	(6)
Incremental Capital Rate rider	(229,834)	(274,586)	-	-	(504,420)	(7)
Tax related variances	(127,377)	(54,654)	-	-	(182,031)	(5)
	$(5,278,357)	**$(1,500,334)**	**$ 191,884**	**$ -**	**$ (6,586,807)**	

13. Regulatory assets and liabilities (continued):

1) *As part of the 2015 COS application, debit deferral and variance account balances outstanding as at December 31, 2013 were approved by the OEB to be included as rate riders effective May 1, 2015 (implemented June 1, 2015) and were recovered over a 7 month period ending December 31, 2015. The changes in settlement (Group 1) balances outstanding from December 31, 2013 to December 31, 2014 were approved for disposition as part of the 2016 IRM application with rates effective Jan 1, 2016 to be collected over a 12 month period.*

2) *As part of the 2015 COS application, the OEB approved the disposition of stranded meters through a rate rider effective May 1, 2015 (implemented June 1, 2015) with recovery over a 7 month period ending December 31, 2015.*

3) *The 2010 rate application costs were fully amortized as at April 30, 2014 and the remaining balance of $3,725 was approved for disposition as part of the 2015 COS application. The 2015 rate application costs were also approved by the OEB and are being amortized over a forty-three month period ending December 31, 2019.*

4) *Disposition is not requested for the deferred tax balance as it is being reversed through timing differences in the recognition of deferred tax assets. No carrying charges are calculated on this balance.*

5) *As part of the 2015 COS application, credit deferral and variance account balances outstanding as at December 31, 2013 were approved by the OEB to be included as rate riders effective May 1, 2015 (implemented June 1, 2015) and were recovered over a 7 month period ended December 31, 2015.*

6) *As part of the 2015 COS application, the OEB approved the disposition of the account 1575/76 IFRS transition account balance used to record the difference arising on adoption of new asset useful lives and overhead rates and write off of end-of-life assets. These account balances were included as a rate rider effective May 1, 2015 (implemented June 1, 2015) and were recovered over a 7 month period ended December 31, 2015.*

7) *The OEB approved a rate rider for recovery of Incremental Capital as part of the 2013 IRM application with the rates being effective starting May 1, 2013 to be collected until the next cost of service based rate order effective May 1, 2015. As part of the 2015 COS application, the OEB approved the disposition of the ICM rate rider account to its respective PP& E, intangible asset and revenue and expense accounts.*

Carrying charges are applied to all regulatory account balances at the OEB prescribed interest rates, with the exception of the deferred tax assets on which no carrying charges are applied.

As of December 31, 2015, as a result of the 2015 COS application approval, by December 31, 2015 the Corporation had collected all variance account balances outstanding as of December 31, 2013. As part of the Corporations 2016 IRM application, the change in settlement (Group 1) variance accounts occurring during fiscal 2014 were approved for recovery as part of 2016 distribution rates over a 12 month period commencing January 1, 2015. As such, the risk associated with the recovery of variance accounts is limited to the incremental value of non-settlement variances arising in 2014 and incremental settlement variance balances arising in 2015.

14. Long- term debt:

Long-term debt consists of the following:

	December 31, 2015	December 31, 2014	January 1, 2014
Subordinate, secured loan advances from Infrastructure Ontario Projects Corporation (OIPC), bearing interest at 4.4% per annum, with payments of $100,585 due semi-annually, maturing June 15, 2025, secured by a general security agreement.	$1,548,306	$ 1,677,084	$1,800,378
Subordinate, secured loan advances from Infrastructure Ontario Projects Corporation (OIPC), bearing interest at 3.98% per annum, with payments of $13,733 due semi-annually, maturing October 1, 2025, secured by a general security agreement.	224,776	242,758	260,045
Royal Bank revolving term loan, bearing interest at 2.93% maturing May 31, 2038 and a stamping fee bearing interest at 0.42% maturing May 31, 2023, secured by a general security agreement.	13,007,000	13,401,000	13,783,000
Notes payable to shareholder, bearing interest at 7.25% per annum, with interest payments only, due on demand, unsecured.	15,600,000	15,600,000	15,600,000
	30,380,082	**30,920,842**	**31,443,423**
Less: current portion	16,159,213	16,140,761	16,122,581
Long-term debt	**$14,220,869**	**$14,780,081**	**$15,320,842**

Interest rate swap

The Corporation entered into an interest rate swap agreement on a notional principal of $14,000,000 effective May 31, 2013, which matures May 31, 2038. The swap is a receive-variable, pay-fixed swap with the Royal Bank. This agreement has effectively converted variable interest rates to an effective fixed interest rate of 2.93% plus stamping fee of 0.42%. The stamping fee is subject to change every 10 years, with the fist maturity being May 31, 2023.
The Corporation has determined this swap does not meet the standard to apply hedge accounting. Since the standard is not met, the interest rate swap contract has been recorded at its fair value at December 31, 2015 with the unrealized loss for the year of $262,014 (2014 – unrealized loss of $1,248,690) recorded as a finance cost in the statements of comprehensive income.

