NIAGARA POWER INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

Millards
Chartered Professional Accountants

NIAGARA POWER INCORPORATED

For the year ended December 31, 2018

INDEX

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Chartered Professional Accountants

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Niagara Power Incorporated

Opinion
We have audited the consolidated financial statements of Niagara Power Incorporated (the 'Entity'), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Millard, Rouse & Rosebrugh LLP

September 5, 2019
Brantford, Ontario

CHARTERED PROFESSIONAL ACCOUNTANTS
Licensed Public Accountants

NIAGARA POWER INCORPORATED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31	2018	2017
ASSETS		
Current assets		
Cash and bank	42,009	64,748
Accounts receivable (Note 6)	2,509,825	1,839,224
Due from related parties (Notes 4 and 14)	1,391,248	2,527,571
Unbilled revenue	1,964,731	2,021,311
Inventory (Note 5)	665,331	566,393
Prepaid expenses	308,541	397,630
Total current assets	6,881,685	7,416,877
Property, plant and equipment (Note 7)	27,849,617	27,103,416
Other capital assets	180,029	117,150
Intangible assets (Note 8)	77,173	112,121
Total assets	34,988,504	34,749,564
Regulatory balances (Note 9)	1,348,123	1,324,223
Total assets and regulatory balances	36,336,627	36,073,787
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	3,560,143	3,634,212
Notes and loans payable	580,000	50,000
Due to related parties (Note 14)	122,427	195,965
Deferred tax liabilities (Note 15)	133,917	102,716
Current portion of deposits (Note 10)	179,239	264,004
Current portion of long term liabilities (Note 12)	551,155	505,534
Total current liabilities	5,126,881	4,752,431
Long-term liabilities		
Customers' and developers' deposits (Note 10)	1,073,519	899,155
Deferred tax liabilities (Note 15)	168,090	47,675
Deferred revenue (Note 11)	4,610,923	4,384,333
Other long term liabilities	194,348	66,066
Long-term liabilities (Note 12)	13,560,085	13,489,537
Total liabilities	24,733,846	23,639,197
EQUITY		
Capital stock (Note 13)	8,362,570	8,362,570
Contributed capital	70,721	70,721
Retained earnings	2,988,289	3,683,807
Total equity	11,421,580	12,117,098
Total liabilities and equity	36,155,426	35,756,295
Regulatory balances (Note 9)	181,201	317,492
Total liabilities, equity and regulatory balances	36,336,627	36,073,787

NIAGARA POWER INCORPORATED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31	2018	2017
Retained earnings, beginning of year	3,683,807	2,930,573
Income (Loss)	(233,211)	924,666
Dividends	(462,307)	(171,432)
Retained earnings, end of year	2,988,289	3,683,807

Approved on behalf of the Board of Directors:

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NIAGARA POWER INCORPORATED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31	2018	2017
Revenue		
Sales of electricity	24,586,591	23,389,681
Revenue from services - distribution and transmission	5,473,273	5,334,264
Other income	542,136	396,779
	30,602,000	29,120,724
Less: Other power supply expense	24,586,591	23,389,681
	6,015,409	5,731,043
Expenses		
Distribution expenses - operations	876,797	800,624
Distribution expenses - maintenance	624,703	497,770
Billing and collecting	732,153	579,832
Administrative and general expenses	1,171,989	1,195,669
Depreciation and amortization expense	1,120,220	1,108,916
Interest expense	481,927	478,513
Property taxes	32,455	29,610
Other deductions	12,948	9,525
	5,053,192	4,700,459
Income Before Undernoted Items	962,217	1,030,584
Loss on related party loan (Note 4)	(1,000,000)	-
	(37,783)	1,030,584
Other Income/(Loss)		
Gain (loss) on change in fair value of interest rate swap	-	8,605
Payments in lieu of taxes (Note 15)		
Current	43,812	-
Deferred	151,616	114,523
	195,428	114,523
Net Loss and Comprehensive Loss	(233,211)	924,666

NIAGARA POWER INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31	2018	2017
Cash Flows From Operating Activities		
Net Loss and comprehensive loss	(233,211)	924,666
Charges (credits) to income not involving cash:		
Amortization (including amounts charged to operating accounts)	1,187,515	1,149,007
Amortization of deferred revenue	(136,816)	(121,588)
(Gain)/Loss on disposal of property, plant and equipment	(5,000)	(5,058)
(Gain)/Loss on change in FMV of interest rate swap agreement	-	(8,605)
Deferred taxes	151,616	114,523
Loss on related party loan	1,000,000	-
Change in non-cash working capital (Note 17)	(105,154)	(99,148)
Increase in customer and developer deposits	89,599	404,128
Change in regulatory assets/liabilities	(160,191)	(774,930)
	1,788,358	1,582,995
Cash Flows From Financing Activities		
Deferred revenue	363,406	723,784
Other long term liabilities	128,282	(25,120)
Change in loans to/from related parties	-	117,825
Derivatives	-	(614,000)
Long term debt repayments	(505,534)	181,570
Long term debt proceeds	621,703	-
Dividends	(462,307)	(171,432)
	145,550	212,627
Cash Flows From Investing Activities		
Purchase of property, plant and equipment and intangibles	(1,961,647)	(1,849,729)
Proceeds on disposal of property, plant and equipment	5,000	7,356
	(1,956,647)	(1,842,373)
Net Change in Cash and Cash Equivalents	(22,739)	(46,751)
Opening Cash and Cash Equivalents	64,748	111,499
Closing Cash and Cash Equivalents	42,009	64,748
Additional Information		
Interest paid	481,927	478,513

