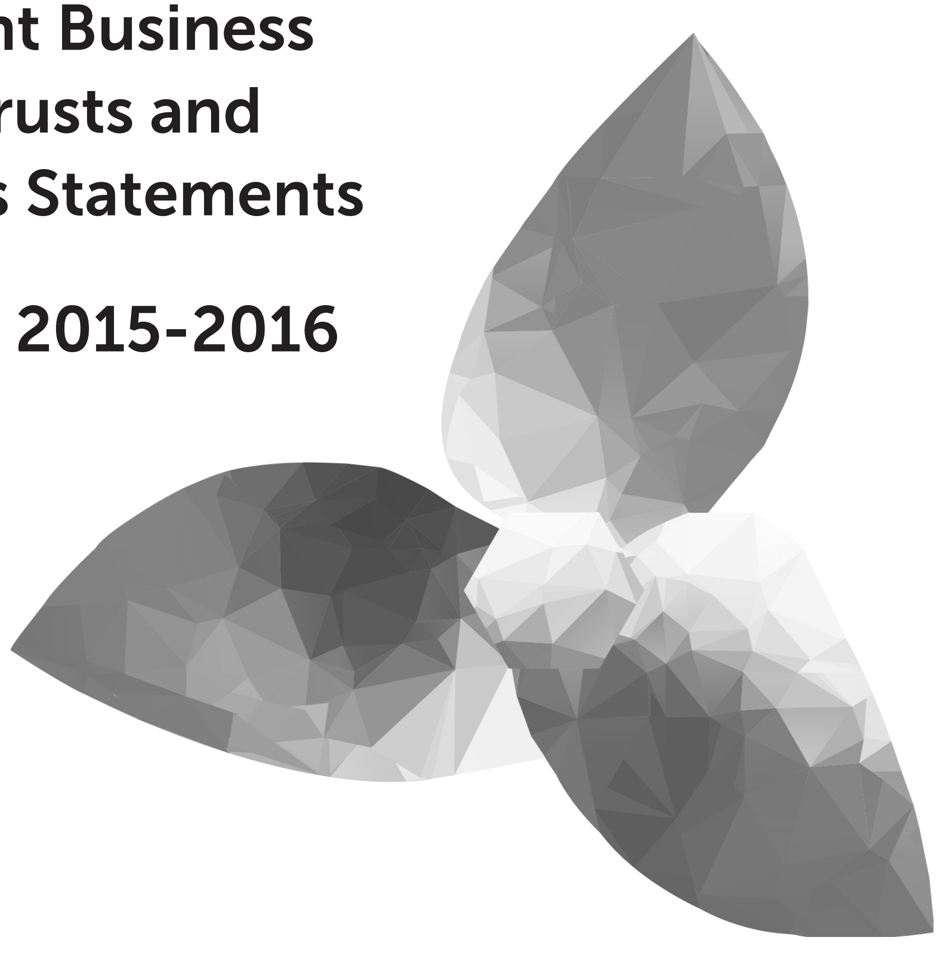
Ontario

Treasury Board Secretariat

PUBLIC ACCOUNTS OF ONTARIO

Financial Statements of Government Business Enterprises, Trusts and Miscellaneous Statements

VOLUME 2C | 2015-2016



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RESPONSIBLE MINISTRY FOR GOVERNMENT BUSINESS ENTERPRISES, ORGANIZATIONS, TRUSTS & MISCELLANEOUS FINANCIAL STATEMENTS

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- Ornge

Ministry of Labour
- Workplace Safety and Insurance Board

Ministry of Municipal Affairs and Housing
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Ministry of Natural Resources and Forestry
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Ministry of Northern Development and Mines
- Northern Ontario Heritage Fund Corporation
- Ontario Northland Transportation Commission

Ministry of Tourism, Culture and Sport
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- Metropolitan Toronto Convention Centre Corporation
- Niagara Parks Commission
- Ontario Place Corporation
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- Ottawa Convention Centre Corporation
- Province of Ontario Council for the Arts (Ontario Arts Council)
- The Royal Ontario Museum
- Toronto Organizing Committee for the 2015 Pan American and Parapan American Games (Toronto 2015)

Ministry of Transportation
- Metrolinx

Treasury Board Secretariat
- Ontario Pension Board

A GUIDE TO THE PUBLIC ACCOUNTS

1. SCOPE OF THE PUBLIC ACCOUNTS

The 2015-2016 Public Accounts of the Province of Ontario comprise the **Annual Report and Consolidated Financial Statements** and three volumes:

Volume 1 contains ministry statements and detailed schedules of debt and other items. The ministry statements reflect the financial activities of the government's ministries on the accrual basis of accounting, providing a comparison of appropriations with actual spending. Ministry expenses include all expenses that are subject to appropriation approved by the Legislative Assembly, but exclude adjustments arising from consolidation of government organizations whose expenses are not appropriated.

Volume 2 contains the financial statements of Government Organizations and Business Enterprises that are part of the government's reporting entity and other miscellaneous financial statements.

Volume 3 contains the details of payments made by ministries to vendors (including sales tax) and transfer payment recipients that are not deemed to be prohibited by the *Freedom of Information and Protection of Privacy Act.*

2. A GUIDE TO VOLUME 2 OF THE PUBLIC ACCOUNTS

The financial statements of the selected crown corporations, boards and commissions are for fiscal periods ending within the Province's own fiscal period April 1, 2015 to March 31, 2016. They are presented in the same detail as the approved, audited financial statements and as nearly as possible in the same form. The statements have been presented in the order shown in the Table of Contents. In addition, a listing is provided which groups the crown corporations, boards and commissions by ministerial responsibility.

GOVERNMENT BUSINESS ENTERPRISES

BRAMPTON DISTRIBUTION HOLDCO INC.

See pages 3-127 to 3-170 for audited financial statements.

Hydro One Brampton Networks Inc. is the wholly owned operating subsidiary of Brampton Distribution Holdco Inc. The fiscal year end of Hydro One Brampton Network Inc was December 31, 2015 whereas Brampton Distribution Holdco Inc.'s year end was March 31, 2016. The financials results reflected in the Province`s Consolidated Financial Statements were adjusted for the stub period to fiscal period as the Province's fiscal results, and reflect consolidation adjustments relevant to the 2015-16 fiscal period.

See Province's Consolidated Financial Statements, Schedule-9 for condensed details of Brampton Distribution Holdco Inc. financials. On a post consolidation basis.

HYDRO ONE LIMITED
MANAGEMENT'S REPORT

The Consolidated Financial Statements, Management's Discussion and Analysis (MD&A) and related financial information have been prepared by the management of Hydro One Limited (Hydro One or the Company). Management is responsible for the integrity, consistency and reliability of all such information presented. The Consolidated Financial Statements have been prepared in accordance with United States Generally Accepted Accounting Principles and applicable securities legislation. The MD&A has been prepared in accordance with National Instrument 51-102.

The preparation of the Consolidated Financial Statements and information in the MD&A involves the use of estimates and assumptions based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Company as described in Note 2 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements and the MD&A includes information regarding the estimated impact of future events and transactions. The MD&A also includes information regarding sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The Consolidated Financial Statements and MD&A have been properly prepared within reasonable limits of materiality and in light of information up to February 11, 2016.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal control and internal audit. The system of internal control includes a written corporate conduct policy; implementation of a risk management framework; effective segregation of duties and delegation of authorities; and sound and conservative accounting policies that are regularly reviewed. This structure is designed to provide reasonable assurance that assets are safeguarded and that reliable information is available on a timely basis. In addition, management has assessed the design and operating effectiveness of the Company's internal control over financial reporting in accordance with the criteria set forth in Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2015. The effectiveness of these internal controls is reported to the Audit Committee of the Hydro One Board of Directors, as required.

The Consolidated Financial Statements have been audited by KPMG LLP, independent external auditors appointed by the shareholders of the Company. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with United States Generally Accepted Accounting Principles. The Independent Auditors' Report outlines the scope of their examination and their opinion.

The Hydro One Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee of Hydro One met periodically with management, the internal auditors and the external auditors to satisfy itself that each group had properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit findings.

The President and Chief Executive Officer and the Chief Financial Officer have certified Hydro One's annual Consolidated Financial Statements and annual MD&A, related disclosure controls and procedures and the design and effectiveness of related internal controls over financial reporting.

On behalf of Hydro One's management:

Mayo Schmidt
President and Chief Executive Officer

Michael Vels
Chief Financial Officer

hydroOne

HYDRO ONE LIMITED
INDEPENDENT AUDITORS' REPORT

To the Shareholders of Hydro One Limited

We have audited the accompanying Consolidated Financial Statements of Hydro One Limited, which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014, the consolidated statements of operations and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with United States Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of Hydro One Limited as at December 31, 2015 and December 31, 2014, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with United States Generally Accepted Accounting Principles.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
February 11, 2016

HYDRO ONE LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31, 2015 and 2014

Year ended December 31 *(millions of Canadian dollars, except per share amounts)*	**2015**	**2014**
Revenues		
Distribution (includes $159 related party revenues; 2014 – $159) *(Note 23)*	4,949	4,903
Transmission (includes $1,554 related party revenues; 2014 – $1,567) *(Note 23)*	1,536	1,588
Other	53	57
	6,538	6,548
Costs		
Purchased power (includes $2,335 related party costs; 2014 – $2,633) *(Note 23)*	3,450	3,419
Operation, maintenance and administration *(Note 23)*	1,135	1,192
Depreciation and amortization *(Note 5)*	759	722
	5,344	5,333
Income before financing charges and income taxes	1,194	1,215
Financing charges *(Note 6)*	376	379
Income before income taxes	818	836
Income taxes *(Notes 7, 23)*	105	89
Net income	**713**	**747**
Other comprehensive income	1	–
Comprehensive income	**714**	**747**
Net income attributable to:		
Noncontrolling interest *(Note 22)*	10	(2)
Preferred shareholders	13	18
Common shareholders	690	731
	713	**747**
Comprehensive income attributable to:		
Noncontrolling interest *(Note 22)*	10	(2)
Preferred shareholders	13	18
Common shareholders	691	731
	714	**747**
Earnings per common share *(Note 20)*		
Basic	$1.39	$1.53
Diluted	$1.39	$1.53
Dividends per common share declared *(Note 19)*	$1.83	$0.56

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE LIMITED
CONSOLIDATED BALANCE SHEETS
At December 31, 2015 and 2014

December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Assets		
Current assets:		
Cash and cash equivalents *(Note 13)*	94	100
Accounts receivable (net of allowance for doubtful accounts – $61; 2014 – $66) *(Note 8)*	776	1,016
Due from related parties *(Note 23)*	191	224
Regulatory assets *(Note 11)*	36	31
Materials and supplies	21	23
Deferred income tax assets *(Note 7)*	19	19
Derivative instruments *(Note 13)*	–	2
Prepaid expenses and other assets	29	35
	1,166	1,450
Property, plant and equipment *(Note 9)*:		
Property, plant and equipment in service	26,070	25,356
Less: accumulated depreciation	9,414	9,134
	16,656	16,222
Construction in progress	1,155	1,025
Future use land, components and spares	157	154
	17,968	17,401
Other long-term assets:		
Regulatory assets *(Note 11)*	3,015	3,200
Deferred income tax assets *(Note 7)*	1,636	7
Intangible assets (net of accumulated amortization – $274; 2014 – $305) *(Note 10)*	336	276
Goodwill *(Note 4)*	163	173
Deferred debt issuance costs	34	36
Derivative instruments *(Note 13)*	1	–
Other	9	7
	5,194	3,699
Total assets	**24,328**	**22,550**

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE LIMITED
CONSOLIDATED BALANCE SHEETS (continued)
At December 31, 2015 and 2014

December 31 *(millions of Canadian dollars, except number of shares)*	**2015**	**2014**
Liabilities		
Current liabilities:		
Bank indebtedness *(Note 13)*	–	2
Short-term notes payable *(Notes 12, 13)*	1,491	–
Accounts payable	155	173
Accrued liabilities *(Notes 15, 16)*	598	611
Due to related parties *(Note 23)*	138	227
Accrued interest	96	100
Regulatory liabilities *(Note 11)*	19	47
Derivative instruments *(Note 13)*	–	3
Long-term debt payable within one year (includes $nil measured at fair value; 2014 – $252) *(Notes 12, 13)*	500	552
	2,997	1,715
Long-term debt (includes $51 measured at fair value; 2014 – $nil) *(Notes 12, 13)*	8,224	8,373
Other long-term liabilities:		
Post-retirement and post-employment benefit liability *(Note 15)*	1,560	1,533
Pension benefit liability *(Note 15)*	952	1,236
Regulatory liabilities *(Note 11)*	236	168
Deferred income tax liabilities *(Note 7)*	207	1,313
Environmental liabilities *(Note 16)*	185	221
Net unamortized debt premiums	17	18
Asset retirement obligations *(Note 17)*	9	9
Long-term accounts payable and other liabilities	17	17
	3,183	4,515
Total liabilities	**14,404**	**14,603**
Contingencies and Commitments (Notes 25, 26)		
Subsequent Events (Note 28)		
Preferred shares *(Notes 18, 19)*	–	323
Noncontrolling interest subject to redemption *(Note 22)*	23	21
Equity		
Common shares *(Notes 18, 19)*	5,623	3,314
Preferred shares *(Notes 18, 19)*	418	–
Additional paid-in capital *(Note 21)*	10	–
Retained earnings	3,806	4,249
Accumulated other comprehensive loss	(8)	(9)
Total Hydro One shareholders' equity	9,849	7,554
Noncontrolling interest *(Note 22)*	52	49
Total equity	**9,901**	**7,603**
	24,328	**22,550**

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board of Directors:

David Denison
Chair

Philip Orsino
Chair, Audit Committee

HYDRO ONE LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2015 and 2014

Year ended December 31, 2015 *(millions of Canadian dollars)*	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Hydro One Shareholders' Equity	Non-controlling Interest *(Note 22)*	Total Equity
January 1, 2015	3,314	–	–	4,249	(9)	7,554	49	7,603
Net income	–	–	–	703	–	703	7	710
Other comprehensive income	–	–	–	–	1	1	–	1
Distributions to noncontrolling interest	–	–	–	–	–	–	(4)	(4)
Dividends on preferred shares	–	–	–	(13)	–	(13)	–	(13)
Dividends on common shares	–	–	–	(875)	–	(875)	–	(875)
Hydro One Brampton spin-off *(Note 4)*	(196)	–	–	(258)	–	(454)	–	(454)
Pre-IPO Transactions *(Notes 1, 18)*	2,505	418	–	–	–	2,923	–	2,923
Stock-based compensation *(Note 21)*	–	–	10	–	–	10	–	10
December 31, 2015	5,623	418	10	3,806	(8)	9,849	52	9,901

Year ended December 31, 2014 *(millions of Canadian dollars)*	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Hydro One Shareholders' Equity	Non-controlling Interest *(Note 22)*	Total Equity
January 1, 2014	3,314	–	–	3,787	(9)	7,092	–	7,092
Net income	–	–	–	749	–	749	(1)	748
Other comprehensive income	–	–	–	–	–	–	–	–
Amount contributed by noncontrolling interest	–	–	–	–	–	–	50	50
Dividends on preferred shares	–	–	–	(18)	–	(18)	–	(18)
Dividends on common shares	–	–	–	(269)	–	(269)	–	(269)
December 31, 2014	3,314	–	–	4,249	(9)	7,554	49	7,603

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2015 and 2014

Year ended December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Operating activities		
Net income	713	747
Environmental expenditures	(19)	(18)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	668	641
Regulatory assets and liabilities	(3)	(69)
Deferred income taxes *(Note 7)*	(2,844)	10
Other	24	–
Changes in non-cash balances related to operations *(Note 24)*	208	(55)
Net cash from (used in) operating activities	(1,253)	1,256
Financing activities		
Long-term debt issued	350	628
Long-term debt retired	(585)	(776)
Short-term notes issued	1,491	–
Common shares issued	2,600	–
Dividends paid	(888)	(287)
Amount contributed by noncontrolling interest *(Note 22)*	–	72
Distributions paid to noncontrolling interest	(5)	–
Change in bank indebtedness	(2)	(29)
Other	(7)	(3)
Net cash from (used in) financing activities	2,954	(395)
Investing activities		
Capital expenditures *(Note 24)*		
Property, plant and equipment	(1,595)	(1,481)
Intangible assets	(37)	(23)
Capital contributions received *(Note 24)*	62	–
Acquisition of Haldimand Hydro *(Note 4)*	(66)	–
Acquisition of Woodstock Hydro *(Note 4)*	(24)	–
Investment in Hydro One Brampton *(Note 4)*	(53)	–
Acquisition of Norfolk Power *(Note 4)*	–	(66)
Proceeds from investment	–	250
Other	6	(6)
Net cash used in investing activities	(1,707)	(1,326)
Net change in cash and cash equivalents	(6)	(465)
Cash and cash equivalents, beginning of year	100	565
Cash and cash equivalents, end of year	**94**	**100**

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

1. DESCRIPTION OF THE BUSINESS

Hydro One Limited (Hydro One or the Company) was incorporated on August 31, 2015, under the *Business Corporations Act* (Ontario).

On October 31, 2015, the Company acquired Hydro One Inc., a company previously wholly-owned by the Province of Ontario (Province). The acquisition of Hydro One Inc. by Hydro One was accounted for as a common control transaction and Hydro One is a continuation of business operations of Hydro One Inc. The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

In November 2015, Hydro One and the Province completed an initial public offering (IPO) on the Toronto Stock Exchange of 15% of its 595 million outstanding common shares. The proceeds of the offering were received by the Province. All of the regulated business and outstanding publicly issued notes and debentures of Hydro One remain at the Company's wholly owned subsidiary Hydro One Inc. At December 31, 2015, the Province owns 84% of Hydro One. See Note 18 for further details regarding the reorganization of Hydro One.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation and Preparation

These Consolidated Financial Statements have been presented in a manner similar to the pooling-of-interests method. The financial statements consist of the results of operations of Hydro One Inc. prior to October 31, 2015, and the consolidated results of operations of Hydro One from the date of incorporation on August 31, 2015 to December 31, 2015, which include the results of Hydro One Inc. subsequent to its acquisition on October 31, 2015. All periods have been combined using historical amounts. The comparative information consists of the results of Hydro One Inc. as at and for the year ended December 31, 2014. In addition, Hydro One's issued and outstanding common shares prior to October 31, 2015 have been retroactively adjusted for the purposes of presentation to reflect the effects of the acquisition of Hydro One Inc. using the exchange ratio established for the acquisition. The accompanying combined consolidated and consolidated financial statements are referred to as "consolidated" for all periods presented. Intercompany transactions and balances have been eliminated.

On August 31, 2015, Hydro One Inc. completed the spin-off of its subsidiary, Hydro One Brampton Networks Inc. (Hydro One Brampton) to the Province. See note 4 – Business Combinations. These Consolidated Financial Statements include the results of operations of Hydro One Brampton up to August 31, 2015.

Basis of Accounting

These Consolidated Financial Statements are prepared and presented in accordance with United States (US) Generally Accepted Accounting Principles (GAAP) and in Canadian dollars.

Hydro One performed an evaluation of subsequent events through to February 11, 2016, the date these Consolidated Financial Statements were issued, to determine whether any events or transactions warranted recognition and disclosure in these Consolidated Financial Statements. See Note 28 – Subsequent Events.

Use of Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting periods. Management evaluates these estimates on an ongoing basis based upon historical experience, current conditions, and assumptions believed to be reasonable at the time the assumptions are made, with any adjustments being recognized in results of operations in the period they arise. Significant estimates relate to regulatory assets and regulatory liabilities, environmental liabilities, pension benefits, post-retirement and post-employment benefits, asset retirement obligations, goodwill and asset impairments, contingencies, unbilled revenues, allowance for doubtful accounts, derivative instruments, and deferred income tax assets and liabilities. Actual results may differ significantly from these estimates.

Rate Setting

The Company's Transmission Business consists of the transmission business of Hydro One Inc., which includes the transmission business of its subsidiary, Hydro One Networks Inc. (Hydro One Networks), as well as its 66% interest in B2M Limited Partnership (B2M LP). The Company's Distribution Business consists of the distribution business of Hydro One Inc., which includes the distribution businesses of Hydro One Networks, Haldimand County Utilities Inc. (Haldimand Hydro), Hydro One Remote Communities Inc. (Hydro One Remote Communities), and Woodstock Hydro Holdings Inc. (Woodstock Hydro).

The Ontario Energy Board (OEB) has approved the use of US GAAP for rate setting and regulatory accounting and reporting by Hydro One Networks' transmission and distribution businesses, as well as by Hydro One Remote Communities.

Transmission

On January 8, 2015, pursuant to an application filed with the OEB, the OEB approved the 2015 Hydro One transmission rates revenue requirement, excluding the B2M LP revenue requirement, of $1,477 million.

On June 30, 2015, B2M LP updated its application (originally filed March 30, 2015) with the OEB for 2015-2019 transmission rates, requesting approval of revenue requirement of $39 million, $36 million, $37 million, $38 million and $37 million for the respective years. On December 29, 2015, the OEB issued a Decision and Order approving the 2015-2019 rates revenue requirement, and on January 14, 2016, the OEB approved the B2M LP revenue requirement recovery through the 2016 Uniform Transmission Rates, and the establishment of a deferral account to capture costs of Tax Rate and Rule changes.

Distribution

On March 12, 2015, the OEB issued a Decision and Rate Order approving a revenue requirement of $1,326 million for 2015, $1,430 million for 2016 and $1,486 million for 2017. The revenue requirements for 2016 and 2017 are estimates that may change based on 2016 and 2017 Rate Orders. On April 23, 2015, the Final Rate Order for 2015 rates was approved by the OEB.

On September 24, 2014, Hydro One Remote Communities filed an Incentive Regulation Mechanism application with the OEB for 2015 rates, seeking approval for increased base rates for the distribution and generation of electricity of 1.7%. On March 19, 2015, the OEB approved an increase of approximately 1.6% to basic rates for the distribution and generation of electricity, with an effective date of May 1, 2015.

Regulatory Accounting

The OEB has the general power to include or exclude revenues, costs, gains or losses in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been applied in an unregulated company. Such change in timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Company has recorded regulatory liabilities that generally represent amounts that are refundable to future customers. The Company continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If, at some future date, the Company judges that it is no longer probable that the OEB will include a regulatory asset or liability in setting future rates, the appropriate carrying amount will be reflected in results of operations in the period that the assessment is made.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with an original maturity of three months or less.

Revenue Recognition

Transmission revenues are collected through OEB-approved rates, which are based on an approved revenue requirement that includes a rate of return. Such revenue is recognized as electricity is transmitted and delivered to customers.

Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized on an accrual basis and include billed and unbilled revenues. Billed revenues are based on electricity delivered as measured from customer meters. Unbilled revenues are based on an estimate of electricity delivered determined by historical trends of consumption and are estimated at the end of each month. The unbilled revenue estimate is affected by energy consumption, weather, and changes in the composition of customer classes.

Distribution revenue also includes an amount relating to rate protection for rural, residential and remote customers, which is received from the Independent Electricity System Operator (IESO) based on a standardized customer rate that is approved by the OEB.

Revenues also include amounts related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered.

Revenues are recorded net of indirect taxes.

Accounts Receivable and Allowance for Doubtful Accounts

Billed accounts receivable are recorded at the invoiced amount, net of allowance for doubtful accounts. Unbilled accounts receivable are recorded at their estimated value. Overdue amounts related to regulated billings bear interest at OEB-approved rates. The allowance for doubtful accounts reflects the Company's best estimate of losses on billed accounts receivable balances. The Company estimates the allowance for doubtful accounts on customer receivables by applying internally developed loss rates to the outstanding receivable balances by aging category. Loss rates applied to the accounts receivable balances are based on historical overdue balances, customer payments and write-offs. Accounts receivable are written-off against the allowance when they are deemed uncollectible. The existing allowance for doubtful accounts will continue to be affected by changes in volume, prices and economic conditions.

Noncontrolling interest

Noncontrolling interest represents the portion of equity ownership in subsidiaries that is not attributable to shareholders of Hydro One. Noncontrolling interest is initially recorded at fair value and subsequently the amount is adjusted for the proportionate share of net income (loss) and other comprehensive income (loss) attributable to the noncontrolling interest and any dividends or distributions paid to the noncontrolling interest.

If a transaction results in the acquisition of all, or part, of a noncontrolling interest in a subsidiary, the acquisition of the noncontrolling interest is accounted for as an equity transaction. No gain or loss is recognized in consolidated net income or comprehensive income as a result of changes in the noncontrolling interest, unless a change results in the loss of control by the Company.

Income Taxes

By virtue of being wholly owned by the Province, Hydro One was exempt from tax under the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) (Federal Tax Regime). However, under the *Electricity Act*, Hydro One was required to make payments in lieu of tax (PILs) to the Ontario Electricity Financial Corporation (OEFC) (PILs Regime). The PILs were, in general, based on the amount of tax that Hydro One would otherwise be liable to pay under the Federal Tax Regime if it was not exempt from taxes under those statutes.

In connection with the IPO of Hydro One, Hydro One's exemption from tax under the Federal Tax Regime ceased to apply. Upon exiting the PILs Regime, Hydro One is required to make corporate income tax payments to the Canada Revenue Agency (CRA) under the Federal Tax Regime.

Current and deferred income taxes are computed based on the tax rates and tax laws enacted as at the balance sheet date. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the "more-likely-than-not" recognition threshold is satisfied and are measured at the largest amount of benefit that has a greater than 50% likelihood of being realized upon settlement. Management evaluates each position based solely on the technical merits and facts and circumstances of the position, assuming the position will be examined by a taxing authority having full knowledge of all relevant information. Significant management judgment is required to determine recognition thresholds and the related amount of tax benefits to be recognized in the Consolidated Financial Statements. Management re-evaluates tax positions each period in which new information about recognition or measurement becomes available.

HYDRO ONE LIMITED
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Deferred Income Taxes

Deferred income taxes are provided for using the liability method. Deferred income taxes are recognized based on the estimated future tax consequences attributable to temporary differences between the carrying amount of assets and liabilities in the Consolidated Financial Statements and their corresponding tax bases.

Deferred income tax liabilities are generally recognized on all taxable temporary differences. Deferred tax assets are recognized to the extent that it is more-likely-than-not that these assets will be realized from taxable income available against which deductible temporary differences can be utilized.

Deferred income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates and tax laws that have been enacted as at the balance sheet date. Deferred income taxes that are not included in the rate-setting process are charged or credited to the Consolidated Statements of Operations and Comprehensive Income.

If management determines that it is more-likely-than-not that some or all of a deferred income tax asset will not be realized, a valuation allowance is recorded against the deferred income tax asset to report the net balance at the amount expected to be realized. Previously unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more-likely-than-not that the tax benefit will be realized.

The Company records regulatory assets and liabilities associated with deferred income taxes that will be included in the rate-setting process.

The Company uses the flow-through method to account for investment tax credits (ITCs) earned on eligible scientific research and experimental development expenditures, and apprenticeship job creation. Under this method, only non-refundable ITCs are recognized as a reduction to income tax expense.

Materials and Supplies

Materials and supplies represent consumables, small spare parts and construction materials held for internal construction and maintenance of property, plant and equipment. These assets are carried at average cost less any impairments recorded.

Property, Plant and Equipment

Property, plant and equipment is recorded at original cost, net of customer contributions, and any accumulated impairment losses. The cost of additions, including betterments and replacement asset components, is included on the Consolidated Balance Sheets as property, plant and equipment.

The original cost of property, plant and equipment includes direct materials, direct labour (including employee benefits), contracted services, attributable capitalized financing costs, asset retirement costs, and direct and indirect overheads that are related to the capital project or program. Indirect overheads include a portion of corporate costs such as finance, treasury, human resources, information technology and executive costs. Overhead costs, including corporate functions and field services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology.

Property, plant and equipment in service consists of transmission, distribution, communication, administration and service assets and land easements. Property, plant and equipment also includes future use assets, such as land, major components and spare parts, and capitalized project development costs associated with deferred capital projects.

Transmission

Transmission assets include assets used for the transmission of high-voltage electricity, such as transmission lines, support structures, foundations, insulators, connecting hardware and grounding systems, and assets used to step up the voltage of electricity from generating stations for transmission and to step down voltages for distribution, including transformers, circuit breakers and switches.

Distribution

Distribution assets include assets related to the distribution of low-voltage electricity, including lines, poles, switches, transformers, protective devices and metering systems.

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Communication

Communication assets include fibre optic and microwave radio systems, optical ground wire, towers, telephone equipment and associated buildings.

Administration and Service

Administration and service assets include administrative buildings, personal computers, transport and work equipment, tools and other minor assets.

Easements

Easements include statutory rights of use for transmission corridors and abutting lands granted under the *Reliable Energy and Consumer Protection Act, 2002*, as well as other land access rights.

Intangible Assets

Intangible assets separately acquired or internally developed are measured on initial recognition at cost, which comprises purchased software, direct labour (including employee benefits), consulting, engineering, overheads and attributable capitalized financing charges. Following initial recognition, intangible assets are carried at cost, net of any accumulated amortization and accumulated impairment losses. The Company's intangible assets primarily represent major computer applications.

Capitalized Financing Costs

Capitalized financing costs represent interest costs attributable to the construction of property, plant and equipment or development of intangible assets. The financing cost of attributable borrowed funds is capitalized as part of the acquisition cost of such assets. The capitalized financing costs are a reduction of financing charges recognized in the Consolidated Statements of Operations and Comprehensive Income. Capitalized financing costs are calculated using the Company's weighted average effective cost of debt.

Construction and Development in Progress

Construction and development in progress consists of the capitalized cost of constructed assets that are not yet complete and which have not yet been placed in service.

Depreciation and Amortization

The cost of property, plant and equipment and intangible assets is depreciated or amortized on a straight-line basis based on the estimated remaining service life of each asset category, except for transport and work equipment, which is depreciated on a declining balance basis.

The Company periodically initiates an external independent review of its property, plant and equipment and intangible asset depreciation and amortization rates, as required by the OEB. Any changes arising from OEB approval of such a review are implemented on a remaining service life basis, consistent with their inclusion in electricity rates. The last review resulted in changes to rates effective January 1, 2015. A summary of average service lives and depreciation and amortization rates for the various classes of assets is included below:

	Average	Rate	
	Service Life	Range	Average
Transmission	56 years	1% – 2%	2%
Distribution	46 years	1% – 7%	2%
Communication	16 years	1% – 15%	6%
Administration and service	18 years	1% – 20%	6%

The cost of intangible assets is included primarily within the administration and service classification above. Amortization rate for computer applications software and other intangible assets is 10%.

In accordance with group depreciation practices, the original cost of property, plant and equipment, or major components thereof, and intangible assets that are normally retired, is charged to accumulated depreciation, with no gain or loss being reflected in results of operations. Where a disposition of property, plant and equipment occurs through sale, a gain or loss is calculated based on proceeds and such gain or loss is included in depreciation expense. Depreciation expense also includes the costs incurred to remove property, plant and equipment where no asset retirement obligations have been recorded.

Goodwill

Goodwill represents the cost of acquired local distribution companies that is in excess of the fair value of the net identifiable assets acquired at the acquisition date. Goodwill is not included in rate base.

Goodwill is evaluated for impairment on an annual basis, or more frequently if circumstances require. The Company performs a qualitative assessment to determine whether it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount. If the Company determines, as a result of its qualitative assessment, that it is not more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, no further testing is required. If the Company determines, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, a goodwill impairment assessment is performed using a two-step, fair value-based test. The first step compares the fair value of the applicable reporting unit to its carrying amount, including goodwill. If the carrying amount of the applicable reporting unit exceeds its fair value, a second step is performed. The second step requires an allocation of fair value to the individual assets and liabilities using purchase price allocation in order to determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss is recorded as a reduction to goodwill and as a charge to results of operations.

For the year ended December 31, 2015, based on the qualitative assessment performed as at September 30, 2015, the Company has determined that it is not more-likely-than-not that the fair value of each applicable reporting unit assessed is less than its carrying amount. As a result, no further testing was performed, and the Company has concluded that goodwill was not impaired at December 31, 2015.

Long-Lived Asset Impairment

When circumstances indicate the carrying value of long-lived assets may not be recoverable, the Company evaluates whether the carrying value of such assets, excluding goodwill, has been impaired. For such long-lived assets, the Company evaluates whether impairment may exist by estimating future estimated undiscounted cash flows expected to result from the use and eventual disposition of the asset. When alternative courses of action to recover the carrying amount of a long-lived asset are under consideration, a probability-weighted approach is used to develop estimates of future undiscounted cash flows. If the carrying value of the long-lived asset is not recoverable based on the estimated future undiscounted cash flows, an impairment loss is recorded, measured as the excess of the carrying value of the asset over its fair value. As a result, the asset's carrying value is adjusted to its estimated fair value.

Within its regulated business, the carrying costs of most of Hydro One's long-lived assets are included in rate base where they earn an OEB-approved rate of return. Asset carrying values and the related return are recovered through approved rates. As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is judged to be probable.

Hydro One regularly monitors the assets of its unregulated Hydro One Telecom subsidiary for indications of impairment. Management assesses the fair value of such long-lived assets using commonly accepted techniques, and may use more than one. Techniques used to determine fair value include, but are not limited to, the use of recent third party comparable sales for reference and internally developed discounted cash flow analysis. Significant changes in market conditions, changes to the condition of an asset, or a change in management's intent to utilize the asset are generally viewed by management as triggering events to reassess the cash flows related to these long-lived assets. As at December 31, 2015 and 2014, no asset impairment had been recorded for assets within either the Company's regulated or unregulated businesses.

Costs of Arranging Debt Financing

For financial liabilities classified as other than held-for-trading, the Company defers the external transaction costs related to obtaining debt financing and presents such amounts as deferred debt issuance costs on the Consolidated Balance Sheets. Deferred debt issuance costs are amortized over the contractual life of the related debt on an effective-interest basis and the amortization is included within financing charges in the Consolidated Statements of Operations and Comprehensive Income. Transaction costs for items classified as held-for-trading are expensed immediately.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (OCI). Hydro One presents net income and OCI in a single continuous Consolidated Statement of Operations and Comprehensive Income.

Financial Assets and Liabilities

All financial assets and liabilities are classified into one of the following five categories: held-to-maturity; loans and receivables; held-for-trading; other liabilities; or available-for-sale. Financial assets and liabilities classified as held-for-trading are measured at fair value. All other financial assets and liabilities are measured at amortized cost, except accounts receivable and amounts due from related parties, which are measured at the lower of cost or fair value. Accounts receivable and amounts due from related parties are classified as loans and receivables. The Company considers the carrying amounts of accounts receivable and amounts due from related parties to be reasonable estimates of fair value because of the short time to maturity of these instruments. Provisions for impaired accounts receivable are recognized as adjustments to the allowance for doubtful accounts and are recognized when there is objective evidence that the Company will not be able to collect amounts according to the original terms. All financial instrument transactions are recorded at trade date.

Derivative instruments are measured at fair value. Gains and losses from fair valuation are included within financing charges in the period in which they arise. The Company determines the classification of its financial assets and liabilities at the date of initial recognition. The Company designates certain of its financial assets and liabilities to be held at fair value, when it is consistent with the Company's risk management policy disclosed in Note 13 – Fair Value of Financial Instruments and Risk Management.

Derivative Instruments and Hedge Accounting

The Company closely monitors the risks associated with changes in interest rates on its operations and, where appropriate, uses various instruments to hedge these risks. Certain of these derivative instruments qualify for hedge accounting and are designated as accounting hedges, while others either do not qualify as hedges or have not been designated as hedges (hereinafter referred to as undesignated contracts) as they are part of economic hedging relationships.

The accounting guidance for derivative instruments requires the recognition of all derivative instruments not identified as meeting the normal purchase and sale exemption as either assets or liabilities recorded at fair value on the Consolidated Balance Sheets. For derivative instruments that qualify for hedge accounting, the Company may elect to designate such derivative instruments as either cash flow hedges or fair value hedges. The Company offsets fair value amounts recognized on its Consolidated Balance Sheets related to derivative instruments executed with the same counterparty under the same master netting agreement.

For derivative instruments that qualify for hedge accounting and which are designated as cash flow hedges, the effective portion of any gain or loss, net of tax, is reported as a component of accumulated OCI (AOCI) and is reclassified to results of operations in the same period or periods during which the hedged transaction affects results of operations. Any gains or losses on the derivative instrument that represent either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in results of operations. For fair value hedges, changes in fair value of both the derivative instrument and the underlying hedged exposure are recognized in the Consolidated Statements of Operations and Comprehensive Income in the current period. The gain or loss on the derivative instrument is included in the same line item as the offsetting gain or loss on the hedged item in the Consolidated Statements of Operations and Comprehensive Income. Additionally, the Company enters into derivative agreements that are economic hedges which either do not qualify for hedge accounting or have not been designated as hedges. The changes in fair value of these undesignated derivative instruments are reflected in results of operations.

Embedded derivative instruments are separated from their host contracts and carried at fair value on the Consolidated Balance Sheets when: (a) the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract; (b) the hybrid instrument is not measured at fair value, with changes in fair value recognized in results of operations each period; and (c) the embedded derivative itself meets the definition of a derivative. The Company does not engage in derivative trading or speculative activities and had no embedded derivatives at December 31, 2015 or 2014.

Hydro One periodically develops hedging strategies taking into account risk management objectives. At the inception of a hedging relationship where the Company has elected to apply hedge accounting, Hydro One formally documents the relationship between the hedged item and the hedging instrument, the related risk management objective, the nature of the specific risk exposure being hedged, and the method for assessing the effectiveness of the hedging relationship. The

Company also assesses, both at the inception of the hedge and on a quarterly basis, whether the hedging instruments are effective in offsetting changes in fair values or cash flows of the hedged items.

Employee Future Benefits

Employee future benefits provided by Hydro One include pension, post-retirement and post-employment benefits. The costs of the Company's pension, post-retirement and post-employment benefit plans are recorded over the periods during which employees render service.

The Company recognizes the funded status of its defined benefit pension, post-retirement and post-employment plans on its Consolidated Balance Sheets and subsequently recognizes the changes in funded status at the end of each reporting year. Defined benefit pension, post-retirement and post-employment plans are considered to be underfunded when the projected benefit obligation exceeds the fair value of the plan assets. Liabilities are recognized on the Consolidated Balance Sheets for any net underfunded projected benefit obligation. The net underfunded projected benefit obligation may be disclosed as a current liability, long-term liability, or both. The current portion is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months exceeds the fair value of plan assets. If the fair value of plan assets exceeds the projected benefit obligation of the plan, an asset is recognized equal to the net overfunded projected benefit obligation. The post-retirement and post-employment benefit plans are unfunded because there are no related plan assets.

Pension benefits

Pension costs are recorded on an accrual basis for financial reporting purposes. Pension costs are actuarially determined using the projected benefit method prorated on service and are based on assumptions that reflect management's best estimate of the effect of future events, including future compensation increases. Past service costs from plan amendments and all actuarial gains and losses are amortized on a straight-line basis over the expected average remaining service period of active employees in the plan, and over the estimated remaining life expectancy of inactive employees in the plan. Pension plan assets, consisting primarily of listed equity securities as well as corporate and government debt securities, are fair valued at the end of each year. Hydro One records a regulatory asset equal to the net underfunded projected benefit obligation for its pension plan.

Post-retirement and post-employment benefits

Post-retirement and post-employment benefits are recorded and included in rates on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. Past service costs from plan amendments are amortized to results of operations based on the expected average remaining service period. Hydro One records a regulatory asset equal to the incremental net unfunded projected benefit obligation for post-retirement and post-employment plans recorded at each year end based on annual actuarial reports.

For post-retirement benefits, all actuarial gains or losses are deferred using the "corridor" approach. The amount calculated above the "corridor" is amortized to results of operations on a straight-line basis over the expected average remaining service life of active employees in the plan and over the remaining life expectancy of inactive employees in the plan. The post-retirement benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

For post-employment obligations, the associated regulatory liabilities representing actuarial gains on transition to US GAAP are amortized to results of operations based on the "corridor" approach. Post transition, the actuarial gains and losses on post-employment obligations that are incurred during the year are recognized immediately to results of operations. The post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

All post-retirement and post-employment future benefit costs are attributed to labour and are either charged to results of operations or capitalized as part of the cost of property, plant and equipment and intangible assets.

Multiemployer Pension Plan

Former employees of Haldimand Hydro and Woodstock Hydro participate in the Ontario Municipal Employees Retirement System Fund (OMERS Plan), a multiemployer, contributory, defined benefit public sector pension fund. Former employees of Norfolk Power Inc. (Norfolk Power) ceased to contribute to the OMERS Plan upon integration of Norfolk Power into

Hydro One Networks in September 2015. These employees are now included in Hydro One's defined benefit pension plan. OMERS Plan provides retirement pension payments based on members' length of service and salary. Both the participating employers and members are required to make plan contributions. The OMERS Plan assets are pooled together to provide benefits to all plan participants and the plan assets are not segregated by member entity. The OMERS Plan is registered with the Financial Services Commission of Ontario under Registration #0345983.

The OMERS Plan is accounted for as a defined contribution plan by Hydro One because it is not practicable to determine the present value of the Company's obligation, the fair value of plan assets or the related current service cost applicable to employees of Haldimand Hydro and Woodstock Hydro. Hydro One recognizes its contributions to the OMERS Plan as pension expense, with a portion being capitalized. The expensed amount is included in operation, maintenance and administration costs in the Consolidated Statements of Operations and Comprehensive Income.

Stock-Based Compensation

Hydro One measures share grant plans based on fair value of share grants as estimated based on the grant date share price. The costs are recognized in the financial statements using the graded-vesting attribution method for share grant plans that have both a performance condition and a service condition. The Company records a regulatory asset equal to the accrued costs of share grant plans recognized in each period, as management considers it to be probable that such costs will be recovered in the future through the rate-setting process.

The Company also records the liabilities associated with its Directors' Deferred Share Unit (DSU) Plan at fair value at each reporting date until settlement, recognizing compensation expense over the vesting period on a straight-line basis. The fair value of the DSU liability is based on the Company's common share closing price at the end of each reporting period.

Loss Contingencies

Hydro One is involved in certain legal and environmental matters that arise in the normal course of business. In the preparation of its Consolidated Financial Statements, management makes judgments regarding the future outcome of contingent events and records a loss for a contingency based on its best estimate when it is determined that such loss is probable and the amount of the loss can be reasonably estimated. Where the loss amount is recoverable in future rates, a regulatory asset is also recorded. When a range estimate for the probable loss exists and no amount within the range is a better estimate than any other amount, the Company records a loss at the minimum amount within the range.

Management regularly reviews current information available to determine whether recorded provisions should be adjusted and whether new provisions are required. Estimating probable losses may require analysis of multiple forecasts and scenarios that often depend on judgments about potential actions by third parties, such as federal, provincial and local courts or regulators. Contingent liabilities are often resolved over long periods of time. Amounts recorded in the Consolidated Financial Statements may differ from the actual outcome once the contingency is resolved. Such differences could have a material impact on future results of operations, financial position and cash flows of the Company.

Provisions are based upon current estimates and are subject to greater uncertainty where the projection period is lengthy. A significant upward or downward trend in the number of claims filed, the nature of the alleged injuries, and the average cost of resolving each claim could change the estimated provision, as could any substantial adverse or favourable verdict at trial. A federal or provincial legislative outcome or structured settlement could also change the estimated liability. Legal fees are expensed as incurred.

Environmental Liabilities

Environmental liabilities are recorded in respect of past contamination when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated. Hydro One records a liability for the estimated future expenditures associated with contaminated land assessment and remediation and for the phase-out and destruction of polychlorinated biphenyl (PCB)-contaminated mineral oil removed from electrical equipment, based on the present value of these estimated future expenditures. The Company determines the present value with a discount rate equal to its credit-adjusted risk-free interest rate on financial instruments with comparable maturities to the pattern of future environmental expenditures. As the Company anticipates that the future expenditures will continue to be recoverable in future rates, an offsetting regulatory asset has been recorded to reflect the future recovery of these environmental expenditures from customers. Hydro One reviews its estimates of future environmental expenditures annually, or more frequently if there are indications that circumstances have changed.

Asset Retirement Obligations

Asset retirement obligations are recorded for legal obligations associated with the future removal and disposal of long-lived assets. Such obligations may result from the acquisition, construction, development and/or normal use of the asset. Conditional asset retirement obligations are recorded when there is a legal obligation to perform a future asset retirement activity but where the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. In such a case, the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement.

When recording an asset retirement obligation, the present value of the estimated future expenditures required to complete the asset retirement activity is recorded in the period in which the obligation is incurred, if a reasonable estimate can be made. In general, the present value of the estimated future expenditures is added to the carrying amount of the associated asset and the resulting asset retirement cost is depreciated over the estimated useful life of the asset. Where an asset is no longer in service when an asset retirement obligation is recorded, the asset retirement cost is recorded in results of operations.

Some of the Company’s transmission and distribution assets, particularly those located on unowned easements and rights-of-way, may have asset retirement obligations, conditional or otherwise. The majority of the Company’s easements and rights-of-way are either of perpetual duration or are automatically renewed annually. Land rights with finite terms are generally subject to extension or renewal. As the Company expects to use the majority of its facilities in perpetuity, no asset retirement obligations currently exist for these assets. If, at some future date, a particular facility is shown not to meet the perpetuity assumption, it will be reviewed to determine whether an estimable asset retirement obligation exists. In such a case, an asset retirement obligation would be recorded at that time.

The Company’s asset retirement obligations recorded to date relate to estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities and with the decommissioning of specific switching stations located on unowned sites.

3. NEW ACCOUNTING PRONOUNCEMENTS

Recent Accounting Guidance Not Yet Adopted

In January 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. This ASU eliminates the requirements for reporting entities to consider whether an underlying event or transaction is extraordinary and to show the item separately in the income statement. This ASU is effective for fiscal years, and interim periods within these years, beginning after December 15, 2015. The adoption of this ASU is not anticipated to have an impact on the Company’s consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This ASU provides guidance about the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The adoption of this ASU is not anticipated to have an impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The recognition and measurement guidance for debt issuance costs are not affected. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Upon adoption of this ASU in the first quarter of 2016, the Company’s deferred debt issuance costs that are currently presented under other long-term assets will be reclassified as a deduction from the carrying amount of long-term debt.

In April 2015, the FASB issued ASU 2015-04, Compensation – Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets. This ASU permits an entity with a fiscal year-end that does not coincide with a month-end and an entity that has a significant event in an interim period that calls for a remeasurement of defined benefit plan assets and obligations to measure the defined benefit plan assets and obligations using the month-end that is closest to the entity’s fiscal year-end. This ASU is effective for fiscal years, and interim periods within these years, beginning after December 15, 2015. The adoption of this ASU is not anticipated to have an impact on the Company’s consolidated financial statements.

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In April 2015, the FASB issued ASU 2015-05, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license, as well as the related accounting for the arrangement. This ASU is effective for fiscal years, and interim periods within these years, beginning after December 15, 2015. The Company is currently assessing the impact of adoption of this ASU on its consolidated financial statements.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. This ASU defers by one year the effective date of ASU 2014-09, Revenue from Contracts with Customers (Topic 606) issued by the FASB in May 2014. ASU 2014-09 provides guidance on revenue recognition that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The guidance in ASU 2014-09 is now effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company is currently assessing the impact of adoption of ASU 2014-09 on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The amendments in this ASU require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period of a business combination in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Upon adoption of this ASU in the first quarter of 2016, the Company will apply the guidance in this ASU to future measurement adjustments related to business combinations, as applicable.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. The amendments in this ASU require that all deferred tax assets and liabilities be classified as noncurrent on the balance sheet. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Upon adoption of this ASU in the first quarter of 2017, the current portions of the Company's deferred income tax assets and liabilities will be reclassified as noncurrent assets and liabilities on the consolidated Balance Sheets.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This ASU requires equity investments to be measured at fair value with changes in fair value recognized in net income, and requires enhanced disclosures and presentation of financial assets and liabilities in the financial statements. This ASU also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company is currently assessing the impact of adoption of this ASU on its consolidated financial statements.

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4. BUSINESS COMBINATIONS

Acquisition of Woodstock Hydro

On October 31, 2015, Hydro One acquired 100% of the common shares of Woodstock Hydro, an electricity distribution company located in southwestern Ontario. The total purchase price for Woodstock Hydro was approximately $32 million.

The following table summarizes the preliminary determination of the fair value of the assets acquired and liabilities assumed:

(millions of Canadian dollars)	
Cash and cash equivalents	3
Working capital	4
Property, plant and equipment	28
Intangible assets	1
Deferred income tax assets	2
Goodwill	17
Long-term debt	(17)
Other long-term liabilities	(2)
Post-retirement and post-employment benefit liability	(1)
Derivative instruments	(3)
	32

The preliminary determination of the fair value of assets acquired and liabilities assumed has been based upon management's preliminary estimates and certain assumptions with respect to the fair values of the assets acquired and liabilities assumed. Due to the timing of the transaction, the Company has not yet completed the final fair value measurements as at December 31, 2015. In addition, the purchase agreement provides for final purchase price adjustments based on agreed working capital and other balances at the acquisition date which have not yet been finalized. The Company will continue to review information and perform further analysis prior to finalizing the total purchase price and the fair values of the assets acquired and liabilities assumed. The actual total purchase price and the fair values of the assets acquired and liabilities assumed may differ from the amounts above.

Goodwill of approximately $17 million arising from the Woodstock Hydro acquisition consists largely of the synergies and economies of scale expected from combining the operations of Hydro One and Woodstock Hydro. All of the goodwill was assigned to Hydro One's Distribution Business segment. Woodstock Hydro contributed revenues of $12 million and net income of $2 million to the Company's consolidated financial results for the year ended December 31, 2015. All costs related to the acquisition have been expensed through the Consolidated Statements of Operations and Comprehensive Income. Woodstock Hydro's financial information is not material to the Company's consolidated financial results for the year ended December 31, 2015 and therefore, has not been disclosed on a pro forma basis.

Hydro One Brampton Spin-off

On August 31, 2015, Hydro One completed the spin-off of its subsidiary, Hydro One Brampton. The spin-off was accounted as a non-monetary, nonreciprocal transfer with the Province, based on its carrying values at August 31, 2015. Transactions that immediately preceded the spin-off as well as the spin-off were as follows:

- Hydro One subscribed for 357 common shares of Hydro One Brampton for an aggregate subscription price of $53 million;
- Hydro One transferred to a company wholly owned by the Province all the issued and outstanding shares of Hydro One Brampton as a dividend-in-kind; and all of the long-term intercompany debt in aggregate principal amount of $193 million plus accrued interest of $3 million owed by Hydro One Brampton to Hydro One as a return of stated capital of $196 million on its common shares.

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In connection with the Hydro One Brampton spin-off, the following assets and liabilities of Hydro One Brampton were transferred:

(millions of Canadian dollars)	
Working capital	33
Property, plant and equipment and intangibles (net)	360
Other long-term assets	6
Long-term liabilities	(205)

As a result of the spin-off, goodwill related to Hydro One Brampton of $60 million was eliminated from the Consolidated Balance Sheet.

Acquisition of Haldimand Hydro

On June 30, 2015, Hydro One acquired 100% of the common shares of Haldimand Hydro, an electricity distribution company located in southwestern Ontario. The final total purchase price for Haldimand Hydro was approximately $73 million.

The following table summarizes the determination of the fair value of the assets acquired and liabilities assumed:

(millions of Canadian dollars)	
Cash and cash equivalents	3
Working capital	5
Property, plant and equipment	52
Deferred income tax assets	1
Goodwill	33
Long-term debt	(18)
Regulatory liabilities	(3)
	73

The determination of the fair value of assets acquired and liabilities assumed has been based upon management's estimates and certain assumptions with respect to the fair values of the assets acquired and liabilities assumed.

Goodwill of approximately $33 million arising from the Haldimand Hydro acquisition consists largely of the synergies and economies of scale expected from combining the operations of Hydro One and Haldimand Hydro. All of the goodwill was assigned to Hydro One's Distribution Business segment. Haldimand Hydro contributed revenues of $32 million and net income of $6 million to the Company's consolidated financial results for the year ended December 31, 2015. All costs related to the acquisition have been expensed through the Consolidated Statements of Operations and Comprehensive Income. Haldimand Hydro's financial information is not material to the Company's consolidated financial results for the year ended December 31, 2015 and therefore, has not been disclosed on a pro forma basis.

Acquisition of Norfolk Power

On August 29, 2014, Hydro One acquired 100% of the common shares of Norfolk Power, an electricity distribution and telecom company located in southwestern Ontario. Norfolk Power was a holding company for two subsidiaries, Norfolk Power Distribution Inc. (NPDI) and Norfolk Energy Inc. The total purchase price for Norfolk Power, net of the long-term debt assumed, was approximately $68 million. The purchase price was finalized in 2015, with no adjustments to the preliminary purchase price allocation as disclosed at December 31, 2014.

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The following table summarizes the determination of the fair value of the assets acquired and liabilities assumed:

(millions of Canadian dollars)	
Working capital	6
Property, plant and equipment	56
Deferred income tax assets	1
Goodwill	40
Bank indebtedness	(3)
Derivative instruments	(3)
Long-term debt	(26)
Post-retirement and post-employment benefit liability	(1)
Environmental liability	(1)
Long-term accounts payable and other liabilities	(1)
	68

The determination of the fair values of assets acquired and liabilities assumed has been based upon management's estimates and certain assumptions with respect to the fair values of the assets acquired and liabilities assumed.

Goodwill of approximately $40 million arising from the Norfolk Power acquisition consists largely of the synergies and economies of scale expected from combining the operations of Hydro One and Norfolk Power. All of the goodwill was assigned to Hydro One's Distribution Business segment. Norfolk Power contributed revenues of $18 million and net income of less than $1 million to the Company's consolidated financial results for the year ended December 31, 2014. All costs related to the acquisition have been expensed through the Consolidated Statements of Operations and Comprehensive Income. Norfolk Power's financial information was not material to the Company's consolidated financial results for the year ended December 31, 2014 and therefore, has not been disclosed on a pro forma basis.

5. DEPRECIATION AND AMORTIZATION

Year ended December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Depreciation of property, plant and equipment	595	565
Amortization of intangible assets	54	53
Asset removal costs	91	81
Amortization of regulatory assets	19	23
	759	722

6. FINANCING CHARGES

Year ended December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Interest on long-term debt	417	432
Other	16	12
Less: Interest capitalized on construction and development in progress	(52)	(49)
Gain on interest-rate swap agreements	(2)	(10)
Interest earned on investments	(3)	(6)
	376	379

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7. INCOME TAXES

Income taxes / provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and the effective tax rates is provided as follows:

Year ended December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Income taxes / provision for PILs at statutory rate	217	222
Increase (decrease) resulting from:		
Net temporary differences included in amounts charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(37)	(72)
Pension contributions in excess of pension expense	(25)	(24)
Overheads capitalized for accounting but deducted for tax purposes	(15)	(15)
Interest capitalized for accounting but deducted for tax purposes	(13)	(13)
Environmental expenditures	(5)	(5)
Non-refundable investment tax credits	(2)	(3)
Post-retirement and post-employment benefit expense in excess of cash payments	(1)	3
Prior year's adjustments	(1)	(4)
Other	(2)	(1)
Net temporary differences	(101)	(134)
Net tax benefit resulting from transition from PILs Regime to Federal Tax Regime	(19)	–
Hydro One Brampton spin-off	7	–
Net permanent differences	1	1
Total income taxes / provision for PILs	105	89

The major components of income tax expense are as follows:

Year ended December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Current income taxes / provision for PILs	2,949	79
Deferred income taxes / provision for (recovery of) PILs	(2,844)	10
Total income taxes / provision for PILs	105	89
Effective income tax rate	12.84%	10.63%

The provision for PILs / current income taxes is remitted to, or received from, the OEFC (PILs Regime) and the CRA (Federal Tax Regime). At December 31, 2015, $12 million (2014 – $39 million) due from the OEFC was included in due from related parties and $1 million (2014 – $nil) due from the CRA was included in prepaid expenses and other assets on the Consolidated Balance Sheet.

In connection with the IPO, Hydro One's exemption from tax under the Federal Tax Regime ceased to apply. Under the PILs Regime, Hydro One was deemed to have disposed of its assets immediately before it lost its tax exempt status under the Federal Tax Regime, resulting in Hydro One making payments in lieu of tax (Departure Tax) totalling $2.6 billion. To enable Hydro One to make the Departure Tax payment, the Province subscribed for common shares of Hydro One for $2.6 billion (See Note 18 – Share Capital). Hydro One used the proceeds of this share subscription to pay the Departure Tax.

At December 31, 2015, the total income taxes / provision for PILs includes deferred income taxes / recovery of PILs of $2,844 million (2014 – deferred provision of $10 million), including $2,810 million (2014 – $nil) resulting from transition from the PILs Regime to the Federal Tax Regime, that is not included in the rate-setting process, using the liability method of accounting. Deferred income taxes / PILs balances expected to be included in the rate-setting process are offset by regulatory assets and liabilities to reflect the anticipated recovery or disposition of these balances within future electricity rates.

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Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities arise from differences between the carrying amounts and tax basis of the Company's assets and liabilities. At December 31, 2015 and 2014, deferred income tax assets and liabilities consisted of the following:

December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Deferred income tax assets		
Depreciation and amortization in excess of capital cost allowance	937	(4)
Post-retirement and post-employment benefits expense in excess of cash payments	578	8
Environmental expenditures	75	4
Non-capital losses	62	–
Other	3	(1)
Total deferred income tax assets	1,655	7
Less: current portion	19	–
	1,636	7

December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Deferred income tax liabilities		
Regulatory amounts that are not recognized for tax purposes	(153)	(140)
Partnership interest	(41)	(38)
Goodwill	(10)	(21)
Capital cost allowance in excess of depreciation and amortization	(1)	(1,713)
Post-retirement and post-employment benefits expense in excess of cash payments	–	559
Environmental expenditures	–	59
Other	(2)	–
Total deferred income tax liabilities	(207)	(1,294)
Less: current portion	–	19
	(207)	(1,313)

During 2015 and 2014, there were no changes in the rate applicable to future taxes. The Company has recorded a valuation allowance in the amount of $278 million (2014 – $nil) in respect of non-depreciable capital property.

8. ACCOUNTS RECEIVABLE

December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Accounts receivable – billed	379	496
Accounts receivable – unbilled	458	586
Accounts receivable, gross	837	1,082
Allowance for doubtful accounts	(61)	(66)
Accounts receivable, net	776	1,016

In 2015, the Company revised the method to estimate the unbilled accounts receivable by using new technology that improved the estimation process. This change has been accounted for on a prospective basis in the consolidated financial statements at December 31, 2015. At December 31, 2015, the change in estimation technology resulted in a reduction in unbilled accounts receivable of approximately $121 million, with a corresponding offset to various components of the retail settlement variance accounts (RSVA). The change in estimate had no significant impact on 2015 net income.

