FINANCIAL STATEMENTS OF

PETERBOROUGH DISTRIBUTION INC.

December 31, 2015

TABLE OF CONTENTS

Collins Barrow
Chartered Accountants

Collins Barrow Kawarthas LLP
272 Charlotte Street
Peterborough, Ontario
K9J 2V4

T. 705.742.3418
F. 705.742.9775

www.collinsbarrowkawarthas.com

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Peterborough Distribution Inc.

We have audited the accompanying consolidated financial statements of Peterborough Distribution Inc., which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statements of income, comprehensive income, changes in equity 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 auditors consider internal controls 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 controls. 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 Peterborough Distribution Inc. as at December 31, 2015, 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
April 7, 2016

PETERBOROUGH DISTRIBUTION INC.
STATEMENT OF FINANCIAL POSITION

As at December 31, 2015
($s in thousands)

	2015 $	2014 $
ASSETS		
Current assets		
Cash	2,167	4,035
Accounts receivable	6,652	7,069
Unbilled revenue on customer accounts	10,730	9,426
Income taxes recoverable	-	235
Inventories (note 4)	1,125	988
Prepaid expenses	83	190
	20,757	21,943
Other assets		
Property, plant and equipment (note 5)	74,755	70,308
Deferred tax assets (note 14)	2,329	2,453
	77,084	72,761
Regulatory assets (note 6)	4,212	5,388
	102,053	100,092

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
STATEMENT OF FINANCIAL POSITION

As at December 31, 2015
($s in thousands)

	2015 $	2014 $
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	10,523	13,208
Income taxes payable	77	-
Customer deposits refundable within one year (note 8)	1,080	794
Current portion of long-term debt (note 11)	1,446	1,378
	13,126	15,380
Long-term liabilities		
Customer deposits (note 8)	1,237	1,229
Deferred contributions (note 9)	14,230	12,409
Employee future benefits (note 10)	44	98
Derivative financial instruments	3,210	2,534
Long-term debt (note 11)	39,099	37,545
Due to related parties (note 12)	1,510	1,500
	59,330	55,315
Shareholder's equity		
Share capital (note 13)	21,658	21,658
Accumulated other comprehensive loss (note 19)	(2,350)	(1,853)
Retained earnings	10,172	9,274
	29,480	29,079
Regulatory liabilities (note 6)	117	318
	102,053	100,092

Approved on behalf of the Board

______________ Director ______________ Director

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
STATEMENT OF INCOME

For the year ended December 31, 2015
($s in thousands)

	2015 $	2014 $
Revenue		
Power recovery	95,126	88,576
Distribution	14,154	14,254
Other (note 15)	2,039	1,595
	111,319	104,425
Expenses		
Purchased power	94,151	91,958
Operations and administration (note 16)	8,407	8,719
Amortization (note 5)	3,257	3,039
	105,815	103,716
Income before the undernoted items and income taxes	5,504	709
Net finance costs (note 17)	1,636	1,594
Income (loss) before income taxes and regulatory items	3,868	(885)
Net movement on regulatory deferral accounts	(975)	3,382
Income before income taxes	2,893	2,497
Provision for income taxes (note 14)		
Current	492	422
Deferred	303	150
	795	572
Net income for the year	2,098	1,925

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2015
($s in thousands)

	2015 $	2014 $
Net income for the year	2,098	1,925
Other comprehensive income		
Items that will not be reclassified subsequently to net income		
Employee benefit plan actuarial gains	-	1
Related deferred tax	-	-
Items that will be reclassified subsequently to net income		
Change in fair value of derivative instruments	(676)	(1,553)
Related deferred tax	179	412
Other comprehensive loss for the year	(497)	(1,140)
Total comprehensive income for the year	1,601	785

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2015
($s in thousands)

	Share Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at January 1, 2014	21,658	8,649	(713)	29,594
Net income for the year	-	1,925	-	1,925
Actuarial gain on accrued employee benefit liabilities, net of tax	-	-	1	1
Change in fair value of hedging instruments, net of tax	-	-	(1,141)	(1,141)
Dividends paid	-	(1,300)	-	(1,300)
Balance at December 31, 2014	21,658	9,274	(1,853)	29,079
Balance at January 1, 2015	21,658	9,274	(1,853)	29,079
Net income for the year	-	2,098	-	2,098
Change in fair value of hedging instruments, net of tax	-	-	(497)	(497)
Dividends paid	-	(1,200)	-	(1,200)
Balance at December 31, 2015	21,658	10,172	(2,350)	29,480