1. REPORTING ENTITY

Niagara Power Incorporated ("the Company"), is incorporated under the laws of Ontario and is owned 90% by The Corporation of the Town of Grimsby and 10% by FortisOntario Inc. The Company is an investment holding company with 100% common share interest in Grimsby Power Incorporated. The Company is incorporated and domiciled in Ontario with its head and registered office located at 231 Roberts Road, Grimsby, Ontario, L3M 5N2.

Grimsby Power Incorporated (GPI) is a rate regulated electricity distribution business that delivers electricity and related utility services to the residents of the Town of Grimsby. GPI also operates a transformer station.

On January 1, 2016, the Company reorganized its various corporate investments. Effective January 1, 2016, the company's only investment is Grimsby Power Incorporated. Grimsby Energy Incorporated and Grimsby Hydro Incorporated are now owned by 1938427 Ontario Incorporated, which is owned by The Corporation of the Town of Grimsby.

2. BASIS OF PRESENTATION

(a) Statement of compliance

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

(b) Approval of the financial statements

The financial statements were approved by the Board of Directors on September 5, 2019.

(c) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the valuation of derivative instruments which are measured at fair value.

(d) Functional and presentation currency

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

2. BASIS OF PRESENTATION (continued)

(e) Use of estimates and judgments

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

Estimates and underlying assumptions are continually reviewed and are based on historical experience and other factors that are considered to be relevant. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future period affected.

Information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on these financial statements are included in the following notes:

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

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

Other areas
There are a number of other areas in which the Company makes estimates; these include accounts receivable, related party loans and income taxes. These amounts are reported based on the amounts expected to be recovered/refunded and an appropriate allowance has been provided based on the Company's best estimate of unrecoverable amounts.

(f) Rate regulation

The Ontario Energy Board Act, 1998 (Ontario) conferred on the Ontario Energy Board ("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 fulfil obligations to connect and service customers.

The Company is required to charge its customers for the following amounts (all of which, other than distribution rates, represent a pass-through of amounts payable to third parties):

Commodity charge
The commodity charge represents the market price of electricity consumed by customers and is passed through the IESO to operators of generating stations. It includes the global adjustment, which represents the difference between the market price of electricity and the rates paid to regulated and contracted generators.

2. BASIS OF PRESENTATION (continued)

(f) Rate regulation (continued)

Retail transmission rate
The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are passed through to operators of transmission facilities.

WMS charge
The WMS charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are passed through to the IESO.

Distribution rates
The distribution rates are designed to recover the costs incurred by the Company in delivering electricity to customers, including the OEB allowed cost of capital. Distribution rates are regulated by the OEB and include fixed and variable (usage-based) components.

Electricity distribution rates
Regulatory developments in Ontario's electricity industry, including current and possible future consultation between the OEB and interested stakeholders, may affect local distribution companies ("LDC") electricity distribution rates and other permitted recoveries in the future.

The OEB's regulatory framework for electricity distributors is 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 typically regulates the electricity rates for distributors using a combination of detailed cost of service reviews and IRM adjustments. A cost of service review uses a future test-year to establish rates and provides for revenues required to recover the forecasted costs of providing the regulated service and a fair and reasonable return on the rate base. (i.e. the aggregate of approved investment in property, plant and equipment and intangible assets excluding work in progress, less accumulated depreciation and amortized and unamortized capital contribution from customers, plus an allowance for working capital). IRM adjustments are typically used for one or more years following a cost of service review and provide for adjustments to rates based on an inflationary factor net of a productivity factor and an efficiency factor as determined relative to other electricity distributors.

Administratively, the OEB currently regulates the electricity distribution rates through one of the three specific rate-setting methods: Price Cap Incentive Rate-Setting (suitable for most distributors); Custom Incentive Rate-Setting (suitable for distributors with large or highly variable capital requirements) and Annual Incentive Rate-setting Index (suitable for distributors requiring limited rate adjustments).

2. BASIS OF PRESENTATION (continued)

(f) Rate regulation (continued)

In 2017 Grimsby Power submitted an IRM Application (EB-2017-0043) to the OEB for an adjustment to 2017 rates again under the Price Cap Incentive Rate-Setting ("Price Cap IR") option. The Board set the inflation factor for 2017 rates at 1.20% and the productivity factor remained at zero percent. The Board assigned Grimsby Power a stretch factor of 0.15% based on the updated benchmarking study for use for rates effective in 2017. As a result, the Price Cap Index Adjustment for Grimsby Power was 1.05% (i.e. 1.20 % - (0% + 0.15%)). The Price Cap Index Adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes and does not apply to any other rates set by the Board. The OEB approved electricity distribution rate adjustments for the Company on December 14, 2017 effective January 1, 2018. In addition to the distribution rate adjustment the Board also approved the disposition of a regulatory debit balance of $384,501 over a one year period from January 1, 2018 to December 31, 2018.

