Consolidated Financial Statements
(In millions of Canadian dollars)

ALECTRA INC.

Eleven months ended December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alectra Inc.

We have audited the accompanying consolidated financial statements of Alectra Inc., which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the eleven months then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Alectra Inc. as at December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the eleven months then ended in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 26, 2018
Toronto, Canada

ALECTRA INC.

Consolidated Statement of Financial Position

December 31, 2017
(In millions of Canadian dollars)

	Notes	
Assets		
Current assets		
Cash		122
Accounts receivable	20	272
Unbilled revenue		251
Inventory		21
Prepaid expenses		12
Due from related parties	12	8
Assets held for sale	8, 9	16
Total current assets		**702**
Non-current assets		
Property, plant and equipment	9	2,892
Intangible assets	10	159
Goodwill	10	720
Promissory notes receivable	27	1
Advance payments		3
Deferred tax assets	25	4
Total non-current assets		**3,779**
Total assets		**4,481**
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	11	414
Due to related parties	12	34
Customer deposits liability		92
Short term debt	15	176
Other liabilities	13	23
Total current liabilities		**739**
Non-current liabilities		
Deferred revenue	24	300
Loans and borrowings	16	1,693
Employee future benefits	17	65
Finance lease obligation	19	16
Deferred tax liabilities	25	15
Other long-term liabilities	14	5
Total non-current liabilities		**2,094**
Total liabilities		**2,833**
Shareholders' equity		
Share capital	18	970
Contributed surplus	3	544
Accumulated other comprehensive loss		(14)
Retained earnings		148
Total shareholders' equity		**1,648**
Total liabilities and shareholders' equity		**4,481**

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

On behalf of the Board:

Chair of the Board

Director

ALECTRA INC.

Consolidated Statement of Income and Comprehensive Income

Eleven months ended December 31, 2017
(In millions of Canadian dollars)

	Notes	
Revenue:		
Distribution revenue		458
Electricity sales		2,591
Other revenue	23	76
Total revenue		**3,125**
Expenses:		
Cost of power		2,567
Operating expenses	22	271
Depreciation and amortization	9, 10	124
Loss on derecognition of property, plant and equipment		6
Total expenses		**2,968**
Income from operating activities		**157**
Finance income		2
Finance costs		55
Net finance costs		53
Income before income taxes		**104**
Income tax expense	25	30
Net income		**74**
Other comprehensive income (loss):		
Items that may be subsequently reclassified to income:		
Realized loss in fair value of bond forward	16	(19)
Reclassification to net income, loss of bond forward		1
Tax impact on net change in value of loss on bond forward		4
Items that will not be subsequently reclassified to income:		
Remeasurement of defined benefit obligation		(2)
Tax impact on remeasurement of defined benefit obligation		1
Total other comprehensive loss		(15)
Total comprehensive income		**59**

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

ALECTRA INC.

Consolidated Statement of Changes in Equity

Eleven months ended December 31, 2017
(In millions of Canadian dollars)

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance, January 31, 2017		479	–	1	110	590
Net income		–	–	–	74	74
Other comprehensive loss		–	–	(15)	–	(15)
Issuance of shares related to amalgamation	3	485	544	–	–	1,029
Special share redemption	18	6	–	–	–	6
Dividends paid	18	–	–	–	(36)	(36)
Balance, December 31, 2017		970	544	(14)	148	1,648

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

ALECTRA INC.

Consolidated Statement of Cash Flows

Eleven months ended December 31, 2017
(In millions of Canadian dollars)

	Notes	
Cash provided by (used in):		
Operating activities:		
Net income		74
Add (deduct) non-cash items:		
Employee future benefits		2
Depreciation of property, plant and equipment	9	108
Amortization of intangible assets	10	16
Loss on derecognition of property, plant and equipment		6
Amortization of deferred revenue	24	(6)
Net finance costs		53
Contributions received from customers	24	62
Income tax expense		30
Net change in non-cash operating working capital	26	193
Operating cash flow before interest and taxes		538
Interest paid		(63)
Income taxes recovered		15
Income taxes paid		(7)
Cash from operating activities		483
Financing activities:		
Dividends paid	18	(36)
Repayment of loans and borrowings		(289)
Proceeds on issuance of promissory note	16	675
Payment of finance lease obligation		(1)
Cash from financing activities		349
Investing activities:		
Acquisition of Brampton Hydro	7	(615)
Contributions from shareholders	3	50
Special share issuance	18	6
Special share redemption	18	(10)
Purchase of intangible assets		(5)
Purchase of property, plant and equipment		(291)
Cash used in investing activities		(865)
Decrease in cash		(33)
Cash, beginning of period		155
Cash, end of period		122

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

1. Description of the business

On January 31, 2017, Alectra Inc. (the "Corporation") was incorporated under the Business Corporations Act (Ontario) by amalgamation (the "Amalgamation Transaction") (Note 3) of the former entities: PowerStream Holdings Inc. ("PowerStream"); Enersource Holdings Inc. ("Enersource"); and Horizon Holdings Inc. ("Horizon") (collectively, the "Amalgamating Entities"). Alectra Inc. is owned as follows:

- 8.78% by Barrie Hydro Holdings Inc., which is wholly-owned by the Corporation of the City of Barrie (the "City of Barrie");
- 31.00% by Enersource Corporation, which is owned 90% by the Corporations of the City of Mississauga (the "City of Mississauga") and 10% by BPC Energy Corporation ("Borealis"), which is a wholly owned subsidiary of the Ontario Municipal Employees Retirement System ("OMERS");
- 18.15% by Hamilton Utilities Corporation, a wholly-owned subsidiary of the Corporation of the City of Hamilton;
- 15.73% by Markham Enterprises Corporation, a wholly-owned subsidiary of the Corporation of the City of Markham (the "City of Markham");
- 4.85% by St. Catharines Hydro Inc., a wholly-owned subsidiary of the Corporation of the City of St. Catharines (the "City of St. Catharines"); and
- 21.49% by the Vaughan Holdings Inc., a wholly-owned subsidiary of the Corporation of the City of Vaughan (the "City of Vaughan").

The Corporation's registered head office is 2185 Derry Road, Mississauga, Ontario, Canada.

For accounting purposes, former PowerStream was deemed the acquirer under the Amalgamation Transaction. Consequently the opening balances in these consolidated statements are the balances of former PowerStream as at January 31, 2017.

1. Description of the business (continued)

The accompanying consolidated financial statements of the Corporation include the accounts of Alectra Inc. and its subsidiaries. The principal subsidiaries of the Corporation are: Alectra Utilities Corporation ("Alectra Utilities"), a regulated electricity distribution company under license issued by the Ontario Energy Board ("OEB") which also includes a commercial rooftop solar generation business (“Ring Fenced Solar”); and Alectra Energy Solutions Inc. ("AES"), a non-regulated energy services company. The Corporation also indirectly owns a 100% ownership interest in Solar Sunbelt General Partnership (“Solar Sunbelt GP”), which is held through Alectra Utilities (99.9975% interest) and Horizon Solar Corporation (0.0025% interest).

On February 28, 2017, Alectra Utilities acquired 100% of the shares of Hydro One Brampton Networks Inc. ("Brampton Hydro") for proceeds of $615 (Note 7).

AES was incorporated on January 31, 2017 by articles of amalgamation involving subsidiaries of the Amalgamating Entities. AES has two subsidiaries: Alectra Energy Services Inc. ("AESI") and Alectra Power Services Inc. ("APSI").

AES is an Ontario-based company that provides customers with energy solutions through the use of innovative technologies. The principal activities of AES and its wholly-owned subsidiaries include:

- AESI - wholesale metering and sub-metering services for condominium properties and commercial properties;

- APSI - streetlighting services including design, construction and maintenance; and

- Util-Assist Inc. (“UA”) - consulting services with respect to: Advanced Metering Infrastructure integration; customer information systems implementation; sync operation services; conservation initiatives; an outage management call centre under the name PowerAssist; and other smart grid applications.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were approved by the Board of Directors on March 26, 2018.

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency, and have been prepared on a historical cost basis, except for the valuation of employee future benefits.

3. Business combination

On January 31, 2017, PowerStream amalgamated with Enersource and Horizon to form the Corporation. Under the Amalgamation Transaction, shares of the former PowerStream, Enersource and Horizon were exchanged for the voting common shares of the Corporation. The Amalgamation Transaction has been recognized as a business combination in accordance with IFRS 3, *Business Combinations* using the acquisition method with the former PowerStream deemed as the acquirer based on its relative size compared to that of the former Enersource and Horizon. These consolidated financial statements include: the net fair value of the assets of former Enersource and Horizon as at January 31, 2017; and the net assets of PowerStream at its carrying amounts at January 31, 2017. Enersource and Horizon contributed revenue including electricity sales of $900 and $612 since the amalgamation date. The amalgamation is expected to result in more efficient and enhanced service delivery through lower operating costs, while providing significant benefits for communities and shareholders.

The aggregate purchase price was $1,015 for 10,000,000 common shares, resulting in goodwill of $436, which is not deductible for income tax purposes. Certain post-closing adjustments provided under the agreements to the Amalgamation Transaction were made through a redemption of special shares (Note 18). As a result of the Amalgamation Transaction, the contributed surplus increased by $436 as a result of goodwill and $108 as a result of amalgamation adjustments.

(In millions of Canadian dollars)

3. Business combination (continued)

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of amalgamation:

	Enersource	Horizon	Total
Accounts receivable and unbilled revenue	175	118	293
Income taxes receivable	2	9	11
Inventories	5	10	15
Other assets	29	9	38
Amounts due from related parties	50	–	50
Property, plant and equipment	646	466	1,112
Intangible assets	54	20	74
Deferred tax asset	7	6	13
Bank overdraft	(46)	(30)	(76)
Accounts payable and accrued liabilities	(118)	(80)	(198)
Customer deposits	(24)	(23)	(47)
Deferred revenue	(25)	(39)	(64)
Other liabilities	(18)	(19)	(37)
Loans and borrowings	(378)	(190)	(568)
Employee future benefits	(7)	(30)	(37)
	352	227	579
Goodwill			436
Total purchase price			**1,015**

The valuation technique used for the purchase of Enersource and Horizon was the discounted cash flow ("DCF") approach. Under the DCF approach, the expected future cash flows are discounted to their present value equivalent using appropriate market-based risk-adjusted rates of return.