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The following table shows the movements in the allowance for doubtful accounts for the years ended December 31, 2015 and 2014:

Year ended December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Allowance for doubtful accounts – January 1	(66)	(36)
Write-offs	37	24
Additions to allowance for doubtful accounts	(32)	(54)
Allowance for doubtful accounts – December 31	(61)	(66)

9. PROPERTY, PLANT AND EQUIPMENT

December 31, 2015 *(millions of Canadian dollars)*	**Property, Plant and Equipment**	**Accumulated Depreciation**	**Construction in Progress**	**Total**
Transmission	13,803	4,625	853	10,031
Distribution	9,205	3,177	238	6,266
Communication	1,165	704	28	489
Administration and service	1,531	848	36	719
Easements	523	60	–	463
	26,227	9,414	1,155	17,968

December 31, 2014 *(millions of Canadian dollars)*	**Property, Plant and Equipment**	**Accumulated Depreciation**	**Construction in Progress**	**Total**
Transmission	13,209	4,416	626	9,419
Distribution	9,076	3,225	320	6,171
Communication	1,100	615	56	541
Administration and service	1,502	793	23	732
Easements	623	85	–	538
	25,510	9,134	1,025	17,401

Financing charges capitalized on property, plant and equipment under construction were $50 million in 2015 (2014 – $48 million).

10. INTANGIBLE ASSETS

December 31, 2015 *(millions of Canadian dollars)*	**Intangible Assets**	**Accumulated Amortization**	**Development in Progress**	**Total**
Computer applications software	579	270	24	333
Other	7	4	–	3
	586	274	24	336

December 31, 2014 *(millions of Canadian dollars)*	**Intangible Assets**	**Accumulated Amortization**	**Development in Progress**	**Total**
Computer applications software	573	303	3	273
Other	5	2	–	3
	578	305	3	276

Financing charges capitalized to intangible assets under development were $1 million in 2015 (2014 – $1 million). The estimated annual amortization expense for intangible assets is as follows: 2016 – $57 million; 2017 – $57 million; 2018 – $57 million; 2019 – $47 million; and 2020 – $30 million.

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11. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-setting process. Hydro One has recorded the following regulatory assets and liabilities:

December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Regulatory assets:		
Deferred income tax regulatory asset	1,445	1,327
Pension benefit regulatory asset	952	1,236
Post-retirement and post-employment benefits	240	273
Environmental	207	239
RSVA	110	11
Pension cost variance	37	90
2015-2017 rate rider	20	–
DSC exemption	10	16
Share-based compensation	10	–
B2M LP start-up costs	8	–
OEB cost assessment differential	–	12
Other	12	27
Total regulatory assets	3,051	3,231
Less: current portion	36	31
	3,015	3,200
Regulatory liabilities:		
External revenue variance	87	54
Green Energy expenditure variance	76	83
CDM deferral variance	53	25
Deferred income tax regulatory liability	23	21
PST savings deferral	4	19
Other	12	13
Total regulatory liabilities	255	215
Less: current portion	19	47
	236	168

Deferred Income Tax Regulatory Asset and Liability

Deferred income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. The Company has recognized regulatory assets and liabilities that correspond to deferred income taxes that flow through the rate-setting process. In the absence of rate-regulated accounting, the Company's income tax expense would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be recovered through future rates. As a result, the 2015 income tax expense would have been higher by approximately $101 million (2014 – $132 million).

Pension Benefit Regulatory Asset

In accordance with OEB rate orders, pension costs are recorded on a cash basis as employer contributions are paid to the pension fund in accordance with the *Pension Benefits Act* (Ontario). The Company recognizes the net unfunded status of pension obligations on the Consolidated Balance Sheets with an offset to the associated regulatory asset. A regulatory asset is recognized because management considers it to be probable that pension benefit costs will be recovered in the future through the rate-setting process. The pension benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2015 OCI would have been higher by $284 million (2014 – lower by $391 million).

Post-Retirement and Post-Employment Benefits

The Company recognizes the net unfunded status of post-retirement and post-employment obligations on the Consolidated Balance Sheets with an incremental offset to the associated regulatory assets. A regulatory asset is recognized because

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management considers it to be probable that post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process. The post-retirement and post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2015 OCI would have been higher by $33 million (2014 – $35 million).

Environmental

Hydro One records a liability for the estimated future expenditures required to remediate environmental contamination. Because such expenditures are expected to be recoverable in future rates, the Company has recorded an equivalent amount as a regulatory asset. In 2015, the environmental regulatory asset decreased by $24 million (2014 – $33 million) to reflect related changes in the Company's PCB liability, and increased by $1 million (2014 – $13 million) due to changes in the land assessment and remediation liability. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred and charged to environmental liabilities. The OEB has the discretion to examine and assess the prudency and the timing of recovery of all of Hydro One's actual environmental expenditures. In the absence of rate-regulated accounting, 2015 operation, maintenance and administration expenses would have been lower by $23 million (2014 – $20 million). In addition, 2015 amortization expense would have been lower by $19 million (2014 – $18 million), and 2015 financing charges would have been higher by $10 million (2014 – $11 million).

RSVA

Hydro One has deferred certain retail settlement variance amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. In March 2015, the OEB approved the disposition of the total RSVA balance accumulated from January 2012 to December 2013, including accrued interest, to be recovered through the 2015-2017 Rate Rider. In 2015, the Company revised its method to estimate the unbilled accounts receivable based on new technology implemented to improve the accuracy of the estimation process. At December 31, 2015, the change in estimate reduced unbilled accounts receivable by approximately $121 million, with a corresponding offset to various components of RSVA. The change in estimate had no significant impact on 2015 net income.

Pension Cost Variance

A pension cost variance account was established for Hydro One Networks' transmission and distribution businesses to track the difference between the actual pension expenses incurred and estimated pension costs approved by the OEB. The balance in this regulatory account reflects the excess of pension costs paid as compared to OEB-approved amounts. In March 2015, the OEB approved the disposition of the distribution business portion of the total pension cost variance account at December 31, 2013, including accrued interest, which will be recovered through the 2015-2017 Rate Rider. In the absence of rate-regulated accounting, 2015 revenue would have been lower by $6 million (2014 – $10 million).

2015-2017 Rate Rider

In March 2015, as part of its decision on Hydro One Networks' Distribution rate application for 2015-2019 the OEB approved the disposition of certain deferral and variance accounts, including RSVAs and accrued interest. The 2015-2017 Rate Rider account includes the balances approved for disposition by the OEB and will be disposed over a 32-month period in accordance with the OEB decision.

DSC Exemption

In June 2010, Hydro One Networks filed an application with the OEB regarding the OEB's new cost responsibility rules contained in the OEB's October 2009 Notice of Amendment to the Distribution System Code (DSC), with respect to the connection of certain renewable generators that were already connected or that had received a connection impact assessment prior to October 21, 2009. The application sought approval to record and defer the unanticipated costs incurred by Hydro One Networks that resulted from the connection of certain renewable generation facilities. The OEB ruled that identified specific expenditures can be recorded in a deferral account subject to the OEB's review in subsequent Hydro One Network distribution applications. In March 2015, the OEB approved the disposition of the DSC exemption deferral account at December 31, 2013, including accrued interest, which will be recovered through the 2015-2017 Rate Rider. In addition, the OEB also approved Hydro One's request to discontinue this deferral account, and there were no additions to this regulatory account in 2015.

Share-based Compensation

The Company recognizes costs associated with stock-based compensation in a regulatory asset as management considers it probable that stock-based compensation costs will be recovered in the future through the rate-setting process. At December 31, 2015 the stock-based compensation costs relate to the share grant plans, are measured at fair value estimated based on grant date share price and recognized using the graded-vesting attribution method. In the absence of rate-regulated accounting 2015 operation, maintenance and administration expenses would have been higher by $5 million (2014 – $nil).

B2M LP Start-up Costs

In December 2015, OEB issued its decision on B2M LP's application for 2015-2019 and as part of the decision approved the recovery of $8 million of start-up costs relating to B2M LP. The costs will be recovered over a 4 year period beginning in 2016, in accordance with the OEB decision.

OEB Cost Assessment Differential

In April 2010, the OEB issued its Decision regarding Hydro One Networks' distribution rate application for 2010 and 2011. As part of this decision, the OEB also approved the distribution-related OEB Cost Assessment Differential Account to record the difference between the amounts approved in rates and actual expenditures with respect to the OEB's cost assessments. In March 2015, the OEB approved the disposition of the OEB Cost Assessment Differential Account at December 31, 2013, including accrued interest, which will be recovered through the 2015-2017 Rate Rider. In addition, the OEB also approved Hydro One's request to discontinue this deferral account, and there were no additions to this regulatory account in 2015.

External Revenue Variance

In May 2009, the OEB approved forecasted amounts related to export service revenue, external revenue from secondary land use, and external revenue from station maintenance and engineering and construction work. In November 2012, the OEB again approved forecasted amounts related to these revenue categories and extended the scope to encompass all other external revenues. The external revenue variance account balance reflects the excess of actual external revenues compared to the OEB-approved forecasted amounts.

Green Energy Expenditure Variance

In April 2010, the OEB requested the establishment of deferral accounts which capture the difference between the revenue recorded on the basis of Green Energy Plan expenditures incurred and the actual recoveries received.

CDM Deferral Variance Account

As part of Hydro One Networks' application for 2013 and 2014 transmission rates, Hydro One agreed to establish a new regulatory deferral variance account to track the impact of actual Conservation and Demand Management (CDM) and demand response results on the load forecast compared to the estimated load forecast included in the revenue requirement. At December 31, 2014, the balance in the CDM deferral variance account relates to the actual 2013 CDM compared to the amounts included in 2013 revenue requirement. At December 31, 2015, the balance also includes the difference between the actual 2014 CDM compared to the amounts included in 2014 revenue requirement. The OEB rate order specifically states that the IESO (Ontario Power Authority (OPA) prior to January 1, 2015) data used to calculate the difference between forecasted and actual savings will be provided one year in arrears, and as a result, no amount should be recorded in advance of notification from the IESO of actual results.

PST Savings Deferral Account

The provincial sales tax (PST) and goods and services tax (GST) were harmonized in July 2010. Unlike the GST, the PST was included in operation, maintenance and administration expenses or capital expenditures for past revenue requirements approved during a full cost-of-service hearing. Under the harmonized sales tax (HST) regime, the HST included in operation, maintenance and administration expenses or capital expenditures is not a cost ultimately borne by the Company and as such, a refund of the prior PST element in the approved revenue requirement is applicable, and calculations for tracking and refund were requested by the OEB. For Hydro One Networks' transmission revenue requirement, PST was included between July 1, 2010 and December 31, 2010 and recorded in a deferral account, per direction from the OEB. For Hydro One Networks' distribution revenue requirement, PST was included between July 1, 2010 and December 31, 2015 and recorded in a deferral

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account, as directed by the OEB. In March 2015, the OEB approved the disposition of the PST Savings Deferral account at December 31, 2013, including accrued interest, which will be recovered through the 2015-2017 Rate Rider.

12. DEBT AND CREDIT AGREEMENTS

Short-Term Notes and Credit Facilities

Hydro One meets its short-term liquidity requirements in part through the issuance of commercial paper under Hydro One Inc.'s Commercial Paper Program which has a maximum authorized amount of $1.5 billion. These short-term notes are denominated in Canadian dollars with varying maturities not exceeding 365 days. The Commercial Paper Program is supported by Hydro One Inc.'s committed revolving credit facilities totalling $2.3 billion. At December 31, 2015, Hydro One Inc. had $1,491 million in commercial paper borrowings outstanding (December 31, 2014 – $nil).

At December 31, 2015, Hydro One's consolidated committed, unsecured and unused credit facilities totalling $2,550 million consisted of the following:

(millions of Canadian dollars)	**Maturity**	**Amount**
Hydro One Inc.		
Revolving standby credit facility	June 2020	1,500
Three-year senior, revolving term credit facility	October 2018	800
Hydro One		
Five-year senior, revolving term credit facility	November 2020	250
Total		2,550

The Company may use the credit facilities for working capital and general corporate purposes. If used, interest on the credit facilities would apply based on Canadian benchmark rates. The obligation of each lender to make any credit extension under its credit facility is subject to various conditions including, among other things, that no event of default has occurred or would result from such credit extension.

Long-Term Debt

At December 31, 2015, all of the Company's long-term debt was issued by Hydro One Inc. under Hydro One Inc.'s Medium-Term Note (MTN) Program. The maximum authorized principal amount of notes issuable by Hydro One Inc. under this program is $3.5 billion. At December 31, 2015, $3.5 billion remained available for issuance until January 2018.

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The following table presents Hydro One Inc.'s outstanding long-term debt at December 31, 2015 and 2014:

December 31 *(millions of Canadian dollars)*	**2015**	**2014**
2.95% Series 21 notes due 2015[1]	–	500
Floating-rate Series 22 notes due 2015[2]	–	50
4.64% Series 10 notes due 2016	450	450
Floating-rate Series 27 notes due 2016[2]	50	50
5.18% Series 13 notes due 2017	600	600
2.78% Series 28 notes due 2018	750	750
Floating-rate Series 31 notes due 2019[2]	228	228
4.40% Series 20 notes due 2020	300	300
1.62% Series 33 notes due 2020[1]	350	–
3.20% Series 25 notes due 2022	600	600
7.35% Debentures due 2030	400	400
6.93% Series 2 notes due 2032	500	500
6.35% Series 4 notes due 2034	385	385
5.36% Series 9 notes due 2036	600	600
4.89% Series 12 notes due 2037	400	400
6.03% Series 17 notes due 2039	300	300
5.49% Series 18 notes due 2040	500	500
4.39% Series 23 notes due 2041	300	300
6.59% Series 5 notes due 2043	315	315
4.59% Series 29 notes due 2043	435	435
4.17% Series 32 notes due 2044	350	350
5.00% Series 11 notes due 2046	325	325
4.00% Series 24 notes due 2051	225	225
3.79% Series 26 notes due 2062	310	310
4.29% Series 30 notes due 2064	50	50
	8,723	8,923
Add: Unrealized mark-to-market loss[1]	1	2
Less: Long-term debt payable within one year	(500)	(552)
Long-term debt	8,224	8,373

[1] The unrealized mark-to-market loss relates to $50 million of the Series 33 notes due 2020 (2014 – $250 million of the Series 21 notes due 2015). The unrealized mark-to-market loss is offset by a $1 million (2014 – $2 million) unrealized mark-to-market gain on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges. See Note 13 – Fair Value of Financial Instruments and Risk Management for details of fair value hedges.

[2] The interest rates of the floating-rate notes are referenced to the 3-month Canadian dollar bankers' acceptance rate, plus a margin.

In 2015, Hydro One Inc. issued $350 million (2014 – $628 million) of long-term debt under the MTN Program, and repaid $550 million of long-term debt MTN Program notes (2014 – $750 million).

Long-term debt totalling $35 million assumed by Hydro One Inc. as part of the Haldimand Hydro and Woodstock Hydro acquisitions was repaid in 2015.

The long-term debt is unsecured and denominated in Canadian dollars. The long-term debt is summarized by the number of years to maturity in Note 13 – Fair Value of Financial Instruments and Risk Management.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition focuses on an exit price, which is the price that would be received in the sale of an asset or the amount that would be paid to transfer a liability.

Hydro One classifies its fair value measurements based on the following hierarchy, as prescribed by the accounting guidance for fair value, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

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Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that Hydro One has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.

Level 2 inputs are those other than quoted market prices that are observable, either directly or indirectly, for an asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest-rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates. A Level 2 measurement cannot have more than an insignificant portion of the valuation based on unobservable inputs.

Level 3 inputs are any fair value measurements that include unobservable inputs for the asset or liability for more than an insignificant portion of the valuation. A Level 3 measurement may be based primarily on Level 2 inputs.

Non-Derivative Financial Assets and Liabilities

At December 31, 2015 and 2014, the Company's carrying amounts of accounts receivable, due from related parties, cash and cash equivalents, bank indebtedness, short-term notes payable, accounts payable, and due to related parties are representative of fair value because of the short-term nature of these instruments.

Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Company's long-term debt at December 31, 2015 and 2014 are as follows:

December 31 *(millions of Canadian dollars)*	**2015 Carrying Value**	**2015 Fair Value**	**2014 Carrying Value**	**2014 Fair Value**
Long-term debt				
$250 million of MTN Series 21 notes[1]	–	–	252	252
$50 million of MTN Series 33 notes[1]	51	51	–	–
Other notes and debentures[2]	8,673	9,942	8,673	10,159
	8,724	9,993	8,925	10,411

[1] The fair value of the $50 million MTN Series 33 notes and $250 million of the MTN Series 21 notes subject to hedging is primarily based on changes in the present value of future cash flows due to a change in the yield in the swap market for the related swap (hedged risk).

[2] The fair value of other notes and debentures, and the portion of the MTN Series 21 notes that are not subject to hedging, represents the market value of the notes and debentures and is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

Fair Value Measurements of Derivative Instruments

At December 31, 2015, Hydro One Inc. had an interest-rate swap in the amount of $50 million (2014 – $250 million) that was used to convert fixed-rate debt to floating-rate debt. This swap is classified as a fair value hedge. Hydro One Inc.'s fair value hedge exposure was equal to about 1% (2014 – 3%) of its total long-term debt of $8,724 million (2014 – $8,925 million). At December 31, 2015, Hydro One Inc.'s interest-rate swap designated as a fair value hedge was as follows:

- a $50 million fixed-to-floating interest-rate swap agreement to convert $50 million of the $350 million MTN Series 33 notes maturing April 30, 2020 into three-month variable rate debt.

At December 31, 2015, the Company had no interest-rate swaps classified as undesignated contracts (2014 – $409 million).

As part of the Norfolk Power and Woodstock Hydro acquisitions, Hydro One Inc. assumed liabilities associated with unrealized losses on derivative instruments (interest-rate swaps) totalling $6 million. Hydro One Inc. extinguished the interest rate swaps and repaid these liabilities in 2015.

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Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at December 31, 2015 and 2014 is as follows:

December 31, 2015 *(millions of Canadian dollars)*	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash and cash equivalents	94	94	94	–	–
Derivative instruments					
Fair value hedge – interest-rate swap	1	1	1	–	–
	95	95	95	–	–
Liabilities:					
Short-term notes payable	1,491	1,491	1,491	–	–
Long-term debt	8,724	9,993	–	9,993	–
	10,215	11,484	1,491	9,993	–

December 31, 2014 *(millions of Canadian dollars)*	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash and cash equivalents	100	100	100	–	–
Derivative instruments					
Fair value hedges – interest-rate swaps	2	2	–	2	–
	102	102	100	2	–
Liabilities:					
Bank indebtedness	2	2	2	–	–
Derivative instruments					
Undesignated contracts – interest-rate swaps	3	3	–	3	–
Long-term debt	8,925	10,411	–	10,411	–
	8,930	10,416	2	10,414	–

Cash and cash equivalents include cash and short-term investments. The carrying values are representative of fair value because of the short-term nature of these instruments.

The fair value of the derivative instruments is determined using inputs other than quoted prices that are observable for these assets. The fair value is primarily based on the present value of future cash flows using a swap yield curve to determine the assumptions for interest rates.

The fair value of the hedged portion of the long-term debt is primarily based on the present value of future cash flows using a swap yield curve to determine the assumption for interest rates. The fair value of the unhedged portion of the long-term debt is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

There were no significant transfers between any of the fair value levels during the years ended December 31, 2015 and 2014.

Risk Management

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company’s business.

Market Risk

Market risk refers primarily to the risk of loss that results from changes in costs, foreign exchange rates and interest rates. The Company is exposed to fluctuations in interest rates as its regulated return on equity is derived using a formulaic approach that takes into account anticipated interest rates, but is not currently exposed to material commodity price risk or material foreign exchange risk.

The OEB-approved adjustment formula for calculating return on equity in a deemed regulatory capital structure of 60% debt and 40% equity provides for increases and decreases depending on changes in benchmark rates of return for Government of Canada debt. The Company estimates that a 1% decrease in the forecasted long-term Government of Canada bond yield used in determining its rate of return would reduce the Company's transmission business' 2015 net income by approximately $20 million (2014 – $20 million) and its distribution business' 2015 net income by approximately $13 million (2014 – $10 million). The Company's net income is adversely impacted by rising interest rates as the Company's maturing long-term debt is refinanced at market rates. The Company periodically utilizes interest rate swap agreements to mitigate elements of interest rate risk.

The Company uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. The Company also uses derivative financial instruments to manage interest-rate risk. The Company utilizes interest-rate swaps, which are typically designated as fair value hedges, as a means to manage its interest rate exposure to achieve a lower cost of debt. In addition, the Company may utilize interest-rate derivative instruments to lock in interest-rate levels in anticipation of future financing.

A hypothetical 10% increase in the interest rates associated with variable-rate debt would not have resulted in a significant decrease in Hydro One's net income for the years ended December 31, 2015 or 2014.

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Consolidated Statements of Operations and Comprehensive Income. The net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the years ended December 31, 2015 and 2014 are included in financing charges as follows:

Year ended December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Unrealized loss (gain) on hedged debt	(1)	(3)
Unrealized loss (gain) on fair value interest-rate swaps	1	3
Net unrealized loss (gain)	–	–

At December 31, 2015, Hydro One had $50 million (2014 – $250 million) of notional amounts of fair value hedges outstanding related to interest-rate swaps, with assets at fair value of $1 million (2014 – $2 million). During the years ended December 31, 2015 and 2014, there was no significant impact on the results of operations as a result of any ineffectiveness attributable to fair value hedges.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At December 31, 2015 and 2014, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a significant amount of revenue from any single customer. At December 31, 2015 and 2014, there was no significant accounts receivable balance due from any single customer.

At December 31, 2015, the Company's provision for bad debts was $61 million (2014 – $66 million). Adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. At December 31, 2015, approximately 6% (2014 – 6%) of the Company's net accounts receivable were aged more than 60 days.

Hydro One manages its counterparty credit risk through various techniques including: entering into transactions with highly-rated counterparties; limiting total exposure levels with individual counterparties consistent with the Company's Board-approved Credit Risk Policy; entering into master agreements which enable net settlement and the contractual right of offset; and monitoring the financial condition of counterparties. In addition to payment netting language in master agreements, the Company establishes credit limits, margining thresholds and collateral requirements for each counterparty. Counterparty credit limits are based on an internal credit review that considers a variety of factors, including the results of a scoring model, leverage, liquidity, profitability, credit ratings and risk management capabilities. The determination of credit exposure for a particular counterparty is the sum of current exposure plus the potential future exposure with that counterparty. The current exposure is calculated as the sum of the principal value of money market exposures and the market value of all contracts that have a positive mark-to-market position on the measurement date. The Company would offset the positive market values against negative values with the same counterparty only where permitted by the existence of a legal netting agreement such as an International Swap Dealers Association master agreement. The potential future exposure represents a safety margin to protect against future fluctuations of interest rates, currencies, equities, and commodities. It is calculated based on factors developed by the Bank of International Settlements, following extensive historical analysis of random fluctuations of interest rates and currencies. To the extent that a counterparty's margining thresholds are exceeded, the counterparty is required to post collateral with the Company as specified in each agreement. The Company monitors current and forward credit exposure to counterparties both on an individual and an aggregate basis. The Company's credit risk for accounts receivable is limited to the carrying amounts on the Consolidated Balance Sheets.

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At December 31, 2015, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was $1 million (2014 – $3 million). At December 31, 2015, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, had a credit rating of investment grade, with one financial institution as the counterparty.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Hydro One meets its short-term liquidity requirements using cash and cash equivalents on hand, funds from operations, the issuance of commercial paper, and the revolving standby facilities totaling $2,550 million. The short-term liquidity under the Commercial Paper Program, and anticipated levels of funds from operations should be sufficient to fund normal operating requirements.

At December 31, 2015, accounts payable and accrued liabilities in the amount of $753 million (2014 – $784 million) were expected to be settled in cash at their carrying amounts within the next 12 months.

At December 31, 2015, Hydro One Inc. had long-term debt in the principal amount of $8,723 million (2014 – $8,923 million). Principal repayments and related weighted average interest rates are summarized by the number of years to maturity in the following table:

Years to Maturity	Long-term Debt Principal Repayments *(millions of Canadian dollars)*	Weighted Average Interest Rate *(%)*
1 year	500	4.3
2 years	600	5.2
3 years	750	2.8
4 years	228	1.2
5 years	650	2.9
	2,728	3.5
6 – 10 years	600	3.2
Over 10 years	5,395	5.4
	8,723	4.7

Interest payments on long-term debt are summarized by year in the following table:

Year	Interest Payments *(millions of Canadian dollars)*
2016	397
2017	386
2018	355
2019	332
2020	322
	1,792
2021-2025	1,496
2026 +	4,080
	7,368

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14. CAPITAL MANAGEMENT

The Company's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates, and to deliver appropriate financial returns. In order to ensure ongoing access to capital, the Company targets to maintain strong credit quality. The Company considers its capital structure to consist of shareholders' equity, including preferred shares, long-term debt, short-term notes payable, and cash and cash equivalents. At December 31, 2015 and 2014, the Company's capital structure was as follows:

December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Long-term debt payable within one year	500	552
Short-term notes payable	1,491	–
Less: cash and cash equivalents	94	100
	1,897	452
Long-term debt	8,224	8,373
Preferred shares	418	323
Common shares	5,623	3,314
Retained earnings	3,806	4,249
	9,429	7,563
Total capital	19,968	16,711

Hydro One Inc. has customary covenants typically associated with long-term debt. Among other things, Hydro One Inc.'s long-term debt and credit facility covenants limit the permissible debt to 75% of its total capitalization, limit the ability to sell assets and impose a negative pledge provision, subject to customary exceptions. At December 31, 2015 and 2014, Hydro One Inc. was in compliance with all of these covenants and limitations.

15. PENSION AND POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS

Hydro One has a defined benefit pension plan, a supplementary pension plan, and post-retirement and post-employment benefit plans. The defined benefit pension plan (Pension Plan) is contributory and covers all regular employees of Hydro One and its subsidiaries, except employees of Haldimand Hydro and Woodstock Hydro. Employees of Haldimand Hydro and Woodstock Hydro participate in the OMERS Plan. The supplementary pension plan provides members of the Pension Plan with benefits that would have been earned and payable under the Pension Plan but for limitations imposed by the *Income Tax Act* (Canada). The supplementary pension plan obligation is included with other post-retirement and post-employment benefit obligations on the Consolidated Balance Sheets.

The OMERS Plan

Hydro One contributions to the OMERS Plan for the year ended December 31, 2015 were $2 million (2014 – $2 million). At December 31, 2015, Company contributions payable included in accrued liabilities on the Consolidated Balance Sheets were less than $1 million (2014 – less than $1 million). Hydro One contributions do not represent more than 5% of total contributions to the OMERS Plan, as indicated in OMERS' most recently available annual report for the year ended December 31, 2014.

At December 31, 2014, the OMERS Plan was 90.8% funded, with an unfunded liability of $7.1 billion. This unfunded liability could result in future payments by participating employers and members. Hydro One future contributions could be increased substantially if other entities withdraw from the plan.

Pension Plan, Post-Retirement and Post-Employment Plans

The Pension Plan provides benefits based on highest three-year average pensionable earnings. For new management employees who commenced employment on or after January 1, 2004, and for new Society of Energy Professionals-represented staff hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are indexed to inflation.

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Company and employee contributions to the Pension Plan are based on actuarial valuations performed at least every three years. Annual Pension Plan contributions for 2015 of $177 million (2014 – $174 million) were based on an actuarial valuation effective December 31, 2013 and the expected level of pensionable earnings. Estimated annual Pension Plan contributions for 2016 are approximately $180 million, based on the actuarial valuation as at December 31, 2013 and projected levels of pensionable earnings. Future minimum contributions beyond 2016 will be based on an actuarial valuation effective no later than December 31, 2016. Contributions are payable one month in arrears. All of the contributions are expected to be in the form of cash.

Hydro One recognizes the overfunded or underfunded status of the Pension Plan, and post-retirement and post-employment benefit plans (Plans) as an asset or liability on its Consolidated Balance Sheets, with offsetting regulatory assets and liabilities as appropriate. The underfunded benefit obligations for the Plans, in the absence of regulatory accounting, would be recognized in AOCI. The impact of changes in assumptions used to measure pension, post-retirement and post-employment benefit obligations is generally recognized over the expected average remaining service period of the employees. The measurement date for the Plans is December 31.

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Year ended December 31 *(millions of Canadian dollars)*	**2015**	**2014**	**2015**	**2014**
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	7,535	6,576	1,582	1,531
Current service cost	186	145	43	41
Interest cost	302	312	64	73
Benefits paid	(334)	(319)	(47)	(45)
Net actuarial loss (gain)	(6)	821	(27)	(18)
Change due to Hydro One Brampton spin-off	–	–	(5)	–
Projected benefit obligation, end of year	7,683	7,535	1,610	1,582
Change in plan assets				
Fair value of plan assets, beginning of year	6,299	5,731	–	–
Actual return on plan assets	582	703	–	–
Benefits paid	(334)	(319)	–	–
Employer contributions	177	174	–	–
Employee contributions	40	35	–	–
Administrative expenses	(33)	(25)	–	–
Fair value of plan assets, end of year	6,731	6,299	–	–
Unfunded status	952	1,236	1,610	1,582

Hydro One presents its benefit obligations and plan assets net on its Consolidated Balance Sheets within the following line items:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
December 31 *(millions of Canadian dollars)*	**2015**	**2014**	**2015**	**2014**
Accrued liabilities	–	–	50	49
Pension benefit liability	952	1,236	–	–
Post-retirement and post-employment benefit liability	–	–	1,560	1,533
Unfunded status	952	1,236	1,610	1,582

The funded or unfunded status of the pension, post-retirement and post-employment benefit plans refers to the difference between the fair value of plan assets and the projected benefit obligations for the Plans. The funded/unfunded status changes over time due to several factors, including contribution levels, assumed discount rates and actual returns on plan assets.

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The following table provides the projected benefit obligation (PBO), accumulated benefit obligation (ABO) and fair value of plan assets for the Pension Plan:

December 31 *(millions of Canadian dollars)*	**2015**	**2014**
PBO	7,683	7,535
ABO	7,020	6,887
Fair value of plan assets	6,731	6,299

On an ABO basis, the Pension Plan was funded at 96% at December 31, 2015 (2014 – 91%). On a PBO basis, the Pension Plan was funded at 88% at December 31, 2015 (2014 – 84%). The ABO differs from the PBO in that the ABO includes no assumption about future compensation levels.

Components of Net Periodic Benefit Costs

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2015 and 2014 for the Pension Plan:

Year ended December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Current service cost, net of employee contributions	146	110
Interest cost	302	312
Expected return on plan assets, net of expenses	(406)	(369)
Actuarial loss amortization	119	103
Prior service cost amortization	2	2
Net periodic benefit costs	163	158
Charged to results of operations[1]	81	81

[1] The Company follows the cash basis of accounting consistent with the inclusion of pension costs in OEB-approved rates. During the year ended December 31, 2015, pension costs of $177 million (2014 – $174 million) were attributed to labour, of which $81 million (2014 – $81 million) was charged to operations, and $96 million (2014 – $93 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2015 and 2014 for the post-retirement and post-employment benefit plans:

Year ended December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Current service cost, net of employee contributions	43	41
Interest cost	64	73
Actuarial loss amortization	14	18
Prior service cost amortization	–	2
Net periodic benefit costs	121	134
Charged to results of operations	55	62

Assumptions

The measurement of the obligations of the Plans and the costs of providing benefits under the Plans involves various factors, including the development of valuation assumptions and accounting policy elections. When developing the required assumptions, the Company considers historical information as well as future expectations. The measurement of benefit obligations and costs is impacted by several assumptions including the discount rate applied to benefit obligations, the long-term expected rate of return on plan assets, Hydro One's expected level of contributions to the Plans, the incidence of mortality, the expected remaining service period of plan participants, the level of compensation and rate of compensation increases, employee age, length of service, and the anticipated rate of increase of health care costs, among other factors. The impact of changes in assumptions used to measure the obligations of the Plans is generally recognized over the expected average remaining service period of the plan participants. In selecting the expected rate of return on plan assets, Hydro One considers historical economic indicators that impact asset returns, as well as expectations regarding future long-term capital market performance, weighted by target asset class allocations. In general, equity securities, real estate and private equity investments are forecasted to have higher returns than fixed-income securities.

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The following weighted average assumptions were used to determine the benefit obligations at December 31, 2015 and 2014:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Year ended December 31	**2015**	**2014**	**2015**	**2014**
Significant assumptions:				
Weighted average discount rate	4.00%	4.00%	4.10%	4.00%
Rate of compensation scale escalation (without merit)	2.50%	2.50%	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%	2.00%	2.00%
Rate of increase in health care cost trends[1]	–	–	4.36%	4.36%

[1] 6.38% per annum in 2016, grading down to 4.36% per annum in and after 2031 (2014 – 6.52% in 2015, grading down to 4.36% per annum in and after 2031)

The following weighted average assumptions were used to determine the net periodic benefit costs for the years ended December 31, 2015 and 2014. Assumptions used to determine current year-end benefit obligations are the assumptions used to estimate the subsequent year's net periodic benefit costs.

Year ended December 31	**2015**	**2014**
Pension Benefits:		
Weighted average expected rate of return on plan assets	6.50%	6.50%
Weighted average discount rate	4.00%	4.75%
Rate of compensation scale escalation (without merit)	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%
Average remaining service life of employees *(years)*	13	11
Post-Retirement and Post-Employment Benefits:		
Weighted average discount rate	4.00%	4.75%
Rate of compensation scale escalation (without merit)	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%
Average remaining service life of employees *(years)*	13.8	12
Rate of increase in health care cost trends[1]	4.36%	4.39%

[1] 6.52% per annum in 2015, grading down to 4.36% per annum in and after 2031 (2014 – 6.81% in 2014, grading down to 4.39% per annum in and after 2031)

The discount rate used to determine the current year pension obligation and the subsequent year's net periodic benefit costs is based on a yield curve approach. Under the yield curve approach, expected future benefit payments for each plan are discounted by a rate on a third party bond yield curve corresponding to each duration. The yield curve is based on "AA" long-term corporate bonds. A single discount rate is calculated that would yield the same present value as the sum of the discounted cash flows.

The effect of a 1% change in health care cost trends on the projected benefit obligation for the post-retirement and post-employment benefits at December 31, 2015 and 2014 is as follows:

December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Projected benefit obligation:		
Effect of a 1% increase in health care cost trends	252	248
Effect of a 1% decrease in health care cost trends	(196)	(193)

The effect of a 1% change in health care cost trends on the service cost and interest cost for the post-retirement and post-employment benefits for the years ended December 31, 2015 and 2014 is as follows:

Year ended December 31 (millions of Canadian dollars)	**2015**	**2014**
Service cost and interest cost:		
Effect of a 1% increase in health care cost trends	22	23
Effect of a 1% decrease in health care cost trends	(16)	(17)

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The following approximate life expectancies were used in the mortality assumptions to determine the projected benefit obligations for the pension and post-retirement and post-employment plans at December 31, 2015 and 2014:

December 31, 2015				December 31, 2014			
Life expectancy at 65 for a member currently at				Life expectancy at 65 for a member currently at			
Age 65		Age 45		Age 65		Age 45	
Male	Female	Male	Female	Male	Female	Male	Female
23	25	24	26	23	25	24	26

Estimated Future Benefit Payments

At December 31, 2015, estimated future benefit payments to the participants of the Plans were:

(millions of Canadian dollars)	Pension Benefits	Post-Retirement and Post-Employment Benefits
2016	316	53
2017	328	55
2018	339	57
2019	350	59
2020	360	61
2021 through to 2025	1,928	342
Total estimated future benefit payments through to 2025	3,621	627

Components of Regulatory Assets

A portion of actuarial gains and losses and prior service costs is recorded within regulatory assets on Hydro One's Consolidated Balance Sheets to reflect the expected regulatory inclusion of these amounts in future rates, which would otherwise be recorded in OCI. The following table provides the actuarial gains and losses and prior service costs recorded within regulatory assets:

Year ended December 31 *(millions of Canadian dollars)*	2015	2014
Pension Benefits:		
Actuarial loss (gain) for the year	(181)	511
Actuarial loss amortization	(119)	(103)
Prior service cost amortization	(2)	(2)
	(302)	406
Post-Retirement and Post-Employment Benefits:		
Actuarial loss (gain) for the year	(27)	(18)
Actuarial loss amortization	(14)	(18)
Prior service cost amortization	–	(2)
	(41)	(38)

The following table provides the components of regulatory assets that have not been recognized as components of net periodic benefit costs for the years ended December 31, 2015 and 2014:

Year ended December 31 *(millions of Canadian dollars)*	2015	2014
Pension Benefits:		
Prior service cost	–	2
Actuarial loss	952	1,234
	952	1,236
Post-Retirement and Post-Employment Benefits:		
Actuarial loss	240	273
	240	273

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The following table provides the components of regulatory assets at December 31 that are expected to be amortized as components of net periodic benefit costs in the following year:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
December 31 *(millions of Canadian dollars)*	**2015**	**2014**	**2015**	**2014**
Prior service cost	–	2	–	–
Actuarial loss	96	119	8	10
	96	121	8	10

Pension Plan Assets

Investment Strategy

On a regular basis, Hydro One evaluates its investment strategy to ensure that Pension Plan assets will be sufficient to pay Pension Plan benefits when due. As part of this ongoing evaluation, Hydro One may make changes to its targeted asset allocation and investment strategy. The Pension Plan is managed at a net asset level. The main objective of the Pension Plan is to sustain a certain level of net assets in order to meet the pension obligations of the Company. The Pension Plan fulfills its primary objective by adhering to specific investment policies outlined in its Summary of Investment Policies and Procedures (SIPP), which is reviewed and approved by the Human Resource Committee of Hydro One's Board of Directors. The Company manages net assets by engaging knowledgeable external investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the approved SIPP. The performance of the managers is monitored through a governance structure. Increases in net assets are a direct result of investment income generated by investments held by the Pension Plan and contributions to the Pension Plan by eligible employees and by the Company. The main use of net assets is for benefit payments to eligible Pension Plan members.

Pension Plan Asset Mix

At December 31, 2015, the Pension Plan target asset allocations and weighted average asset allocations were as follows:

	Target Allocation (%)	Pension Plan Assets (%)
Equity securities	55.0	58.2
Debt securities	35.0	36.4
Other[1]	10.0	5.4
	100.0	100.0

[1] Other investments include real estate and infrastructure investments.

At December 31, 2015, the Pension Plan held $9 million Hydro One corporate bonds (2014 – $nil) and $420 million of debt securities of the Province (2014 – $340 million).

Concentrations of Credit Risk

Hydro One evaluated its Pension Plan's asset portfolio for the existence of significant concentrations of credit risk as at December 31, 2015 and 2014. Concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, concentrations in a type of industry, and concentrations in individual funds. At December 31, 2015 and 2014, there were no significant concentrations (defined as greater than 10% of plan assets) of risk in the Pension Plan's assets.

The Pension Plan manages its counterparty credit risk with respect to bonds by investing in investment-grade and government bonds and with respect to derivative instruments by transacting only with financial institutions rated at least "A+" by Standard & Poor's Rating Services, DBRS Limited, and Fitch Ratings Inc., and "A1" by Moody's Investors Service, and also by utilizing exposure limits to each counterparty and ensuring that exposure is diversified across counterparties. The risk of default on transactions in listed securities is considered minimal, as the trade will fail if either party to the transaction does not meet its obligation.

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Fair Value Measurements

The following tables present the Pension Plan assets measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy at December 31, 2015 and 2014:

December 31, 2015 *(millions of Canadian dollars)*	**Level 1**	**Level 2**	**Level 3**	**Total**
Pooled funds	–	23	299	322
Cash and cash equivalents	191	–	–	191
Short-term securities	–	80	–	80
Real estate	–	–	2	2
Corporate shares – Canadian	923	–	–	923
Corporate shares – Foreign	2,931	–	–	2,931
Bonds and debentures – Canadian	–	2,074	–	2,074
Bonds and debentures – Foreign	–	199	–	199
Total fair value of plan assets[1]	4,045	2,376	301	6,722

[1] At December 31, 2015, the total fair value of Pension Plan assets excludes $27 million of interest and dividends receivable, and $18 million relating to accruals for pension administration expense and foreign exchange contracts payable.

December 31, 2014 *(millions of Canadian dollars)*	**Level 1**	**Level 2**	**Level 3**	**Total**
Pooled funds	–	18	142	160
Cash and cash equivalents	166	–	–	166
Short-term securities	–	176	–	176
Real estate	–	–	2	2
Corporate shares – Canadian	1,008	–	–	1,008
Corporate shares – Foreign	2,766	–	–	2,766
Bonds and debentures – Canadian	–	1,799	–	1,799
Bonds and debentures – Foreign	–	211	–	211
Total fair value of plan assets[1]	3,940	2,204	144	6,288

[1] At December 31, 2014, the total fair value of Pension Plan assets excludes $18 million of interest and dividends receivable, and $7 million relating to accruals for pension administration expense.

See Note 13 – Fair Value of Financial Instruments and Risk Management for a description of levels within the fair value hierarchy.

Changes in the Fair Value of Financial Instruments Classified in Level 3

The following table summarizes the changes in fair value of financial instruments classified in Level 3 for the years ended December 31, 2015 and 2014. The Pension Plan classifies financial instruments as Level 3 when the fair value is measured based on at least one significant input that is not observable in the markets or due to lack of liquidity in certain markets. The gains and losses presented in the table below may include changes in fair value based on both observable and unobservable inputs.

Year ended December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Fair value, beginning of year	144	119
Realized and unrealized gains	51	30
Purchases	106	23
Sales and disbursements	–	(28)
Fair value, end of year	301	144

There were no significant transfers between any of the fair value levels during the years ended December 31, 2015 and 2014.

The Company performs sensitivity analysis for fair value measurements classified in Level 3, substituting the unobservable inputs with one or more reasonably possible alternative assumptions. These sensitivity analyses resulted in negligible changes in the fair value of financial instruments classified in this level.

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Valuation Techniques Used to Determine Fair Value

Pooled Funds

The pooled fund category mainly consists of private equity, real estate and infrastructure investments. Private equity investments represent private equity funds that invest in operating companies that are not publicly traded on a stock exchange. Investment strategies in private equity include limited partnerships in businesses that are characterized by high internal growth and operational efficiencies, venture capital, leveraged buyouts and special situations such as distressed investments. Real estate and infrastructure investments represent funds that invest in real assets which are not publicly traded on a stock exchange. Investment strategies in real estate include limited partnerships that seek to generate a total return through income and capital growth by investing primarily in global and Canadian limited partnerships. Investment strategies in infrastructure include limited partnerships in core infrastructure assets focusing on assets that generate stable, long-term cash flows and deliver incremental returns relative to conventional fixed-income investments. Private equity, real estate and infrastructure valuations are reported by the fund manager and are based on the valuation of the underlying investments which includes inputs such as cost, operating results, discounted future cash flows and market-based comparable data. Since these valuation inputs are not highly observable, private equity and infrastructure investments have been categorized as Level 3 within pooled funds.

Cash Equivalents

Demand cash deposits held with banks and cash held by the investment managers are considered cash equivalents and are included in the fair value measurements hierarchy as Level 1.

Short-Term Securities

Short-term securities are valued at cost plus accrued interest, which approximates fair value due to their short-term nature. Short-term securities have been categorized as Level 2.

Real Estate

Real estate investments represent investments in holding companies that invest in real estate properties. The investments in the holding companies are valued using net asset values reported by the fund manager. Real estate investments are categorized as Level 3.

Corporate Shares

Corporate shares are valued based on quoted prices in active markets and are categorized as Level 1. Investments denominated in foreign currencies are translated into Canadian currency at year-end rates of exchange.

Bonds and Debentures

Bonds and debentures are presented at published closing trade quotations, and are categorized as Level 2.

16. ENVIRONMENTAL LIABILITIES

The following tables show the movements in environmental liabilities for the years ended December 31, 2015 and 2014:

Year ended December 31, 2015 *(millions of Canadian dollars)*	**PCB**	**Land Assessment and Remediation**	**Total**
Environmental liabilities, January 1	172	67	239
Interest accretion	8	2	10
Expenditures	(8)	(11)	(19)
Revaluation adjustment	(24)	1	(23)
Environmental liabilities, December 31	148	59	207
Less: current portion	12	10	22
	136	49	185

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Year ended December 31, 2014 *(millions of Canadian dollars)*	**PCB**	**Land Assessment and Remediation**	**Total**
Environmental liabilities, January 1	201	65	266
Interest accretion	9	2	11
Expenditures	(5)	(13)	(18)
Revaluation adjustment	(33)	13	(20)
Environmental liabilities, December 31	172	67	239
Less: current portion	8	10	18
	164	57	221

The following tables show the reconciliation between the undiscounted basis of the environmental liabilities and the amount recognized on the Consolidated Balance Sheets after factoring in the discount rate:

December 31, 2015 *(millions of Canadian dollars)*	**PCB**	**Land Assessment and Remediation**	**Total**
Undiscounted environmental liabilities	168	61	229
Less: discounting accumulated liabilities to present value	20	2	22
Discounted environmental liabilities	148	59	207

December 31, 2014 *(millions of Canadian dollars)*	**PCB**	**Land Assessment and Remediation**	**Total**
Undiscounted environmental liabilities	195	70	265
Less: discounting accumulated liabilities to present value	23	3	26
Discounted environmental liabilities	172	67	239

At December 31, 2015, the estimated future environmental expenditures were as follows:

(millions of Canadian dollars)	
2016	22
2017	25
2018	26
2019	28
2020	30
Thereafter	98
	229

Hydro One records a liability for the estimated future expenditures for land assessment and remediation and for the phase-out and destruction of PCB-contaminated mineral oil removed from electrical equipment when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated.

There are uncertainties in estimating future environmental costs due to potential external events such as changes in legislation or regulations, and advances in remediation technologies. In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation rate assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 2.0% to 6.3%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Company's environmental liabilities represent management's best estimates of the present value of costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. In addition, with respect to the PCB environmental liability, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures.

PCBs

The Environment Canada regulations, enacted under the *Canadian Environmental Protection Act,* 1999, govern the management, storage and disposal of PCBs based on certain criteria, including type of equipment, in-use status, and PCB-contamination thresholds. Under current regulations, Hydro One's PCBs have to be disposed of by the end of 2025, with the exception of specifically exempted equipment. Contaminated equipment will generally be replaced, or will be decontaminated by removing PCB-contaminated insulating oil and retro filling with replacement oil that contains PCBs in concentrations of less than 2 ppm.

The Company's best estimate of the total estimated future expenditures to comply with current PCB regulations is $168 million (2014 – $195 million). These expenditures are expected to be incurred over the period from 2016 to 2025. As a result of its annual review of environmental liabilities, the Company recorded a revaluation adjustment in 2015 to reduce the PCB environmental liability by $24 million (2014 – $33 million).

Land Assessment and Remediation

The Company's best estimate of the total estimated future expenditures to complete its land assessment and remediation program is $61 million (2014 –$70 million). These expenditures are expected to be incurred over the period from 2016 to 2023. As a result of its annual review of environmental liabilities, the Company recorded a revaluation adjustment in 2015 to increase the land assessment and remediation environmental liability by $1 million (2014 – $13 million).

17. ASSET RETIREMENT OBLIGATIONS

Hydro One records a liability for the estimated future expenditures for the removal and disposal of asbestos-containing materials installed in some of its facilities and for the decommissioning of specific switching stations located on unowned sites. Asset retirement obligations, which represent legal obligations associated with the retirement of certain tangible long-lived assets, are computed as the present value of the projected expenditures for the future retirement of specific assets and are recognized in the period in which the liability is incurred, if a reasonable estimate of fair value can be made. If the asset remains in service at the recognition date, the present value of the liability is added to the carrying amount of the associated asset in the period the liability is incurred and this additional carrying amount is depreciated over the remaining life of the asset. If an asset retirement obligation is recorded in respect of an out-of-service asset, the asset retirement cost is charged to results of operations. Subsequent to the initial recognition, the liability is adjusted for any revisions to the estimated future cash flows associated with the asset retirement obligation, which can occur due to a number of factors including, but not limited to, cost escalation, changes in technology applicable to the assets to be retired, changes in legislation or regulations, as well as for accretion of the liability due to the passage of time until the obligation is settled. Depreciation expense is adjusted prospectively for any increases or decreases to the carrying amount of the associated asset.

In determining the amounts to be recorded as asset retirement obligations, the Company estimates the current fair value for completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 3.0% to 5.0%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Company's asset retirement obligations represent management's best estimates of the cost required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. Asset retirement obligations are reviewed annually or more frequently if significant changes in regulations or other relevant factors occur. Estimate changes are accounted for prospectively.

At December 31, 2015, Hydro One had recorded asset retirement obligations of $9 million (2014 – $9 million), consisting of $8 million (2014 – $8 million) related to the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities, as well as $1 million (2014 – $1 million) related to the future decommissioning and removal of two switching stations. The amount of interest recorded is nominal.

18. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At December 31, 2015, the Company had 595,000,000 common shares issued and outstanding.

The amount and timing of any dividends payable by Hydro One is at the discretion of the Hydro One Board of Directors and is established on the basis of Hydro One's results of operations, maintenance of its deemed regulatory capital structure, financial condition, cash requirements, the satisfaction of solvency tests imposed by corporate laws for the declaration and payment of dividends and other factors that the Board of Directors may consider relevant.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At December 31, 2015, two series of preferred shares are authorized for issuance: the Series 1 preferred shares and the Series 2 preferred shares. At December 31, 2015, the Company had 16,720,000 Series 1 preferred shares and no Series 2 preferred shares issued and outstanding.

Hydro One may from time to time issue preferred shares in one or more series. Prior to issuing shares in a series, the Hydro One Board of Directors is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of preferred shares. Holders of Hydro One's preferred shares are not entitled to receive notice of, to attend or to vote at any meeting of the shareholders of Hydro One except that votes may be granted to a series of preferred shares when dividends have not been paid on any one or more series as determined by the applicable series provisions. Each series of preferred shares ranks on parity with every other series of preferred shares, and are entitled to a preference over the common shares and any other shares ranking junior to the preferred shares, with respect to dividends and the distribution of assets and return of capital in the event of the liquidation, dissolution or winding up of Hydro One.

For the period commencing from the date of issue of the Series 1 preferred shares and ending on and including November 19, 2020, the holders of Series 1 preferred shares are entitled to receive fixed cumulative preferential dividends of $1.0625 per share per year, if and when declared by the Board of Directors, payable quarterly. The dividend rate will reset on November 20, 2020 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 3.53%. The Series 1 preferred shares will not be redeemable by Hydro One prior to November 20, 2020, but will be redeemable by Hydro One on November 20, 2020 and on November 20 of every fifth year thereafter at a redemption price equal to $25.00 for each Series 1 preferred share redeemed, plus any accrued or unpaid dividends. The holders of Series 1 preferred shares will have the right, at their option, on November 20, 2020 and on November 20 of every fifth year thereafter, to convert all or any of their Series 1 preferred shares into Series 2 preferred shares on a one-for-one basis, subject to certain restrictions on conversion. At December 31, 2015, Series 1 preferred dividends of $3 million or $0.18 per share were in arrears.

The holders of Series 2 preferred shares will be entitled to receive quarterly floating rate cumulative dividends, if and when declared by the Board of Directors, at a rate equal to the sum of the then three-month Government of Canada treasury bill rate and 3.53% as reset quarterly. The Series 2 preferred shares will not be redeemable by Hydro One prior to November 20, 2020, but will be redeemable by Hydro One at a redemption price equal to $25.00 for each Series 2 preferred share redeemed, if redeemed on November 20, 2025 or on November 20 of every fifth year thereafter, or $25.50 for each Series 2 preferred share redeemed, if redeemed on any other date after November 20, 2020, in each case plus any accrued or unpaid dividends. The holders of Series 2 preferred shares will have the right, at their option, on November 20, 2025 and on November 20 of every fifth year thereafter, to convert all or any of their Series 2 preferred shares into Series 1 preferred shares on a one-for-one basis, subject to certain restrictions on conversion.

Prior to October 31, 2015, the Company had 12,920,000 issued and outstanding 5.5% cumulative preferred shares held by the Province, with a redemption value of $25 per share or $323 million total value. These preferred shares were entitled to an annual cumulative dividend of $18 million, or $1.375 per share, which was payable on a quarterly basis. These preferred shares had conditions for their redemption that were outside the control of the Company because the Province could exercise its right to redeem in the event of change in ownership without approval of the Company's Board of Directors. At December 31, 2014, these preferred shares were classified on the Consolidated Balance Sheet as temporary equity because the redemption feature was outside the control of the Company. On October 31, 2015, these preferred shares were purchased and cancelled by Hydro One Inc. See "Reorganization" below for further details.

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Reorganization

Prior to the completion of the IPO, Hydro One and Hydro One Inc. completed a series of transactions (Pre-IPO Transactions) that resulted in, among other things, on October 31, 2015, Hydro One acquiring all of the issued and outstanding shares of Hydro One Inc. from the Province and issuing new common shares and preferred shares to the Province.

The following tables present the changes to common and preferred shares as a result of Pre-IPO Transactions, as well as the movement in the number of common and preferred shares during the year ended December 31, 2015. There was no movement in common or preferred shares during the year ended December 31, 2014.

(millions of Canadian dollars)	Common Shares	Preferred Shares Equity	Preferred Shares Temporary Equity
Common shares issued – purchase and cancellation of preferred shares *(c)*	323	–	(323)
Acquisition of Hydro One Inc. *(d)*			
Common shares of Hydro One Inc. acquired by Hydro One	(3,441)	–	–
Common shares of Hydro One issued to Province	3,023	–	–
Preferred shares of Hydro One issued to Province	–	418	–
Common shares issued *(e)*	2,600	–	–
Total Pre-IPO Transactions adjustment	2,505	418	(323)

(number of shares)	Common Shares	Preferred Shares Equity	Preferred Shares Temporary Equity
Number of shares – January 1, 2015 *(a)*	100,000	–	12,920,000
Common shares issued *(b)*	100,000	–	–
Pre-IPO Transactions:			
Common shares issued – purchase and cancellation of preferred shares *(c)*	2,640	–	(12,920,000)
Acquisition of Hydro One Inc.*(d)*			
Common shares of Hydro One Inc. acquired by Hydro One	(102,640)	–	–
Common shares of Hydro One issued to Province	12,197,500,000	–	–
Preferred shares of Hydro One issued to Province	–	16,720,000	–
Common shares issued *(e)*	2,600,000,000	–	–
Common shares consolidation *(f)*	(14,202,600,000)	–	–
Number of shares – December 31, 2015	595,000,000	16,720,000	–

(a) At January 1, 2015, all common and preferred shares represent the shares of Hydro One Inc.

(b) On August 31, 2015, Hydro One was incorporated under the *Business Corporations Act* (Ontario) and issued 100,000 common shares to the Province for proceeds of $100,000.

(c) On October 31, 2015, Hydro One Inc. purchased and cancelled 12,920,000 preferred shares of Hydro One Inc. previously held by the Province for cancellation at a price equal to the redemption price of the preferred shares totaling $323 million, which was satisfied by the issuance to the Province of 2,640 common shares of Hydro One Inc.

(d) On October 31, 2015, all of the issued and outstanding common shares of Hydro One Inc. were acquired by Hydro One from the Province in return for 12,197,500,000 common shares of Hydro One and 16,720,000 Series 1 preferred shares of Hydro One.

(e) On November 4, 2015, Hydro One issued 2.6 billion common shares to the Province for proceeds of $2.6 billion.

(f) On November 4, 2015, the common shares of Hydro One were consolidated by way of articles of amendment approved by the Province as sole shareholder so that, after such consolidation, 595,000,000 common shares of Hydro One were issued and outstanding.

Share Ownership Restrictions

The *Electricity Act* imposes share ownership restrictions on securities of Hydro One carrying a voting right (Voting Securities). These restrictions provide that no person or company (or combination of persons or companies acting jointly or in concert) may beneficially own or exercise control or direction over more than 10% of any class or series of Voting Securities, including common shares of the Company (Share Ownership Restrictions). The Share Ownership Restrictions do

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not apply to Voting Securities held by the Province, nor to an underwriter who holds Voting Securities solely for the purpose of distributing those securities to purchasers who comply with the Share Ownership Restrictions.

19. DIVIDENDS

In 2015, preferred share dividends in the amount of $13 million (2014 – $18 million) and common share dividends in the amount of $875 million (2014 – $269 million) were declared.

In August 2015, Hydro One declared a dividend in-kind on its common shares payable in all of the issued and outstanding shares of Hydro One Brampton. See Note 4 – Business Combinations.

20. EARNINGS PER SHARE

Basic earnings per common share (EPS) is calculated by dividing net income attributable to common shareholders of Hydro One by the weighted average number of common shares outstanding.

Diluted EPS is calculated by dividing net income attributable to common shareholders of Hydro One by the weighted average number of common shares outstanding adjusted for the effects of potentially dilutive share grant plans, which is calculated using the treasury stock method.

Year ended December 31	**2015**	**2014**
Net income attributable to common shareholders *(millions of Canadian dollars)*	690	731
Weighted average number of shares		
Basic	496,272,733	477,837,100
Effect of dilutive share grant plans *(Note 21)*	94,691	–
Diluted	496,367,424	477,837,100
EPS		
Basic	$1.39	$1.53
Diluted	$1.39	$1.53

Pro forma Adjusted non-GAAP Basic and Diluted EPS

The following pro forma adjusted non-GAAP basic and diluted EPS has been prepared by management on a supplementary basis which assumes that the total number of common shares outstanding was 595,000,000 in each of the years ended December 31, 2015 and 2014. The supplementary pro forma disclosure is used internally by management subsequent to the IPO of Hydro One to assess the Company's performance and is considered useful because it eliminates the impact of the issuance of common shares to the Province prior to the IPO. Prior to the IPO, the Province was the sole shareholder of Hydro One and disclosure of EPS did not provide meaningful information. EPS is considered an important measure and management believes that presenting it for all periods based on the number of outstanding shares on, and subsequent to, the IPO provides users with a basis to evaluate the operations of the Company with comparable companies.

Year ended December 31 *(unaudited)*	**2015**	**2014**
Net income attributable to common shareholders *(millions of Canadian dollars)*	690	731
Pro forma weighted average number of common shares		
Basic	595,000,000	595,000,000
Effect of dilutive share grant plans *(Note 21)*	94,691	–
Diluted	595,094,691	595,000,000
Pro forma adjusted non-GAAP EPS		
Basic	$1.16	$1.23
Diluted	$1.16	$1.23

The above pro forma adjusted non-GAAP basic and diluted EPS does not have any standardized meaning in US GAAP.

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21. STOCK-BASED COMPENSATION

Share Grant Plans

At December 31, 2015, Hydro One had two share grant plans, one for the benefit of certain members of the Power Workers' Union (the PWU Share Grant Plan) and one for the benefit of certain members of The Society of Energy Professionals (the Society Share Grant Plan).