In 2018 Grimsby Power submitted an IRM Application (EB-2018-0035) to the OEB for an adjustment to 2018 rates again under the Price Cap Incentive Rate-Setting ("Price Cap IR") option. The Board set the inflation factor for 2019 rates at 1.50% and the productivity factor remained at zero percent. The Board assigned Grimsby Power a stretch factor of 0.15% based on the updated benchmarking study for use for rates effective in 2019. As a result, the Price Cap Index Adjustment for Grimsby Power was 1.35% (i.e. 1.50 % - (0% + 0.15%)). The Price Cap Index Adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes and does not apply to any other rates set by the Board. The OEB approved electricity distribution rate adjustments for the Company on December 13, 2018 effective January 1, 2019. In addition to the distribution rate adjustment the Board also approved the disposition of a regulatory debit balance of $428,878 over a one year period from January 1, 2019 to December 31, 2019.

Ontario's Fair Hydro Plan (OFHP)

On March 2, 2017 the government of Ontario announced the OFHP, which includes a number of initiatives, some of which affect the LDC or its customers.

OFHP includes the Ontario Rebate for Electricity Customers (OREC), which came into effect on January 1, 2017. The OREC provides eligible customers with financial assistance in the form of an 8% rebate of the pre-tax cost of electricity. The OREC rebates are administered by the LDC and paid by the IESO in the month following customer billing. No effect on revenue or expense is recognized by the LDC in respect of the OREC rebates.

OFHP also includes the Ontario Fair Hydro Act (OFHA), which enacted the Ontario Fair Hydro Plan Act, 2017 and amended the Electricity Act, 1998 and the Ontario Energy Board Act, 1998. The OFHA came into effect on June 1, 2017 and its impact is reflected in the financial statements. The OFHA provides various changes to commodity pricing, new or amended programs and eliminating or reducing certain provincial charges on eligible customer's electricity bills. The OFHA reduces the total electricity bill for eligible customers and, accordingly, reduces current accounts receivable, unbilled revenue, accounts payable and accrued liabilities for the LDC. No effect on distribution revenue or expense is recognized by the LDC in respect of the OFHA.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and Grimsby Power Incorporated, its wholly owned and controlled subsidiary.

Effective January 1, 2016, the Company transferred its ownership of Grimsby Energy Incorporated and Grimsby Hydro Incorporated to 1938427 Ontario Incorporated, a company wholly owned by the Corporation of the Town of Grimsby.

All significant inter-company accounts and transactions have been eliminated.

(b) Regulation

The following regulatory treatments have resulted in accounting treatments which differ from those prescribed by IFRS for enterprises operating in an unregulated environment and regulated entities that did not adopt IFRS 14, Regulatory Deferral Accounts ("IFRS 14").

Regulatory balances
In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about the Company's financial position, financial performance and cash flows. IFRS 14 is restricted to first time adopters of IFRS and remains in force until either repealed or replaced by permanent guidance on rate regulated accounting from the IASB.

The Company has determined that certain debit and credit balances arising from rate regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the "Accounting Procedures Handbook for Electricity Distributors". Under rate regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding the Company's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory debit and credit balances on the Company's statement of financial position, and represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. Regulatory balances can be recognized for rate setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable. In the event that the disposition of these balances are assessed to no longer be probable based on management's judgment, the balances are recorded in the Company's statements of income in the period when the assessment is made. The netting of regulatory debit and credit balances is not permitted. The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Revenue recognition

Revenue from energy sales and distribution are recorded on the basis of cyclical billing and include an estimated amount for electricity delivered and not billed yet. These revenues are impacted by energy demand primarily driven by outside temperature, and customer class usage patterns and composition.

Energy sales arise from charges to customers for electricity consumed, based on regulated rates. The Company has determined that it is acting as a principal for electricity distribution and therefore has presented the electricity revenues on a gross basis. The Company has primary responsibility for the delivery of electricity to the customer. The difference between the amounts charged by LDC to customers, based on regulated rates and the corresponding cost of electricity and non-competitive electricity service costs billed monthly by IESO to the LDC is recorded as a settlement variance. In accordance with IFRS 14, this settlement variance is presented within regulatory balances on the balance sheets and within net movements in regulatory balances, net of tax on the statement of income.

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

Other revenue, which includes revenue from ancillary services to the distribution of electricity, revenue from demand billable activities and other billable services, is recognized as the services are rendered.

Performance incentive payments under CDM programs are recognized by the Company when there is reasonable assurance that the program conditions have been satisfied and the incentive payments will be received.

Capital contributions received from electricity customers to construct or acquire PP&E for the purpose of connecting a customer to the distribution grid are recorded as deferred revenue and amortized into other revenue at an equivalent rate to that used for the depreciation of the related PP&E.

