



**The Corporation of the Township of Tay
Special Meeting of Council**

**February 13, 2019
10:00 a.m.**

**Municipal Office Council Chambers
Agenda**

1. Call to Order

2. Approval of the Agenda

3. Disclosure of Interest

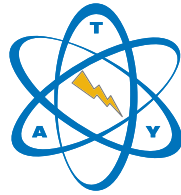
4. Staff Reports / Other Business

- 4.1 Oath of Office – Deputy Mayor
- 4.2 Report from the President of Newmarket-Tay Power Distribution
Re: Newmarket-Tay Power Distribution Ltd. Shareholders Agreement
- 4.3 Report from the President of Newmarket-Tay Power Distribution
Re: Tay Hydro Inc. 2017 Annual General Meeting

5. By-laws

6. Confirming By-law

7. Adjournment



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Newmarket-Tay Power Distribution Ltd.

January 25, 2019

**Newmarket – Tay Power Distribution Ltd.
Report of the President**

TO: Council of the Township of Tay

SUBJECT: Newmarket – Tay Power Distribution Ltd. Shareholders Agreement

ORIGIN: President, Newmarket – Tay Power Distribution Ltd.

RECOMMENDATION:

THAT the Newmarket – Tay Power Distribution Ltd. Report of the President dated January 25, 2019 regarding an amendment to the Shareholders Agreement between Tay Hydro Inc., Newmarket Hydro Holdings Inc., Newmarket – Tay Power Distribution Ltd., the Corporation of the Town of Newmarket and the Corporation of the Township of Tay be received and the following recommendation be adopted:

WHEREAS Article 3.03(1) of the Shareholders Agreement between Tay Hydro Inc., Newmarket Hydro Holdings Inc., Newmarket – Tay Power Distribution Ltd. (the “Corporation”), the Corporation of the Town of Newmarket and the Corporation of the Township of Tay (the “Agreement”) states:

“The board of directors of the Corporation shall consist of (7) directors, four (4) of whom shall be Non-Municipal Appointees, one (1) of whom shall be the Mayor of Tay, one (1) of whom shall be the Mayor of Newmarket, and one (1) of whom shall be the chief executive officer of the Corporation. The chair of the board of directors shall be a Non-Municipal Appointee designated by the other six (6) directors.”

AND WHEREAS the Township of Tay has requested that Article 3.03(1) be amended to allow for a designated sitting member of Council to be appointed to the board of directors in the Mayor’s place;

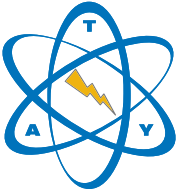
AND WHEREAS the Council of the Township of Tay is agreeable to this amendment;

NOW THEREFORE BE IT RESOLVED by the Municipal Council of the Township of Tay that Article 3.03(1) of the Agreement be amended to state:

“The board of directors of the Corporation shall consist of seven (7) directors, four (4) of whom shall be Non-Municipal Appointees, one (1) of whom shall be the Mayor of Tay or a designated sitting member of the Council of the Township of Tay, one (1) of whom shall be the Mayor of Newmarket or a designated sitting member of the Council of the Town of Newmarket, and one (1) of whom shall be the chief executive officer of the Corporation. The chair of the board of directors shall be a Non-Municipal Appointee designated by the other six (6) directors.”



P.D. Ferguson, P.Eng.
President
Newmarket – Tay Power Distribution Ltd.



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Tay Hydro Inc.

January 25, 2019

Tay Hydro Inc. Report of the President

TO: Council of the Township of Tay

SUBJECT: Tay Hydro Inc. 2017 Annual General Meeting

ORIGIN: President, Tay Hydro Inc.

RECOMMENDATIONS:

THAT the Tay Hydro Inc. Report of the President dated January 25, 2018 regarding the financial statements of Tay Hydro Inc., Tay Utility Contracting Inc., the written resolutions of Newmarket – Tay Power Distribution Ltd. and appointment of the sole director and auditors be received and the following recommendations be adopted:

WHEREAS the Corporation of the Township of Tay (the “Sole Shareholder”) is the Sole Shareholder of Tay Hydro Inc. (“Tay Hydro”);

AND WHEREAS Tay Hydro owns a minority of common shares of Newmarket-Tay Power Distribution Ltd. (“NT Power”);

AND WHEREAS Tay Hydro owns all of the common shares of Tay Utility Contracting Inc. (“Tay Contracting”);

AND WHEREAS pursuant to s.102(2) of the *Business Corporations Act* (Ontario) (the “*OBCA*”) where a body corporate is the shareholder of a corporation the corporation shall recognize any individual properly authorized by the body corporate to represent it at meetings of shareholders of the corporation;

AND WHEREAS pursuant to s.104 of the *OBCA* a written resolution dealing with all the matters required to be dealt with at a shareholders meeting and signed by the shareholders entitled to vote at that meeting satisfies all requirements of the *OBCA* relating to that meeting of shareholders;

NOW THEREFORE BE IT RESOLVED by the Municipal Council of the Corporation of the Township of Tay as follows:

Tay Hydro Inc. 2017 Annual General Meeting

1. THAT the Mayor, as the Sole Shareholder's legal representative, is directed to sign the following Tay Hydro Shareholder resolutions:

- a. THAT the Tay Hydro financial statements for the financial year ended December 31, 2017 together with the report of Tay Hydro's auditors, Collins Barrow, thereon dated December 12, 2018 be approved and adopted.
- b. THAT Collins Barrow, Chartered Accountants, be appointed auditors of Tay Hydro to hold office until the next annual meeting of shareholders at such remuneration as may be fixed by the sole director and the sole director is authorized to fix such remuneration.
- c. THAT Robert Lamb be appointed as the sole director of Tay Hydro to hold office until the next annual meeting of shareholders or until his successor is elected or appointed.
- d. THAT Robert Lamb, so long as he is the sole director of Tay Hydro, shall represent Tay Hydro at meetings of shareholders of NT Power and Tay Contracting;
- e. AND THAT all acts, contracts, bylaws, proceedings, appointments elections and payments, enacted, made, done and taken by the sole director and officers of Tay Hydro to December 31, 2017, as the same are set out or referred to in the resolutions of the sole director, or in the financial statements of Tay Hydro, are approved, sanctioned and confirmed.

2. THAT the Mayor, as the Sole Shareholder's legal representative, direct Robert Lamb, the sole director and legal representative of Tay Hydro, to sign the following NT Power shareholder resolutions in lieu of an annual meeting:

- a. THAT the financial statements of NT Power for the financial year ended December 31, 2017 together with the report of NT Power's auditors, Collins Barrow, thereon dated March 28, 2018 be approved and adopted.
- b. THAT Collins Barrow, Chartered Accountants, be appointed auditors of NT Power to hold office until the next annual meeting of shareholders at such remuneration as may be fixed by the directors and the directors are authorized to fix such remuneration.
- c. THAT J. Taylor, T. Walker, B. Gabel, R. Betts, D. Charleson, C. Prattas and P. Ferguson are elected directors of NT Power to hold office until the next annual meeting of shareholders or until their successors are elected or appointed.