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
STATEMENT OF CASH FLOWS

For the year ended December 31, 2015
($s in thousands)

	2015 $	2014 $
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	2,098	1,925
Charges to operations not requiring a current cash payment -		
Amortization	3,257	3,039
Increase (decrease) in employee future liabilities	(54)	1
Net finance costs	1,636	1,594
Recognition of contributed capital	(382)	(340)
Current income tax	492	422
Deferred income tax	303	150
	7,350	6,791
Change in non-cash working capital items (note 18)	(3,602)	4,909
Interest received	144	106
Taxes paid (recovered)	(180)	70
Receipt of deferred contributions	2,203	1,313
Increase in customer deposits	294	208
	6,209	13,397
Investing activities		
Purchase of property, plant and equipment	(7,704)	(6,395)
Decrease (increase) in regulatory assets and liabilities	975	(3,382)
	(6,729)	(9,777)
Financing activities		
Proceeds from long-term debt	3,000	3,500
Advances from related party	10	-
Repayment of long-term debt	(1,378)	(1,313)
Interest paid	(1,780)	(1,700)
Dividends paid	(1,200)	(1,300)
	(1,348)	(813)
Net increase (decrease) in cash	(1,868)	2,807
Cash - beginning of year	4,035	1,228
Cash - end of year	2,167	4,035

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS

Peterborough Distribution Inc. (the "Company") is an electricity distribution company, wholly owned by the City of Peterborough Holdings Inc. which, in turn, is wholly owned by the Corporation of the City of Peterborough. The Company is incorporated and domiciled in Canada with its head and registered office located at 1867 Ashburnham Drive, Peterborough, ON K9J 6Z5. The Company's distribution rates and conditions for providing services are regulated by the Ontario Energy Board (the "OEB").

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements were authorized for issue by the Board of Directors on April 7, 2016.

(b) Basis of measurement

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

(c) Presentation currency

The financial statements are presented in Canadian dollars, which is also the Company's functional currency. All financial information has been rounded to the nearest thousand, except when otherwise noted.

(d) Use of significant estimates and judgments

The preparation of the 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. Actual results may differ from these estimates.

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

Significant judgments and estimates made by the Company are outlined below:

(i) Significant Accounting Judgments

- Property, plant and equipment

  The company makes judgments to assess the nature of the costs to be capitalized in the purchase or construction of an asset; evaluate the appropriate level of componentization where an asset is made up of individual components for which different depreciation methods and useful lives are appropriate; and distinguish major overhauls to be capitalized from repair and maintenance activities to be expensed.

2. BASIS OF PREPARATION, continued

(ii) Significant Estimates and Assumptions

- Useful lives of Property Plant and Equipment

  Depreciation is based on estimates of the useful lives of each significant component of property plant and equipment. Estimated useful lives are determined based on current facts and past experience, and takes into consideration the anticipated physical life of the asset, technological obsolescence, regulations and independent studies conducted by an independent consulting firm.

- Unbilled revenue

  The measurement of unbilled revenue for electric distribution customers 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.

- Measurement of fair value of financial instruments

  As described in Note 22, the Company uses the discounted cash flow model to estimate the fair value of financial instruments for disclosure purposes.

- Measurement of employee future liabilities

  Employee future liabilities are based on certain assumptions arising from an actuarial report performed on behalf of the Company. These assumptions are detailed in note 10.

(e) Accounting for Electricity Regulation

The Company is regulated by the OEB and accounts for the impact of rate regulation by the OEB as follows:

(i) Regulatory Decisions to Adjust Distribution Rates

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset, or creation of a liability, and culminating in an adjustment to Company distribution rates, such occurrences are immediately reflected in the Company's accounts.