4. Regulation

The Corporation, through Alectra Utilities is regulated by the OEB. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that differ from IFRS. The regulatory accounting treatments of OEB require the recognition of regulatory assets and liabilities which do not meet the definition of an asset or liability under IFRS and, as a result, these regulatory assets and liabilities have not been recorded in these IFRS consolidated financial statements (Note 28).

The Ontario Energy Board Act, 1998 (Ontario) conferred on the OEB powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include: approving or fixing rates for the transmission and distribution of electricity; providing continued rate protection for rural and remote residential electricity consumers; and ensuring that 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 Alectra Utilities, which may include, among other things: record keeping; regulatory accounting principles; separation of accounts for distinct business; and filing and process requirements for rate setting purposes.

Rate setting

The electricity distribution rates and other regulated charges of the Corporation are determined in a manner that provides shareholders with opportunity to earn a regulated Maximum Allowable Return on Equity ("MARE") on the amount of shareholder's equity supporting the business of electricity distribution, which is also determined by regulation.

The rate-making policies of the OEB are designed to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB regulates the electricity distribution rates charged by LDCs, such as Alectra Utilities, through periodic rate applications to the OEB and its ongoing monitoring and reporting requirements. At present, LDCs may apply to the OEB for electricity distribution rates under options specified in its Report of the Board - A Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach (“RRFE”). The three rate-setting methods available to LDCs under the RRFE are: Price Cap Incentive Rate-setting (“Price Cap IR”); Custom Incentive rate-setting ("Custom IR"); or Annual Incentive Rate-setting Index.

4. Regulation (continued)

The Price Cap IR method establishes rates on a single forward test-year cost of service basis, indexed for four subsequent years through a formulaic adjustment. The Incremental Capital Module (“ICM”) is available to distributors under the Price Cap IR method. It is intended to address capital investment needs that arise during the rate-setting plan that are incremental to an OEB prescribed materiality threshold. The requested amount for an ICM claim must be: incremental to a distributor’s capital requirements within the context of its financial capacities underpinned by existing rates; and satisfy the eligibility criteria of materiality, need and prudence. The OEB requires that a distributor requesting relief for incremental capital during the Price Cap IR plan term include comprehensive evidence to support the need. This includes the calculation of a rate rider to recover the incremental revenue from each applicable customer class. The incremental revenue is recognized in the year when the actual ICM related expenditures are expected to be in-service. This approach is consistent with the timing of the actual capital investment benefit to customers, which aligns with the expected timing of the OEB approval of ICM rate adjustments.

The Custom IR method establishes rates based on a forecast of an LDC’s revenue requirement and sales volumes. This rate-setting method is customized to fit the specific applicant’s circumstances. The annual rate adjustments over the Customer IR term is determined by the OEB on a case-by-case basis.

The Annual IR method sets an LDC’s rates through an annual adjustment mechanism.

In April 2016, Enersource Hydro, Horizon Utilities and PowerStream Inc. filed a Mergers, Acquisitions, Amalgamations and Divestitures ("MAADs") application (the “MAADs Application”) with the OEB pursuant to the Handbook to Electricity Distributor and Transmitter Consolidation (the “MAADs Handbook”) seeking approval for the Amalgamation Transaction and for the Corporation to purchase and subsequently amalgamate with Brampton Hydro. The MAADs Application included a request for OEB approval for the continuation of regulated rates and charges of the predecessor LDC’s of the Corporation.

On December 8, 2016, the OEB issued its Decision and Order in respect of the MAADs Application. The OEB granted the requested approvals and also approved a rebasing deferral period of 10 years, under which the Corporation will operate individual "rate zones" (based on the continuing rates and underlying regulated cost structures of the predecessor LDCs).

4. Regulation (continued)

As provided within the OEB Report of the Board: Rate-Making Associated with Distributor Consolidation, the rate zones of the Corporation will continue on current respective rate plan terms until such respective terms expire. Upon expiry of such, all rate zones will migrate to the Price Cap IR method. At its option, Alectra Utilities is permitted to apply for: (a) inflationary increases to rates, adjusted for an efficiency factor; and (b) ICM rate adjustments that provide financing and recover of incremental discrete capital projects.

The predecessor utilities to the Corporation filed separate applications for the approval of 2017 electricity distribution rates as follows:

- Enersource filed an annual Price Cap IR Application with the OEB on August 15, 2016 for distribution rates effective January 1, 2017 to December 31, 2017. On December 8, 2016, the OEB issued its Decision and Order on this application, approving rates effective January 1, 2017. Based on the Decision and Order, the resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month for Enersource will be approximately ($0.82 dollars) or 3.39%;

- On August 11, 2016, Horizon filed its second annual filing with the OEB under its five year Custom IR Application for distribution rates effective January 1, 2017 to December 31, 2017. The OEB issued its Decision and Order on this application on January 12, 2017, approving rates effective January 1, 2017. The rate order was implemented February 1, 2017. Based on the Decision and Order, the resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month for Horizon will be approximately ($0.46 dollars) or 1.60%;

- Brampton Hydro filed an annual Price Cap IR Application with the OEB on August 15, 2016 for distribution rates effective January 1, 2017 to December 31, 2017. On December 8, 2016, the OEB issued its Decision and Order on this application, approving rates effective January 1, 2017. Based on the Decision and Order, the resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month for Brampton Hydro will be approximately ($0.54 dollars) or 2.31%;

- PowerStream filed a Custom IR Application with the OEB on May 22, 2015 for distribution rates effective January 1, 2016 to December 31, 2020. On November 10, 2016, the OEB issued its Decision and Order on this application, approving a one year Cost of Service rebasing of rates effective January 1, 2017. Based on the Decision and Order, the resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month for PowerStream will be approximately ($2.96 dollars) or 11.7%.

4. Regulation (continued)

The predecessor utilities to the Corporation filed separate applications for electricity distribution rates effective January 1, 2018, with decisions pending, as follows:

- Horizon - third annual update to the Custom Incentive rate plan for the Horizon. Based on the relief sought in the 2018 Electricity Distribution Rate ("EDR") application, the resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month in the Horizon will be approximately ($1.68 dollars) or 5.94%;

- Brampton - Price Cap adjustment and ICM rider under the OEB's Price Cap IR. Based on the relief sought in the 2018 EDR application, the resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month in the Brampton will be approximately ($0.23 dollars) or 0.98%;

- PowerStream - Price Cap adjustment and ICM rider under the OEB's Price Cap IR. Based on the relief sought in the 2018 EDR application, the resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month in the PowerStream will be approximately ($0.54 dollars)or 1.92%;

- Enersource - Price Cap adjustment and ICM rider under the OEB's Price Cap IR. Based on the relief sought in the 2018 EDR application, the resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month in the Enersource will be approximately ($0.41 dollars) or 1.67%.

Select Energy Policies and Regulation Affecting the Corporation

Ontario's Fair Hydro Plan ("OFHP"):

The Ontario Fair Hydro Plan Act, 2017 came into effect on June 1, 2017. The OFHP established a framework for initiatives to reduce residential and certain small business electricity bills in Ontario by an average of 25%, and limit future increases to the rate of inflation for four years.

The planned rate reductions comprise two phases. The first phase was implemented on May 1, 2017 representing a reduction in Regulated Price Plan ("RPP") rates and the removal of the Ontario Energy Support Payment ("OESP") charge of $0.0011/kWh. The second phase was implemented on July 1, 2017 representing a further reduction in RPP prices and a reduction of the Rural and Remote Rate Protection ("RRRP") charge from $0.0021/kWh to $0.0003/kWh.

4. Regulation (continued)

The OFHP also included Global Adjustment ("GA") Modifier credit, effective July 1, 2017, that provides a reduction of GA charges for eligible RPP customers that have a contract with a retailer or have opted out of the RPP. The GA Modifier credit of $0.0329/kWh was designed to provide a benefit that was equivalent to the reduction in the RPP prices. During the year, the OFHP reduces the total electricity bill for eligible customers and, accordingly, reduces current accounts receivable and unbilled revenue and accounts payable and accrued liabilities for LDC. No effect on distribution revenue or expense is recognized by LDC in respect of the OFHP.

Monthly Billing Requirement for Electricity Distributors in Ontario:

On April 15, 2015, the OEB announced that, by the end of 2016, all electricity distributors in Ontario would be required to bill their customers on a monthly basis. This policy change incorporates an expectation that distributors will issue bills based on actual meter reads rather than estimates at least 98% of the time. The amendments regarding estimated billing and billing accuracy came into force on April 15, 2015. The amendment regarding monthly billing came into force on December 31, 2016. The PowerStream, Horizon and Brampton rate zones have implemented monthly billing as of the date of these consolidated financial statements. As part of its decision on the MAADs Application, the OEB permitted a deferral of the implementation of monthly billing for the Enersource rate zone to December 31, 2018.

New 2015-2020 Conservation and Demand Management ("CDM") Framework:

As a condition of its distribution license, Alectra Utilities is required to meet specified CDM targets for reductions in electricity consumption and peak electricity demand through the delivery of programs funded by the Independent Electricity System Operator ("IESO").