Tay Hydro Inc. 2017 Annual General Meeting

d. AND THAT all acts, contracts, bylaws, proceedings, appointments elections and payments, enacted, made, done and taken by the directors and officers of NT Power to December 31, 2017, as the same are set out or referred to in the resolutions of the board of directors, the minutes of the meetings of the board of directors or in the financial statements of NT Power, are approved, sanctioned and confirmed.

3. AND THAT the Mayor, as the Sole Shareholder's legal representative, direct Robert Lamb, the sole director and legal representative of Tay Hydro, to sign the following Tay Contracting shareholder resolutions in lieu of an annual meeting:

a. THAT the Tay Contracting financial statements for the financial year ended December 31, 2017 together with the report of Tay Contracting's auditors, Collins Barrow, thereon dated April 11, 2018 be approved and adopted.

b. THAT Collins Barrow, Chartered Accountants, be appointed auditors of Tay Contracting to hold office until the next annual meeting of shareholders at such remuneration as may be fixed by the sole director and the sole director is authorized to fix such remuneration.

c. THAT Robert Lamb be appointed as the sole director of Tay Contracting to hold office until the next annual meeting of shareholders or until his successor is elected or appointed.

d. AND THAT all acts, contracts, bylaws, proceedings, appointments elections and payments, enacted, made, done and taken by the sole director and officers of Tay Contracting to December 31, 2017, as the same are set out or referred to in the resolutions of the sole director, or in the financial statements of Tay Contracting, are approved, sanctioned and confirmed.

Background

Financial Statements of Tay Hydro and Tay Contracting

The audited financial statements for Tay Hydro, Tay Contracting and NT Power are attached. They are now in International Financial Reporting Standards ("IFRS") format as opposed to the previous Canadian Generally Accepted Auditing Principles ("CGAAP"). The CFO will answer any questions regarding them.

Appointment of Auditors

The Board of Directors of NT Power (the "Board") notes that, with the implementation of IFRS over the next few years and the acquisition of Midland

Tay Hydro Inc. 2017 Annual General Meeting

Power Utility Corporation, the additional workload that would be involved with a request for proposal for audit services and the possible change in audit firms will hamper these initiatives. The Board therefore recommends the re-appointment of the current auditors, Collins Barrow for the period January 1 to December 31, 2018 for Tay Hydro, Tay Contracting and NT Power.

Election of Directors – Tay Hydro and Tay Contracting

At the 2013 annual general meeting of Tay Hydro and Tay Contracting, Mr. Robert Lamb was appointed the sole director of the companies. There has been no change requested by the Shareholder to these appointments.

Election of Directors – NT Power

The existing directors of NT Power are:

J. Taylor, Mayor of the Town of Newmarket
T. Walker, Mayor of the Township of Tay
R. Betts, Independent Director
Dr. U. Phillip Daniels, Independent Director
C. Prattas, Independent Director
D. Charleson, Independent Director
P.D. Ferguson, President of NT Power

The appointments of The Mayor of Newmarket, the Mayor of Tay and the President are de facto. In response to a request by the Township of Tay, The Corporation of the Town of Newmarket, The Corporation of the Township of Tay, Tay Hydro Inc. Newmarket Hydro Holdings Inc. and NT Power have agreed to amend the Shareholders Agreement between them to allow for the Mayors to designate a sitting member of Council in their place on the board of directors. At present, Tay Mayor T. Walker and Newmarket Mayor J. Taylor have chosen to sit on the board of directors. Three of the independent directors Betts, Prattas and Charleson are eligible for re-appointment and are recommended by the Board of Directors.

Independent director Daniels has completed his eligible terms as a director. In accordance with the Shareholders Agreement, the Board struck a Nominating Committee (the 'Committee'), consisting of chair R. Betts, and Directors C. Prattas and D. Charleson to; with input from a professional recruiting firm and utilizing corporate governance best practices, provide the shareholders with a recommended list of candidates from which to select nominees to be elected to replace P. Daniels.

Tay Hydro Inc. 2017 Annual General Meeting

Working with the professional recruiting firm of Boyden, the Committee recommended a two-person slate of candidates to an Ad-Hoc Joint Committee of the councils of Newmarket and Tay (the "Ad-Hoc Committee) consisting of:

- Chair - Newmarket Councillor Christina Bisanz
- Members - Newmarket Mayor John Taylor
- Newmarket Regional Councillor and Deputy Mayor Tom Vegh
- Tay Mayor Ted Walker
- Tay Councillor Barry Norris

The Ad - Hoc Committee selected Brian Gabel to be nominated to replace P. Daniels.

[Original signed by]

P.D. Ferguson P.Eng.
President
Tay Hydro Inc.

**CONSOLIDATED
FINANCIAL STATEMENTS OF**

TAY HYDRO INC.

December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of
Tay Hydro Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Tay Hydro Inc., which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of changes in equity and accumulated other comprehensive income, comprehensive income and cash flows for the year then ended, and 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.

Auditor's 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 the auditor's 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, the auditor considers internal control relevant to the company'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 company'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 financial position of Tay Hydro Inc. as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Collins Barrow Kawarthas LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
December 12, 2018

TAY HYDRO INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2017

	2017	2016
	\$	\$
ASSETS		
Current assets		
Cash	52,596	52,187
Accounts receivable	58	35
	52,654	52,222
Non current		
Investments (note 4)	3,405,163	3,350,907
	3,457,817	3,403,129
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Income taxes payable	7,112	-
Due to related party (note 5)	-	43,426
	7,112	43,426
Long-term debt (note 6)	19,820	19,820
	26,932	63,246
Shareholder's equity		
Share capital (note 7)	1,743,031	1,743,031
Retained earnings	1,685,601	1,587,046
Accumulated other comprehensive income	2,253	9,806
	3,430,885	3,339,883
	3,457,817	3,403,129

The accompanying notes are an integral part of these financial statements

TAY HYDRO INC.**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER
COMPREHENSIVE INCOME**

For the year ended December 31, 2017

	Share capital \$	Retained earnings \$	Accumulated other comprehensive income \$	Total \$
Balance, December 31, 2015	1,743,031	1,470,841	12,336	3,226,208
Net income for the year	-	217,205	-	217,205
Other comprehensive loss	-	-	(2,530)	(2,530)
Dividends paid	-	(101,000)	-	(101,000)
Balance, December 31, 2016	1,743,031	1,587,046	9,806	3,339,883
Net income for the year	-	199,555	-	199,555
Other comprehensive loss	-	-	(7,553)	(7,553)
Dividends paid	-	(101,000)	-	(101,000)
Balance, December 31, 2017	1,743,031	1,685,601	2,253	3,430,885

The accompanying notes are an integral part of these financial statements

TAY HYDRO INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2017

	2017	2016
	\$	\$
Revenue		
Dividend income	101,000	101,000
Equity income of Newmarket-Tay Power Distribution Inc. (note 8)	61,809	116,336
	<u>162,809</u>	<u>217,336</u>
Expenses		
Bad debts	90	-
Operations and administration	395	548
	<u>485</u>	<u>548</u>
Income before undernoted items and income taxes	<u>162,324</u>	<u>216,788</u>
Other income		
Finance income	522	417
Miscellaneous	43,821	-
	<u>44,343</u>	<u>417</u>
Income before income taxes	<u>206,667</u>	<u>217,205</u>
Income taxes (note 9)	<u>7,112</u>	<u>-</u>
Net income for the year	<u>199,555</u>	<u>217,205</u>
Other comprehensive loss	<u>(7,553)</u>	<u>(2,530)</u>
Total comprehensive income for the year	<u>192,002</u>	<u>214,675</u>