The PWU Share Grant Plan provides for the issuance of common shares of Hydro One from treasury to certain eligible members of the Power Workers' Union annually, commencing on April 1, 2017 and continuing until the earlier of April 1, 2028 or the date an eligible employee no longer meets the eligibility criteria of the PWU Share Grant Plan. To be eligible, an employee must be a member of the Pension Plan on April 1, 2015, be employed on the date annual share issuance occurs and continue to have under 35 years of service. The requisite service period for the PWU share grant plan begins on July 3, 2015, which is the date the share grant plans were ratified by the PWU. The number of common shares issued annually to each eligible employee will be equal to 2.7% of such eligible employee's salary as at April 1, 2015, divided by $20.50, being the price of the common shares of Hydro One in the IPO. The aggregate number of common shares issuable under the PWU Share Grant Plan shall not exceed 3,981,763 common shares. In 2015, 3,979,062 common shares were granted under the PWU Share Grant Plan.

The Society Share Grant Plan provides for the issuance of common shares of Hydro One from treasury to certain eligible members of The Society of Energy Professionals annually, commencing on April 1, 2018 and continuing until the earlier of April 1, 2029 or the date an eligible employee no longer meets the eligibility criteria of the Society Share Grant Plan. To be eligible, an employee must be a member of the Pension Plan on September 1, 2015, be employed on the date annual share issuance occurs and continue to have under 35 years of service. Therefore the requisite service period for the Society Share Grant Plan begins on September 1, 2015. The number of common shares issued annually to each eligible employee will be equal to 2.0% of such eligible employee's salary as at September 1, 2015, divided by $20.50, being the price of the common shares of Hydro One in the IPO. The aggregate number of common shares issuable under the Society Share Grant Plan shall not exceed 1,434,686 common shares. In 2015, 1,433,292 common shares were granted under the Society Share Grant Plan.

The fair value of the share grants is estimated based on the grant date share price of $20.50 and is recognized using the graded-vesting attribution method as the share grant plans have both a performance condition and a service condition. Total fair value of shares granted in 2015 is $111 million (2014 – $nil). Total share based compensation recognized during 2015 was $10 million (2014 – $nil) and was recorded as a regulatory asset. The historical turnover rate relating to members of the Power Workers' Union and The Society of Energy Professionals is not believed to be reflective of a future turnover rate due to benefits conferred by the share grant plans. At December 31, 2015 the Company expects all eligible employees to receive the share grants until such time that they no longer meet the eligibility criteria and therefore, a forfeiture rate of 0% is assumed in amounts recognized during 2015. The Company will reevaluate this assumption in subsequent periods based on actual experience.

A summary of share grant activity under the Plan as of December 31, 2015 is presented below:

Years ended December 31, 2015	**Share Grants** *(Number)*	**Weighted-Average Price**
Outstanding – beginning of year	–	–
Granted (non-vested)	5,412,354	$20.50
Outstanding – end of year	5,412,354	–

Directors' DSU Plan

Under the Company's Directors' DSU Plan, directors can elect to receive credit for their annual cash retainer in a notional account of DSUs in lieu of cash. Hydro One's Board of Directors may also determine from time to time that special circumstances exist that would reasonably justify the grant of DSUs to a director as compensation in addition to any regular retainer or fee to which the director is entitled.

Each DSU represents a unit with an underlying value equivalent to the value of one common share of the Company and is entitled to accrue common share dividend equivalents in the form of additional DSUs at the time dividends are paid, subsequent to declaration by Hydro One's Board of Directors.

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(number of DSUs)	**2015**	**2014**
DSUs outstanding – January 1	–	–
DSUs granted	20,525	–
DSUs outstanding – December 31	20,525	–

For the year ended December 31, 2015, an expense of less than $1 million (2014 – $nil) was recognized in earnings with respect to the DSU Plan. At December 31, 2015, a liability of less than $1 million (December 31, 2014 – $nil), related to outstanding DSUs has been recorded at the closing price of the Company's common shares of $22.29 and is included in accrued liabilities on the Balance Sheet.

Employee Share Ownership Plan

Effective December 15, 2015, Hydro One established an Employee Share Ownership Plan (ESOP). Under the ESOP, certain eligible management and non-represented employees may contribute between 1% and 6% of their base salary towards purchasing common shares of Hydro One. The Company will match 50% of the employee's contributions, up to a maximum Company contribution of $25,000 per calendar year. No contributions were made under the ESOP during 2015.

Long-term Incentive Plan

Effective August 31, 2015, the Board of Directors of Hydro One adopted a Long-term Incentive Plan (LTIP). Under the LTIP, long-term incentives will be granted to certain executive and management employees, and all equity-based awards will be settled in newly-issued shares of Hydro One from treasury, consistent with the provisions of the plan. The aggregate number of shares issuable under the LTIP shall not exceed 11,900,000 shares.

The LTIP provides flexibility to award a range of vehicles, including restricted share units, performance share units, stock options, share appreciation rights, restricted shares, deferred share units and other share-based awards. The mix of vehicles is intended to vary by role to recognize the level of executive accountability for overall business performance. No long-term incentives were awarded during 2015.

22. NONCONTROLLING INTEREST

On December 16, 2014, the relevant Bruce to Milton Line transmission assets totalling $526 million were transferred from Hydro One Networks to B2M LP. This was financed by 60% debt ($316 million) and 40% equity ($210 million). On December 17, 2014, the Saugeen Ojibway Nation (SON) acquired a 34.2% equity interest in B2M LP for consideration of $72 million, representing the fair value of the equity interest acquired. The SON's initial investment in B2M LP consists of $50 million of Class A units and $22 million of Class B units.

The Class B units have a mandatory put option which requires that upon the occurrence of an enforcement event (i.e. an event of default such as a debt default by the SON or insolvency event), Hydro One purchase the Class B units of B2M LP for net book value on the redemption date. The noncontrolling interest relating to the Class B units is classified on the Consolidated Balance Sheet as temporary equity because the redemption feature is outside the control of the Company. The balance of the noncontrolling interest is classified within equity.

The following tables show the movements in noncontrolling interest for the years ended December 31, 2015 and December 31, 2014:

Year ended December 31, 2015 *(millions of Canadian dollars)*	**Temporary Equity**	**Equity**	**Total**
Noncontrolling interest – January 1, 2015	21	49	70
Distributions to noncontrolling interest	(1)	(4)	(5)
Net income attributable to noncontrolling interest	3	7	10
Noncontrolling interest – December 31, 2015	23	52	75

Year ended December 31, 2014 *(millions of Canadian dollars)*	**Temporary Equity**	**Equity**	**Total**
Noncontrolling interest – January 1, 2014	–	–	–
Amount contributed by noncontrolling interest	22	50	72
Net income (loss) attributable to noncontrolling interest	(1)	(1)	(2)
Noncontrolling interest – December 31, 2014	21	49	70

23. RELATED PARTY TRANSACTIONS

The Province is the majority shareholder of Hydro One. The OEFC, IESO, Ontario Power Generation Inc. (OPG), the OEB, and Hydro One Brampton are related parties to Hydro One because they are controlled or significantly influenced by the Province. Effective January 1, 2015, the OPA and IESO have merged and are now operating as IESO.

The Province

- During 2015, Hydro One paid dividends to the Province totalling $888 million (2014 – $287 million). In addition, on August 31, 2015, Hydro One declared a dividend in-kind on its common shares payable in all of the issued and outstanding shares of Hydro One Brampton. See Note 4 – Business Combinations.
- On November 4, 2015, Hydro One issued common shares to the Province for proceeds of $2.6 billion. See Note 18 – Share Capital.
- During 2015, Hydro One Inc. incurred certain IPO related expenses totaling $7 million, which will be reimbursed to the Company by the Province.

IESO

- In 2015, Hydro One purchased power in the amount of $2,318 million (2014 – $2,601 million) from the IESO-administered electricity market.
- Hydro One receives revenues for transmission services from the IESO, based on OEB-approved uniform transmission rates. Transmission revenues for 2015 include $1,548 million (2014 – $1,556 million) related to these services.
- Hydro One receives amounts for rural rate protection from the IESO. Distribution revenues for 2015 include $127 million (2014 – $127 million) related to this program.
- Hydro One also receives revenues related to the supply of electricity to remote northern communities from the IESO. Distribution revenues for 2015 include $32 million (2014 – $32 million) related to these services.
- The IESO (OPA prior to January 1, 2015) funds substantially all of the Company's CDM programs. The funding includes program costs, incentives, and management fees. During 2015, Hydro One received $70 million (2014 – $33 million) related to these programs.

OPG

- In 2015, Hydro One purchased power in the amount of $11 million (2014 – $23 million) from OPG.
- Hydro One has service level agreements with OPG. These services include field, engineering, logistics and telecommunications services. In 2015, revenues related to the provision of construction and equipment maintenance services with respect to these service level agreements were $7 million (2014 – $12 million), primarily for the Transmission Business. Operation, maintenance and administration costs in 2015 and 2014 related to the purchase of services with respect to these service level agreements were not significant.

OEFC

- In 2015, Hydro One made PILs to the OEFC totalling $2.9 billion (2014 – $86 million), including Departure Tax of $2.6 billion (2014 – $nil).
- In 2015, Hydro One purchased power in the amount of $6 million (2014 – $9 million) from power contracts administered by the OEFC.
- During 2015, Hydro One paid a $8 million (2014 – $5 million) fee to the OEFC for indemnification against adverse claims in excess of $10 million paid by the OEFC with respect to certain of Ontario Hydro's businesses transferred to Hydro One on April 1, 1999. Hydro One has not made any claims under the indemnity since it was put in place in 1999. Hydro One and the OEFC, with the consent of the Minister of Finance, terminated the indemnity fee effective October 31, 2015.
- PILs and payments in lieu of property taxes were paid to the OEFC.

OEB

- Under the *Ontario Energy Board Act, 1998*, the OEB is required to recover all of its annual operating costs from gas and electricity distributors and transmitters. In 2015, Hydro One incurred $12 million (2014 – $12 million) in OEB fees.

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2015 and 2014

Hydro One Brampton

- Effective August 31, 2015, Hydro One Brampton is no longer a subsidiary of Hydro One, but is indirectly owned by the Province. For change in ownership of Hydro One Brampton, see Note 4 – Business Combinations.
- Subsequent to August 31, 2015, Hydro One continues to provide certain management, administrative and smart meter network services to Hydro One Brampton pursuant to certain service level agreements, which are provided at market rates. These agreements will continue until the end of 2016 (except in the case of smart meter network services, which will continue until the end of 2017). Hydro One Brampton has the right to renew these agreements (other than smart meter network services) for additional one-year terms to end no later than December 31, 2019. Additionally, on August 31, 2015, Hydro One Inc. and Hydro One Brampton entered into a license agreement which permits Hydro One Brampton to use the "Hydro One" name and related licensed marks. These agreements will terminate if the Province disposes of its interest in Hydro One Brampton, except in the case of the smart meter network services agreement, which is anticipated to continue for a transition period after the Province disposes of its interest in Hydro One Brampton. During 2015, revenues related to the provision of services with respect to these service level agreements were $1 million.

Sales to and purchases from related parties occur at normal market prices or at a proxy for fair value based on the requirements of the OEB's Affiliate Relationships Code. Outstanding balances at period end are interest free and settled in cash.

The amounts due to and from related parties as a result of the transactions referred to above are as follows:

(millions of Canadian dollars)	**December 31, 2015**	**December 31, 2014**
Due from related parties	191	224
Due to related parties[1]	(138)	(227)

[1] Included in due to related parties at December 31, 2015 are amounts owing to the IESO in respect of power purchases of $134 million (2014 – $214 million).

24. CONSOLIDATED STATEMENTS OF CASH FLOWS

The changes in non-cash balances related to operations consist of the following:

Year ended December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Accounts receivable	240	(93)
Due from related parties	33	(27)
Materials and supplies	2	–
Prepaid expenses and other assets	4	(13)
Accounts payable	(23)	39
Accrued liabilities	(15)	(35)
Due to related parties	(89)	(3)
Accrued interest	(4)	–
Long-term accounts payable and other liabilities	–	(3)
Post-retirement and post-employment benefit liability	60	80
	208	(55)

Capital Expenditures

The following table illustrates the reconciliation between investments in property, plant and equipment and the amount presented in the Consolidated Statements of Cash Flows after accounting for capitalized depreciation and the net change in related accruals:

Year ended December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Capital investments in property, plant and equipment	(1,623)	(1,511)
Capitalized depreciation and net change in accruals included in capital investments in property, plant and equipment	28	30
Capital expenditures – property, plant and equipment	(1,595)	(1,481)

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2015 and 2014

The following table illustrates the reconciliation between investments in intangible assets and the amount presented in the Consolidated Statements of Cash Flows after accounting for the net change in related accruals:

Year ended December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Capital investments in intangible assets	(40)	(19)
Net change in accruals included in capital investments in intangible assets	3	(4)
Capital expenditures – intangible assets	(37)	(23)

Capital Contributions

Hydro One enters into contracts governed by the OEB Transmission System Code when a transmission customer requests a new or upgraded transmission connection. The customer is required to make a capital contribution to Hydro One based on the shortfall between the present value of the costs of the connection facility and the present value of revenues. The present value of revenues is based on an estimate of load forecast for the period of the contract with Hydro One. Once the connection facility is commissioned, in accordance with the OEB Transmission System Code, Hydro One will periodically reassess the estimated of load forecast which will lead to a decrease, or an increase in the capital contributions from the customer. The increase or decrease in capital contributions is recorded directly to fixed assets in service. In 2015, capital contributions from these reassessments totalled $62 million, which represents the difference between the revised load forecast of electricity transmitted compared to the load forecast in the original contract, subject to certain adjustments. No reassessments occurred in 2014.

Supplementary Information

Year ended December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Net interest paid	416	412
Income taxes / PILs paid	2,933	86

25. CONTINGENCIES

Legal Proceedings

Hydro One is involved in various lawsuits, claims and regulatory proceedings in the normal course of business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Company’s consolidated financial position, results of operations or cash flows.

In September 2015, Hydro One and three of its subsidiaries were served with a class action suit in which the representative plaintiff is seeking up to $125 million in damages related to allegations of improper billing practices. Hydro One intends to defend the action. Due to the preliminary stage of legal proceedings, an estimate of a possible loss related to this claim cannot be made.

Transfer of Assets

The transfer orders by which the Company acquired certain of Ontario Hydro’s businesses as of April 1, 1999 did not transfer title to some assets located on Reserves (as defined in the *Indian Act* (Canada)). Currently, the OEFC holds these assets. Under the terms of the transfer orders, the Company is required to manage these assets until it has obtained all consents necessary to complete the transfer of title of these assets to itself. The Company cannot predict the aggregate amount that it may have to pay, either on an annual or one-time basis, to obtain the required consents. In 2015, the Company paid approximately $1 million (2014 – $1 million) in respect of consents obtained. If the Company cannot obtain the required consents, the OEFC will continue to hold these assets for an indefinite period of time. If the Company cannot reach a satisfactory settlement, it may have to relocate these assets to other locations at a cost that could be substantial or, in a limited number of cases, to abandon a line and replace it with diesel-generation facilities. The costs relating to these assets could have a material adverse effect on the Company’s results of operations if the Company is not able to recover them in future rate orders.

26. COMMITMENTS

Outsourcing Agreements

Inergi LP (Inergi), an affiliate of Capgemini Canada Inc., provides services to Hydro One, including settlements, source to pay services, pay operations services, information technology, finance and accounting services. The agreement with Inergi for these services expires in December 2019. In addition, Inergi provides customer service operations outsourcing services to Hydro One. The agreement for these services expires in February 2018.

Brookfield Global Integrated Solutions (formerly Brookfield Johnson Controls Canada LP) (Brookfield) provides services to Hydro One, including facilities management and execution of certain capital projects as deemed required by the Company. The current agreement with Brookfield expires in December 2024.

At December 31, 2015, the annual commitments under the outsourcing agreements were as follows: 2016 – $167 million; 2017 – $138 million; 2018 – $106 million; 2019 – $99 million; 2020 – $2 million; and thereafter – $11 million.

Trilliant Agreement

In December 2015, Hydro One entered into an agreement with Trilliant Holdings Inc. and Trilliant Networks (Canada) Inc. (Trilliant) for the supply, maintenance and support services for smart meters and related hardware and software, including additional software licenses, as well as certain professional services. This agreement is for a term of ten years, from December 31, 2015 to December 31, 2025, with the option to renew for an additional term of five years at Hydro One's sole discretion. At December 31, 2015, the annual commitments under the agreement were as follows: 2016 – $17 million; 2017 – $17 million; 2018 – $17 million; 2019 – $17 million; 2020 – $16 million; and thereafter – $6 million.

Prudential Support

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. As at December 31, 2015, Hydro One Inc. provided prudential support to the IESO on behalf of its subsidiaries using parental guarantees of $329 million (2014 – $330 million), and on behalf of a distributor using guarantees of $1 million (2014 – $1 million). In addition, as at December 31, 2015, Hydro One Inc. has provided letters of credit in the amount of $15 million (2014 – $8 million) to the IESO. The IESO could draw on these guarantees and/or letters of credit if these subsidiaries or distributor fail to make a payment required by a default notice issued by the IESO. The maximum potential payment is the face value of any letters of credit plus the amount of the parental guarantees.

Retirement Compensation Arrangements

Bank letters of credit have been issued to provide security for Hydro One Inc.'s liability under the terms of a trust fund established pursuant to the supplementary pension plan for eligible employees of Hydro One Inc. The supplementary pension plan trustee is required to draw upon these letters of credit if Hydro One Inc. is in default of its obligations under the terms of this plan. Such obligations include the requirement to provide the trustee with an annual actuarial report as well as letters of credit sufficient to secure Hydro One Inc.'s liability under the plan, to pay benefits payable under the plan and to pay the letter of credit fee. The maximum potential payment is the face value of the letters of credit. At December 31, 2015, Hydro One Inc. had letters of credit of $139 million (2014 – $126 million) outstanding relating to retirement compensation arrangements.

Operating Leases

Hydro One is committed as lessee to irrevocable operating lease contracts for buildings used in administrative and service-related functions and storing telecommunications equipment. These leases have typical terms of between three and five years, but several leases have lesser or greater terms to address special circumstances and/or opportunities. Renewal options, which are generally prevalent in most leases, have similar terms of three to five years. All leases include a clause to enable upward revision of the rental charge on an annual basis or on renewal according to prevailing market conditions or pre-established rents. There are no restrictions placed upon Hydro One by entering into these leases.

During the year ended December 31, 2015, the Company made lease payments totaling $7 million (2014 – $11 million). At December 31, 2015, the future minimum lease payments under non-cancellable operating leases were as follows; 2016 – $11 million; 2017 – $10 million; 2018 – $9 million; 2019 – $4 million; 2020 – $8 million; and thereafter – $3 million.

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2015 and 2014

27. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Business, which comprises the core business of transmitting high voltage electricity across the province, interconnecting more than 70 local distribution companies and certain large directly connected industrial customers throughout the Ontario electricity grid;
- The Distribution Business, which comprises the core business of delivering electricity to end customers and certain other municipal electricity distributors; and
- Other Business, which includes certain corporate activities and the operations of the Company's telecommunications business.

The designation of segments has been based on a combination of regulatory status and the nature of the products and services provided. Operating segments of the Company are determined based on information used by the chief operating decision maker in deciding how to allocate resources and evaluate the performance of each of the segments. The Company evaluates segment performance based on income before financing charges and income taxes from continuing operations (excluding certain allocated corporate governance costs).

The accounting policies followed by the segments are the same as those described in the summary of significant accounting policies (see Note 2 – Significant Accounting Policies). Segment information on the above basis is as follows:

Year ended December 31, 2015 *(millions of Canadian dollars)*	**Transmission**	**Distribution**	**Other**	**Consolidated**
Revenues	1,536	4,949	53	6,538
Purchased power	–	3,450	–	3,450
Operation, maintenance and administration	426	633	76	1,135
Depreciation and amortization	374	380	5	759
Income (loss) before financing charges and income taxes	736	486	(28)	1,194
Capital investments	943	711	9	1,663

Year ended December 31, 2014 *(millions of Canadian dollars)*	**Transmission**	**Distribution**	**Other**	**Consolidated**
Revenues	1,588	4,903	57	6,548
Purchased power	–	3,419	–	3,419
Operation, maintenance and administration	394	742	56	1,192
Depreciation and amortization	346	367	9	722
Income (loss) before financing charges and income taxes	848	375	(8)	1,215
Capital investments	845	680	5	1,530

Total Assets by Segment:

December 31 *(millions of Canadian dollars)*	**2015**	**2014**
Transmission	12,066	12,540
Distribution	9,213	9,805
Other	3,049	205
Total assets	24,328	22,550

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2015 and 2014

28. SUBSEQUENT EVENTS

Dividends

On February 11, 2016, preferred share dividends in the amount of $6 million and common share dividends in the amount of $202 million were declared.

Dividend Reinvestment Plan

On February 11, 2016, Hydro One's Board of Directors approved the creation of a Dividend Reinvestment Plan which the Company currently intends to put in place in March 2016. The Dividend Reinvestment Plan will enable eligible shareholders to have their regular quarterly cash dividends automatically reinvested in additional Hydro One common shares acquired on the open market.

Great Lakes Power Transmission Purchase Agreement

On January 28, 2016, Hydro One reached an agreement to acquire from Brookfield Infrastructure various entities that own and control Great Lakes Power Transmission LP, an Ontario regulated electricity transmission business operating along the eastern shore of Lake Superior, north and east of Sault Ste. Marie, Ontario, for $222 million in cash, subject to customary adjustments, plus the assumption of approximately $151 million in outstanding indebtedness. The acquisition is pending a *Competition Act* approval as well as regulatory approval from the OEB.

Liquor Control Board of Ontario

Responsibility for Financial Reporting

The preparation, presentation and integrity of the financial statements are the responsibility of management. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the estimates, judgments and assumptions necessary to prepare the financial statements in accordance with Canadian generally accepted accounting principles, which complies with International Financial Reporting Standards. The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with International Financial Reporting Standards and include amounts that are based on management's best estimates and judgment.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, composed of three Members who are not employees/officers of the LCBO, generally meets periodically with management, the internal auditors and the Office of the Auditor General of Ontario to satisfy itself that each group has properly discharged its respective responsibility. Also, the Office of the Auditor General of Ontario meets with the Audit Committee without management present.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards. The Independent Auditor's Report outlines the scope of the Auditor's examination and opinion.

On behalf of management:

George Soleas
President & Chief Executive Officer

Rob Dutton
Senior Vice President, Finance & Administration, and Chief Financial Officer
June 24, 2016

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Liquor Control Board of Ontario
and to the Minister of Finance

I have audited the accompanying financial statements of the Liquor Control Board of Ontario, which comprise the statement of financial position as at March 31, 2016, and the statement of income and comprehensive income, statement of changes in equity and statement of 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Liquor Control Board of Ontario as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Toronto, Ontario
June 24, 2016

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

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LIQUOR CONTROL BOARD OF ONTARIO

Statement of Financial Position

(thousands of Canadian dollars)

	Note	March 31 2016	March 31 2015
ASSETS			
Current Assets			
Cash and cash equivalents	5	273,125	257,192
Trade and other receivables	6	60,881	44,863
Inventories	7	432,852	414,218
Prepaid expenses		9,410	9,497
Assets held for sale	8	10,249	9,284
Total Current Assets		786,517	735,054
Property, plant and equipment and intangible assets	9	387,646	378,195
Total Assets		**1,174,163**	**1,113,249**
LIABILITIES & EQUITY			
Current Liabilities			
Trade and other payables	10	588,725	554,617
Provisions	12	18,932	18,738
Current portion of non-pension employee benefits	13	15,356	12,254
Total Current Liabilities		623,013	585,609
Non-pension employee benefits	13	105,241	116,082
Total Liabilities		**728,254**	**701,691**
Equity			
Retained earnings		447,199	414,363
Accumulated other comprehensive loss		(1,290)	(2,805)
Total Equity		445,909	411,558
Total Liabilities and Equity		**1,174,163**	**1,113,249**

See accompanying notes to the financial statements.

Approved By:

Chair

Board Member, Chair, Audit Committee

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Income and Comprehensive Income

(thousands of Canadian dollars)

For the year ended	**Note**	**March 31 2016**	**March 31 2015**
Revenue	18	5,571,765	5,215,976
Cost of sales	7	(2,784,913)	(2,590,418)
Gross margin		2,786,852	2,625,558
Other income		53,877	31,430
Selling, general and administrative expenses	19	(870,385)	(835,401)
Income from operations		1,970,344	1,821,587
Finance income	21	1,458	1,709
Finance costs	13, 21	(3,966)	(4,881)
Net income		1,967,836	1,818,415
Other comprehensive income (loss):			
Actuarial gains (losses) on non-pension employee benefits	13	1,515	(1,040)
Total other comprehensive income (loss)		1,515	(1,040)
Total comprehensive income		1,969,351	1,817,375

See accompanying notes to the financial statements.

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Changes in Equity

(thousands of Canadian dollars)

	Retained Earnings	Accumulated other comprehensive income (loss)	Total Equity
Balance at April 1, 2015	414,363	(2,805)	411,558
Net income	1,967,836	-	1,967,836
Other comprehensive income	-	1,515	1,515
Dividends paid to province	(1,935,000)	-	(1,935,000)
Balance at March 31, 2016	447,199	(1,290)	445,909
Balance at April 1, 2014	400,948	(1,765)	399,183
Net income	1,818,415	-	1,818,415
Other comprehensive loss	-	(1,040)	(1,040)
Dividends paid to province	(1,805,000)	-	(1,805,000)
Balance at March 31, 2015	414,363	(2,805)	411,558

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Cash Flows

(thousands of Canadian dollars)

For the year ended	March 31 2016	March 31 2015
Operating activities:		
Net income	1,967,836	1,818,415
Depreciation and amortization	64,541	61,664
Gain on sale of property, plant and equipment and intangible assets	(358)	(627)
Non-pension employee benefit expenses	8,120	16,366
Non-pension employee benefit payments	(14,344)	(12,539)
	57,959	64,864
Change in non-cash balances related to operations:		
Trade and other receivables	(16,018)	(2,032)
Inventories	(18,634)	(27,473)
Prepaid expenses	87	1,059
Trade and other payables	34,108	5,362
Provisions	194	(299)
	(263)	(23,383)
Net cash provided by operating activities	2,025,532	1,859,896
Investing activities:		
Purchase of property, plant and equipment, intangible assets and assets held for sale	(76,034)	(85,970)
Proceeds from sale of property, plant and equipment and intangible assets	1,435	1,889
Net cash used in investing activities	(74,599)	(84,081)
Financing activities:		
Dividend paid to the Province of Ontario	(1,935,000)	(1,805,000)
Net cash used in financing activities	(1,935,000)	(1,805,000)
Increase (decrease) in cash	15,933	(29,185)
Cash and cash equivalents, beginning of year	257,192	286,377
Cash and cash equivalents, end of year	273,125	257,192

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2016 and 2015

(thousands of Canadian dollars)

1. General Information and statement of compliance

1.1 General Information

The Liquor Control Board of Ontario (“LCBO”) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. LCBO is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario (“Province”).

As an Ontario Crown Corporation, LCBO is exempt from income taxes. LCBO transfers most of its earnings to the Province’s Consolidated Revenue Fund in the form of a dividend.

LCBO’s head office is located at 55 Lake Shore Blvd East, Toronto, Ontario, Canada, M5E 1A4.

1.2 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

The financial statements are presented in Canadian dollars (“C$”), LCBO’s functional currency.

The audited financial statements were approved by the Board of Directors and authorized for issue on June 24, 2016.

2. Adoption of new and amended standards and interpretations

2.1 Accounting standards adopted in the current year

The IASB and International Financial Reporting Interpretations Committee (“IFRIC”) have issued the following standards and amendments that have been applied in preparing our March 31, 2016 financial statements as their effective dates fall in the current financial reporting period. The standards did not have any significant impact on LCBO’s financial statements.

Standards and amendments	Description	LCBO Effective Date	Assessed Impact
Amendments to International Accounting Standards (“IAS”)19 *Employee Benefits*	The standard has been revised to incorporate amendments issued by the IASB in November 2013. The amendments simplify the accounting for contributions from employees or third parties to defined benefit plans that are independent of the number of years of service. The amendments are effective for annual periods beginning on or after July 1, 2014.	April 1, 2015	No impact

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2016 and 2015

(thousands of Canadian dollars)

2.1 Accounting standards adopted in the current year (continued)

Standards and amendments	Description	LCBO Effective Date	Assessed Impact
Annual Improvements to IFRSs – 2010-2012 Cycle	The following standards have been revised to incorporate amendments issued by the IASB in December 2013: • IFRS 2 *Share-based Payment* has been revised to clarify the definition of “vesting conditions”. • IFRS 3 *Business Combinations* has been revised to clarify the accounting for contingent consideration in a business combination. • IFRS 8 *Operating Segments* has been revised to add a disclosure requirement for the aggregation of operating segments and clarify the reconciliation of the total reportable segments’ assets to the entity`s assets. • IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* have been revised to clarify the requirements for the revaluation model regarding the proportionate restatement of accumulated depreciation. • IAS 24 *Related Party Disclosures* has been revised to clarify the identification and disclosure requirements for related party transactions when key management personnel services are provided by a management entity. The amendments are effective for annual periods beginning on or after July 1, 2014.	April 1, 2015	No impact
Annual Improvements to IFRSs – 2011-2013 Cycle	The following standards have been revised to incorporate amendments issued by the IASB in December 2013: • IFRS 3 *Business Combinations* has been revised to modify the scope exception for joint ventures to exclude the formation of all types of joint arrangements and clarify that the scope exception applies only to the financial statements of the joint arrangement itself. • IFRS 13 *Fair Value Measurement* has been revised to clarify that the portfolio exception applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, regardless of whether they are financial assets or financial liabilities. • IAS 40 *Investment Property* has been revised to clarify that judgment is required to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 and that this judgment is based on the guidance in IFRS 3, not IAS 40. The amendments are effective for annual periods beginning on or after July 1, 2014.	April 1, 2015	No impact

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2016 and 2015

(thousands of Canadian dollars)

2.2 Accounting standards not yet effective

The following standards and amendments issued by IASB and IFRIC have not been applied in preparing our March 31, 2016 financial statements as their effective dates fall in periods beginning subsequent to the current financial reporting period.

Proposed standards and amendments	Description	LCBO Effective Date	Estimated impact
Amendments to IAS 19 *Employee Benefits*	Amended in September 2014 to clarify the application of the discount rate requirements for currencies for which there is no deep market in high quality corporate bonds. The amendments are effective for annual periods beginning on or after January 1, 2016.	April 1, 2016	No anticipated impact
IAS 16 & IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization	IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* have been revised to incorporate amendments issued by the IASB in May 2014. The amendments to IAS 16 clarify the use of revenue-based methods to determine the depreciation of an asset is not appropriate. The amendments to IAS 38 clarify that an amortization method based on revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible. The amendments are effective for annual periods beginning on or after January 1, 2016.	April 1, 2016	No anticipated impact
Investments Entities: Applying the Consolidation Exception	Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures* to clarify the following three issues associated with Investment Entities. • IFRS 10 - clarifying which subsidiaries of an investment entity are consolidated in accordance with IFRS 10 • IFRS 10 - exemption from preparing consolidated financial statements for an indeterminate parent of an investment investee • IAS 28 - application of the equity method by a non-investment entity investor to an investment entity investee The amendments are effective for annual periods beginning on or after January 1, 2016.	April 1, 2016	No anticipated impact
IFRS 11 *Joint Arrangements*	The standard has been revised to incorporate amendments issued by the IASB in May 2014. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business, as defined in IFRS 3. The amendments are effective for annual periods beginning on or after January 1, 2016.	April 1, 2016	No anticipated impact

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2016 and 2015

(thousands of Canadian dollars)

2.2 Accounting standards not yet effective (continued)

Proposed standards and amendments	Description	LCBO Effective Date	Estimated impact
IFRS 14 *Regulatory Deferral Accounts*	This new standard, issued by the IASB in January 2014, provides interim guidance on rate-regulated activities. IFRS 14 is effective for annual periods beginning on or after January 1, 2016.	April 1, 2016	No anticipated impact
Disclosure Initiative	IAS 1 *Presentation of Financial Statements* has been revised to incorporate amendments issued by the IASB in December 2014. The amendments clarify the existing presentation and disclosure requirements in IAS 1, including the presentation of line items, subtotals and notes. They also provide guidance to assist entities to apply judgment in determining what information to disclose, and how that information is presented in their financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016.	April 1, 2016	LCBO is assessing the potential impact
Annual Improvements to IFRSs – 2012-2014 Cycle	The following standards have been revised to incorporate amendments issued by the IASB in September 2014: • IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* has been amended to clarify the application of the guidance in the standard in circumstances in which an entity reclassifies an asset from held for sale to held for distribution (or vice versa), and the circumstances in which an asset no longer meets the criteria for held for distribution. • IFRS 7 *Financial Instruments: Disclosures* has been amended to clarify guidance on servicing contracts and the applicability of the amendments to IFRS 7 regarding offsetting financial assets and financial liabilities, to interim financial statements. • IAS 19 *Employee Benefits* has been amended to clarify the application of the discount rate requirements for currencies for which there is no deep market in high quality corporate bonds. • IAS 34 *Interim Financial Reporting* has been amended to clarify the meaning of disclosure of information “elsewhere in the interim financial report.” The amendments are effective for annual periods beginning on or after January 1, 2016.	April 1, 2016	LCBO is assessing the potential impact

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2.2 Accounting standards not yet effective (continued)

Proposed standards and amendments	Description	LCBO Effective Date	Estimated impact
IFRS 9 *Financial Instruments*	Previous standard(s): • IAS 39 *Financial Instruments: Recognition and Measurement* • IFRIC 9 *Reassessment of Embedded Derivatives* Finalized version issued in July 2014 incorporating the classification and measurement requirements and new hedge accounting model included in earlier versions. This version introduces a single forward-looking expected credit loss impairment model. The final version of this new standard is effective for annual periods beginning on or after January 1, 2018.	April 1, 2018	LCBO is assessing the potential impact
IFRS 15 *Revenue from Contracts with Customers*	Previous standard(s): • IAS 11 *Construction Contracts*; • IAS 18 *Revenue*; • IFRIC 13 *Customer Loyalty Programmes*; • IFRIC 15 *Agreements for the Construction of Real Estate*; • IFRIC 18 *Transfer of Assets from Customers*; • SIC-31 *Revenue – Barter Transactions Involving Advertising Services* IFRS 15 establishes a comprehensive framework for the recognition, measurement and disclosure of revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments).The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard is effective for annual periods beginning on or after January 1, 2018.	April 1, 2018	LCBO is assessing the potential impact

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2.2 Accounting standards not yet effective (continued)

Proposed standards and amendments	Description	LCBO Effective Date	Estimated impact
IFRS 16 *Leases*	Previous standard(s): • IAS 17 *Leases* • IFRIC 4 *Determining Whether an Arrangement Contains a Lease* • SIC-15 *Operating Leases – Incentives* • SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The new standard is effective for annual periods beginning on for after January 1, 2019.	April 1, 2019	LCBO is assessing the potential impact

3. Significant Accounting Policies

These financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value through profit or loss ("FVTPL").

3.1 Cash & Cash Equivalents

Cash and cash equivalents comprise of cash, deposits held in trust and highly liquid investments with original maturity dates of 90 days or less from the date of acquisition.

LCBO's investment policy restricts short-term investments to highly liquid, high-grade money market instruments such as federal/provincial treasury bills, bankers' acceptances and term deposits. The resulting disclosures are presented in Note 5.

3.2 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost less an allowance for impairment, if any.

The carrying amount of account receivables are reduced through the use of an allowance account where there is objective evidence that LCBO will not be able to collect all amounts due according to the original terms of the receivables. LCBO establishes an allowance taking into consideration customer credit worthiness, current economic trends and past experience. When receivables are deemed to be uncollectible after recording an allowance, they are written off against the allowance. The loss is recognized as a selling, general and administrative expense in the Statement of income and comprehensive income. The resulting disclosures are presented in Note 6.

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3.3 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined by the weighted average cost or landed cost method. Landed cost includes the supplier quote, rebate, excise, import duties and inbound freight. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of inventories comprises all cost of purchase net of vendor allowances and includes other direct costs, such as transportation and direct warehouse handling costs that are incurred to bring inventories to their present location and condition. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable. The resulting disclosures are presented in Note 7.

3.4 Assets classified as held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, and it should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets classified as held for sale are measured at the lower of the carrying amount or fair value less costs to sell. An asset that is classified as held for sale is no longer depreciated. The resulting disclosures are presented in Note 8.

3.5 Property, plant and equipment

Major capital expenditures with a future useful life beyond the current year are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition, construction or development of the asset.

Depreciation is recognized in the Statement of income and comprehensive income over the expected useful lives of each major component of property, plant and equipment, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The estimated useful lives for property, plant and equipment are as follows:

Buildings	5 to 40 years
Leasehold Improvements	5 to 20 years
Furniture and Equipment	5 to 20 years
Computer Equipment	4 years

Land assets are carried at cost, less any recognized impairment losses and are not depreciated.

Property, plant and equipment under construction and not available for use, are carried at cost, less any recognized impairment loss. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

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3.5 Property, plant and equipment (continued)

The cost of subsequently replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits related to the part will flow to LCBO, and its cost can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognized, if any. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Statement of income and comprehensive income as incurred. The resulting disclosures are presented in Note 9.

3.6 Intangible assets

i. **Acquired intangible assets**

Acquired intangible assets, such as software, are measured initially at cost and are amortized on a straight-line basis over their estimated useful lives.

The estimated useful lives for intangible assets are as follows:

Computer software	4 years

The resulting disclosures are presented in Note 9.

ii. **Internally generated intangible assets – research & development costs**

Expenditures related to research activities are recognized as an expense in the period in which they are incurred.

Development expenditures incurred are capitalized only if LCBO can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale as intended by management;
(b) its intention to complete the intangible asset and use or sell it;
(c) its ability to use or sell the intangible asset;
(d) how the intangible asset will generate probable future economic benefits;
(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Software under development and not available for use, are carried at cost, less any recognized impairment loss. When completed and ready for intended use these assets are amortized on the same basis as other acquired intangible assets. The resulting disclosures are presented in Note 9.

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3.7 Impairment of property, plant and equipment and intangible assets

Annually LCBO reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication of 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. Where the asset does not generate cash flows that are independent from other assets, LCBO estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. For property, plant and equipment and intangible assets, the CGU is deemed to be each retail store. 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. Any impairment charge is recognized in the Statement of income and comprehensive income in the year in which it occurs. The resulting disclosures are presented in Note 9.

3.8 Trade and other payables

Trade and other payables are classified as other financial liabilities and are generally short term in nature and due within one year of the Statement of financial position date. Trade payables are non interest-bearing and are initially measured at fair value and subsequently remeasured at amortized cost. The resulting disclosures are presented in Note 10.

3.9 Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation. The resulting disclosures are presented in Note 12.

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3.10 Financial instruments

Financial assets and financial liabilities are recognized when LCBO becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Their measurement in subsequent periods and the recognition of changes in fair value depend on the category in which they are classified.

The LCBO has classified its financial instruments as follows:

Financial Asset / Financial Liability	Category	Measurement
Cash and cash equivalents	Loans and receivables or available for sale ("AFS")	Loans and receivables are measured at amortized cost. AFS is measured at fair value through other comprehensive income.
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Provisions	Other financial liabilities	Amortized cost
Derivatives and embedded derivatives[1]	Fair value through profit or loss ("FVTPL")	Fair value through profit or loss ("FVTPL")

[1] Derivatives are included in Trade and other payables in the Statement of financial position. The resulting disclosures are presented in Note 16.

Financial instruments measured at fair value must be classified according to a three-level hierarchy based on the type of inputs used to make the measurements. This hierarchy is as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than the Level 1 quoted prices that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market inputs (unobservable inputs).

At the end of each reporting period, the LCBO determines whether there is any indication that a financial asset may be impaired. It does so for all financial assets except for those recognized at fair value through profit or loss. A financial asset or group of financial assets is impaired when there is objective evidence of impairment. In instances of impairment, the recognized impairment loss is the difference between the carrying amount of the asset and the present value of estimated future cash flows.

3.10 Financial instruments (continued)

LCBO's financial assets and liabilities are generally classified and measured as follows:

i. **Financial assets**

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' ("FVTPL"), 'available-for-sale' ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or designated as such upon initial recognition. Financial assets are classified as held for trading if acquired principally for the purpose of selling in the near future or it has been part of an identified portfolio of financial instruments that LCBO manages together and has a recent actual pattern of short-term profit-making. Derivatives are also categorized as held for trading.

Financial assets classified as FVTPL are measured at fair value, with changes in fair value recorded in the Statement of income and comprehensive income in the period in which they arise.

Available for sale ("AFS")

Financial instruments classified as AFS financial assets are measured at fair value with changes in fair value recognized in other comprehensive income ("OCI") until realized through disposal or impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

ii. **Financial liabilities**

Financial liabilities are classified as 'other financial liabilities', which are subsequently measured at amortized cost using the effective interest method.

iii. **Derivatives**

A derivative financial instrument is a fixed price commitment to buy or sell a financial instrument at a future date. Derivative financial instruments are classified as FVTPL. Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at fair value, with changes recognized in the Statement of income and comprehensive income. The resulting disclosures are presented in Note 16.

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3.10 Financial instruments (continued)

iv. **Embedded derivatives**

An embedded derivative is a feature within a contract, where the cash flows associated with that feature behave in a similar fashion to a stand-alone derivative. LCBO enters into inventory purchase contracts in currencies other than the Canadian dollar or of the supplier's home or local currency, in which an embedded derivative may exist.

These embedded derivatives are accounted for as separate instruments and accounted for independently from the host contract and are measured at fair value at the end of the reporting period using forward exchange market rates. Embedded derivatives are included within trade and other payables in the Statement of financial position, any changes in their fair values are recognized in the Statement of income and comprehensive income. The resulting disclosures are presented in Note 16.

3.11 Revenue recognition

Revenue consists of the fair value of consideration received or receivable for the sale of goods in the ordinary course of LCBO's activities less any sales taxes. Sales taxes on the sale of goods are recorded as a liability in the period the sales taxes are deemed to be owed and are excluded from revenues. Revenue is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer and the amount of revenue can be measured reliably. For goods delivered to customers, revenue is recognized at the time the customer receives the product or upon estimated receipt by the customer. Revenue is recorded net of returns, trade discounts, volume rebates, applicable taxes and container deposits, in the Statement of income and comprehensive income.

i. **Gift Cards**

Revenue generated from gift cards is recognized when gift cards are redeemed. LCBO also recognizes revenue from unredeemed gift cards if the likelihood of gift card redemption by the customer is considered to be remote.

ii. **Air Miles®**[1]

Income from the Air Miles®[1] "program" is recognized in the period in which it is earned, in accordance with the terms of the contract. The program is split into two distinct components:

(1) Base – LCBO pays LoyaltyOne a fee for each Base Air Miles®[1] issued to customers. Base Air Miles®[1] are treated as a sales incentive to customers, therefore the associated costs of the Base are accounted for as a reduction to revenues in the Statement of income and comprehensive income.

(2) Bonus – LCBO charges vendors a fee whose products are participating in the Bonus Air Miles®[1] program. The associated income net of costs of the Bonus is accounted for as a reduction to cost of sales in the Statement of income and comprehensive income.

[1] AIR MILES® is a trademark of AIR MILES International Trading B.V. Used under license by LoyaltyOne

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3.12 Other income

i. **Services rendered**

Income from services rendered is recognized when the services are provided and the income can be measured reliably. Such services consist of border point levies and fees generated from special occasion permits such as those required by an individual or organization, who plan to serve alcohol at an event or location other than a private place.

Revenue received from grocery stores related to the Request for Bids process to legally purchase beer for resale in grocery stores was also included in this year's income. Refer to Note 26 for details regarding recommendations by the Premier's Advisory Council of Government Assets (the "Council").

ii. **Unredeemed Ontario Deposit Return Program container deposits**

LCBO recognizes income from estimated unredeemed Ontario Deposit Return Program ("ODRP") container deposits as not all customers return the container for their deposit. LCBO determines its ODRP container redemption rate based on historical redemption data and estimates the unredeemed ODRP container deposit income. The resulting income is recognized based on historical redemption patterns, commencing when the container deposits are collected. The resulting disclosures are presented in Note 24.

3.13 Vendor allowances

LCBO receives allowances from certain suppliers whose product it purchases for resale. The allowances are received for a variety of promotional activities, including allowances received for in store promotion of the supplier's product, advertising the launch of a new product and labeling and shelf space provided on limited time product offers. LCBO recognizes consideration received from vendors as a reduction in the price of the vendors' products and reflects it as a reduction to cost of sales when recognized in the Statement of income and comprehensive income. Certain exceptions apply where the cash consideration received is a direct reimbursement of specific, incremental and identifiable costs incurred by LCBO for assets or services delivered to the vendor or reimbursement of selling costs incurred to promote the vendor's product. In these particular instances, the consideration is reflected as a reduction in selling, general and administrative expenses.

3.14 Employee benefits

i. **Short-term employee benefits**

Short-term employee benefit obligations are expensed as the related service is provided. LCBO recognizes a liability and an expense for short-term benefits such as performance pay, unused vacation entitlements and other employee benefits if LCBO has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reasonably. The resulting disclosures are presented in Note 20.

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3.14 Employee benefits (continued)

ii. **Pension Benefit Costs**

LCBO provides defined pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund). The Province, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU Pension Fund, determines LCBO's annual contribution to the funds. As the sponsors are responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of LCBO.

LCBO's contributions to both plans are accounted for on a defined contribution basis with LCBO's contribution charged to the Statement of income and comprehensive income in the period the contributions become payable. The resulting disclosures are presented in Note 13.

iii. **Non-pension employee benefits**

Employee benefits other than those provided by the Province include accrued contractual severance payments ("CSC"), executive compensation time banking ("ECTB"), unfunded workers compensation obligation ("WCB") and benefits extended to employees on long-term income protection ("LTIP"). These plans provide benefits to employees when they are no longer providing active service. Other non-pension employee benefit obligations of the LCBO include accumulating non-vesting sick leave ("NVSL") and Service Awards. LCBO accrues these employee benefits over the periods in which the employees earn the benefits or upon absence. The cost of other post-retirement, non-pension employee benefits is paid by the Province and is not included in the Statement of income and comprehensive income.

The liability of the CSC, ECTB, LTIP, NVSL and Service Awards was actuarially determined by using the Projected Unit Credit Method and management's best estimate. The WCB liability was actuarially determined by calculating the present value of the projected future payments. The annual benefit cost is the sum of the service cost and one year's interest cost.

LCBO recognizes all actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the CSC and ECTB benefits immediately in other comprehensive income, and reports them in accumulated other comprehensive income in the Statement of financial position, as these benefits are accrued over an employee's years of service. Any actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the LTIP, WCB, NVSL and Service Awards benefits are recognized in the Statement of income and comprehensive income in the period in which they arise, as these benefits are defined as Other Long-Term Employee Benefits which do not have remeasurements that can be recognized in Other comprehensive income. The resulting disclosures are presented in Note 13.

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3.15 Finance income

Finance income comprises of interest income on funds invested. Interest income is recognized as it accrues in the Statement of income and comprehensive income, using the effective interest method. The resulting disclosures are presented in Note 21.

3.16 Finance costs

Finance costs consist of interest expense on the non-pension employee benefits obligation and financing charges on capital leases. The resulting disclosures are presented in Notes 13 and 21.

3.17 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. LCBO has very few finance leases which are immaterial.

All other leases are classified as operating leases. Operating lease payments, including scheduled escalations, are recognized as an expense on a straight-line basis over the term of the lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability and amortized over the lease term. The aggregate benefit of incentives is recognized as a reduction of selling, general and administrative expenses on a straight-line basis. The resulting disclosures are presented in Note 11.

3.18 Foreign currencies

Transactions in currencies other than LCBO’s functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. Items denominated in foreign currencies, comprised of US bank accounts and liabilities, are translated at the prevailing rates at the end of each reporting period. Exchange gains and losses are recognized immediately in the Statement of income and comprehensive income.

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4. Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the carrying amount of assets and liabilities, and disclosures of contingent assets and liabilities as at the date of the financial statements, and the carrying amount of revenues and expenses for the reporting period. These estimates are changed periodically, and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

The judgments and key sources of estimation uncertainty that have a significant effect on the amounts recognized in the financial statements are discussed below.

i. Non-pension employee benefits

The present value of the non-pension employee benefits obligation depends on a number of factors that are determined using an actuarial estimate based on numerous assumptions, including the discount rate, wage escalation, inflation rates, mortality rate and employee turnover. Any changes in these assumptions will impact the carrying amount of non-pension employee benefits obligations.

LCBO determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, LCBO uses the interest rates of high-quality corporate bonds that are denominated in the Canadian dollars in which the benefits will be paid. Other key assumptions for employee benefit obligations are based in part on current market conditions. Additional disclosures are presented in Note 13.

ii. Impairment of property, plant and equipment and intangible assets

LCBO has determined each store as a separate cash-generating unit (“CGU”). When there are indicators for impairment, LCBO performs an impairment test.

Intangible assets and property, plant and equipment are subject to impairment reviews based on whether current circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount for CGUs are based on a calculation of expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance. Additional disclosures are presented in Note 9.

iii. Inventories

LCBO makes estimates on the warehouse handling costs that directly relate to bringing inventories to their selling location and condition. Accordingly, LCBO includes the direct warehouse handling costs within inventories and they are expensed to cost of sales in the period the inventories are sold. Additional disclosures are presented in Note 7.

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4. Use of estimates and judgments (continued)

iv. **Leases**

LCBO leases a significant number of retail store locations as part of its operations as well as other assets. In determining the classification of a lease as either a finance or an operating lease, judgment is required in assessing whether substantially all of the risks and rewards incidental to ownership are transferred. LCBO analyzes each lease independently, considering various factors such as whether there is a bargain purchase and/or renewal option included in the lease, the economic life of the asset when compared to the term of the lease, and the minimum lease payments when compared to the fair value of the leased asset.

In respect of finance leases, judgment is required in determining the appropriate discount rate implicit in the lease to discount minimum lease payments. For leases where it is not practical to determine the implicit discount rate, LCBO estimates an appropriate discount rate based on the Ontario government borrowing rate.

v. **Provisions**

Provisions have been made for certain employee benefits, sales returns and store closing costs. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Additional disclosures are presented in Note 12.

vi. **ODRP unredeemed container deposit income**

LCBO has determined that not all deposits paid by customers for the ODRP containers will be redeemed. Estimates have been made for the redemption rate on ODRP containers based on past history. The estimated unredeemed ODRP container deposits are treated as other income in the period the likelihood of redemption is considered to be remote. Additional disclosures are presented in Note 24.

vii. **Unredeemed Gift cards**

LCBO has determined that not all gift cards purchased will be redeemed in full by customers. Estimates have been made for the redemption rate on gift cards based on past history and industry trends. The estimated unredeemed gift cards are included in revenues in the period the likelihood of redemption is considered to be remote.

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5. Cash and Cash Equivalents

Cash and cash equivalents include both cash on hand and in transit, deposits held in trust, and short term investments (such as term deposits and bankers' acceptances), as follows:

	March 31, 2016	March 31, 2015
Cash on hand and in transit	109,195	63,305
Deposit Held in Trust	5,000	-
Bankers' acceptances	158,930	193,887
	273,125	257,192

The deposit held in trust was received from the prospective buyer as a deposit for the contingent sale of LCBO's Head Office facility, warehouse facility, retail store and adjacent lands located in downtown Toronto. A corresponding liability for the deposit held in trust is recognized in trade and other payables. See Note 8 for more details relating to the sale.

6. Trade and Other Receivables

	March 31, 2016	March 31, 2015
Trade and other receivables	61,233	45,172
Allowance for impairment	(352)	(309)
	60,881	44,863

Trade and other receivables arise primarily from sales billed to independent businesses, agents and other debtors. Almost all of LCBO's receivables are due within 30 days.

The carrying amount of trade and other receivables is reduced through the use of an allowance for impairment at levels LCBO considered adequate to absorb credit losses. Subsequent recoveries of receivables previously provisioned are credited to the Statement of income and comprehensive income.

7. Inventories

The cost of inventories sold and recognized as cost of sales during the year ended March 31, 2016 was $2,785 million (2015 - $2,590 million). There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2016 and 2015.

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8. Assets classified as held for sale

Land and buildings are transferred to assets classified as held for sale from property, plant and equipment when they meet the criteria to be assets classified as held for sale as per LCBO's accounting policy.

In February 2012, the Minister of Finance announced the Province's intention to sell the LCBO's Head Office facility, warehouse facility, retail store and adjacent lands located in downtown Toronto (collectively LCBO Head Office Lands). A Request for Proposal ("RFP") in connection with the disposition of the LCBO Head Office Lands and for the provision of new LCBO Head Office and retail facility was issued in September 2014 by Infrastructure Ontario ("IO"), on behalf of LCBO.

It was announced on May 5, 2016 by the Minister of Finance that the LCBO has a firm and binding agreement with Menkes Developments Ltd., on behalf of a partnership comprised of Menkes, Greystone Managed Investments and Triovest Realty Advisors for the sale of LCBO Head Office Lands. The sale closed on June 8, 2016 and yielded approximately $260 million, subject to closing adjustments. The LCBO will be leasing back the Head Office Lands during the interim period until the office and retail space is ready to be relocated.

During the fiscal year, LCBO received a deposit from the prospective buyer relating to the sale which has been recognized in the Statement of financial position. The deposit has been applied against the proceeds on closing.

As of March 31, 2016, the net book value of assets held for sale is $10.2 million (2015 – $9.3 million) on the Statement of financial position.

9. Property, Plant & Equipment and Intangible Assets

Net book value of property, plant & equipment and intangible assets	March 31, 2016	March 31, 2015
Land	10,381	10,437
Buildings	100,608	95,081
Furniture and equipment	40,317	41,416
Leasehold improvements	169,870	162,931
Computer equipment	18,185	21,916
Computer software	19,290	19,115
Software/construction in progress	28,995	27,299
	387,646	378,195

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For the years ended March 31, 2016 and 2015

(thousands of Canadian dollars)

9. Property, Plant & Equipment and Intangible Assets (continued)

The following table presents the changes in the cost and accumulated depreciation and impairment on the LCBO's property, plant and equipment and intangible assets:

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2016

	Land	Buildings	Furniture and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2015	10,437	351,602	141,524	460,721	54,333	84,453	27,299	1,130,369
Additions	-	15,501	8,087	34,205	5,506	10,074	1,696	75,069
Net Additions	-	15,501	8,087	34,205	5,506	10,074	1,696	75,069
Disposals/Retirements	(56)	(2,000)	(1,484)	(279)	(2,749)	(108)	-	(6,676)
Balance at March 31, 2016	10,381	365,103	148,127	494,647	57,090	94,419	28,995	1,198,762
Accumulated depreciation and impairment								
Balance at April 1, 2015	-	256,521	100,108	297,790	32,417	65,338	-	752,174
Depreciation for the year	-	9,205	9,015	27,266	9,232	9,823	-	64,541
Impairment losses	-	-	-	-	-	-	-	-
Disposals/Retirements	-	(1,231)	(1,313)	(279)	(2,744)	(32)	-	(5,599)
Balance at March 31, 2016	-	264,495	107,810	324,777	38,905	75,129	-	811,116
Net book value at March 31, 2016	10,381	100,608	40,317	169,870	18,185	19,290	28,995	387,646

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2015

	Land	Buildings	Furniture and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2014	12,596	393,283	125,560	427,993	52,101	75,495	16,262	1,103,290
Additions	-	8,466	17,127	32,728	7,552	9,060	11,037	85,970
Transfers to assets held for sale	(1,991)	(46,890)	-	-	-	-	-	(48,881)
Net Additions	(1,991)	(38,424)	17,127	32,728	7,552	9,060	11,037	37,089
Disposals/Retirements	(168)	(3,257)	(1,163)	-	(5,320)	(102)	-	(10,010)
Balance at March 31, 2015	10,437	351,602	141,524	460,721	54,333	84,453	27,299	1,130,369
Accumulated depreciation and impairment								
Balance at April 1, 2014	-	288,585	93,649	271,697	28,972	55,952	-	738,855
Depreciation for the year	-	9,889	7,527	26,093	8,732	9,423	-	61,664
Impairment losses	-	-	-	-	-	-	-	-
Transfers to assets held for sale	-	(39,597)	-	-	-	-	-	(39,597)
Disposals/Retirements	-	(2,356)	(1,068)	-	(5,287)	(37)	-	(8,748)
Balance at March 31, 2015	-	256,521	100,108	297,790	32,417	65,338	-	752,174
Net book value at March 31, 2015	10,437	95,081	41,416	162,931	21,916	19,115	27,299	378,195

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10. Trade and Other Payables

	March 31, 2016	March 31, 2015
Trade payables	301,446	273,514
Accruals and other payables	287,279	281,103
	588,725	554,617

11. Operating Lease Arrangement

LCBO enters into operating leases in the ordinary course of business, primarily for retail stores. The leases have varying terms, escalation clauses, renewal rights and do not contain any contingent rental payments.

Minimum lease payments recognized as an expense in 2016 were $82.6 million (2015 – $77.5 million). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	March 31, 2016
Fiscal 2017	84,749
Fiscal 2018 to 2021	301,365
Beyond fiscal 2021	484,283
	870, 397

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For the years ended March 31, 2016 and 2015

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12. Provisions

The following table represents the changes to LCBO's provisions:

Provisions continuity for the year end March 31, 2016

	Short term employee benefits	Other	Total
Balance at April 1, 2015	17,927	811	18,738
Charges recognized during the year	18,364	568	18,932
Utilization of provision	(17,927)	(811)	(18,738)
Balance at March 31, 2016	18,364	568	18,932

Provisions continuity for the year end March 31, 2015

	Short term employee benefits	Other	Total
Balance at April 1, 2014	18,370	667	19,037
Charges recognized during the year	17,927	811	18,738
Utilization of provision	(18,370)	(667)	(19,037)
Balance at March 31, 2015	17,927	811	18,738

Disclosed as:	March 31, 2016	March 31, 2015
Current	18,932	18,738
Non-current	-	-
	18,932	18,738

The employee benefits provision includes vacation entitlements earned by employees and performance bonus payments expected to be paid in the following year.

Other provisions include store closure provisions, which arise when LCBO agrees to restore a leased property to a specified condition at the completion of the lease period. These lease retirement provisions relate primarily to leases which expire over the next year. Other provisions also include a sales returns allowance for future returns on goods sold in the current period. The estimate has been made on the basis of historical sales returns trends.

LIQUOR CONTROL BOARD OF ONTARIO

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13. Employee Benefits

a. Pension plan

For the year ended March 31, 2016, the expense was $28.3 million (2015 – $27.3 million) and is included in selling, general and administrative expenses in the Statement of income and comprehensive income.

b. Non-pension employee benefits

The non-pension employee benefits obligation (“benefit obligation”) include accruals for contractual severance payments (“CSC”), executive compensation time banking (“ECTB”), benefits extended to employees on long-term income protection (“LTIP”), unfunded workers compensation obligation (“WCB”), non-vesting sick leave plan (“NVSL”) and service awards.