15. Share capital:

	2015	2014
Authorized:		
Unlimited Class A special shares, non-cumulative, 5.0%		
Unlimited Class B special shares		
Unlimited Common shares		
Issued:		
6,100 Class A special shares	$ 6,100,000	$ 6,100,000
6,995 Common shares	9,468,388	9,468,388
	$ 15,568,388	**$15,568,388**

Dividends paid on the 6,100 special shares during the year totalled $305,000 (2014 - $305,000). Dividends paid on the 6,995 common shares during the year totalled $475,660 (2014 - $945,515). A common share dividend was declared on December 16, 2015 and is payable on all common shares on record at December 31, 2015, to be paid in 2016. The dividend amount payable at December 31, 2015 is $399,340.

16. Other income:

	2015	2014
Collection, late payment and other service charges	$ 234,999	$ 211,594
Pole attachment and other rental income	134,716	134,712
OEB CDM Performance incentive/IESO cost sharing	221,927	-
Miscellaneous	329,238	343,905
Solar generation	35,520	35,293
	$956,400	**$725,504**

Collection, late payment and other service charges are based on service charge rates and retailer rates as approved by the OEB. Pole attachment and other rentals consist primarily of pole attachment charges and charges for office and service centre space.

The OEB in April 2016 approved the Corporation's submission for a CDM Performance Incentive in the amount of $179,766 related to 2011-2014 CDM programs for meeting prescribed target levels. $42,161 was awarded by the IESO as a cost sharing incentive related to the 2011-2014 remaining performance based funding, as stipulated in the CDM agreement.

Miscellaneous includes revenues from City of Stratford water and sewage billing services, street lighting services, management fees charged to Festival Hydro Services Inc. and other revenue sources. In addition, the marketable securities were sold for a gain of $18,518.

17. Operating expenses:

	2015	2014
Salaries and benefits	$ 3,359,079	$3,333,562
External services	1,319,212	1,079,149
Materials and supplies	321,661	293,385
Other support costs	684,973	650,241
Less: capitalized costs	(194,795)	(210,214)
	$5,490,130	**$5,146,123**

18. Finance income and costs:

	2015	2014
Interest income on loan to Corporation under common control	$39,224	$38,702
Interest on bank account	358	4,585
Interest on written off trade receivables	4,009	3,475
Dividends on marketable securities	439	880
Other	1,530	3,217
Finance income	**$ 45,560**	**$50,859**
Interest expense on demand notes payable	$1,131,000	$1,131,000
Interest expense on long- term debt	511,778	543,504
Unrealized loss on interest rate swap	262,014	1,248,690
Interest on revolving credit facility	37,189	29,238
Interest expense on customer deposits	7,321	8,125
Other interest expense	554	4,439
Finance costs	**$1,949,856**	**$2,964,996**
Net finance costs	**$1,904,296**	**$2,914,137**

19. Related party transactions:

a) *Parent and ultimate controlling party*

The parent and sole shareholder of the Corporation is the Corporation of the City of Stratford (the "City"). The City of Stratford produces financial statements that are available for public use.

b) *Key management personnel*

The key management personnel of the Corporation has been defined as members of its Board of Directors and executive management team members. Total compensation of key management in 2015 was $529,601 (2014 - $474,452).

19. Related party transactions (continued):

c) Transactions with parent

The following summarizes the Corporation's related party transactions, recorded at the exchange amounts, with the parent, City of Stratford, for the years ended December 31:

	2015	2014
Revenues:		
Energy sales	$2,215,699	$1,916,226
Water and sewage administration fee	450,594	438,542
Street lighting services	36,707	10,558
Service centre space rental	33,673	33,647
Total revenues	$2,736,673	$2,398,973
Expenses:		
Interest on demand notes payable	$1,131,000	$1,131,000
Property taxes	109,193	108,934
Tree trimming	70,713	53,041
Total expenses	$1,310,906	$1,292,975

	December 31, 2015	December 31, 2014	January 1, 2014
Receivable balances:			
Accounts receivable	$111,837	$170,443	$160,994
Payable balances:			
Accounts payable & accrued charges	$638,773	$713,740	$714,404
Demand notes payable	15,600,000	15,600,000	15,600,000
Dividends payable	399,340	-	-
Total payables	$16,638,113	$16,313,740	$16,314,404
Dividends paid	$780,660	$1,250,515	$1,224,943

d) Transactions with corporations under common control of the parent

The following summarizes the Corporation's related party transactions, recorded at the exchange amounts, with Festival Hydro Services Inc., a wholly-owned subsidiary of the City of Stratford, for the years ended December 31:

	2015	2014
Revenues:		
Operational services	$70,373	$83,850
Management fee	78,230	54,403
Office and fibre room rentals	42,779	43,945
Joint pole rentals	35,544	35,607
Interest earned	39,224	38,702
Energy sales	29,215	29,978
Total revenues	$295,365	$286,485
Expenses:		
Fiber and WIFI services	$229,426	$204,226
Information technology services	27,650	-
Total expenses	$257,076	$204,226