The accompanying notes are an integral part of these financial statements

TAY HYDRO INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2017

	2017	2016
	\$	\$
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	199,555	217,205
Items not affecting cash		
Equity income of Newmarket-Tay Power Distribution Inc.	(61,809)	(116,336)
Net finance costs	(522)	(417)
	137,224	100,452
Change in non-cash working capital items		
Decrease (increase) in accounts receivable	(23)	548
Interest received	522	417
Increase in income taxes payable	7,112	-
	144,835	101,417
Financing activities		
Repayment from related party	(43,426)	-
Dividends paid	(101,000)	(101,000)
	(144,426)	(101,000)
Increase in cash	409	417
Cash - beginning of year	52,187	51,770
Cash - end of year	52,596	52,187

The accompanying notes are an integral part of these financial statements

TAY HYDRO INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

1. NATURE OF OPERATIONS

Tay Hydro Inc. ("the Company") was incorporated under the Business Corporations Act of the Province of Ontario. The address of its registered office and its principal place of business is 489 Finlayson St. P.O. Box 160, Port McNicoll, Ontario, L0K 1R0

The principal activity of the Company is to hold investments in companies that distribute electricity under license from the Ontario Energy Board (OEB) and sell electricity related products and services.

2. STATEMENT OF COMPLIANCE

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

The financial statements for the year ended December 31, 2017 were approved and authorized for issue by the board of directors on December 12, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of measurement

The financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at their fair values, as explained in the relevant accounting policies.

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

(b) Consolidation

The consolidated financial statements include all of the accounts of its wholly-owned subsidiary Tay Utility Contracting Inc., after the elimination of all inter-company transactions and balances.

Effective May 1, 2007, the Company disposed of its investment in its wholly owned subsidiary, Tay Hydro Electric Distribution Inc. and acquired a 7% interest in Newmarket-Tay Power Distribution Inc. The equity method is used to account for the Company's investment in Newmarket-Tay Power Distribution Ltd. This method brings into consolidated earnings the Company's share of the income of the investment, which is added to the carrying value of the investment.

TAY HYDRO INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(c) Revenue recognition

Interest and equity income is accrued as earned. Dividend income is recorded when declared.

(d) Cash

Cash consists of balances with financial institutions.

(e) Related party transactions

Related party transactions are in the normal course of operations and have been measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Related party transactions and balances are detailed in note 5.

(f) Income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes (PILS) to the Ontario Electricity Financial Corporation (OEFC). Future income taxes are calculated using the liability method of tax accounting. In providing for corporate income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as future income taxes. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate future income taxes.

(g) Management estimates

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates.

(h) Financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(h) Financial instruments, continued

Financial assets at fair value through profit or loss

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

Loans and receivables

The Company has classified accounts receivable as loans and receivables.

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

Financial liabilities measured at amortized cost

The Company has classified due to related party and long term debt as financial liabilities measured at amortized cost.

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

(i) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

TAY HYDRO INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(j) New Standards and interpretations not yet effective or adopted

Effective for annual periods beginning on or after January 1, 2018:

IFRS 9 Financial Instruments: Recognition and Measurement (new) – modifies IAS 39 eliminating categories and redefines gain and loss re-measurement.

IFRS 15 Revenue from Contracts with Customers: The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard contains enhanced disclosures about revenue and provides guidance for transactions that were not previously addressed comprehensively.

Effective for annual periods beginning on or after January 1, 2019:

IFRS 9 Financial Instruments was amended by the IASB in October 2017. Amendments allow companies to measure particular pre-payable financial assets with so-called negative compensation at amortized cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. Earlier application is permitted.

IFRS 16 replaces IAS 17 Leases and brings leases onto companies' balance sheets, increasing the visibility of their assets and liabilities. IFRS 16 removes the classification of leases as either operating or finance leases for the lessee treating all leases as finance leases. Short term and low value assets are exempt from these requirements.

The Company is currently assessing the impact that the standard will have on the statements.

4. INVESTMENTS

The Company owns a 7% interest in Newmarket-Tay Hydro Distribution Ltd. The equity method is used to account for this investment.

5. RELATED PARTY TRANSACTIONS AND RELATED PARTY BALANCES

(a) During the year, the Company entered into transactions with Newmarket-Tay Hydro Distribution Ltd, in relation to its 7% equity investment. Transactions during the year include equity income of \$162,809 (2016 - \$217,336), other comprehensive loss of \$7,553 (2016 - \$2,530) and dividends of \$101,000 (2016 - \$101,000).

(b) The balances due to related parties are unsecured, non-interest bearing with no specific terms of repayment.

TAY HYDRO INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

6. LONG-TERM DEBT

	2017	2016
	\$	\$
Promissory notes payable - Township of Tay	19,820	19,820

The promissory notes are non-interest bearing with no specific terms of repayment. Since the holders of the promissory note have confirmed they will not request payment of this amount during the next fiscal year, these amounts have been classified as a non-current liability in the accompanying consolidated financial statements.

7. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued

	2017	2016
	\$	\$
10,000 common shares	1,743,031	1,743,031

8. EQUITY INCOME OF NEWMARKET-TAY HYDRO DISTRIBUTION LTD.

	2017	2016
	\$	\$
Share of net income	162,809	217,336
Dividends received	(101,000)	(101,000)
Share of comprehensive income (loss)	61,809	116,336
	(7,553)	(2,530)
	54,256	113,806

TAY HYDRO INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

9. INCOME TAXES

For income tax purposes, the Company and its subsidiary have losses carried forward from prior years which can be applied to reduce future years' taxable income. These losses have not been recognized in the financial statements and expire as follows:

	\$
2029	968
2030	8,827
2031	5,858
2032	5,066
2036	2,312
	<hr/> 23,031 <hr/>

10. CAPITAL DISCLOSURES

The Company's primary objective when managing capital is to address the expectations of the Company's shareholder, the Township of Tay. The expectation is that the Company will maintain a prudent financial structure in order to safeguard the Company's assets and to provide adequate returns for its shareholders and benefits to the stakeholders.

11. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash and accounts receivable, which will result in future cash receipts, as well as due to related party and long-term debt which will result in future cash outflows.

The Company does not believe that it is exposed to significant liquidity, market, price, interest rate, credit or foreign exchange risk.

FINANCIAL STATEMENTS OF

**NEWMARKET-TAY POWER
DISTRIBUTION LTD.**

December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Newmarket-Tay Power Distribution Ltd.

Report on the Financial Statements

We have audited the accompanying financial statements of Newmarket-Tay Power Distribution Ltd., which comprise the statement of financial position as at December 31, 2017, and the statements of changes in equity and accumulated other comprehensive income, income, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Newmarket-Tay Power Distribution Ltd. as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Collins Barrow Kawartha LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
March 28, 2018

NEWMARKET-TAY POWER DISTRIBUTION LTD.