LCBO measures its benefit obligation for accounting purposes as at March 31st of each year.

As of March 31, 2016, the weighted average duration of the plans obligations are 7.3 years (2015 – 7.4 years).

i. Statement of financial position

The non-pension employee benefits recognized in the Statement of financial position is as follows:

	March 31, 2016	March 31, 2015
Current	15,356	12,254
Non-current	105,241	116,082
Total non-pension employee benefit obligation	120,597	128,336

The current portion represents LCBO’s estimated contribution to non-pension employee benefits for fiscal 2016/2017.

ii. Statement of income and comprehensive income

The non-pension employee benefit costs recognized in the Statement of income and comprehensive income is as follows:

	March 31, 2016	March 31, 2015
Current service cost	10,826	10,357
Actuarial (gains) losses on non-vesting benefits	(6,616)	1,247
Total costs included in expenses	4,210	11,604
Interest costs	3,910	4,762
Total costs included in finance costs	3,910	4,762
Total non-pension employee benefit expenses	8,120	16,366

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2016 and 2015

(thousands of Canadian dollars)

13. Employee Benefits (continued)

iii. Other comprehensive income

The non-pension employee benefits recognized in the other comprehensive income are as follows:

	March 31, 2016	March 31, 2015
Opening cumulative actuarial losses recognized	(2,805)	(1,765)
Net actuarial gains (losses) recognized	1,515	(1,040)
Closing cumulative actuarial losses recognized	(1,290)	(2,805)

iv. Movement in the obligation

The movements in the non-pension employee benefit obligation are as follows:

	March 31, 2016	March 31, 2015
Opening benefit obligation	128,336	123,469
Current service cost	10,826	10,357
Interest on obligation	3,910	4,762
Actuarial (gains) losses from changes in demographic assumptions	(1,538)	215
Actuarial (gains) losses from changes in financial assumptions	(5,062)	6,748
Actuarial gains from other	(1,531)	(4,676)
Benefits paid	(14,344)	(12,539)
Closing benefit obligation	120,597	128,336

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2016 and 2015

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13. Employee Benefits (continued)

v. Significant assumptions

The significant assumptions used are as follows:

	CSC, ECTB, NVSL & Service Awards		WCB		LTIP	
	2016	2015	2016	2015	2016	2015
Discount rate to determine the benefit obligation	3.20%	3.00%	3.20%	3.00%	3.20%	3.00%
Discount rate to determine the benefit cost	3.00%	3.80%	3.00%	3.80%	3.00%	3.80%
Salary rate increase • Bargaining Unit	2% inflation plus OPT Promotional Scale	3% per annum	n/a	n/a	2.00%	2.00%
• Management and Executive	FY2015: 0% COLA + 2% merit FY2016: 1.95% COLA + 2% merit FY2017: 0% COLA + 2% merit	3% per annum	n/a	n/a	2.00%	2.00%
Benefit index	n/a	n/a	2.5% for fully indexed benefit and 0.5% for partially indexed benefits	2.5%	n/a	n/a
Health cost rate increase	n/a	n/a	6.60% (7.5% per annum in 2013 reducing to 4.5% in 2023)	6.90% (7.5% per annum in 2013 reducing to 4.5% in 2023)	6.60% (7.5% per annum in 2013 reducing to 4.5% in 2023)	6.90% (7.5% per annum in 2013 reducing to 4.5% in 2023)

vi. Sensitivity analysis

The sensitivity of the non-pension employee benefit obligation to changes in assumptions is set out below.

Assumption	Impact on total non-pension employee benefit obligation	
	0.5% increase in assumption	0.5% decrease in assumption
Discount rate	(3,999)	4,288
Health care trend rate	707	(694)
Salary Scale	3,112	(2,940)
Benefit Indexation	569	(524)

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14. Contingent Liabilities

LCBO is involved in various legal actions arising out of the ordinary course and conduct of business. In view of the inherent difficulty of predicting the outcome on such matters, LCBO cannot state what the eventual outcome on such matters will be. However, based upon legal assessment and information presently available, LCBO does not believe that liabilities, if any, arising from pending litigation will have a material effect on the financial statements, with the exception of the following items.

In January 2015, LCBO was served with a proposed class proceeding seeking damages in the amount of $1.4 billion against LCBO, Brewers Retail Inc. (“BRI”) and BRI’s 3 corporate owners. The claim is commenced by an individual and a corporation who intend to represent a class composed of those individuals and businesses who purchased beer in Ontario since June 1, 2000 under the Framework for Improved Cooperation & Planning between Brewers Retail Inc. and the Government of Ontario (through the LCBO), dated June 1, 2000. The statement of claim alleges conspiracies regarding beer market allocation, pricing and licensee fees. The claim is being defended vigorously. At this point in time it is not possible to estimate the amounts, if any, that LCBO may have to pay in the future regarding the claim.

In May 2013, during collective bargaining, OPSEU filed an Application with the Human Rights Tribunal against LCBO and Ministry of Finance alleging systemic gender discrimination. In essence, the claim alleges that by not compensating Casual Customer Service Representatives (“CSR’s”) at the same amount as Permanent Full Time CSR’s, LCBO is discriminating on the basis of sex, which imposes significant disadvantages on workers in the predominantly female job classification of Casual CSR. LCBO’s Permanent Full Time CSR’s job classification is also predominantly female dominated. This Human Rights Tribunal application addresses matters related to the revised Pay Equity Plan required for OPSEU Employees, that LCBO and OPSEU are in the process of developing. The revised Pay Equity Plan may have a financial liability attached to it. LCBO is vigorously defending the Human Rights application, which proceeding may commence in September 2016. At this point in time it is not possible to reasonably estimate the amounts, if any, that LCBO may have to pay in the future regarding the Human Rights complaint, or the value of the liability, if any, that may be arise from the updated Pay Equity Plan.

15. Financial Risk Management

The LCBO’s Treasury policies regarding financial risk management are clearly defined and consistently applied. They are a fundamental part of the long-term strategy covering areas such as credit risk, liquidity risk and market risk (foreign exchange risk and interest rate risk). LCBO’s financial risk management approach is to minimize the potential adverse effects from these risks on its financial performance. Financial risk management is carried out by LCBO, under the direction of the Board of Directors through its Governance Committee, in accordance with its Treasury Risk Management Policy. This Policy sets out the prudential framework for the identification, measurement, management and control of financial risks. Treasury operates as a centralized service and does not engage in speculative activities. Strict limits on the size and type of transaction permitted as well as authorized counterparties are set by the Board of Directors and are subject to rigorous internal controls.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

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15. Financial Risk Management (continued)

a. Credit Risk

Credit risk is the risk of financial loss due to a financial counter party or another third party failing to meet its financial or contractual obligations to the LCBO. It arises from cash and cash equivalents, derivative financial instruments, and outstanding accounts receivable. LCBO minimizes credit risk associated with the various instruments as follows:

- Derivative financial instruments and cash and cash equivalents are placed only with approved counterparties. At March 31, 2016, all derivative instruments and cash and cash equivalents were held with regulated Canadian financial institutions that met minimum credit rating requirements. Trade and others receivables arise primarily from sales invoiced to independent businesses, agents and other debtors. LCBO does not consider its exposure to credit risk associated with trade and other receivables to be material. As at March 31, 2016, approximately 58% (2015 – 66%) of LCBO's receivable is due from one customer whose account is in good standing.
- Where there is objective evidence that the total balance of an accounts receivable is unlikely to be recovered, an allowance for impairment is made to reduce the carrying amount of the accounts receivable to the recoverable amount. See Note 6 for additional disclosures.

b. Liquidity Risk

Liquidity risk is the risk that LCBO may not have cash available to satisfy financial liabilities as they fall due. LCBO seeks to limit its liquidity risk by actively monitoring and managing its available cash reserves to ensure that it has sufficient access to liquidity at all times to meet financial obligations when due as well as those relating to unforeseen events. Cash that is surplus to working capital requirements is managed by LCBO and may be invested in federal/provincial treasury bills, bankers' acceptances, bearer deposit notes, term deposits and guaranteed income certificates, choosing maturities which are aligned with expected cash needs. It may also be held in a bank account if the interest rate is more favourable than the aforementioned investment instruments.

c. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market price. Market risk typically comprises four main types of risk: foreign exchange risk, interest rate risk, equity risk and commodity risk. Currently, LCBO is exposed only to foreign exchange risk and interest rate risk.

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15. Financial Risk Management (continued)

d. Foreign Exchange Risk

Foreign exchange risk is the risk of financial loss due to adverse changes in exchange rates. LCBO is exposed to foreign exchange risk with respect to future inventory purchases denominated in currencies other than the Canadian dollar, primarily US dollars and Euros. LCBO seeks to limit its exposure to foreign exchange fluctuations by entering into Canadian dollar contracts on a majority of its inventory purchases. In accordance with the LCBO's Treasury Risk Management Policy, LCBO engages in non-speculative hedging of committed and reasonably anticipated foreign currency exposures resulting from the payment of suppliers in foreign currencies. LCBO limits its exposure to movements in exchange rates through the use of foreign exchange forward contracts which are commitments to purchase a fixed amount of a foreign currency at a specified date in the future at a fixed exchange rate.

- In LCBO's assessment, a significant strengthening or weakening of the Canadian dollar against the US dollar or Euro, with all other variables held constant, would not have a significant impact on net income.
- The overall effects of changes in exchange rates was a foreign exchange gain of $0.5M in 2016 (2015 - $3.6 million gain).

e. Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instruments will fluctuate due to changes in market interest rates. LCBO is exposed to interest rate risk on its cash and cash equivalents of short-term investments with maturity dates of less than 90 days and to a lesser extent on its financial lease obligations (which have fixed interest rates over their entire lease term). In LCBO's assessment, the impact of changes in interest rates would not have a significant impact on net income.

16. Financial Instruments

a. Foreign Exchange Contracts

LCBO uses foreign exchange contracts to manage foreign exchange risk on the purchase of inventory in a currency other than the Canadian dollar. LCBO has elected not to use hedge accounting on these derivative financial instruments. The derivative financial instruments are classified at level 2 of the three-level hierarchy and are measured at fair value. As at March 31, 2016, LCBO has twelve foreign exchange contracts totaling $4.8 million (2015 - $6.2 million).

b. Embedded Derivative

Embedded derivatives arise from the purchase of inventory in a currency other than Canadian dollar or of the supplier's domestic or local currency. For the year ended March 31, 2016, LCBO reviewed these contracts and determined that it does not have significant embedded derivatives or gains or losses resulting from these derivatives that require separate accounting and disclosure (2015 - nil).

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17. Capital Management

LCBO is a corporation without share capital. Its capital structure consists of cash and cash equivalents and retained earnings.

LCBO's objectives in managing its capital are first to preserve capital and maintain sufficient liquidity to meet future financial commitments and second to maximize the earnings of such capital. By achieving these objectives, LCBO is able to fund its future growth and provide continuous dividends to the Province.

The Board of Directors is responsible for oversight of management including policies related to financial risk management. LCBO management is responsible for overseeing its capital structure and mitigating financial risk in response to changing economic conditions.

18. Revenue

Virtually all revenue is from the sale of goods. In late fiscal 2016, under the recommendation of the Council, LCBO began the sale of beer in grocery stores where LCBO acts as a wholesaler of beer to authorized grocery stores. Included in revenue is $7.9 million (2015 – nil) related to the sale of beer to grocery stores. Refer to Note 26 for other recommendations by the Council.

19. Selling, General and Administrative Expenses by Nature

The components of selling, general and administration expenses include the following:

	March 31, 2016	March 31, 2015
Employee costs (Note 20)	451,869	440,864
Occupancy costs	182,563	169,109
Depreciation and amortization	64,541	61,664
Debit/credit charges	38,645	37,437
Environmental initiatives	42,950	39,959
Other	89,817	86,368
	870,385	835,401

20. Employee Costs

Employee costs for LCBO for the year ended amounts to the following:

	March 31, 2016	March 31, 2015
Salaries & wages	372,302	355,670
Short-term employee benefits	79,567	85,194
	451,869	440,864

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21. Finance Income and Finance Costs

Finance income and costs recognized by LCBO for the year ended amounts to the following:

	March 31, 2016	March 31, 2015
Finance income		
Interest earned	1,458	1,709
Total finance income	1,458	1,709
Finance costs		
Interest on non-pension employee benefits	3,910	4,762
Financing charges on capital leases	56	119
Total finance costs	3,966	4,881

22. Related Parties

Related parties of the LCBO include the Province of Ontario, Stewardship Ontario and key management personnel. For the year ended March 31, 2016, LCBO transferred a total of $1.935 billion (2015 – $1.805 billion) in dividends to the Province, which is presented in the Statement of changes in equity. LCBO also provides an annual contribution to the Province for the defined benefit plan which is discussed in Notes 3 and 13. Refer to Note 23 for disclosure surrounding the payment to Stewardship Ontario.

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of LCBO. Key management personnel include members of the Board of Directors, President and Chief Executive Officer, Chief Financial Officer and the top senior officers. The Board members receive a per diem remuneration for attending regularly scheduled meetings and for serving on either the Audit Committee or the Governance and Compensation Committee.

Key management personnel compensation, including directors' fees comprise of:

	March 31, 2016	March 31, 2015
Salaries and short-term employee benefits	4,173	4,282
Post-employment benefits	254	260
Other long term benefits	70	73
Termination benefits	130	26
	4,627	4,641

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23. Waste Diversion

LCBO is responsible under the *Waste Diversion Act*, 2002 to pay municipalities through Stewardship Ontario, an industry funded waste diversion organization for costs associated with container waste and non-container waste recycled through municipal Blue Box systems. For the year ended March 31, 2016, LCBO contributed $1.9 million (2015 - $1.9 million) and these expenditures are included in selling, general and administrative expenses in the Statement of income and comprehensive income.

24. Ontario Deposit Return Program

On November 6, 2006, the Province entered into an agreement with Brewers Retail Inc. for management of a province-wide container deposit return program (“the program”) on wine, liquor and non-common beer containers sold through LCBO, Winery, on-site Microbrewery and Distillery Retail Stores. Brewers Retail Inc. was appointed the exclusive service provider for a period of five years effective February 5, 2007. Effective, February 6, 2012, the Province entered into another agreement with Brewers Retail Inc. for management of the program, thereby extending the program for another period of five years.

Under the program, LCBO collects a deposit of 10 or 20 cents on wine, liquor and most beer containers. LCBO reimburses Brewers Retail Inc. for deposits it pays to customers who return containers to locations it operates, plus a service fee.

For the year ended March 31, 2016, LCBO collected $66.9 million (2015 – $63.3 million) of deposits on containers and was invoiced $52.7 million (2015 - $50.2 million) for refunds to the customers. The net amounts are included in trade and other payables in the Statement of financial position.

In connection with the program, expenditures related to service fees paid to Brewers Retail Inc. for the year ended March 31, 2016, amounted to $41.0 million (2015 – $38.0 million), inclusive of $4.7 million (2015 – $4.4 million) of harmonized sales tax which is unrecoverable by LCBO, but is recoverable by the Province. These expenditures are included in selling, general and administrative expenses in the Statement of income and comprehensive income.

LCBO’s experience indicates that not all container deposits collected would be redeemed based upon its redemption data. Based on historical redemption patterns, for the year ended March 31, 2016, LCBO recognized $18.4 million (2015 - $12.6 million) of unredeemed deposits as other income as LCBO has determined the likelihood of redemption to be remote. The remaining reserve for unredeemed container deposits reflects the ODRP program to-date redemption rate.

25. The Beer Store (tBS) common product deposit return program

LCBO participates in a separate deposit-refund system, tBS common product program, managed and administered by Brewers Retail Inc. for containers that are not within the scope of the Ontario Deposit Return Program. Containers fall under the tBS program if:

(1) the product is available for sale at both the LCBO and tBS; or
(2) the product is an Industry Standard Bottle (ISB) regardless of whether or not the product is available at tBS

The tBS program is not mandated by government regulations; however, the tBS program is a requirement in dealing with Brewers Retail Inc.

Under the program, LCBO purchases imported and domestic beer products from various suppliers including some domestic beer products from tBS. Payment to these suppliers includes the container deposit in addition to the product cost. The container deposit is only paid to the suppliers if the products meet the program criterions above. If the products do not meet either criterion, they are excluded from the tBS common product program and will follow the Ontario Deposit Return Program as described in Note 24.

When LCBO sells tBS common products to customers including imported beer to tBS, the container deposit is collected as part of the sale proceeds.

TBS common product program deposits paid and collected are offset and included in trade and other receivables in the Statement of financial position.

For the year ended March 31, 2016, $2.6 million (2015 – $2.2 million) is included in trade and other receivables related to the tBS common product deposits.

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26. Other Matters

In April 2015, the Premier's Advisory Council of Government Assets (the "Council") released a report to government entitled "Striking the Right Balance: Modernizing Beer Retailing and Distribution in Ontario", which recommended changes to the beer distribution and retailing system in Ontario. At government's direction, LCBO began to work with the Ministry of Finance and the Council on implementing certain of those recommendations relating to the sale of beer in grocery stores. Up to 450 grocery stores across the province will be allowed to sell beer, including up to 150 stores by May 2017. The first 60 grocery stores were authorized by the Alcohol and Gaming Commission to sell beer in late 2015 and the LCBO now acts as the wholesaler of beer to those authorized stores. Authorized grocers purchase all beer for sale in grocery stores from the LCBO at a wholesale discount determined through a competitive allocation.

In February 2016, the Council released a follow up report to government entitled "Striking the Right Balance: Modernizing Wine and Spirits Retailing and Distribution in Ontario", which recommended substantive changes to the wine retailing system in Ontario. Once again, at government's direction, LCBO has been working with the Ministry of Finance and the Council on implementing certain of the recommendations relating to the sale of imported and domestic wine, beer and cider in grocery stores.

The initial phase of implementation is expected to occur in mid to late 2016, with a new competitive allocation taking place and 70 additional authorizations for wine, beer and cider being issued to grocers. LCBO will act as wholesaler of wine, beer and cider to the authorized grocery stores at a wholesale discount determined through the competitive allocation. In addition, up to 70 existing winery retail stores located next to grocery stores will be able to move inside grocery stores and offer an expanded selection of products. Ontario wine not produced by the owners of such outlets will be purchased from the LCBO. Grocers that sign agreements with winery retail stores to have an outlet operated within their store will receive an authorization to sell beer and cider purchased from the LCBO. No more than 20 of these beer and cider authorizations may be operational before May 1, 2017.

MANAGEMENT'S RESPONSIBILITY FOR ANNUAL REPORTING

The accompanying consolidated financial statements of the Ontario Lottery and Gaming Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. Where required, management has made informed judgements and estimates in accordance with International Financial Reporting Standards.

The Board of Directors oversees management's responsibilities for financial reporting through its Audit and Risk Management Committee, which is composed entirely of directors who are neither officers nor employees of the Corporation. The Audit and Risk Management Committee reviews the financial statements and recommends them to the Board for approval. This Committee meets periodically with management, internal audit and the external auditors.

To discharge its responsibility, management maintains an appropriate system of internal control to provide reasonable assurance that relevant and reliable consolidated financial statements are produced and that the Corporation's assets are properly safeguarded. The Corporation maintains a staff of internal auditors whose functions include reviewing internal controls and their applications, on an ongoing basis. The reports prepared by the internal auditors are reviewed by the Committee. The Vice President, Audit Services, responsible for Internal Audit, reports directly to the President and Chief Executive Officer with unrestricted access to the Audit and Risk Management Committee.

KPMG LLP, the independent auditor appointed by the Board of Directors upon the recommendation of the Audit and Risk Management Committee, has examined the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements. The independent auditor has full and unrestricted access to the Committee.

Stephen Rigby
President and Chief Executive Officer

Preet Dhindsa
Executive Vice President,
Chief Administrative Officer
& Chief Financial Officer

June 23, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Ontario Lottery and
Gaming Corporation and the Minister of Finance of Ontario

We have audited the accompanying consolidated financial statements of Ontario Lottery and Gaming Corporation, which comprise the consolidated statements of financial position as at March 31, 2016 and March 31, 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended March 31, 2016 and March 31, 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ontario Lottery and Gaming Corporation as at March 31, 2016 and March 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended March 31, 2016 and March 31, 2015 in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 23, 2016
Toronto, Canada

Ontario Lottery and Gaming Corporation
Consolidated Statements of Financial Position
As at March 31, 2016 and 2015
(in thousands of dollars)

	Notes	March 31, 2016	March 31, 2015
Assets			
Current assets			
Cash and cash equivalents		$ 325,034	$ 316,340
Restricted cash	6	56,942	55,074
Trade and other receivables	7	159,140	103,637
Prepaid expenses		54,975	46,946
Inventories	8	28,048	25,474
Total current assets		624,139	547,471
Non-current assets			
Restricted cash	6	118,957	125,689
Property, plant and equipment	9	1,224,027	1,294,383
Goodwill		1,776	1,776
Total non-current assets		1,344,760	1,421,848
Total assets		**$ 1,968,899**	**$ 1,969,319**
Liabilities and Equity			
Current liabilities			
Trade and other payables	10	$ 316,186	$ 322,791
Provisions	11	5,823	5,263
Due to operators	15	40,694	34,729
Due to Rama First Nation	16	2,118	2,005
Due to the Government of Canada	18	17,509	15,754
Deferred revenues		16,331	14,091
Current portion of long-term debt	21	18,810	18,257
Total current liabilities		417,471	412,890
Non-current liabilities			
Due to operators	15	143,476	-
Due to the Government of Canada	18	15,783	-
Long-term debt	21	66,096	67,366
Employee benefits	23	15,515	18,882
Total non-current liabilities		240,870	86,248
Total liabilities		**658,341**	**499,138**
Equity			
Retained earnings		1,129,256	1,282,147
Contributed surplus		62,345	62,345
Reserves	6	118,957	125,689
Total equity		1,310,558	1,470,181
Total liabilities and equity		**$ 1,968,899**	**$ 1,969,319**

Related party transactions (Note 14)
Commitments (Notes 15, 16 and 24)
Contingencies (Note 25)

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

Approved on behalf of the Board

Approved on behalf of the Board

PMOlsson

Philip Olsson, Chair

LOneill

Lori O'Neill, Director

Ontario Lottery and Gaming Corporation

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2016 and 2015

(in thousands of dollars)

	Notes	March 31, 2016	March 31, 2015
Revenues			
Lottery		$ 3,785,596	$ 3,268,556
Charitable gaming		165,953	114,875
Resort casinos		1,382,596	1,255,730
Slots and casinos		2,061,966	1,996,649
Internet gaming		49,170	8,398
		7,445,281	**6,644,208**
Expenses			
Lottery		2,738,905	2,413,334
Charitable gaming		192,323	144,334
Resort casinos		1,433,693	1,353,908
Slots and casinos		956,409	949,646
Internet gaming		53,035	45,186
		5,374,365	**4,906,408**
Income before the undernoted		**2,070,916**	**1,737,800**
Other income	19	49,596	46,689
Finance income	13	2,203	2,835
Finance costs	13	(5,288)	(5,351)
Foreign exchange gain	22.e	6,816	5,308
Other charges	20	(165,755)	(35,195)
Net income and comprehensive income		**$ 1,958,488**	**$ 1,752,086**

Segmented information (Note 26)

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

Ontario Lottery and Gaming Corporation
Consolidated Statements of Changes in Equity
For the years ended March 31, 2016 and 2015
(in thousands of dollars)

	Retained earnings	Contributed surplus	Capital renewals reserves	Operating reserves	Severance reserves	Total
Balance at March 31, 2014	**$ 1,313,243**	**$ 62,345**	**39,431**	**$ 53,697**	**$ 45,292**	**$ 1,514,008**
Net income and comprehensive income	1,752,086	-	-	-	-	1,752,086
Contributions or distributions						
Transfers from reserves	12,731	-	(13,452)	219	502	-
Payments to the Province of Ontario	(1,795,913)	-	-	-	-	(1,795,913)
Balance at March 31, 2015	**$ 1,282,147**	**$ 62,345**	**25,979**	**$ 53,916**	**$ 45,794**	**$ 1,470,181**
Net income and comprehensive income	1,958,488	-	-	-	-	1,958,488
Contributions or distributions						
Transfers from reserves	6,732	-	(7,476)	392	352	-
Payments to the Province of Ontario	(2,118,111)	-	-	-	-	(2,118,111)
Balance at March 31, 2016	**$ 1,129,256**	**$ 62,345**	**18,503**	**$ 54,308**	**$ 46,146**	**$ 1,310,558**

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

Ontario Lottery and Gaming Corporation

Consolidated Statements of Cash Flows

For the years ended March 31, 2016 and 2015

(in thousands of dollars)

	Notes	March 31, 2016	March 31, 2015
Cash flows from operating activities			
Net income and comprehensive income		$ 1,958,488	$ 1,752,086
Adjustments to reconcile profit for the period to net cash from operating activities:			
Amortization	9	157,481	163,185
Loss on disposal of property, plant and equipment, net	19	1,360	751
Net finance costs	13	3,085	2,516
Impairment loss on property, plant and equipment	9	6,496	19,425
Operator non-extension costs	20	159,259	-
Other long-term employee benefits	23.c	(3,367)	4,812
Operating cash flows before change in non-cash working capital		2,282,802	1,942,775
Changes in non-cash working capital and current restricted cash:			
(Increase) in current restricted cash		(1,868)	(13,415)
(Increase) in trade and other receivables		(55,503)	(7,395)
(Increase) in prepaid expenses		(8,029)	(8,119)
(Increase) in inventories		(2,574)	(832)
(Decrease) increase in trade and other payables		(2,886)	24,005
Increase (decrease) in provisions		560	(2,372)
Increase (decrease) in due to operators		5,965	(3,846)
Increase in due to Rama First Nation		113	33
Increase in due to the Government of Canada		1,755	19
Increase in deferred revenues		2,240	5,206
Net cash from operating activities		2,222,575	1,936,059
Cash flows used in investing activities			
Interest received		2,203	2,835
Capital expenditures		(133,975)	(134,696)
Proceeds on disposal of property, plant and equipment		38,444	1,458
Decrease in non-current restricted cash		6,732	8,558
Net cash used in investing activities		(86,596)	(121,845)
Cash flows used in financing activities			
Interest paid		(5,288)	(5,351)
Increase in long-term debt		14,750	7,533
Repayments of long-term debt		(18,636)	(15,823)
Payments to the Province of Ontario		(2,118,111)	(1,795,913)
Net cash used in financing activities		(2,127,285)	(1,809,554)
Increase in cash and cash equivalents		8,694	4,660
Cash and cash equivalents, beginning of year		316,340	311,680
Cash and cash equivalents, end of year		**$ 325,034**	**$ 316,340**
Supplemental disclosure relating to non-cash financing and investing activities:			
Acquisition of property, plant and equipment through finance leases		$ 2,645	$ 8,112
Acquisition of property, plant and equipment not yet paid for		$ 8,344	$ 11,539

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

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2016 and 2015
(tabular amounts in thousands of Canadian dollars)

1. Reporting entity

Ontario Lottery and Gaming Corporation (OLG or "the Corporation") was established without share capital on April 1, 2000 pursuant to the *Ontario Lottery and Gaming Corporation Act, 1999*. The Corporation is classified as an Operational Enterprise Agency of the Ontario government and is responsible for conducting and managing lottery games, Charitable Gaming ("cGaming"), Internet Gaming ("iGaming"), five Casinos and the Great Blue Heron Slot Machine Facility, 14 slot operations at racetracks and four Resort Casinos; Caesars Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort (Fallsview) in the Province of Ontario.

The Corporation has entered into operating agreements with Caesars Entertainment Windsor Limited (CEWL), CHC Casinos Canada Limited, Falls Management Group, L.P. and Great Blue Heron Gaming Company for the operation of Caesars Windsor, Casino Rama, Casino Niagara and Fallsview and the Great Blue Heron Slot Machine Facility, respectively. In addition, the Corporation entered into a Casino Operating Services Agreement (COSA) with Ontario Gaming East Limited Partnership (OGELP) on January 11, 2016 to operate the East Gaming Bundle, which consists of Casino Thousand Islands and Slots at Kawartha Downs.

The Corporation's head office and corporate office, respectively, are located at:

- 70 Foster Drive, Suite 800, Sault Ste. Marie, Ontario, P6A 6V2
- 4120 Yonge Street, Suite 400, Toronto, Ontario, M2P 2B8

These Consolidated Financial Statements were authorized for issue by the Board of Directors of the Corporation on June 23, 2016.

2. Modernizing Lottery and Gaming in Ontario

On March 12, 2012, the Minister of Finance accepted a report from OLG entitled *Modernizing Lottery and Gaming in Ontario: Strategic Business Review / Advice to Government*. This report was the culmination of an evidence-based strategic business review that examined the state of the Corporation's current operations in the context of a changing market. The report included three recommendations for how the Corporation could achieve greater sustainability and increase Net Profit to the Province (Note 26.a):

1) become more customer-focused
2) expand regulated private sector delivery of lottery and gaming
3) renew OLG's role in oversight of lottery and gaming

The Government of Ontario gave the Corporation approval to move forward with all three of these recommendations, and the Corporation embarked on a series of initiatives to support the modernization of its operations.

On September 9, 2015, OLG announced the selection of OGELP as the land-based gaming service provider for the East Gaming Bundle. Under the terms of the Transition and Asset Purchase Agreement, OGELP committed to acquire certain assets and liabilities related to the sites in the bundle upon signing the 20-year COSA on January 11, 2016. The purchase price for these assets was $46,901,000, including working capital of $9,558,000, resulting in a gain on sale of assets of $19,548,000. On the date of the sale, OLG derecognized all assets, including property, plant and equipment (Note 9) and liabilities related to the East Gaming Bundle sites. In addition to transferring certain assets and liabilities, OGELP took over day-to-day operations of the two existing sites in the bundle from OLG. Subsequent to transfer, OGELP also secured all necessary provincial and municipal approvals to locate a new gaming site in the City of Belleville, and construction began on the new facility in April 2016. In exchange for transferring the rights to own and operate the gaming sites within the East Gaming Bundle (pursuant to the COSA), OLG will receive a share of gaming revenue generated at the gaming sites.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2016 and 2015
(tabular amounts in thousands of Canadian dollars)

2. Modernizing Lottery and Gaming in Ontario (continued)

OLG's procurement process continues for Lottery and the other seven land-based Gaming Bundles. This process includes three stages: Request for Information (RFI), Request for Pre-Qualification (RFPQ) and Request for Proposal (RFP).

In fiscal 2015–16, OLG initiated the RFP process for the three other Gaming Bundles in the following regions: North, Southwest and Greater Toronto Area (GTA)**.** OLG is in the RFP stage for Lottery and expects to select a service provider in fiscal 2017–18. OLG has completed the RFPQ stage for the Central and West GTA Gaming Bundles and expects to issue RFP documents to pre–qualified proponents in fiscal 2016–17. OLG is in the RFPQ stage for the Ottawa Area Gaming Bundle and expects to begin the RFP process in fiscal 2016–17.

In April 2016, OLG announced it intends to add the two Niagara Casinos – Casino Niagara and Fallsview – to the modernization procurement process. OLG expects to issue an RFPQ for the Niagara Gaming Bundle in summer 2016.

The Corporation is also integrating horse racing into the provincial gaming strategy by working with the Ontario government and horse racing stakeholders to help create a more sustainable industry. This includes:

- as of April 1, 2016, administering the transfer payment agreements the government has in place with racetracks until 2021
- helping the industry build the capacity and structure needed for self-governance
- increasing the public profile of horse racing, including the development of horse-themed products
- sharing expertise and helping the industry adopt its own Responsible Gambling program
- establishing a business focus on horse racing by assigning a senior executive

3. Basis of preparation

a. Statement of compliance

These Consolidated Financial Statements include the accounts of the Corporation and the wholly owned subsidiary, Ontario Gaming Assets Corporation, and have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

b. Basis of measurement

These Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments classified as financial assets through profit and loss that are measured at fair value (Note 4.k).

c. Functional and presentation currency

These Consolidated Financial Statements are presented in Canadian dollars. The Canadian dollar is the Corporation's functional currency and the currency of the primary economic environment in which the Corporation operates.

3. Basis of preparation (continued)

d. Use of estimates and judgments

The preparation of these Consolidated Financial Statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues 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 years affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Consolidated Financial Statements is included in the following note:

- Leases and accounting for an arrangement containing a lease (Note 4.o)

Areas of significant estimation and uncertainty that have a significant effect on the amounts recognized in the Consolidated Financial Statements, and could result in a material adjustment within the next fiscal year, are discussed in the following notes:

- Property, plant and equipment – useful lives and residual values (Note 4.l)
- Recoverability of property, plant and equipment (Note 9)
- Provisions (Note 11)
- Amounts due to operators (Note 15)
- Amounts due to the Government of Canada (Note 18)
- Valuation of financial instruments (Note 22)
- Employee benefits (Note 23)
- Contingencies (Note 25)

4. Significant accounting policies

The following accounting policies have been applied consistently by the Corporation and its wholly owned subsidiary to the Consolidated Financial Statements as at and for the years ended March 31, 2016 and March 31, 2015.

a. Basis of consolidation

The Consolidated Financial Statements include the accounts of the Corporation and the wholly owned subsidiary which it controls. Control is achieved when the Corporation is exposed to, or has rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated on consolidation.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2016 and 2015
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

b. Foreign currency

Monetary assets and liabilities denominated in foreign currencies at the reporting date are converted to the Corporation's functional currency at the exchange rates at that date. Non-monetary assets and liabilities in foreign currencies measured in terms of historical cost are converted at historical exchange rates at the date of the transaction. Transactions in foreign currencies are converted to the Corporation's functional currency using the exchange rates at the date of the transactions. The Consolidated Statements of Comprehensive Income items are converted at the rate of exchange in effect at the transaction date. Foreign currency transaction gains and losses are recognized in the Consolidated Statements of Comprehensive Income in the period in which they arise. The Corporation does not have any foreign operations.

c. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognized for the following major business activities:

(i) Lottery

Lottery products are sold to the public by contracted lottery retailers, with LOTTOMAX, LOTTO 6/49 and ENCORE products also available for purchase over the Internet at PlayOLG. Revenue from tickets sold to customers for lottery games, for which results are determined based on a draw, is recognized when the related draw occurs. Revenue from INSTANT games is recognized when retailers make them available for sale to the public, as indicated by the retailers' activation of tickets. Revenue from Sports wagering games is recognized when the ticket is sold to the customer. Tickets issued as a result of the redemption of free ticket prizes are not recorded as revenue.

(ii) cGaming

cGaming products are sold to the public by cGaming Centre service providers and not-for-profit foundations. Revenue from paper break open tickets (BOT) is recognized when the ticket is sold to the customer. For all other cGaming products, revenue is recognized in the same period the game is played, net of prizes paid.

(iii) Resort Casinos and Slots and Casinos

Slot and table games revenue

Gaming revenue includes revenue from slot and table game operations at Slots and Casinos facilities operated by OLG and Resort Casinos. This is recognized in the same period the game is played, net of prizes paid. Gaming revenue is recorded net of the change in accrued jackpot liabilities and liabilities under customer loyalty incentive programs.

Gaming revenue from land-based gaming service provider

Gaming revenue includes OLG's share, pursuant to the COSA, of the gaming revenue generated at the Casino or Slot facility operated by the land-based gaming service provider and is recognized in the same period the game is played.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2016 and 2015
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

c. Revenue recognition (continued)

(iii) Resort Casinos and Slots and Casinos (continued)

Non-gaming revenue

Non-gaming revenue includes revenue earned from accommodations, food and beverage, entertainment centres and other services excluding the retail value of accommodations, food and beverage and other goods and services provided to customers on a complimentary basis at Slots and Casinos operated by OLG. Non-gaming revenue is recorded at the retail value and is recognized as goods are delivered and services performed.

(iv) iGaming

iGaming revenue includes revenue earned from casino-style games available over the Internet at PlayOLG. This is recognized in the same period the game is played, net of prizes paid.

d. Customer loyalty incentive programs

The Corporation has customer loyalty incentive programs whereby customers have the choice to receive free or discounted goods and services and, in many cases, the right to receive cash. These customer loyalty incentive programs at the Resort Casinos, Great Blue Heron Slot Machine Facility and Slots and Casinos operated by OLG allow customers to earn points based on the volume of play during gaming transactions. These points are recorded as a separate deliverable in the revenue transaction.

If the customer has the right to receive free or discounted goods and services and/or the option of receiving cash, a financial liability is recognized when the points are granted and a corresponding amount equal to the cash value is recorded as a reduction to revenue. The customer's point balance will be forfeited if the customer does not earn additional points over the subsequent six- to 12-month period. If the points expire or are forfeited, the financial liability is derecognized.

For programs that provide customers the right to receive free or discounted goods and services, the revenue, as determined by the fair value of the undelivered goods and services related to the customer loyalty award, is deferred until the award is provided or expires.

e. Lottery and Charitable Gaming prizes

Prize expense for Lottery and certain cGaming products is recognized based on the predetermined prize structure for each game in the period revenue is recognized as described below:

- Prize expense for tickets sold to customers for lottery games, for which results are determined based on a draw, is recognized when the related draw occurs and is based on actual prize liability.
- Prize expense for INSTANT games is recognized when retailers make them available for sale to the public, as indicated by the retailers' activation of tickets, and is based on the prize structure.
- Prize expense for Sports wagering games is recognized when the last wagered event occurs and is based on actual prize liability.
- Prize expense for cGaming paper BOT is recognized when the ticket is sold to the customer and is based on actual prize liability.
- Prize expense for annuity-based top prizes is based on the cost of the annuity purchased by the Corporation from a third party.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2016 and 2015
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

e. Lottery and Charitable Gaming prizes (continued)

Prize expense is adjusted on a monthly basis to reflect amounts actually won and/or unclaimed.

Unclaimed prizes on national Lotto games are returned to players through guaranteed jackpots and bonus draws. Unclaimed prizes on regional Lotto games are returned to the Province of Ontario through distributions to the province. Unclaimed prizes are recorded as a reduction to the prize liability included in trade and other payables as well as a reduction to the prize expense. National Lotto games are administered by the Interprovincial Lottery Corporation and sold throughout Canada, while regional Lotto games are administered by the Corporation and sold only in Ontario.

f. Commissions and bonuses

Commissions and bonuses are recognized in the Consolidated Statements of Comprehensive Income in the period in which they are incurred.

(i) Lottery

Lottery retailers receive a commission of eight per cent on all INSTANT tickets and a commission of five per cent on all Lotto tickets sold. Where a commission has been paid to retailers for ticket sales relating to future draws, the commission amount is recorded as a prepaid expense until the related revenue is recognized. Lottery retailers receive a three per cent commission on INSTANT ticket redemptions and a two per cent commission on Lotto ticket redemptions. A bonus of up to $1,500 is paid to any retailer who sells a major prize-winning Lotto or INSTANT ticket, excluding Sports and daily games. Commission amounts that are paid to a retailer for selling a major prize are recorded as an expense when the ticket is redeemed.

(ii) cGaming

cGaming Centre service providers receive a commission based on percentages of net win (gaming revenue net of prizes paid) or adjusted net win (net win after the payment of applicable marketing expenses).

Charities and not-for-profit agencies receive a commission based on percentages of net win, adjusted net win or non-gaming revenue.

(iii) Municipalities

Municipalities that host a Casino or Slots at Racetracks facility, operated by OLG or a land-based gaming service provider, including the City of Niagara Falls and the City of Windsor, receive the following commissions as defined in the Municipal Contribution Agreement:

i. 5.25 per cent on the first $65 million of annual Electronic Games Revenue; plus
ii. 3.00 per cent on the next $135 million of annual Electronic Games Revenue; plus
iii. 2.50 per cent on the next $300 million of annual Electronic Games Revenue; plus
iv. 0.50 per cent on the remainder of annual Electronic Games Revenue; plus
v. 4.00 per cent on Live Table Game Revenue, where applicable.

Municipalities that host cGaming Centres receive a commission based on either a percentage of non-gaming revenue and net win or a percentage of adjusted net win, as defined in the cGaming Centre Municipality Agreements.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements
Years ended March 31, 2016 and 2015
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

f. Commissions and bonuses (continued)

(iv) Mississaugas of Scugog Island First Nation

As the host community of the Great Blue Heron Slot Machine Facility, the Mississaugas of Scugog Island First Nation receives five per cent of Gross Revenues, as defined, from the slot machines. The Mississaugas of Scugog Island First Nation will continue to receive an amount equal to five per cent of the Gross Revenues, as defined, of the slots at the Great Blue Heron Slot Machine Facility on a month-to-month basis, for up to a maximum period of 24 months, from June 28, 2015, which was the expiration date of the previous extension period.

g. Cash and cash equivalents

Cash and cash equivalents include cash and liquid investments that have a term to maturity at the time of purchase of less than 90 days.

h. Restricted cash

Restricted cash consists of cash and liquid investments that have a term to maturity at the time of purchase of less than 90 days. Cash is restricted for the purposes of funding reserves and also includes prize funds on deposit, horse racing program funds, unused proceeds received from term loans and funds held on behalf of Internet Gaming patrons.

i. Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost, less an allowance for impairment. Trade and other receivables are due for settlement no more than 30 days from the date of recognition.

Trade and other receivables represent lottery proceeds due from lottery retailers for lottery ticket sales net of commissions and prizes paid by the retailers. Also included are cGaming proceeds due from cGaming Centre service providers for cGaming sales net of commissions and prizes paid and amounts due from customers of Resort Casinos.

Collectability of trade receivables is reviewed on an ongoing basis. Accounts that are known to be uncollectable are written off. An allowance for impaired receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, not including future credit losses, discounted at the original effective interest rate. The amount of the provision is recognized in the Consolidated Statements of Comprehensive Income.

j. Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to complete the sale.

Inventories consist of finished goods including slot machine and table game parts, security and surveillance parts, lottery and cGaming tickets and paper, food and beverage inventory and retail inventory.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2016 and 2015
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

k. Financial instruments

(i) Non-derivative financial assets recognition

The Corporation has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables. The Corporation does not have available-for-sale or held-to-maturity financial assets.

The Corporation initially recognizes loans and receivables on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date on which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or when 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 Corporation is recognized as a separate asset or liability.

(ii) Non-derivative financial assets measurement

Financial assets at fair value through profit or loss	Comprised of all cash and cash equivalents and restricted cash	A financial asset is classified at fair value through profit or loss if it is classified as held for trading or designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized as incurred in the Consolidated Statements of Comprehensive Income. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in the Consolidated Statements of Comprehensive Income.
Loans and receivables	Comprised of trade and other receivables	Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables 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.

(iii) Non-derivative financial liabilities recognition

The Corporation has the following non-derivative financial liabilities: financial liabilities measured at amortized cost. The Corporation has no non-derivative liabilities classified at fair value through profit or loss.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2016 and 2015
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

k. Financial instruments (continued)

(iii) Non-derivative financial liabilities recognition (continued)

The Corporation initially recognizes financial liabilities on the date that they originated.

All other financial liabilities (designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. Any transaction costs that are directly attributable to these financial liabilities are expensed as incurred.

The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or have expired.

(iv) Non-derivative financial liabilities measurement

Financial liabilities at amortized cost	Comprised of trade and other payables, provisions, due to operators, due to Rama First Nation, due to the Government of Canada and long-term debt	Non-derivative 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.

(v) Non-derivative financial assets and liabilities offsetting

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statements of Financial Position when, and only when, the Corporation 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.

l. Property, plant and equipment

(i) Recognition and measurement

The Corporation capitalizes any major capital purchase that has a useful life beyond the current year.

Property, plant and equipment are measured at cost less accumulated amortization and accumulated impairment losses.

Cost includes an expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and other costs directly attributable to bring the assets to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs on qualifying assets. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

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(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

l. Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

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

(ii) 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 Corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of property, plant and equipment is recognized as incurred in the Consolidated Statements of Comprehensive Income.

(iii) Amortization

Amortization is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in the Consolidated Statements of Comprehensive Income on a straight-line basis over the estimated useful life of each component of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are amortized over the shorter of the lease term and their estimated useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the term of the lease.

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

Asset	Rate
Buildings	10 to 50 years
Furniture, fixtures and equipment	2 to 10 years
Leasehold improvements	Lesser of useful life or term of lease
Lottery gaming assets	5 to 7 years
Slots and Casinos and Resort Casinos gaming assets	2 to 10 years

Property, plant and equipment are amortized when ready for their intended use. Construction in progress and assets not in use are stated at cost, less any recognized impairment loss. Amortization of these assets, determined on the same basis as other property assets, commences when the assets are ready for their intended use.

Amortization methods, useful lives and residual values are reviewed at each fiscal year end and adjusted if appropriate.

Borrowing costs incurred during the construction and development of qualifying property, plant and equipment are capitalized and amortized over the estimated useful life of the associated property, plant and equipment.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2016 and 2015
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4. Significant accounting policies (continued)

m. Goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the exchange date) of assets given and liabilities incurred or assumed. Acquisition-related costs are recognized as incurred in the Consolidated Statements of Comprehensive Income.

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired (the "acquisition date"). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previously held equity interest in the entity over net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Corporation's cash generating units (CGUs) expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. Absent any triggering factors during the year, the Corporation conducts its goodwill impairment test in the fourth quarter of the year. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated to the unit to reduce the carrying amount of any goodwill allocated to it and then allocated pro rata to the other assets of the unit on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Goodwill is measured at cost less accumulated impairment losses and has an indefinite useful life.

n. Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss 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.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

The Corporation 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.

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 the Consolidated Statements of Comprehensive 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 in the Consolidated Statements of Comprehensive Income.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

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4. Significant accounting policies (continued)

n. Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. 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 or CGU. 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 group of assets. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The Corporation's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset is allocated.

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 other charges in the Consolidated Statements of Comprehensive Income. Impairment losses recognized in respect of CGUs are first allocated to reduce the carrying amount of any goodwill allocated to the units and then to reduce, on a pro rata basis, the carrying amounts of the other assets in the unit or group of units.

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

o. Leases

(i) Determining whether an arrangement contains a lease

At the inception of an arrangement, the Corporation determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Corporation the right to control the use of the underlying asset.

At the inception or upon the reassessment of the arrangement, the Corporation separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Corporation concludes that it is impracticable to separate the payments reliably under a finance lease, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Corporation's incremental borrowing rate.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2016 and 2015
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

o. Leases (continued)

(ii) Leased assets

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. On a lease-by-lease basis, the Corporation estimates whether substantially all of the risks and rewards of ownership are assumed, taking into account the length of the lease, the present value of the minimum lease payments compared to the fair value of the leased asset and other terms contained within the lease. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

(iii) Lease payments

Payments made under operating leases are recognized in the Consolidated Statements of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the term of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and the leased assets are not recognized in the Corporation's Consolidated Statements of Financial Position. Operating lease payments are recognized as an expense on a straight-line basis over the term of the lease, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

p. Deferred revenues

Funds collected from retailers for lottery games for which results are determined based on a draw and for which tickets are sold in advance of the game draw, are recorded as deferred revenue and recognized as revenue once the related draw occurs.

q. Trade and other payables

These amounts represent liabilities for unpaid goods and services provided to the Corporation prior to the end of the financial year. Such liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at their amortized cost using the effective interest method. The amounts are short term in nature.

r. Provisions

Provisions are liabilities of uncertain timing and amount. A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2016 and 2015
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4. Significant accounting policies (continued)

r. Provisions (continued)

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Provisions are reviewed at each reporting date and adjusted to reflect current best estimates.

(i) Legal claims

The Corporation recognizes obligations for the settlement of current legal claims against the Corporation. The provision is measured based on the best estimate of the expenditure required to settle the matter. Each claim is individually reviewed for the likelihood of settlement and the expected settlement amount.

(ii) Other provisions

The Corporation recognizes decommissioning obligations for the retirement of certain tangible property, plant and equipment, which result from the acquisition, construction, development and/or normal use of the assets. The provision is measured based on the net present value of Management's best estimate of the expenditures that will be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the estimated useful life. The increase to the provision resulting from unwinding the discount is recognized as a finance cost.

The provision is measured each period and subsequent changes in the provision are capitalized as part of the cost of the long-lived asset and amortized prospectively over the remaining life of the item to which the costs relate. A gain or loss may be incurred upon settlement of the liability.

The Corporation recognizes a provision for insurance claims that the Corporation's insurance provider has indicated are more than likely to be settled. The provision is measured based on the amounts for each claim where settlement is probable or the amount of the deductible related to the claim.

s. Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the Consolidated Statements of Comprehensive Income in the periods during which services are rendered by the employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan, which are due more than 12 months after the end of the period in which the employees render the service, are discounted to their present value.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2016 and 2015
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

s. Employee benefits (continued)

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan that requires entities to record their net obligation in respect of the plan and is not a defined contribution plan. The Corporation provides defined benefit pension plans through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees Union Pension Fund ("OPSEU Pension Fund"). The Corporation does not have a net obligation in respect of defined benefit pension plans as the plans are sole-sponsored defined benefit plans established by the Province of Ontario. The Province of Ontario controls all entities included in the pension plans. The Corporation has classified these plans as state plans whereby there is no contractual agreement or stated policy for charging the net defined benefit cost of the plans to the Corporation. As such, the Corporation records these post-employment benefits as defined contribution plans and has recorded no additional liability for the plan deficit.

(iii) Other long-term employee benefits

The Corporation's net obligation with respect to long-term employee benefits other than pension plans is 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 and the fair value of any related assets is 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 Corporation's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in the Consolidated Statements of Comprehensive Income in the period in which they arise.

(iv) Termination benefits

Termination benefits are recognized as an expense at the earlier of when the Corporation can no longer withdraw the offer of those benefits and when the Corporation recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, they are discounted to their present value.

(v) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be settled wholly within 12 months of the end of the reporting period if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

t. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets. The Corporation ceases to capitalize borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete. The Corporation suspends capitalization of borrowing costs during extended periods in which it has suspended active development of a qualifying asset.

4. Significant accounting policies (continued)

t. Borrowing costs (continued)

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the Consolidated Statements of Comprehensive Income in the period in which they are incurred.

u. Finance income and finance costs

Finance income consists of interest income on funds invested and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in the Consolidated Statements of Comprehensive Income using the effective interest method.

Finance costs consist of interest expense on borrowings, unwinding of the discount on provisions and changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the Consolidated Statements of Comprehensive Income using the effective interest method.

v. Segment reporting

A reportable segment is a significant component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation’s other components. The operating results of all reportable segments are reviewed regularly by the Corporation’s President and CEO to make decisions about resources to be allocated to the segment and to assess the performance of the segment for which discrete financial information is available.

Segment results that are reported to the chief operating decision maker, the Corporation’s President and CEO, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are comprised primarily of corporate assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

w. Income taxes

As the Corporation is an agent of the Crown, it is not subject to federal or provincial corporate income taxes or corporate capital taxes.

x. Initial application of standards, interpretation and amendments

The Corporation did not adopt any new or amended accounting pronouncements that had a material impact on the Consolidated Financial Statements.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

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4. Significant accounting policies (continued)

y. Accounting standards issued but not yet effective

A number of new accounting standards and amendments to standards are not yet effective as at March 31, 2016 and have not been applied in preparing these Consolidated Financial Statements.

(i) IFRS 15, Revenue from Contracts with Customers (IFRS 15)

In May 2014, the IASB issued IFRS 15, replacing IAS 11, Construction Contracts, IAS 18, Revenue and IFRIC 13, Customer Loyalty Programmes. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is mandatorily effective for annual periods beginning on or after January 1, 2018. The Corporation does not expect the standard to have a material impact on the Consolidated Financial Statements.

(ii) IFRS 9, Financial Instruments (IFRS 9)

In July 2014, the IASB issued the complete IFRS 9 which replaces IAS 39, Financial Instruments: Recognition and Measurement. The new standard provides guidance on the classification and measurement of financial assets and introduces a new expected credit loss model for calculating impairment. It also incorporates general hedge accounting requirements. IFRS 9 is mandatorily effective for annual periods beginning on or after January 1, 2018. The Corporation does not expect the new standard to have a material impact on its Consolidated Financial Statements.

(iii) IFRS 16, Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16, replacing IAS 17, Leases and IFRIC 4, Determining whether an arrangement contains a lease. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The accounting treatment for lessors will remain largely the same as under IAS 17. IFRS 16 is mandatorily effective for annual periods beginning on or after January 1, 2019. The Corporation is assessing the impact of this new standard on its Consolidated Financial Statements.

(iv) Disclosure Initiative (Amendments to IAS 7, Statement of Cash Flows (IAS 7))

In January 2016, the IASB issued amendments to IAS 7 which require disclosures that enable users of financial statements to evaluate changes in liabilities from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2017. The Corporation does not expect the amendments to have a material impact on its Consolidated Financial Statements.

Ontario Lottery and Gaming Corporation
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5. Capital risk management

The capital structure of the Corporation consists of cash and cash equivalents, long-term debt and equity, comprising retained earnings, contributed surplus and reserves.

The Corporation is required to finance certain capital expenditures with debt obtained from the Ontario Financing Authority (OFA). The approval of the Minister of Finance is required for the Corporation to borrow funds for major capital expenditures.

The Corporation's objectives in managing capital are to ensure sufficient resources are available for it to continue to fund future development and growth of its operations and to provide returns to the Province of Ontario.

The Board of Directors is responsible for the oversight of Management, including policies related to financial and risk management. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Operating agreements require the Resort Casinos to establish reserve funds. The Corporation is not subject to any externally imposed capital requirements. Refer to Note 22 for further details on the Corporation's financial risk management and financial instruments.

6. Restricted cash

Restricted cash, consisting of the following items and respective amounts, is held in separate bank accounts.

	March 31, 2016	March 31, 2015
Current		
Prize funds on deposit (a)	$45,264	$46,547
Horse racing funds (b)	3,734	-
Other (c)	7,944	8,527
	$56,942	$55,074
Non-current		
Reserves (d)		
Capital renewals	$18,503	$25,979
Operating	54,308	53,916
Severance	46,146	45,794
	$118,957	$125,689
Restricted cash	$175,899	$180,763

a. Prize funds on deposit of $45,264,000 (March 31, 2015 – $46,547,000) are funds set aside representing the estimate of gross prizes outstanding of $82,333,000 (March 31, 2015 – $78,874,000) less an estimate for prizes not expected to be claimed by customers of $37,069,000 (March 31, 2015 – $32,327,000).

b. Standardbred Horsepeople's Purse Funds of $3,734,000 (March 31, 2015 – $nil) were received from the Ontario Racing Commission to fund activities that will provide benefits to horsepeople.

c. Other restricted cash represents loan proceeds for the Gaming Management System and Internet Gaming site projects, funds held on behalf of Internet Gaming patrons and interest earned and received.

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6. Restricted cash (continued)

d. The Corporation has established reserves at the Resort Casinos in accordance with their respective operating agreements, or on other terms as otherwise agreed to, for the following purposes:

(i) Capital renewals reserves – for property, plant and equipment additions, other than normal repairs, and to satisfy specified obligations in the event that cash flows are insufficient to meet such obligations

(ii) Operating reserves – to satisfy specified operating obligations in the event that cash flows are insufficient to meet such obligations

(iii) Severance reserves – to satisfy certain obligations of the Corporation arising from the termination or lay-off of employees of an operator in connection with the termination of an operator

7. Trade and other receivables

	March 31, 2016	March 31, 2015
Trade receivables	$152,282	$98,320
Less: allowance for impairment	(5,159)	(4,210)
Trade receivables, net	147,123	94,110
Other receivables	12,017	9,527
Trade and other receivables	$159,140	$103,637

The Corporation's exposure to credit risks and impairment losses related to trade and other receivables is disclosed in Note 22.

8. Inventories

	March 31, 2016	March 31, 2015
Slot machine and table game parts	$3,086	$3,930
Lottery and charitable gaming tickets and paper	17,620	14,537
Security and surveillance parts	1,435	541
Food and beverage	2,693	3,137
Retail	815	506
Other	2,399	2,823
Inventories	$28,048	$25,474

Inventory costs, included in expenses, for the year ended March 31, 2016 were $110,963,000 (March 31, 2015 – $102,410,000). During fiscal 2015–16, the Corporation recorded inventory write-downs in expenses of $285,000 (March 31, 2015 – $128,000 of inventory write-down reversals).

(tabular amounts in thousands of Canadian dollars)

9. Property, plant and equipment

Cost

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	Slots and Casinos and Resort Casinos gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at April 1, 2014	$137,824	$1,901,210	$585,998	$633,344	$84,680	$599,716	$60,496	$39,392	$4,042,660
Additions and assets put into use	-	5,460	40,499	15,443	1,019	63,269	8,112	17,169	150,971
Disposals and retirements	-	(1,353)	(23,453)	(2,091)	-	(49,894)	-	-	(76,791)
Balance at March 31, 2015	$137,824	$1,905,317	$603,044	$646,696	$85,699	$613,091	$68,608	$56,561	$4,116,840
Balance at April 1, 2015	$137,824	$1,905,317	$603,044	$646,696	$85,699	$613,091	$68,608	$56,561	$4,116,840
Additions and assets put into use	-	11,143	52,142	12,761	8,237	60,365	2,645	(13,868)	133,425
Disposals and retirements	(763)	(34,012)	(29,760)	(10,875)	(10,107)	(73,823)	-	(20,624)	(179,964)
Balance at March 31, 2016	$137,061	$1,882,448	$625,426	$648,582	$83,829	$599,633	$71,253	$22,069	$4,070,301

(tabular amounts in thousands of Canadian dollars)

9. Property, plant and equipment (continued)

Accumulated amortization and accumulated impairment losses

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	Slots and Casinos and Resort Casinos gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at April 1, 2014	$41,091	$1,075,096	$499,264	$527,091	$79,020	$460,575	$32,292	-	$2,714,429
Amortization for the period	-	42,067	32,906	17,572	4,595	63,209	2,836	-	163,185
Impairment loss	-	-	11,313	-	-	-	8,112	-	19,425
Disposal and retirements	-	(651)	(22,566)	(1,778)	-	(49,587)	-	-	(74,582)
Balance at March 31, 2015	$41,091	$1,116,512	$520,917	$542,885	$83,615	$474,197	$43,240	-	$2,822,457
Balance at April 1, 2015	$41,091	$1,116,512	$520,917	$542,885	$83,615	$474,197	$43,240	-	$2,822,457
Amortization for the period	-	39,351	34,608	21,134	1,623	57,928	2,837	-	157,481
Impairment loss	-	-	3,852	-	-	-	2,644	-	6,496
Disposal and retirements	-	(20,725)	(28,502)	(10,552)	(10,074)	(70,307)	-	-	(140,160)
Balance at March 31, 2016	$41,091	$1,135,138	$530,875	$553,467	$75,164	$461,818	$48,721	-	$2,846,274

(tabular amounts in thousands of Canadian dollars)

9. Property, plant and equipment (continued)

Carrying amounts

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	Slots and Casinos and Resort Casinos gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at March 31, 2015	$96,733	$788,805	$82,127	$103,811	$2,084	$138,894	$25,368	$56,561	$1,294,383
Balance at March 31, 2016	$95,970	$747,310	$94,551	$95,115	$8,665	$137,815	$22,532	$22,069	$1,224,027

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9. Property, plant and equipment (continued)

The Corporation leases certain items of property, plant and equipment under finance lease agreements. The leases are structured in a manner such that significant risks and rewards incidental to ownership of the leased assets have been assumed by OLG. At March 31, 2016, the net carrying amount of leased property, plant and equipment was $22,532,000 (March 31, 2015 – $25,368,000).