On March 26, 2014, the Minister of Energy issued a directive to the OEB to amend the licenses of electricity distributors with new requirements to deliver CDM programs available to customers that are designed to: achieve energy reductions; meet regulated CDM requirements through either IESO programs, LDC programs, or a combination of the two; and make the results of local programs available to other distributors on request. The coordination and integration of CDM and Demand Side Management ("DSM") activities is intended to achieve energy efficiencies and deliver convenient integrated programs for electricity and natural gas customers. The OEB issued the amendments to LDC licenses on December 18, 2014.

On March 31, 2014, the Minister of Energy issued a directive to the IESO through the Conservation First Framework ("CFF") to coordinate, support and finance the delivery of CDM programs through LDCs to achieve a total of 7 Terawatt Hours of province-wide reductions in electricity consumption between January 1, 2015 and December 31, 2020. There are two funding models available under the CFF: Full Cost Recovery Program ("FCR") and Pay for Performance Program ("P4P").

4. Regulation (continued)

FCR

Each of the predecessor utilities entered into an Energy Conservation Agreement ("ECA") with the IESO to deliver energy savings based on their respective IESO-determined target. The ECA became binding upon approval of each respective predecessor utility's CDM Plan. On June 28, 2017, Alectra Utilities submitted a joint CDM plan to amalgamate the legacy LDC CDM plans together to the IESO with Collus PowerStream and Erie Thames Powerlines. The plan was approved on October 1, 2017 bringing the total joint allocated target to 1,649,040 MWh energy savings over the years 2015-2020. The Collus CDM will continue after the investment in Collus is sold. Prefunding amounts are received at the beginning of the CDM plan, this amount is included in accounts payable and is $15. Monthly settlements are made with the IESO for reimbursements of expenses incurred, these amounts are included as an offset to the prefunding amount in accounts payable and amount to $4.

P4P

As part of the joint CDM plan, Alectra Utilities will deliver a "Retrofit" program (a program that upgrades energy inefficient equipment in commercial businesses) via the P4P funding model. Under P4P, the IESO will pay Alectra Utilities a fixed rate per kWh of verified energy savings. Under the P4P, Alectra Utilities bears the risk of covering all of its costs and the eligible funding is capped at a negotiated Internal Rate of Return. Alectra Utilities recognizes an account receivable from the IESO for $15 which is equal to the revenue calculated per the internal rate of return model. There is an amount payable of $3 which represents the difference between the funds received from the IESO and account receivable in relation to the verified and paid savings determined.

Regulatory assets and liabilities

On January 30, 2014, the IASB issued interim standard IFRS 14, *Regulatory Deferral Accounts*. This standard allows first-time adopters of IFRS to apply previous Generally Accepted Accounting Principles to account for rate-regulated assets and liabilities. As PowerStream Inc., the deemed acquirer under the Amalgamation Transaction, adopted IFRS prior to the issuance of the interim standard, it does not apply regulatory accounting treatment to certain balances and transactions arising from rate-regulated activities. Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding Alectra Utilities' regulated revenues and expenditures.

5. Significant accounting policies

The accounting policies set out below have been applied consistently to the period presented in these consolidated financial statements.

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Corporation and its subsidiaries from the date that control commences until the date that control ceases. The Corporation controls a subsidiary if it is exposed, or has rights, to variable returns from its investment in the subsidiary and has the ability to affect those returns through its power over the subsidiary. All intercompany accounts and transactions have been eliminated on consolidation.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Corporation owns 50% of Collingwood PowerStream Utility Services Corp. ("Collus PowerStream"). This investment was accounted for using the equity method and was recognized initially at cost. This investment is currently classified as held for sale and is recognized at the lower of its carrying value and fair value (Note 8).

Any excess acquisition cost over the Corporation's share of the net fair value of the identifiable assets and liabilities of Collus PowerStream is recognized as goodwill and included in the carrying value of the investment.

In the event that the carrying value of the equity investment is negative as a result of cumulative losses exceeding the initial investment value, the Corporation would discontinue recognizing its share of further losses.

The consolidated financial statements include the Corporation's share of the income/ (loss) of Collus PowerStream for the period up to the November 9, 2017 at which point the corresponding investment was classified as held for sale and no further net income from Collus PowerStream was recognized.

5. Significant accounting policies (continued)

(b) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported and disclosed in these consolidated financial statements.

Estimates and underlying assumptions are continually reviewed and are based on factors that are considered to be relevant such as historical experience and forecast trends. Actual results may differ from these estimates. Revisions of estimates are recognized prospectively.

Judgments included in these consolidated financial statements are decisions made by management, based on analysis of relevant information available at the time the decision is made. Judgments relate to the application of accounting policies and decisions related to the measurement, recognition and disclosure of financial amounts.

The areas which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to:

(i) Unbilled revenue

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

(ii) Useful lives of depreciable assets

Depreciation and amortization expense is based on estimates of the useful lives of property, plant and equipment, and intangible assets. The Corporation estimates the useful lives of its property, plant and equipment and intangible assets based on management's judgment.

5. Significant accounting policies (continued)

(iii) Valuation of financial instruments

As described in Note 18, the measurement of financial assets and liabilities, which are not classified as loans and receivables, is based on an estimate of fair value using a discounted cash flow approach.

(iv) Employee future benefits

The cost of post-employment benefits is determined using actuarial valuations. The actuarial valuation incorporates estimates of discount rates, expected rates of return on assets, future salary increases, mortality rates, and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

(v) Cash Generating Units ("CGU")

Determining CGU's for impairment testing is based on management's judgment. This requires an estimation of the fair value less costs to sell or value in use. The value in use calculation requires an estimate of the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate a present value as a basis for determining impairment.

(c) Revenue recognition

(i) Distribution revenue

Distribution revenue is recorded based on OEB-approved distribution rates, set at a level intended to recover the costs incurred by Alectra Utilities in delivering electricity to customers, and includes revenue collected through OEB-approved rate riders.

5. Significant accounting policies (continued)

(ii) Electricity Sales

Alectra Utilities is licensed by the OEB to distribute electricity. As a licensed distributor, Alectra Utilities 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. Alectra Utilities is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether Alectra Utilities ultimately collects these amounts from customers. Alectra Utilities has determined that it is acting as a principal for electricity distribution and therefore has 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 other regulatory charges. Revenue is recognized as electricity is delivered and consumed by customers. Electricity 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.

(iii) Other revenue

Other revenue includes revenue from renewable generation and government grants under CDM programs, contributions from customers, sub-metering, consulting and other general revenue. The methods of recognition for other revenue are as follows:

- Revenue from renewable generation sources are recognized in the period in which electricity is generated and delivered, based on regular meter readings and the terms of the Independent Electricity System Operator Feed-in-Tariff (“IESO FIT”) Agreements, and is measured at the fair value of the consideration received or receivable, net of sales tax.

- IESO funding from CDM programs is recognized on a net basis when there is reasonable assurance that the funding will be received and the related conditions are met. ”Net basis” is used when the funding relates to an expense item, and, as such, the operating expenses are netted against other income.

- Capital contributions received from electricity customers to construct or acquire property, plant and equipment for the purpose of connecting a customer to a network are recorded as deferred revenue and amortized into other revenue at the same rate to that used to depreciate the corresponding acquired related property, plant and equipment.

5. Significant accounting policies (continued)

- Sub-metering revenue is primarily comprised of management fees billed for sub-metering services related to the consumption of electricity and water in individual units within multi-residential and commercial buildings. Revenue is recognized on a monthly basis over the term of corresponding service agreements as the services are provided to the customer. Unbilled revenue is recorded based on work performed and not yet billed.

- Revenue from consulting services is recognized using a time and materials basis which is measured monthly based on input measures, such as hours incurred to date, with consideration given to output measures, such as contract milestones when applicable.

- Other revenue includes: services ancillary to the electricity distribution; delivery of street lighting services; water billing; and pole and duct rentals. The revenue from these services is recognized as rendered.

(d) Financial instruments

Financial assets and financial liabilities are initially recognized at fair value plus directly attributable transaction costs, and are subsequently accounted for based on their classification as loans and receivables or as other liabilities.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, such financial assets are carried at amortized cost using the effective interest rate method, less any impairment losses. Losses are recognized in net income when the loans and receivables are derecognized or impaired.

Financial assets are assessed at each reporting period to determine whether there is any objective evidence that they are impaired. Impairment provisions, if any, are recognized when there is objective evidence that the Corporation will be unable to collect all of the amounts due under the terms of the corresponding receivables. Impairment loss, if any, is calculated as the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. All impairment losses are recognized in net income.

Loans and receivables include: cash; accounts receivable; amounts due from related parties; unbilled revenue and advance payments.

5. Significant accounting policies (continued)

(ii) Other financial liabilities

All non-derivative financial liabilities are classified as other financial liabilities. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when: the Corporation is discharged from its obligation; the obligation expires; or the obligation is canceled or replaced by a new financial liability with substantially modified terms.

Financial liabilities are further classified as current or non-current depending on whether they will fall due within twelve months after the statement of financial position date or beyond.

Other financial liabilities include: accounts payable and accrued liabilities; amounts due to related parties; loans and borrowings; and customer deposit liability.

(iii) Financial instruments at fair value

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

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

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: inputs for the liabilities that are not based on observable market data (unobservable inputs).

The Corporation's fair value hierarchy is classified as Level 2 for long term borrowings. The classification for disclosure purposes has been determined in accordance with generally accepted pricing models, based on discounted cash flow analysis, with the most significant inputs being the contractual terms of the instrument and the market discount rates that reflect the credit risk of counterparties.

5. Significant accounting policies (continued)

(iv) Derivative financial instruments and hedge accounting

The Corporation measures derivatives initially at fair value. Any directly attributable transaction costs are recognized in profit or loss as incurred.

At the inception of a hedging relationship, the Corporation designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and its strategy for undertaking the hedge.