(d) Finance income and finance charges

Finance income is recognized as it accrues in net income and comprises interest earned on cash and cash equivalents.

Finance charges are calculated using the effective interest rate method and are recognized as an expense unless they are capitalized as part of the cost of qualifying assets. Finance charges comprise interest on borrowings; interest on credit support for service delivery; interest and penalties on income tax payments; and letter of credit and standby fees.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments ("IFRS 9") effective for annual periods beginning on or after January 1, 2018, which replaced IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

i) Classification and measurement of financial instruments

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

Under IFRS 9, on initial recognition, a financial asset is classified and measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial instruments.

ii) Impairment of financial assets

Loss allowances for accounts receivable and unbilled revenue are always measured at an amount equal to lifetime expected credit loss ("ECL"). Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience, adjusted for forward-looking factors specific to the current credit environment.

The Company assumes that credit risk on a financial asset has increased if it is more than 30 days past the due date.

The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company, such as realizing security (if any is held).

If the amount of impairment loss subsequently decreases due to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through net income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

Financial assets and liabilities originally measured and classified under IAS 39 have been reclassified as follows:

Financial asset/liability	IAS 39 classification	IFRS 9 classification
Cash and bank	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Unbilled revenue	Loans and receivables	Amortized cost
Amounts due to/from related parties	Loans and receivables and other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Notes and loans payable	Other liabilities	Amortized cost
Customers' and developers' deposits	Other liabilities	Amortized cost
Long term liabilities	Other liabilities	Amortized cost

(f) Inventory

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-average basis and includes expenditures incurred in acquiring the inventories and other costs to bring the inventories to their existing location and condition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment and amortization

Property, plant and equipment ("PP&E") are measured at historical cost or deemed cost, less accumulated depreciation and accumulated impairment losses, if any. When an item is transferred from customers, it is measured at fair value at the date of transfer less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes contacted services, materials and transportation, direct labour, directly attributable overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset using the weighted average cost of debt incurred on the Company's external borrowings. Qualifying assets are considered to be those that take a substantial period of time to construct.

In circumstances where parts of an item of PP&E have different useful lives, such are accounted for as separate items (major components) of PP&E.

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

Construction in progress comprises property, plant and equipment assets under construction and assets not yet placed into service.

The carrying amount of an item of PP&E is derecognized on disposal of the asset or when no future economic benefits are expected to accrue to the Company from its continued use. Any gain or loss arising on derecognition is recorded in the statements of income in the period in which the asset is derecognized. The gain or loss on disposal of an item of PP&E is determined as the difference between the sale proceeds less the carrying amount of the asset and costs of removal and is recognized in the statements of income.

Depreciation begins when an asset becomes available for use and the half year rule is applied. Depreciation is recognized in net income on a straight-line basis over the estimated useful life of each part or component of an item of PP&E.

Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

General plant	3-50	years straight line
Distribution plant	10-60	years straight line

In the year of acquisition, amortization is provided for at one-half of the above rates. No amortization is provided for in the year of disposal.

Gains and losses on disposal of an item of PP&E are recognized in income and determined by the difference between proceeds from disposal and the carrying amount of PP&E.

Depreciation methods, useful lives and residual values, if any, are reviewed at each reporting date and adjusted prospectively.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Intangible assets

Intangible assets include computer software.

Computer software is measured at historical cost or deemed cost less accumulated amortization. All other computer software that is acquired or developed by the Company, including software that is not integral to the functionality of equipment purchased, which has a finite useful life, is measured at cost less accumulated amortization.

Amortization is recognized in net income on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives of intangible assets are as follows:

Computer software	5	years straight line

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

(i) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventory and deferred payments in lieu of income taxes, 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.

For purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use and, further, that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit"). The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value of money and the risks specific to the asset.

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

Impairment losses recognized in prior periods are assessed at each reporting period date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Employee benefits

The Company provides a pension plan to its full-time employees through the Ontario Municipal Employees Retirement System ("the OMERS"). OMERS is a multi-employer pension plan since 1962, 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.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Company 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. The OMERS pension plan has a deficit. If actuarial surpluses are not available to offset the existing deficit and subsidize future contributions, increases in contributions will be required in the future.

(k) Credit support for service delivery

Credit support for service delivery represents cash deposits from electricity distribution customers as well as construction deposits.

Security deposits from electricity customers are cash collections to guarantee the payment of electricity bills. Deposits from electricity distribution customers are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid accounts balances are refundable to individual customers upon termination of their electricity distribution service. Customer deposits are also refundable to residential electricity distribution customers demonstrating an acceptable level of credit risk, as determined by the Company. Deposits that are refundable upon demand are classified as a current liability.

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. Cash contributions are initially recorded as credit support for service delivery, 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. Deposits are classified as a current liability when the Company no longer has an unconditional right to defer the payment of the liability for at least 12 months after reporting period.

(l) Set-off and reporting on a net basis

Assets and liabilities and income and expenses are not offset and reported on a net basis unless required or permitted by IFRS. Offsetting is permitted for financial assets and financial liabilities when, and only when, the Company has a legally enforceable right to off set and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Payments in Lieu of Corporate Income Taxes (PILs)

The Company is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts").