Capital expenditures by reportable segment

The Corporation made the following capital outlays to the respective reportable segments:

For the fiscal year	Lottery	Charitable Gaming	Resort Casinos	Slots and Casinos	Internet Gaming	Total
2015–16	$6,181	$6,496	$53,591	$67,157	$ -	$133,425
2014–15	$11,475	$19,425	$60,899	$59,097	$75	$150,971

Impairment

As a result of the economic performance of the cGaming CGUs, made up of the individual cGaming Centres, Management performed an impairment analysis.

The recoverable amounts of the CGUs were based on fair value less costs of disposal, which is greater than the value in use. Management performed the fair value analysis utilizing discounted cash flows based on its best estimates and using the market information currently available. The value technique used Level 3 inputs which are unobservable inputs supported by little or no market activity for the assets (Note 22.f). Cash flow projections were based on annual approved budgets and Management's projections thereafter. The cash flows are Management's best estimate of future events taking into account past experience and future economic assumptions. A discount rate of seven per cent that was applied to the cash flow projections was derived from Management's consideration of current market assessments and the risks specific to the CGUs.

Management determined that the recoverable amount of the CGUs of $nil was less than their carrying value and, as a result, an impairment loss of $6,496,000 (fiscal 2014–15 – $19,425,000) was recognized in other charges in the Consolidated Statements of Comprehensive Income. The impairment loss relates to the cGaming reportable segment in Note 26.

Management did not identify any further impairment indicators at any of the Corporation's other CGUs and, therefore, has not recognized any additional impairment losses at March 31, 2016.

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10. Trade and other payables

	March 31, 2016	March 31, 2015
Trade payables and accruals	$82,387	$89,192
Prizes payable	45,264	46,548
Short-term employee benefits	56,225	46,590
Gaming liability	68,258	68,353
Commissions payable	25,105	22,977
Site settlement accrual	-	16,970
Horse racing liability	3,734	-
Other payables and accruals	35,213	32,161
Trade and other payables	$316,186	$322,791

Prizes payable comprise unclaimed and estimated Lottery and cGaming prizes.

Short-term employee benefits include salaries payable, incentive accruals, long-term service awards, vacation pay accrual and other short-term employee-related liabilities.

Gaming liability consists of progressive jackpots, unredeemed chips, customer loyalty incentive points and other gaming-related payables. Progressive jackpots are measured based on the anticipated payout of the progressive jackpots. Unredeemed chips are funds deposited by customers before gaming play occurs for chips in the customers' possession. Customer loyalty incentive points that are earned based on the volume of play and redeemable for complimentary goods and services and/or cash are recognized as a liability and measured at the amount payable on demand.

Commissions payable include amounts payable to lottery retailers, cGaming Centre service providers and municipalities that host a Casino or a Slots at Racetracks facility, including the City of Niagara Falls and the City of Windsor, or cGaming Centre.

Site settlement accrual consists of settlement costs payable to a site holder.

Horse racing liability represents the Standardbred Horsepeople's Purse Funds received from the Ontario Racing Commission to fund activities that will provide benefits to horsepeople.

Other payables and accruals include accrued win contribution, casino customer deposits, security deposits, unredeemed land-based gaming service provider customer loyalty points and other amounts.

The Corporation's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 22.

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11. Provisions

All provisions are included in current liabilities. The carrying amount was as follows:

	Legal claims	Other provisions	Total
Balance at April 1, 2015	$1,536	$3,727	$5,263
Increases and additional provisions	1,609	1,359	2,968
Amounts paid	(669)	(736)	(1,405)
Amounts reversed	(510)	(493)	(1,003)
Balance at March 31, 2016	$1,966	$3,857	$5,823

Legal claims

The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. Estimates, where appropriate, have been included in the Consolidated Statements of Financial Position. During fiscal 2015–16, an additional $1,609,000 of potential legal claims was accrued, with an offsetting reduction of $669,000 due to payments to claimants. The $510,000 of legal claims reversed in fiscal 2015–16 was due to the likelihood of the obligations becoming remote. The ultimate outcome or actual cost of settlement may vary significantly from the original estimates. Material obligations that have not been recognized as provisions, as the outcome is not probable or the amount cannot be reliably estimated, are disclosed as contingent liabilities, unless the likelihood of the outcome is remote (Note 25).

Other provisions

Other provisions include provisions for decommissioning obligations and insurance claims.

The Corporation recognizes a discounted liability associated with decommissioning obligations arising from terms in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms. This provision is associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development and/or normal use of the assets. During fiscal 2015–16, an additional $154,000 of decommissioning obligations was recorded.

The Corporation recognized a provision relating to insurance claims that the Corporation’s insurance provider has indicated are more than likely to be settled. The provision is measured based on the estimated amounts to be settled or actual deductible amounts for each claim where settlement is likely. During fiscal 2015–16, an additional $1,205,000 of insurance claims was accrued, $736,000 of claims was settled and $493,000 of accrued claims was reversed as it was no longer likely the claims would be incurred.

12. Personnel costs

Total personnel costs for the year ended March 31, 2016 amounted to $901,987,000 (March 31, 2015 – $873,281,000).

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13. Finance income and finance costs

	March 31, 2016	March 31, 2015
Interest income on financial assets at fair value through profit and loss and loans and receivables	$2,203	$2,835
Finance income	$2,203	$2,835
Interest on bank overdraft and loans	$(505)	$(673)
Interest on obligations under finance leases	(4,693)	(4,533)
Other interest expense	(90)	(145)
Total interest expense for financial liabilities not classified at fair value through profit and loss	(5,288)	(5,351)
Finance costs	$(5,288)	$(5,351)
Net finance costs recognized in net income and comprehensive income	$(3,085)	$(2,516)

14. Related parties

The Corporation is related to various other government agencies, ministries and Crown corporations. Related party transactions include loan agreements with the OFA (Note 21), post-employment benefit plans with the Ontario Pension Board (Note 23.b), other long-term employee benefits with the Workplace Safety and Insurance Board (Note 23.c) and restricted funding arrangements with the Province of Ontario related to horse racing (Note 6).

All transactions with these related parties are in the normal course of operations and are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

Transactions with key management personnel

Key management personnel compensation

The Corporation's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Corporation and consist of the Corporation's Board of Directors and the Executive Committee.

Key management personnel compensation was comprised of the following:

	March 31, 2016	March 31, 2015
Short-term employee benefits	$4,201	$4,830
Post-employment benefits	227	250
	$4,428	$5,080

Short-term employee benefits include salaries and benefits and other short-term compensation.

Post-employment benefits include the employer's portion of pension and other post-retirement benefits.

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15. Due to operators

Under the terms of the development and operating agreements for each of the Resort Casinos and the Great Blue Heron Slot Machine Facility, each operator is entitled to receive an operator's fee calculated as a percentage of Gross Revenue and as a percentage of Net Operating Margin, both as defined in each of the related development and operating agreements. The Resort Casinos, including Great Blue Heron Slot Machine Facility, and their respective operators are as follows:

- Casino Niagara and Fallsview are operated by Falls Management Group, L.P., the general partner of which is Falls Management Company (owned by Niagara Casino Group, L.P., Highland Gaming, Inc., Shiplake Gaming Corporation, Olympic V, Inc. and 3048505 Nova Scotia Company) and the sole limited partner of which is Falls Entertainment Corporation.

  During the year, the Corporation exercised an option to not extend the Permanent Casino Operating Agreement, which is set to expire June 10, 2019, resulting in non-extension costs and HST being incurred as disclosed in Note 20.

  As at March 31, 2016, the non-current amount due to the operator was $143,476,000 (March 31, 2015 – $nil) with payment due on or before June 10, 2019.

- Casino Rama is operated by CHC Casinos Canada Limited, an indirectly wholly owned subsidiary of Penn National Gaming, Inc.

  On August 1, 2011, OLG, CRC Holdings Inc., CHC Casinos Canada Limited and Casino Rama Services Inc. entered into an Interim Operating Agreement ("Interim Agreement") related to the continued operation of the complex. On June 26, 2014, the terms of the Interim Agreement were amended to further extend the term on a month-to-month basis starting October 1, 2014, for up to a maximum period of 24 months. In addition, OLG has two successive options to further extend the Interim Agreement for periods of 12 months each. On May 31, 2016, OLG exercised its option to extend the term of the Interim Agreement immediately following September 30, 2016, on a month-to-month basis, for up to a maximum period of 12 months. From and after October 1, 2014, OLG is entitled to terminate the month-to-month arrangement at any time by providing two months' advance written notice to the operator.

- Caesars Windsor is operated by Caesars Entertainment Windsor Limited (CEWL), a wholly owned subsidiary of Caesars Entertainment Corporation.

  The development and operating agreement expires on July 31, 2020, subject to earlier termination.

- Great Blue Heron Slot Machine Facility is operated by Great Blue Heron Gaming Company, owned by CAI Ontario Inc. and others.

  The development and operating agreement, which was set to expire on June 28, 2015, has been extended on a month-to-month basis for up to a maximum period of 24 months.

Also included in the amounts due to operators are:

a) Niagara Falls

Under the terms of the Niagara Falls Permanent Casino Operating Agreement, in a Competitive Environment, as defined, the operator is entitled to receive additional operator services fees and an Attractor fee. The Attractor fee, as defined, is calculated to allow for the amortization of the total capital contribution of the operator to external attractors of $30,000,000, including a convention centre and a people mover. As at March 31, 2016, the Attractor fee accrual included in due to operators was $2,411,000 (March 31, 2015 – $3,117,000). The Corporation's remaining commitment as at March 31, 2016 is $8,055,000.

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15. Due to operators (continued)

b) Caesars Windsor

Under the terms of a trademark licence agreement for the rebranding of Caesars Windsor, the Corporation pays a licence fee calculated as a percentage of the revenue and operating results, as defined, of Caesars Windsor. The trademark licence agreement with a wholly owned indirect subsidiary of CEWL will terminate on July 31, 2020, or on such earlier date as CEWL or its subsidiary ceases to be the operator of Caesars Windsor. As at March 31, 2016, the amount included in due to operator in respect of the trademark licence agreement was $283,000 (March 31, 2015 – $285,000).

As at March 31, 2016, the current and non-current amount due to operators was $184,170,000 (March 31, 2015 – $34,729,000).

At each of the Resort Casinos and the Great Blue Heron Slot Machine Facility, the operator is the employer of the employees working at that facility. All payroll and payroll-related costs are charged to the Corporation on a monthly basis and expensed in the Corporation's Consolidated Statements of Comprehensive Income and included in amounts disclosed in Note 12.

16. Due to Rama First Nation

a. Casino Rama is located on reserve lands of Rama First Nation under the authority of a 25-year sublease (expiring in March 2021) between the Corporation and Casino Rama Inc., a wholly owned subsidiary of Rama First Nation. The lands are leased by Casino Rama Inc. from Her Majesty the Queen in Right of Canada under a 25-year lease, which expires in March 2021. Annual rent payable under this lease, adjusted for inflation, is paid out of the gross revenue of the Casino Rama Complex to Rama First Nation in accordance with instructions from Aboriginal Affairs and Northern Development Canada as the representative of Her Majesty the Queen. During fiscal 2015–16, $4,990,000 was expensed (March 31, 2015 – $4,943,000) and included in facilities expense in Note 26.

b. The terms of various permits provide for parking and pedestrian access to the Casino Rama Complex at an annual rent payable of approximately $1,700,000, adjusted for inflation. The lands are permitted by Her Majesty the Queen to Rama and are currently in use at Casino Rama for parking and pedestrian access. During fiscal 2015–16, $2,246,000 was expensed under permits (March 31, 2015 – $2,219,000) and included in facilities expense in Note 26.

c. On January 26, 2010, the Corporation and Rama First Nation announced that they had entered into an agreement, dated July 17, 2009, relating to Casino Rama for the 20-year period commencing August 1, 2011 and relating to possible future development (the "Post-2011 Contract"). The contract was amended in June 2014 and December 2015. The key terms of the amended Post-2011 Contract, relevant to the Corporation, are as follows:

(i) The term of the Post-2011 Contract continues until July 31, 2031, subject to earlier termination as may be permitted by the terms of the agreement or the exercise by the Corporation in its sole discretion of two successive options to extend the Post-2011 Contract for periods of ten years and five years, respectively. The Post-2011 Contract shall terminate on March 14, 2021 if Rama First Nation and Casino Rama Inc. do not replace the existing surrenders and permits with a new surrender or establish a land management regime on or before June 30, 2016. Rama First Nation is currently in the process of completing this new surrender.

(ii) Rama First Nation is entitled to receive an annual fee for each successive 12-month period commencing August 1, 2011 in an amount equal to the greater of 1.9 per cent of the Gross Revenues of the Casino Rama Complex, as defined, and $5,500,000.

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16. Due to Rama First Nation (continued)

(iii) The Corporation agreed to contribute $2,000,000 towards the capital cost of renovating the existing administration building.

(iv) The Corporation agreed to construct a four-acre on-site employee parking lot.

During fiscal 2015–16, $7,809,000 was expensed in connection with the Post-2011 Contract (fiscal 2014–15 – $7,182,000) and included in facilities expense in Note 26. As at March 31, 2016, $667,000 (March 31, 2015 – $619,000) was due to Rama First Nation.

d. In connection with the Post-2011 Contract, Rama First Nation and the Corporation entered into agreements relating to the provision of fire protection and policing services for the Casino Rama Complex for a term commencing on August 1, 2011 and terminating on July 31, 2031, unless otherwise extended.

Payments made to Rama First Nation in connection with fire protection and policing services, snow removal services and water and sewer services amounted to $8,120,000 (fiscal 2014–15 – $7,151,000). These payments were included in general and administration expenses in Note 26. At March 31, 2016, $1,234,000 (March 31, 2015 – $906,000) was due to Rama First Nation.

e. Pursuant to the terms of the amended Post-2011 Contract, a company related to Rama First Nation and the Corporation agreed to enter into a lease for the rental of office space for a term commencing on August 1, 2011 and terminating on July 31, 2019. In fiscal 2015–16, $766,000 was expensed (fiscal 2014–15 – $757,000) and is included in general and administration expenses in Note 26.

Pursuant to the terms of the Post-2011 Contract, a company related to Rama First Nation and the Corporation entered into a lease for warehouse space for a term commencing on August 1, 2011 and terminating on March 13, 2021 (subject to extension of the Post-2011 Contract). In fiscal 2015–16, $387,000 was expensed (fiscal 2014–15 – $383,000) and is included in general and administration expenses in Note 26.

f. During fiscal 2015–16, $1,328,000 (fiscal 2014–15 – $377,000) was paid to Rama First Nation to pay contractors involved in the acquisition of leasehold improvements. At March 31, 2016, $217,000 (March 31, 2015 – $480,000) was due to Rama First Nation.

g. In connection with the Post-2011 Contract, the Corporation and Casino Rama Inc. entered into an Employee Parking Lot Licence dated May 31, 2012, which terminates concurrently with the termination of the Post-2011 Contract (unless the permit underlying the licensed lands is terminated earlier in accordance with its terms). During fiscal 2015–16, $517,000 (fiscal 2014–15 – $511,000) was paid to Casino Rama Inc. under the Employee Parking Lot Licence.

17. Win contribution

The Corporation remits a contribution to the Province of Ontario equal to 20 per cent of gaming revenue from the Resort Casinos and the Great Blue Heron Slot Machine Facility in accordance with the *Ontario Lottery and Gaming Corporation Act, 1999*, which amounted to $272,447,000 for fiscal 2015–16 (fiscal 2014–15 – $246,934,000) and was recorded as an operating expense.

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18. Due to the Government of Canada

As at March 31, 2016, the amount due to the Government of Canada was $33,292,000 (March 31, 2015 – $15,754,000), of which $15,783,000 (March 31, 2015 – $nil) is included in the non-current amount due to the Government of Canada related to the Falls Management Group, L.P. non-extension (Note 15). The recognition of this obligation requires Management to make certain estimates regarding the nature, timing and amounts associated with the Due to the Government of Canada.

a. Payments on behalf of the Province of Ontario

The provincial lottery corporations make payments to the Government of Canada under an agreement dated August 1979 between the provincial governments and the Government of Canada. The agreement stipulates that the Government of Canada will not participate in the sale of lottery tickets.

b. Goods and Services Tax / Harmonized Sales Tax (GST/HST)

As a prescribed registrant, the Corporation makes GST/HST remittances to the Government of Canada pursuant to the Games of Chance (GST/HST) Regulations of the *Excise Tax Act*. The Corporation's net tax for a reporting period is calculated using net tax attributable to both gaming and non-gaming activities.

The net tax attributable to non-gaming activities is calculated similarly as it is for any other GST/HST registrant in Canada. The non-recoverable GST/HST payable to suppliers and the additional imputed tax payable to the Government of Canada on gaming-related expenses were recognized as payments to the Government of Canada.

The net tax attributable to gaming activities results in a 26 per cent tax burden on most taxable gaming expenditures incurred by the Corporation.

19. Other income

	March 31, 2016	March 31, 2015
ATM fees	$41,003	$39,327
Losses on disposal of property, plant and equipment, net (a)	(1,360)	(751)
Miscellaneous income	9,953	8,113
Other income	$49,596	$46,689

a. Losses on disposal of property, plant and equipment, net

During fiscal 2015–16, the Corporation realized net losses on disposal of property, plant and equipment of $1,360,000 (fiscal 2014–15 – $751,000) which included a gain of $19,548,000 (fiscal 2014–15 – $nil) related to the sale of East Gaming Bundle assets (Note 2) offset by losses associated with the discontinuation of projects of $20,908,000 (fiscal 2014–15 – $751,000).

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20. Other charges

	March 31, 2016	March 31, 2015
Operator non-extension (a)	$159,259	$ -
Site settlement (b)	-	15,770
Impairment charge (c)	6,496	19,425
Other charges	$165,755	$35,195

a. Operator non-extension

The Corporation incurred one-time operator non-extension costs of $159,259,000, including HST of $15,783,000, for the year ended March 31, 2016 (March 31, 2015 – $nil) in relation to exercising its option to not extend the Permanent Casino Operating Agreement with Falls Management Group, L.P. The costs represent the present value of the future payments to be made on or before June 10, 2019. The future undiscounted payments comprise $151,143,000 to the operator and $16,626,000 to the Government of Canada. The amount payable to the operator is included in Due to operators in Note 15, and the amount Due to the Government of Canada is included in Note 18.

b. Site settlement

The Corporation incurred site settlement costs of $nil for the year ended March 31, 2016 (March 31, 2015 – $15,770,000) in relation to reaching a settlement with a site holder. All costs incurred were paid to the site holder in fiscal 2015–16.

c. Impairment charge

The Corporation recognized an impairment loss for the year ended March 31, 2016 of $6,496,000 (March 31, 2015 – $19,425,000), as disclosed in Note 9.

21. Long-term debt

	March 31, 2016	March 31, 2015
Woodbine loan (a)	$11,819	$22,173
Gaming Management System loan (b)	20,593	5,720
Internet Gaming loan (c)	1,880	1,850
Obligations under finance leases (d)	50,614	55,880
	84,906	85,623
Less: current portion	(18,810)	(18,257)
Long-term debt	$66,096	$67,366

On June 1, 2012, the Province of Ontario amended the *Ontario Lottery and Gaming Corporation Act, 1999* to require the Corporation to finance certain capital expenditures with debt obtained from the OFA. The approval of the Minister of Finance is required for the Corporation to borrow funds for major capital expenditures.

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21. Long-term debt (continued)

a. Woodbine loan

In October 2010, the Corporation entered into a loan agreement with the OFA for purposes of financing the renovation and expansion (in two phases, Phase A and Phase B) of the slots facility at Woodbine Racetrack.

Phase A construction was completed and the related construction loan was converted to a term loan in June 2011. The initial loan balance for Phase A of $31,269,000, plus interest, was repayable over five years in equal monthly payments of $560,904 until fiscal 2014–15 when the equal monthly payment changed to $384,913 due to a lump sum payment made in fiscal 2013–14. The loan bears interest at a rate of 2.931 per cent per annum and is unsecured. The loan expires May 2016.

Phase B construction was completed and the related construction loan was converted to a term loan in February 2013. The initial loan balance for Phase B of $33,802,000, plus interest, was repayable over five years in equal monthly payments of $597,222 until fiscal 2014–15 when the equal monthly payment changed to $514,690 due to a lump sum payment made in fiscal 2013–14. The loan bears interest at a rate of 2.320 per cent per annum and is unsecured. The loan expires January 2018.

b. Gaming Management System loan

In July 2014, the Corporation entered into a loan agreement with the OFA, involving two facilities, to borrow an amount up to $35,200,000 to finance the implementation of its Gaming Management System. This system will replace infrastructure that tracks and records gaming activity and accounting, as well as data and security events at all of the slot machines. During fiscal 2015–16, the Corporation drew $14,750,000 (fiscal 2014–15 $5,700,000), plus accrued interest, on facility one bringing the total cumulative loan balance to $20,593,000 (March 31, 2015 – $5,720,000) which is repayable, inclusive of interest accrued, at the earlier of the project completion date or September 2016, at which time the advance from facility two will be utilized to repay facility one. Facility one bears interest at the rate of OFA's cost of funds as of the facility advance date plus 0.325 per cent per annum, compounded quarterly. Facility two is a non-revolving five-year term and bears interest at the rate of OFA's five-year benchmark interest rate plus 0.325 per cent per annum, compounded semi-annually, and is repayable in semi-annual instalments of interest and principal commencing six months after the facility two advance date. The loan is unsecured.

c. Internet Gaming loan

In August 2014, the Corporation entered into a loan agreement with the OFA to borrow an amount up to $1,833,000 to finance the capital costs of the PlayOLG website. The full loan balance of $1,833,000 was advanced on September 9, 2014. The loan plus accrued interest is repayable on September 9, 2016. The loan bears interest at the rate of 1.643 per cent per annum, compounded quarterly. The loan is unsecured. At March 31, 2016, interest of $47,000 was accrued (March 31, 2015 – $17,000).

d. Obligations under finance leases

Effective March 2010, the Corporation entered into an amending agreement for an additional 15-year term with Maple Leaf Entertainment Inc., Canadian Niagara Hotels Inc., 1032514 Ontario Limited and Greenberg International Inc. to lease the facility that houses Casino Niagara and to license the adjacent parking facilities. The amending agreement extends the term of the original lease and licence agreements by 15 years from March 10, 2010 to March 9, 2025. This agreement is considered to be a finance lease for accounting purposes and has an implicit interest rate of 8.2 per cent. The total remaining obligation under the finance lease is $36,129,000 at March 31, 2016 (March 31, 2015 – $38,625,000).

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21. Long-term debt (continued)

d. Obligations under finance leases (continued)

The Corporation entered into a master services agreement to lease TapTix, formerly known as BOT dispensers. This agreement is considered to be a finance lease for accounting purposes and has an implicit interest rate of 9.0 per cent. The total remaining obligation under the finance lease is $14,485,000 at March 31, 2016 (March 31, 2015 – $17,255,000).

e. Payments over the next five years and thereafter

Payments related to long-term debt and obligations under finance leases that are expected to be made over the next five years and thereafter are approximately as follows:

March 31	Long-term debt	Obligations under finance leases		Total
	Repayments	Principal	Interest	
2017	$10,558	$8,252	$4,056	$22,866
2018	9,049	7,829	3,329	20,207
2019	4,065	5,730	2,730	12,525
2020	4,168	4,956	2,261	11,385
2021	4,274	4,165	1,874	10,313
Thereafter	2,178	19,682	3,569	25,429
	$34,292	**$50,614**	**$17,819**	**$102,725**

22. Financial risk management and financial instruments

a. Overview

The Corporation has exposure to credit risk, liquidity risk and market risk from its use of financial instruments. This note presents information about the Corporation's exposure to each of these risks and the Corporation's objectives, policies and processes for measuring and managing them.

b. Risk management framework

The Board of Directors, through its Audit and Risk Management Committee (ARMC), provides oversight with respect to the identification and management of risk along with adherence to internal risk management policies and procedures.

The Corporation's financial risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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22. Financial risk management and financial instruments (continued)

b. Risk management framework (continued)

During fiscal 2015–16, the ARMC oversaw how Management monitored compliance with the Corporation’s risk management policies and procedures and reviewed the adequacy of the risk management framework in relation to the risks faced by the Corporation. The ARMC was assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the ARMC.

The Corporation has a formal Enterprise Risk Management Program (“Program”), which is aligned with ISO 31000 and in conformity with the Ontario Public Service risk management guidance and requirements. This Program supports the Corporation in the identification, assessment and management of risks.

c. Credit risk

Credit risk is the risk that the Corporation will suffer a financial loss due to a third party failing to meet its financial or contractual obligations to the Corporation. The Corporation has financial instruments that potentially expose it to a concentration of credit risk. The instruments consist of trade and other receivables and liquid investments.

Trade and other receivables

Trade and other receivables include credit provided to retailers of lottery products, cGaming Centre service providers and customers of Resort Casinos. The Corporation performs initial credit or similar evaluations of retailers, cGaming Centre service providers and customers and maintains reserves for potential credit losses on accounts receivable balances. The carrying amount of these financial assets represents the maximum credit exposure.

The amounts disclosed in the Consolidated Statements of Financial Position are net of allowances for impairment, which consist of a specific provision that relates to individually significant exposures, estimated by Management based on prior experience and its assessment of the current economic environment. The Corporation establishes an allowance for impairment that represents its estimate of potential credit losses. Historically, the Corporation has not experienced any significant losses. As at March 31, 2016, the Corporation had an allowance for impairment of $5,159,000 (March 31, 2015 – $4,210,000), which represented approximately 3.1 per cent (March 31, 2015 – 3.9 per cent) of the Corporation’s consolidated accounts receivable. The Corporation believes that its allowance for impairment is sufficient to reflect the related credit risk.

Liquid investments

The Corporation limits its exposure to credit risk by investing only in short-term debt securities with high credit ratings and minimal market risk. The Corporation has a formal policy for short-term investments that provides direction for Management to minimize risk. All investments held by the Corporation are low risk and have a term to maturity of less than 90 days. As a result, this risk is considered minimal.

d. Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation’s approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without jeopardizing the Corporation’s Net Profit to the Province commitment.

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22. Financial risk management and financial instruments (continued)

d. Liquidity risk (continued)

The Corporation currently settles its financial obligations using cash provided by operations. The Corporation has established reserves at the Resort Casinos in accordance with their respective operating agreements or on other terms as otherwise agreed. In addition, all investments held by the Corporation are low risk and have a term to maturity of less than 90 days, further reducing liquidity risk.

The Corporation manages its liquidity risk by performing regular reviews of net income and cash flows from operations and continuously monitoring the forecast against future liquidity needs. Given the Corporation's line of business, which historically has generated positive cash flows, liquidity risk is considered minimal.

The undiscounted contractual maturities of the financial liabilities are as follows:

March 31, 2016	Carrying amount	Contractual cash flows	< 1 year	1 – 2 years	3 – 5 years	> 5 years
Trade and other payables	$316,186	$316,186	$316,186	$ -	$ -	$ -
Provisions	5,823	5,823	5,823	-	-	-
Due to operators	184,170	191,837	40,694	-	151,143	-
Due to Rama First Nation	2,118	2,118	2,118	-	-	-
Due to the Government of Canada	33,292	34,135	17,509	-	16,626	-
Long-term debt, including obligations under finance leases	84,906	104,335	23,322	20,707	34,850	25,456
	$626,495	$654,434	$405,652	$20,707	$202,619	$25,456

March 31, 2015	Carrying amount	Contractual cash flows	< 1 year	1 – 2 years	3 – 5 years	> 5 years
Trade and other payables	$322,791	$322,791	$322,791	$ -	$ -	$ -
Provisions	5,263	5,263	5,263	-	-	-
Due to operators	34,729	34,729	34,729	-	-	-
Due to Rama First Nation	2,005	2,005	2,005	-	-	-
Due to the Government of Canada	15,754	15,754	15,754	-	-	-
Long-term debt, including obligations under finance leases	85,623	108,362	23,213	26,080	29,918	29,151
	$466,165	$488,904	$403,755	$26,080	$29,918	$29,151

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2016 and 2015
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22. Financial risk management and financial instruments (continued)

e. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, foreign currency risk and other market price risk.

(i) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Corporation has financial assets and liabilities that potentially expose it to interest rate risk.

The Corporation is subject to interest rate risk on its cash and cash equivalents, including short-term investments with maturity dates of less than 90 days and long-term debt.

Long-term debt currently consists of three loan agreements with the OFA and obligations under finance leases. The obligations under finance leases (Note 21.d) and two of the term loan agreements have fixed interest rates for their entire terms, while the other loan agreement is subject to variable interest rates. Each of the long-term debt instruments is currently subject to limited interest rate risk.

At March 31, 2016, the Corporation had cash and cash equivalents of $325,034,000 (March 31, 2015 – $316,340,000). The impact of fluctuations in interest rates is not significant and, accordingly, a sensitivity analysis of the impact of fluctuations in interest rates on net income has not been provided.

(ii) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation is exposed to foreign currency risk by settling certain obligations in foreign currencies, primarily in U.S. dollars (USD), and by holding bank accounts and investments in USD.

The majority of the Corporation’s suppliers and customers are based in Canada and, therefore, transact in Canadian dollars (CAD). Some suppliers and customers are based outside of Canada. The suppliers located outside of Canada typically transact in USD. The Corporation’s border properties attract U.S. players who are required to exchange their USD for CAD prior to play. The Corporation exchanges USD using the daily market exchange rate and utilizes both a ‘buy’ and ‘sell’ rate. The Corporation holds USD cash and bank accounts for the purposes of transacting in USD with customers, as well as paying its U.S. suppliers. The balances held in USD are closely monitored to ensure future USD requirements are met. The Corporation’s foreign exchange gain for the year ended March 31, 2016 was $6,816,000 (March 31, 2015 – $5,308,000).

The Corporation does not enter into financial instruments for trading or speculative purposes.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements
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22. Financial risk management and financial instruments (continued)

e. Market risk (continued)

(ii) Foreign currency risk (continued)

The Corporation's exposure to currency risk, based on the carrying amounts, is as follows:

USD	March 31, 2016	March 31, 2015
Cash and cash equivalents	$21,036	$21,189
Trade and other payables	(3,435)	(2,390)
Obligations under finance lease	(14,485)	(17,256)
Net exposure	$3,116	$1,543

All USD balances are shown in CAD equivalents.

Sensitivity analysis

A 10 per cent increase in the value of the USD at March 31, 2016 would have increased net income by $312,000. A 10 per cent decrease in the value of the USD at March 31, 2016 would have decreased net income by $312,000. This analysis assumes that all other variables, including interest rates, remain constant.

(iii) Other market price risk

The Corporation offers sports-based lottery products in the marketplace. The Corporation manages risks associated with these products by setting odds for each event within a short time frame before the actual event, by establishing sales liability thresholds by sport, by providing credit management controls, by posting conditions and prize structure statements on OLG.ca and by limiting the aggregate amount of prizes that may be won on any given day for all sports-based products. The Corporation also has the authority to suppress sales of any game at any time when liability risk is a concern.

f. Fair values measurement

Financial instruments are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The Corporation has determined the fair value of its financial instruments as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

  The Corporation's financial instruments carried at fair value in the Consolidated Statements of Financial Position, which consist of cash and cash equivalents and restricted cash, are valued using quoted market prices that are included in Level 1.

Ontario Lottery and Gaming Corporation
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22. Financial risk management and financial instruments (continued)

f. Fair values measurement (continued)

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

  The carrying amounts in the Consolidated Statements of Financial Position of trade and other payables, current due to operators, due to Rama First Nation and due to the Government of Canada approximate fair values because of the short-term nature of these financial instruments or because they are payable on demand.

  Trade and other receivables are carried at amortized cost using the effective interest method.

  The fair value of the Corporation’s long-term debt, excluding obligations under finance leases, is not determinable given its related party nature, and there is no observable market for the Corporation’s long-term debt. Obligations under finance leases and non-current due to operators and due to the Government of Canada are carried at amortized cost using the effective interest method which approximates fair value.

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

  There were no financial statement categories in Level 3 (valuation techniques using non-observable data) for the years ended March 31, 2016 or March 31, 2015.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

23. Employee benefits

a. Defined contribution plans

The operators of the Resort Casinos and the Great Blue Heron Slot Machine Facility have created defined contribution pension plans for their employees. The pension expense for fiscal 2015–16 amounted to $20,286,000 (fiscal 2014–15 – $19,310,000).

b. Other post-employment benefit plans

The Corporation provides pension benefits for all its permanent employees and for non-permanent employees who elect to participate through the PSPF and the OPSEU Pension Fund, which are sole-sponsored defined benefit pension plans established by the Province of Ontario. The Province of Ontario controls all entities included in the PSPF and OPSEU Pension Fund. Contribution rates are set by the *Public Service Pension Act*, whereby the Corporation matches all regular contributions made by the member. The Corporation classified these plans as state plans whereby there is no contractual agreement or stated policy for charging the net defined benefit cost of the plans to the Corporation. As such, the Corporation accounts for these post-employment benefits as defined contribution plans and has recorded no additional liability for the plan deficit. The annual contributions made by the Corporation are recorded as an expense in the Consolidated Statements of Comprehensive Income. The Corporation’s contribution and pension expense for fiscal 2015–16 was $20,269,000 (fiscal 2014–15 – $19,437,000).

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

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23. Employee benefits (continued)

c. Other long-term employee benefits

As a Schedule 2 employer under the *Workplace Safety and Insurance Act, 1997*, (the "Act"), the Corporation is individually responsible for the full cost of accident claims filed by its workers. The Workplace Safety and Insurance Board (WSIB) maintains full authority over the claims entitlement process and administers and processes claims payments on the Corporation's behalf. WSIB liabilities for self-insured employers are reported in the Consolidated Statements of Financial Position.

The WSIB accrual at March 31, 2016 was $16,683,000 (March 31, 2015 – $20,304,000), of which $15,515,000 (March 31, 2015 – $18,882,000) is included in non-current employee benefits liability and $1,168,000 (March 31, 2015 – $1,422,000) is included in trade and other payables in Note 10. The accrued benefit costs are based on actuarial assumptions.

The operators of the Resort Casinos and the Great Blue Heron Slot Machine Facility are Schedule 1 employers under the Act and are not subject to the financial reporting requirements of self-insured employers.

d. Short-term employee benefits

Short-term employee benefits include salaries payable, incentive accruals, vacation accruals, severance accruals and other employee-related payables which have been recorded in trade and other payables (Note 10).

24. Commitments

a. Obligations under operating leases

The Corporation has entered into several operating leases for facilities, property and equipment with a typical range of five to seven years. The future minimum lease payments are, approximately, as follows:

	March 31, 2016
No later than 1 year	$77,564
Later than 1 year and not later than 5 years	116,664
Later than 5 years	4,828
	$199,056

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2016 and 2015
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24. Commitments (continued)

b. HST on lease commitments

The Corporation and the Resort Casinos have entered into several agreements to lease property, plant and equipment from the Corporation's subsidiary and other external parties. The non-recoverable HST and the additional imputed tax on the gaming-related assets payable to the Government of Canada, as described in Note 18.b, on the future lease payments are, approximately, as follows:

2017	$35,682
2018	30,021
2019	24,498
2020	19,351
2021	14,436
	123,988
Thereafter	223,224
	$347,212

c. Suppliers

The Corporation has computer hardware maintenance agreements with future payments as at March 31, 2016 of approximately:

2017	$18,622
2018	2,496
2019	416
	$21,534

d. Caesars Windsor

In fiscal 2015–16, the Corporation transferred $30,000,000 in cash (fiscal 2014–15 – $60,000,000) to Caesars Windsor for its working capital requirements. The Corporation has committed to transfer up to $53,000,000 to Caesars Windsor in fiscal 2016–17 for working capital.

e. Ontario First Nations (2008) Limited Partnership

On February 19, 2008, Her Majesty the Queen in Right of Ontario, the Corporation, the Ontario First Nations Limited Partnership and Ontario First Nations (2008) Limited Partnership entered into the Gaming Revenue Sharing and Financial Agreement (GRSFA). Pursuant to the terms of the GRSFA and an Order-in-Council, the Corporation was directed to pay the Ontario First Nations (2008) Limited Partnership, commencing in fiscal 2011–12 and in each fiscal year for the remainder thereafter of the 20-year term, an amount equal to 1.7 per cent of the Gross Revenues of the Corporation, as defined ("Gaming Revenue Sharing Payment"). Pursuant to the GRSFA, during fiscal 2015–16, $122,057,000 was expensed (fiscal 2014–15 – $121,563,000) as Gaming Revenue Sharing Payment in Note 26.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2016 and 2015
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25. Contingencies

a. On May 20, 2009, the Corporation was served with a statement of claim related to a class action for general damages and punitive damages for an amount yet to be determined. The statement of claim alleges that the Corporation was in breach of contract by not discontinuing the sales of certain INSTANT lottery game tickets once the top prizes were won. The action is at a very early stage, as no action has taken place since May 2009 and no class has been certified by the courts. The Corporation intends to vigorously defend itself. The outcome is undeterminable at this time and no amounts have been accrued in the Consolidated Statements of Financial Position as at March 31, 2016.

b. The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. The Corporation believes that the outcome of these outstanding claims will not have a material impact in its Consolidated Statements of Financial Position. Estimates, where appropriate, have been included in the Consolidated Statements of Financial Position (Note 11); however, additional settlements, if any, concerning these contingencies will be accounted for as a charge in the Consolidated Statements of Comprehensive Income in the period in which the settlement occurs.

26. Segmented information

The Corporation has five reportable segments, as described below, which are the Corporation’s strategic business units. The strategic business units are distinct revenue-generating business units that offer different products and services and are managed separately because they require different technologies and marketing strategies. The chief operating decision maker, who is the Corporation’s President and CEO, reviews internal management reports on a monthly basis for each of the strategic business units and makes resource allocation decisions. The following summary describes the operations in each reportable segment:

- Lottery derives its revenue from the sale of lottery products, which include Lotto, INSTANT and Sports products. Lotto products are also available for purchase over the Internet at PlayOLG.

- Charitable Gaming derives its revenue from the sale of Charitable Gaming products.

- Resort Casinos are full-service casinos that offer customers a variety of amenities in addition to slot and table games, including accommodations, entertainment and food and beverage services.

- Slots and Casinos are smaller gaming facilities including sites operated by OLG or a land-based gaming service provider.

  OLG Casinos offer slot and table games, as well as food and beverage services. OLG Slots are located at racetrack sites and include only slot games. Food and beverage services are also offered at the racetrack sites; however, at most of the locations, OLG is not the entity providing these services. At the land-based gaming service provider operated sites, OLG receives a share of the gaming revenue generated. The non-gaming revenue is earned and retained by the land-based gaming service provider.

- Internet Gaming derives its revenue from casino-style games available over the Internet at PlayOLG.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2016 and 2015
(tabular amounts in thousands of Canadian dollars)

26. Segmented information (continued)

March 31, 2016	Lottery	Charitable Gaming	Resort Casinos	Slots and Casinos	Internet Gaming	Total
Revenues						
Gaming (Note 4.c)	$3,785,596	$165,953	$1,285,964	$2,045,807	$49,170	$7,332,490
Non-gaming	-	-	96,632	16,159	-	112,791
	3,785,596	**165,953**	**1,382,596**	**2,061,966**	**49,170**	**7,445,281**
Expenses						
Non-gaming	-	-	238,399	37,548	-	275,947
Gaming and lottery operations	112,058	15,593	252,922	265,217	15,476	661,266
Prizes	2,080,496	37,992	-	-	-	2,118,488
Commissions and fees	268,749	97,585	107,853	82,849	8,772	565,808
Marketing and promotion	55,532	7,998	150,824	111,286	7,102	332,742
Amortization	6,346	-	99,261	51,237	637	157,481
General and administration	50,230	8,848	87,677	98,432	12,935	258,122
Facilities	7,321	458	123,924	171,832	864	304,399
Gaming Revenue Sharing Payment	55,565	6,225	24,735	35,384	148	122,057
Win contribution (Note 17)	-	-	257,145	15,302	-	272,447
Payments to the Government of Canada	102,608	17,624	90,953	87,322	7,101	305,608
	2,738,905	**192,323**	**1,433,693**	**956,409**	**53,035**	**5,374,365**
Segment income (loss) before the undernoted	**1,046,691**	**(26,370)**	**(51,097)**	**1,105,557**	**(3,865)**	**2,070,916**
Other income	3,396	-	(2,254)	48,452	2	49,596
Finance income	85	6	2,065	35	12	2,203
Finance costs	(91)	(1,487)	(3,205)	(505)	-	(5,288)
Foreign exchange gain (loss)	(1)	(440)	7,277	(17)	(3)	6,816
Other charges	-	(6,496)	(159,259)	-	-	(165,755)
Segment income (loss)	**$1,050,080**	**$(34,787)**	**$(206,473)**	**$1,153,522**	**$(3,854)**	**$1,958,488**
Add: Win contribution (Note 17)	-	-	257,145	15,302	**-**	272,447
Net Profit to the Province (a)	**$1,050,080**	**$(34,787)**	**$50,672**	**$1,168,824**	**$(3,854)**	**$2,230,935**

(a) Net Profit to the Province (NPP) is the amount the Corporation returns to the Province of Ontario after stakeholder and other payments. NPP is calculated by adding back win contribution to segment profit (loss). The chief operating decision maker, the President and CEO, considers NPP to be a key measure in evaluating decisions relating to the Corporation.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

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26. Segmented information (continued)

March 31, 2015	Lottery	Charitable Gaming	Resort Casinos	Slots and Casinos	Internet Gaming	Total
Revenues						
Gaming (Note 4.c)	$3,268,556	$114,875	$1,163,444	$1,981,359	$8,398	$6,536,632
Non-gaming	-	-	92,286	15,290	-	107,576
	3,268,556	**114,875**	**1,255,730**	**1,996,649**	**8,398**	**6,644,208**
Expenses						
Non-gaming	-	-	227,501	36,897	-	264,398
Gaming and lottery operations	102,100	14,754	242,575	269,464	15,528	644,421
Prizes	1,807,211	27,520	-	-	-	1,834,731
Commissions and fees	235,842	69,966	93,771	80,974	1,404	481,957
Marketing and promotion	52,507	5,356	143,359	113,221	7,871	322,314
Amortization	8,389	-	100,481	53,847	468	163,185
General and administration	47,304	7,795	82,568	85,357	13,617	236,641
Facilities	6,606	615	122,322	174,516	990	305,049
Gaming Revenue Sharing Payment	57,589	4,392	24,769	34,813	-	121,563
Win contribution (Note 17)	-	-	232,502	14,432	-	246,934
Payments to the Government of Canada	95,786	13,936	84,060	86,125	5,308	285,215
	2,413,334	**144,334**	**1,353,908**	**949,646**	**45,186**	**4,906,408**
Segment income (loss) before the undernoted	**855,222**	**(29,459)**	**(98,178)**	**1,047,003**	**(36,788)**	**1,737,800**
Other income	2,354	-	15,082	29,253	-	46,689
Finance income	61	9	2,629	78	58	2,835
Finance costs	(146)	(1,132)	(3,797)	(276)	-	(5,351)
Foreign exchange gain (loss)	(2)	(1,886)	7,189	7	-	5,308
Other charges	-	(19,425)	-	(15,770)		(35,195)
Segment income (loss)	**$857,489**	**$(51,893)**	**$(77,075)**	**$1,060,295**	**$(36,730)**	**$1,752,086**
Add: Win contribution (Note 17)	-	-	232,502	14,432		246,934
Net Profit to the Province (a)	**$857,489**	**$(51,893)**	**$155,427**	**$1,074,727**	**$(36,730)**	**$1,999,020**

(a) Net Profit to the Province (NPP) is the amount the Corporation returns to the Province of Ontario after stakeholder and other payments. NPP is calculated by adding back win contribution to segment profit (loss). The chief operating decision maker, the President and CEO, considers NPP to be a key measure in evaluating decisions relating to the Corporation.

27. Comparative figures

Certain comparative figures have been reclassified, where necessary, to reflect the current year's presentation.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL INFORMATION

Ontario Power Generation Inc.'s (OPG) management is responsible for the presentation and preparation of the annual consolidated financial statements and Management's Discussion and Analysis (MD&A).

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (US GAAP) and the rules and regulations of the United States Securities and Exchange Commission for annual financial statements. The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators and its related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. Something is considered material if it is reasonably expected to have a significant impact on the Company's earnings, cash flow, value of an asset or liability, or reputation. In addition, in preparing the financial information, we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect the reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, and risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

In meeting our responsibility for the reliability of the financial information, we maintain and rely on a comprehensive system of internal controls and internal audits, including organizational and procedural controls and internal controls over financial reporting. Our system of internal controls includes: written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and accounting policies, which we regularly update. This structure ensures appropriate internal controls over transactions, assets and records. We also regularly test internal controls. These controls and testing are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements.

Management, including the President and Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), is responsible for maintaining disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICOFR). DC&P is designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. ICOFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with US GAAP.

An evaluation of the effectiveness of the design and operation of OPG's DC&P and ICOFR was conducted as of December 31, 2015. Accordingly, we, as OPG's President and CEO and CFO, will certify OPG's annual disclosure documents filed with the Ontario Securities Commission, which includes attesting to the design and effectiveness of OPG's DC&P and ICOFR.

The Board of Directors, based on recommendations from its Audit and Risk Committee, reviews and approves the consolidated financial statements and the MD&A, and oversees management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major areas of financial risk, and assessment of significant and related party transactions.

The consolidated financial statements have been audited by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The Independent Auditors' Report outlines the auditors' responsibilities and the scope of their examination and their opinion on OPG's consolidated financial statements. The independent external auditors, as confirmed by the Audit and Risk Committee, had direct and full access to the Audit and Risk Committee, with and without the presence of management, to discuss their audit and their findings therefrom, as to the integrity of OPG's financial reporting and the effectiveness of the system of internal controls.

Jeff Lyash
President and Chief Executive Officer

Carlo Crozzoli
Interim Senior Vice President, Finance, Strategy, Risk and Chief Financial Officer

March 4, 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Ontario Power Generation Inc.

We have audited the accompanying consolidated financial statements of Ontario Power Generation Inc., which comprise the consolidated balance sheets as at December 31, 2015 and 2014, and the consolidated statements of income, comprehensive income, cash flows, and changes in shareholder's equity for the years 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 United States generally accepted accounting principles, and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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 in our audits 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 Ontario Power Generation Inc. as at December 31, 2015 and 2014 and the results of its operations and its cash flows for the years then ended in accordance with United States generally accepted accounting principles.

Toronto, Canada

March 4, 2016

Ernst & Young LLP (signed)

Chartered Professional Accountants,
Licensed Public Accountants

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31 *(millions of dollars except where noted)*	**2015**	**2014**
Revenue *(Note 16)*	**5,476**	4,963
Fuel expense *(Note 16)*	**687**	641
Gross margin *(Note 16)*	**4,789**	4,322
Expenses *(Note 16)*		
Operations, maintenance and administration	**2,783**	2,615
Depreciation and amortization *(Note 4)*	**1,100**	754
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 8)*	**895**	797
Earnings on nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**(704)**	(714)
Regulatory disallowance related to the Niagara Tunnel project *(Note 3)*	**-**	77
Income from investments subject to significant influence	**(39)**	(41)
Property taxes	**45**	32
Restructuring	**6**	18
	4,086	3,538
Income before other loss (income), interest, income taxes, and extraordinary item	**703**	784
Other loss (income) *(Note 16)*	**14**	(3)
Income before interest, income taxes, and extraordinary item	**689**	787
Net interest expense *(Note 7)*	**180**	80
Income before income taxes and extraordinary item	**509**	707
Income tax expense *(Note 9)*	**92**	139
Income before extraordinary item	**417**	568
Extraordinary item [1] *(Note 3)*	**-**	243
Net income	**417**	811
Net income attributable to the Shareholder	**402**	804
Net income attributable to non-controlling interest	**15**	7
Basic and diluted net income per common share before extraordinary item *(dollars)*	**1.57**	2.19
Extraordinary item per common share *(dollars)*	**-**	0.95
Basic and diluted net income per common share *(dollars)*	**1.57**	3.14
Common shares outstanding *(millions)*	**256.3**	256.3

[1] Wholly attributable to the Shareholder.

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31 *(millions of dollars)*	**2015**	**2014**
Net income	**417**	811
Other comprehensive income, net of income taxes *(Note 10)*		
Recognition of initial pension and other post-employment benefits regulatory asset related to facilities prescribed for rate regulation beginning in 2014 [1]	**-**	184
Actuarial gain (loss) and past service costs on re-measurement of liabilities for pension and other post-employment benefits [2]	**148**	(35)
Reclassification to income of amounts related to pension and other post-employment benefits [3]	**18**	27
Net loss on derivatives designated as cash flow hedges [4]	**(5)**	(2)
Reclassification to income of losses on derivatives designated as cash flow hedges [5]	**16**	14
Other comprehensive income	**177**	188
Comprehensive income	**594**	999
Comprehensive income attributable to the Shareholder	**579**	992
Comprehensive income attributable to non-controlling interest	**15**	7

[1] Net of income tax expenses of nil and $61 million for 2015 and 2014, respectively.

[2] Net of income tax expenses of $49 million and income tax recoveries of $12 million for 2015 and 2014, respectively.

[3] Net of income tax expenses of $7 million and $10 million for 2015 and 2014, respectively.

[4] Net of income tax recoveries of $2 million and $1 million for 2015 and 2014, respectively.

[5] Net of income tax expenses of $2 million for each of 2015 and 2014.

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 *(millions of dollars)*	**2015**	**2014**
Operating activities		
Net income	**417**	811
Adjust for non-cash items:		
Depreciation and amortization *(Note 4)*	**1,100**	754
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 8)*	**895**	797
Earnings on nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**(704)**	(714)
Pension and other post-employment benefit costs *(Note 11)*	**483**	460
Extraordinary item *(Note 3)*	**-**	(243)
Deferred income taxes and other accrued charges	**23**	56
Mark-to-market on derivative instruments	**(218)**	(52)
Provision for used nuclear fuel and low and intermediate level waste	**117**	57
Regulatory assets and liabilities	**141**	(45)
Provision for materials and supplies	**28**	38
Regulatory disallowance related to the Niagara Tunnel project *(Note 3)*	**-**	77
Other	**19**	(2)
	2,301	1,994
Contributions to nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**(143)**	(139)
Expenditures on fixed asset removal and nuclear waste management *(Note 8)*	**(218)**	(212)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management *(Note 8)*	**76**	77
Contributions to pension funds and expenditures on other post-employment benefits and supplementary pension plans *(Note 11)*	**(480)**	(473)
Expenditures on restructuring	**(16)**	(35)
Net changes to other long-term assets and liabilities	**45**	9
Net changes to non-cash working capital balances *(Note 17)*	**(100)**	212
Cash flow provided by operating activities	**1,465**	1,433
Investing activities		
Investment in deposit note *(Note 6)*	**(180)**	-
Net proceeds from sale of property, plant and equipment	**3**	-
Investment in property, plant and equipment and intangible assets *(Note 16)*	**(1,376)**	(1,545)
Cash flow used in investing activities	**(1,553)**	(1,545)
Financing activities		
Issuance of long-term debt *(Note 6)*	**245**	200
Repayment of long-term debt *(Note 6)*	**(503)**	(3)
Settlement of cash flow hedges	**(9)**	-
Distribution paid to non-controlling interest	**(16)**	(5)
Issuance of short-term notes *(Note 7)*	**2,628**	3,332
Repayment of short-term notes *(Note 7)*	**(2,403)**	(3,364)
Cash flow (used in) provided by financing activities	**(58)**	160
Net (decrease) increase in cash and cash equivalents	**(146)**	48
Cash and cash equivalents, beginning of year	**610**	562
Cash and cash equivalents, end of year	**464**	610

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	2015	2014
Assets		
Current assets		
Cash and cash equivalents	**464**	610
Receivables from related parties *(Note 18)*	**545**	482
Other current assets *(Note 6)*	**298**	136
Nuclear fixed asset removal and nuclear waste management funds *(Notes 8 and 16)*	**15**	25
Fuel inventory *(Note 16)*	**344**	334
Materials and supplies *(Note 16)*	**96**	94
Regulatory assets *(Note 5)*	**628**	167
	2,390	1,848
Property, plant and equipment *(Notes 4, 15, and 16)*	**29,469**	25,859
Less: accumulated depreciation	**8,874**	8,266
	20,595	17,593
Intangible assets *(Notes 4 and 16)*	**476**	432
Less: accumulated amortization	**378**	356
	98	76
Other assets		
Nuclear fixed asset removal and nuclear waste management funds *(Notes 8 and 16)*	**15,121**	14,354
Long-term materials and supplies *(Note 16)*	**337**	338
Regulatory assets *(Note 5)*	**5,279**	7,024
Investments subject to significant influence *(Note 19)*	**336**	348
Other long-term assets *(Note 6)*	**146**	64
	21,219	22,128
	44,302	41,645

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	2015	2014
Liabilities		
Current liabilities		
Accounts payable and accrued charges *(Note 18)*	**1,228**	1,151
Short-term debt *(Note 7)*	**225**	-
Deferred revenue due within one year	**12**	12
Long-term debt due within one year *(Note 6)*	**273**	503
Income taxes payable	**66**	24
Regulatory liabilities *(Note 5)*	**26**	5
	1,830	1,695
Long-term debt *(Note 6)*	**5,199**	5,227
Other liabilities		
Fixed asset removal and nuclear waste management liabilities *(Notes 8 and 16)*	**20,169**	17,028
Pension liabilities *(Note 11)*	**2,597**	3,570
Other post-employment benefit liabilities *(Note 11)*	**3,085**	3,050
Long-term accounts payable and accrued charges	**207**	529
Deferred revenue	**246**	212
Deferred income taxes *(Note 9)*	**890**	828
Regulatory liabilities *(Note 5)*	**34**	39
	27,228	25,256
Equity		
Common shares *(Note 14)* [1]	**5,126**	5,126
Retained earnings	**5,098**	4,696
Accumulated other comprehensive loss *(Note 10)*	**(319)**	(496)
Equity attributable to the Shareholder	**9,905**	9,326
Equity attributable to non-controlling interest *(Note 21)*	**140**	141
Total equity	**10,045**	9,467
	44,302	41,645

[1] 256,300,010 common shares outstanding at a stated value of $5,126 million as at December 31, 2015 and 2014.

Commitments and Contingencies *(Notes 6, 9, 11, and 15)*

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

Bernard Lord
Board Chair

M. George Lewis
Director

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

Years Ended December 31 *(millions of dollars)*	**2015**	**2014**
Common shares *(Note 14)*	**5,126**	5,126
Retained earnings		
Balance at beginning of year	**4,696**	3,892
Net income attributable to the Shareholder	**402**	804
Balance, end of year	**5,098**	4,696
Accumulated other comprehensive loss, net of income taxes *(Note 10)*		
Balance at beginning of year	**(496)**	(684)
Other comprehensive income	**177**	188
Balance, end of year	**(319)**	(496)
Equity attributable to the Shareholder	**9,905**	9,326
Equity attributable to non-controlling interest *(Note 21)*		
Balance at beginning of year	**141**	-
Capital contribution from non-controlling interest	**-**	141
Distribution to non-controlling interest	**(16)**	(7)
Net income attributable to non-controlling interest	**15**	7
Balance, end of year	**140**	141
Total equity	**10,045**	9,467

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014

1. DESCRIPTION OF BUSINESS

Ontario Power Generation Inc. (OPG or the Company) was incorporated on December 1, 1998 pursuant to the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the Province or the Shareholder). OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared and presented in accordance with United States generally accepted accounting principles (US GAAP) and the rules and regulations of the United States (US) Securities and Exchange Commission for annual financial statements, as required by *Ontario Regulation 395/11*, as amended, a regulation under the *Financial Administration Act* (Ontario), effective January 1, 2012.

During the first quarter of 2014, OPG received exemptive relief from the Ontario Securities Commission requirements of section 3.2 of National Instrument 52-107 *Acceptable Accounting Policies and Auditing Standards*. The exemption allows OPG to file consolidated financial statements based on US GAAP without becoming a US Securities and Exchange Commission registrant, or issuing public debt. The exemption will terminate on the earliest of the following:

- January 1, 2019
- The financial year that commences after OPG ceases to have activities subject to rate regulation
- The effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within International Financial Reporting Standards specific to entities with rate-regulated activities.

All dollar amounts are presented in Canadian dollars, except in tabular format where noted. Certain of the 2014 comparative amounts have been reclassified from financial statements previously presented to conform to the 2015 consolidated financial statement presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements of the Company include the accounts of OPG and its majority-owned subsidiaries, and a variable interest entity (VIE) where OPG is the primary beneficiary. All significant intercompany balances and intercompany transactions have been eliminated on consolidation.

Where OPG does not control an investment, but has significant influence over operating and financing policies of the investee, the investment is accounted for under the equity method. OPG co-owns the Portlands Energy Centre (PEC) gas-fired combined cycle generating station (GS) with TransCanada Energy Ltd. and co-owns the Brighton Beach gas-fired combined cycle generating station (Brighton Beach) with ATCO Power Canada Ltd. OPG accounts for its 50 percent ownership interest in each of these jointly controlled entities using the equity method.

Variable Interest Entities

OPG performs ongoing analysis to assess whether it holds any VIEs. VIEs of which OPG is deemed to be the primary beneficiary are consolidated. The primary beneficiary of a VIE has both the power to direct the activities of the entity that most significantly impact its economic performance and the obligation to absorb losses of the entity that could potentially be significant to the Company. In circumstances where OPG is not deemed to be the primary beneficiary, the VIE is not recorded in OPG's consolidated financial statements.

In 2002, OPG and other Canadian nuclear waste producers established the Nuclear Waste Management Organization (NWMO) in accordance with the *Nuclear Fuel Waste Act* (NFWA). The primary long-term mandate of the NWMO is to implement an approach to address the long-term management of used nuclear fuel. In addition to the above mandate, the NWMO provides project management services for OPG's proposed Deep Geologic Repository (DGR) for the long-term management of low and intermediate level waste (L&ILW) and other nuclear lifecycle liability management services. OPG has the majority of voting rights at the NWMO Board of Directors' and members' level. The NFWA requires the nuclear fuel waste owners to establish and make payments into trust funds for the purpose of funding the implementation of the long-term nuclear used fuel management plan. OPG provides over 90 percent of NWMO's funding, primarily towards the design and implementation of Canada's Adaptive Phased Management plan for the long-term management of nuclear used fuel. As a result, OPG is expected to absorb a majority of the NWMO's expected losses through future funding in the event of any shortfall. Therefore, OPG holds a variable interest in the NWMO, of which it is the primary beneficiary. Accordingly, the applicable amounts in the accounts of the NWMO, after elimination of all significant intercompany transactions, are consolidated.