(ii) Regulatory Accounting Practice

In the absence of a regulatory decision impacting rates, and where the Company is required by regulatory accounting practice or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. Management assesses the future uncertainty with respect to the final regulatory disposition 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 adjusting distribution rates, the provisions are adjusted to reflect the final impact of the decision and such adjustments are reflected in net income for the period.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Revenue Recognition

a. Electricity Distribution

Revenue attributable to the delivery of electricity is based upon OEB-approved distribution tariff rates and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution charges and any other regulatory charges. Revenue is recognized as electricity is delivered and consumed by customers. Revenue is measured at the fair value of the consideration received or receivable, net of sales tax and debt retirement charges.

b. Deferred Contributions

Certain items of property, plant and equipment are acquired or constructed with financial assistance in the form of contributions from developers ("deferred contributions"). Such contributions, whether in cash or in-kind, are recognized as deferred contributions and amortized into net income over the life of the related assets. Deferred contributions in-kind are valued at their fair value at the date of their contribution.

c. Conservation and Demand Management ("CDM")

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.

d. Other

Other revenues are recognized when the services are rendered.

(b) Financial Instruments

- Non-derivative financial assets

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the settlement date of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES, continued

The Company has the following non-derivative financial assets which it has classified as follows:

• Cash	Loans and receivables
• Accounts receivable	Loans and receivables
• Unbilled revenue	Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

- Non-derivative financial liabilities

The Company initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the settlement date of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities which it has classified as follows:

• Accounts payable and accrued liabilities	Other financial liabilities
• Customer deposits	Other financial liabilities
• Due to related parties	Other financial liabilities
• Long-term debt	Other financial liabilities

Other financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

- Derivative financial instruments and hedge accounting

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 designated as hedges, and therefore any gain or loss, net of tax, is included in other comprehensive income.

(c) Cash

Cash consists of balances with financial institutions.

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(d) Inventories

Inventory consists of distribution system maintenance and construction materials and is valued at the lower of moving average cost and replacement cost. Major spare parts and stand-by equipment are recorded in property, plant and equipment.

(e) Property, plant and equipment

- *Recognition and measurement*

Items of property, plant and equipment ("PP&E") are measured at cost less accumulated depreciation, and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the asset.

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

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

The cost and related accumulated depreciation for identifiable PP&E, such as substations, remain in the accounts until the assets are retired or disposed of at which time any gain or loss is reflected in operations. PP&E which are recorded on a group basis, such as meters, are removed from the accounts only at the end of their estimated service lives.

- *Subsequent costs*

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income as incurred.

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES, continued

- *Depreciation*

Depreciation of PP&E is recognized on a straight-line basis designed to amortize the assets over their estimated useful lives as follows:

Buildings	35 – 50 years
Substations	20 – 45 years
Distribution lines	30 – 60 years
Transformers	35 – 60 years
Meters	15 – 25 years
Other	4 – 5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Work in process assets are not depreciated until the project is complete and ready for use.

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 the item.

(f) Deferred contributions

When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as deferred contributions.

Deferred contributions represent the Company's obligation to continue to provide customers access to the supply of electricity and is amortized to income over the economic useful life of the contributed asset.

(g) Employee benefits

i. O.M.E.R.S.

The Company participates in an industry-wide multi-employer post-employment defined benefit pension plan, the Ontario Municipal Employees Retirement Systems (O.M.E.R.S). Both participating employers and employees are required to make plan contributions based on the employees' contributory earnings. The Company recognizes its employee benefit expense related to this plan as the contributions are made.

ii. Vested sick leave benefits

After five years of service upon retirement or termination, the Company has agreed to pay at the employee's then current pay rate; the lesser of one-half of the employee's accumulated sick leave benefits or 130 days. For those employees who commenced employment on or after April 1, 1982, the amount will not exceed 130 days or the number of years of service prior to April 1, 2007, times six days.

For financial statement purposes the liability is valued at the total of each employee's current vested sick leave hours at current pay rates in accordance with the above formula.

3. SIGNIFICANT ACCOUNTING POLICIES, continued

iii. Employee benefits plans

The Company provides certain health care, dental care, life insurance and other benefits for certain retired employees. These defined benefit plans are not funded. Accordingly, there are no plan assets.

The Company's net obligation in respect of these is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed annually by an independent qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company recognizes all actuarial gains and losses arising from these plans in other comprehensive income during the period in which they occur and all expenses related to defined benefit plans in profit or loss. The actuarial gains and losses are not reclassified to net income in subsequent periods.

iv. Short-term employee benefits

Short-term employee benefit obligations, including accumulating vested sick leave and vacation, are measured on an undiscounted basis using management's best estimates and are expensed as the related service is provided.