STATEMENT OF FINANCIAL POSITION

As at December 31, 2017

	2017	2016
	\$	\$
ASSETS		
Current assets		
Cash	10,381,961	9,691,630
Accounts receivable	11,914,842	14,098,270
Inventories (note 4)	858,956	875,151
Prepaid expenses	281,898	483,259
Income taxes receivable	676,424	1,188,748
Unbilled revenue	8,767,090	11,366,577
	32,881,171	37,703,635
Non current		
Property, plant and equipment (note 5)	96,737,276	94,961,237
Intangible assets (note 6)	997,723	435,759
Deferred income taxes (note 7)	2,466,971	2,902,055
Refundable deposit (note 26)	1,000,000	-
	101,201,970	98,299,051
	134,083,141	136,002,686
Regulatory deferral account debit balances and related deferred tax (note 8)	4,616,388	3,165,881
	138,699,529	139,168,567

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.

STATEMENT OF FINANCIAL POSITION

As at December 31, 2017

	2017	2016
	\$	\$
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	12,823,488	14,464,692
Current portion of long-term debt (note 10)	657,006	641,184
Current portion of deposits held (note 11)	498,000	690,000
	<u>13,978,494</u>	<u>15,795,876</u>
Non current		
Long-term debt (note 10)	28,818,886	29,475,892
Contributed capital (note 12)	31,358,906	30,660,427
Advances from parent company (note 14)	2,636,879	2,553,645
Deposits held (note 11)	3,343,159	2,317,478
Employee future benefits (note 13)	1,047,729	876,508
	<u>67,205,559</u>	<u>65,883,950</u>
	<u>81,184,053</u>	<u>81,679,826</u>
Shareholders' equity		
Share capital (note 15)	27,140,206	27,140,206
Retained earnings	21,551,925	20,663,101
Accumulated other comprehensive income	32,941	140,871
	<u>48,725,072</u>	<u>47,944,178</u>
	129,909,125	129,624,004
Regulatory deferral account credit balances and related deferred tax (note 8)	<u>8,790,404</u>	<u>9,544,563</u>
	<u>138,699,529</u>	<u>139,168,567</u>

Approved on behalf of the Board

_____ Director

_____ Director

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.
STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME
For the year ended December 31, 2017

	Share capital \$	Retained earnings \$	Accumulated other comprehensive income \$	Total \$
Balance, December 31, 2015	27,140,206	18,995,343	177,006	46,312,555
Net income for the year	-	3,104,758	-	3,104,758
Other comprehensive loss	-	-	(36,135)	(36,135)
Dividends paid	-	(1,437,000)	-	(1,437,000)
Balance, December 31, 2016	27,140,206	20,663,101	140,871	47,944,178
Net income for the year	-	2,325,824	-	2,325,824
Other comprehensive loss	-	-	(107,898)	(107,898)
Dividends paid	-	(1,437,000)	-	(1,437,000)
Balance, December 31, 2017	27,140,206	21,551,925	32,941	48,725,072

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.

STATEMENT OF INCOME

For the year ended December 31, 2017

	2017	2016
	\$	\$
Revenue		
Distribution revenue	15,108,008	15,590,556
Cost of power revenue	74,225,796	85,691,103
	89,333,804	101,281,659
Cost of power purchased	77,747,796	83,265,219
	11,586,008	18,016,440
Gross profit		
Other income (note 16)	1,219,972	1,290,139
	12,805,980	19,306,579
Gross income from operations		
Expenses		
Amortization	3,598,756	3,668,457
Operating expenses (note 17)	9,398,125	7,746,454
Loss (gain) on disposal of property, plant and equipment	(23,480)	24,234
	12,973,401	11,439,145
Income (loss) before undernoted items and income taxes	(167,421)	7,867,434
Finance income (note 18)	(322,760)	(405,554)
Finance costs (note 18)	1,602,606	1,561,723
Income (loss) before income taxes and net movement in regulatory deferral accounts, net of deferred tax	(1,447,267)	6,711,265
Provision for income taxes (note 7)		
Current	823,576	611,252
Deferred	473,987	569,371
	1,297,563	1,180,623
Income (loss) before net movement in regulatory deferral accounts, net of deferred tax	(2,744,830)	5,530,642
Net movement in regulatory deferral accounts, net of deferred tax	5,070,654	(2,425,884)
Net income for the year	2,325,824	3,104,758

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2017

	2017	2016
	\$	\$
Net income for the year	2,325,824	3,104,758
Comprehensive loss		
Actuarial loss, not reclassified to net income	(146,800)	(49,163)
Actuarial loss related deferred income tax not reclassified to net income	38,902	13,028
Comprehensive loss	(107,898)	(36,135)
Net income and comprehensive income (loss) for the year	2,217,926	3,068,623

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

	2017	2016
	\$	\$
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	2,325,824	3,104,758
Items not affecting cash		
Amortization of property, plant and equipment	3,678,454	3,496,627
Amortization of intangible asset	175,389	171,830
Deferred income taxes	473,987	569,371
Loss (gain) on disposal of property, plant and equipment	(23,480)	24,234
Change in employee future benefits	24,388	14,228
Current income tax	823,576	611,252
Net finance costs	1,279,846	1,156,169
Recognition of contributed capital	(707,028)	(599,543)
	8,050,956	8,548,926
Change in non-cash working capital items (note 19)	4,204,456	(429,563)
	12,255,412	8,119,363
Investing activities		
Purchase of property, plant and equipment	(5,454,493)	(9,887,842)
Proceeds on disposal of property, plant and equipment	23,480	481,508
change in regulatory deferral accounts	(2,204,666)	2,425,884
Purchase of intangible assets	(737,353)	(62,151)
Refundable deposit	(1,000,000)	-
Proceeds of contributed capital	1,405,507	6,438,453
	(7,967,525)	(604,148)
Financing activities		
Repayment of long-term debt	(641,184)	(1,625,745)
Advances from parent company	83,234	80,635
Interest paid	(1,602,606)	(1,561,723)
Dividends paid	(1,437,000)	(1,437,000)
	(3,597,556)	(4,543,833)
Increase in cash	690,331	2,971,382
Cash - beginning of year	9,691,630	6,720,248
Cash - end of year	10,381,961	9,691,630

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

1. NATURE OF OPERATIONS

Newmarket-Tay Power Distribution Ltd. (the "Company") is a subsidiary of Newmarket Hydro Holdings Inc. and was formed as a result of the amalgamation of Newmarket Hydro Ltd. and Tay Hydro Electric Distribution Company Inc. on May 1, 2007. Tay Hydro Inc. has a 7% non-controlling interest in the Company. The address of its registered office and its principal place of business is 590 Steven Ct, Newmarket, ON L3Y 6Z2.

The principal activity of the Company is to distribute electricity to the residents and businesses in the Town of Newmarket and the Township of Tay under licence issued by the Ontario Energy Board (OEB). The Company is regulated by the OEB and adjustments to its distribution rates require OEB approval.