Use of Management Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses for the reporting periods. Management evaluates these estimates on an ongoing basis based upon historical experience, current conditions, and assumptions believed to be reasonable at the time the assumption is made, with any adjustments recognized in the period incurred. Significant estimates are included in the determination of pension and other post-employment benefit (OPEB) balances, asset retirement obligations (AROs), income taxes (including deferred income taxes), contingencies, regulatory assets and liabilities, valuation of derivative instruments and investments in segregated funds, depreciation and amortization expenses, and inventories. Actual results may differ significantly from these estimates.

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash on deposit and money market securities with a maturity of less than 90 days on the date of purchase. All other money market securities with a maturity on the date of purchase that is greater than 90 days, but less than one year, are recorded as short-term investments and classified as current assets. These securities are valued at the lower of cost and market.

Inventories

Inventories, consisting of fuel and materials and supplies, are measured at the lower of cost and net realizable value. Cost is determined as weighted average cost for fuel inventory and average cost for materials and supplies.

Property, Plant and Equipment, Intangible Assets and Depreciation and Amortization

Property, plant and equipment (PP&E) and intangible assets are recorded at cost. Interest costs incurred during construction and development are capitalized as part of the cost of the asset based on the interest rates on OPG's long-term debt. Expenditures for replacements of major components are capitalized.

Depreciation and amortization rates for the various classes of assets are based on their estimated service lives. Any asset removal costs that have not been specifically provided for in current or previous periods are charged to operations, maintenance and administration (OM&A) expenses when incurred. Repairs and maintenance costs are also expensed when incurred.

PP&E are depreciated on a straight-line basis except for computers and transport and work equipment, which are mostly depreciated on a declining balance basis. Intangible assets, which consist of major application software, are amortized on a straight-line basis. As at December 31, 2015, the amortization periods of property, plant and equipment and intangible assets are as follows:

Nuclear generating stations and major components	15 to 74 years [1]
Thermal generating stations and major components	5 to 50 years
Hydroelectric generating stations and major components	10 to 100 years
Administration and service facilities	10 to 50 years
Computers, and transport and work equipment assets – declining balance	12% to 40% per year
Major application software	5 years
Service equipment	5 to 10 years

[1] As at December 31, 2015, the end of station life for depreciation purposes for the Darlington, Pickering, and Bruce A and B nuclear generating stations ranged between 2020 and 2061. Major components are depreciated over the lesser of the station life and the life of the components.

Asset Impairment

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The review is based on the presence of impairment indicators such as the future economic benefit of the assets and external market conditions. The net carrying amount of assets is considered impaired if it exceeds the sum of the estimated undiscounted cash flows expected to result from the asset's use and eventual disposition. In cases where the sum of the undiscounted expected future cash flows is less than the carrying amount, an impairment loss is recognized. This loss equals the amount by which the carrying amount exceeds the fair value. Fair value is determined using expected discounted cash flows when quoted market prices are not available. The impairment is recognized in income in the period in which it is identified.

The carrying value of investments accounted for under the equity method are reviewed annually for the presence of any indicators of impairment. If an impairment exists and is determined to be other-than-temporary, an impairment charge is recognized. This charge equals the amount by which the carrying value exceeds the investment's fair value.

Rate Regulated Accounting

The *Ontario Energy Board Act, 1998* and *Ontario Regulation 53/05* provide that OPG receives regulated prices for electricity generated from the Sir Adam Beck 1, 2 and Pump generating stations, the DeCew Falls 1 and 2 generating stations, the R.H. Saunders GS, the 48 hydroelectric generating stations prescribed for rate regulation effective in 2014, and the Pickering and Darlington nuclear generating stations. OPG's regulated prices for these facilities are determined by the Ontario Energy Board (OEB).

The OEB is a self-funding Crown corporation. Its mandate and authority come from the *Ontario Energy Board Act*, *1998*, the *Electricity Act, 1998*, and a number of other provincial statutes. The OEB is an independent, quasi-judicial tribunal that reports to the Legislature of the Province through the Minister of Energy. It regulates market participants in Ontario's natural gas and electricity industries. The OEB carries out its regulatory functions through public hearings and other more informal processes such as consultations.

US GAAP recognizes that rate regulation can create economic benefits and obligations that are required by the regulator to be obtained from, or settled with, the customers. When the Company assesses that there is sufficient assurance that incurred costs in respect of the regulated facilities will be recovered in the future, those costs are deferred and reported as a regulatory asset. When the Company is required to refund amounts to customers in the future in respect of the regulated facilities, including amounts related to costs that have not been incurred and for which the OEB has provided recovery through regulated prices, the Company records a regulatory liability.

Certain of the regulatory assets and liabilities recognized by the Company relate to variance and deferral accounts authorized by the OEB, including those authorized pursuant to *Ontario Regulation 53/05*. These accounts typically capture differences between actual costs and revenues and the corresponding forecast amounts approved by the OEB in setting regulated prices, or record the impact of items not reflected in the approved regulated prices. The measurement of these regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of *Ontario Regulation 53/05* and the OEB's decisions. The estimates and assumptions made in the interpretation of the regulation and the OEB's decisions are reviewed as part of the OEB's regulatory process.

Regulatory assets and liabilities for variance and deferral account balances approved by the OEB for inclusion in regulated prices are amortized based on approved recovery or repayment periods. Disallowed balances are charged to operations in the period that the OEB's decision is issued.

Regulatory assets and liabilities for variance and deferral account balances approved by the OEB are classified as current if they are expected to be recovered from, or refunded to, customers within 12 months of the end of the reporting period, based on recovery or repayment periods authorized by the OEB. All other regulatory asset and liability balances are classified as non-current on the consolidated balance sheets.

In addition to regulatory assets and liabilities for variance and deferral accounts, OPG recognizes regulatory assets and liabilities for unamortized amounts recorded in accumulated other comprehensive income (AOCI) in respect of pension and OPEB obligations, and deferred income taxes, in order to reflect the expected recovery or repayment of these amounts through future regulated prices charged to customers. There are measurement uncertainties related to these balances due to the assumptions made in the determination of pension and OPEB obligations and deferred income taxes attributed to the regulated facilities.

The regulatory asset for unamortized pension and OPEB amounts recorded in AOCI has reflected the OEB's use, since April 1, 2008, of the accrual basis of accounting for including pension and OPEB amounts in approved regulated prices for OPG. This is also the manner in which these costs are recognized in OPG's consolidated financial statements. Therefore, unamortized amounts in respect of OPG's pension and OPEB plans that are recognized in AOCI generally have not been reflected in the regulated prices until they are reclassified from AOCI and recognized as amortization components of the benefit costs for these plans. The regulatory asset is reversed as underlying unamortized balances are amortized as components of the benefit cost.

In setting OPG's regulated prices effective November 1, 2014, the OEB limited amounts for pension and OPEB costs allowed in the approved revenue requirements to the regulated business portion of the Company's cash expenditures on its pension and OPEB plans. It is the Company's position that this decision by the OEB does not constitute a change in the basis of rate recovery for OPG's of pension and OPEB costs. This position is based on the OEB's establishment of the Pension & OPEB Cash Versus Accrual Differential Deferral Account pursuant to its November 2014 decision, as discussed below, and the expectation expressed by the OEB in that decision that a transition from the accrual basis of recovery for OPG, if required, would be addressed in a future OPG rate proceeding, informed by the outcome of a future generic OEB proceeding related to the regulatory treatment and recovery of pension and OPEB costs. Accordingly, the Company continues to believe that there is sufficient likelihood that unamortized pension and OPEB amounts that have not yet been reclassified from AOCI will be included in future regulated prices or an OEB-authorized deferral or variance account as they are recognized in benefit costs. Therefore, the Company has continued to recognize a regulatory asset for these unamortized amounts, and also has recognized a regulatory asset for the balance of the Pension & OPEB Cash Versus Accrual Differential Deferral Account, which records the difference between OPG's actual pension and OPEB costs for the regulated business determined on an accrual basis and the corresponding actual expenditures for these plans. In May 2015, the OEB began a consultation process to develop standard principles to guide its future review of pension and OPEB costs of rate regulated utilities in the electricity and natural gas sectors, including establishing appropriate regulatory mechanisms for cost recovery. OPG is participating in the consultation process, which is ongoing.

If, in a future proceeding, the OEB decides that the recovery basis for OPG's pension and OPEB amounts should be changed, OPG may be required to adjust the regulatory assets for unamortized pension and OPEB amounts recorded in AOCI and for the Pension & OPEB Cash Versus Accrual Differential Deferral Account.

See Notes 5, 8, 9, and 11 to these consolidated financial statements for additional disclosures related to the OEB's decisions, regulatory assets and liabilities, and rate regulated accounting.

Revenue Recognition

All of OPG's electricity generation is offered into the real-time energy spot market administered by the Independent Electricity System Operator (IESO). Revenue is recognized as electricity is generated and metered to the IESO.

Revenue Recognition – Regulated Generation

Energy revenue generated from OPG's regulated facilities is based on regulated prices determined by the OEB that currently include a base regulated price and rate riders for the recovery or repayment of approved variance and deferral account balances.

The base regulated prices in effect during 2015 and 2014 were determined by the OEB using a two-year forecast cost of service methodology based on revenue requirements, taking into account a forecast of production and operating costs for the regulated facilities and a return on rate base. Rate base is a regulatory construct that, for OPG, represents the average net level of investment in regulated fixed and intangible assets in-service and an allowance for working capital. The revenues from the regulated hydroelectric facilities are also subject to the OEB-approved hydroelectric incentive mechanism. The mechanism provides a pricing incentive to OPG to shift hydroelectric production from lower market price periods to higher market price periods, reducing the overall costs to customers.

The rate riders in effect during 2015 included those established by the OEB in 2014 in conjunction with the base regulated prices in effect since November 1, 2014 and those authorized by the OEB in 2015 based on OPG's application to recover the December 31, 2014 balances in most of the authorized regulatory variance and deferral accounts. The rate riders in effect during 2014 were established by the OEB in 2013 based on OPG's application to recover balances in most of the authorized variance and deferral accounts as at December 31, 2012. The OEB-authorized variance and deferral accounts are discussed in Note 5 to these consolidated financial statements.

Revenue Recognition – Unregulated Generation and Other Revenue

The electricity generation from OPG's unregulated assets receives the Ontario electricity spot market price, except where an energy supply agreement (ESA) with the IESO or another contractual agreement is in place. As at December 31, 2015, most of OPG's operating unregulated assets are subject to an ESA. Revenue from the generating stations subject to an ESA is recognized in accordance with the terms of the agreement. Effective January 1, 2015, the Ontario Power Authority (OPA) merged with the IESO. The new entity continued under the name Independent Electricity System Operator. As such, the IESO is substituted as the counterparty of the ESAs or other agreements that were previously executed with the OPA.

OPG also sells into, and purchases from, interconnected markets of other provinces and the northeast and midwest regions of the US. All contracts that are not designated as hedges are recorded in the consolidated balance sheets at market value, with gains or losses recorded in the consolidated statements of income. Gains and losses on energy trading contracts (including those to be physically settled) are recorded on a net basis in the consolidated statements of income. Accordingly, power purchases of $75 million were netted against revenue in 2015 (2014 – $131 million).

OPG derives non-energy revenue under the terms of a lease arrangement and associated agreements with Bruce Power L.P. (Bruce Power) related to the Bruce nuclear generating stations. This includes lease revenue and revenue from heavy water sales, detritiation services and waste management services. OPG's net revenues from the lease of the Bruce stations and related agreements, including a portion of heavy water sales, are credited to customers and have therefore reduced regulated prices for the generation from the nuclear facilities owned and operated by OPG. The minimum lease payments are recognized in revenue on a straight-line basis over the term of the lease.

In addition, non-energy revenue includes isotope sales, real estate rentals and other service revenues. Revenues from these activities are recognized as services are provided, or as products are delivered.

Fixed Asset Removal and Nuclear Waste Management Liabilities

OPG recognizes AROs for fixed asset removal and nuclear waste management, discounted for the time value of money. OPG estimates both the amount and timing of future cash expenditures based on the plans for fixed asset removal and nuclear waste management. The liabilities are initially recorded at their estimated fair value, which is based on a discounted value of the expected costs to be paid.

On an ongoing basis, the liabilities for nuclear fixed asset removal and nuclear waste management (Nuclear Liabilities) are increased by the present value of the incremental (variable) cost portion for the nuclear waste generated each year, with the corresponding amounts charged to operating expenses. Variable expenses relating to low and intermediate level nuclear waste are charged to OM&A expenses. Variable expenses relating to the management and storage of nuclear used fuel are charged to fuel expense. The liabilities may also be adjusted due to any changes in the estimated amount or timing of the underlying future cash flows, with any resulting changes in the related asset retirement costs capitalized as part of the carrying amount of the related fixed assets. A comprehensive reassessment of all underlying assumptions and baseline cost estimates for the Nuclear Liabilities is performed periodically. Changes in the Nuclear Liabilities resulting from changes in assumptions or estimates that impact the amount or timing of the originally estimated undiscounted cash flows are recorded as an adjustment to the liabilities. Any resulting changes in the related asset retirement costs are capitalized as part of the carrying amount of nuclear fixed assets. Upon settlement of the liabilities, a gain or loss would be recorded.

Accretion arises because the fixed asset removal and nuclear waste management liabilities are reported on a net present value basis. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time.

The asset retirement cost is capitalized by increasing the carrying value of the related fixed assets. The capitalized cost is depreciated over the remaining service life of the related fixed assets and is included in depreciation and amortization expenses.

OPG has no legal obligation associated with the decommissioning of its hydroelectric generating facilities and the costs cannot be reasonably estimated because of the long service life of these assets. With either maintenance efforts or rebuilding, the water control structures are assumed to be used for the foreseeable future. Accordingly, OPG has not recognized a liability for the decommissioning of its hydroelectric generating facilities.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Pursuant to the Ontario Nuclear Funds Agreement (ONFA) between OPG and the Province, OPG established a Used Fuel Segregated Fund (Used Fuel Fund) and a Decommissioning Segregated Fund (Decommissioning Fund) (together the Nuclear Funds). The Used Fuel Fund is intended to fund expenditures associated with the long-term management of radioactive used nuclear fuel bundles, while the Decommissioning Fund was established to fund the future costs of nuclear fixed asset removal, long-term L&ILW management, and certain costs for used fuel storage incurred after the nuclear stations are shut down. OPG maintains the Nuclear Funds in third-party custodial and trust accounts that are segregated from the rest of OPG's assets.

OPG's investments in the Nuclear Funds and the corresponding amounts payable to/receivable from the Province are classified as held-for-trading. The Nuclear Funds are measured at fair value based on the bid prices of the underlying equity and fixed income securities, and, in the case of the alternative investment portfolio, using appropriate valuation techniques as outlined in Note 13 to these consolidated financial statements, with realized and unrealized gains and losses recognized in OPG's consolidated statements of income.

Derivatives

All derivatives, including embedded derivatives that must be separately accounted for, generally are classified as held-for-trading and recorded at fair value in the consolidated balance sheets. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading.

Derivatives qualify for hedge accounting if they meet stringent documentation requirements, and if the derivative instrument that is designated as a hedge is expected to effectively hedge the identified risk throughout the life of the hedged item. At the inception of a hedging relationship, OPG documents the relationship between the hedging instrument and the hedged item, its risk management objective, and its strategy for undertaking the hedge. A documented assessment is made, both at the inception of a hedge and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

All derivative contracts not designated as hedges are recorded on the consolidated balance sheets as derivative assets or liabilities at fair value with changes in the fair value recorded in the revenue of the Services, Trading, and Other Non-Generation segment. Refer to Note 12 for a discussion of OPG's risk exposures and the derivative instruments used to manage these risks.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly arm's-length transaction between market participants at the measurement date. Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. OPG uses a fair value hierarchy, grouping assets and liabilities into three levels based on the relative objectivity of the inputs used to measure fair value, with Level 1 representing the most objective. Refer to Note 13 for a discussion of fair value measurements and the fair value hierarchy.

Research and Development

Research and development costs are expensed as incurred. Research and development costs incurred to discharge long-term obligations, such as the Nuclear Liabilities, for which specific provisions have already been made, are charged to the related liability.

Leases

Leases are evaluated and classified as either operating or capital leases for financial reporting purposes. Capital leases, which transfer substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Capital leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits incidental to ownership of the asset are classified as operating leases. Operating lease payments, other than contingent rentals, are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term. Where the amount of rent expense recognized is different from the actual operating lease payment, other than contingent rentals, the difference is deferred and included as assets or liabilities on the consolidated balance sheets.

Pension and Other Post-Employment Benefits

OPG's post-employment benefit programs consist of a contributory defined benefit registered pension plan, a defined benefit supplementary pension plan, and other post-retirement benefits (OPRB) including group life insurance and health care benefits, and long-term disability (LTD) benefits. Post-employment benefit programs are also provided by the NWMO, which is consolidated into OPG's financial results. Unless otherwise noted, information on the Company's post-employment benefit programs is presented on a consolidated basis.

OPG accrues its obligations under pension and OPEB plans in accordance with US GAAP. The obligations for pension and OPRB are determined using the projected benefit method pro-rated on service. The obligation for LTD benefits is determined using the projected benefit method on a terminal basis. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, demographic assumptions, experience gains or losses, salary levels, inflation, and health care cost escalation assumptions. Pension and OPEB costs and obligations are determined annually by independent actuaries using management's best estimate assumptions.

Assumptions are significant inputs to actuarial models that measure pension and OPEB obligations and related effects on operations. Discount rate, inflation and changes in salary levels are three critical assumptions in the determination of benefit costs and obligations. In addition, the expected return on plan assets is a critical assumption in the determination of registered pension plan costs. These assumptions, as well as other assumptions involving demographic factors such as retirement age, mortality, and employee turnover, are evaluated periodically by management in consultation with independent actuaries. During the evaluation process, the assumptions are updated to reflect past experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors. In accordance with US GAAP, for pension and OPRB, the impact of these updates and differences on the respective benefit obligations is accumulated and amortized over future periods; for LTD benefits, the impact of these updates and differences is immediately recognized as OPEB costs in the period incurred.

The discount rates, which are representative of AA corporate bond yields, are used to calculate the present value of the expected future cash flows on the measurement date to determine the projected benefit obligations for the Company's employee benefit plans. A lower discount rate increases the benefit obligations and increases benefit costs. The expected rate of return on plan assets is based on the pension fund's asset allocation, as well as the expected return considering long-term historical risks and returns associated with each asset class within the plan portfolio. A lower expected rate of return on plan assets increases pension cost.

Pension fund assets include equity securities, corporate and government debt securities, pooled funds, real estate, infrastructure, and other investments. These assets are managed by professional investment managers. The pension fund does not invest in equity or debt securities issued by OPG. Pension fund assets are valued using market-related values for purposes of determining the amortization of actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six percent assumed real return over a five-year period.

Pension and OPEB costs include current service costs, interest costs on the obligations, the expected return on pension plan assets, adjustments for plan amendments, and adjustments for actuarial gains or losses, which result from changes in assumptions and experience gains and losses. Past service costs or credits arising from pension and OPRB plan amendments are amortized on a straight-line basis over the expected average remaining service life to full eligibility of the employees covered by the corresponding plan. Past service costs or credits arising from amendments to LTD benefits are immediately recognized as OPEB costs in the period incurred. Due to the long-term nature of pension and OPRB liabilities, the excess of the net cumulative unamortized gain or loss, over 10 percent of the greater of the benefit obligation and the market-related value of the plan assets (the corridor), is amortized over the expected average remaining service life of the employees, which represents the period during which the associated economic benefits are expected to be realized by the Company. Actuarial gains or losses for LTD benefits are immediately recognized as OPEB costs in the period incurred.

OPG recognizes on the consolidated balance sheets the funded status of its defined benefit plans. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation on a plan-by-plan basis.

Actuarial gains or losses and past service costs or credits arising during the year that are not recognized immediately as components of benefit costs are recognized as increases or decreases in other comprehensive income (OCI), net of income taxes. These unamortized amounts in AOCI are subsequently reclassified and recognized as components of pension and OPRB costs as described above.

OPG records an offsetting regulatory asset or liability for the portion of the adjustments to AOCI that is attributable to the regulated operations in order to reflect the expected recovery or refund of these amounts through future regulated prices charged to customers. For the recoverable or refundable portion attributable to regulated operations, OPG records a corresponding change in this regulatory asset or liability for the amount of the increases or decreases in OCI and for the amounts reclassified from AOCI into benefit costs during the period.

When the recognition of the transfer of employees and employee-related benefits gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's liability.

Income Taxes and Investment Tax Credits

OPG is exempt from income tax under the *Income Tax Act* (Canada). However, under the *Electricity Act, 1998*, OPG is required to make payments in lieu of corporate income taxes to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario), as modified by the *Electricity Act, 1998* and related regulations. This results in OPG effectively paying taxes similar to what would be imposed under the federal and Ontario tax acts.

OPG's operations are complex and the computation of the provision for income taxes involves interpretation of the various tax statutes and regulations. OPG has taken certain filing positions in calculating the amount of its income tax provision. These filing positions may be challenged on audit and some of them possibly disallowed, resulting in a potential significant change in OPG's tax provision upon reassessment.

OPG follows the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities. Deferred amounts are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in tax rates on deferred income tax assets and liabilities is included in income in the period the change is enacted.

If management determines that it is more likely than not that some, or all, of a deferred income tax asset will not be realized, a valuation allowance is recorded to report the balance at the amount expected to be realized.

OPG recognizes deferred income taxes associated with its regulated operations and records an offsetting regulatory asset or liability for the deferred income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return and investment tax credits are recorded only when the more likely than not recognition threshold is satisfied. Tax benefits and investment tax credits recognized are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement.

Investment tax credits are recorded as a reduction to income tax expense. OPG classifies interest and penalties associated with unrecognized tax benefits as income tax expense.

Changes in Accounting Policies and Estimates

Useful Lives of Nuclear Long-Lived Assets

The accounting assumptions related to the estimated end-of-life dates for long-lived assets require significant management judgment, including consideration of various technological and other factors. The station end-of-life assumptions also impact the measurement of OPG's ARO and other related accounting assumptions. OPG reviews the useful life assumptions for its generating stations on a regular basis.

In December 2015, OPG revised its accounting assumptions for the estimated useful lives of its nuclear generating stations. Effective December 31, 2015:

- the average service lives of the Bruce A GS and Bruce B GS were extended from 2048 to 2052 and from 2019 to 2061, respectively, to reflect the estimated end-of-life dates reflected in the updated refurbishment agreement between the IESO and Bruce Power, which was announced in December 2015
- the average service life of the Darlington GS was extended by one year to 2052 to reflect the approval of the refurbishment schedule in 2015
- the average service life of the Pickering GS was extended by less than one year to reflect the technical confidence that all six operating units of the station will operate to the end of 2020.

To reflect the above changes, OPG recognized a total increase of $2,330 million in the Nuclear Liabilities and a corresponding increase in the related asset retirement costs capitalized to PP&E, effective December 31, 2015. These increases were primarily due to the changes in the estimated lives for the Bruce nuclear generating stations. The nuclear ARO associated with the Pickering GS and Darlington GS was impacted by the changes to the Bruce station service lives because the costs of the fleet-wide waste management programs are shared by all of OPG's nuclear stations based on used nuclear fuel and waste volumes. Consistent with the changes in the end-of-life dates for the Bruce nuclear generating stations and the December 2015 amendments to the lease agreement between OPG and Bruce Power (Bruce Lease), the term of the lease was also extended for accounting purposes, in line with the refurbishment plans for the stations.

The above changes in station end-of-life assumptions are expected to decrease total depreciation expense by approximately $35 million in 2016, and to increase accretion expense by approximately $75 million in 2016. The existing Bruce Lease Net Revenues Variance Account and a new deferral account proposed in OPG's December 2015 application to the OEB, discussed below, are expected to largely offset these impacts. The Bruce Lease Net Revenues Variance Account captures differences between OPG's revenues and costs related to the Bruce nuclear generating stations and the corresponding forecasts included in OEB-approved nuclear regulated prices.

In December 2015, as required by the OEB's previous decisions and orders, OPG applied to the OEB for an accounting order establishing a new deferral account to record, effective January 1, 2016, the revenue requirement impact on the prescribed nuclear facilities of changes to the Nuclear Liabilities and depreciation expense arising from the changes in the nuclear station end-of-life dates effective December 31, 2015. In January 2016, the OEB issued an order establishing the requested account on an interim basis to allow OPG to begin booking entries into the account effective in January 2016. The OEB's final decision on the account is expected later in 2016.

Impacts of Regulation of the Newly Regulated Hydroelectric Facilities and the OEB's Decisions

As a result of the rate regulation of 48 previously unregulated hydroelectric facilities effective in 2014, OPG recognized regulatory assets related to deferred income taxes, and unamortized amounts recorded in AOCI in respect of pension and OPEB obligations. The increase in the regulatory asset related to deferred income taxes resulted in an extraordinary gain of $243 million in the consolidated statement of income for 2014. The recognition of the initial regulatory assets related to pension and OPEB obligations resulted in an increase of $184 million in OCI, net of $61 million in income taxes.

The OEB's decision on OPG's September 2013 application for new regulated prices was issued in November 2014, followed by the OEB's order in December 2014 establishing new regulated prices for these facilities effective November 1, 2014. The OEB's decision and order also approved a $1,365 million addition to regulated rate base due to the completion and in-service addition of the Niagara Tunnel project in March 2013. The approved rate base amount was lower than the cost of the asset which resulted in a write-off of costs of $77 million in 2014. In January 2016, the OEB issued its decision on OPG's December 2014 motion asking the OEB to review and vary parts of its November 2014 decision, including the disallowed Niagara Tunnel expenditures. In its January 2016 decision, the OEB reversed a portion of the original disallowance of the Niagara Tunnel expenditures. As a result, OPG expects to record a gain of approximately $21 million in the first quarter of 2016 to recognize the expected future recovery from customers of the portion of the disallowance reversed by the OEB's motion decision.

Pension and Other Post-Employment Benefits

The weighted average discount rate used to determine the projected pension benefit obligations and the projected benefit obligations for OPEB as at December 31, 2015 was 4.1 percent. This represents an increase, compared to the 4.0 percent discount rate that was used to determine the obligations as at December 31, 2014.

The deficit for the registered pension plans decreased, for accounting purposes, from $3,262 million as at December 31, 2014 to $2,315 million as at December 31, 2015, largely as a result of the return on pension fund assets in 2015, the increase in discount rates at the 2015 year-end, and employer contributions to the pension fund during the year, partially offset by the current service and interest costs for the year.

The projected benefit obligations for OPEB increased slightly from $3,143 million as at December 31, 2014 to $3,188 million as at December 31, 2015.

As at December 31, 2015, the unamortized net actuarial loss and unamortized past service costs for the pension and OPEB plans totalled $3,646 million (2014 – $4,869 million). Details of the unamortized net actuarial loss and unamortized past service costs as at December 31, 2015 and 2014 are as follows:

	Registered Pension Plans		**Supplementary Pension Plans**		**Other Post-Employment Benefits**	
(millions of dollars)	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Net actuarial gain not yet subject to amortization due to use of market-related values	**(809)**	(878)	**-**	-	**-**	-
Net actuarial loss not subject to amortization due to use of the corridor	**1,544**	1,568	**30**	32	**293**	288
Net actuarial loss subject to amortization	**2,288**	3,443	**47**	65	**247**	350
Unamortized net actuarial loss	**3,023**	4,133	**77**	97	**540**	638
Unamortized past service costs	**-**	-	**-**	-	**6**	1

A change in the following assumptions, holding all other assumptions constant, would increase (decrease) pension and OPEB costs for the year ended December 31, 2015 as follows:

(millions of dollars)	**Registered Pension Plans** [1]	**Supplementary Pension Plans** [1]	**Other Post-Employment Benefits** [1]
Expected long-term rate of return			
0.25% increase	(28)	n/a	n/a
0.25% decrease	28	n/a	n/a
Discount rate			
0.25% increase	(62)	(1)	(13)
0.25% decrease	65	1	14
Inflation			
0.25% increase	106	2	1
0.25% decrease	(99)	(1)	(1)
Salary increases			
0.25% increase	24	3	1
0.25% decrease	(24)	(2)	(1)
Health care cost trend rate			
1% increase	n/a	n/a	84
1% decrease	n/a	n/a	(60)

n/a – change in assumption not applicable.
[1] Excludes the impact of regulatory variance and deferral accounts.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance, including industry-specific guidance, under US GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. In July 2015, the FASB approved the deferral of the effective date of the new revenue standard by one year for public entities reporting under US GAAP from 2017 to 2018. As such, the standard is expected to be applicable to OPG for its 2018 fiscal year, including interim periods. OPG is currently assessing the impact of this new standard on its consolidated financial statements.

Balance Sheet Classification of Deferred Income Taxes

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* (ASU 2015-17), which will require entities to present deferred income tax assets and deferred income tax liabilities as noncurrent in a classified balance sheet. ASU 2015-17 simplifies the existing guidance, which requires entities to separately present deferred income tax assets and deferred income tax liabilities as current and non-current in a classified balance sheet. As permitted by the standard, OPG early adopted the updates to ASC 740, *Income Taxes* for the fiscal year ended December 31, 2015 on a retrospective basis. Other than the change in the balance sheet presentation of deferred income tax assets and deferred income tax liabilities, the amended standard does not impact OPG's consolidated financial statements.

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share

In May 2015, the FASB issued Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820) – Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. Under the new guidance, investments measured at net asset value, as a practical expedient for fair value, are excluded from the fair value hierarchy. Removing investments measured using the practical expedient from the fair value hierarchy is intended to eliminate the diversity in practice that currently exists with respect to the categorization of these investments. The only criterion for categorizing investments in the fair value hierarchy will be the observability of the inputs. The amendments will be effective for OPG's 2016 fiscal year, including interim periods. As the amendments pertain to disclosures, OPG does not expect the updated standard to result in adjustments in balances reported on the consolidated financial statements.

Lease Accounting

In February 2016, the FASB issued the accounting update for ASC Topic 840, *Leases*. The update includes comprehensive changes to existing guidance for lease accounting, particularly for lessees. The standard is expected to be effective for OPG's 2019 fiscal year, including interim periods. Early adoption is permitted. OPG is currently assessing the impact of the new standard on its consolidated financial statements.

4. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses, including amounts recognized in regulatory variance and deferral accounts authorized by the OEB, for the years ended December 31 consist of the following:

(millions of dollars)	**2015**	**2014**
Depreciation	**617**	574
Amortization of intangible assets	**20**	13
Amounts recognized in regulatory variance and deferral accounts	**(1)**	(123)
Amortization of regulatory assets and liabilities *(Note 5)*	**464**	290
	1,100	754

Property, plant and equipment as at December 31 consist of the following:

(millions of dollars)	**2015**	**2014**
Nuclear generating stations	**11,999**	9,313
Regulated hydroelectric generating stations	**9,351**	9,287
Contracted generation portfolio generating stations	**3,713**	3,600
Other property, plant and equipment	**1,839**	1,833
Construction in progress	**2,567**	1,826
	29,469	25,859
Less: accumulated depreciation		
Generating stations	**7,359**	6,771
Other property, plant and equipment	**1,515**	1,495
	8,874	8,266
	20,595	17,593

Construction in progress as at December 31 consists of the following:

(millions of dollars)	**2015**	**2014**
Darlington Refurbishment	**1,868**	1,309
Peter Sutherland Sr. GS	**95**	12
Other	**604**	505
	2,567	1,826

Interest capitalized to construction and development in progress at an average rate of five percent during 2015 (2014 – five percent) was $102 million (2014 – $135 million).

Intangible assets as at December 31 consist of the following:

(millions of dollars)	**2015**	**2014**
Nuclear generating stations	**118**	116
Regulated hydroelectric generating stations	**4**	4
Contracted generation portfolio generating stations	**5**	5
Computer software and other intangible assets	**321**	261
Development in progress	**28**	46
	476	432
Less: accumulated amortization		
Generating stations	**115**	109
Computer software and other intangible assets	**263**	247
	378	356
	98	76

The estimated aggregate amortization expense for each of the five succeeding years for intangible assets in service as at December 31, 2015 is as follows:

(millions of dollars)	**2016**	**2017**	**2018**	**2019**	**2020**
Amortization expense	21	17	14	12	2

5. REGULATORY ASSETS AND LIABILITIES

In December 2014, OPG filed an application with the OEB to recover approximately $1.8 billion in December 31, 2014 balances in most of its authorized regulatory variance and deferral accounts. A partial settlement agreement between OPG and intervenors providing for the recovery of approximately $1.5 billion of the total amount sought by OPG was approved by the OEB in June 2015 (the Partial Settlement Agreement). On September 10, 2015, the OEB issued its decision approving for recovery, without adjustments, the remaining balances totalling $263 million requested in OPG's application, which were not covered by the Partial Settlement Agreement.

These approvals include recovery of $714 million in the Pension and OPEB Cost Variance Account, recorded during 2013 and 2014, over six years starting on July 1, 2015 and $225 million recorded in this variance account prior to 2013 that will continue to be recovered until December 31, 2024 as previously authorized by the OEB. The remaining approved balances of $809 million include the $154 million portion of the Bruce Lease Net Revenues Variance Account related to the impact of the derivative liability embedded in the Bruce Lease as of December 31, 2014, which would continue to be recovered on the basis of OPG's expected payments to Bruce Power and associated income tax impacts, and other account balances, the majority of which were approved for recovery over a period of

18 months from July 1, 2015 to December 31, 2016. The OEB's October 2015 order also approved the continuation of previously authorized variance and deferral accounts, including those authorized pursuant to *Ontario Regulation 53/05.*

On October 8, 2015, the OEB issued an order implementing its June 2015 and September 2015 decisions on OPG's application. The order authorized OPG to recover $933 million over the period from October 1, 2015 to December 31, 2016 through new rate riders for generation from all of OPG's regulated nuclear and regulated hydroelectric facilities during this period, as shown below. The remaining approved balances will be subject to recovery after 2016.

($/Megawatt hour)	**Nuclear**	**Hydroelectric**
2015/2016 rate riders	10.84	3.19
2015/2016 interim period rate riders [1]	2.17	0.64
Rate riders for the period from October 1, 2015 to December 31, 2016	13.01	3.83

[1] The new riders were made effective July 1, 2015 and implemented effective October 1, 2015 by the OEB. The interim period rate riders were authorized by the OEB to allow for the recovery of the new riders for the period from July 1, 2015 to September 30, 2015. The revenue for the new riders for the July 1, 2015 to September 30, 2015 period was accrued in 2015. The income impact of the revenue accrual was largely offset by a corresponding increase in amortization expense related to regulatory assets and liabilities for deferral and variance accounts.

The new rate riders are in addition to those authorized by the OEB in its December 2014 order for production from OPG's nuclear and hydroelectric generating stations prescribed for rate regulation prior to 2014, for the period from January 1, 2015 to December 31, 2015. Those rate riders provided for the net recovery of the balances in certain variance accounts as at December 31, 2013, totaling $189 million, over the 12-month period in 2015 as approved by the OEB.

Any shortfall or over-recovery of the approved balances due to differences between actual and forecast production are recorded in the authorized Nuclear Deferral and Variance Over/Under Recovery Variance Account and the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account to be collected from, or refunded to, customers in the future.

In 2015, OPG recorded amortization of the regulatory assets and liabilities for the deferral and variance account balances approved for disposition on a straight-line basis, based on recovery or repayment periods authorized by the OEB's December 2014 and October 2015 orders. In 2014, OPG recorded such amortization on a straight-line basis based on balances and recovery or repayment periods authorized by the OEB's approval, in 2013, of a settlement agreement between OPG and intervenors on OPG's application to dispose of the December 31, 2012 balances in the deferral and variance accounts.

During the period from November 1, 2014 to December 31, 2015, OPG recorded additions to the variance and deferral accounts as authorized by the OEB's December 2014 and October 2015 orders, relative to the forecast amounts reflected in the cost of service regulated prices in effect during this period, where applicable. During the period from January 1, 2014 to October 31, 2014, additions to the variance and deferral accounts were recorded as authorized by the OEB's 2013 decision and order.

Where authorized by the OEB, OPG recorded interest on the unamortized balances in the applicable variance and deferral accounts at the OEB-prescribed rates of 1.47 percent per annum for the period from January 1, 2015 to March 31, 2015 and 1.10 percent per annum for the period from April 1, 2015 to December 31, 2015.

The regulatory assets and liabilities recorded as at December 31 are as follows:

(millions of dollars)	**2015**	**2014**
Regulatory assets		
Variance and deferral accounts authorized by the OEB		
Pension and OPEB Cost Variance Account	**865**	939
Pension and OPEB Cash Versus Accrual Differential Deferral Account *(Note 11)*	**315**	36
Nuclear Liability Deferral Account	**190**	286
Hydroelectric Surplus Baseload Generation Variance Account	**114**	67
Bruce Lease Net Revenues Variance Account	**95**	315
Nuclear Deferral and Variance Over/Under Recovery Variance Account	**82**	56
Other variance and deferral accounts	**92**	268
	1,753	1,967
Pension and OPEB regulatory asset *(Note 11)*	**3,362**	4,363
Deferred income tax liability *(Note 9)*	**792**	861
Total regulatory assets	**5,907**	7,191
Less: current portion	**628**	167
Non-current regulatory assets	**5,279**	7,024
Regulatory liabilities		
Variance and deferral accounts authorized by the OEB		
Other variance and deferral accounts	**60**	44
Total regulatory liabilities	**60**	44
Less: current portion	**26**	5
Non-current regulatory liabilities	**34**	39

The changes in the regulatory assets and liabilities during 2015 and 2014 are as follows:

(millions of dollars)	Pension and OPEB Cost Variance	Pension & OPEB Cash vs Accrual Differential Deferral	Nuclear Liability Deferral	Hydro-electric Surplus Baseload Generation Variance	Bruce Lease Net Revenues Variance	Nuclear Deferral & Variance Over/Under Recovery Variance	Other Variance and Deferral (net)	Pension and OPEB Regula-tory Asset	Deferred Income Taxes
Net regulatory assets January 1, 2014	667	-	254	19	353	43	323	3,158	559
Increase	312	36	82	48	4	15	51	1,205	302
Interest	-	-	-	-	-	1	5	-	-
Amortization	(40)	-	(50)	-	(42)	(3)	(155)	-	-
Net regulatory assets December 31, 2014	939	36	286	67	315	56	224	4,363	861
Increase (decrease)	**-**	**279**	**-**	**82**	**(149)**	**44**	**(26)**	**(1,001)**	**(69)**
Interest	**-**	**-**	**-**	**-**	**-**	**1**	**3**	**-**	**-**
Amortization	**(74)**	**-**	**(96)**	**(35)**	**(71)**	**(19)**	**(169)**	**-**	**-**
Net regulatory assets December 31, 2015	**865**	**315**	**190**	**114**	**95**	**82**	**32**	**3,362**	**792**

Pension and OPEB Cost Variance Account

As authorized by the OEB, for the period from March 1, 2011 to October 30, 2014, the Pension and OPEB Cost Variance Account recorded the differences between OPG's actual pension and OPEB costs for the regulated business determined on an accrual basis and related tax impacts, and corresponding forecast amounts reflected in the regulated prices then in effect. In its November 2014 decision, the OEB determined that the pension and OPEB amounts reflected in OPG's new regulated prices effective November 1, 2014 would be limited to the Company's estimated minimum contributions to its registered pension plan and a forecast of OPG's expenditures on the OPEB and supplementary pension plans. As such, the OEB ordered the Pension and OPEB Cost Variance Account to record only amortization beginning on November 1, 2014.

In its October 2015 order, the OEB approved the continuation of the previously authorized recovery of 10/12 of the account balance as at December 31, 2012 over a 144-month period to December 31, 2024. Amounts recorded in the account in 2013 and 2014 were approved for recovery over a 72-month period to June 30, 2021 by the OEB's October 2015 order.

Pension & OPEB Cash Versus Accrual Differential Deferral Account

In its November 2014 decision and December 2014 order, the OEB established the Pension & OPEB Cash Versus Accrual Differential Deferral Account. Effective November 1, 2014, this deferral account records the difference between OPG's actual pension and OPEB costs for the regulated business determined on an accrual basis under US GAAP and OPG's corresponding actual cash expenditures for these plans. The balance in the account as at December 31, 2015 represents the excess of costs calculated using the accrual basis over the cash basis for the period from November 1, 2014 to December 31, 2015. The Company has recognized the amount set aside in the deferral account as a regulatory asset. The OEB's November 2014 decision indicated that the future recovery, if any, of amounts recorded in the deferral account would be subject to the outcome of the generic OEB proceeding on the regulatory treatment and recovery of pension and OPEB costs. The OEB's consultation process to develop standard principles to guide its review of pension and OPEB costs of rate regulated utilities in the electricity and natural gas sectors, including establishing appropriate regulatory mechanisms for cost recovery, began in May 2015 and is ongoing.

Nuclear Liability Deferral Account

In accordance with *Ontario Regulation 53/05*, the OEB has authorized the Nuclear Liability Deferral Account (NLDA) in connection with changes to OPG's liabilities for nuclear used fuel management and nuclear decommissioning and L&ILW management associated with the nuclear facilities owned and operated by OPG, which are comprised of the Pickering and Darlington nuclear generating stations. The deferral account records the revenue requirement impact associated with the changes in these liabilities arising from an approved reference plan, in accordance with the terms of the ONFA. During 2012, the Province approved the 2012 ONFA Reference Plan covering the period from 2012 to 2016, with an effective date of January 1, 2012. As the regulated prices in effect prior to November 1, 2014 did not reflect the impact of the 2012 ONFA Reference Plan, OPG recorded an increase to the regulatory asset for the NLDA during the period from January 1, 2012 to October 31, 2014. Components of the change in the regulatory asset for the NLDA for the year ended December 31, 2014 is summarized below. There were no additions to the account in 2015.

(millions of dollars)	**2014**
Fuel expense	23
Low and intermediate level waste management variable expenses [1]	1
Depreciation expense	43
Income taxes	15
	82

[1] Amount was recorded as a reduction to OM&A expenses.

In its October 2015 order, the OEB approved the recovery of the account balance as at December 31, 2014 over an 18-month period from July 1, 2015 to December 31, 2016.

Hydroelectric Surplus Baseload Generation Variance Account

The Hydroelectric Surplus Baseload Generation Variance Account records the impact of foregone production at OPG's regulated hydroelectric facilities due to surplus baseload generation conditions. The variance account was authorized by the OEB effective March 1, 2011 for the regulated hydroelectric facilities prescribed for rate regulation prior to 2014, and effective November 1, 2014 for the applicable regulated hydroelectric facilities prescribed for rate regulation effective in 2014.

In its November 2014 decision and December 2014 order, the OEB approved the recovery of the account balance as at December 31, 2013 over a 12-month period beginning on January 1, 2015. The OEB's October 2015 order provided for the recovery of amounts recorded in the account during 2014 over an 18-month period from July 1, 2015 to December 31, 2016.

Bruce Lease Net Revenues Variance Account

In accordance with *Ontario Regulation 53/05*, the OEB is required to include the difference between OPG's revenues and costs associated with its ownership of the two nuclear stations on lease to Bruce Power in the determination of the regulated prices for production from OPG's regulated nuclear facilities. The OEB established a variance account that captures differences between OPG's revenues and costs related to the Bruce nuclear generating stations and the corresponding forecasts included in approved nuclear regulated prices.

In 2013, the OEB ordered the portion of the balance in the Bruce Lease Net Revenues Variance Account related to the impact of the derivative liability embedded in the terms of the Bruce Lease in effect prior to December 2015 to be recovered on the basis of OPG's expected rent rebate payments to Bruce Power and associated income tax impacts. The OEB's October 2015 order reaffirmed this approach. In December 2015, as a result of amendments to the Bruce Lease, OPG reversed the derivative liability, with a corresponding reduction to the regulatory asset for this account. Amounts collected from customers for the derivative liability for periods after its reversal are subject to refund in the future and recognized as a regulatory liability as part of the variance account balance.

In its October 2015 order, the OEB approved the continuation of the previously authorized recovery of the non-derivative portion of the account balance as at December 31, 2012 over a 48-month period ending December 31, 2016. The non-derivative portion of amounts recorded in the account in 2013 and 2014 was approved for recovery over an 18-month period from July 1, 2015 to December 31, 2016 by the OEB's October 2015 order.

Other Variance Accounts

Regulatory assets

As at December 31, 2015 and 2014, regulatory assets for other variance and deferral accounts included amounts for the Capacity Refurbishment Variance Account, the Pension & OPEB Cash Payment Variance Account, the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account, the Pickering Life Extension Depreciation Variance Account, and the Nuclear Development Variance Account.

Pursuant to *Ontario Regulation 53/05*, the Capacity Refurbishment Variance Account captures variances from forecasts reflected in the regulated prices for capital and non-capital costs incurred to increase the output of, refurbish, or add operating capacity to the regulated facilities. This includes variances related to the refurbishment of the Darlington nuclear generating station, life extension initiatives at the Pickering nuclear generating station, and other projects.

The Pension & OPEB Cash Payment Variance Account records, effective November 1, 2014, the difference between OPG's actual contributions to its registered pension plan and expenditures on its OPEB and supplementary pension plans for the regulated business, and the corresponding amounts reflected in the regulated prices.

The Pickering Life Extension Depreciation Variance Account balance was recorded wholly during the period from November 1, 2014 to December 31, 2014. This balance represents an offset to the customer credit for the reduction in depreciation expense for the Pickering nuclear generating station that was reflected both as a reduction to the base regulated prices effective November 1, 2014 and the nuclear rate rider in effect during 2014.

The Nuclear Development Variance Account records variances between the actual non-capital costs incurred and firm financial commitments made in the course of planning and preparation for the development of proposed new nuclear generation facilities and the corresponding forecasts reflected in the regulated prices approved by the OEB.

Regulatory liabilities

As at December 31, 2015 and 2014, regulatory liabilities for other variance and deferral accounts included amounts for the Hydroelectric Water Conditions Variance Account, the Ancillary Services Net Revenue Variance Account, the Income and Other Taxes Variance Account, and the Hydroelectric Incentive Mechanism Variance Account.

The Hydroelectric Water Conditions Variance Account captures the impact of differences in regulated hydroelectric electricity production due to differences between forecast water conditions underlying the production forecast approved by the OEB in setting regulated hydroelectric prices, and the actual water conditions.

The Ancillary Services Net Revenue Variance Account was authorized by the OEB to capture differences between actual nuclear and regulated hydroelectric ancillary services net revenue and the forecast amounts of such revenue approved by the OEB in setting regulated prices.

The Income and Other Taxes Variance Account includes deviations in income taxes for the regulated business, from those approved by the OEB in setting regulated prices, caused by changes in tax rates and rules, as well as reassessments.

The Hydroelectric Incentive Mechanism Variance Account records a credit to customers equal to 50 percent of OPG's hydroelectric incentive mechanism revenues above a specified threshold for the regulated hydroelectric facilities.

In its November 2014 decision and December 2014 order, the OEB approved the recovery or repayment of certain of the account balances of the other variance accounts as at December 31, 2013 over a 12-month period beginning on January 1, 2015. In its October 2015 order, the OEB approved the recovery or repayment of the majority of the account balances of the other variance and deferral accounts as at December 31, 2014, less amounts approved in the December 2014 order, over an 18-month period from July 1, 2015 to December 31, 2016.

Pension and OPEB Regulatory Asset

The Pension and OPEB Regulatory Asset represents unamortized amounts in respect of OPG's pension and OPEB plans that have been recognized in OCI and not yet reclassified into the amortization component of the benefit costs in respect of these plans. These amounts are expected to be recovered from customers through future regulated prices. The regulatory asset is reversed as underlying unamortized balances are amortized as components of benefit costs. Refer to Note 3 for a detailed discussion of the rate recovery methodology for pension and OPEB costs under the heading, *Rate Regulated Accounting*. The AOCI amounts related to pension and OPEB plans are presented in Note 11.

Deferred Income Taxes

OPG is required to recognize deferred income taxes associated with its rate regulated operations, including deferred income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. In addition, OPG is required to recognize a regulatory asset or liability for the amount of deferred income taxes expected to be included in future regulated prices and recovered from, or paid to, customers. Income taxes are discussed in Note 9.

6. LONG-TERM DEBT

Long-term debt consists of the following as at December 31: [1]

(millions of dollars)	2015	2014
Notes payable to the OEFC		
Senior Notes [2]		
3.43% due 2015	**-**	500
4.91% due 2016	**270**	270
5.35% due 2017	**900**	900
5.27% due 2018	**395**	395
5.44% due 2019	**365**	365
4.56% due 2020	**660**	660
4.28% due 2021	**185**	185
3.30% due 2022	**150**	150
3.12% due 2023	**40**	40
5.07% due 2041	**300**	300
4.36% due 2042	**200**	200
UMH Energy Partnership [3]		
Senior Notes		
7.86% due to 2041	**187**	190
PSS Generating Station Limited Partnership [4]		
Senior Notes		
4.90% due to 2067	**245**	-
Lower Mattagami Energy Limited Partnership [5]		
Senior Notes		
2.35% due 2017	**200**	200
4.46% due 2021	**225**	225
3.53% due 2024	**200**	200
5.26% due 2041	**250**	250
5.05% due 2043	**200**	200
4.26% due 2046	**275**	275
4.26% due 2052	**225**	225
	5,472	5,730
Less: due within one year	**273**	503
Long-term debt	**5,199**	5,227

1 The interest rates disclosed reflect the effective interest rate of the debt.

2 OEFC senior debt is entitled to receive, in full, amounts owing in respect of the senior debt and is pari passu to the Lower Mattagami Energy Limited Partnership (LME) senior notes.

3 These notes are secured by the assets of the Upper Mattagami and Hound Chute project. Principal repayments of approximately $3 million per year are made on a semi-annual basis until maturity in 2041, at which time the remaining principal balance of $116 million becomes due.

4 These notes are secured by the assets of the Peter Sutherland Sr. GS project. The notes have an interest-only feature for the first ten years and will be amortized with blended semi-annual principal and interest payment thereafter until maturity in 2067, at which time the remaining principal balance of $49 million becomes due.

5 These notes are secured by the assets of the Lower Mattagami River project, including existing and new operating facilities, and are recourse to OPG until the recourse release date. These notes rank pari passu to the OEFC senior notes.

Since December 2014, OPG has maintained an $800 million general corporate credit facility with the OEFC in support of its financing requirements up to the end of 2016. As at December 31, 2015 and 2014, there were no amounts outstanding under this facility. The credit facility expires on December 31, 2016.

Interest paid in 2015 was $269 million (2014 – $273 million), of which $261 million (2014 – $264 million) relates to interest paid on long-term debt.

The book value of the pledged assets as at December 31, 2015 was $3,520 million (2014 – $3,271 million).

In the fourth quarter of 2015, PSS Generating Station LP, a subsidiary of OPG, issued long-term debt totalling $245 million in support of the Peter Sutherland Sr. GS project. The majority of the debt proceeds, totalling $180 million, were invested in a structured deposit note with staggered maturity dates ranging from January 2016 to April 2017. Of the total amount invested as at December 31, 2015, $110 million is reported as Other current assets, and the remaining $70 million as Other long-term assets on the consolidated balance sheets, based on the terms of the deposit note.

A summary of the contractual maturities of all long-term borrowings outstanding as at December 31, 2015, by year, is as follows:

(millions of dollars)	
2016	**273**
2017	**1,103**
2018	**398**
2019	**368**
2020	**663**
Thereafter	**2,667**
	5,472

7. SHORT-TERM DEBT AND NET INTEREST EXPENSE

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two $500 million multi-year term tranches. In the second quarter of 2015, OPG renewed and extended both tranches by one year to May 2020. As at December 31, 2015 and 2014, there were no outstanding borrowings under the bank credit facility.

As at December 31, 2015, the LME maintained a $500 million bank credit facility to support the funding requirements for the Lower Mattagami River project including support for the LME's commercial paper program. The facility originally consisted of two $300 million multi-year tranches. The first and second tranches were to mature in August 2019 and August 2015, respectively. In the third quarter of 2015, OPG extended the maturity of the first tranche to August 2020. During the same period, the second tranche was reduced to $200 million and extended to August 2016. As at December 31, 2015, there was external commercial paper of $225 million outstanding under LME's commercial paper program (2014 – nil). There were no amounts outstanding under LME's bank credit facility as at December 31, 2015 and 2014. OPG also maintains a $700 million credit facility with the OEFC in support of the Lower Mattagami River project. As at December 31, 2015, there were no outstanding borrowings under this credit facility. This credit facility expires in June 2016.

As at December 31, 2015, OPG maintained $25 million of short-term, uncommitted overdraft facilities and $456 million of short-term, uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other general corporate purposes. As at December 31, 2015, a total of $384 million of Letters of Credit had been issued under these facilities. This included

$345 million for the supplementary pension plans, $38 million for general corporate purposes, and $1 million related to the operation of the PEC.

The Company has an agreement to sell an undivided co-ownership interest in its current and future accounts receivable to an independent trust. The maximum amount of co-ownership interest that can be sold under this agreement is $150 million. The agreement expires November 30, 2016. As at December 31, 2015, there were Letters of Credit outstanding under this agreement of $150 million (2014 – $150 million), which were issued in support of OPG's supplementary pension plans.

In October 2014, UMH Energy Partnership entered into an $8 million short-term, uncommitted overdraft facility and $16 million of irrevocable, standby Letters of Credit facilities in support of its operations. As at December 31, 2015, total Letters of Credit of $14 million had been issued under these facilities.

The following table summarizes the net interest expense for the years ended December 31:

(millions of dollars)	**2015**	**2014**
Interest on long-term debt	**285**	291
Interest on short-term debt	**8**	9
Interest income	**(9)**	(10)
Interest capitalized to property, plant and equipment and intangible assets	**(102)**	(135)
Interest related to regulatory assets and liabilities [1]	**(2)**	(75)
Net interest expense	**180**	80

[1] Includes interest to recognize the cost of financing related to regulatory variance and deferral accounts, as authorized by the OEB, and interest deferred in the Capacity Refurbishment Variance Account and the Bruce Lease Net Revenues Variance Account.

8. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT LIABILITIES AND FUNDS

The liabilities for fixed asset removal and nuclear waste management on a present value basis consist of the following as at December 31:

(millions of dollars)	**2015**	**2014**
Liability for nuclear used fuel management	**12,793**	10,459
Liability for nuclear decommissioning and L&ILW waste management	**6,999**	6,204
Liability for non-nuclear fixed asset removal	**377**	365
Fixed asset removal and nuclear waste management liabilities	**20,169**	17,028

The changes in the fixed asset removal and nuclear waste management liabilities for the years ended December 31 are as follows:

(millions of dollars)	**2015**	**2014**
Liabilities, beginning of year	**17,028**	16,257
Increase in liabilities due to accretion [1]	**906**	867
Increase in liabilities reflecting changes to the estimated useful lives of nuclear generating stations *(Note 3)*	**2,330**	-
Increase in liabilities due to nuclear used fuel and nuclear waste management expenses and other expenses [1]	**123**	116
Liabilities settled by expenditures on fixed asset removal and nuclear waste management	**(218)**	(212)
Liabilities, end of year	**20,169**	17,028

[1] Amounts shown exclude the impact of regulatory variance and deferral accounts.

OPG's fixed asset removal and nuclear waste management liabilities are comprised of expected costs to be incurred up to and beyond termination of operations and the closure of nuclear and thermal generating facilities, and other facilities. Costs will be incurred for activities such as preparation for safe storage, dismantling, demolition and disposal of facilities and equipment, remediation and restoration of sites, and the ongoing and long-term management of nuclear used fuel and L&ILW material.

The determination of the accrual for fixed asset removal and nuclear waste management costs requires significant assumptions since these programs are long-term in nature. The most recent comprehensive update of the cost estimates for the nuclear decommissioning and nuclear waste management liabilities is contained in the approved 2012 ONFA Reference Plan. The next ONFA Reference Plan is expected to be completed in 2016 and will cover the 2017-2021 period.

As discussed in Note 3, effective December 31, 2015, OPG recognized an increase in the Nuclear Liabilities of $2,330 million and a corresponding increase in asset retirement costs capitalized to PP&E to reflect changes in the estimated useful lives of the Company's nuclear generating stations. The increase in the liabilities recorded on December 31, 2015 was determined by discounting the net incremental cash flows at 3.21 percent.

For the purposes of calculating OPG's Nuclear Liabilities, as at December 31, 2015, consistent with the current accounting end-of-life assumptions, nuclear station decommissioning is projected to occur over approximately the next 50 years. The estimates for the Nuclear Liabilities include cash flow estimates for decommissioning the nuclear stations for approximately 40 years after stations are shut down and to 2078 for placement of used fuel into the long-term disposal repository, followed by extended monitoring.

The significant assumptions underlying operational, technical, and economic factors used in the calculation of the accrued Nuclear Liabilities are subject to periodic review. Changes to these assumptions, including changes to assumptions on the timing of the nuclear waste programs including construction of waste disposal facilities, station end-of-life dates, waste disposal methods, financial indicators, or the technology employed may result in significant changes to the value of the accrued liabilities. With programs of this duration and the evolving technology to handle the nuclear waste, there is a significant degree of uncertainty surrounding the measurement of the costs for these long-term programs. These costs may increase or decrease over time.

Liability for Nuclear Used Fuel Management Costs

The liability for nuclear used fuel management represents the cost of managing the highly radioactive used nuclear fuel bundles. The federal NFWA, proclaimed into force in 2002, required that Canada's nuclear fuel waste owners form a nuclear waste management organization, and that each waste owner establish a trust fund for used fuel management costs. This organization, the NWMO, is responsible for the design and implementation of Canada's plan for the long-term management of nuclear used fuel waste. To estimate its liability for nuclear used fuel management costs, OPG has adopted a conservative approach consistent with the Adaptive Phased Management concept approved by the Government of Canada, which assumes a deep geologic repository as part of the long-term management of nuclear used fuel, with an in-service date of 2035 at the earliest.

Liability for Nuclear Decommissioning and L&ILW Management Costs

The liability for nuclear decommissioning and L&ILW management represents the estimated costs of decommissioning the nuclear generating stations after the end of their service lives, as well as the cost of managing L&ILW generated by the stations. The significant assumptions used in estimating future nuclear fixed asset removal costs include a deferred dismantlement basis for decommissioning of the stations, whereby the reactors will remain in a safe state condition for a 30-year period prior to an approximate 10-year dismantlement period.

The life cycle costs of L&ILW management include the costs of processing and storage of such radioactive wastes during and following the operation of the nuclear stations, as well as the costs of the ultimate long-term management of these wastes. The current assumptions used to establish the accrued costs for the management of L&ILW include an L&ILW DGR. Agreement was previously reached with local municipalities for OPG to develop a deep geologic repository for the long-term management of L&ILW adjacent to OPG's Western Waste Management Facility. OPG has suspended design activities for the L&ILW DGR pending receipt of the site preparation and construction licence.