(h) Finance income and finance costs

Finance income comprises interest income on funds invested and gains on the disposal of financial assets. Interest income is recognized as it accrues in income, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in comprehensive income using the effective interest method.

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other finance charges that the Company incurs in borrowing funds.

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(i) Corporate income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate income taxes ("PIL's") to Ontario Electricity Financial Corporation ("OEFC"). The payments in lieu of taxes are calculated on a basis as if the Company was a taxable company under the Income Tax Act (Canada).

Corporate income taxes are calculated using the deferred income tax liability and asset method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset and its carrying amount on the statement of financial position are used to calculate deferred tax liabilities or assets. Deferred tax liabilities or assets are measured using tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the year in which the change occurs.

(j) Impairment

- *Financial assets (including receivables)*

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, continued

- *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in income. Impairment losses recognized in respect of CGUs reduce the carrying amounts of the assets in the unit (group of units) on a pro rata basis.

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

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

i. Effective for annual periods beginning on or after July 1, 2016
   - IFRS 14 Regulatory Deferral Accounts: Interim standard permits IFRS adopters to continue to recognize amounts related to rate regulation in accordance with previous GAAP.
   - IAS 1 Presentation of Financial Statements: Amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements.

ii. 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.

The Company has early adopted IFRS 14 for the year ended December 31, 2014 and as such continues to recognize rate regulated activities.

The Company has not early adopted IAS 1, IFRS 9, or IFRS 15 and is currently assessing the impact that the standard will have on the statements.

(in thousands of dollars)

4. INVENTORIES

The amount of inventory consumed by the Company and recognized as an expense during 2015 was $1,409 (2014 - $1,258).

5. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings $	Distribution Lines $	Trans-formers $	Meters & other $	Work in progress $	Total $
Cost or deemed cost						
Balance, Jan 1, 2014	585	38,750	12,175	16,250	2,165	69,925
Additions	118	2,985	1,785	727	5,938	11,553
Transfers	-	-	-	-	(5,156)	(5,156)
Balance, Dec 31, 2014	703	41,735	13,960	16,977	2,947	76,322
Additions	164	6,681	1,279	1,086	6,642	15,852
Transfers	-	-	-	-	(8,148)	(8,148)
Balance, Dec 31, 2015	867	48,416	15,239	18,063	1,441	84,026

	Land and buildings $	Distribution Lines $	Trans-formers $	Meters & other $	Work in progress $	Total $
Accumulated depreciation						
Balance, Jan 1, 2014	10	1,506	448	1,011	-	2,975
Depreciation expense	12	1,569	491	967	-	3,039
Disposals	-	-	-	-	-	-
Balance, Dec 31, 2014	22	3,075	939	1,978	-	6,014
Depreciation expense	15	1,675	579	988	-	3,257
Disposals	-	-	-	-	-	-
Balance, Dec 31, 2015	37	4,750	1,518	2,966	-	9,271
Net Book Value						
At Dec 31, 2014	681	38,660	13,021	14,999	2,947	70,308
At Dec 31, 2015	830	43,666	13,721	15,097	1,441	74,755

(in thousands of dollars)

6. REGULATORY ASSETS AND LIABILITIES

The Company has recorded the following regulatory assets and liabilities:

	Net retail settlement variance (i) $	Smart meter variance (ii) $	Regulatory items approved for settlement (iii) $	Other (iv) $	Total $
Regulatory Assets					
Balance, Jan 1, 2014	1,298	1,272	-	231	2,801
Recovery/reversal	3,114	(540)	-	13	2,587
Balance, Dec 31, 2014	4,412	732	-	244	5,388
Recovery/reversal	(1,433)	(366)	618	5	(1,176)
Balance, Dec 31, 2015	2,979	366	618	249	4,212
Remaining recovery/ reversal period (years)		2	1-4	1-4	

	Regulatory items approved for settlement (iii) $	Total $
Regulatory Liabilities		
Balance, Jan 1, 2014	1,113	1,113
Recovery/reversal	(795)	(795)
Balance, Dec 31, 2014	318	318
Recovery/reversal	(201)	(201)
Balance, Dec 31, 2015	117	117
Remaining recovery/ reversal period (years)	2	

(in thousands of dollars)

6. REGULATORY ASSETS AND LIABILITIES, continued

(i) Retail settlement variances represent the difference between the amount paid by the Company to the Independent Electricity System Operator ("IESO") for the cost of energy and the amount billed by the Company to its customers as energy sales, and related carrying costs. These amounts are recorded on the statement of financial position as retail settlement variances until their final disposition is decided by the OEB. The Company recognizes retail settlement variances as a regulatory deferral account debit or credit based on the expectation that these amounts will be approved by the OEB for future collection from, or refund to, customers through the rate setting and approval process, the timing of which has yet to be determined.