19. Related party transactions (continued):

d) Transactions with corporations under common control of the parent (continued)

Receivable balance:

	December 31, 2015	December 31, 2014	January 1, 2014
	$67,446	$1,360,918	$1,109,088

20. Capital management:

The Corporation's main objectives when managing capital is to:

- ensure ongoing access to funding to maintain, refurbish and expand the electricity distribution system;
- ensure sufficient liquidity is available (either through cash and cash equivalents or committed credit facilities) to meet the needs of the business;
- ensure compliance with covenants related to its credit facilities; and
- prudent management of its capital structure with regard to recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios. The Corporation manages capital by preparing short-term and long-term cash flow forecasts, statements of financial position and comprehensive statements of income. In addition, the Corporation accesses its revolving credit facility to fund net periodic net cash outflows and to maintain available liquidity.

There have been no changes in the Corporation's approach to capital management during the year. As at December 31, 2015, the Corporation's definition of capital included borrowings under its revolving credit facility, long-term debt and obligations including the current portion thereof, and equity, and had remained unchanged from the definition as at December 31, 2014 and as at January 1, 2014. As at December 31, 2015, equity amounted to $23,373,743 (December 31, 2014 - $21,313,415; January 1, 2014 - $22,479,216), and borrowings in the form of demand notes payable and long-term debt, including the current portion thereof, amounted to $30,380,082 (December 31, 2014 - $30,920,842; January 1, 2014 - $31,443,423).

The OEB regulates the amount of deemed interest on debt and MARE that may be recovered by the Corporation, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure and finance costs for the Corporation may differ from the OEB deemed structure.

The Corporation is subject to debt agreements that contain various covenants. The Corporation's credit agreement with a Canadian chartered bank provides a revolving demand facility, letter of guarantee which is posted with the IESO as prudential support, and a long-term loan facility. These combined facilities are subject to a funded indebtedness debt to equity ratio of no more than 65%. Long term lending arrangements with Infrastructure Ontario ("OICP") are subject to meeting a debt to equity test of no greater than 75:25 and debt servicing ratio of no less than 1.30 times.

The Corporation has customary covenants typically associated with long-term debt. As at December 31, 2015, December 31, 2014 and January 1, 2014, the Corporation was in compliance with all with all credit agreement covenants and limitations associated with its long-term debt.

21. Financial instruments and risk management

Fair value disclosure

The carrying values of accounts receivable, unbilled revenue, and the revolving term facility, accounts payable and accrued liabilities approximated their fair values due to the short maturity of these instruments. The fair values of customer deposits approximate their carrying amounts taking into account interest accrued on the outstanding balance. Cash and cash equivalents are measured at fair value. During the period, the available for sale marketable security was sold in its entirety for a gain of $18,518.

The swap agreement is measured at fair value, which is provided by a third party banking institution and is based on market rates at the date of the valuation. The valuation of the interest rate swap resulted in an unrealized loss recorded on the statement of financial position at December 31, 2015 of $798,891 (December 31, 2014 - unrealized loss of $536,877 and January 1, 2014 - an unrealized gain of $711,813).

The fair value of the long-term borrowings is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The carrying amounts and fair values of the Corporation's long term loans consist of the following:

	December 31, 2015	December 31, 2014
Carrying amounts:		
Notes payable, 7.25%, on demand	$15,600,000	$15,600,000
OIPC 4.4% maturing June 15, 2025	1,548,306	1,677,084
OIPC 3.98% maturing October 1, 2025	224,776	242,758
Term Loan 2.93% maturing May 1, 2038 plus stamping fee of 0.42% maturing May 1, 2023	13,007,000	13,401,000
Total	**$30,380,082**	**$30,920,842**

	December 31, 2015	December 31, 2014
Fair values:		
Demand notes payable valued based on current OIPC posted 25 year rate of 3.54%	$18,559,931	$18,559,931
OIPC 4.4% maturing June 15, 2025 using current OIPC posted 10 year rate of 2.64%	1,670,465	1,823,494
OIPC 3.98% maturing October 1, 2025 using current OIPC posted 10 year rate of 2.64%	238,659	259,281
Term Loan 2.93 % plus stamping fee of 0.42% maturing May 1, 2023 using current OIPC posted 20 year rate of 3.36%	$12,994,195	$13,387,327
Total	**$33,463,250**	**$34,030,033**

21. Financial instruments and risk management (continued):

Financial risks

The following is a discussion of financial 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 listed. The Corporation's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk.

a) *Credit risk*

The Corporation is exposed to credit risk as a result of the risk of counterparties defaulting on their obligations. The Corporation's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. The Corporation monitors and limits its exposure to credit risk on a continuous basis.

The Corporation's credit risk associated with accounts receivable and unbilled revenue is primarily related to electricity bill payments from electricity customers. The Corporation obtains security deposits from certain customers in accordance with direction provided by the OEB and as outlined in the Corporation's conditions of service. As of December 31, 2015, the Corporation held security deposits related to electricity receivables in the amount of $790,050 (2014 - $777,627).