Liability for Non-Nuclear Fixed Asset Removal Costs

The liability for non-nuclear fixed asset removal primarily represents the estimated costs of decommissioning OPG's thermal generating stations at the end of their services lives. The liability is based on third-party cost estimates after an in-depth review of plant sites and an assessment of required clean-up and restoration activities, completed in 2011 for most of the thermal generating stations. For the purpose of measuring the liability, asset removal activities are estimated to take place over the next 15 years. As at December 31, 2015, the liability for non-nuclear fixed asset removal was $377 million (2014 – $365 million).

Ontario Nuclear Funds Agreement

In accordance with the ONFA, OPG sets aside and invests funds that are held in segregated custodian and trustee accounts specifically for discharging its obligation for nuclear decommissioning and long-term nuclear waste management. The Decommissioning Fund was established to fund the future costs of nuclear fixed asset removal, long-term L&ILW management, and certain costs for used fuel storage incurred after the stations are shut down. The Used Fuel Fund was established to fund future costs of long-term nuclear used fuel management. OPG makes contributions to the Nuclear Funds based on the approved ONFA Reference Plan in effect.

OPG makes quarterly payments to the Used Fuel Fund over the life of its nuclear generating stations, as specified in the ONFA, including contributions to the NFWA Trust (the Trust). The Trust forms part of the Used Fuel Fund, and contributions to the Trust, as required by the NFWA, may be applied towards OPG's ONFA payment obligations. Required funding for 2015 under the ONFA was $143 million (2014 – $139 million). Based on the approved 2012 ONFA Reference Plan, OPG is required to contribute annual amounts to the Used Fuel Fund, ranging from $150 million to $288 million over the years 2016 to 2019. Contributions are not currently required to the Decommissioning Fund based on the approved 2012 ONFA Reference Plan. Since OPG is responsible for the risks associated with liability cost increases and investment returns in the Decommissioning Fund, future contributions to the Decommissioning Fund may be required should the fund be in an underfunded position at the time of the next ONFA Reference Plan review. The required future ONFA contributions are disclosed in Note 15.

The *Nuclear Safety and Control Act* (Canada) requires OPG to have sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. As required by the terms of the ONFA, the Province has provided a Provincial Guarantee to the Canadian Nuclear Safety Commission (CNSC) since 2003, on behalf of OPG. The Provincial Guarantee provides for any shortfall between the CNSC consolidated financial guarantee requirement and the value of the Nuclear Funds. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount of the Provincial Guarantee. The current value of the Provincial Guarantee amount of $1,551 million is in effect through to the end of 2017. Based on this guarantee amount, OPG paid a guarantee fee of $8 million to the Province for each of 2014 and 2015.

The investments in the Nuclear Funds include a diversified portfolio of equities and fixed income securities that are invested across geographic markets, as well as investments in infrastructure, real estate, and agriculture. The Nuclear Funds are invested to fund long-term liability requirements and, as such, the portfolio asset mix is structured to achieve the required return over a long-term horizon. While short-term fluctuations in market value will occur, managing the long-term return of the Nuclear Funds remains the primary goal. OPG jointly oversees the investment management of the Nuclear Funds with the Province.

<u>Decommissioning Fund</u>

OPG bears the risk and liability for cost estimate changes and fund earnings in the Decommissioning Fund. As at December 31, 2015, the Decommissioning Fund was in an overfunded position.

Upon termination of the ONFA, the Province has a right to any excess funds in the Decommissioning Fund, which is the excess of the fair market value of the Decommissioning Fund assets over the estimated completion costs, as per the most recently approved ONFA Reference Plan. When the Decommissioning Fund is overfunded, OPG limits the earnings recognized in its consolidated financial statements by recording a payable to the Province, such that the balance of the Decommissioning Fund is equal the cost estimate of the liability based on the most recently approved ONFA Reference Plan plus the portion of the surplus, if any, that OPG may direct to be treated as a contribution to the Used Fuel Fund. The payable to the Province may be reduced in subsequent periods in the event that the Decommissioning Fund earns less than its target rate of return or in the event that a new ONFA Reference Plan is approved with a higher estimated decommissioning liability. When the Decommissioning Fund is underfunded, the earnings on the Decommissioning Fund reflect actual fund returns based on the market value of the assets.

The Province's right to any excess funding in the Decommissioning Fund upon termination of the ONFA results in OPG capping its annual earnings at 3.25 percent plus the long-term Ontario Consumer Price Index (CPI) specified in the most recently approved ONFA Reference Plan, which is the rate of growth in the liability for the estimated completion cost, as long as the Decommissioning Fund is in an overfunded status of less than 120 percent.

Under the ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the most recently approved ONFA Reference Plan, are at least 120 percent funded, OPG may direct up to 50 percent of the surplus over 120 percent to be treated as a contribution to the Used Fuel Fund, with the OEFC entitled to a distribution of an equal amount. Therefore, when the Decommissioning Fund is at least 120 percent funded, OPG recognizes 50 percent of the excess greater than 120 percent in income.

<u>Used Fuel Fund</u>

OPG is responsible for the risk and liability of cost increases for used fuel waste management under the ONFA, subject to specified graduated liability thresholds, which limit OPG's total financial exposure for the first 2.23 million nuclear used fuel bundles at approximately $14.2 billion in present value dollars as at December 31, 2015. The graduated liability thresholds do not apply to incremental used fuel bundles beyond 2.23 million.

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 percent plus the change in the Ontario CPI for funding related to the first 2.23 million used fuel bundles (committed return). OPG recognizes the committed return on the Used Fuel Fund as earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return and the actual market return determined based on the fair value of the fund assets related to the first 2.23 million used fuel bundles is recorded as due to or due from the Province. The amount due to or due from the Province represents the amount OPG would pay to or receive from the Province if the committed return were to be settled as of the consolidated balance sheet date. As prescribed under the ONFA, OPG's contributions for fuel bundles in excess of 2.23 million are not subject to the Province's guaranteed rate of return, and earn a return based on changes in the market value of the assets of the Used Fuel Fund.

Under the ONFA, the Province is entitled to any surplus in the Used Fuel Fund, subject to a threshold funded ratio of 110 percent compared to the value of the associated liabilities based on the most recently approved ONFA Reference Plan. Upon termination of the Used Fuel Fund, the Province is entitled to any surplus above the 100 percent funded threshold.

Nuclear Funds

The nuclear fixed asset removal and nuclear waste management funds as at December 31 consist of the following:

(millions of dollars)	Fair Value 2015	2014
Decommissioning Fund	**7,834**	7,346
Due to Province – Decommissioning Fund	**(1,285)**	(1,100)
	6,549	6,246
Used Fuel Fund [1]	**10,290**	9,562
Due to Province – Used Fuel Fund	**(1,703)**	(1,429)
	8,587	8,133
Total Nuclear Funds	**15,136**	14,379
Less: current portion	**15**	25
Non-current Nuclear Funds	**15,121**	14,354

[1] The Ontario NFWA Trust represented $3,409 million as at December 31, 2015 (2014 – $3,114 million) of the Used Fuel Fund on a fair value basis.

The fair value of the securities invested in the Nuclear Funds as at December 31 is as follows:

(millions of dollars)	Fair Value 2015	2014
Cash and cash equivalents and short-term investments	**343**	464
Alternative investments	**1,620**	1,003
Pooled funds	**1,311**	1,293
Marketable equity securities	**8,621**	8,176
Fixed income securities	**6,219**	5,969
Net receivables/payables	**10**	3
	18,124	16,908
Due to Province	**(2,988)**	(2,529)
	15,136	14,379

The historical cost, gross unrealized aggregate appreciation and depreciation of investment, gross unrealized foreign exchange gains, and fair value of the Nuclear Funds as at December 31, 2015 and 2014 are summarized as follows:

(millions of dollars)	2015 Decommissioning Fund	Used Fuel Fund	Total
Historical cost	**6,608**	**8,819**	**15,427**
Gross unrealized gains (losses)			
Aggregate appreciation	**1,098**	**1,283**	**2,381**
Aggregate depreciation	**(297)**	**(383)**	**(680)**
Foreign exchange	**425**	**571**	**996**
	7,834	**10,290**	**18,124**
Due to Province	**(1,285)**	**(1,703)**	**(2,988)**
Total fair value	**6,549**	**8,587**	**15,136**
Less: current portion	**5**	**10**	**15**
Non-current fair value	**6,544**	**8,577**	**15,121**

(millions of dollars)	2014 Decommissioning Fund	2014 Used Fuel Fund	2014 Total
Historical cost	6,188	8,163	14,351
Gross unrealized gains (losses)			
Aggregate appreciation	1,218	1,441	2,659
Aggregate depreciation	(150)	(174)	(324)
Foreign exchange	90	132	222
	7,346	9,562	16,908
Due to Province	(1,100)	(1,429)	(2,529)
Fair value	6,246	8,133	14,379
Less: current portion	7	18	25
Non-current fair value	6,239	8,115	14,354

Net realized and unrealized gains or losses from investments for the years ended December 31, 2015 and 2014 are summarized as follows:

(millions of dollars)	2015 Decommissioning Fund	2015 Used Fuel Fund	2015 Total
Net realized gains			
Realized gains excluding foreign exchange	**159**	**221**	**380**
Realized foreign exchange gains	**56**	**71**	**127**
Net realized gains	**215**	**292**	**507**
Net unrealized gains			
Unrealized losses excluding foreign exchange	**(267)**	**(367)**	**(634)**
Unrealized foreign exchange gains	**335**	**439**	**774**
Net unrealized gains	**68**	**72**	**140**

(millions of dollars)	2014 Decommissioning Fund	2014 Used Fuel Fund	2014 Total
Net realized gains			
Realized gains	401	545	946
Realized foreign exchange gains	36	36	72
Net realized gains	437	581	1,018
Net unrealized gains			
Unrealized gains	75	38	113
Unrealized foreign exchange gains	63	82	145
Net unrealized gains	138	120	258

The change in the Nuclear Funds for the years ended December 31 is as follows:

(millions of dollars)	Fair Value 2015	2014
Decommissioning Fund, beginning of year	**6,246**	5,967
Increase in fund due to return on investments	**507**	782
Decrease in fund due to reimbursement of eligible expenditures	**(19)**	(27)
Increase in due to Province	**(185)**	(476)
Decommissioning Fund, end of year	**6,549**	6,246
Used Fuel Fund, beginning of year	**8,133**	7,529
Increase in fund due to contributions made	**143**	139
Increase in fund due to return on investments	**642**	954
Decrease in fund due to reimbursement of eligible expenditures	**(57)**	(50)
Increase in due to Province	**(274)**	(439)
Used Fuel Fund, end of year	**8,587**	8,133

The earnings from the Nuclear Funds during 2015 and 2014 were impacted by the Bruce Lease Net Revenues Variance Account authorized by the OEB. The earnings on the Nuclear Funds for the years ended December 31 are as follows:

(millions of dollars)	2015	2014
Decommissioning Fund	**322**	306
Used Fuel Fund	**368**	515
Bruce Lease Net Revenues Variance Account	**14**	(107)
Total earnings	**704**	714

9. INCOME TAXES

OPG follows the liability method of accounting for income taxes. The Company records an offsetting regulatory asset or liability for the deferred income taxes that are expected to be recovered or refunded through future regulated prices charged to customers for generation from OPG's regulated facilities.

Significant components of the income tax expense (recovery) are presented in the table below:

(millions of dollars)	**2015**	**2014**
Current income tax expense (recovery):		
Current payable	**137**	123
Change in income tax positions	**(10)**	(15)
Income tax components of regulatory variance and deferral accounts	**(1)**	(10)
Scientific Research and Experimental Development investment tax credits	**(55)**	(29)
Other	**(12)**	14
	59	83
Deferred income tax expense (recovery):		
Change in temporary differences	**3**	100
Income tax components of regulatory variance and deferral accounts	**(43)**	(69)
Regulatory asset for deferred income taxes	**73**	25
	33	56
Income tax expense	**92**	139

A reconciliation between the statutory and the effective rate of income taxes is as follows:

(millions of dollars)	**2015**	**2014**
Income before income taxes and extraordinary item	**509**	707
Combined Canadian federal and provincial statutory enacted income tax rates	**26.5%**	26.5%
Statutory income tax rates applied to accounting income	**135**	187
(Decrease) increase in income taxes resulting from:		
Income tax components of regulatory variance and deferral accounts	**(44)**	(79)
Non-taxable income items	**(8)**	(6)
Regulatory asset for deferred income taxes	**73**	25
Scientific Research and Experimental Development investment tax credits, net of income tax	**(43)**	(16)
Other	**(21)**	28
	(43)	(48)
Income tax expense	**92**	139
Effective rate of income taxes	**18.1%**	19.7%

The income tax effects of temporary differences that give rise to deferred income tax assets and liabilities as at December 31 are as follows:

(millions of dollars)	**2015**	**2014**
Deferred income tax assets:		
Fixed asset removal and nuclear waste management liabilities	**5,032**	4,247
Other liabilities and assets	**1,689**	1,984
	6,721	6,231
Deferred income tax liabilities:		
Property, plant and equipment and intangible assets	**(2,119)**	(1,478)
Nuclear fixed asset removal and nuclear waste management funds	**(3,784)**	(3,595)
Other liabilities and assets	**(1,708)**	(1,986)
	(7,611)	(7,059)
Net deferred income tax liabilities	**(890)**	(828)

During 2015, OPG recorded a decrease in the deferred income tax liability for the income taxes that are expected to be recovered or refunded through regulated prices charged to customers of $69 million (2014 – $22 million). Since these deferred income taxes are expected to be refunded through future regulated prices, OPG recorded a corresponding decrease to the regulatory asset for deferred income taxes. As a result, the deferred income tax expense for 2015 and 2014 was not impacted.

The following table summarizes the deferred income tax liabilities recorded for the rate regulated operations that are expected to be recovered through future regulated prices:

(millions of dollars)	**2015**	**2014**
January 1:		
Deferred income tax liabilities on temporary differences related to regulated operations	**644**	418
Deferred income tax liabilities resulting from the regulatory asset for deferred income taxes	**217**	141
	861	559
Impact of rate regulation of hydroelectric facilities in 2014:		
Deferred income tax liabilities on temporary differences as of June 30, 2014 related to the facilities prescribed for regulation effective July 1, 2014	**-**	243
Deferred income tax liabilities resulting from the regulatory asset for deferred income taxes related to the regulation of facilities effective July 1, 2014	**-**	81
	861	883
Changes during the year:		
Decrease in deferred income tax liabilities on temporary differences related to regulated operations, including facilities prescribed for regulation effective in 2014	**(52)**	(17)
Decrease in deferred income tax liabilities resulting from the regulatory asset for deferred income taxes, including for facilities prescribed for regulation effective in 2014	**(17)**	(5)
Balance as at December 31	**792**	861

The tax benefit associated with an income tax position is recognized only when it is more likely than not that such a position will be sustained upon examination by the taxing authorities based on the technical merits of the position. The current and deferred income tax benefit is equal to the largest amount, considering possible settlement outcomes, that is greater than 50 percent likely of being realized upon settlement with the taxing authorities.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(millions of dollars)	**2015**	**2014**
Unrecognized tax benefits, beginning of year	**79**	91
Additions based on tax positions related to the current year	**16**	11
Additions for tax positions of prior years	**7**	12
Reductions for tax positions of prior years	**(14)**	(35)
Other	**(16)**	-
Unrecognized tax benefits, end of year	**72**	79

As at December 31, 2015, OPG's unrecognized tax benefits were $72 million (2014 – $79 million), excluding interest and penalties, all of which, if recognized, would affect OPG's effective tax rate. Changes in unrecognized tax benefits over the next 12 months cannot be predicted with certainty.

OPG recognizes interest and penalties related to unrecognized tax benefits as income tax expense. As at December 31, 2015, OPG had recorded interest on unrecognized tax benefits of $7 million (2014 – $6 million). OPG considers its significant tax jurisdiction to be Canada. OPG remains subject to income tax examination for years after 2011.

OPG paid $47 million in income taxes (net of tax refunds) during 2015. The amount of tax refunds received net of income taxes paid during 2014 was $29 million.

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in the balance of each component of accumulated other comprehensive loss (AOCL), net of taxes, during the years ended December 31, 2015 and 2014 are as follows:

		2015	
(millions of dollars)	**Unrealized Gains and Losses on Cash Flow Hedges** [1]	**Pension and Other Post-Employment Benefits** [1]	**Total** [1]
AOCL, beginning of year	**(117)**	**(379)**	**(496)**
Net loss on cash flow hedges	**(5)**	**-**	**(5)**
Actuarial gain on re-measurement of liabilities for pension and other post-employment benefits	**-**	**148**	**148**
Amounts reclassified from AOCL	**16**	**18**	**34**
OCI for the year	**11**	**166**	**177**
AOCL, end of year	**(106)**		**(319)**

[1] All amounts are net of income taxes.

	2014		
(millions of dollars)	Unrealized Gains and Losses on Cash Flow Hedges [1]	Pension and Other Post-Employment Benefits [1]	Total [1]
AOCL, beginning of year	(129)	(555)	(684)
Net gain on cash flow hedges	(2)	-	(2)
Recognition of initial pension and OPEB Regulatory Asset for amounts recorded prior to regulation of facilities, effective July 1, 2014 *(Note 3)*	-	184	184
Actuarial loss on re-measurement of liabilities for pension and other post-employment benefits	-	(35)	(35)
Amounts reclassified from AOCL	14	27	41
OCI for the year	12	176	188
AOCL, end of year	(117)	(379)	(496)

[1] All amounts are net of income taxes.

The significant amounts reclassified out of each component of AOCL, net of income taxes, during the years ended December 31, 2015 and 2014 are as follows:

	Amount Reclassified from AOCL		
(millions of dollars)	**2015**	**2014**	**Statement of Income Line Item**
Amortization of losses from cash flow hedges			
Losses	**18**	16	Net interest expense
Income tax recovery	**(2)**	(2)	Income tax expense
	16	14	
Amortization of amounts related to pension and other post-employment benefits			
Actuarial losses and past service costs	**25**	37	See (1) below
Income tax recovery	**(7)**	(10)	Income tax expense
	18	27	
Total reclassifications for the year	**34**	41	

[1] These AOCL components are included in the computation of pension and OPEB costs (see Note 11 for additional details).

11. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Fund Assets

The OPG registered pension fund investment guidelines are stated in an approved Statement of Investment Policies and Procedures (SIPP). The SIPP is reviewed and approved by the Audit and Risk Committee of OPG's Board of Directors at least annually and includes a discussion of investment objectives and expectations, asset mix and rebalancing, and the basis for measuring the performance of the pension fund assets.

In accordance with the SIPP, investment allocation decisions are made with a view to achieve OPG's objective of meeting obligations of the plan as they come due. The pension fund assets are invested in three categories of asset classes. The first category is liability hedging assets which are intended to hedge the inflation and interest rate sensitivity of the plan liabilities. The second category is return enhancing assets which are intended to obtain higher investment returns compared to the returns expected for liability hedging assets. The third category is return diversifying strategies, which are intended to improve the overall return of the pension fund while mitigating the downside market risk.

To achieve the above objective, OPG has adopted the following target strategic asset allocation:

	Target
Asset Class	
Liability Hedging Assets	54%
Return Enhancing Assets	33%
Return on Diversifying Assets	13%

The plan may enter into derivative securities, such as interest rate swaps and forward foreign exchange contracts, for risk management purposes, where such activity is consistent with the plan's investment objectives.

Significant Concentrations of Risk in Fund Assets

The assets of the pension fund are diversified to limit the impact of any individual investment. The pension fund is diversified across multiple asset classes. Fixed income securities are diversified among Canadian government bonds, government agency bonds, real return bonds, corporate bonds, and an interest rate overlay hedging program, which is disclosed under pooled funds. Equity securities are diversified across Canadian, US, and non-North American stocks. There are also real estate, infrastructure, and agriculture portfolios that represent approximately nine percent of the total pension fund assets as at December 31, 2015. Investments in the above asset classes are further diversified across funds, investment managers, strategies, vintages, sectors and geographies, depending on the specific characteristics of each asset class.

Credit risk with respect to the pension fund's fixed income securities is managed by risk tolerance guidelines, which requires that fixed income securities comply with various investment constraints that ensure prudent diversification and prescribed minimum required credit rating quality. Credit risk, as it relates to the pension fund's derivatives, is managed through the use of International Swap and Derivatives Association documentation and counterparty management performed by the fund's investment managers.

Risk Management

Risk management oversight with respect to the pension fund includes, but is not limited to, the following activities:

- Periodic asset/liability management and strategic asset allocation studies
- Monitoring of funding levels and funding ratios
- Monitoring compliance with asset allocation guidelines and investment management agreements
- Monitoring asset class performance against asset class benchmarks
- Monitoring investment manager performance against benchmarks
- Monitoring of risk tolerance guidelines

Expected Rate of Return on Plan Assets

The expected rate of return on plan assets is based on the fund's asset allocation, as well as the return expectations considering long-term historical risks and returns associated with each asset class within the plan portfolio. The asset management decisions consider the economic liabilities of the plan.

Fair Value Measurements

OPG is required to classify fair value measurements using a fair value hierarchy. This hierarchy groups financial instruments into three levels, based on the significance of inputs used in measuring the fair value of the assets and liabilities. Refer to Note 13 for a detailed discussion of fair value measurements and the fair value hierarchy.

The following tables present pension plan assets measured at fair value in accordance with the fair value hierarchy:

(millions of dollars)	December 31, 2015 Level 1	Level 2	Level 3	Total
Cash and cash equivalents	**374**	**-**	**-**	**374**
Short-term investments	**-**	**1**	**-**	**1**
Fixed income				
Corporate debt securities	**-**	**392**	**-**	**392**
Government bonds	**-**	**3,794**	**-**	**3,794**
Equities				
Canadian	**1,547**	**-**	**-**	**1,547**
US	**1,786**	**-**	**-**	**1,786**
Non-North American	**1,992**	**-**	**-**	**1,992**
Pooled funds	**21**	**147**	**1,878**	**2,046**
Infrastructure	**-**	**-**	**702**	**702**
Real estate	**-**	**-**	**402**	**402**
Agriculture	**-**	**-**	**107**	**107**
Other	**1**	**-**	**6**	**7**
	5,721	**4,334**	**3,095**	**13,150** [1]

[1] The table above excludes pension fund receivables and payables.

(millions of dollars)	December 31, 2014 Level 1	Level 2	Level 3	Total
Cash and cash equivalents	251	-		251
Short-term investments	-	3	-	3
Fixed income				
Corporate debt securities	-	349	-	349
Government bonds	-	1,704	-	1,704
Equities				
Canadian	1,955	-	-	1,955
US	2,016	-	-	2,016
Non-North American	2,147	-	-	2,147
Pooled funds	12	2,450	866	3,328
Infrastructure	-	-	338	338
Real estate	-	-	243	243
Agriculture	-	-	57	57
Other	-	-	5	5
	6,381	4,506	1,509	12,396 [1]

[1] The table above excludes pension fund receivables and payables.

The following table presents the changes in the fair value of financial instruments classified in Level 3:

(millions of dollars)	Pooled Funds	Infrastructure	Real Estate	Agriculture	Other	Total
Opening balance, January 1, 2014	11	208	210	57	2	488
Total realized and unrealized gains	69	37	19	-	-	125
Purchases, sales, and settlements	786	93	14	-	3	896
Closing balance, December 31, 2014	866	338	243	57	5	1,509
Total realized and unrealized gains	**247**	**91**	**58**	**-**	**-**	**396**
Purchases, sales, and settlements	**765**	**273**	**101**	**50**	**1**	**1,190**
Closing balance, December 31, 2015	**1,878**	**702**	**402**	**107**	**6**	**3,095**

During the years ended December 31, 2015 and 2014, there were no transfers between Level 1 and Level 2.

Plan Costs and Liabilities

Details of OPG's pension and OPEB obligations, pension fund assets and costs are presented in the following tables:

	Registered and Supplementary Pension Plans		Other Post-Employment Benefits	
	2015	2014	2015	2014
Weighted Average Assumptions – Benefit Obligations at Year-End				
Rate used to discount future benefits	**4.10%**	4.00%	**4.13%**	4.03%
Salary schedule escalation rate - first six years	**1.60%**	2.00%	**1.60%**	2.00%
- thereafter	**2.50%**	2.50%	**2.50%**	2.50%
Rate of cost of living increase to pensions	**2.00%**	2.00%	**n/a**	n/a
Initial health care trend rate	**n/a**	n/a	**6.00%**	6.09%
Ultimate health care trend rate	**n/a**	n/a	**4.33%**	4.33%
Year ultimate health care trend rate reached	**n/a**	n/a	**2030**	2030
Rate of increase in disability benefits	**n/a**	n/a	**2.00%**	2.00%

	Registered and Supplementary Pension Plans		Other Post-Employment Benefits	
	2015	2014	2015	2014
Weighted Average Assumptions – Costs for the Year				
Expected return on plan assets, net of expenses	**6.25%**	6.25%	**n/a**	n/a
Rate used to discount future benefits	**4.00%**	4.90%	**4.03%**	4.91%
Salary schedule escalation rate - first six years	**2.00%**	2.50%	**2.00%**	2.50%
- thereafter	**2.50%**	2.50%	**2.50%**	2.50%
Rate of cost of living increase to pensions	**2.00%**	2.00%	**n/a**	n/a
Initial health care trend rate	**n/a**	n/a	**6.09%**	6.19%
Ultimate health care trend rate	**n/a**	n/a	**4.33%**	4.34%
Year ultimate health care trend rate reached	**n/a**	n/a	**2030**	2030
Rate of increase in disability benefits	**n/a**	n/a	**2.00%**	2.00%
Expected average remaining service life for employees (years)	**12**	12	**13**	13

	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
(millions of dollars)	2015	2014	2015	2014	2015	2014
Components of Cost Recognized						
Current service costs	**320**	238	**7**	8	**71**	64
Interest on projected benefit obligation	**630**	658	**13**	14	**127**	135
Expected return on plan assets, net of expenses	**(717)**	(628)	**-**	-	**-**	-
Amortization of net actuarial loss [1]	**292**	260	**6**	4	**27**	6
Recognition of LTD net actuarial loss (gain)	**-**	-	**-**	-	**7**	(3)
Costs recognized [2]	**525**	528	**26**	26	**232**	202

[1] The amortization of past service costs and net actuarial loss was recognized as an increase to OCI. This increase was partially offset by the impact of the Pension and OPEB Regulatory Asset discussed in Note 5.

[2] Excludes the impact of regulatory variance and deferral accounts discussed in Note 5.

Total benefit costs, including the impact of the Pension and OPEB Cost Variance Account, the Pension & OPEB Cash Payment Variance Account and the Pension & OPEB Cash Versus Accrual Differential Deferral Account, for the years ended December 31 are as follows:

(millions of dollars)	**2015**	**2014**
Registered pension plans	**525**	528
Supplementary pension plans	**26**	26
Other post-employment benefits	**232**	202
Pension and OPEB Cost Variance Account *(Note 5)*	**-**	(254)
Pension & OPEB Cash Payment Variance Account *(Note 5)*	**(21)**	(6)
Pension & OPEB Cash Versus Accrual Differential Deferral Account *(Note 5)*	**(279)**	(36)
Pension and other post-employment benefit costs	**483**	460

The pension and OPEB obligations and the pension fund assets measured as at December 31 are as follows:

	Registered Pension Plans		**Supplementary Pension Plans**		**Other Post-Employment Benefits**	
(millions of dollars)	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Change in Plan Assets						
Fair value of plan assets at beginning of year	**12,407**	10,961	**-**	-	**-**	-
Contributions by employer	**362**	364	**24**	16	**94**	93
Contributions by employees	**72**	70	**-**	-	**-**	-
Actual return on plan assets, net of expenses	**1,151**	1,677	**-**	-	**-**	-
Benefit payments	**(832)**	(665)	**(24)**	(16)	**(94)**	(93)
Fair value of plan assets at end of year	**13,160**	12,407	**-**	-	**-**	-
Change in Projected Benefit Obligations						
Projected benefit obligations at beginning of year	**15,669**	13,422	**317**	289	**3,143**	2,719
Employer current service costs	**320**	238	**7**	8	**71**	64
Contributions by employees	**72**	70	**-**	-	**-**	-
Interest on projected benefit obligation	**630**	658	**13**	14	**127**	135
Benefit payments	**(832)**	(665)	**(24)**	(16)	**(94)**	(93)
Past service costs	**-**	-	**-**	-	**5**	-
Net actuarial (gain) loss	**(384)**	1,946	**(14)**	22	**(64)**	318
Projected benefit obligations at end of year	**15,475**	15,669	**299**	317	**3,188**	3,143
Funded status – deficit at end of year	**(2,315)**	(3,262)	**(299)**	(317)	**(3,188)**	(3,143)

The following table provides the pension and OPEB liabilities and their classification on the consolidated balance sheets as at December 31:

	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
(millions of dollars)	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Current liabilities	**-**	-	**(17)**	(9)	**(103)**	(93)
Non-current liabilities	**(2,315)**	(3,262)	**(282)**	(308)	**(3,085)**	(3,050)
Total liabilities	**(2,315)**	(3,262)	**(299)**	(317)	**(3,188)**	(3,143)

The accumulated benefit obligations for the registered pension plans and supplementary pension plans as at December 31, 2015 are $14,327 million and $267 million, respectively (2014 – $14,333 million and $274 million, respectively). The accumulated benefit obligation differs from the projected benefit obligation in that the accumulated benefit obligation includes no assumption about future compensation levels.

The following table provides the components of OPG's OCI related to pension and OPEB plans and the offsetting Pension and OPEB Regulatory Asset as discussed in Note 5 for the years ended December 31, on a pre-tax basis:

	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
(millions of dollars)	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Changes in plan assets and benefit obligations recognized in OCI						
Current year net actuarial (gain) loss	**(818)**	897	**(14)**	22	**(71)**	321
Current year past service costs	**-**	-	**-**	-	**5**	-
Amortization of net actuarial loss	**(292)**	(260)	**(6)**	(4)	**(27)**	(6)
Total (increase) decrease in OCI	**(1,110)**	637	**(20)**	18	**(93)**	315
Less: (decrease) increase in Pension and OPEB Regulatory Asset, excluding initial regulatory asset related to facilities prescribed for rate regulation beginning in 2014 *(Note 5)*	**(916)**	652	**(15)**	19	**(70)**	289
Less: Recognition of initial Pension and OPEB Regulatory Asset related to facilities prescribed for rate regulation beginning in 2014 *(Note 3)*	**-**	219	**-**	5	**-**	21
Net (increase) decrease in OCI (pre-tax)	**(194)**	(234)	**(5)**	(6)	**(23)**	5

The following table provides the components of OPG's AOCL and the offsetting Pension and OPEB Regulatory Asset that have not yet been recognized as components of benefit costs as at December 31, on a pre-tax basis:

	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
(millions of dollars)	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Unamortized amounts recognized in AOCL						
Past service costs	**-**	-	**-**	-	**6**	1
Net actuarial loss	**3,023**	4,133	**77**	97	**540**	638
Total recognized in AOCL	**3,023**	4,133	**77**	97	**546**	639
Less: Pension and OPEB Regulatory Asset *(Note 5)*	**2,786**	3,702	**73**	88	**503**	573
Net recognized in AOCL (pre-tax)	**237**	431	**4**	9	**43**	66

The following table provides the components of OPG's AOCI and the offsetting Pension and OPEB Regulatory Asset as at December 31 (included in the table above) that are expected to be amortized as components of benefit costs and recognized as increases to OCI and reductions in the Pension and OPEB Regulatory Asset, in 2016, on a pre-tax basis:

(millions of dollars)	Registered Pension Plans	Supplementary Pension Plans	Other Post-Employment Benefits
Past service costs	**-**	**-**	**1**
Net actuarial loss	**192**	**4**	**19**
Total increase in AOCI	**192**	**4**	**20**
Less: Estimated decrease in Pension and OPEB Regulatory Asset	**177**	**4**	**18**
Net increase in AOCI (pre-tax)	**15**	**-**	**2**

Based on the most recently filed actuarial valuation, for funding purposes, of the OPG registered pension plan, as at January 1, 2014, there was an unfunded liability on a going-concern basis of $1,143 million and a deficiency on a wind-up basis of $7,034 million. The funded status to be determined in the next filed funding valuation, which must have an effective date no later than January 1, 2017, could be significantly different. For 2016, OPG's required contribution to its registered pension plan is expected to be $357 million. The amount of OPG's additional, voluntary contribution, if any, is revisited from time to time. OPG will continue to assess the requirements for contributions to the pension plan.

The supplementary pension plans are not funded, but are secured by Letters of Credit totalling $345 million as at December 31, 2015 (2014 – $310 million).

Estimated future benefit payments to participants in the pension and OPEB plans based on the assumptions used to measure the benefit obligations as at December 31, 2015 are as follows:

(millions of dollars)	**Registered Pension Plans**	**Supplementary Pension Plans**	**Other Post-Employment Benefits**
2016	661	18	103
2017	664	19	107
2018	750	19	111
2019	726	19	115
2020	764	20	121
2021 through 2025	4,099	105	676

A one percent increase or decrease in the health care trend rate would result in an increase in the current service and interest components of the 2015 OPEB costs of $45 million (2014 – $42 million) or a decrease in the service and interest components of the 2015 OPEB costs of $33 million (2014 – $31 million). A one percent increase or decrease in the health care trend rate would result in an increase in the projected OPEB obligation as at December 31, 2015 of $584 million (2014 – $567 million) or a decrease in the projected OPEB obligation as at December 31, 2015 of $446 million (2014 – $432 million).

12. RISK MANAGEMENT AND DERIVATIVES

OPG is exposed to risks related to changes in market interest rates on debt expected to be issued in the future and movements in foreign currency that affect its assets, liabilities, and forecasted transactions. Select derivative instruments are used to manage such risks. Derivatives are used as hedging instruments, as well as for trading purposes.

Interest rate risk is the risk that the value of assets and liabilities can change due to movements in related interest rates. Interest rate risk for OPG arises with the need to refinance existing debt and/or undertake new financing. The management of these risks includes using derivatives to hedge the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated financing.

OPG’s financial results are exposed to volatility in the Canadian/US foreign exchange rate as fuels and certain supplies and services purchased for generating stations and major development projects are primarily denominated in, or tied to US dollars. OPG enters into foreign exchange derivatives and agreements with major financial institutions, when appropriate, in order to manage the Company’s exposure to foreign currency movements.

The majority of OPG’s revenues are derived from sales through the IESO-administered spot market. Market participants in the IESO spot market provide collateral in accordance with the IESO prudential support requirements to cover funds that they might owe to the market. Although the credit exposure to the IESO represents a significant portion of OPG’s accounts receivable, the Company’s management accepts this risk due to the IESO’s primary role in the Ontario electricity market. The remaining receivables exposure is to a diverse group of generally high quality counterparties. OPG’s allowance for doubtful accounts as at December 31, 2015 was less than $1 million.

OPG’s fair value derivatives totalled a net liability of $2 million as at December 31, 2015 (2014 – $291 million). As at December 31, 2014, the fair value derivatives included a liability of $302 million for the derivative embedded in the Bruce Lease related to the conditional reduction in OPG’s lease revenue in the future, and net assets of $11 million comprising other derivative instruments. The liability for the derivative embedded in the Bruce Lease was presented on the balance sheet under long-term accounts payable and accrued charges. Amendments to the Bruce Lease in December 2015 removed the provision of the agreement giving rise to the embedded derivative, which resulted in the reversal of the derivative liability of approximately $299 million in December 2015, with a corresponding reduction in the regulatory asset for the Bruce Lease Net Revenues Variance Account. The December 2015 amendments to the Bruce Lease are also discussed in Note 3 under the heading, *Changes in Accounting Policies and Estimates*.

The following table shows the amount related to derivatives recorded in AOCL and income for the years ended December 31:

(millions of dollars)	2015	2014
Cash flow hedges (recorded in AOCL)		
Losses in OCI	**(7)**	(3)
Reclassification of losses to net interest expense	**20**	19
Reclassification of gains to fuel expense	**(2)**	(3)
Commodity derivatives (recorded in income)		
Realized losses in revenue	**(16)**	(11)
Unrealized (losses) gains in revenue	**(7)**	9
Embedded derivative (recorded in income)		
Unrealized gains in revenue [1]	**225**	44

[1] Excludes the impact of the Bruce Lease Net Revenues Variance Account.

Existing net losses of $21 million deferred in AOCL as at December 31, 2015 are expected to be reclassified to net income within the next 12 months.

13. FAIR VALUE MEASUREMENTS

OPG is required to classify fair value measurements using a fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels, based on the inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: Valuation of inputs is based on unadjusted quoted market prices observed in active markets for identical assets or liabilities.
- Level 2: Valuation is based on inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Valuation is based on inputs for the asset or liability that are not based on observable market data.

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated balance sheet dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by OPG is the current bid price. These instruments are included in Level 1 and are comprised primarily of equity investments and fund investments.

For financial instruments for which quoted market prices are not directly available, fair values are estimated using forward price curves developed from observable market prices or rates. The estimation of fair value may include the use of valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing at the consolidated balance sheet dates. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and fund investments. Pooled fund investments are valued at the unit values supplied by the pooled fund administrators. The unit values represent the underlying net assets at fair values, determined using closing market prices. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques are used to value these instruments. Significant Level 3 inputs include: recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors.

Transfers into, out of, or between levels are deemed to have occurred on the date of the event or change in circumstances that caused the transfer to occur.

The Company is required to determine the fair value of all its financial instruments. The following is a summary of OPG's financial instruments as at December 31:

	Fair Value		Carrying Value [1]		
(millions of dollars)	**2015**	**2014**	**2015**	**2014**	**Balance Sheet Line Item**
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	**15,136**	14,379	**15,136**	14,379	Nuclear fixed asset removal and nuclear waste management funds
Payable related to cash flow hedges	**(56)**	(63)	**(56)**	(63)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	**-**	(302)	**-**	(302)	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	**(5,978)**	(6,326)	**(5,472)**	(5,730)	Long-term debt
Other financial instruments	**6**	19	**6**	19	Various

[1] The carrying values of other financial instruments included in cash and cash equivalents, receivables from related parties, other short-term assets, short-term debt, and accounts payable and accrued charges approximate their fair values due to the immediate or short-term maturity of these financial instruments.

The fair value of long-term debt instruments is determined based on a conventional pricing model, which is a function of future cash flows, the current market yield curve and term to maturity. These inputs are considered Level 2 inputs.

The following tables present assets and liabilities measured at fair value in accordance with the fair value hierarchy:

	December 31, 2015			
(millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Decommissioning Fund	**3,200**	**2,733**	**616**	**6,549**
Used Fuel Fund	**681**	**7,787**	**119**	**8,587**
Other financial instruments	**14**	**4**	**16**	**34**
Total	**3,895**	**10,524**	**751**	**15,170**
Liabilities				
Other financial instruments	**(18)**	**(8)**	**(2)**	**(28)**
Total	**(18)**	**(8)**	**(2)**	**(28)**
Net assets	**3,877**	**10,516**	**749**	**15,142**

(millions of dollars)	December 31, 2014 Level 1	Level 2	Level 3	Total
Assets				
Decommissioning Fund	3,069	2,787	390	6,246
Used Fuel Fund	617	7,444	72	8,133
Other financial instruments	4	5	16	25
Total	3,690	10,236	478	14,404
Liabilities				
Derivative embedded in the Bruce Lease	-	-	(302)	(302)
Other financial instruments	(3)	(3)	-	(6)
Total	(3)	(3)	(302)	(308)
Net assets	3,687	10,233	176	14,096

During the year ended December 31, 2015, there were no transfers between Level 1 and Level 2. In addition, there were no transfers into and out of Level 3.

The following table presents the changes in OPG's assets and liabilities measured at fair value based on Level 3:

(millions of dollars)	Decom-missioning Fund	Used Fuel Fund	Derivative Embedded in the Bruce Lease [1]	Other Financial Instruments
Opening balance, January 1, 2014	247	42	(346)	12
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds [2]	20	4	-	-
Unrealized gains included in revenue	-	-	44	2
Realized gains (losses) included in revenue	1	-	-	(11)
Purchases	148	28	-	13
Sales	(12)	(2)	-	-
Settlements	(14)	-	-	-
Closing balance, December 31, 2014	390	72	(302)	16
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds [2]	**58**	**10**	**-**	**-**
Unrealized gains (losses) included in revenue	**-**	**-**	**225**	**(4)**
Realized gains (losses) included in revenue	**2**	**1**	**-**	**(16)**
Purchases	**191**	**36**	**-**	**18**
Sales	**(12)**	**(3)**	**-**	**-**
Settlements	**(13)**	**3**	**77**	**-**
Closing balance, December 31, 2015	**616**	**119**	**-**	**14**

[1] As a result of the December 2015 amendment to the Bruce Lease, discussed under the heading, *Changes in Accounting Policies and Estimates*, the term of the agreement specifying the conditional reductions to lease revenue in the future was removed. Accordingly, the derivative liability embedded in the Bruce Lease was reversed in 2015.
[2] Total gains (losses) exclude the impact of the Bruce Lease Net Revenues Variance Account.

Decommissioning Fund and Used Fuel Fund

Nuclear Funds investments classified as Level 3 consist of infrastructure, real estate, and agriculture investments within the alternative investment portfolio. The fair value of the investments within the Nuclear Funds' alternative investment portfolio is determined using acceptable industry valuation methods, such as recent arm's length market transactions, reference to comparable securities of issuers with similar credit ratings, discounted cash flow analyses, third-party independent appraisals, valuation multiples, or other valuation methods. Any control, size, liquidity or other discounts or premiums on the investments are considered in the determination of fair value.

The process of valuing investments for which no published market price exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. The values may also differ from the prices at which the investments may be sold.

The following are the classes of investments within the Nuclear Funds that are reported on the basis of net asset value as at December 31, 2015:

(millions of dollars except where noted)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Infrastructure	979	385	n/a	n/a
Real Estate	600	226	n/a	n/a
Agriculture	41	160	n/a	n/a
Pooled Funds				
Short-term Investments	5	n/a	Daily	1 - 5 Days
Fixed Income	609	n/a	Daily	1 - 5 Days
Equity	698	n/a	Daily	1 - 5 Days
Total	2,932	771		

The fair value of the above investments is classified as either Level 2 or Level 3.

Infrastructure

This class includes investments in funds whose investment objective is to generate a combination of long-term capital appreciation and current income generally through investments such as energy, transportation and utilities. The fair values of investments in this class have been estimated using the Nuclear Funds' ownership interest in partners' capital and/or underlying investments held by subsidiaries of an infrastructure fund. The investments in the respective infrastructure funds are not redeemable. However, the Nuclear Funds may transfer any of its partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each infrastructure fund will be received based on the operations of the underlying investments and/or as the underlying investments of the infrastructure funds are liquidated. It is not possible to estimate when the underlying assets of the infrastructure funds will be liquidated. However, the infrastructure funds have a maturity end period ranging from 2019 to 2025.

Real Estate

This class includes investment in institutional-grade real estate property located in Canada. The investment objective is to provide a stable level of income with the opportunity for long-term capital appreciation. The fair values of the investments in this class have been estimated using the net asset value of the Nuclear Funds' ownership interest in these investments. The partnership investments are not redeemable. However, the Nuclear Funds may transfer any of their partnership interests to another party, as stipulated in the partnership agreement, with prior written consent of the other limited partners. For investments in private real estate corporations, shares may be redeemed through a pre-established redemption process. It is not possible to estimate when the underlying assets in this class will be liquidated.

Agriculture

This class includes a diversified portfolio of global farmland and timberland investments. The investment objective is to provide a differentiated return source, income yield, and inflation protection. The fair values of the investments in this class have been estimated using the net asset value of the Nuclear Funds' ownership interest in these investments. The investments are not redeemable. However, the Nuclear Funds may transfer any of their interests to another party, as stipulated in the shareholders' agreement, with prior written consent of the other shareholders.

Pooled Funds

This class represents investments in pooled funds, which primarily include a diversified portfolio of fixed income securities, issued mainly by Canadian corporations and diversified portfolios of Emerging Market listed equity. The investment objective of the pooled funds is to achieve capital appreciation and income through professionally managed portfolios. The fair value of the investments in this class has been estimated using the net asset value per share of the investments. There are no significant restrictions on the ability to sell investments in this class.

14. COMMON SHARES

As at December 31, 2015 and 2014, OPG had 256,300,010 common shares issued and outstanding at a stated value of $5,126 million. OPG is authorized to issue an unlimited number of common shares without nominal or par value. Any issue of new shares is subject to the consent of OPG's shareholder.

15. COMMITMENTS AND CONTINGENCIES

Litigation

On August 9, 2006, a Notice of Action and Statement of Claim filed with the Ontario Superior Court of Justice in the amount of $500 million was served against OPG and Bruce Power by British Energy Limited and British Energy International Holdings Limited (together British Energy). The action is for contribution and indemnity of any amounts British Energy was liable for in an arbitration against it by some of the owners of Bruce Power regarding an alleged breach of British Energy's representations and warranties to the claimants when they purchased British Energy's interest in Bruce Power (the Arbitration). Both the action and the Arbitration relate to corrosion to a steam generator unit discovered after OPG leased the Bruce nuclear generating stations to Bruce Power.

In 2012, the arbitrator found that British Energy was liable to the claimants for some of the damages they claimed. The final settlement amount was valued by British Energy at $71 million. In September 2014, British Energy amended its Statement of Claim (Amended Claim) to reduce the claim amount to $100 million to reflect that the purchasers of British Energy's interest in Bruce Power did not receive the full damages they originally claimed in the Arbitration. British Energy also added an allegation to its Amended Claim that OPG breached a covenant to maintain the steam generator between the time of the initial agreement to lease and the effective date of the lease in accordance with "Good Utility Practices".

Various other legal proceedings are pending against OPG or its subsidiaries covering a wide range of matters that arise in the ordinary course of its business activities.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably. While it is not possible to determine the ultimate outcome of the various pending actions, it is the Company's belief that their resolution is not likely to have a material adverse impact on its financial position.

Guarantees

The Company and its joint venture partners have jointly guaranteed the financial performance of jointly owned entities related primarily to the payment of liabilities. As at December 31, 2015, the total amount of guarantees OPG provided to these entities was $81 million (2014 – $78 million). OPG may terminate some of these guarantees within a short time frame by providing written notice to the counterparties at any time. Other guarantees have terms ending between 2019 and 2029. As at December 31, 2015, the potential impact of the fair value of these guarantees to income has been estimated to be negligible and OPG does not expect to make any payments associated with these guarantees.

Contractual and Commercial Commitments

OPG's contractual obligations as at December 31, 2015, are as follows:

(millions of dollars)	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**	**Total**
Fuel supply agreements	175	173	163	97	65	110	783
Contributions under the ONFA [1]	150	163	193	288	133	2,285	3,212
Contributions to the OPG registered pension plan [2]	357	-	-	-	-	-	357
Long-term debt repayment	273	1,103	398	368	663	2,667	5,472
Interest on long-term debt	261	242	186	167	145	2,275	3,276
Short-term debt repayment	225	-	-	-	-	-	225
Commitments related to Darlington Refurbishment project [3]	284	-	-	-	-	-	284
Commitments related to Peter Sutherland Sr. GS	128	38	-	-	-	-	166
Operating licence	41	43	37	23	24	142	310
Operating lease obligations	16	17	17	14	14	47	125
Unconditional purchase obligations	68	61	58	57	55	5	304
Accounts payable and accrued charges	1,031	4	7	-	-	19	1,061
Other	89	39	29	26	2	69	254
Total	3,098	1,883	1,088	1,040	1,101	7,619	15,829

[1] Contributions under the ONFA are based on the 2012 ONFA Reference Plan contribution schedule approved in 2012. The updated ONFA Reference Plan is expected to be effective January 1, 2017.

[2] The pension contributions include ongoing funding requirements and additional funding requirements towards the deficit, in accordance with the actuarial valuation of the OPG registered pension plan as at January 1, 2014. The next actuarial valuation of the OPG registered pension plan must have an effective date no later than January 1, 2017. The pension contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, changes in the pension regulatory environment, and the timing of funding valuations. Funding requirements after 2016 are excluded due to significant variability in the assumptions required to project the timing of future cash flows. The amount of OPG's additional, voluntary contribution, if any, is revisited from time to time.

[3] Estimated currently committed costs to close the project, including demobilization of project staff and cancellation of existing contracts and material orders.

Contractual and commercial commitments as noted exclude certain purchase orders, as they represent purchase authorizations rather than legally binding contracts, and are subject to change without significant penalties.

Lease Commitments

The Company leases the Bruce A and Bruce B nuclear generating stations to Bruce Power. Under the lease, as amended in December 2015, Bruce Power has options to renew the lease up to the end of 2064. As per *Ontario Regulation 53/05* pursuant to the *Ontario Energy Board Act, 1998*, the difference between OPG's revenues, including lease revenues, and costs, including depreciation expense, associated with its ownership of the Bruce A and B nuclear generating stations is included in the determination of OPG's nuclear regulated prices established by the OEB. These revenues and costs are determined on the basis of the manner in which they are recognized in OPG's consolidated financial statements. As the assets on lease to Bruce Power are not prescribed facilities under *Ontario Regulation 53/05*, the net book value of the assets is not included in the regulated rate base.

During 2015, OPG recorded lease revenue related to the Bruce generating stations of $185 million (2014 – $258 million), which included supplemental rent from Bruce Power of $134 million (2014 – $207 million). The amount of supplemental rent shown in 2015 was net of a contractually required rebate of $77 million. The net book value of property, plant and equipment on lease to Bruce Power as at December 31, 2015 was $4,400 million (2014 – $1,755 million).

Collective Bargaining Agreements

As at December 31, 2015, the Power Workers' Union (PWU) represented approximately 5,300 OPG regular employees or approximately 57 percent of OPG's regular workforce. The previous collective agreement between OPG and the PWU expired on March 31, 2015. In May 2015, the parties agreed to renew the collective agreement for a three-year term, expiring on March 31, 2018. The changes to the collective agreement include increases to employee pension plan contributions in each year of the agreement.

As at December 31, 2015, the Society of Energy Professionals (The Society) represented approximately 2,950 OPG employees or approximately 32 percent of OPG's regular workforce. The governing collective agreement between OPG and The Society expired on December 31, 2015. In November 2015, the parties agreed to renew the collective agreement for a three-year term, expiring on December 31, 2018. The changes to the collective agreement include increases to employee pension plan contributions in each of the first two years of the agreement.

The changes to both collective agreements will provide existing employees with lump sum payments for each of the first two years of the contract and eligibility to annually receive shares in Hydro One Inc. (Hydro One) for up to 15 years starting in year three of the contract, as long as these employees continue to make contributions to the OPG pension plan. The contract term was conditional on the initial public offering of Hydro One shares, which occurred in November 2015.

Information Technology Services Contract

OPG conducted a competitive bid process for outsourced information technology services over the 2014 and 2015 period, issuing a Request For Proposal to a number of qualified suppliers. In October 2015, following the competitive bid process, a five-year agreement was awarded effective February 2016. The estimated value of the new contract is approximately $300 million over the five-year period.

16. BUSINESS SEGMENTS

OPG has the following five reportable business segments:

- Regulated – Nuclear Generation
- Regulated – Nuclear Waste Management
- Regulated – Hydroelectric
- Contracted Generation Portfolio
- Services, Trading, and Other Non-Generation

Regulated – Nuclear Generation Segment

The Regulated – Nuclear Generation business segment operates in Ontario, generating and selling electricity from the Pickering GS and the Darlington GS, both owned and operated by OPG. The business segment also includes revenue under the terms of a lease arrangement and related agreements with Bruce Power related to the Bruce nuclear generating stations. This revenue includes lease revenue, fees for nuclear waste management, and revenue from heavy water sales and detritiation services. The segment also earns revenue from isotope sales and ancillary services supplied by OPG-operated nuclear stations. Ancillary revenues are earned through voltage control and reactive support. Revenues under the agreements with Bruce Power and from isotope sales and ancillary services are included by the OEB in the determination of the regulated prices for production from OPG's nuclear facilities, which has had the effect of reducing these regulated prices.

Regulated – Nuclear Waste Management Segment

OPG's Regulated – Nuclear Waste Management segment reports the results of the Company's operations associated with the management of nuclear used fuel and L&ILW, the decommissioning of OPG's nuclear generating stations including the stations on lease to Bruce Power, the management of the Nuclear Funds established pursuant to the ONFA with the Province, and related activities including the inspection and maintenance of the waste storage facilities. Accordingly, accretion expense on the Nuclear Liabilities and earnings from the Nuclear Funds are reported under this segment.

As the nuclear generating stations operate over time, OPG incurs incremental costs related to used nuclear fuel and low and intermediate level wastes, which increase the Nuclear Liabilities. OPG charges these incremental costs to current operations in the Regulated – Nuclear Generation segment to reflect the cost of producing energy and earning revenue under the Bruce Lease and related agreements. Since the incremental costs increase the Nuclear Liabilities in the Regulated – Nuclear Waste Management segment, OPG records an inter-segment charge between the Regulated – Nuclear Generation and the Regulated – Nuclear Waste Management segments. The impact of the inter-segment charge is eliminated in OPG's consolidated statements of income and balance sheets.

The Regulated – Nuclear Waste Management segment is considered rate regulated because the costs associated with the Nuclear Liabilities are included by the OEB in the determination of regulated prices for production from OPG's Pickering and Darlington nuclear generating stations.

Regulated – Hydroelectric Segment

OPG's Regulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from most of the Company's hydroelectric generating stations. The business segment includes the results of the Sir Adam Beck 1, 2 and Pump generating stations, the DeCew Falls 1 and 2 generating stations, the R.H. Saunders GS and the 48 hydroelectric stations prescribed for rate regulation effective in 2014. In addition, the business segment includes ancillary revenues and other revenues from OPG's regulated hydroelectric stations. Ancillary revenues are earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control and reactive support, certified black start facilities, regulation service, and other services.

Contracted Generation Portfolio Segment

The Contracted Generation Portfolio business segment operates in Ontario, generating and selling electricity from the Company's generating stations that are not prescribed for rate regulation. The segment primarily includes generating facilities that are under an ESA with the IESO or other long-term contracts.

The Contracted Generation Portfolio segment also includes OPG's share of equity income from its 50 percent ownership interests in the PEC and Brighton Beach stations. OPG's share of the in-service generating capacity and generation volume from its interests in the PEC and Brighton Beach stations are also included in this segment.

The business segment also includes ancillary revenues and other revenues from the stations included in the segment, which are earned through offering available generating capacity as operating reserve, and the supply of other ancillary services including voltage control and reactive support, certified black start facilities, regulation service, and other services.

Services, Trading, and Other Non-Generation Segment

The Services, Trading, and Other Non-Generation segment is a non-generation segment that is not subject to rate regulation. It includes the revenue and expenses related to OPG's trading and other non-hedging activities. As part of these activities, OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate to electricity that is purchased and sold at the Ontario border, financial energy trades, financial risk management energy product revenues, and sales of energy-related products. In addition, OPG has a wholly owned trading subsidiary that transacts solely in the US market. The results of this subsidiary are reported in this segment. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value on the consolidated balance sheets with changes in fair value recorded in the revenue of this segment. In addition, the segment includes revenue from real estate rentals and other unregulated service revenues, and activities related to the Lambton GS and the Nanticoke GS that were shut down at the end of 2013.

OM&A expenses of the generation business segments include an inter-segment service fee for the use of certain property, plant and equipment, and intangible assets held within the Services, Trading and Other Non-Generation segment. The total service fee is recorded as a reduction to the segment's OM&A expenses.