Pursuant to the Electricity Act, 1998 (Ontario) ("EA"), and as a consequence of its exemption from income taxes under the Tax Acts, the Company is required to make payments in lieu of income taxes ("PILs") to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the Federal and Ontario Tax Acts. These amounts are applied to reduce certain debt obligations of the former Ontario Hydro continuing OEFC.

PILs comprises current and deferred payments in lieu of income tax.

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.

The Company recognizes deferred tax assets and liabilities for the future tax consequences of events that have been included in the Financial Statements or income tax return. Deferred PILs comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective carrying amounts of 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.

A deferred PILs asset is recognized to the extent that it is probable that the future taxable income will be available against which the temporary difference is 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 benefits will be realized.

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

The benefits of refundable and non-refundable apprenticeship and other input tax credits are credited against the related expense in the statement of income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Future accounting pronouncements

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2018, and have not yet been applied in preparing these financial statements. The Company continues to analyze these standards and has determined that the following could have an impact on its financial statements.

Leases
IFRS 16 Leases supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date of IFRS 16 is January 1, 2019. The Company expects no impact on implementation of the standard.

4. LOANS RECEIVABLE FROM RELATED PARTIES

The company has a loan outstanding to a related party that has become questionable as to whether the full loan will be repaid. Management has provided for an allowance of $1,000,000 in the current year on the outstanding balance of the loan. The related party is currently seeking a purchaser for its operations and as at the date of the statements, management reasonably expects to realize the remaining balance of the loan.

5. INVENTORY

The amount of inventory consumed by the Company and recognized as an expense during 2018 was $60,676 (2017 - $40,884). Inventory consumed consists primarily of parts used for repairs in the field.

6. ACCOUNTS RECEIVABLE

	2018	2017
Customer accounts receivable	1,459,911	929,416
Other receivables	1,056,414	916,308
	2,516,325	1,845,724
Allowance for doubtful accounts	(6,500)	(6,500)
	2,509,825	1,839,224

7. PROPERTY, PLANT AND EQUIPMENT	General Plant	Distribution Plant	Total
Cost or deemed cost			
Balance at January 1, 2018	3,889,342	30,380,350	34,269,692
Additions	482,803	1,397,695	1,880,498
Disposals	(32,330)	(5,973)	(38,303)
Balance at December 31, 2018	4,339,815	31,772,072	36,111,887
Balance at January 1, 2017	3,589,514	28,557,926	32,147,440
Additions	300,928	1,866,410	2,167,338
Disposals	(1,100)	(43,986)	(45,086)
Balance at December 31, 2017	3,889,342	30,380,350	34,269,692
Accumulated amortization			
Balance at January 1, 2018	1,052,404	6,113,872	7,166,276
Additions	188,646	939,678	1,128,324
Disposals	(32,330)	-	(32,330)
Balance at December 31, 2018	1,208,720	7,053,550	8,262,270
Balance at January 1, 2017	886,960	5,262,932	6,149,892
Additions	166,324	892,846	1,059,170
Disposals	(880)	(41,906)	(42,786)
Balance at December 31, 2017	1,052,404	6,113,872	7,166,276
Carrying amounts			
December 31, 2018	3,131,095	24,718,522	27,849,617
December 31, 2017	2,836,938	24,266,478	27,103,416

8.	**INTANGIBLE ASSETS**	**Computer Software**
	Cost or deemed cost	
	Balance at January 1, 2018	833,442
	Additions	24,245
	Disposals	-
	Balance at December 31, 2018	857,687
	Balance at January 1, 2017	808,170
	Additions	25,272
	Disposals	-
	Balance at December 31, 2017	833,442
	Accumulated amortization	
	Balance at January 1, 2018	721,321
	Additions	59,193
	Disposals	-
	Balance at December 31, 2018	780,514
	Balance at January 1, 2017	631,485
	Additions	89,836
	Disposals	-
	Balance at December 31, 2017	721,321
	Carrying amounts	
	December 31, 2018	77,173
	December 31, 2017	112,121

9. REGULATORY ASSETS AND LIABILITIES

	January 1 2018	Balances arising in the period	December 31 2018
Debit balances consist of the following:			
Cost assessment variance	36,886	51,799	88,685
Settlement variances	1,222,766	(29,088)	1,193,678
LRAM	64,571	1,189	65,760
	1,324,223	23,900	1,348,123
Credit balances consist of the following:			
Settlement variances	317,492	(136,291)	181,201

	January 1 2017	Balances arising in the period	December 31 2017
Debit balances consist of the following:			
Cost assessment variances	15,941	20,945	36,886
Settlement variances	1,101,733	121,033	1,222,766
LRAM	190	64,381	64,571
	1,117,864	206,359	1,324,223
Credit balances consist of the following:			
Settlement variances	886,063	(568,571)	317,492