As at December 31, 2015, there were no significant concentrations of credit risk with respect to any one customer. No single customer accounts for revenue in excess of 5% of total distribution revenue. The Corporation earns its revenue from a broad base of approximately 20,600 customers located throughout its service territory.

The credit risk and mitigation strategies with respect to unbilled revenue are the same as for accounts receivable. The credit risk related to cash, cash equivalents and investments is mitigated by the Corporation's treasury policies on assessing and monitoring the credit exposures of counterparties.

Credit risk associated with electricity accounts receivable and unbilled revenue (electricity only) is as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
Electricity receivables and unbilled revenue			
Outstanding accounts receivable:			
Not more than 30 days	$ 2,016,119	$2,422,245	$ 2,102,096
More than 30 but less than 90 days	105,513	56,644	29,000
More than 90 days	101,328	89,753	99,137
Less allowance for impairment	(135,936)	(138,186)	(126,269)
Unbilled revenue	8,425,940	8,872,992	8,679,666
	$10,512,964	**$11,303,448**	**$10,783,630**

The Corporation bills and collects water consumption and sewage ("water & sewage") on behalf of the City of Stratford. As the Corporation does not assume liability for collection of these amounts, any amount related to water & sewage that is determined to be uncollectible is charged to the City of Stratford. At year end, there is nothing (2014 - nil) Included in the provision for impairment for uncollectable amounts relating to water and sewage.

21. Financial instruments and risk management (continued):

a) Credit risk (continued)

As at December 31, 2015, the Corporation's accounts receivable and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk and no additional allowance for impairment was required for these balances.

Reconciliation between the opening and closing allowance for impairment is as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
Balance, beginning of year	$ 138,186	$ 126,269	$ 125,911
Provision for impairment	75,000	75,494	82,000
Write offs	(100,604)	(86,660)	(96,387)
Recoveries	23,354	23,083	14,745
Balance, end of year	**$135,936**	**$138,186**	**$126,269**

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at year end. Unbilled revenue is considered current and no provision for impairment was established as at December 31, 2015, December 31, 2014 and January 1, 2014.

b) Interest rate risk

The Corporation is exposed to fluctuations in interest rates for the valuation of its employee future benefit obligations (note 12). The Corporation is also exposed to short-term interest rate risk on the net of cash position and short-term borrowings under its Revolving Credit Facility and customer deposits. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance.

As at December 31, 2015, aside from the valuation of its employee future benefit obligations, the Corporation was exposed to interest rate risk predominately from short-term borrowings under its revolving credit facility and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation estimates that a 100 basis point increase in short-term interest rates, with all other variables held constant, would result in an increase of approximately $22,572 to annual finance costs. A decrease of 100 basis points would result in a reduction in financing costs of $21,094.

c) Liquidity risk

The Corporation is exposed to liquidity risk related to its ability to fund its obligations as they become due. The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. The Corporation has access to credit facilities and monitors cash balances daily. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing finance costs.

The Corporation has a revolving credit facility available of $10,000,000 with a Canadian chartered bank. As at December 31, 2015, $247,222 (2014 - $2,670,354) was drawn on this facility.

21. Financial instruments and risk management (continued):

Financial risks (continued):

c) *Liquidity risk (continued)*

As a purchaser of electricity through the Independent Electricity System Operator ("IESO"), the Corporation is required to provide security to minimize the risk of default based on its expected activity in the market. The IESO may draw on this security of the Corporation fails to make payment required by a default notice issue by the IESO. The Corporation has a $3.6 million revolving term facility by way of a letter of guarantee with a Canadian chartered bank, of which $3,095,139 (2014 - $3,095,139) has been assigned to secure the prudential support required by the IESO.

The majority of accounts payable, as reported on the statement of financial position, is due within 30 days.

Liquidity risks associated with financial commitments are as follows:

December 31, 2015

	Due within 1 year	Due within 1 to 5 years	Due > 5 years	Total
Revolving credit facility	$ 245,562	$ -	$ -	$ 245,562
Accounts payable and accrued liabilities	8,724,004	-	-	8,724,004
Due to City of Stratford	1,039,113	-	-	1,039,113
Interest on demand notes payable at 7.25%	1,131,000	4,524,000	-	5,655,000
OIPC 4.4% maturing June 15, 2025	134,507	600,584	813,214	1,548,306
OIPC 3.98% maturing October 1, 2025	18,705	82,646	123,425	224,776
Term Loan 2.93 % plus stamping fee	406,000	1,760,000	10,841,000	13,007,000
of 0.42% maturing May 1, 2023		-	-	-
Interest payments on long-term loans	504,942	1,808,844	3,570,958	5,884,744
	$ 12,203,832	$ 8,776,074	$ 15,348,597	$ 36,328,504