The Corporation also formally assesses both at inception and at least quarterly thereafter, whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

When hedge accounting is appropriate, the hedging relationship is designated as a cash flow hedge, a fair value hedge, or a hedge of foreign currency exposure of a net investment in a self-sustaining foreign operation. Hedge ineffectiveness is measured and recorded in current period earnings in the consolidated statement of comprehensive income. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in its fair value is recognized in Other Comprehensive Income ("OCI"). Any ineffective portion is recognized in profit and loss.

The amount accumulated in OCI is reclassified to profit and loss over the period of the hedged item.

Hedge accounting is discontinued on a prospective basis if any of the following conditions are met: the forecast transaction is no longer expected to occur; the hedge no longer meets the criteria for hedge accounting; the hedging instrument expires or is sold, terminated or exercised; or the designation is revoked.

(e) Inventories

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

5. Significant accounting policies (continued)

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

PP&E is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and includes contracted services, cost of materials, directly attributable overhead, direct labour, pension costs and borrowing costs incurred in respect of qualifying assets constructed. When components of an item of PP&E have different useful lives, each component is recorded separately within PP&E. These assets are classified to the appropriate categories of PP&E when completed and ready for intended use. Depreciation on these assets commences when such are ready for their intended use.

Construction in progress assets are generally assets that are undergoing active construction or development and are not currently available for use. Such assets are therefore not depreciated.

Borrowing costs on qualifying assets have been capitalized as part of the cost of the asset using the weighted average cost of borrowings at the time of capitalization.

Major spare parts and standby equipment are recognized as items of PP&E.

When items of PP&E are retired or otherwise disposed of, a gain or loss on asset derecognition, if any, is determined by comparing the proceeds from disposal with the carrying amount of the item. Any gain or loss on asset derecognition is included in the Statement of Comprehensive Income.

Depreciation of PP&E is recognized on a straight-line basis over the estimated useful life of each component of PP&E. Depreciation methods and useful lives are reviewed at each financial year-end and any changes are adjusted prospectively. The estimated useful lives are as follows:

Buildings and fixtures	10 to 60 years
Distribution system	15 to 40 years
Other PP&E	3 to 20 years

5. Significant accounting policies (continued)

(g) Intangible assets

Intangible assets include: land rights; computer software; non-competition agreements; sub-metering contracts (i.e. customer relationships); and capital contributions.

Capital contributions represent contributions made to Hydro One Networks Inc., an electricity distributor and transmitter in the Province of Ontario, for building dedicated infrastructure to accommodate the Corporation's distribution system requirements. The contributions are measured at cost less accumulated amortization.

Customer relationships acquired from third parties in business combinations or as pools of accounts are recorded at cost, which is the estimated fair value at the date of acquisition or the consideration paid for acquired customer pools.

Land rights held by the Corporation are effective in perpetuity and there is no foreseeable limit to the period over which the rights are expected to provide benefit to the Corporation. Consequently, no removal date can be determined and no reasonable estimate of the fair value of such asset retirement obligations can be determined. If, at some future date, it becomes possible to estimate the fair value of the cost of removing these assets and the Corporation is legally or constructively required to remove such assets, a related asset retirement obligation will be recognized at that time. The discounted amount is not material. Land rights have therefore been assessed as having an indefinite useful life and are not amortized. Land rights are measured at cost.

Computer software and capital contributions are amortized on a straight-line basis over the estimated useful lives from the date that they are available for use. Amortization methods and useful lives are reviewed at each financial year-end and adjusted prospectively. The estimated useful lives are as follows:

Land rights	Indefinite
Computer software	3 to 10 years
Capital contributions	16 to 45 years
Customer relationships	10 to 21 years
Non-competition agreements	4 to 10 years
Other intangibles	35 to indefinite

(h) Goodwill

Goodwill arising on the acquisition of subsidiaries or on amalgamation is measured at cost and not amortized.

5. Significant accounting policies (continued)

(i) Research and development and capitalization of software development costs

The Corporation is engaged in research and development activities. Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in the statement of comprehensive income as incurred. Development costs are recognized in the statement of comprehensive income as incurred, unless: the costs can be measured reliably; the software product is technically or commercially feasible; future economic benefits are probable; and the Corporation intends to and has sufficient resources to complete the development of the software and to use or sell the asset.

(j) Business acquisitions

Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values of assets conveyed, liabilities incurred or assumed and the equity instruments issued by the Corporation in exchange for control of the acquired business. Where the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, it is measured at fair value at the acquisition date.

(k) Impairment of non-financial assets

The carrying amounts of the Corporation's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated. Goodwill and intangible assets with indefinite lives are tested: annually for impairment; and when circumstances indicate that the carrying value may be impaired. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and fair value less costs of disposal. Value in use is calculated as the present value of the estimated future cash flows expected to be derived from an asset or CGU.

For the purpose of impairment testing, assets are grouped together in the smallest group that generates cash inflows that are largely independent of those from other assets or CGUs. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in net income. Impairment losses relating to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, as if no impairment loss had been previously recognized.

5. Significant accounting policies (continued)

(l) 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 determined 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 rate, net of tax that corresponds to current market assessments of the time value of money and the risks specific to the liability.

(m) Employee future benefits

(i) Multi-employer defined benefit pension plan

The Corporation provides a pension plan for all of 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”) and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. 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.

As OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan as a defined benefit plan. Consequently, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income when they are due.

(ii) Other than pension

The Corporation provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans. These benefits are provided through group defined benefit plans shared between entities under common control of Alectra Inc. Alectra Utilities, which is controlled by Alectra Inc., is the legal sponsor of the plans. There is a stated policy in place to allocate the net defined benefit cost to the participating entities under the common control of Alectra Inc. based on the obligation attributable to the plan participants employed by each participating entity. The Corporation has incorporated its share of the defined benefit costs and related liabilities, as calculated by the actuary, in these consolidated financial statements.

The Corporation’s net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting such to determine its present value. Any unrecognized past service costs are deducted. The discount rate is the interest yield, at the reporting date, on high quality debt instruments with duration similar to the duration of the plan.

5. Significant accounting policies (continued)

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligation and the current service costs are actuarially determined by applying the projected unit credit method and incorporate management's best estimate of certain underlying assumptions. Remeasurements arising from defined benefit plans are recognized immediately in other comprehensive income and reported in accumulated other comprehensive income.

The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest actuarial valuation was performed as at December 31, 2017.

(n) Customer deposits

Customer deposits comprise: deposits in aid of securing energy bills; and deposits in aid of the capital cost of construction.

Deposits in aid of securing energy bills:

This form of deposit represents cash collections from customers to secure the payment of energy bills. Deposits held in respect of commercial customers are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid account balances are refundable to individual customers upon termination of their electricity distribution service. These customer deposits are classified as a current liability as they are refundable on demand once a customer establishes a good payment history in accordance with the policies of the Corporation. Interest is accrued on customer deposits until balance is refunded back to the customers with the interest amount recognized as finance costs.

Deposits in aid of the capital cost of construction:

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide them with ongoing service. Cash contributions are initially recorded as customer deposits, a current liability. 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.

5. Significant accounting policies (continued)

(o) Leases

Leases in which the Corporation assumes substantially all of the risks and rewards of ownership are classified as finance leases. On 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. Payments under finance leases are apportioned between interest expense and a reduction of the outstanding liability using the effective interest method.

Other leases are operating leases and are not recognized in the Corporation's statement of financial position. Payments made under operating leases are recognized as an expense on a straight-line basis over the term of the lease.

(p) Payment in lieu of corporate income taxes

The Corporation and its subsidiaries, other than APSI and UA, are currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the “Tax Acts”). APSI and UA are subject to the payment of tax under the Tax Acts.

Other than APSI and UA, pursuant to the Electricity Act, 1998 (Ontario) (“EA”), and as a consequence of its exemption from income taxes under the Tax Acts, the Corporation is required to make payments in lieu of income taxes (“PILs”) to the Ontario Electricity Finance Corporation (“OEFC”). These payments are calculated in accordance with the Tax Acts. These amounts are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC.

PILs comprises current and deferred payments in lieu of income tax. PILs is recognized in income and loss except to the extent that it relates to items recognized directly in either comprehensive income or in equity, in which case, it is recognized in comprehensive income or in equity.

Current PILs is the expected amount of cash taxes 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 PILs comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective 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 PILs 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 PILs 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.

5. Significant accounting policies (continued)

A deferred PILs asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred PILs assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(q) Financing income and costs

Finance costs comprise of interest expense on borrowings and are recognized as an expense in the statement of comprehensive income except for those amounts capitalized as part of the cost of qualifying property, plant and equipment.

Finance income is recognized as it accrues in net income and is comprised of interest earned on cash.

(r) Advance payment

Advance payments are long-term prepayments on capital projects that have been purchased and will remain a long-term advance until the project is in service and billable.

6. Future accounting changes

The following are new standards and amendments to standards which are effective for periods beginning on or after January 1, 2018, although early application is permitted:

(a) IFRS 9, Financial Instruments ("IFRS 9") - In July 2014, the IASB issued the final version of IFRS 9 , which replaces the existing guidance in International Accounting Standard ("IAS") 39 *Financial Instruments - Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, is effective for reporting periods beginning on or after January 1, 2018, and will be applied retrospectively with some exceptions. The Corporation does not believe that the new requirements of IFRS 9 will have a material effect on its financial assets or liabilities. However, additional disclosures would be required.

6. Future accounting changes (continued)

(b) IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15, which replaces existing revenue recognition guidance, including IAS 18 *Revenue*. IFRS 15 introduces a single model for recognizing revenue from 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. This standard is effective for periods beginning on or after January 1, 2018, and is to be applied retrospectively. The Corporation is currently evaluating the impact of adopting this guidance on its consolidated financial statements and disclosures. All existing customer contracts that are within the scope of the new guidance have been identified and the Corporation is in final stages of analyzing individual contracts to identify any significant changes in how revenues are recognized as a result of implementing the new standard. Subject to finalization of technical accounting interpretation of certain industry specific matters, the Corporation does not expect the timing and amount of revenue currently recognized to be materially different after adoption of the new guidance.