9. REGULATORY ASSETS AND LIABILITIES (continued)

Regulatory assets (liabilities) represent amounts recovered from customers in excess of costs incurred by OEB approved rates less recoveries. These amounts have been accumulated pursuant to the Electricity Act and deferred in anticipation of their future settlement in electricity distribution rates. Management assesses the future uncertainty with respect to the recovery of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision concerning adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

Settlement variances represent amounts that have accumulated since market opening and comprise:

Settlement variances
This account includes the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs incurred by LDC. The settlement variances relate primarily to non-competitive electricity charges and the global adjustment. Accordingly, LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. Carrying charges were added to the regulatory balance in accordance with the OEB’s direction at a rate of 1.50% for the period from January 1, 2018 to March 31, 2018, 1.89% from April 1, 2018 to September 30, 2018 and 2.17% from October 1, 2018 to December 31, 2018 (1.10% from January 1, 2017 to September 30, 2017 and 1.50% from October 1, 2017 to December 31, 2017).

Lost revenue adjustment mechanism
This regulatory balance relates to the difference between the level of CDM program activities included in LDC’s load forecast used to set rates and the actual impact of authorized CDM activities achieved. Carrying charges were added to the regulatory balance in accordance with the OEB’s direction at a rate of 1.50% for the period from January 1, 2018 to March 31, 2018, 1.89% from April 1, 2018 to September 30, 2018 and 2.17% from October 1, 2018 to December 31, 2018 (1.10% from January 1, 2017 to September 30, 2017 and 1.50% from October 1, 2017 to December 31, 2017).

Deferred taxes
This regulatory credit balance relates to both deferred tax amounts reclassed under IFRS 14 and to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred tax assets. As at December 31, 2018, the regulatory balance did not include carrying charges.

The 2018 approved rates allowed for a rider to reduce charges to allow for the repayment of previous various regulatory liabilities. The total regulatory liabilities approved for disposition were $384,501.

The regulatory assets recovery amount represents costs incurred by the Company as of December 31, 2016 which have been approved for recovery through rates.

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between OEB and interested stakeholders, may affect the distribution rates that the Company may charge and the costs that the Company may recover, including the balance of its regulatory assets.

10. CUSTOMERS' AND DEVELOPERS' DEPOSITS

	2018	2017
Customer deposits	314,622	396,815
Developer liabilities	938,136	766,344
	1,252,758	1,163,159
Current	179,239	264,004
Non-current	1,073,519	899,155

11. DEFERRED REVENUE

	2018	2017
Balance, beginning of year	4,384,333	3,782,137
Additions	363,406	723,784
Amortization	(136,816)	(121,588)
Balance, end of year	4,610,923	4,384,333

12. LONG TERM LIABILITIES	2018	2017
Long term liabilities comprise promissory notes and term loans.		
Promissory note payable to the Town of Grimsby bearing interest at a rate of 4.54%, due February 2020	5,782,746	5,782,746
TD term loan (for Smart Meters) with blended monthly instalments of $10,553, at a fixed rate of 2.11%, due February 2020	859,783	967,054
TD term loan (economic evaluation and term loan) with interest only instalments at a fixed rate of 2.13%, due February 2020	3,270,000	3,270,000
TD term loan (for bucket truck, interest rate swap and breakage fee) with blended monthly instalments of $39,668 at a fixed rate of 2.05%, due February 2020	3,577,008	3,975,271
TD term loan (for bucket truck and SCADA) with blended monthly instalments of $4,469 at a fixed rate of 3.06%, due February 2020	621,703	-
	14,111,240	13,995,071
Current	551,155	505,534
Non-current	13,560,085	13,489,537

As security for the TD term loans, the Company has provided a general security agreement, assignment of fire insurance on inventory and equipment, assignment of liability insurance, and Postponement Agreement executed by the bank, the Company and the Town of Grimsby.

Grimsby Power Incorporated entered into a swap transaction for the full amount of the variable rate debt issued as bankers acceptances, the effect of which is to fix the interest rate of the loan at 5.6% plus 0.75% stamping fee until January 1, 2025. The fair value of the interest rate swap agreement was based on discounted future cash flows of amounts estimated by the Company's bank of the cost or benefit of the swap contracts until the end of the term of the loan. On January 31, 2017, the Company terminated the interest rate swap agreement and refinanced the principal and penalty through a term loan. At January 31, 2017 the interest rate swap agreement was in a net unfavourable position of $614,000 and the impact of the change in fair value of the interest rate swap agreement of $8,605 was included in profit and loss of 2017.

12. LONG TERM LIABILITIES (continued)

Based upon current repayment terms, the estimated annual principal repayments are as follows:

2019	-	551,155
2020	-	9,615,467
2021	-	575,077
2022	-	587,433
2023	-	591,059
2024 and thereafter	-	2,191,049

13. CAPITAL STOCK

		2018	2017
Authorized			
90 Class A cumulative, non-voting, redeemable, preferred shares			
10 Class B cumulative, non-voting, redeemable, preferred shares			
an unlimited number of common shares			
Issued			
90	Class A shares	90	90
10	Class B shares	1,400,000	1,400,000
23	common shares	6,962,480	6,962,480
		8,362,570	8,362,570

Dividends

The Management of the Company will use its best efforts to ensure that the Company meets certain financial performance standards, including those relating to credit rating and dividends.