(ii) In 2012, the OEB approved disposition of the Smart Meter variance account, excluding the portion related to the meters replaced ("stranded meters"). As prescribed by the regulator, the smart meter disposition resulted in the transfer of approximately $5,200 to property, plant and equipment and $1,200 in additional amortization expense in 2012. The remaining balance in the Smart Meter variance account of $366 (2014 - $732) represents the estimated net recoverable value of stranded meter assets to be recovered in future rates.

(iii) Regulatory items approved for settlement consists of various deferred amounts in connection with accounting policy changes, global adjustment dispositions, and other amounts approved by the OEB. Costs incurred with respect to these various activities are included in rate recoveries effective until 2017.

(iv) Included in other is the lost revenue adjustment ("LRAM") variance account with a balance of $74 at December 31, 2015 (2014 - $73). The LRAM variance account is a retrospective adjustment designed to recover revenues lost from distributor supported CDM activities in a prior year. The Company expects future collection of these amounts through the rate setting and approval process, the timing of which has yet to be determined.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2015 $	2014 $
Accounts payable – energy purchases	6,523	7,168
Trade payables and accrued liabilities	3,268	5,347
Commodity taxes payable	240	178
Holdbacks	85	53
Debt retirement charge payable	407	462
	10,523	13,208

(in thousands of dollars)

8. CUSTOMER DEPOSITS

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

Customers may be required to post security to obtain electricity or other services, which are refundable. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits, which are reported separately from the Company's own cash and cash equivalents. Interest rates paid on customer deposits are based on the Bank of Canada's prime business rate less 2.0%.

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

	2015 $	2014 $
Electrical distribution customer deposits	2,040	1,865
Electrical retailer deposits	61	61
Construction deposits	216	97
	2,317	2,023
Less: Current portion included in above	(1,080)	(794)
	1,237	1,229

9. DEFERRED CONTRIBUTIONS

The continuity of deferred customer contributions in aid of construction of PP&E is as follows:

	2015 $	2014 $
Balance, beginning of year	12,409	11,436
Add : Customer contributions during the year	2,203	1,313
	14,612	12,749
Less: Amount recognized as other revenue	(382)	(340)
Balance, end of year	14,230	12,409

(in thousands of dollars)

10. EMPLOYEE FUTURE LIABILITIES

(a) Employee Future Liabilities

Employee future liabilities are comprised of vested sick leave and accrued benefit liabilities related to the Company's post employment medical and life insurance plan. Amounts accrued in these financial statements are summarized as follows:

	2015 $	2014 $
Vested sick leave liability	-	53
Accrued employee benefit liability	44	45
Employee future liabilities	44	98

(b) Post Employment Medical and Life Insurance Plan

Under the plan, the Company provides certain health care, dental care, life insurance and other benefits for certain retired employees. The present value of the employee benefit liability is actuarially determined and fully reflected as an obligation. Actuarial gains and losses arising from these plans are recognized in other comprehensive income during the period in which they occur. The accrued employee benefit liability is based on an actuarial valuation as at December 31, 2015.

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation are as follows:

	2015 %	2014 %
Discount rate	4.00	4.00
Rate of compensation increase	2.50	2.50
Medical benefits costs escalation	6.66	7.00
Dental benefits cost escalation	4.60	4.60

The Company recognizes all actuarial gains and losses arising from these plans in other comprehensive income during the period in which they occur and all expenses related to defined benefit plans in income from operations. The actuarial gains and losses are not reclassified to income from operations in subsequent periods. The plan is not funded and accordingly there are no plan assets.