(c) IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which replaces the IAS 17, Leases, and related interpretations. IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The new standard brings most leases on-balance sheet for leases under a single model, eliminating the distinction between the operating and finance leases. IFRS 16 is effective for reporting periods beginning on or after January 1, 2019. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Earlier application is permitted if IFRS 15 has also been applied. The Corporation is currently evaluating the impact of the new standard.

7. Business acquisitions

(a) Purchase of Brampton Hydro

On February 28, 2017, the Corporation acquired 100% of the shares of Brampton Hydro for a total purchase price of $615 and was accounted for in accordance with IFRS 3, *Business Combinations* using the acquisition method. This acquisition is expected to provide synergistic opportunities and efficiencies within the Corporation which will benefit both customers and shareholders.

(In millions of Canadian dollars)

7. Business acquisitions (continued)

For the ten months ended December 31, 2017 Brampton Hydro contributed revenue of $462.0 and net income of $27.5 to the Corporation's results. If the acquisition had occurred on January 31, 2017, management estimates that the revenue for the eleven months ended would have been $504.0 and net income would have been $27.6.

The following table summarizes the fair value consideration transferred as of the acquisition date.

Cash	515
Tax payable	69
Promissory note	31
Total consideration transferred	615

The promissory note and tax payable were settled with cash payments of $100 in April 2017. The tax payable relates to amounts owing by Brampton Hydro as of the acquisition date.

The following table summarizes the fair value of assets acquired and liabilities assumed at the date of acquisition:

Cash	1
Accounts receivable, net	85
Income taxes receivable	6
Inventories	1
Property, plant and equipment	376
Intangible assets	22
Goodwill	248
Total identifiable assets acquired	739
Accounts payable and accrued liabilities	(64)
Deferred tax liabilities	(9)
Deferred revenue	(41)
Employee future benefits	(4)
Income taxes payable	(6)
Total liabilities assumed	(124)
Total identifiable net assets acquired	615

7. Business acquisitions (continued)

Income taxes receivable of $6 will ultimately accrue to the Province of Ontario, as the former shareholders of Brampton Hydro pursuant to the terms of the acquisition and, as such, the Corporation has recorded a corresponding notes payable to the Province of Ontario. Goodwill of $248 is the result of expected synergies from the acquisition, of which $126 is deductible for income tax purposes.

The fair value of Brampton Hydro was determined in accordance with the negotiated transaction price as per the Share Purchase Agreement dated March 24, 2016.

8. Investment in joint venture

In 2012, former PowerStream acquired a 50% interest in Collus PowerStream which was determined to be a joint venture and accounted for using the equity method. Collus PowerStream is involved in the distribution of electricity in Collingwood, Thornbury, Stayner and Creemore, as well as the provision of other utility services in the service area of Clearview and the Town of The Blue Mountains in the Province of Ontario. Collus PowerStream's principal place of business is the Town of Collingwood. As at December 31, 2017, the Corporation determined that the investment in Collus PowerStream met the criteria for classification as held for sale as the Corporation entered into an agreement to sell the investment. The sale of the interest in Collus PowerStream is subject to OEB approval which is expected to be received in 2018. Accordingly, the investment is presented as an asset held for sale under current assets and measured at the lower of its carrying amount and fair value less cost to sell. As at December 31, 2017, the asset held for sale amount recognized for Collus PowerStream is $8.

(In millions of Canadian dollars)

9. Property, plant and equipment

	Land and buildings	Distribution assets	Other assets	Work-in progress	Total
Cost					
Balance, January 31. 2017	78	1,133	180	60	1,451
Additions	4	289	8	20	321
Additions through acquisition	103	1,321	40	24	1,488
Disposals and transfers to assets held for sale	(8)	(10)	(8)	(6)	(32)
Balance, December 31, 2017	177	2,733	220	98	3,228
Accumulated depreciation					
Balance, January 31, 2017	(12)	(183)	(47)	–	(242)
Depreciation expense	(5)	(85)	(18)	–	(108)
Disposals	1	6	7	–	14
Balance, December 31, 2017	(16)	(262)	(58)	–	(336)
Carrying amounts					
Balance, December 31, 2017	161	2,471	162	98	2,892

Other assets include solar panels, meters, vehicles, furniture and equipment, computer equipment, and leasehold improvements.

During the eleven months ended December 31, 2017, borrowing costs of $3 were capitalized as part of the cost of property, plant and equipment and intangible assets.

An average capitalization rate of 3.73% was used to determine the amount of borrowing costs to be capitalized with respect to Alectra Utilities.

Borrowing costs have been capitalized at the Bankers' Acceptance Rate plus 95 bps with respect to AES.

Vacant land in the amount of $8 was transferred to assets held for sale at December 31, 2017. The sale is expected to be closed in 2018.

(In millions of Canadian dollars)

10. Intangible assets and goodwill

(a) Intangible assets:

	Land rights	Computer software	Capital contributions	Work-in progress	Other assets	Total intangible assets	Goodwill
Cost or deemed costs							
Balance, January 31. 2017	1	69	6	3	19	98	45
Additions	–	5	–	1	3	9	–
Additions through acquisition	1	18	74	1	–	94	675
Transfers and disposals	–	(1)	–	–	–	(1)	–
Balance, December 31, 2017	2	91	80	5	22	200	720
Accumulated amortization							
Balance, January 31, 2017	–	(23)	(1)	–	(1)	(25)	–
Depreciation expense	–	(12)	(3)	–	(1)	(16)	–
Balance, December 31, 2017	–	(35)	(4)	–	(2)	(41)	–
Carrying amounts							
Balance, December 31, 2017	2	56	76	5	20	159	720

Other assets include customer relationships and non-competition agreements.

Interest capitalized in intangible assets and property, plant and equipment during the period is included in Note 9.

(b) Impairment testing of goodwill and indefinite life intangible assets

Goodwill, with a carrying amount of $720, and land rights with a carrying amount of $2 have been allocated to the Corporation's rate regulated and non-regulated CGU. The Corporation tested goodwill and land rights for impairment as at December 31, 2017.

10. Intangible assets and goodwill (continued)

Fair value less selling costs was determined using a multiple of regulated rate base approach for the rate regulated CGU. Fair values from the most recent internal enterprise valuation was used for the entities and businesses comprising the non-regulated CGUs. Key assumptions underlying these valuations are as follows:

- The multiple of rate base approach is a valuation technique used in the industry for purchase and sale transactions involving rate-regulated LDCs. A multiple is applied to the value of regulated assets to determine the value of the utility;
- The multiple of rate base is a key assumption in the determination of fair value less selling costs for the rate regulated CGU. Management utilized a range of multiples in the analysis to determine the recoverable amount of goodwill for the rate-regulated CGU;
- The multiple of rate base used with respect to the rate-regulated CGU ranged from 1.4 to 2.1;
- Management obtained information regarding multiples used for recent purchase and sale transactions within the industry; and
- The fair value estimate is categorized as a Level 2 input.

The recoverable amount of goodwill determined in the analysis was greater than the carrying value and no impairment was recorded.

11. Accounts payable and accrued liabilities

Accounts payable - energy purchases	156
Accounts payable and accrued liabilities	232
Interest payable	12
Deferred conservation credit	11
Debt retirement charge payable	3
	414

(In millions of Canadian dollars)

12. Related party transactions

(a) Balances and transactions with related parties

The amount due to/(from) related parties is comprised of amounts payable to/(receivable from): the City of Vaughan; the City of Markham; the City of Barrie; the City of Mississauga; the City of Hamilton; the City of St. Catharines; and wholly-owned subsidiaries of related parties.

Significant related party transactions, with the related parties not otherwise disclosed separately in the consolidated financial statements, are summarized below:

	Revenue	Expenses	Due from related parties	Due to related parties
City of Vaughan	9	10	1	11
City of Markham	8	9	1	9
City of Barrie	6	–	1	–
City of Mississauga	18	1	3	–
City of Hamilton	27	1	1	14
City of St. Catharines	3	–	1	–
	71	21	8	34

Services provided to related parties include electricity distribution, street lighting, road projects, payroll, and water and sewage billing. Expenses incurred include municipal taxes, facilities rental, and operating leases with the Cities of Vaughan, Markham and Barrie (Note 19). Refer to Note 16 for related party loans and borrowings.

(b) Key management personnel compensation

Key management personnel are comprised of the Corporation's senior leadership team. The compensation paid or payable to key management personnel is as follows:

Short-term employment benefits and salaries	9
Employee future benefits	1
	10

13. Other liabilities

Note payable to province of Ontario (Note 7)	6
Current portion of transition cost liability	6
Holdback payable	1
Other	10
	23

The current portion of the transition cost liability relates to payments to be made in next 12 months in relation to the restructuring costs from the Amalgamation Transaction.

Holdback payable relates to amounts owing in the purchase of sub-metering contracts.

14. Other long-term liabilities

Transition cost liability	4
Contingent consideration	1
	5

The transition cost liability relates to payments to be made in relation to the restructuring costs from the Amalgamation Transaction.

Contingent consideration represents the discounted long-term portion of additional consideration for the purchase of UA that is subject to the satisfaction of certain terms within the purchase agreement related to the UA Community Conservation Program software program. The Corporation will pay an additional amount for each customer enrolled and participating in this program for the period from January 1, 2017 until December 31, 2020, up to a maximum consideration of $2. The discounted opening balance of this contingent consideration was $1. The decrease in the period of $0.8 relates to the discounted amount arising from the passage of time

(In millions of Canadian dollars)

15. Short-term debt

Bankers' acceptance	160
Deferred interest on promissory note issued to the City of Vaughan	9
Deferred interest on promissory note issued to the City of Markham	7
	176

Bankers' Acceptance ("BA") amounts drawn on the credit facilities of the Corporation (refer to Note 20(b)(ii) bear interest at a rate equal to the BA rate plus a negotiated credit spread. Negotiated standby fees apply to undrawn amounts.