For the year ended December 31, 2018, the Board of Directors of the Company declared and paid dividends to the shareholders totaling $462,307 (2017 - $171,432).

14. RELATED PARTY TRANSACTIONS

Grimsby Power Incorporated (GPI)
The Town of Grimsby, the shareholder, was charged $665,278 (2017 - $572,796) for its electricity supply in 2018. The Town of Grimsby provided services, water and vehicle fuel to the Company. The costs of these goods and services were $57,194 (2017 - $48,733). The Town of Grimsby received $262,537 (2017 - $262,537) in interest on the promissory note. These transactions are in the normal course of operations and are measured at the exchange amount established and agreed to by the related parties.

1938427 Ontario Incorporated
GPI received $600 (2017 - $600) for bookkeeping services.

Niagara Power Incorporated (NPI)
GPI received $3,000 (2017 - $3,000) for bookkeeping services. Related party balances includes a loan payable of $100,000 to 1938427 Ontario. Inc.

Grimsby Hydro Incorporated (GHI)
GPI received $600 (2017 - $600) for bookkeeping services.

Grimsby Energy Incorporated (GEI)
Related party balances includes a loan receivable from GEI of $1,389,789 (2017 - $2,389,789). During the year, an amount receivable of $1,119,637 from GEI was written off, (See Note 4).

Canadian Niagara Power (CNP)
In 2009, Grimsby Power Inc. migrated its billing system to a SAP platform. Grimsby Power Inc. has a contractual commitment to pay $6,396 per month for system administration and non-system related support to a related party. GPI paid consulting fees and monthly IT service fees to CNP. The expenditures totaled $98,569 (2017 - $92,713).

Amounts receivable from related parties equal $1,459 (2017 - $137,782) and amounts payable to related parties equal $22,427 (2017 - $95,965). These balances are non-interest bearing with no fixed terms of repayment.

Key management personnel are comprised of the Corporation's senior executive officers and members of the Board of Directors. The compensation costs associated with key management personnel are as follows:

	2018	2017
Directors' fees	51,359	54,728
Salaries and short term incentives	318,458	293,371
Short term benefits	71,355	68,711
	441,172	416,810

15. PAYMENT-IN-LIEU OF CORPORATE INCOME TAXES

The impact of differences between the Company's reported payments in lieu of corporate income taxes and the expense that would otherwise result from the application of the combined statutory income rate of 26.5% is as follows:

	2018	**2017**
Basic taxes applied to income before PILs	259,595	207,563
Increase (Decrease) in PILs resulting from:		
Tax basis of depreciable property, plant and equipment in excess of accounting basis	(106,493)	(83,270)
Change in regulatory assets	(42,451)	(150,937)
Loan termination fee	(20,325)	(13,670)
Change in future income tax balance	151,616	155,192
Other	(46,514)	(355)
Provision for payments in lieu of income taxes	195,428	114,523

Deferred payments in lieu of income taxes balances

Significant components of the Company's deferred payments in lieu of income tax balances are as follows:

	2018	**2017**
Deferred PILs - Current (net of tax effect):		
Property, plant and equipment	78,431	78,431
Regulatory assets	(227,287)	(196,086)
Loan termination fee	14,939	14,939
	(133,917)	(102,716)
Deferred PILs - Non-Current (net of tax effect):		
Property, plant and equipment	(416,492)	(346,252)
Loan termination fee	76,044	90,983
Loss carryforward	171,092	203,244
Other	1,266	4,350
	(168,090)	(47,675)

16. PENSION PLAN

Grimsby Power Incorporated 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. In 2018, the Company made employer contributions of $137,278 to OMERS (2017 - $127,396). The Company's net benefit expense has been allocated as follows:

i) $18,814 (2017 - $20,185) capitalized as part of PP&E; and
ii) $118,464 (2017 - $107,211) charged to net income.

The Company estimates a contribution of $154,277 to OMERS during the next fiscal year.

17. CASH FLOW INFORMATION

The change in non-cash working capital is comprised of:

	2018	2017
Accounts receivable	(670,601)	(85,516)
Due from related parties	136,323	(60,293)
Payment in lieu of taxes receivable	-	-
Unbilled revenue	56,580	396,268
Inventory	(98,938)	66,494
Prepaid expenses	89,089	120,115
Accounts payable and accrued liabilities	(74,069)	(528,876)
Notes and loans payable	530,000	50,000
Due to related parties	(73,538)	(57,340)
	(105,154)	(99,148)

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The following table represents the carrying amount by classification.