(in thousands of dollars)

11. LONG-TERM DEBT

(a) A summary of outstanding long-term debt is provided in the table below:

	Note	Maturity	Rate %	2015 $	2014 $
Toronto Dominion Bank operating loan	i)	2017	2.45	9,000	6,000
Toronto Dominion Bank term loan	ii)	2023	4.25	20,550	20,932
Toronto Dominion Bank term loan	iii)	2018	4.55	4,070	4,482
Toronto Dominion Bank term loan	iv)	2019	5.36	6,925	7,509
				40,545	38,923
Less: Current portion of debt				(1,446)	(1,378)
				39,099	37,545

i. At December 31, 2015 PDI, had drawn $9,000 on its $16,000 multi draw variable rate committed loan facility with Toronto-Dominion Bank ("TD") (2014 - $6,000). This loan, along with term loans ii through iv below, is secured by a general security agreement covering the assets of PDI.

ii. This loan is a committed reducing term loan payable to TD, originally amortized over 10 years, due August 21, 2023 with a balloon payment of $17,120 due upon maturity. PDI makes monthly blended payments of principal and interest of $105. To reduce exposure to interest rate fluctuations, PDI has entered into a receive-variable/pay-fixed interest rate swap agreement at a rate of 4.25% for this liability.

iii. This loan is a committed reducing term loan payable to TD, originally amortized over 10 years, due December 24, 2018 with a balloon payment of $2,765 due upon maturity. PDI makes monthly blended payments of principal and interest of $51. To reduce exposure to interest rate fluctuations, PDI has entered into a receive-variable/pay-fixed interest rate swap agreement at a rate of 4.55% for this liability.

iv. This loan is a committed reducing term loan payable to TD, originally amortized over 10 years, due December 22, 2019 with a balloon payment of $4,315 due upon maturity. PDI makes monthly blended payments of principal and interest of $81. To reduce exposure to interest rate fluctuations, PDI has entered into a receive-variable/pay-fixed interest rate swap agreement at a rate of 5.36% for this liability.

(b) Financial Ratios

The bank agreements require the Company to maintain certain financial ratios which must be met on a quarterly or annual basis. Through the 12 month period ended December 31, 2015 the Company was in compliance with the financial ratio requirements.

(in thousands of dollars)

11. LONG-TERM DEBT, continued

(c) Letters of Credit

The Company has posted $7,064 (2014 - $7,064) in stand-by letters of credit with the Independent Electricity System Operator, as required by regulation.

(d) The aggregate amount of principal payments required is as follows:

	$
2016	1,446
2017	10,516
2018	4,305
2019	5,428
2020	472
Thereafter	18,378
	40,545

12. DUE TO RELATED PARTIES

	2015 $	2014 $
Demand loan from the City of Peterborough Holdings Inc., bearing interest at 4%	1,510	1,500

The demand loan is without specified maturity dates or repayment terms, and is secured by a general security agreement in favour of the City of Peterborough Holdings Inc. The security has been subordinated to the security for the Company's long-term debt (note 11).

The Shareholder has confirmed that it will not require repayment in fiscal 2016.

Included in interest expense is interest on the demand loans for the year ended December 31, 2015 in the amount of $60 (2014 - $26).

13. SHARE CAPITAL

Authorized
- Unlimited number of common shares
- Unlimited number of preferred shares

Issued

	2015 $	2014 $
1,000 common shares	21,658	21,658

(in thousands of dollars)

14. INCOME TAXES

a. Reconciliation of effective tax rate

The provision for income taxes recorded in the financial statements differs from the amount that would have been recorded using the combined Canadian federal and provincial statutory income tax rate of 26.5% (2014 – 26.5%). The reconciliation between the statutory and effective tax rates is as follows:

	2015 $	2014 $
Income for the year before income taxes	2,893	2,497
Anticipated income tax expense	767	662
Increase (decrease) in income taxes resulting from:		
Impact of tax rate changes and other	28	(90)
Income tax expense	795	572

b. Deferred tax assets

The effects of the temporary differences that give rise to the deferred income tax assets are as follows:

	2015 $	2014 $
Tax basis of equipment in excess of carrying amount	1,466	1,755
Employee future benefits	12	26
Derivative financial instruments	851	672
	2,329	2,453

15. OTHER REVENUE

Other revenue is comprised of:

	2015 $	2014 $
Retail and specific service charges	806	790
Change of occupancy charges	173	173
Building and pole rentals	236	249
Recognition of deferred contributions	382	340
Miscellaneous	442	43
	2,039	1,595

(in thousands of dollars)