On January 31, 2017, the Corporation had $215 in aggregate credit facilities with Schedule A banks continuing therein from its Amalgamating Entities and the former Brampton Hydro. Amounts owing under these facilities were settled during the year and these facilities were terminated during the year.

16. Loans and borrowings

Debentures	
4.77% Series A Senior Unsecured Debentures due July 21, 2020	40
4.521% Series A Senior Unsecured Debentures due April 29, 2021	110
3.033% Series B Senior Unsecured Debentures due July 25, 2022	150
3.239% Series B Senior Unsecured Debentures due November 21, 2024	150
2.488% Series A Senior Unsecured Debentures due May 17, 2027	675
5.297% Series B Senior Unsecured Debentures due April 29, 2041	210
3.958% Series A Senior Unsecured Debentures due July 30, 2042	200
Less: Unamortized debt issuance costs	(8)
Total debentures	1,527
Promissory notes from related parties	
4.41% Promissory note issued to the City of Vaughan	78
4.41% Promissory note issued to the City of Markham	68
4.41% Promissory note issued to the City of Barrie	20
Total promissory notes from related parties	166
Loans and borrowings	1,693

The debentures rank *pari passu* with all of the Corporation’s other senior unsubordinated and unsecured obligations.

Interest expense on the debentures was $43.

16. Loans and borrowings (continued)

On October 15, 2010, the former solar division of PowerStream Inc. secured financing with Infrastructure Ontario in the form of short-term advances and debentures with availability up to $90. The financing was available for up to 5 years from the date that the agreement and subject to an extension to June 30, 2017. As at January 31, 2017, the Corporation had utilized $74 of the facility. On May 19, 2017, the Corporation fully repaid the outstanding balance of the Infrastructure Ontario credit facility through proceeds received from the issuance of a Series A Senior unsecured debenture for $675.

Before the debenture was issued, the Corporation entered into a bond forward for $650 at an average yield of 1.92%, to hedge the risk and the movement of the benchmark interest rate (i.e. yield on government of Canada bond). The forward was terminated on the issuance of the debenture and a loss of $19 was recognized into other comprehensive income. There was no ineffective portion recognized. Interest of $1 was recognized in the statement of comprehensive income.

The debentures are subject to financial covenants. These covenants require that neither the Corporation nor any designated subsidiary may incur any funded obligation (other than no-recourse debt and intercompany indebtedness) unless the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. The Corporation was in compliance with this covenant at year end.

The three promissory notes are repayable 365 days following demand by the City of Vaughan, the City of Markham, and the City of Barrie. The notes mature on May 31, 2024 and may be renewed for a twelve year term followed by two optional ten year extensions. The notes are subordinate to all unsecured debts, liabilities and obligations of the Corporation.

Based on an arrangement between the Corporation and the City of Vaughan and the City of Markham, respectively, eight quarters of interest were deferred commencing October 1, 2006, and initially payable October 31, 2013 and further deferred until October 31, 2018. This deferred interest will be repaid in full on October 31, 2018, along with accrued interest thereon. Interest expense on these promissory notes payable was $7 for the period.

(In millions of Canadian dollars)

17. Employee future benefits

(a) Multi-employer defined benefit pension plan

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined benefit pension plan with equal contributions by the employer and its employees. For the eleven months ended December 31, 2017, the Corporation made employer contributions of $14 to OMERS. These contributions have been recognized as salaries and benefits in the statement of comprehensive income. The expected payment for 2018 is $18. As at December 31, 2016, and subject to the estimates, assumptions and valuations of OMERS, the plan obligations are 93.4% funded by its assets. 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.

(b) Non-pension defined benefit plans

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. These benefits are provided through group defined benefit plans. There are four defined benefit plans. Independent actuarial valuations of the plans were performed as at December 31, 2017.

The group defined benefit plans as a whole provides benefits to eligible retirees of the Corporation. Information about the group unfunded defined benefit plans and changes in the present value of the aggregate unfunded defined benefit obligation and the aggregate accrued benefit liability are as follows:

Defined benefit obligation, beginning of period	21
Defined benefit obligation, assumed through acquisition	41
Current service costs	2
Interest expense	1
Benefit cost recognized	3
Amounts recognized in other comprehensive income	
Actuarial losses arising from changes in financial assumptions	6
Actuarial gains arising from changes in experience adjustments	(4)
Amounts recognized in other comprehensive income	2
Payments from the plans	(2)
Defined benefit obligation, end of period	65

The main actuarial assumptions underlying the valuation are as follows:

17. Employee future benefits (continued)

Discount rate	3.40%
Rate of compensation increase	3.30%
Medical benefits costs escalation	6.20%
Dental benefits costs escalation	4.50%

(c) Sensitivity analysis

The approximate effect on the defined benefit obligation if the main actuarial assumptions underlying the valuation increased or decreased by 1% is as follows:

Discount rate:	
1% increase	(9)
1% decrease	11
Medical and dental benefits costs escalation:	
1% increase	(7)
1% decrease	6

(In millions of Canadian dollars)

18. Share capital

The Corporation's authorized share capital is comprised of an unlimited number of Class A through F voting common shares, and an unlimited number of Class S non-voting shares, all of which are without nominal or par value as follows:

	December 31, 2017	
	Issued	Book Value
Authorized		
Unlimited Class A through F Common shares		
Issued		
Class A Common shares	2,149,000	206
Class B Common shares	1,573,000	146
Class C Common shares	878,000	74
Class D Common shares	3,100,000	361
Class E Common shares	1,815,000	91
Class F Common shares	485,000	32
Total Voting Common Shares	10,000,000	910
Authorized		
Class S shares		
Issued and paid		
Class S shares	99,000	60
Total Class S Shares	99,000	60
Total Share Capital	10,099,000	970

Each class of share relates to the commons shares issued to each shareholder as follows:

- Class A common shares are issued to Vaughan Holdings Inc.
- Class B common shares are issued to Markham Enterprise Corporation
- Class C common shares are issued to Barrie Hydro Holdings Inc.
- Class D common shares are issued to Enersource Corporation
- Class E common shares are issued to Hamilton Utilities Corporation
- Class F common shares are issued to St Catharines Hydro Inc.
- Class S non-voting commons shares are issued to Vaughan Holdings, Markham Enterprise Corporation, and Barrie Hydro Holdings Inc.

18. Share capital (continued)

Special shares were issued as part of the Amalgamation Transaction to effect closing adjustments provided for in corresponding agreements. These shares were redeemed on September 30, 2017 coterminous with closing adjustments for aggregate proceeds of $10, this resulted in goodwill from the change in the purchase price calculation. Additionally, aggregate contributions of capital in respect of issued classes of common shares of $6 were received on September 30, 2017. Dividends on the common shares and Class S shares of the Corporation may be declared by the Board of Directors through a resolution.

During the 11 months ended December 31, 2017, the Corporation declared dividends as follows:

- Common shares aggregating $28 or $2.78 (dollars) per share
- Class S shares aggregating $8 or $81.00 (dollars) per share.

The Class S dividends are subject to Part VI.1 tax under the Income Tax Act (Canada) at a rate of 25% based on the amount of dividend paid. The Corporation is also eligible for a corresponding deduction equal to a specified multiple of the dividend. The deduction does not fully offset the Part VI.1 tax, resulting in a net effective tax rate of 1.8% on the Class S share dividends.

19. Leases

(a) *Finance lease*

The Corporation has a 25 year lease agreement for the use of an operations centre which includes both land and building elements. Upon entering into this lease agreement, the Corporation classified the building element of the lease as a finance lease since it was determined that substantially all of the benefits and risks incidental to the ownership of the operation centre were transferred to the Corporation. The component of the annual basic rent related to the land is classified and recorded as an operating lease.

(In millions of Canadian dollars)

19. Leases (continued)

	Future minimum lease payments	Interest accretion	Present value of minimum lease payments
Less than one year	2	1	1
Between one and five years	6	4	2
More than five years	19	6	13
	27	11	16

(b) Operating leases

The Corporation is also committed to certain lease agreements for: vehicles; equipment; rooftops for solar projects; and the land portion of the operations centre lease. All corresponding leases have been classified as operating leases. The leases have terms of 5 to 20 years. As at December 31, 2017, the future minimum, non-cancellable lease payments (including the land portion of the operating centre lease referred to in (a) above) are as follows:

Less than 1 year	3
Between 1 and 5 years	12
More than 5 years	23
	38

Operating lease expense of $3 was recognized in net income.

20. Financial instruments and risk management

(a) Fair value of financial instruments

The carrying amount of cash, accounts receivable, unbilled revenue, amounts due from related parties, customer deposits, accounts payable and amounts due to related parties approximate fair value because of the short maturity of these instruments. The fair value of the Corporation's long term borrowing is $1,788.

(In millions of Canadian dollars)

20. Financial instruments and risk management (continued)

	Maturity date	Carrying value	Fair value[i]
Loans and borrowings:			
Notes issued in 2002	June 2024	166	184
Debentures issued in 2010	July 2020	40	43
Debentures issued in 2011	April 2021	110	118
Debentures issued in 2011	April 2041	210	271
Debentures issued in 2012	July 2022	150	154
Debentures issued in 2012	July 2042	200	216
Debentures issued in 2014	November 2024	150	156
Debentures issued in 2017	May 2027	675	654
Total debentures and notes		1,701	1,796

[i]The fair value of long-term debt is based on unadjusted year-end market prices for the same or similar debt of the same remaining maturities. The fair value measurement of long-term debt is categorized as Level 2.

(b) Financial risks

The risks associated with the Corporation's financial instruments and policies for managing these risks are described below.

(i) Credit risk

The Corporation's primary source of credit risk to its accounts receivable and unbilled revenue result from customers failing to discharge their obligations for electricity consumed and billed, as they come due.