December 31, 2014

	Due within 1 year	Due within 1 to 5 years	Due > 5 years	Total
Revolving credit facility	$ 2,670,294	$ -	$ -	$ 2,670,294
Accounts payable and accrued liabilities	9,495,082	-	-	9,495,082
Due to City of Stratford	713,740	-	-	713,740
Interest on demand notes payable at 7.25%	1,131,000	4,524,000	-	5,655,000
OIPC 4.4% maturing June 15, 2025	128,779	575,006	973,300	1,677,084
OIPC 3.98% maturing October 1, 2025	17,982	79,452	145,323	242,758
Term Loan 2.93 % plus stamping fee	394,000	1,705,000	11,302,000	13,401,000
of 0.42% maturing May 1, 2023		-	-	-
Interest payments on long-term loans	524,755	1,894,563	3,990,180	6,409,497
	$ 15,075,631	$ 8,778,021	$ 16,410,803	$ 40,264,455

January 1, 2014

	Due within 1 year	Due within 1 to 5 years	Due > 5 years	Total
Revolving credit facility	$ 1,339,170	$ -	$ -	$ 1,339,170
Accounts payable and accrued liabilities	9,009,986	-	-	9,009,986
Due to City of Stratford	714,404	-	-	714,404
Interest on demand notes payable at 7.25%	1,131,000	4,524,000	-	5,655,000
OIPC 4.4% maturing June 15, 2025	123,294	550,517	1,126,568	1,800,378
OIPC 3.98% maturing October 1, 2025	17,287	76,382	166,376	260,045
Term Loan 2.93 % plus stamping fee	382,000	1,652,000	11,749,000	13,783,000
of 0.42% maturing May 1, 2023		-	-	-
Interest payments on long-term loans	543,906	1,978,297	4,431,201	6,953,403
	$ 13,261,046	$ 8,781,195	$ 17,473,144	$ 39,515,385

22. Commitments and contingencies:

Operating leases

The Corporation entered into a non-cancellable operating lease for service centre space for a period of five years dated November 15, 2015. Minimum lease payments required are $890 per month for 2016. The contract is subject to an annual increase based on the Ontario Consumer Price Index for each year.

Connection and cost recovery agreement - St. Mary's transformer station:

The Corporation and Hydro One Networks Inc. entered into a twenty-five year capital cost recovery agreement ("CCRA") in September, 2002 relating to Hydro One Networks Inc. building new feeder positions at the existing St. Mary's Transformer Station. Under the terms of the agreement, the Corporation has guaranteed new load growth which, if not met, would require the Corporation to provide a financial contribution toward the capital investment of the transformer station.

The CCRA has been trued-up effective July 5, 2013. Since load growth had fallen below a target amount, a contribution in the amount of $550,200 was paid to Hydro One Networks. This amount has been recorded as an Intangible Asset subject to 15 year amortization over the remaining life of the agreement. The agreement is subject to true up effective on the fifteenth year of the agreement in July 2018.

Connection and cost recovery agreement-Stratford transformer station ("Festival Hydro MTS1"):

The Corporation and Hydro One Networks Inc. entered into a twenty-five year capital cost recovery agreement in November, 2012, relating to Hydro One Networks Inc. building a new 230kV line to connect Festival Hydro`s MTS1 to Hydro One`s 230kV circuit. Under the terms of the agreement, the Corporation has guaranteed new load growth which, if not met, would require the Corporation to provide a financial contribution toward the capital investment. The CCRA is trued-up (a) following the fifth and tenth anniversaries of the in-service date; and (b) following the fifteenth anniversary of the in-service date if the actual load is 20% higher or lower than the load forecast at the end of the tenth anniversary of the in-service date. The fifth anniversary of the in-service date will be in November 2017, at which time the need for a contribution will be determined based on actual new load growth.

General

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

General Liability Insurance

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of public liability insurance risks of many of the electrical utilities in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to 5 years. As at December 31, 2015, no assessments have been made.

23. Explanation of transition to IFRS:

These are the Corporation's first financial statements prepared in accordance with IFRSs.

The accounting policies set out in 3 have been applied in preparing the financial statements for the year ended December 31, 2015, the comparative information presented in these financial statements for the year ended December 31, 2014 and in the preparation of the opening IFRS statement of financial position at January 1, 2014 (the Corporation's date of transition). In preparing its opening IFRS statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP ("CGAAP"). All comparative figures for 2014 that were previously reported in accordance with CGAAP are now reported in accordance with IFRS. An explanation of how the transition from CGAAP to IFRSs has affected the Corporation's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Regulatory accounts

IFRS14: Regulatory Deferral Accounts permits an entity to continue to account for regulatory deferral account balances in its financial statements in accordance with its previous GAAP when it adopts IFRS. An entity is permitted to apply the requirements of this standard in its first IFRS financial statements if and only if it conducts rate-regulated activities and recognized amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP. This standard exempts an entity from applying paragraph 11 of IAS8: *Accounting policies, changes in accounting estimates and errors*, to its accounting policies for the recognition, measurement, and impairment and de-recognition of regulatory deferral account balances.

IFRS 14 is effective from periods beginning on or after January 1, 2016, however, early application is permitted. The Corporation has elected to apply this Standard in its first IFRS financial statements.