2. STATEMENT OF COMPLIANCE

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

The financial statements for the year ended December 31, 2017 were approved and authorized for issue by the board of directors on March 28, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with International Financial Reporting Standards. The significant policies are detailed as follows:

(a) Basis of measurement

The financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at their fair values, as explained in the relevant accounting policies.

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

(b) Electricity regulation

The Company is licensed and regulated by the Ontario Energy Board (OEB). The OEB is charged with the responsibility of approving rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The following regulatory policy is practiced in a rate regulated environment:

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(b) *Electricity regulation, continued*

Regulatory accounts

Regulatory accounts represent future revenue or expenses incurred in the current or prior periods that are expected to be recovered (repaid) through the rate setting process.

These assets and liabilities include various rate and retail variance accounts which arise from differences in amounts billed to customers (based on regulated rates) and the actual cost of electricity services to the Company. These amounts are accumulated for accounting purposes because it is probable that they will be recovered (repaid) in future rates. The Company continually assesses the likelihood of the recovery of regulatory assets and likelihood of repayment of regulatory liabilities. If recovery or repayment is no longer considered probable, the amounts are charged to operations in the year the assessment is made.

Regulatory accounts recognized at December 31, 2017 and December 31, 2016 are disclosed in note 8.

(c) *Revenue recognition*

Service revenue is measured based on the OEB approved rate and the meter readings for customer usage, net of sales tax and debt retirement charge. Service revenue also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is recognized as electricity is delivered and consumed by customers and measured.

Cost of power revenue is recorded on the basis of the power billed by the Independent Electricity System Operator.

Contributed capital represent certain items of property, plant and equipment which are acquired or constructed with financial assistance in the form of contributions from developers. Such contributions, whether in cash or in-kind, are recognized as contributions in aid of construction and amortized into income over the life of the related assets. Contributions in aid of construction in-kind are valued at their fair value at the date of their contribution.

Revenues related to Conservation and Demand Management ("CDM") agreements with the Independent Electricity System Operator ("IESO") are recognized on a net basis. Performance fees are recognized as CDM programs are delivered.

Other operating revenue is recorded when services are provided.

(d) *Cash*

Cash consists of balances with financial institutions.

(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.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset or its development when those costs are necessarily incurred for the asset to function in the manner intended by management. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

All assets having limited useful lives are depreciated using the straight-line or declining balance method over their estimated useful lives. Assets are depreciated from the date of acquisition. Internally constructed assets are depreciated from the time an asset is capable of operating in the manner intended by management.

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

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

The depreciation rates applicable for each class of asset are calculated on a straight line basis as follows:

Buildings	25-30 years
Distribution equipment	10-50 years
Transportation equipment	5-10 years
Office and other	5-10 years

(g) Intangible assets

Intangible assets include computer software and land rights. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. The useful lives of the intangibles are as follows:

Computer software	3-5 years straight-line
Land rights	30 years straight-line

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software, (expenditure relating to patches and other minor updates as well as their installation), are expensed as incurred.

Land rights are capitalized based on the payments made for easements, right of access and right of use over land for which the Company does not hold title. Land rights are measured at cost less accumulated amortization and accumulated impairment losses.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(h) *Contributed capital*

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

(i) *Impairment of non-financial assets*

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(j) Related parties

Related party transactions are in the normal course of operations and have been measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Details of related party transactions and balances are disclosed in note 14.

(k) Employee future benefits

The Company accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi employer public sector pension fund, as a defined contribution plan. Both participating employers and employees are required to make plan contributions based on the participating employees' contributory earnings. The Company recognizes the expense related to this plan as contributions are made. No liability has been established for this plan.

The Company pays certain medical and life insurance benefits on behalf of its retired employees. These plans are not funded and accordingly have no plan assets. The Company's net obligation is calculated by estimating the amount of future benefits that are expected to be paid out discounted to determine its present value. This calculation is actuarially performed using the projected unit credit method. The last full valuation performed was as at December 31, 2017. Service costs are recognized in the Statement of Income in operating expenses, and include current and past service costs as well as gains and losses on curtailment. Net interest expense is included in finance costs.

Details related to the post-employment benefits are detailed in note 13.

(l) Income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes (PILS) to the Ontario Electricity Financial Corporation (OEFEC). Deferred income taxes are calculated using the liability method of tax accounting. In providing for income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as deferred income taxes. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate deferred income taxes. Additional details related to the calculation and method of accounting for PILS is included in note 7.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(m) Significant accounting estimates and judgements

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant accounting estimates, judgements and assumptions include the following:

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

Payment in lieu of taxes payable - The company is required to make payments in lieu of taxes calculated on the same basis as income taxes on taxable income earned. Significant judgement is required in determining the provision and liability or asset for income taxes. Changes in deferred taxes may be required due to changes in future tax rates.

Employee future benefits - The cost of providing certain health, dental and life insurance benefits on behalf of its retired employees are determined using actuarial valuations. The actuarial valuation uses managements assumptions which have been outlined in note 13.

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

(n) Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Some of the Company's assets may have provision obligations. As the Company expects to use the majority of its fixed assets for an indefinite period, no removal costs can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations has not been made at this time.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(o) *Financial instruments*

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

Financial assets at fair value through profit or loss

The Company has classified cash as a financial asset at fair value through profit or loss. Any gain/loss arising as a result of the difference between the carrying amount and fair value is recognized in total comprehensive income.

Financial instruments at fair value through profit or loss are subsequently measured at their fair value.

Loans and receivables

The Company has classified accounts receivable and due from related parties as loans and receivables.

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

Financial liabilities measured at amortized cost

The Company has classified accounts payable and accruals, and due to related parties as financial liabilities measured at amortized cost.

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

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES, continued

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

Effective for annual periods beginning on or after January 1, 2018

IFRS 9 Financial Instruments: Recognition and Measurement (new) – modifies IAS 39 eliminating categories and redefines gain and loss re-measurement.

IFRS 15 Revenue from Contracts with Customers: The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard contains enhanced disclosures about revenue and provides guidance for transactions that were not previously addressed comprehensively.

Effective for annual periods beginning on or after January 1, 2019

IFRS 9 Financial Instruments was amended by the IASB in October 2017. Amendments allow companies to measure particular pre-payable financial assets with so-called negative compensation at amortized cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. Earlier application is permitted.

IFRS 16 replaces IAS 17 Leases and brings leases onto companies' balance sheets, increasing the visibility of their assets and liabilities. IFRS 16 removes the classification of leases as either operating or finance leases for the lessee treating all leases as finance leases. Short term and low value assets are exempt from these requirements.

The Company is currently assessing the impact that the standards will have on the statements.

4. INVENTORIES

Inventory recognized in cost of sales during the year amounted to \$12,893 (2016 - \$29,920).