The carrying amount of accounts receivable, to the extent deemed necessary by management's judgment, is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in net income. Subsequent recoveries of accounts receivables previously recorded as impaired are credited to net income. The allowance for doubtful accounts as at December 31, 2017 is $9. An impairment loss of $4 was recognized during the period.

(In millions of Canadian dollars)

20. Financial instruments and risk management (continued)

The Corporation's credit risk associated with accounts receivable primarily corresponds to payments from distribution customers. At December 31, 2017, approximately $20 is considered 60 days past due. Credit risk is managed through the collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2017, the Corporation holds security deposits from sub-metering customers in the amount of $2.

Accounts receivable and respective aging is provided as follows:

Accounts receivable	281
Less: allowance for doubtful accounts	(9)
Total receivables	**272**
0 - 30 days	249
30 - 60 days	12
61 - 90 days	7
Over 90 days	13
	281
Less: allowance for doubtful accounts	(9)
Total accounts receivable	**272**

As at December 31, 2017, there was no significant concentration of credit risk with respect to any financial assets.

(In millions of Canadian dollars)

20. Financial instruments and risk management (continued)

(ii) Liquidity risk

Liquidity risks are those risks associated with the Corporation's inability to meet its financial obligations as they fall due. Liquidity risks associated with financial liabilities are as follows:

	Due within 1 year	Due between 1 and 5 years	Due past 5 years
Accounts payable and accrued liabilities	414	–	–
Bankers' acceptance issuance	160	–	–
Customer deposit liability	92	–	–
Holdback payable	1	–	–
Notes payable to province of Ontario	6	–	–
Deferred interest on promissory note issued to the City of Vaughan	9	–	–
Deferred interest on promissory note issued to the City of Markham	7	–	–
Transition cost liability	6	4	–
Other liabilities	10	1	–
4.77% Series A Senior Unsecured Debentures due July 21, 2020	2	44	–
4.521% Series A Senior Unsecured Debentures due April 29, 2021	5	122	–
3.033% Series B Senior Unsecured Debentures due July 25, 2022	5	168	–
4.41% Promissory note issued to the City of Vaughan	13	14	84
4.41% Promissory note issued to the City of Markham	11	12	73
4.41% Promissory note issued to the City of Barrie	1	4	21
3.239% Series B Senior Unsecured Debentures due November 21, 2024	5	19	160
2.488% Series A Senior Unsecured Debentures due May 17, 2027	17	67	751
5.297% Series B Senior Unsecured Debentures due April 29, 2041	11	44	416
3.958% Series A Senior Unsecured Debentures due July 30, 2042	8	32	358
Obligations under operating leases	3	12	23
Obligations under finance leases	1	2	13
	787	545	1,899

20. Financial instruments and risk management (continued)

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest rate exposure. The Corporation monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due. The Corporation has the following sources of liquidity under which it may access financial capital from time to time:

- $600 in aggregate revolving unsecured credit facilities: (i) $500 committed facility with two Schedule A banks maturing, January 31, 2019 and (ii) $100 uncommitted facility with a Schedule A bank which is callable by the bank.

- Issuance of senior unsecured debentures with various maturity dates under an established trust indenture.

21. Capital structure

The main objectives of the Corporation when managing financial capital include:

- ensuring ongoing cost effective access to such to provide adequate investment in support of its regulated electricity distribution and other businesses;

- compliance with covenants within its financial instruments;

- prudently manage its capital structure, with regard for maintaining a high level of creditworthiness;

- recover financing charges permitted by the OEB on its regulated electricity distribution business; and

- deliver reasonable returns on the investments of its shareholders. The Corporation's definition of capital includes: shareholders' equity; indebtedness under existing credit facilities; and long-term loans and borrowings, which includes the current portion of long term loans and borrowings.

The OEB regulates the amount of 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 for the Corporation may differ from the OEB deemed structure.

(In millions of Canadian dollars)

21. Capital structure (continued)

The Corporation has customary covenants typically associated with long-term loans and borrowings. The Corporation is in compliance with all credit agreement covenants and limitations associated with its long-term loans and borrowings.

22. Operating expenses

Operating expenses comprise:

Labour	141
Contract/consulting	34
Repairs and maintenance	33
Information technology	19
Business taxes, fees, and other operating expenses	22
Other	22
	271

23. Other revenue

Solar generation revenue	16
Street lighting	13
Water and waste water billing and customer charges	9
Regulatory service charges	8
Pole and other rental income	6
Consulting	5
Amortization of deferred revenue	6
Scrap sales	1
CDM performance incentive revenue	1
Miscellaneous	11
	76

(In millions of Canadian dollars)

24. Deferred revenue

	Capital contributions
Balance at January 31, 2017	144
Contributions received through acquisitions	100
Contributions received from customers	62
Amortization	(6)
Balance at December 31, 2017	300

25. Income taxes

(a) Income tax expense

Tax recognized in net income comprise the following:

Current tax expense	1
Deferred tax expense	29
Income tax expense	30

(b) Reconciliation of effective tax rate

PILs income tax expense differs from the amount that would have been recorded using the combined Canadian federal and provincial statutory income tax rates. The reconciliation between the statutory and effective tax rates is as follows:

Income before taxes	104
Statutory Canadian federal and provincial income tax rates	26.5%
Expected tax provision on income at statutory rates	28
Increase in income taxes resulting from:	
Adjustments in respect of prior years	1
Other	1
Total income tax expense	30

(In millions of Canadian dollars)

25. Income taxes (continued)

The statutory income tax rate for the current year comprises a 15% combined federal corporate tax rate and an 11.5% Ontario corporate tax. There was no change in the federal or provincial corporate tax rates in 2017.

(c) Deferred tax balances

Deferred income taxes represent the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The net deferred tax assets and liabilities consist of the following:

Deferred tax assets:	
Property, plant and equipment and intangibles	(2)
Non-capital loss carry forwards	7
Debt issuance costs	(1)
Total deferred tax assets	4
Deferred tax liabilities:	
Employee future benefits	17
Property, plant and equipment and intangibles	(34)
Non-capital losses	5
Tax credit carryovers	9
Non-deductible reserves	4
Energy variances	(16)
Total deferred tax liabilities	(15)

26. Net change in non-cash operating working capital

Accounts receivable	47
Due from related parties	45
Unbilled revenue	41
Customer deposits liability	23
Other liabilities	18
Accounts payable and accrued liabilities	17
Prepaids and other assets	2
Due to related parties	1
Inventories	(1)
	193

27. Promissory note receivable

The Corporation has a promissory note receivable of $1 from Trans Power Holding Inc. relating to the sale of its investment in Enerpower Utility Inc. The promissory note, which matures on February 15, 2020, bears a fixed annual interest rate of 6.25%, with payments due annually. The promissory note is repayable at the option of the obligor.

28. Commitments, contingencies and guarantees

(a) Commitments

(i) Leases

Lease commitments have been disclosed in Note 19.

(ii) Security with IESO

Entities that purchase electricity in Ontario through the IESO are required to post security to mitigate the risk of their default on their expected activity in the market. The IESO could draw on this security if the Corporation fails to make the payment required by a default notice issued by the IESO. The Corporation has posted a letter of credit as security in the amount of $38.

(b) Contingencies

(i) Legal claims

The Corporation is subject to legal actions and claims in the normal course of business from customers, former employees, and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual claim. The value of provisions for legal claims at December 31, 2017 is less than $1. Such provisions are subject to change based on ongoing assessments or settlements of individual claims, including potential mitigation under the Corporation's insurance policies or otherwise.

28. Commitments, contingencies and guarantees (continued)

(ii) Insurance

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of electricity industry liability insurance risks of many of the sector participants 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 five years. As at December 31, 2017, no assessments have been made.

(c) Guarantees

In the normal course of operations, the Corporation enters into agreements that meet the definition of a guarantee as follows:

(i) The Corporation has provided indemnities under lease agreements for the use of certain operating facilities. Under the terms of these agreements the Corporation agrees to indemnify the counterparties for various matters including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(ii) Indemnity has been provided to all directors and/or officers of the Corporation for various matters including, but not limited to, all costs to settle suits or actions due to association with the Corporation, subject to certain restrictions. The Corporation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The indemnified period is not explicitly defined, but it is limited to the period over which the indemnified party served as a trustee, director or officer of the Corporation. The maximum amount of any potential future payment cannot be reasonably estimated.

28. Commitments, contingencies and guarantees (continued)

(iii) In the normal course of business, the Corporation has entered into agreements that include indemnities in favor of counterparties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisor's and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Corporation to compensate counterparties for losses incurred by the counterparties as a result of breaches of agreements such as breaches of representation or regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability, which results from the unpredictability of future events. Historically, the Corporation has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

29. Divisional information

Alectra Inc. has two subsidiaries: Alectra Utilities consists primarily of two operating divisions: regulated operations and non-regulated operations. Non-regulated operations are comprised of: Ring Fenced Solar; and AES including its subsidiaries.

The designation of activities to the two operating divisions is based on a combination of regulatory status and the nature of the products and services provided. The accounting policies followed by the divisions are consistent with those described in the summary of significant accounting policies.

Financial information that adjusts IFRS results to show the effect of rate regulation is used by the Corporation's Board of Directors, shareholders, OEB, as well as management.