16. OPERATING AND ADMINISTRATION EXPENSES

Operating and administration expenses are comprised of:

	2015 $	2014 $
Wages and benefits	208	224
Materials, equipment and other operating expenses	3,233	3,327
Administration and facilities	4,966	5,168
	8,407	8,719

17. NET FINANCE COSTS

	2015 $	2014 $
Interest income on bank balances and accounts receivable	38	40
Interest income on regulatory assets	44	66
Interest income on related party loans	26	-
Finance income	108	106
Interest expense on bank debt	1,684	1,674
Interest expense on shareholder debt	60	26
Finance charges	1,744	1,700
Net finance charges recognized in earnings	1,636	1,594

18. NET CHANGE IN NON-CASH WORKING CAPITAL

	2015 $	2014 $
Accounts receivable	417	(248)
Unbilled revenue	(1,304)	1,330
Inventories	(137)	270
Prepaid expenses	107	(49)
Accounts payable and accrued liabilities	(2,685)	3,606
	(3,602)	4,909

(in thousands of dollars)

19. ACCUMULATED OTHER COMPREHENSIVE LOSS

The Company's accumulated other comprehensive loss is comprised of the following:

	2015 $	2014 $
Actuarial loss on accrued employee benefit liabilities, net of tax	9	9
Change in fair value of derivative instruments, net of tax	(2,359)	(1,862)
	(2,350)	(1,853)

20. RELATED PARTY TRANSACTIONS

The Company provides electricity and services to the shareholder of its parent, the City of Peterborough and to affiliate companies. Electrical energy is sold to these parties at the same prices and terms as other electricity customers.

The Company is also engaged in transactions in the normal course of operations with affiliated companies and the Peterborough Utilities Commission. The parties are related by virtue of common control.

Details of related party transactions are as follows:

	2015 $	2014 $
Revenue		
Rental revenue	15	14
Expenses		
Professional services	3,315	3,602
Operating costs	2,685	2,321
Building rent	505	518
	6,505	6,441
Other – Capital expenditures	2,276	2,211

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director. Compensation applicable to management and directors directly or indirectly through allocations from affiliated companies during the year amounted to approximately $569 (2014 - $523).

(in thousands of dollars)

21. CAPITAL DISCLOSURES

The Company's primary objective when managing capital is to address the expectations as outlined in the Unanimous Shareholder Declaration between the Company's parent company, the City of Peterborough Holdings Inc., and its shareholder, the Corporation of the City of Peterborough. The expectation is that the Company will maintain a prudent financial and capitalization structure consistent with industry norms and on the basis that it is intended to be a self-financed entity.

The industry norm for capital structure, as supported by the Ontario Energy Board as regulator, suggests that companies operating in the distribution industry would have capital comprised of 60% debt and 40% equity. The Company is targeting to attain that structure, to the extent possible, in future years. The Company's current capital structure is defined as follows:

	2015 $	2014 $
Long-term debt	40,545	38,923
Due to related parties	1,510	1,500
	42,055	40,423

	2015 $	2014 $
Share capital	21,658	21,658
Accumulated other comprehensive income	(2,350)	(1,853)
Retained earnings	10,172	9,274
	29,480	29,079

Changes to the Company's capital structure are constrained by an existing lending agreement provision that limits the amount of dividend distributions and the repayment of related party debt subject to certain cash flow tests. Additionally the agreements provide for a restriction on the incurrence of new debt or the posting of security without prior lender consent. The Company has complied with these requirements during the year.

(in thousands of dollars)

22. FINANCIAL INSTRUMENTS

The fair value of financial instruments is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash and cash equivalents, accounts receivables, unbilled revenue on customer accounts, accounts payable and accrued liabilities and customer deposits approximates their carry amounts due to their short-term maturities.

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

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

The Company's fair value hierarchy is classified as Level 2 for bank debt and derivative financial instruments. The classification has been calculated using the discounted cash flow model based on the contractual terms of the instrument discounted using an appropriate market rate of interest. The carrying and fair values of these financial instruments are as follows:

	2015 Carrying value $	2015 Fair value $	2014 Carrying value $	2014 Fair value $
Due to related parties	1,510	1,510	1,500	1,500
Bank debt	40,545	43,755	38,923	41,457
	42,055	45,265	40,423	42,957

The company has entered into interest rate swap agreements for its bank debt. These swaps qualify as hedges, and as a result the unrealized loss on the debt is included in other comprehensive income for the period incurred. As of December 31, 2015, the Company has an unrealized loss on its derivative financial instruments of $3,210 (December 31, 2014 - $2,534).