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

5. PROPERTY, PLANT AND EQUIPMENT

	Land and building \$	Distribution equipment \$	Transportation equipment \$	Office and other \$	Total \$
Cost					
At December 31, 2016	5,753,667	96,257,378	1,446,777	1,261,232	104,719,054
Additions	12,337	4,519,649	138,083	784,424	5,454,493
At December 31, 2017	5,766,004	100,777,027	1,584,860	2,045,656	110,173,547
Amortization					
At December 31, 2016	27,069	8,348,700	591,468	790,580	9,757,817
Additions	9,112	3,228,390	275,321	165,631	3,678,454
At December 31, 2017	36,181	11,577,090	866,789	956,211	13,436,271
Net book value at December 31, 2017	5,729,823	89,199,937	718,071	1,089,445	96,737,276
	Land and building \$	Distribution equipment \$	Transportation equipment \$	Office and other \$	Total \$
Cost					
At January 1, 2016	6,113,525	86,926,308	1,173,889	1,173,654	95,387,376
Additions	105,732	9,421,644	272,888	87,578	9,887,842
Disposals	(465,590)	(90,574)	-	-	(556,164)
At December 31, 2016	5,753,667	96,257,378	1,446,777	1,261,232	104,719,054
Amortization					
At January 1, 2016	17,986	5,326,961	379,120	587,545	6,311,612
Additions	9,083	3,072,161	212,348	203,035	3,496,627
Disposals	-	(50,422)	-	-	(50,422)
At December 31, 2016	27,069	8,348,700	591,468	790,580	9,757,817
Net book value at December 31, 2016	5,726,598	87,908,678	855,309	470,652	94,961,237

Included in distribution equipment additions is amortization expense of \$255,087.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

6. INTANGIBLE ASSETS

	Cost \$	Accumulated amortization \$	2017 Net book value \$
Computer software	1,413,910	753,635	660,275
Land rights	400,375	62,927	337,448
	1,814,285	816,562	997,723

	Cost \$	Accumulated amortization \$	2016 Net book value \$
Computer software	676,574	593,985	82,589
Land rights	400,358	47,188	353,170
	1,076,932	641,173	435,759

During the year, the Company had additions of \$737,353 (2016 - \$62,151) and amortization of \$175,389 (2016 - \$171,830).

7. INCOME TAXES

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

	2017 \$	2016 \$
Deferred income tax asset		
Tax basis of property, plant and equipment in excess of carrying amount	2,189,320	2,452,184
Reserves deductible when paid	277,651	232,275
Cumulative eligible capital available for tax purposes	-	217,596
	2,466,971	2,902,055

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

7. INCOME TAXES, continued

	Opening balance at January 1, 2017 \$	Recognize in net income \$	Recognize in OCI \$	Closing balance at December 31, 2017 \$
Deferred tax assets				
Property, plant and equipment and cumulative eligible capital	2,669,781	(480,461)	-	2,189,320
Reserves deductible when paid	232,275	6,474	38,902	277,651
	<u>2,902,055</u>	<u>(473,987)</u>	<u>38,902</u>	<u>2,466,971</u>
			2017 \$	2016 \$
Deferred tax assets to be recovered after more than 12 months			2,466,971	2,902,055

(b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 39.5% (2016 - 39.5%) to the income (loss) for the years as follows:

	2017 \$	2016 \$
Income (loss) for the year before income taxes	(1,447,267)	6,711,265
Net movement in regulatory deferral accounts	3,522,000	(2,425,884)
	<u>2,074,733</u>	<u>4,285,381</u>
Anticipated income tax	819,520	1,692,725
Tax effect of the following:		
Permanent expense differences	230,026	5,925
Other comprehensive income	(57,986)	(19,420)
General rate reduction	131,523	(552,658)
Impact of tax rate change and other	174,480	54,051
Provision for income taxes	<u>1,297,563</u>	<u>1,180,623</u>

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

8. REGULATORY DEFERRAL ACCOUNTS

All amounts deferred as regulatory deferral account debit balances are subject to approval by the OEB. As such, amounts subject to deferral could be altered by the regulators. Remaining recovery periods are those expected and the actual recovery or settlement periods could differ based on OEB approval. Due to previous, existing or expected future regulatory articles or decisions, the Company has the following amounts expected to be recovered in future periods which are comprised of the following:

	Note	Remaining recovery/ reversal period (years)	December 31, 2016 \$	Net balances arising in the period \$	Recovered in the period \$	December 31, 2017 \$
Regulatory deferral account debit						
RSVA debit						
balance	i	A	2,951,323	3,522,000	(4,048,237)	2,425,086
Other	ii	A	93,250	(93,250)	-	-
Deferred tax						
debit						
balance	iii	A	121,308	2,069,994	-	2,191,302
			3,165,881	5,498,744	(4,048,237)	4,616,388
Regulatory deferral account credit						
RSVA credit						
balance	i	A	1,586,368	(1,586,368)	-	-
Recovery						
Account	iv	A	506,050	2,678	-	508,728
Other	ii	A	-	111,506	-	111,506
IFRS						
Conversion	v	1	7,452,145	(1,471,903)	1,668,588	7,648,830
Deferred tax						
credit						
balance	iii	A	-	521,340	-	521,340
			9,544,563	(2,422,747)	1,668,588	8,790,404

(A) These amounts are expected to reverse when the company submits their next cost of service filing which is anticipated to be within the next four years.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

8. REGULATORY DEFERRAL ACCOUNTS, continued

(i) RSVA variances represent the variances between the amounts charged by the company to its customers, and the amounts paid by the company to the Independent Electricity System Operator ("IESO") and Hydro One for the cost of energy. The settlement variances include network and connection service charges, energy sales and the global adjustment. The balance for settlement variances continue to be calculated and carrying charges are recorded on a monthly basis.

(ii) Other Deferral Accounts include debit and credit balances in other regulatory assets, including Lost Revenue Adjustment Mechanism variances, Smart Metering Entity Charge variances, Retail Cost variances, IFRS transition expenditures, payments in lieu of taxes and Smart Meter expenditures. The costs incurred in these deferral accounts have been captured for future recovery or settlement. Carrying charges are recorded monthly on the opening balances.

(iii) Deferred tax on the regulatory balances that will ultimately be recovered from/paid back to its customers.

(iv) Recovery Accounts are used to record the disposition of deferral and variance account balances that have been approved by the OEB. The variances are to be recovered or settled when the company submits their next Cost of Service filing.

(v) In 2012, the Company adjusted the estimated useful life related to the amortization period for certain capital assets, based upon the Ontario Energy Board's regulatory accounting direction as contained in the revised 2012 Accounting Procedures Handbook for Electricity Distributors. As a result of OEB direction related to the settlement of these amounts, the company has recorded a payable in the deferral account of \$7,648,830 (2016 - \$7,452,145).