(In millions of Canadian dollars)

29. Divisional information (continued)

	Alectra Utilities regulated	Adjustment for regulatory activities	Non-regulated	Total
Revenue:				
Distribution revenue	474	(16)	–	458
Electricity sales	2,567	24	–	2,591
Other income	37	4	35	76
Total net revenue	**3,078**	**12**	**35**	**3,125**
Expenses:				
Cost of power	2,567	–	–	2,567
Operating expenses	251	(1)	21	271
Depreciation	113	5	6	124
Total expenses	**2,931**	**4**	**27**	**2,962**
Income from operating activities	**147**	**8**	**8**	**163**
Loss on derecognition of property, plant and equipment	(5)	(1)	–	(6)
Share of net income from joint venture	1	(1)	–	-
Finance income	3	(1)	–	2
Finance costs	(54)	–	(1)	(55)
Income before payments in lieu of income taxes	**92**	**5**	**7**	**104**
Income tax expense	(11)	(16)	(3)	(30)
Net income	**81**	**(11)**	**4**	**74**
Other comprehensive income (loss):				
Bond forward	–	–	(18)	(18)
Remeasurement of defined benefit obligation	(2)	–	–	(2)
Less future income tax recovery	1	–	4	5
Total comprehensive income (loss)	**80**	**(11)**	**(10)**	**59**

(In millions of Canadian dollars)

29. Divisional information (continued)

	Alectra Utilities regulated	Adjustment for regulatory activities	Non-regulated	Total
Assets				
Current assets				
Cash and cash equivalents	105	–	17	122
Accounts receivable	267	–	5	272
Unbilled revenue	250	–	1	251
Inventory	20	–	1	21
Prepaid expenses	6	–	6	12
Due from related parties	5	–	3	8
Assets held for sale	17	(1)	—	16
Total current assets	**670**	**(1)**	**33**	**702**
Non-current assets				
Property, plant and equipment	2,735	40	117	2,892
Intangible assets	136	–	23	159
Goodwill	705	9	6	720
Promissory notes receivable	–	–	1	1
Investment in subsidiary	4	–	(4)	–
Advance payments	–	–	3	3
Deferred tax asset	12	(13)	5	4
Regulatory assets	71	(71)	–	–
Total non-current assets	**3,663**	**(35)**	**151**	**3,779**
Total assets	**4,333**	**(36)**	**184**	**4,481**

(In millions of Canadian dollars)

29. Divisional information (continued)

	Alectra Utilities regulated	Adjustment for regulatory activities	Non-regulated	Total
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	405	(2)	11	414
Due to related parties	214	–	(180)	34
Customer deposits liability	68	–	24	92
Short term debt	–	–	176	176
Current portion of capital lease	1	–	(1)	–
Current portion of legal and environmental provisions	1	–	(1)	–
Notes payable to province of Ontario	6	–	(6)	–
Transition cost liability	6	–	(6)	–
Other liabilities	23	–	0	23
Total current liabilities	**724**	**(2)**	**17**	**739**
Non-current liabilities				
Deferred revenues	264	37	(1)	300
Long-term borrowings	–	–	1,693	1,693
Long-term loans from parent	1,607	–	(1,607)	–
Regulatory liabilities	86	(86)	–	–
Employee future benefits	65	–	–	65
Capital lease	15	–	1	16
Deferred tax liability	–	(3)	18	15
Other long-term liabilities	4	–	1	5
Total non-current liabilities	**2,041**	**(52)**	**105**	**2,094**
Total liabilities	**2,765**	**(54)**	**122**	**2,833**
Shareholders' equity:				
Share capital	682	—	288	970
Contributed surplus	739	(11)	(184)	544
Accumulated other comprehensive income (loss)	(2)	2	(14)	(14)
Retained earnings	149	27	(28)	148
Total shareholders' equity	**1,568**	**18**	**62**	**1,648**
Total liabilities and shareholders' equity (deficit)	**4,333**	**(36)**	**184**	**4,481**

29. Divisional information (continued)

Alectra Utilities derecognizes all rate-regulated assets and liabilities that do not qualify for recognition under IFRS. Certain items that are presented as rate-regulated assets as prescribed by the OEB qualify for recognition as other types of assets under IFRS.

Regulatory assets:	
Retail settlement variance accounts (RSVA's)	18
Lost revenues adjustment mechanism variance account (LRAMVA)	16
Renewable generation capital and operating cost deferral	3
Large commercial interval meter recovery	4
Smart meter capital recovery	1
OEB cost assessments deferral	2
Net recovery of regulatory balances	4
Deferred income tax asset	22
Other	1
Total Regulatory Assets	**71**
Regulatory liabilities	
Retail settlement variance accounts (RSVA's)	83
Re-measurements of post-employment benefits	2
Renewable generation funding deferral	1
Total Regulatory Liabilities	**86**

(a) The most significant regulatory activities included in the regulatory adjustments are: retail settlement variances; and the difference between the cost of the electricity commodity and the sales revenue at the OEB allowed rates. Specifically, these amounts include variances between the amounts charged by Hydro One and the IESO for the operation of the electricity markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates. Under regulatory accounting, Alectra Utilities would have adjusted energy sales or purchases for these variances with corresponding assets or liabilities. Under IFRS, the Corporation recognizes these differences in future periods as an increase or decrease to distribution revenue, when these differences are settled with customers.

29. Divisional information (continued)

(b) The OEB approved a variance account to record revenues associated with the delivery of CDM programs. The variance account tracks the difference between the results of actual, verified impacts of CDM activities and the level of CDM program activities included in a distributor's load forecast. Alectra Utilities may recover or refund this revenue through future distribution rates.

(c) The OEB approved four deferral accounts to record qualifying incremental capital investments, operating, maintenance and administration expenses and funding adders approved by the OEB related to the connection of renewable generation or the development of smart grid. Under IFRS, Alectra Utilities capitalizes or expenses these items as incurred and recognizes revenue in accordance with the Alectra Utilities' revenue recognition policy.

(d) The OEB approved a deferral account to record costs associated with replacing interval meters for its large commercial customers in order to meet amendments made to its Distribution System Code. Under IFRS, the Corporation capitalizes or expenses the amounts in the period they were incurred.

(e) The OEB requires Alectra Utilities to accrue interest on regulatory assets and liabilities balances. Under IFRS, the Alectra Utilities recognizes the net interest on these balances in future periods as an increase or decrease to distribution revenue once approved for recovery or refund by the OEB.

(f) The OEB approved a deferral account to record any re-measurements of the post-employment net defined liability including actuarial gains or losses. Under IFRS, Alectra Utilities recognizes any re-measurements of the post-employment net defined liability in other comprehensive income.

(g) The OEB established a variance account for electricity distributors to record any material differences between OEB cost assessments currently built into rates and cost assessments that will result from the application of a new cost assessment model effective April 1, 2016. Under IFRS, Alectra recognizes these costs under operating expenses in the period they were incurred.

(h) The OEB approved three variance accounts to record the difference between the revenue requirement calculated using pre-merger capitalization policies and the revenue requirement calculated using Alectra Utilities' capitalization policy. Under IFRS, Alectra Utilities capitalizes or expenses these items in the period they were incurred.

(i) Deferred income taxes are presented as regulatory liabilities or assets and are not expensed through the statement of comprehensive income as is the case under IFRS.

29. Divisional information (continued)

Future regulatory accounting treatments prescribed by the OEB and government policy changes may affect the electricity distribution rates charged and recoverable costs permitted by the OEB. Therefore, there is a risk that the timing and amount of recovery or settlement of amounts included in the adjustment for regulatory activities could be significantly different from the amounts that are eventually recovered or settled through distribution rates in the future.

30. Subsequent event

(a) Merger

On February 28, 2018, the Corporation entered into a Merger Participation Agreement ("MPA") with: Alectra Utilities; Guelph Municipal Holdings Inc. ("GMHI"); and Guelph Hydro Electric Systems Inc. ("GHESI"). GMHI is the parent of GHESI. GHESI is principally an LDC regulated by the OEB.

The MPA provides terms and conditions under which Alectra Utilities will amalgamate with GHESI. Subject to meeting certain conditions with the MPA, at the closing date, the Corporation will issue 485,000 Class G Common Shares to GMHI in consideration for all of the issued and outstanding shares of GHESI and, thereafter, Alectra Utilities will amalgamate with GHESI. Such common share issuance by the Corporation would represent an effective 4.63% interest in its aggregate issued and outstanding classes of common shares. The effective interest conveyed was as negotiated between the parties based on the respective relative fair values of the Corporation and GHESI.

The merger is subject to the approval of the OEB based on a MAADs application expected to be issued thereto by the parties in early March. Subject to a satisfactory OEB decision approving the merger, the Corporation anticipates a closing date on or before January 1, 2019.

The Corporation expects that the merger contemplated under the MPA will result in more efficient and enhanced service delivery through lower operating costs while providing significant benefits for communities and shareholders.

(b) Return of capital

On March 26, 2018 the Board of Directors approved a return of capital of $6 to Class S shareholders, of which $4 relates to the December 31, 2017 year end.

(c) Arbitration Judgment against the Corporation (“Arbitration Judgment”)

The dispute in this arbitration arose from an agreement (“Project Agreement”) between PowerStream Inc., continuing in Alectra Utilities, and another unrelated party (“Other Party”) in connection with the development of renewable generation projects that would deliver electricity under the IESO FIT program. Based on the status of such projects and its interpretation of the Project Agreement, PowerStream Inc. delivered notice to terminate all projects under the

Project Agreement in September of 2016. The principal issue in the arbitration is whether PowerStream Inc. was entitled under the Project Agreement to deliver such notice and, if not, the consequences that might ensue. The Other Party to the Project Agreement took the position that PowerStream did not have such entitlement.

The terms of the Project Agreement provided that such arbitration was binding without right of appeal.

On February 23, 2018, the arbitrator ruled against PowerStream Inc. and awarded the Other Party damages of $12,337,655 (not presented in millions) together with pre-judgment and post-judgment interest and costs of the arbitration. The ruling of the arbitrator further provided that such costs are to be paid by the Corporation to the Other Party.

Based on the award of damages and an estimate of pre-judgment and post-judgment interest and costs, the Corporation has recorded a liability of $13 with a corresponding charge to operating expenses. The Corporation is presently investigating measures to mitigate this claim. Recoveries, if any, will be recorded in income on a prospective basis.