IFRS 1 Exemptions

IFRS 1, *First-time adoption of International Financial Reporting Standards,* sets out the procedures that the Corporation must follow when it adopts IFRS for the first time as the basis for preparing its financial statements. The Corporation is required to establish its IFRS accounting policies as at December 31, 2015 and, in general, apply these retrospectively to determine the IFRS opening statement of financial position as its date of transition, January 1, 2014. This standard provides a number of mandatory and optional exemptions to this general principle. These are set out below, together with a description in each case of the exemption adopted by the Corporation.

a) Business combinations

If an entity applies this exemption, at the date of transition to IFRS, it shall test for impairment each item for which this exemption is used. The assets were tested for impairment at the date of transition and it was determined that the assets were not impaired.

IFRS 1 provides an optional exemption whereby a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred prior to the date of transition. The Corporation has elected this exemption and did not restate business combinations that occurred prior to the date of transition.

23. Explanation of transition to IFRS (continued):

b) Transfer of assets from customers

The Corporation has elected to apply the transitional provisions in IFRIC 18, *Transfers of Assets from Customers*. This provision states that the effective date of this standard should be July 1, 2009 or the date of transition to IFRS whichever is the later. The Corporation has applied the Standard as of its date of transition, January 1, 2014.

c) Deemed cost

IFRS 1 provides an optional exemption for a first-time adopter with rate-regulated activities to use the carrying amount of PP&E and intangible assets as deemed cost on transition date when the carrying amount includes costs that do not quality for capitalization in accordance with IFRS. The Corporation elected this exemption and used the carrying amount of the PP&E and intangible assets under CGAPP as deemed cost on transition date. The carrying amount used as deemed costs are $51,332,226 for PP&E and $2,943,994 for intangible assets.

If an entity applies this exemption, at the date of transition to IFRS, it shall test for impairment each item for which this exemption is used. The assets were tested for impairment at the date of transition and it was determined that the assets were not impaired.

The reconciliations of the statement of comprehensive income from CGAAP to IFRS for the year ended December 31, 2014 are as follows:

23. Explanation of transition to IFRS (continued):

Reconciliation of statement of financial position and statement of changes in equity:

January 1, 2014	Note	CGAAP	Presentation differences	Measurement & recognition differences	IFRS
Accounts receivable	-	$ 3,035,458	$ -	$ -	$ 3,035,458
Unbilled revenue	-	8,679,666	-	-	8,679,666
Due from related parties	-	1,109,088	-	-	1,109,088
Marketable securities	e	-	-	18,999	18,999
Inventories	-	156,243	-	-	156,243
Prepaid expenses	-	306,032	-	-	306,032
Income tax receivable	-	200,910	-	-	200,910
Property, plant and equipment	a,b,c,d	36,785,468	14,546,758	-	51,332,226
Intangible assets	a,c,d	1,691,748	1,252,246	-	2,943,994
Goodwill	d	515,359	(515,359)	-	-
Unrealized gain on swap		711,813	-	-	711,813
Deferred tax assets	a,g	2,109,748	(559,083)	(52,160)	1,498,505
Total assets	-	**55,301,533**	**14,724,562**	**(33,161)**	**69,992,934**
Regulatory balances	a	11,841,146	(9,394,045)	-	2,447,101
Total assets and regulatory balances	-	**$67,142,679**	**$ 5,330,517**	**$ (33,161)**	**$72,440,035**
Bank indebtedness	-	$ 1,339,170	$ -	$ -	$ 1,339,170
Accounts payable and accrued liabilities	-	9,176,086	(160,212)	-	9,015,874
Long-term debt due within a year	-	528,469	15,594,112	-	16,122,581
Customer deposits – current	-	259,019	528,910	-	787,929
Demand notes payable		15,600,000	(15,600,000)	-	-
Due to City of Stratford	-	714,404	-	-	714,404
Customer deposits – long term		525,293	(362,810)	-	162,483
Employee future benefits	f	1,397,008	-	(177,829)	1,219,179
Long-term debt	-	15,320,842	-	-	15,320,842
Total liabilities	-	**44,860,291**	**-**	**(177,829)**	**44,682,462**
Share capital	-	15,568,388	-	-	15,568,388
Accumulated OCI	e	-	-	18,999	18,999
Retained earnings	f	6,714,000	-	177,829	6,891,829
Total liabilities and equity	-	**67,142,679**	**-**	**18,999**	**67,161,678**
Regulatory balances	a	-	5,330,517	(52,160)	5,278,357
Total liabilities, equity and regulatory balances	-	**$67,142,679**	**$ 5,330,517**	**$ (33,161)**	**$72,440,035**

23. Explanation of transition to IFRS (continued):

Reconciliation of statement of financial position and statement of changes in equity:

December 31, 2014	Note	CGAAP	Presentation differences	Measurement & recognition differences	IFRS
Accounts receivable	-	$ 3,361,960	$ -	$ -	$ 3,361,960
Unbilled revenue	-	8,872,992	-	-	8,872,992
Marketable securities	e	-	-	18,516	18,516
Inventories	-	102,865	-	-	102,865
Prepaid expenses		518,666	-	-	518,666
Income tax receivable	-	77,047	-	-	77,047
Due from corporations under common control	-	1,360,918	-	-	1,360,918
Property, plant and equipment	a,b,c,d	36,614,127	14,243,390	-	50,857,517
Intangible assets	a,c,d	1,863,117	1,381,089	-	3,244,206
Goodwill	d	515,359	(515,359)	-	-
Deferred tax assets	a	2,659,199	(706,808)	(16,792)	1,935,599
Total assets	-	**55,946,250**	**14,402,312**	**1,724**	**70,350,286**
Regulatory balances	-	12,018,943	(7,635,594)	-	4,383,349
Total assets and regulatory balances		**$67,965,193**	**$6,766,718**	**$ 1,724**	**$74,733,635**
Bank indebtedness	-	$ 2,670,294	$ -	$ -	$ 2,670,294
Accounts payable and accrued liabilities		9,688,315	(187,743)	-	9,500,572
Deferred revenue, current	b	-	5,892	-	5,892
Demand notes payable		15,600,000	(15,600,000)	-	-
Long-term debt due within one year	-	546,251	15,594,510	-	16,140,761
Customer deposits -current	-	250,262	603,648	-	853,910
Due to City of Stratford	-	713,740	-	-	713,740
Deferred revenue – long term	b	-	157,226	-	157,226
Customer deposits – long term	-	527,365	(410,414)	-	116,951
Employment future benefits	f	1,401,958	-	(44,849)	1,357,109
Unrealized loss on interest rate swap	-	536,877	-	-	536,877
Long-term debt	-	14,780,081	-	-	14,780,081
Total liabilities	-	**46,715,144**	**163,119**	**(44,849)**	**46,833,413**
Share capital	-	15,568,388	-	-	15,568,388
Accumulated OCI	e, f	-	22,090	(115,620)	(93,530)
Retained earnings	f	5,681,662	(22,090)	178,985	5,838,557
Total liabilities and equity	-	**67,965,193**	**163,119**	**18,516**	**68,146,828**
Regulatory balances	a	-	6,603,599	(16,792)	6,586,807
Total liabilities, equity and regulatory balances		**$67,965,193**	**$6,766,718**	**$ 1,724**	**$74,733,635**

23. Explanation of transition to IFRS (continued):

Reconciliation of net income for 2014

	Note	CGAAP	Presentation differences	Measurement & recognition differences	IFRS
Revenue					
Sales of energy	-	$ -	$65,366,444	$ -	$65,366,444
Distribution revenue	-	10,930,038	(79,105)	-	10,850,933
Other income	b	942,911	(217,407)	-	725,504
Operating expenses:					
Cost of power purchased	-	-	67,087,035	-	67,087,035
Operating expenses	f	2,006,035	3,138,539	1,639	5,146,213
Billing and collection	-	1,219,893	(1,219,893)	-	-
Administration		1,896,556	(1,896,556)	-	-
Depreciation and amortization	b	1,912,497	339,650	-	2,252,147
Regulatory adjustment accounting change		1,213,662	(1,213,662)	-	-
Unrealized loss on swap		1,248,690	(1,248,690)	-	-
Finance income	f	-	(48,064)	(2,795)	(50,859)
Finance costs		1,746,439	1,218,557	-	2,964,996
Income tax expense	g	411,000	(407,580)	306	3,726
Net income	-	218,177	(679,404)	850	(460,377)
Net movement in regulatory balances, net of tax	g	-	657,314	306	657,620
Net income and net movement in regulatory balances	a	218,177	(22,090)	1,156	197,243
Other comprehensive income:					
Change in fair value of available for sale assets	e	-	-	(483)	(483)
Re-measurement of employee future benefits	f	-	22,090	(134,136)	(112,046)
Tax on re-measurements	g	-	(5,854)	35,674	29,820
Net movement in regulatory balances, net of tax	a	-	5,854	(35,674)	(29,820)
Total comprehensive income		$218,177	$ -	$(133,463)	$ 84,714

23. Explanation of transition to IFRS (continued):

Notes to the transitional adjustments and reconciliations

a) Regulatory balances

Festival has elected to early adopt IFRS 14, which permits a rate-regulated entity to continue to apply previous CGAAP accounting policies for the recognition, measurement, impairment and derecognising of regulatory balances. However, all regulatory balances and related deferred tax amounts are reclassified to a new and separate section of the statement of financial position. As well, the net income effect of all changes in regulatory balances must be segregated in a new separate section of the statement of comprehensive income. Amounts that are permitted or required to be recognized under another IFRS are excluded from the regulatory balances.