In 2017, the Company was approved through its annual Incentive Regulation Mechanism (IRM) application to the OEB for the settlement of the 2015 balance. The Company is expected to have the remainder of the balance approved for settlement through their 2018 IRM and the amount will be refunding its respective customers by class over a one year period. This balance also includes \$611,972 of carrying charges based on the Company's weighted average cost of capital.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
	\$	\$
Accounts payable - purchased power	5,201,533	7,568,563
Other trade accounts payable and accrued liabilities	3,239,529	3,816,859
Water and sewer billings payable (note 14)	2,606,698	2,002,034
Credits on customer accounts	1,482,348	762,862
Conservation demand management programs	293,380	314,374
	12,823,488	14,464,692

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

10. LONG-TERM DEBT

	2017	2016
	\$	\$
Note payable, 5.48% - Town of Newmarket	22,000,000	22,000,000
Note payable, 5.48% - Township of Tay	1,742,821	1,742,821
Bank loan payable, 2.44% fixed rate, payable in blended monthly payments of \$65,742	5,733,071	6,374,255
	29,475,892	30,117,076
Less principal payments due within one year	657,006	641,184
Due beyond one year	28,818,886	29,475,892
Estimated principal repayments are as follows:		
		\$
2018		657,006
2019		673,217
2020		4,402,848
Unspecified (A)		23,742,821
		29,475,892

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

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

11. DEPOSITS HELD

Deposits held represent cash deposits from electricity distribution customers and retailers, as well as construction deposits.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

Construction Deposits represent cash payments from developers in order to secure the performance of the developer's obligations under the Construction Agreement for Expansion Facilities and Connection Assets Supplied by Developer - Residential Subdivision (The Construction Agreement).

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

11. DEPOSITS HELD, continued

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

	December 31, 2017 \$	December 31, 2016 \$
<u>Current portion of customer deposits</u>	<u>498,000</u>	<u>690,000</u>
Customer deposits	2,322,251	2,022,758
Construction deposits	1,020,908	294,720
	<u>3,343,159</u>	<u>2,317,478</u>

12. CONTRIBUTED CAPITAL

	December 31, 2017 \$	December 31, 2016 \$
Deferred contributions, net, beginning of year	30,660,427	24,821,517
Contributed capital received	1,405,507	6,438,453
Contributed capital recognized as revenue (note 16)	(707,028)	(599,543)
	<u>31,358,906</u>	<u>30,660,427</u>

13. EMPLOYEE FUTURE BENEFITS

The Company provides certain health, dental and life insurance benefits for retired employees pursuant to the Company's policy. The accrued benefit obligation and net periodic expense for the year were determined by an actuarial valuation. The most recent valuation was performed for December 31, 2017.

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

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

13. EMPLOYEE FUTURE BENEFITS, continued

	2017	2016
	\$	\$
Accrued benefit obligation, beginning of year	876,508	813,117
Current service cost	38,200	30,900
Interest expense	33,300	33,877
Benefits paid	(47,079)	(50,549)
Actuarial loss	146,800	49,163
	1,047,729	876,508

Current service costs and interest on accrued benefit obligation are recognized in the statement of income. Actuarial losses arising from changes in financial assumptions are accounted for in other comprehensive income. The total benefit costs for the year is \$218,300 (2016 - \$113,940).

The actuarial assumptions used in the valuation are the discount rate of 3.4% (2016 - 3.9%), salary increase rate of 2.8% (2016 - 2.5%), cost trend including health benefits of 6.20% (2016 - 5.75%) and dental benefits 4.5% (2016 - 4.5%) and retirement age of 65 (2016 - 61). The health benefits are expected to decrease at 0.25% per year until 2023 when it reaches 4.50% and dental benefits will remain at 4.50% to 2023.

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

	Reasonable possible change	Defined benefit obligation change	Difference	Difference
		\$	\$	%
Discount rate	+1%	918,400	(129,300)	(12)
Discount rate	-1%	1,214,000	166,300	16
Cost trends	+1%	1,082,700	35,000	3
Cost trends	-1%	1,015,600	(32,100)	(3)

14. RELATED PARTY TRANSACTIONS AND ADVANCES FROM PARENT COMPANY

- (a) The Company entered into transactions with its majority parent, Newmarket Hydro Holdings Inc. (NHHI) and with The Town of Newmarket which is the sole shareholder of Newmarket Hydro Holdings Inc. Revenue charged during the year included energy, street light capital and street light maintenance charged at commercial rates to the Town of Newmarket.

Included in accounts payable (note 9) are water and sewer amounts collected which are due to the Town. These amounts are collected and remitted in accordance with a contract with URB Olameter and remitted on their behalf.

Included in long-term debt (note 10) are notes payable to related parties.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

14. RELATED PARTY TRANSACTIONS, continued

(b) Transactions

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

	2017	2016
	\$	\$
Revenue		
Energy sales	2,035,574	3,146,105
Services - Street light capital	25,770	25,491
Services - Street light maintenance	59,268	52,452
	<u>2,120,612</u>	<u>3,224,048</u>
Expenses		
Interest	1,205,600	1,205,600
Rent and property tax	424,988	409,040
	<u>1,630,588</u>	<u>1,614,640</u>

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

	2017	2016
	\$	\$
Accounts receivable	<u>310,627</u>	<u>343,581</u>

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

	2017	2016
	\$	\$
Newmarket Hydro Holdings Inc.	<u>2,636,879</u>	<u>2,553,645</u>

Advances from the parent company, Newmarket Hydro Holdings Inc. includes promissory notes in the amount of \$2,153,000 (2016 - \$2,153,000) which are due March 16, 2019. The remainder of the balance has no specific terms of repayment. As the parent company has confirmed they will not request repayment of this amount during the next fiscal year, the amount has been classified as a non-current liability in the financial statements.

The balances are unsecured and bear interest at the OEB deemed debt rate of 5.48% for 2017 (2016 - 5.48%).

The key management personnel of the Company has been defined as members of its board of directors and supervisory personnel. The compensation is comprised of director's fees, management salaries and wages, short-term employee benefits and post employment benefits totaling \$2,136,294 (2016 - \$1,824,148).

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

15. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued

	2017	2016
	\$	\$
Common shares	27,140,206	27,140,206

16. OTHER INCOME

Other income consists of the following:

	2017	2016
	\$	\$
Account set up fees	121,290	134,914
Pole rentals	137,535	141,015
Collection charges	133,932	247,871
Recognition of contributed capital (note 12)	707,028	599,543
Other	120,187	166,796
	1,219,972	1,290,139

17. OPERATING EXPENSES

Operating expenses consist of the following:

	2017	2016
	\$	\$
Wages and benefits	5,240,562	4,740,253
Materials, equipment and other operating expenses	3,133,288	2,010,880
Administration and overhead	1,024,275	995,321
	9,398,125	7,746,454

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

18. FINANCE INCOME AND FINANCE COSTS

Finance income recognized in net income consists of the following:

	2017	2016
	\$	\$
Interest income on accounts receivable	213,640	306,201
Income on cash balance	109,120	99,353
	322,760	405,554

Finance costs recognized in net income consists of the following:

	2017	2016
	\$	\$
Interest on long-term debt	1,569,558	1,589,377
Customer deposit interest	33,048	25,087
Gain on short-term investments	-	(52,741)
	1,602,606	1,561,723

19. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2017	2016
	\$	\$
Decrease in short-term investments	-	3,410,393
Decrease (increase) in accounts receivable	2,183,428	(4,891,568)
Decrease in inventories	16,195	238,208
Decrease in prepaid expenses	201,361	9,092
Decrease (increase) in unbilled revenue	2,599,487	(1,528,351)
Increase (decrease) in accounts payable and accrued liabilities	(1,641,204)	3,217,535
Increase (decrease) in deposits held	833,681	(181,786)
Interest received	322,760	405,554
Taxes paid	(1,500,000)	(1,800,000)
Taxes received	1,188,748	691,360
	4,204,456	(429,563)

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

20. SHORT TERM CREDIT FACILITIES

The Company has \$4,000,000 available in operating facilities from a major chartered bank. The facilities include a 364 day revolving operating loan, bearing interest at prime plus 0.5%, to be repaid within one year from date of acquisition unless extended by the bank. A commitment fee of 0.125% per annum, payable quarterly applies to any unused portion of the facility. As at December 31, the Company has no balance outstanding (2016 - Nil) on this facility. The operating loan includes restrictive clauses with respect to repayment.