	2018	2017
Amortized Cost:		
Cash	42,009	64,748
Accounts receivable	2,509,825	1,839,224
Unbilled revenue	1,964,731	2,021,311
Amounts due from related parties	1,391,248	2,527,571
	5,907,813	6,452,854
Amortized Cost:		
Accounts payable and accrued liabilities	3,560,143	3,634,212
Notes and loans payable	580,000	50,000
Amounts due to related parties	122,427	195,965
Customers' and developers' deposits	1,252,758	1,163,159
Long term liabilities	14,111,240	13,995,071
	19,626,568	19,038,407

Recognition and measurement
As at December 31, 2018 the fair values of accounts receivable, unbilled revenue, and accounts payable and accrued liabilities approximated their carrying amounts due to the short term maturity of these instruments. The fair values of customer deposits approximate their carrying amounts taking into account interest accrued on the outstanding balance.

Financial risks
The Company understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Company's exposure to a variety of risks such as credit risk, interest rate risk, market risk and liquidity risk as well as related mitigation strategies are discussed below. However, the risks described below are not exhaustive of all the risks nor will the mitigation strategies eliminate the Company's exposure to all risks listed.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair Value Hierarchy

Level 1
Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;

Level 2
Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3
Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

The Company has classified interest rate swaps as level 2. There were no transfers within the fair value hierarchy during 2018 or 2017.

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

The Company's credit risk associated with accounts receivable is primarily related to electricity bill payments from LDC customers. As at December 31, 2018, LDC had approximately 11,618 (2017 - 11,418) customers; the majority of which are residential. LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2018, the Company holds security deposits from electricity distribution customers in the amount of $314,622 (2017 - $396,815). As at December 31, 2018, there were no significant concentrations of credit risk with respect to any customer. The credit risk and mitigation strategies with respect to unbilled revenue are the same as for accounts receivable.

The Company did not have any single customer that generated more than 10% of total revenue for the years ended December 31, 2018 and December 31, 2017.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

Credit risk associated with accounts receivable and unbilled revenue is as follows:

	2018	2017
Accounts receivable (net of allowance for doubtful accounts)		
Outstanding for not more than 30 days	2,483,898	1,488,727
Outstanding for more than 30 days and not more than 120 days	42,462	360,729
Outstanding for more than 120 days	(16,604)	(10,287)
Total accounts receivable	2,509,756	1,839,169
Unbilled revenue	1,964,731	2,021,311
Total accounts receivable and unbilled revenue	4,474,487	3,860,480

The Company has a broad base of customers. As at December 31, 2018, the Company's accounts receivable and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk and no additional allowance for doubtful accounts was required for these balances.

Reconciliation between the opening and closing allowance for doubtful accounts balances is as follows:

	2018	2017
Balance - beginning of year	(6,500)	(6,500)
Provision for doubtful accounts	(128,697)	(16,965)
Write-offs	132,060	21,288
Recoveries	(3,363)	(4,323)
Balance - end of year	(6,500)	(6,500)

Unbilled revenue represents amounts for which the Company has contractual right to receive cash through future billings and are unbilled at period end. Unbilled revenue is considered current and no allowance for doubtful accounts was provided as at December 31, 2018.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk
Market risk primarily refers to the risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Company currently does not have commodity or foreign exchange risk. The Company is exposed to fluctuations in interest rates as the regulated rate of return for the Company's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates during the rate application processes previously described in these notes. A decrease in the forecasted long term Government of Canada bond yield used in determining the Company's rate of return would reduce the distribution business results of operations at the next rate filing or annual rate adjustment if the bond yield reduction continued to that time.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company enters into both fixed and floating rate debt.

Liquidity risk
The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company has access to $3,250,000 line of credit and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

Capital disclosures
The main objectives of the Company when managing financial capital include:

i) ensuring ongoing cost effectiveness access to such to provide adequate investment in support of its regulated electricity distribution and other businesses;
ii) compliance with covenants within its financial instruments;
iii) prudently manage its capital structure, with regard for maintaining a high level of creditworthiness;
iv) recover financing charges permitted by the OEB on its regulated electricity distribution business; and
v) deliver reasonable returns on the investments of its shareholders.

The Company's definition of financial capital includes; shareholder's equity and long term borrowings, which include the current portion of long term borrowings.

The OEB regulates the amount of interest on debt and MARE (Maximum Allowable Return on Equity) that may be recovered by the Company's rate regulated 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 Company may differ from the OEB deemed structure.

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

19. COMMITMENTS AND CONTINGENCIES

General

In the ordinary course of business, the Company is subject to various legal actions and claims from customers, suppliers, former employees and other parties. On an ongoing basis, the Company 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 issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Company would make a claim under any applicable liability insurance policies which the Company believes would cover any damages which may become payable by the Company in connection with these actions, such to each claim not being disputed by the insurer.

Letter of credit

A letter of credit in the amount of $964,845 (2017 - $964,845) has been issued in favour of the Independent Electricity System Operator ("IESO") as security for the Company's purchase of electricity through the IESO. No amounts were drawn down on the letter of guarantee at year end.

General Liability Insurance

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool, for the years in which they are members, on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to 5 years. As at December 31, 2018, no assessments have been made.

Conservation

The Ministry of Energy, Northern Development and Mines issued on March 21, 2019 a directive requiring utilities to wind down their involvement in the delivery of conservation programs. According to the directive, effective April 1, 2019, conservative programs will be centrally delivered by the IESO.