For the Corporation, the impact of IFRS 14 at January 1, 2014 resulted in the transfer of the ICM eligible in-service capital expenditures to PP&E and intangible assets, transfer of the deferred tax asset gross-up and deferred tax liabilities on regulatory balances to regulatory balances, and the transfer of all other regulatory debit and credit balances to separate lines below what was formerly known as "Total assets" and "Total liabilities and equity", respectively. The impact of this change as at January 1, 2014 was to reduce regulatory assets by $9,394,045, decrease deferred tax assets by $559,083, increase regulatory liabilities by $5,330,517 and increase PP&E and intangible assets by $14,848,632 and $435,013 respectively. As at December 31, 2014, the impact was to reduce regulatory assets by $7,635,594, decrease deferred tax assets by $706,808, increase regulatory liabilities by $6,603,599 and increase PP&E and intangible assets by $14,528,447 and $417,554 respectively.

b) Capital contributions

Under CGAAP, capital contributions received and used to finance additions to PP&E were offset against the cost of the constructed asset and depreciated at an equivalent rate as the related PP&E as a reduction in depreciation expense. Under IFRIC 18, contributions received in order to construct an item of PP&E are treated as deferred revenue and recognized as revenues over the useful lives of the related PP&E.

Under IFRS, capital contributions are recognized initially as customer deposits until the related asset is constructed, at which time the capital contributions are recognized as deferred revenue.

When the Corporation receives an asset as a customer contribution, that contribution is recognized in the statement of financial position and measured on initial recognition at the fair value of the asset received.

There is no impact at January 1, 2014 as the deemed cost exemption has been used. At December 31, 2014, the effect is to increase property, plant and equipment by $163,118, increase current deferred revenue by $5,892, increase long-term deferred revenue by $157,226, increase other income by $2,006 and increase depreciation expense by $2,006.

23. Explanation of transition to IFRS (continued):

Notes to the transitional adjustments and reconciliations (continued)

c) Property, plant and equipment de-recognition

The group depreciation policy adopted under CGAAP allowed for assets in a group not to be removed from the accounts on disposition and depreciation continue to be recorded until the asset group was fully depreciated. Under IFRS, the carrying amount of an item of PP&E is derecognized on disposal of the asset or when no future economic benefits are expected to accrue to the Corporation from its continued use. The related loss is recorded within depreciation and amortization expense. For the year ended December 31, 2015, the impact was to decrease PP&E and recognize a loss on disposal of $3,024 (2014 - $741,871).

d) Intangible assets

The Corporation has identified certain intangible assets that under Canadian GAAP were recorded within other classes of PP&E. The Corporation has reclassified the identified intangible assets to be in accordance with IAS 38 Intangible Assets, including the net book value of goodwill which arose upon amalgamation. In addition, the impact of IFRS 14 at January 1, 2014 resulted in the transfer of ICM eligible in-service capital expenditures to the intangible assets. The effect of adopting these changes is to increase Intangible assets by $1,252,246 on January 1, 2014 and $1,381,089 on December 31, 2014, to decrease regulatory assets by $435,013 at January 1, 2014 and $417,554 on December 30, 2014, to decrease PP&E by $301,874 at January 1, 2014 and $448,176 at December 31, 2014 and to reduce goodwill by $515,359 at both January 1, 2014 and December 31, 2014.

e) *Marketable securities*

Other comprehensive income for 2014 has been adjusted to record the results of the fair value adjustments for available-for-sale. The value of the securities as at January 1, 2014 and December 31, 2014 were $18,999 and $18,516, respectively. An unrealized gain of $18,999 was recognized in accumulated other comprehensive income as at January 1, 2014 and a loss of $483 was recognized into other comprehensive income for the year ending December 31, 2014.

f) Employee future benefits

The attribution methods and attribution periods are different between CGAAP and IFRS and result in a measurement difference of the employee future benefit liability. In addition, under IFRS a liability is recognized for both non-vested and vest sick leave benefits, unlike CGAAP which only requires a liability for the vested sick leave component. Under IFRS actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions are recognized as other comprehensive income as they arise. The Corporation has no vested sick leave benefits. Based on historical usage experience, the Corporation has deemed non-vested sick leave benefit usage in a year as not material in nature and have not recognized a liability.

Under IFRS, it is a policy choice whether or not to separately present the actuarial present value of benefits expected to be paid in the next twelve months component as current liability. The Corporation has elected to present the entire amount of employee future benefits obligations as non–current liabilities.

23. Explanation of transition to IFRS (continued):

Notes to the transitional adjustments and reconciliations (continued)

f) Employee future benefits (continued)

On transition to IFRS the employee future benefits liability was reduced by $177,829 and retained earnings increased by $177,829 at January 1, 2014. As at December 31, 2014, retained earnings increased by $156,895, the employee future benefits liability was reduced by $44,849, accumulated other comprehensive losses increased by $112,046, operating expenses increased by $23,739, finance costs were reduced by $2,795 and other comprehensive losses increased by $112,046.

g) Tax impact of transitional adjustments

The above changes increase (decreased) the deferred tax asset as follows based on a tax rate of 26.5%:

	Note	December 31, 2014	January 1, 2014
Marketable securities	(c)	$ 128	$ (5,035)
Employee future benefits	(f)	35,240	(47,125)
Increase (decrease) in deferred tax asset	---	$ 35,368	$ (52,160)

The effect on the statement of comprehensive income for the year ended December 31, 2014 was to increase the previously reported income taxes by $306.