The Company has provided prudential support in the amount of \$2,765,940 to the Independent Electricity System Operator. The prudential support is secured by a letter of credit with a major chartered bank for \$2,765,940, contains restrictive clauses with respect to debt repayments and bears interest at 0.5% per annum.

A general security agreement covering all assets of the Company and assignment of business/liability insurance has been pledged as security for the operating facilities. At December 31, 2017, the Company was in compliance with all covenants.

21. PENSION AGREEMENT

The Company makes contributions to the Ontario Municipal Employees' Retirement Fund (O.M.E.R.S.), which is a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on the length of service and rates of pay.

The amount contributed to O.M.E.R.S. for the year ended was \$423,036 (2016 - \$410,721).

22. CAPITAL DISCLOSURES

The Company's primary objective when managing capital is to address the expectations as provided in the Shareholder Agreement between the Company's parent company, Newmarket Hydro Holdings Inc. and its shareholder, the Town of Newmarket. The expectation is that the Company will maintain a prudent financial structure in order to safeguard the Company's assets and to provide adequate returns for its shareholders and benefits to the stakeholders.

Changes to the Company's capital structure are constrained by existing covenants contained in the banking agreement. The Company must maintain a maximum debt to capitalization ratio of 0.60 to 1 and maintain a debt service coverage ratio of 1.2. As at year end the Company is compliant with these covenants.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

23. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash, accounts receivable and unbilled revenue which will result in future cash receipts, as well as accounts payable and accrued liabilities, deposits held, advances from parent company and long-term debt which will result in future cash outflows.

The Company does not believe that it is exposed to significant foreign exchange risk.

The Company is exposed to the following risks in respect of certain financial instruments held:

(a) *Interest rate risk*

The Company manages exposure to interest rate risk through a combination of fixed and floating rate borrowings. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent that the floating rate credit facility bears interest at a floating rate. The Company is also exposed to interest rate price risk to the extent that loans bear interest at fixed rates and has entered into an interest rate swap arrangement to manage the impact of fluctuating interest rates on bank loan payable. The swaps require the periodic exchange of interest payments without the exchange of the notional principal amount on which the payments are based (notes 10 and 14).

(b) *Credit risk*

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers located in the service area. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of related impairment loss is recognized in the statement of income. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2017 is \$80,360 (2016 - \$92,132). The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has approximately 28,000 customers, the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2017, the Company holds security deposits in the amount of \$3,841,159 (2016 - \$3,007,478). The Company's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk. The accounts receivable balance is expected to be fully repaid within 90 days excluding the allowance for doubtful accounts portion of the balance.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

23. FINANCIAL INSTRUMENTS, continued

(c) Liquidity risk

The Company does have a liquidity risk in accounts payable and accrued liabilities of \$12,823,488 (2016 - \$14,464,695). Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate line of credit to repay trade creditors and repays long-term debt interest and principal as they become due. In the opinion of management the liquidity risk exposure to the Company is low and is not material.

	Between 0 -3 Months \$	Between 4 - 12 months \$	Over 1 year \$
Accounts payable and accrued liabilities	12,823,488	-	-
Deposits held	125,000	373,000	3,343,159
Long-term debt	162,753	494,253	28,818,886
Employee future benefits	-	-	1,047,729
Advances from parent company	-	-	2,636,879
	13,111,241	867,253	35,846,653

24. COMMITMENT

The Company is in negotiations with the Town of Newmarket on a new lease agreement for the building which was not finalized as of the report date.

25. CONTINGENT LIABILITIES

(a) In the normal course of business, the Company enters into agreements that meet the definition of a guarantee. The guarantees include indemnities under lease agreements, purchase and sale agreements, confidentiality agreements, outsourcing, service and information agreements. The nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability related to the likelihood and predictability of future events. Historically, the Company has not made any significant payments under similar indemnification agreements and therefore no amount has been accrued in the statement of financial position with respect to these agreements.

(b) Indemnity has been provided to all directors and/or officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential suits or actions. The amount of any potential future liability which exceeds the amount of insurance coverage cannot reasonably be determined.

(c) The Company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the Company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual losses, claims and costs experienced.

NEWMARKET-TAY POWER DISTRIBUTION LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

26. REFUNDABLE DEPOSIT

As at December 31, 2017, the Company has paid a \$1,000,000 fully refundable deposit relating to the potential purchase of shares of another Local Distribution Company. Negotiations are still on going and are expected to conclude in 2018.

27. COMPARATIVE FIGURES

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

**FINANCIAL STATEMENTS OF
TAY UTILITY CONTRACTING INC.
December 31, 2017
(Unaudited - see Notice to Reader)**

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NOTICE TO READER

On the basis of information provided by the company, we have compiled the balance sheet of Tay Utility Contracting Inc. as at December 31, 2017 and the statement of income and retained earnings for the year then ended.

We have not performed an audit or a review engagement in respect of these financial statements and, accordingly, we express no assurance thereon.

Readers are cautioned that these statements may not be appropriate for their purposes.

Collins Barrow Kawarthas LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
April 11, 2018

TAY UTILITY CONTRACTING INC.

BALANCE SHEET

(Unaudited - see Notice to Reader)

As at December 31, 2017

	2017	2016
	\$	\$
ASSETS		
Current assets		
Cash	25,035	24,887
Accounts receivable	27	17
	<u>25,062</u>	<u>24,904</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Note payable	9,910	9,910
Income taxes payable	7,112	-
Due to related party	-	66,141
	<u>17,022</u>	<u>76,051</u>
Shareholders' equity (deficit)		
Share capital	100	100
Retained earnings (deficit)	7,940	(51,247)
	<u>8,040</u>	<u>(51,147)</u>
	<u>25,062</u>	<u>24,904</u>

TAY UTILITY CONTRACTING INC.
STATEMENT OF INCOME AND RETAINED EARNINGS
(Unaudited - see Notice to Reader)
For the year ended December 31, 2017

	2017	2016
	\$	\$
Revenue		
Other income	66,536	-
Interest income	249	198
	<u>66,785</u>	<u>198</u>
Expenses		
Bad debts	90	-
Operations and administration	396	547
	<u>486</u>	<u>547</u>
Income (loss) before income taxes	66,299	(349)
Income taxes	7,112	-
Net income (Net loss) for the year	59,187	(349)
Deficit - beginning of year	(51,247)	(50,898)
Retained earnings (deficit) - end of year	<u>7,940</u>	<u>(51,247)</u>