(in thousands of dollars)

23. FINANCIAL RISK MANAGEMENT

In the course of its business the Company may be exposed to various financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. An assessment of these risks as they apply to the Company is provided below:

(a) Credit risk

By regulation, in addition to the distribution service charges that the Company earns, the customers' electricity bills include, transmission charges, non competitive energy charges, debt retirement and electricity commodity charges. The Company acts as an agent for billing and collecting these charges on behalf of other market participants and under regulation the Company bears the risk of non-collection of these amounts.

To mitigate credit risk the Company is permitted to request certain customers to provide deposits for a prescribed period. Furthermore, relief from substantial or catastrophic collection loss relief may be afforded by applying for recovery for those losses through distribution rate adjustments in future years, if approved by the regulator.

The Company is not exposed to a significant concentration of credit risk within any customer segment or individual customer. The allowance for collection of doubtful accounts included in accounts receivable is in the amount of $449 (2014 - $376).

Pursuant to their respective terms, accounts receivable are aged as follows at December 31:

		2015		2014
	$	%	$	%
Less than 30 days	6,143	87	6,587	88
30-60 days	452	6	348	5
61-90 days	69	1	94	1
Greater than 91 days	437	6	416	6
Total outstanding	7,101	100	7,445	100
Less: allowance for doubtful accounts	(449)	(6)	(376)	(5)
	6,652	94	7,069	95

(b) Interest rate risk

As described in note 11 to the financial statements, the Company has entered into interest rate swap arrangements which are being used to manage the impact of fluctuating interest rates on the majority of its existing bank debt. The swaps require the periodic exchange of interest payments without the exchange of the notional principal amount on which the payments are based. The swap instruments are recognized on the statement of financial position as a derivative financial instrument.

(in thousands of dollars)

23. FINANCIAL RISK MANAGEMENT, continued

(c) Foreign currency risk

The Company conducts the majority of its business without significant exposure to foreign currency.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet is financial obligations as they occur. The Company's approach to managing liquidity is to ensure as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damages to the Company's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments.

2015		Undiscounted cash flows (principal and interest)				
	Carrying amount $	Under 1 year $	From 1 to 2 years $	From 2 to 5 years $	Over 5 years $	Total $
Long-term debt	40,545	2,844	11,844	8,977	20,386	44,051
Loans from related parties	1,510	1,510	-	-	-	1,510
Accounts payable and accruals	10,523	10,523	-	-	-	10,523
	52,578	14,877	11,844	8,977	20,386	56,084

2014		Undiscounted cash flows (principal and interest)				
	Carrying amount $	Under 1 year $	From 1 to 2 years $	From 2 to 5 years $	Over 5 Years $	Total $
Long-term debt	38,923	2,844	2,844	16,557	21,650	43,895
Loans from related parties	1,500	1,500	-	-	-	1,500
Accounts payable and accruals	13,305	13,305	-	-	-	13,305
	53,728	17,649	2,844	16,557	21,650	58,700

At the present time the liquidity risk of the Company is low as it has unutilized existing debt capacity, additional room within its capital structure to attain additional financing as required, and sufficient cash flow to address existing debt obligations.

24. CONTINGENCIES

a) 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 loses, claims and costs experienced.

(b) The Company assets are pledged as security and the Company has provided a guarantee to its shareholder, the Corporation of the City of Peterborough in support of debts owning to the shareholder by the company and its affiliates.

25. SUBSEQUENT EVENTS

The following events occurred subsequent to December 31, 2015:

- For rate setting purposes, in February 2016 thirty four employees who principally perform electrical distribution services for the Company were transferred to the Company from the payroll of Peterborough Utilities Services Inc., an affiliated company. With the transfer, employee future liabilities of $811 related to these employees were assumed by the Company.

- Subsequent to the year end, the ultimate shareholder of the Company, the Corporation of the City of Peterborough, initiated a public process to receive constituent input on the potential disposition of the Company. An estimate of the related financial impact is not determinable since there is no agreement or approval for a sale at this time.

26. COMPARATIVE AMOUNTS

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