The service fee included in OM&A expenses by segment in 2015 and 2014 was as follows:

(millions of dollars)	**2015**	**2014**
Regulated – Nuclear Generation	**33**	23
Regulated – Hydroelectric	**6**	6
Contracted Generation Portfolio	**4**	3
Services, Trading, and Other Non-Generation	**(43)**	(32)

Segment (Loss) Income for the Year Ended December 31, 2015 *(millions of dollars)*	**Regulated**			**Unregulated**			
	Nuclear Generation	**Nuclear Waste Manage-ment**	**Hydro-electric**	**Contracted Generation Portfolio**	**Services, Trading, and Other Non-Generation**	**Elimination**	**Total**
Revenue	**3,245**	**122**	**1,619**	**535**	**73**	**(118)**	**5,476**
Fuel expense	**301**	**-**	**345**	**39**	**2**	**-**	**687**
Gross margin	**2,944**	**122**	**1,274**	**496**	**71**	**(118)**	**4,789**
Operations, maintenance and administration	**2,200**	**132**	**338**	**183**	**48**	**(118)**	**2,783**
Depreciation and amortization	**717**	**-**	**282**	**72**	**29**	**-**	**1,100**
Accretion on fixed asset removal and nuclear waste management liabilities	**-**	**880**	**-**	**8**	**7**	**-**	**895**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**-**	**(704)**	**-**	**-**	**-**	**-**	**(704)**
Income from investments subject to significant influence	**-**	**-**	**-**	**(39)**	**-**	**-**	**(39)**
Property taxes	**26**	**-**	**1**	**7**	**11**	**-**	**45**
Restructuring	**-**	**-**	**-**	**-**	**6**	**-**	**6**
Other loss	**3**	**-**	**3**	**1**	**7**	**-**	**14**
(Loss) income before interest, income taxes, and extraordinary item	**(2)**	**(186)**	**650**	**264**	**(37)**	**-**	**689**

Segment Income (Loss) for the Year Ended December 31, 2014 *(millions of dollars)*	**Nuclear Generation**	**Regulated Nuclear Waste Manage-ment**	**Hydro-electric**	**Unregulated Contracted Generation Portfolio**	**Unregulated Services, Trading, and Other Non-Generation**	**Elimination**	**Total**
Revenue	3,015	121	1,417	329	197	(116)	4,963
Fuel expense	258	-	343	37	3	-	641
Gross margin	2,757	121	1,074	292	194	(116)	4,322
Operations, maintenance and administration	1,983	129	325	175	119	(116)	2,615
Depreciation and amortization	529	-	167	38	20	-	754
Accretion on fixed asset removal and nuclear waste management liabilities	-	782	-	8	7	-	797
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(714)	-	-	-	-	(714)
Regulatory disallowance related to the Niagara Tunnel project	-	-	77	-	-	-	77
Income from investments subject to significant influence	-	-	-	(41)	-	-	(41)
Property taxes	28	-	1	(1)	4	-	32
Restructuring	-	-	-	8	10	-	18
Other loss (income)	-	-	2	(6)	1	-	(3)
Income (loss) before interest, income taxes, and extraordinary item	217	(76)	502	111	33	-	787

Selected Consolidated Balance Sheet Information as at December 31, 2015 *(millions of dollars)*	Nuclear Generation	Regulated Nuclear Waste Manage-ment	Hydro-electric	Unregulated Contracted Generation Portfolio	Unregulated Services, Trading, and Other Non-Generation	Total
Segment property, plant and equipment in-service, net	**6,972**	**-**	**7,413**	**3,319**	**324**	**18,028**
Segment construction in progress	**2,290**	**-**	**98**	**141**	**38**	**2,567**
Segment property, plant and equipment, net	**9,262**	**-**	**7,511**	**3,460**	**362**	**20,595**
Segment intangible assets in-service, net	**8**	**-**	**1**	**3**	**58**	**70**
Segment development in progress	**-**	**-**	**4**	**-**	**24**	**28**
Segment intangible assets, net	**8**	**-**	**5**	**3**	**82**	**98**
Segment fuel inventory	**304**	**-**	**-**	**40**	**-**	**344**
Segment materials and supplies inventory, net:						
Current	**95**	**-**	**-**	**1**	**-**	**96**
Long-term	**333**	**-**	**1**	**3**	**-**	**337**
Nuclear fixed asset removal and nuclear waste management funds (current and non-current portions)	**-**	**15,136**	**-**	**-**	**-**	**15,136**
Fixed asset removal and nuclear waste management liabilities	**-**	**(19,792)**	**-**	**(163)**	**(214)**	**(20,169)**

Selected Consolidated Balance Sheet Information as at December 31, 2014 (millions of dollars)	Nuclear Generation	Regulated Nuclear Waste Manage-ment	Hydro-electric	Unregulated Contracted Generation Portfolio	Services, Trading, and Other Non-Generation	Total
Segment property, plant and equipment in-service, net	4,679	-	7,483	3,267	338	15,767
Segment construction in progress	1,652	-	86	35	53	1,826
Segment property, plant and equipment, net	6,331	-	7,569	3,302	391	17,593
Segment intangible assets in-service, net	11	-	1	4	14	30
Segment development in progress	2	-	1	-	43	46
Segment intangible assets, net	13	-	2	4	57	76
Segment fuel inventory	298	-	-	36	-	334
Segment materials and supplies inventory, net:						
Current	93	-	-	1	-	94
Long-term	332	-	1	5	-	338
Nuclear fixed asset removal and nuclear waste management funds (current and non-current portions)	-	14,379	-	-	-	14,379
Fixed asset removal and nuclear waste management liabilities	-	(16,663)	-	(154)	(211)	(17,028)

Selected Consolidated Cash Flow Information (millions of dollars)	Nuclear Generation	Regulated Nuclear Waste Management	Hydro-electric	Unregulated Contracted Generation Portfolio	Services, Trading, and Other Non-Generation	Total
Year ended December 31, 2015 Investment in property, plant and equipment, and intangible assets	**1,023**	**-**	**86**	**222**	**45**	**1,376**
Year ended December 31, 2014 Investment in property, plant and equipment, and intangible assets	991	-	84	423	47	1,545

17. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	2015	2014
Receivables from related parties	**(63)**	(80)
Other accounts receivable and prepaid expenses	**(47)**	15
Fuel inventory	**(10)**	56
Income taxes payable/recoverable	**42**	75
Materials and supplies	**(2)**	1
Accounts payable and accrued charges	**(20)**	145
	(100)	212

18. RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province and other entities controlled by the Province including Hydro One, the IESO, and the OEFC, and jointly controlled entities. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The related party transactions for the years ended are summarized below:

	2015		2014	
(millions of dollars)	Revenue	Expense	Revenue	Expense
Hydro One				
Electricity sales	**12**	**-**	23	-
Services	**1**	**6**	1	13
Province of Ontario				
Decommissioning Fund excess funding	**-**	**185**	-	476
Used Fuel Fund rate of return guarantee	**-**	**274**	-	439
Gross revenue charges	**-**	**121**	-	123
ONFA guarantee fee	**-**	**8**	-	8
Pension benefits guarantee fee	**-**	**-**	-	2
OEFC				
Gross revenue charges	**-**	**207**	-	209
Interest expense on long-term notes	**-**	**177**	-	187
Income taxes, net of investment tax credits	**-**	**80**	-	136
Contingency support agreement	**8**	**-**	83	-
IESO				
Electricity related revenue	**4,903**	**65**	4,305	75
	4,924	**1,123**	4,412	1,668

The receivable and payable balances, as at December 31, between OPG and its related parties are summarized below:

(millions of dollars)	**2015**	**2014**
Receivables from related parties		
Hydro One	**1**	1
IESO	**531**	468
OEFC	**9**	10
PEC	**3**	3
Province of Ontario	**1**	-
Accounts payable and accrued charges		
Hydro One	**1**	8
OEFC	**51**	63
Province of Ontario	**20**	3
IESO	**18**	-

19. INVESTMENTS SUBJECT TO SIGNIFICANT INFLUENCE

Investments subject to significant influence consist of OPG's 50 percent ownership interest in the jointly controlled entities of PEC and Brighton Beach, which are accounted for using the equity method as described in Note 3. The details of the balance included in the consolidated balance sheets as at December 31 are as follows:

(millions of dollars)	**2015**	**2014**
PEC		
Current assets	**14**	15
Long-term assets	**270**	287
Current liabilities	**(4)**	(5)
Long-term liabilities	**(5)**	(4)
Brighton Beach		
Current assets	**9**	6
Long-term assets	**177**	186
Current liabilities	**(15)**	(13)
Long-term liabilities	**(6)**	(6)
Long-term debt	**(104)**	(118)
Investments subject to significant influence	**336**	348

20. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2015, research and development expenses of $50 million (2014 – $88 million) were charged to operations.

21. NON-CONTROLLING INTEREST

Lower Mattagami Limited Partnership (LMLP) is an Ontario limited partnership between OPG, Amisk-oo-Skow Finance Corporation (AFC), a corporation wholly owned by the Moose Cree First Nation, and LM Extension Inc., a wholly owned subsidiary of OPG. The principal business of LMLP is the development, construction, ownership, operation and maintenance of hydroelectric generating facilities located on the Lower Mattagami River.

During 2014, all six new units constructed as part of the Lower Mattagami River project were declared in-service. Subsequent to the units' in-service dates, the AFC made contributions of $141 million to acquire their equity interest in LMLP, through the settlement of existing liabilities, including long-term debt. As of December 31, 2015, the AFC had a 25 percent interest in LMLP. OPG consolidates the results of LMLP in its consolidated financial statements and the non-controlling interest represents the AFC's equity interest in LMLP.

TRUSTS AND MISCELLANEOUS STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Deposit Insurance Corporation of Ontario's management is responsible for the integrity and fair presentation of the annual financial statements and all other information included in the annual report. The financial statements have been prepared in conformity with International Financial Reporting Standards.

The Corporation maintains systems of internal accounting controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that the Corporation's assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed by the Corporation's Audit and Finance Committee and have been approved by its Board of Directors. In addition, the financial statements have been audited by KPMG LLP, whose report follows.

Andrew (Andy) Poprawa, CPA, CA, C.Dir.
President & CEO

Richard Dale
Vice President, Corporate Affairs

Toronto, Canada
March 24, 2016

INDEPENDENT AUDITORS' REPORT

KPMG LLP

To the Board of Directors of Deposit Insurance Corporation of Ontario

We have audited the accompanying financial statements of the Deposit Insurance Corporation of Ontario, which comprise the statement of financial position as at December 31, 2015, the statements of operations and changes in the deposit insurance reserve fund, comprehensive income, accumulated other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

We believe that the audit evidence we have obtained 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 the Deposit Insurance Corporation of Ontario 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.

KPMG LLP

Chartered Professional Accountants,
Licensed Public Accountants

March 24, 2016
Toronto, Canada

Deposit Insurance Corporation of Ontario

STATEMENT OF FINANCIAL POSITION

(in thousands of dollars)	Notes	As at December 31, **2015**	2014
ASSETS			
Current assets			
Cash and cash equivalents		**$ 1,970**	$ 2,224
Investments	*5*	**162,413**	146,766
Premiums receivable		**1,081**	1,227
Prepaid expenses and other receivables		**391**	711
Total current assets		**165,855**	150,928
Non-current assets			
Investments	*5*	**41,944**	29,768
Deposit insurance advances recoverable	*6*	**10,145**	16,688
Property, plant and equipment	*7*	**403**	404
Intangible assets	*8*	**377**	527
Total non-current assets		**52,869**	47,387
Total Assets		**$ 218,724**	$ 198,315
LIABILITIES			
Current liabilities			
Payables and accruals		**$ 1,279**	$ 942
Deferred premium income	*4*	**2,053**	2,288
Total current liabilities		**3,332**	3,230
Non-current liabilities			
Payables and accruals		**954**	971
Employee benefits	*9*	**5,838**	5,990
Accrual for deposit insurance claims	*6*	**3,000**	3,240
Total non-current liabilities		**9,792**	10,201
Total Liabilities		**$ 13,124**	$ 13,431
EQUITY			
Accumulated other comprehensive income (loss)		**$ 41**	$ (229)
Deposit Insurance Reserve Fund		**205,559**	185,113
Total Equity		**$ 205,600**	$ 184,884
Total Liabilities and Equity		**$ 218,724**	$ 198,315

See accompanying notes to financial statements.

On behalf of the Board:

Director

Carmen Rossiter

Director

Deposit Insurance Corporation of Ontario

STATEMENT OF OPERATIONS AND CHANGES IN THE DEPOSIT INSURANCE RESERVE FUND

(in thousands of dollars)

	Notes	Year ended December 31, 2015	2014
INCOME			
Premium income	*4*	**$ 26,623**	$ 26,541
Other income		**1,708**	2,245
		28,331	28,786
EXPENSES			
Salaries and benefits		**6,592**	6,912
Operating expenses		**1,988**	2,076
Recovery of operating expenses		**(446)**	(773)
		8,134	8,215
Excess of income over operating expenses		**20,197**	20,571
Net (recovery) provision for insurance losses	*6*	**(249)**	142
Excess of income over total expenses		**20,446**	20,429
Deposit Insurance Reserve Fund, beginning of year		**185,113**	164,684
Deposit Insurance Reserve Fund, end of year		**$ 205,559**	$ 185,113

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of dollars)	Year ended December 31, 2015	2014
Excess of income over total expenses	**$ 20,446**	$ 20,429
Other comprehensive income:		
Unrealized gains on available-for-sale investments arising during the year	**195**	16
Unrealized gains (losses) on available-for-sale investments acquired from liquidated credit unions arising during the year	**21**	(144)
Actuarial gains on post-employment, non-pension benefits arising during the year	**54**	20
Total other comprehensive income (loss)	**270**	(108)
Comprehensive income	**$ 20,716**	$ 20,321

STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

(in thousands of dollars)	Year ended December 31, 2015	2014
Accumulated other comprehensive income (loss), beginning of year	**$ (229)**	$ (121)
Sale of available-for-sale investments from opening balance of accumulated other comprehensive income	**(125)**	(149)
Unrealized gains on available-for-sale investments arising during the year	**320**	165
Unrealized gains (losses) on available-for-sale investments acquired from liquidated credit unions arising during the year	**21**	(144)
Actuarial gains on post-employment, non-pension benefits arising during the year	**54**	20
Net change during the year	**270**	(108)
Accumulated other comprehensive income (loss), end of year	**$ 41**	$ (229)

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

STATEMENT OF CHANGES IN EQUITY

(in thousands of dollars)	Actuarial loss on post-employment, non-pension benefits *	Unrealized gains (losses) on available-for-sale investments *	Deposit Insurance Reserve Fund	Total equity
Balance at January 1, 2014	$ (464)	$ 343	$ 164,684	$ 164,563
Total comprehensive income for the year:				
Excess of income over total expenses	-	-	20,429	20,429
Other comprehensive income:				
Net change in fair value of available-for-sale investments	-	16	-	16
Net change in fair value of available-for-sale investments acquired from liquidated credit unions	-	(144)	-	(144)
Net change in fair value of post-employment, non-pension benefits	20	-	-	20
Total comprehensive income (loss) for the year	20	(128)	20,429	20,321
Balance at December 31, 2014	**$ (444)**	**$ 215**	**$ 185,113**	**$ 184,884**
Balance at January 1, 2015	$ (444)	$ 215	$ 185,113	$ 184,884
Total comprehensive income for the year:				
Excess of income over total expenses	-	-	20,446	20,446
Other comprehensive income:				
Net change in fair value of available-for-sale investments	-	195	-	195
Net change in fair value of available-for-sale investments acquired from liquidated credit unions	-	21	-	21
Net change in fair value of post-retirement, non-pension benefits	54	-	-	54
Total comprehensive income for the year	54	216	20,446	20,716
Balance at December 31, 2015	**$ (390)**	**$ 431**	**$ 205,559**	**$ 205,600**

* Accumulated other comprehensive income

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

STATEMENT OF CASH FLOWS

(in thousands of dollars)

	Notes	Year ended December 31, 2015	2014
Cash flows from / (used in) operating activities:			
Excess of income over total expenses		**$ 20,446**	$ 20,429
Adjustments for:			
Provision of losses		**(249)**	142
Unrealized gains (losses) on available-for-sale investments arising during the year		**216**	(128)
Actuarial gains (losses) on post-employment, non-pension benefits arising during the year		**54**	20
Depreciation of property, plant and equipment	*7*	**169**	154
Amortization of intangible assets	*8*	**150**	150
		20,786	20,767
Changes in:			
Premiums receivable		**146**	550
Prepaid expenses and other receivables		**320**	(108)
Payables and accruals		**320**	342
Deferred premium income		**(235)**	(189)
Employee benefits		**(152)**	464
		399	1,059
Net deposit insurance recoveries (advances)	*6*	**6,552**	3,823
		27,737	25,649
Cash flows from / (used in) investing activities:			
Interest received		**1,851**	1,796
Purchase of investments held at year end		**(204,357)**	(176,534)
Proceeds on sale of investments		**174,683**	149,183
Purchase of property, plant and equipment	*7*	**(168)**	(142)
Purchase of intangible assets	*8*	**-**	(14)
		(27,991)	(25,711)
Net decrease in cash and cash equivalents		**(254)**	(62)
Cash and cash equivalents, beginning of year		**2,224**	2,286
Cash and cash equivalents, end of year		**$ 1,970**	$ 2,224

Cash and cash equivalents comprise cash and short-term investments.

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2015

1. REPORTING ENTITY

The Deposit Insurance Corporation of Ontario (DICO or the Corporation) is a “Board-Governed” Agency of the Province of Ontario established without share capital under the provisions of the Credit Unions and Caisses Populaires Act, 1994 (the Act).

The statutory objects of the Corporation under the Act are to:

- Provide insurance against the loss of part or all of deposits with credit unions;
- Promote and otherwise contribute to the stability of the credit union sector in Ontario with due regard to the need to allow credit unions to compete effectively while taking reasonable risks;
- Pursue the objects set out in the above clauses for the benefit of persons having deposits with credit unions and in such manner as will minimize the exposure of the Corporation to loss;
- Collect, accumulate and publish such statistics and other information related to credit unions as may be appropriate;
- Perform duties provided under this Act or the regulations or do anything the Corporation is required or authorized to do under this Act or the regulations; and
- Carry out such other objects as the Minister may specify in writing or as may be prescribed.

The Act empowers the Corporation to assess its credit unions deposit insurance premiums to meet the Corporation’s requirements for insurance funding and administrative costs. The premium rates are set out in the regulation to the Act. The Corporation reviews the adequacy of the premium rate annually and advises the government accordingly.

The Minister of Finance approved a $400 million revolving credit facility agreement with the Ontario Financing Authority (OFA) for the purpose of ensuring the Corporation’s capacity to address systemic difficulties in the credit union system that may require resources above those in the Deposit Insurance Reserve Fund. The agreement is effective January 1, 2014 and expires on December 31, 2018. Under the revolving credit facility arrangement, interest cost on any outstanding debt obligation is charged at an annual rate equal to the province’s cost of funds for borrowings with a three month term, determined by the OFA at the time of the borrowing, plus an additional 0.575 percent per annum.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and were approved by the Board of Directors on March 24, 2016.

(b) Basis of measurement

The Corporation’s financial statements have been prepared on the historical cost basis, except for the financial instruments classified as available-for-sale, which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in the Corporation’s functional currency which is the Canadian dollar. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

The most significant areas of assumptions and judgements are disclosed in provisions for losses (note 6) and measurements of accrued benefit obligations in relation to future non-pension post-employment benefits (note 9).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

To facilitate a better understanding of our financial statements, the Corporation has disclosed its significant accounting policies as summarized below. These policies have been applied consistently to all periods presented in the financial statements unless otherwise indicated.

(a) Premium income:

Premiums are based on the Differential Premium Score Determination System, as defined by regulation, and applied to insured deposits held by credit unions. Premium income is calculated based on the Annual Information Return submitted by each credit union which is due 75 days after its fiscal year end. Premium income is recognized when earned.

(b) Provision for losses:

The provision for losses includes allowances against deposit insurance advances to credit unions in liquidation and an accrual for losses for which advances have not been made at the date of the Statement of Financial Position.

Funds advanced in respect of deposit insurance and loans to credit unions are initially recorded at cost. Deposit insurance advances recoverable are presented on the Statement of Financial Position, net of allowances thereon.

The accrual for deposit insurance claims includes both provisions for specific losses and a general accrual for losses. Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation.

The general accrual for loss reflects management's best estimate of losses on insured deposits arising from the inherent risk in credit unions. The provision is established by assessing the aggregate risk in credit unions based on current market and economic conditions, the likelihood of losses and the application of historic loss experience. Future economic conditions are not predictable with certainty and actual losses may vary, perhaps substantially, from management's estimates. Management applied the methodology which evaluates all credit unions with the highest risk score under our current prospective risk rating system.

The methodology incorporates various iterations and key assumptions, such as historical probabilities of failures (from the Deposit Insurance Reserve Fund model) and actual probabilities of failure when possible. The model also categorizes the credit unions based on asset size and discounts the estimated loss to the next 12 month period. Model results are then considered along with the level of the existing allowance, as well as management's judgement regarding economic and market conditions to come to a final determination of what the general accrual for loss should be.

Changes in the provision for insurance losses that result from quarterly reviews are recognized as an adjustment to the provision for insurance losses in the period in which the estimated changes occur.

(c) Employee benefits:

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into an independent entity and will have no legal or constructive obligation to pay further amounts. DICO's defined contribution pension plan covers all of DICO's regular, non-contractual employees. As well, there are supplemental arrangements which provide pension benefits for income in excess of registered pension plan limits. Earnings are charged with the cost of pension benefits earned by employees as service is rendered. Pension expense is determined by a fixed percentage of the employees' income plus the matching of the employees' contribution to a maximum of 4%. The Corporation assumes no actuarial or investment risk.

(ii) Defined benefit plans

The Corporation provides future non-pension post-retirement benefits which are related to DICO's extended health, dental and life benefits for both active employees for whom a full eligibility date was determined and existing qualified retirees. The Corporation accrues obligations under these plans as the employees render the service necessary to earn the future benefits and the benefit is discounted to determine its present value. There are no assets set aside to fund the benefits. The accrued benefits obligation is calculated annually by a qualified actuary using the Projected Unit Credit method. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation are recognized in full in the Statement of Other Comprehensive Income (OCI), and all projected defined benefit costs are expensed in the Statement of Operations. Additional disclosures are provided in Note 9(ii).

(iii) Other long-term employee benefits

The Corporation's other obligation in respect of long-term employee benefits is the amount of retention benefits accrued for some key employees. The plans are designed to ensure the retention of key personnel to provide sufficient time for effective succession planning. Acceptance of the benefits is voluntary and the probabilities of acceptance are estimated at the end of the reporting period. The benefits are discounted to their present value if they are payable more than 12 months after the reporting period.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Corporation recognizes the unused entitlement of compensated vacations that has accumulated at the end of the reporting period as accrued short-term benefits.

(d) Financial instruments:

DICO's investments are non-derivative financial assets and are classified, based on management's intentions, as available-for-sale. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in OCI and presented within equity. When an investment is derecognized/ sold, the cumulative gain or loss in OCI is transferred to the Statement of Operations.

(e) Property, plant and equipment:

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated amortization and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the assets to a working condition for their intended use, including the borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. 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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized on a net basis within the other income category. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(ii) Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset less its residual value, if any. Depreciation of furniture and equipment is calculated using the diminishing-balance method at the rate of 20% per annum. Computer and related equipment and software are amortized over three years on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(f) Intangible assets:

The internally developed web-based software tool for electronic filing of financial data by the credit unions is recorded as an intangible asset. The expenditure capitalized includes the direct cost of specialized and licensed software and direct labour costs that are attributable to preparing the asset for its intended use. The subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. The capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

Amortization is recognized in the Statement of Operations on a straight-line basis over the estimated useful life of seven years from the date that the assets are available for use.

(g) Lease payments:

Payments made under operating leases are recognized in the Statement of Operations on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(h) Income taxes:

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in the Statement of Operations and Changes in the Deposit Insurance Reserve Fund except for items recognized directly in equity or in other comprehensive income.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the intent to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Standards issued but not yet mandatorily effective:

IFRS 9 Financial Instruments:

In July 2014 the IASB issued the complete IFRS 9 *Financial Instruments* (IFRS 9). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 introduces new requirements for the classification and measurement of financial assets.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgement to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Corporation intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018 and does not expect the standard to have a material impact on the financial statements.

IFRS 15 Revenue from Contracts with Customers:

In May 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers* (IFRS 15). The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgemental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Corporation intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Corporation does not expect the standard to have a material impact on the financial statements.

4. PREMIUM INCOME

($000)	**2015**	2014
	26,623	26,541

Differential premiums are calculated based on the amount of each credit union's insured deposits at the end of its fiscal year and on various risk criteria which generate a risk rating based on a points system. Following approval of amendments to the governing regulations by the government, the Corporation implemented a new differential premium score determination system (DPSD) effective January 1, 2015. The system determines a DPSD score based on a credit union's reported regulatory capital level (64% weighting) and its corporate governance score as determined by the results of its most recent on-site examination (36% weighting). The score is measured on a continuous scale based on the existing premium rate range ($1.00 to $3.00 per $1,000 of insured deposits). The effective rates (per $1,000 of insured deposits) are determined as follows:

DPSD Score	Premium Calculation
Greater than or equal to 90 points	$1.00
Greater than 0 points and less than 90 points	$1.75 -(DPS Score/90 x $0.75)
0 points	$3.00

At December 31, 2015 DICO has deferred premium income of $2,053,000 (2014 - $2,288,000), which represents the balance of pro-rated premiums for the credit unions whose fiscal year straddles DICO's fiscal year end.

5. INVESTMENTS

The Corporation's current and non-current investments are classified as available-for-sale and are measured at fair value with unrealized gains and losses recorded in the Statement of Accumulated Other Comprehensive Income until the investment is sold. As of December 31, 2015, the current, highly liquid investments have a weighted-average yield of 0.67% (2014: 1.00%). The non-current investments are primarily laddered government bonds with a remaining weighted average term to maturity of greater than one year. The weighted average yield of these investments was 1.20% (2014: 1.42%). The Corporation has contracted with the OFA to manage its investment portfolio. The composition of DICO's investments reflects the nature of the Corporation's potential insurance obligations and is structured to comply with the requirements under both the *Income Tax Act*, the *Credit Unions and Caisses Populaires Act, 1994* and Regulation 237/09.

	December 31, 2015			December 31, 2014		
	Amount ($ thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount ($ thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity
Bankers' acceptances / Bank deposit notes	64,553	0.81%	40	58,182	1.19%	45
Treasury bills - Canada and Provincial	55,600	0.53%	96	88,584	0.93%	78
Canada Housing Trust floating rate bond	32,212	0.79%	75	-	-	-
Province of Alberta variable rate bond	10,047	0.73%	148	-	-	-
Total current investments	**162,413**	**0.67%**	**73**	**146,766**	**1.00%**	**65**
Laddered government bonds	41,589	1.20%	607	29,438	1.42%	626
CUCO Co-op Class B investment shares (acquired from liquidated credit unions)	355			330		
Total non-current Investments	**41,944**			**29,768**		
Total Investments	**204,357**			**176,534**		

Included in the total non-current investments are the CUCO Co-op Class B shares purchased from 19 credit unions in liquidation, mainly for the purpose of winding down their business. As of December 31, 2015, these investments were valued at $355,000 (2014: $330,000). During the year, there was no distribution of return of capital from the CUCO Cooperative Association (2014: $308,000).

Fair value hierarchy:

The Corporation uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. As of December 31, 2015 and 2014, the Corporation's financial instruments were valued as follows:

Available-for-sale financial assets

($ thousands)	**2015**	2014
Level 1	204,002	176,204
Level 2	355	330
Level 3	-	-
Total	204,357	176,534

The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

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

6. DEPOSIT INSURANCE ADVANCES RECOVERABLE AND ACCRUAL FOR DEPOSIT INSURANCE CLAIMS

The provision for losses includes specific provisions for known or likely losses resulting from specific credit union failures and a general accrual for losses not identified with specific credit unions. That portion of the provision for losses recorded in the year and in previous years which has not yet required payment by the Corporation is shown in liabilities on the Statement of Financial Position as “Accrual for deposit insurance claims”. When funds advanced in respect of deposit insurance claims are in excess of the estimated loss provision at the end of the reporting period, the balance is reported as “Deposit insurance advances recoverable” on the Statement of Financial Position. Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management’s opinion, that will likely result in losses to the Corporation.

The general accrual for losses included in “Accrual for deposit insurance claims” remains at $3,000,000 at December 31, 2015 (2014 - $3,000,000) and is calculated in accordance with the methodology as described in note 3(b).

	2015			2014		
($ thousands)	Deposit Insurance Advances Recoverable	Accrual for deposit insurance claims	Net	Deposit Insurance Advances Recoverable	Accrual for deposit insurance claims	Net
Balance at beginning of year	**16,688**	**(3,240)**	**13,448**	**20,864**	**(3,451)**	**17,413**
Reduction in General accrual for the year	-	-	-	-	200	200
Net change in specific recoveries (provisions) for prior years’ losses booked and advanced	9	240	249	(342)	-	(342)
Total net recovery / (accrual) for insurance	**9**	**240**	**249**	**(342)**	**200**	**(142)**
Total cash advances for losses accrued	321	-	321	445	11	456
Total cash recoveries for prior years' losses	(6,873)	-	(6,873)	(4,279)	-	(4,279)
Net deposit insurance advances (recoveries)	**(6,552)**	**-**	**(6,552)**	**(3,834)**	**11**	**(3,823)**
Total net change	**(6,543)**	**240**	**(6,303)**	**(4,176)**	**211**	**(3,965)**
Balance at end of year	**10,145**	**(3,000)**	**7,145**	**16,688**	**(3,240)**	**13,448**

7. PROPERTY, PLANT AND EQUIPMENT

($ thousands)	Furniture and Fixture	Office Equipment	Computer and Related Equipment	Software	Leasehold Improvement	Total
Cost or deemed cost						
Balance at January 1, 2014	**528**	**69**	**1,874**	**759**	**527**	**3,757**
Additions	12	-	62	67	1	142
Disposals	(2)	-	(18)	-	-	(20)
Balance at December 31, 2014	**538**	**69**	**1,918**	**826**	**528**	**3,879**
Balance at January 1, 2015	538	69	1,918	826	528	3,879
Additions	4	-	147	17	-	168
Disposals	(2)	-	(14)	-	-	(16)
Balance at December 31, 2015	**540**	**69**	**2,051**	**843**	**528**	**4,031**
Depreciation						
Balance at January 1, 2014	**451**	**56**	**1,779**	**730**	**324**	**3,340**
Depreciation for the year	16	2	57	22	57	154
Disposals	(3)	-	(17)	-	-	(20)
Balance at December 31, 2014	**464**	**58**	**1,819**	**752**	**381**	**3,474**
Balance at January 1, 2015	464	58	1,819	752	381	3,474
Depreciation for the year	14	2	59	36	57	169
Disposals	(2)	-	(13)	-	-	(15)
Balance at December 31, 2015	**477**	**60**	**1,865**	**788**	**438**	**3,628**
Carrying amount						
At January 1, 2014	77	13	95	29	203	417
At December 31, 2014	74	11	98	74	147	404
At December 31, 2015	**63**	**9**	**185**	**56**	**90**	**403**

8. INTANGIBLE ASSETS

($ thousands)	Development Costs
Cost	
Balance at January 1, 2014	1,036
Additions	14
Disposals	-
Balance at December 31, 2014	**1,050**
Balance at January 1, 2015	1,050
Additions	-
Disposals	-
Balance at December 31, 2015	**1,050**
Amortization	
Balance at January 1, 2014	374
Amortization for the year	150
Balance at December 31, 2014	**524**
Balance at January 1, 2015	524
Amortization for the year	150
Balance at December 31, 2015	**674**
Carrying amounts	
At January 1, 2014	662
At December 31, 2014	527
At December 31, 2015	**377**

9. EMPLOYEE BENEFITS

(i) Pension plan

The Corporation operates a defined contribution pension plan for all eligible employees. In addition, DICO accrues benefits to a Supplemental Pension Plan and an Auxiliary Pension Plan (both non-registered). The Supplemental Pension Plan provides the same benefit as the registered plan on that portion of an employee's income in excess of the registered plan limits. The Auxiliary Pension Plan provides an additional defined contribution amount for the CEO on his base salary. The total pension expense for the Corporation charged to the Statement of Operations and Changes in the DIRF in 2015 was $519,000 (2014 - $545,000). Total accrued pension plan benefits as at December 31, 2015 amounted to $1,683,000 (2014 - $1,614,000).

(ii) Future non-pension post-employment benefits

The Corporation accounts for the current value of future non-pension post-employment benefits which relate to DICO's extended health, dental and life benefits plan. The most recent full actuarial valuation of the defined benefit plan was completed as of December 31, 2014, by an independent actuary. The valuation of the benefit obligations are estimated using the Projected Unit Credit method. The accrued benefit liability as at December 31, 2015, as actuarially determined, is $3,184,000 (2014 - $3,056,000). The annual benefit cost, including current service cost and interest cost amounted to $242,000 (2014 - $238,000).

The assumptions used in the actuarial valuation of the future benefits obligations consisted of: discount rate of 4.10% (2014 - 4.05%), rate of compensation increase of 3.0% (2014 - 3.0%) and immediate trend rate in health and dental costs of 5.00% (2014 - 5.34%), grading down to 4.5 % per annum by 2031. The Corporation measures its accrued benefit obligations as at December 31st.

Change in non-pension post-employment benefit obligation ($ thousands)	**December 31, 2015**	December 31, 2014
Benefit obligation at beginning of year	3,056	2,892
Current service cost	120	101
Interest cost	122	137
Benefit payments	(60)	(54)
Re-measurements of effect of changes in assumptions included in OCI	(54)	(20)
Benefit obligation at end of year	3,184	3,056

Sensitivity analysis: ($ thousands)	**December 31, 2015**	December 31, 2014
1. Discount rate		
a. Discount rate - 25 basis points	3,331	3,197
Assumption	3.85%	3.80%
Weighted average duration of obligation (in years)	18.03	18.13
b. Discount rate +25 basis points	3,047	2,923
Assumption	4.35%	4.30%
Weighted average duration of obligation (in years)	17.65	17.74
2. Health care cost trend rates		
a. Health care cost trend rates - 100 basis points	2,684	2,604
Assumption - Initial	4.00%	4.34%
Assumption - Ultimate	3.50%	3.50%
b. Health care cost trend rates +100 basis points	3,827	3,633
Assumption - Initial	6.00%	6.34%
Assumption - Ultimate	5.50%	5.50%
3. Mortality		
a. Mortality + 1 year life expectancy	3,341	3,203
Assumption	1 year younger	1 year younger
b. Mortality - 1 year life expectancy	3,033	2,914
Assumption	1 year older	1 year older

The Corporation has also implemented a human resources retention plan for key management personnel for the purpose of ensuring effective transition and succession planning. Total accrued retention benefits were $971,000 at December 31, 2015 (2014 - $1,320,000).

Summary of employees benefit liabilities (non-current):

($ thousands)	December 31, 2015	December 31, 2014
Employee pension benefits	**1,683**	1,614
Employee future non-pension post-employment benefits	**3,184**	3,056
Retention benefits for key management personnel	**971**	1,320
Total	**5,838**	5,990

10. OPERATING LEASES

The non-cancellable annual operating lease payments for the Corporation are summarized as follows:

($ thousands)		2014
Less than 1 year	**-**	-
Between 1 and 5 years	**306**	315
More than 5 years	**-**	-

Under the operating lease for its premises the Corporation is required to pay property taxes and common area maintenance costs which are currently approximately $340,000 per annum.

11. INCOME TAXES

Income tax expense reported in the Statement of Operations and Changes in the Deposit Insurance Reserve Fund is as follows:

Recognition of effective tax rate

($ thousands)		2014
Profit before income tax	**20,446**	20,429
Income tax using the combined statutory rate 26.5%	**5,418**	5,414
Income not included for tax purposes	**(7,157)**	(7,139)
Current year losses for which no deferred tax asset was recognized	**1,741**	1,518
Other, net	**(2)**	207
Provision (recovery)	**-**	-

Deferred tax assets and liabilities

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

($ thousands)	2015	2014
Deductible temporary differences	**3,979**	3,221
Tax benefit of loss carry-forwards	**12,473**	11,482
	16,452	14,703

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Corporation can utilize the benefits.

At December 31, 2015, $47,066 of income tax losses included with the above unrecognized deferred tax assets will expire between 2026 and 2035 (2014 - $43,329 between 2015 and 2034).

12. RELATED PARTIES

Transactions with key management personnel

Directors and key management personnel compensation

During the year the Directors received an aggregate remuneration of $120,000 (2014 - $114,000). Total Directors' expense claims were $41,000 (2014 - $47,000). The remuneration for the Chair is a minimum of $2,000 per month which includes a per diem rate of $500. The per diem rate for all other Board members is $400 (2014 - $400) plus an annual retainer of $3,500.

Under the public Sector Salary Disclosure Act 1996, DICO publishes the name, title, salary and taxable benefits for all employees who earned $100,000 or more during 2015. The information is available on the Ministry of Finance website at www.fin.gov.on.ca/en/publications/salarydisclosure.

In addition to their salaries, the Corporation provides human resources retention plans for key management personnel for the purpose of ensuring effective transition and succession planning. The terms of the plans vary with individuals and the acceptance is voluntary. Other benefits include DICO's contributions to the pension plan and future non-pension post-employment benefits in which all employees of DICO are entitled to participate when they meet the qualification criteria.

Key management personnel compensation included:

($ thousands)	**2015**	2014
Short-term benefits	**43**	52
Post-employment benefits	**178**	215
Other long-term and termination benefits	**265**	195
Total	**486**	462

13. CONTINGENCY

When acting in the capacity of administrator or liquidator of a credit union, the Corporation may be exposed to various legal actions in the normal course of business. As of December 31, 2015, there were no legal claims pending against the Corporation.

14. RISKS ARISING FROM FINANCIAL INSTRUMENTS

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investment securities. The Corporation minimizes its credit risk by investing in high quality financial instruments and by limiting the amount invested in any one counter party. All investments in the DIRF are limited to those permitted by legislation, by the terms of the line of credit agreement with the OFA and to any limits made by the Corporation's investment policy. The Corporation establishes an allowance for deposit insurance losses in credit unions.The main components of this allowance are specific provisions that relate to individually significant exposures, and a general provision established in respect of losses that have been incurred but not yet identified. The general provision is determined based on historical data of payment statistics for similar financial assets.

(b) Liquidity risk

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

Typically the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations, if any; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Corporation maintains a line of credit approved by the Minister of Finance of $400 million that can be drawn down to provide liquidity to DICO as deposit insurer of credit unions in the Province of Ontario. The terms of the line of credit require DICO to liquidate its DIRF investments before it can borrow above $20 million. The revolving credit facility has a 5-year term effective from January 1, 2014 to December 31, 2018. Interest would be payable at an annual rate equal to the province's cost of funds for borrowings for a three month term, plus an additional 0.575 percent, as determined by the OFA at the commencement of each three month period.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect income or the value of the holdings of financial instruments. The Corporation does not have any dealings with foreign currency. DICO's primary investment objective is to preserve capital and provide necessary liquidity to pay claims and ongoing operating expenses.

(d) Fair value sensitivity analysis for fixed rate instruments

The Corporation accounts for its fixed rate financial assets as available-for-sale. Therefore, a change in interest rates at the reporting date would not affect net income with respect to these fixed rate instruments. A change of 1 percent in interest rates for the investments would have increased or decreased equity by $1,974,000 (2014 - $1,764,000).

(e) Capital management

One of the Corporation's mandates is to enhance the financial soundness of the credit union and caisse populaire sector. As of December 31, 2015, the Corporation has a DIRF of $205.6 million, which represents 78 basis points of the sector's estimated insured deposits. The Corporation will continue to build the DIRF to its target of 100 basis points in 2020 in order to ensure that it continues to be adequate to enable the Corporation to protect depositors.

15. FAIR VALUE DISCLOSURE

The fair value of financial assets and liabilities which include cash and cash equivalents, premiums receivable, payables and accruals, and employee benefits, approximate their carrying amounts. The fair value of accrual for deposit insurance claims has not been determined because it is not practicable to determine fair value with sufficient reliability.

Financial Services Commission of Ontario | **Commission des services financiers de l'Ontario**

Ontario

June 28, 2016

Motor Vehicle Accident Claims Fund

Management Responsibility for Financial Information

Management is responsible for the financial statements and all other information presented in the financial statements. Management in accordance with Canadian public sector accounting standards has prepared the financial statements and where appropriate included amounts based on Management's best estimates and judgements.

Management agrees with the work of the specialists in evaluating the Unpaid Claims amount and has adequately considered the qualifications of the specialist in determining amounts and disclosures used in the notes to financial statements. Management did not give any, nor cause any, instructions to be given to specialists with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the specialists.

The Motor Vehicle Accident Claims Fund is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and that the assets were safeguarded. Internal audits are conducted to assess management systems and practices and reports are issued to the CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario (the "FSCO") and the FSCO Audit and Risk Committee.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian public sector accounting standards. The auditor's report outlines the scope of the auditor's examination and report.

Javier Aramayo
Senior Manager
Motor Vehicle Accident Claims Fund

Kwan Lee
Chief Accountant
Financial Services Commission of Ontario

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Motor Vehicle Accident Claims Fund
and the Minister of Finance

I have audited the accompanying financial statements of the Motor Vehicle Accident Claims Fund, which comprise the statement of financial position as at March 31, 2016, the statements of operations and MVACF deficit 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 Canadian public sector accounting 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Motor Vehicle Accident Claims Fund as at March 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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Toronto, Ontario
June 28, 2016

Bonnie Lysyk, MBA, CPA, CA, ECA

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31

	2016	2015
ASSETS		
Current		
Funds on deposit with the Ministry of Finance	$ 52,077,287	$ 53,707,214
Accounts receivable - driver's licence fees (note 3b)	573,162	581,359
Accounts receivable - debtors (note 3c)	42,719,666	44,723,740
Less: allowance for doubtful accounts	32,124,897	32,644,086
	10,594,769	12,079,654
Total current assets	63,245,218	66,368,227
Capital assets (note 4)	553,975	553,975
Less: accumulated amortization	553,975	552,483
	-	1,492
Unpaid claims recoverable (note 5)	286,076	664,200
Total assets	**$ 63,531,294**	**$ 67,033,919**
LIABILITIES AND MVACF DEFICIT		
Current		
Accounts payable and accrued expenses	$ 719,194	$ 501,596
Unpaid claims and adjustment expenses - current (note 5)	29,046,151	27,493,718
Total current liabilities	29,765,345	27,995,314
Employee future benefits obligation (note 3g)	485,456	477,428
Deferred revenue	74,164,348	73,398,454
Unpaid claims and adjustment expenses - long term (note 5)	125,636,026	126,040,662
Total liabilities	230,051,175	227,911,858
MVACF deficit (note 3)	(166,519,881)	(160,877,939)
Total liabilities and MVACF deficit	**$ 63,531,294**	**$ 67,033,919**

See accompanying notes.

APPROVED:

Brian Mills
Chief Executive Officer and
Superintendent of Financial Services
Financial Services Commission of Ontario

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF OPERATIONS AND MVACF DEFICIT
FOR THE YEAR ENDED MARCH 31

	2016	2015
REVENUE		
Fees on issue or renewal of driver's licences	$ 29,584,357	$ 29,168,194
Prior year recoveries	1,455,682	1,171,141
Other revenue	26,842	15,938
Total revenue	31,066,881	30,355,273
EXPENSES		
Change in net unpaid claims and adjustment expenses	1,525,921	11,103,609
Accident benefit claims payments	21,283,351	13,112,330
Administrative expenses		
Salaries and wages	1,761,823	1,655,614
Employees' benefits	298,550	290,775
Transportation and communication	21,053	16,349
Claims (solicitors' fees, etc.)	2,520,550	2,275,094
Accident benefit claims expense	2,496,296	2,272,840
Other services	1,312,908	1,021,701
Bad debts expense	5,467,028	3,745,047
Supplies and equipment	19,851	17,083
Amortization expense	1,492	1,746
Total expenses	36,708,823	35,512,188
Deficit of revenue over expenses	(5,641,942)	(5,156,914)
MVACF deficit, beginning of year (note 3)	(160,877,939)	(155,721,025)
MVACF deficit, end of year	**$ (166,519,881)**	**$ (160,877,939)**

See accompanying notes.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31

	2016	2015
OPERATING ACTIVITIES		
Cash inflows		
Fees on issue or renewal of driver's licences	$ 30,358,448	$ 32,013,042
Repayment by debtors	845,788	1,173,031
Prior year recoveries	1,455,682	1,171,141
Other revenue	26,842	15,938
	32,686,760	34,373,152
Cash outflows		
Statutory payments	(26,073,126)	(18,160,323)
Payments to employees	(2,031,240)	(1,934,390)
Administrative expenses	(6,212,321)	(5,567,585)
	(34,316,687)	(25,662,298)
Net cash provided by (used in) operating activities	(1,629,927)	8,710,854
Funds on deposit with the Ministry of Finance, beginning of year	53,707,214	44,996,360
Funds on deposit with the Ministry of Finance, end of year	**$ 52,077,287**	**$ 53,707,214**

See accompanying notes.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

1. STATUTORY AUTHORITY

The Motor Vehicle Accident Claims Fund (MVACF) operates under the authority of the *Motor Vehicle Accident Claims Act* (the *Act*), R.S.O. 1990, Chapter M.41 as amended.

2. MVACF OPERATIONS

MVACF is a program that was created on July 1, 1947 as the Unsatisfied Judgment Fund. Initially, MVACF was required to respond to victims of uninsured motorists and hit-and-run drivers who could not recover damages awarded by the courts from an automobile insurance company. MVACF legislation was amended in the early 1960s, in 1979 with the *Compulsory Automobile Insurance Act*, and in 1990 by the *Insurance Statute Law Amendment Act* which required MVACF to include in its statutory payments, accident benefits on a no-fault basis for the first time. Currently, MVACF responds to claims in the same fashion and with the same exclusions as automobile insurers in Ontario, and provides for two types of coverage: third-party bodily injury and property damage liability (collectively referred to as TPL), and statutory accident benefits or SABS in accordance with legislated requirements. MVACF provides compensation for these types of coverage in claims resulting from automobile accidents involving uninsured or unidentified drivers, when there is no available policy of insurance.

The coverage provided by MVACF is analogous to the minimum required coverage under the standard automobile policy (OAP 1) approved by the provincial regulator. Unlike insurance companies, MVACF does not cover claims where the accidents occur outside of Ontario, except in the case of accident benefits where the Ontario insurer is insolvent. In the cases of insurance company insolvencies where MVACF pays claims for accident benefits, MVACF has powers to assess the industry to recover for claims and adjustment expenses and also has claimant rights against the estate of the insolvent insurer.

MVACF operates administratively under the direction of the Financial Services Commission of Ontario (FSCO) and reimburses FSCO for the costs of the services it provides to MVACF.

The Lieutenant Governor in Council, having regard to the condition of MVACF and the amount paid out of MVACF during any period, may direct payment out of the Province's Consolidated Revenue Fund of such an amount as may be considered necessary or advisable to subsidize and fund MVACF's operations.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements in accordance with Canadian Public Sector Accounting Standards for government not-for-profit organizations (PSA-GNFPO) as issued by the Public Sector Accounting Board (PSAB) are summarized as follows:

a) Driver's Licence Fees and Deferred Revenue

MVACF earns a fee of $15.00 on the issuance or renewal of each driver's five-year licence. The income is earned on a pro-rata basis over the five-year term of the licence and the unearned portion is reflected as deferred revenue.

b) Accounts Receivable – Driver's Licence Fees

Under the *Act*, MVACF receives from the Ministry of Transportation and Plenary a monthly internal transfer and payment representing the driver's licence fee prescribed by *Ontario Regulation 800.* Accordingly, unremitted licence fees are reported as accounts receivable.

c) Accounts Receivable – Debtors

MVACF maintains an accounts receivable portfolio, accumulated over the years as a result of judgments and claims assigned to the Minister of Finance. MVACF will pay damages to injured, not-at-fault victims who have no recourse to liability insurance, on behalf of defendant uninsured motorists. In accordance with the *Act*, these amounts are recoverable from the uninsured motorists. Expected recoverable amounts of $4.8 million (2015 - $4.4 million) increase the accounts receivable – debtors accordingly.

The allowance for doubtful accounts is determined through a process that considers: the age of defendant/debtor, the defendant/debtor's current monthly installment required under the regulations, the amount paid out of MVACF, the activity on the account since the date of the judgment, and the financial status of the defendant/debtor.

The write-off process depends on established criteria that parallel the criteria established by the Ministry of Finance. Criteria would include writing off amounts related to unidentified driver, uninsured motorists killed at the time of the accident or deceased subsequent to accident, debtor that declared bankruptcy, debts with balances under $50, accounts with no repayments after 3 years with collections efforts exhausted/debtor deported, etc. These criteria are used to select a block of accounts that is reviewed annually by the enforcement and collections staff. The Ministry of Finance, Internal Audit Section audits the identified accounts for potential write-off and provides a certificate of assurance verifying that the established criteria for the write-off have been met. The write-off transaction is authorized by an Order-In–Council (OIC) under the authority set out in the *Financial Administration Act*.

For March 31, 2016, a write-off of $4.4 million was submitted to the Ministry of Finance but has not yet been approved. A write-off of $6.4 million for March 31, 2015 was approved during the year, through an OIC. This write-off is recorded in the current year's financial statements and represents a reduction of the account receivable debtors and allowance for doubtful accounts. There is no impact in the current year statement of operations.

Accounts receivables-debtors and the allowance for doubtful accounts are adjusted on receipt of the OIC approving the write off.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Prior Year Recoveries

Prior year recoveries are generated from three main sources: insurance recoveries, reversionary interest (note 6) and recoveries of court costs. MVACF is required under the Statutory Accident Benefits Schedule (SABS) to satisfy the payment of accident benefits claims within specified periods. The timeframe does not allow for a complete investigation into available insurance coverage and in some instances information is withheld by police because of criminal investigations. Accordingly, when new information is available, MVACF may be required to pursue private insurers for recoveries.

From time to time MVACF may also be involved in the defense of uninsured motorists or the Superintendent of the FSCO, where the legal proceedings are deemed frivolous and MVACF is awarded costs by the courts.

Prior year recoveries are recorded in the period they are determined. In the current year $1.5 million (2015 - $1.2 million) recoveries were recorded but related to prior year claims.

e) Unpaid Claims and Adjustment Expenses

Unpaid claims and adjustment expenses represents the estimated amounts required to settle all unpaid claims, including an amount for unreported claims and claim expenses, and is gross of estimated recoveries and subrogation. Claim liabilities are established according to accepted actuarial practice in Canada as applied to public personal injury compensation plans. They do not reflect the time value of money, because MVACF reports no investment income.

The provision for unpaid claims and adjustment expenses consists of estimates that are necessarily subject to uncertainty, and the variability could be material in the near term. The estimates are selected from a range of possible outcomes and are adjusted up or down, as additional information becomes known during the course of loss settlement proceedings. The estimates are principally based on historical experience but variability can be caused by changes in judicial interpretations of contracts or significant changes in severity and frequency of claims from historical trends. All changes in estimates are recorded in the current period.

MVACF has obligations to pay certain fixed amounts to claimants on a recurring basis and has purchased annuities from life insurers to provide for those payments in the form of structured settlements. Note 6 contains additional analysis related to structured settlements.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Unpaid Claims and Adjustment Expenses (continued)

Settlements occur when there is an irrevocable direction from MVACF to the life insurer to make all payments directly to the claimants. There are no rights under the non-commutable, non-assignable, non-transferable contract that would provide any current or future benefit to MVACF. MVACF remains liable to make payments only in the event that the life insurer fails and only to the extent that Assuris, the life insurance industry's insolvency compensation fund, will not cover payments due. The net risk to MVACF is any credit risk related to the life insurers. This credit risk is deemed nil at March 31, 2016 (2015 – nil) as all insurers are rated A+ or above. There exists the possibility of contingent gains based on the fact that MVACF has purchased insurance on some of the measured lives. Such amounts are described in Note 6 – Contingent Gains.

f) Use of Estimates

The preparation of financial statements in accordance with Canadian PSA-GNFPO requires that MVACF's management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates. The most significant estimates relate to the provision for unpaid claims and adjustment expenses, unpaid claims recoverable, contingent liabilities, allowance of doubtful accounts and employee future benefits.

g) Employee Future Benefits Obligation

MVACF's employees are entitled to benefits that have been negotiated centrally for Ontario Public Service employees or required by the Management Board of Cabinet's Compensation Directive. The future liability for benefits earned by MVACF's employees is recognized in the Province of Ontario's (the Province) consolidated financial statements.

While the Province continues to accrue for these costs each year and fund them annually when due, MVACF also recognizes the liabilities pertaining to a basic severance entitlement and compensated absences components of its employee future benefits costs in these financial statements. When these costs are funded by the Province when due, MVACF derecognizes these liabilities in the year.

The cost of other non-pension post-employment benefits is determined and funded on an ongoing basis by the Province and accordingly is not included in these financial statements.

h) Financial Instruments

MVACF follows PSA-GNFPO pertaining to financial instruments. Under these standards, all financial instruments are included on the statement of financial position and are measured either at fair value or at cost or amortized cost. MVACF's Accounts receivable, and the Accounts payable and accrued liabilities are recorded at cost in the financial statements.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

4. CAPITAL ASSETS

Leasehold improvements, computer equipment, furniture and fixtures, and office equipment are carried at cost less accumulated amortization. MVACF provides for amortization on a straight-line basis over the term of the lease (for leasehold improvements) or over the useful life of the asset. Accordingly, leasehold improvements and furniture and fixtures are amortized over 5 years, while computer equipment and office equipment are amortized over 3 years.

(in dollars)		**2016**	
	Cost	**Accumulated Amortization**	**Net Book Value**
Computer equipment	**$ 30,153**	**$ 30,153**	**$ -**
Office equipment	**7,406**	**7,406**	**-**
Furniture and fixtures	**16,416**	**16,416**	**-**
Leasehold improvements	**500,000**	**500,000**	**-**
	$ 553,975	**$ 553,975**	**-**

(in dollars)		2015	
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 30,153	$ 28,661	$ 1,492
Office equipment	7,406	7,406	-
Furniture and fixtures	16,416	16,416	-
Leasehold improvements	500,000	500,000	-
	$ 553,975	$ 552,483	$ 1,492

5. UNPAID CLAIMS AND ADJUSTMENT EXPENSES

a) MVACF's unpaid claims and adjustment expenses and unpaid claims recoverable consist of the following:

	2016		2015	
(in thousands of dollars)	**Gross**	**Recoverable**	Gross	Recoverable
ACCIDENT BENEFITS				
Statutory accident benefits	**$116,323**	**-**	$ 108,735	-
THIRD-PARTY LIABILITY (TPL)				
Property damage	**631**	**4**	800	9
Bodily injury	**37,728**	**282**	43,999	655
Total TPL	**38,359**	**286**	44,799	664
Totals	**$154,682**	**286**	$153,534	664

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

5. UNPAID CLAIMS AND ADJUSTMENT EXPENSES (continued)

b) The change in gross provision for unpaid claims and adjustment expenses is as follows:

(in thousands of dollars)	**2016**	2015
Balance, beginning of year	**$ 153,534**	$ 142,136
Increase in provision for losses that occurred in prior years	**2,727**	3,789
Amounts paid during the year on claims of prior years		
Statutory payments	**(24,537)**	(15,721)
Claims expenses	**(7,291)**	(6,378)
Amounts paid during the year on claims of the current year		
Statutory payments	**(494)**	(592)
Claims expenses	**(147)**	(240)
Provision for losses on claims that occurred in the current year	**30,890**	30,540
Balance, end of year	**$ 154,682**	$ 153,534

6. CONTINGENT GAINS AND LIABILITIES

a) Contingent Gains

Some payments out of MVACF are in the form of structured settlements for accident benefit claims. These claims have guarantee periods ranging from 10 to 30 years and during this period the reversionary interest will be payable to Her Majesty the Queen in right of Ontario, as represented by the Minister of Finance, should the claimant die.

Even though the range of probability that the claimant may die during the guarantee period is slight, MVACF nevertheless has calculated the approximate reversionary interest represented by insurance on the claimant lives as at March 31, 2016 for information purposes.

As at March 31, 2016, the amount paid out of MVACF for accident benefit claims in the form of structured settlements was approximately $64.9 million (2015 - $51.2 million) with applicable reversionary interest of approximately $47.0 million (2015 - $35.8 million).

b) Contingent Liabilities

In accordance with PSA-GNFPO, MVACF makes a provision for a liability when it's both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed annually and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Litigation is inherently unpredictable and it is possible that MVACF's financial position, cash flows or results of operations could be negatively affected by an unfavorable resolution to court decisions.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

7. ROLE OF THE ACTUARY AND AUDITOR

FSCO retains an independent actuary who acts as MVACF’s actuary. The actuary's responsibility is to carry out an annual valuation of MVACF's liabilities, which include the provision for unpaid claims and adjustment expenses in accordance with accepted actuarial practice in Canada. In performing the valuation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, recoveries, and expenses, taking into consideration the circumstances of MVACF. The actuary in his verification of the underlying data used in the valuation may use the work of the external auditor. The actuary's report outlines the scope of his work and opinion.

The Auditor General of Ontario is appointed as the external auditor of the MVACF with the responsibility to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and report thereon to the Audit and Risk Committee of the FSCO. In carrying out her audit, the Auditor General also considers the work of the actuary and his report on the provision for unpaid claims and adjustment expenses. The auditor’s report outlines the scope of the audit and her opinion.

8. FINANCIAL INSTRUMENT RISK

Credit risk is the risk that other parties fail to perform as contracted. MVACF is exposed to credit risk in its financial instruments from accounts receivable – debtors. Credit risk on balances receivable arises from the possibility that the entities which owe money to the Funds may not fulfill their obligation. Collectability is reviewed regularly and an allowance for doubtful accounts, if necessary, is established to recognize the impairment risks identified.

Liquidity risk is the risk that MVACF will not be able to meet its cash flow obligations as they fall due. Liquidity risk arises from accounts payable and accrued expenses, employee future benefits obligation, and unpaid claims and adjustment expenses. The risk is mitigated since the Lieutenant Governor in Council, having regard to the condition of MVACF and the amount paid out of MVACF during any period, may direct payment out of the Province’s Consolidated Revenue Fund of such an amount as may be considered necessary or advisable to subsidize and fund MVACF’s operations.

9. COMPARATIVE FIGURES

Certain prior year’s figures have been reclassified to conform with the current year’s presentation.

Ontario Pension Board

OPB
Your Pension. Our Promise.

Actuaries' Opinion to the Directors of the Ontario Pension Board

Aon Hewitt was retained by the Ontario Pension Board ("OPB") to prepare the following actuarial valuations of the Public Service Pension Plan ("PSPP"):

- An actuarial valuation as at December 31, 2014 on a funding basis, as described in Note 6 of these financial statements, prepared in accordance with the *Public Service Pension Act* and applicable pension legislation.
- An actuarial valuation as at December 31, 2015 for purposes of these financial statements, prepared in accordance with the Chartered Professional Accountants of Canada Handbook, Section 4600.

The actuarial valuation of the PSPP as at December 31, 2014 on a funding basis was based on membership data provided by OPB as at December 31, 2014.

Using the same data as provided by OPB for the funding valuation of the PSPP, we have prepared a valuation of the liabilities as of December 31, 2014 on the basis of the accounting methodology required by the Chartered Professional Accountants of Canada Handbook, Section 4600, as disclosed in Note 6, and extrapolated the liabilities to December 31, 2015. The valuation as at December 31, 2015 was based on assumptions that reflect OPB's best estimates of future events such as future rates of inflation, future retirement rates and future rates of return on the pension fund. The amounts are set out in the statement of changes in pension obligations.

We hereby certify that, in our opinion:

- The data provided to us by OPB as of December 31, 2014 are sufficient and reliable;
- The actuarial assumptions used are appropriate for the purposes of each valuation; emerging experience differing from the assumptions will result in gains or losses which will be revealed in future valuations; and
- The methods used are appropriate for purposes of each valuation and are consistent with the applicable regulatory requirements.

Our valuations have been prepared, and our opinions given, in accordance with accepted actuarial practice.

AON HEWITT

Allan H. Shapira

Allan H. Shapira
Fellow of the Canadian Institute of Actuaries
March 2, 2016

Andrew Hamilton
Fellow of the Canadian Institute of Actuaries

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Management's Responsibility for Financial Reporting

The financial statements of the Ontario Pension Board ("OPB") have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these financial statements are in accordance with Canadian accounting standards for pension plans. Of necessity, many amounts in the financial statements must be based on the best estimates and judgment of management with appropriate consideration as to materiality. Financial information presented throughout this annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded against unauthorized use or disposition, and proper records are maintained. The system includes careful hiring and training of staff, the establishment of an organizational structure that provides for a well-defined division of responsibilities and the communication of policies and guidelines of business conduct throughout OPB.

The Board of Directors (the "Board") is ultimately responsible for the financial statements of OPB. OPB's Audit Committee assists in this responsibility by reviewing the financial statements in detail with management and the external auditors before such statements are recommended to the Board for approval. The Audit Committee meets regularly with management and the external auditors to review the scope and timing of audits, to review their findings and suggestions for improvements in internal control, and to satisfy themselves that their responsibilities and those of management have been properly discharged.

Mark J. Fuller
President & CEO
March 2, 2016

Michel J. Paradis
Chief Financial Officer

Independent Auditors' Report to the Directors of the Ontario Pension Board

We have audited the accompanying financial statements of the Ontario Pension Board, which comprise the statement of financial position as at December 31, 2015, and the statements of changes in net assets available for benefits and changes in pension obligations 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 Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained 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 the Ontario Pension Board as at December 31, 2015, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Ernst + Young LLP

Toronto, Canada
March 2, 2016

Ernst & Young, LLP
Licensed Public Accountants
Chartered Professional Accountants

Statement of Financial Position

As at December 31 (in thousands of dollars)	2015	2014
Assets		
Investments (Note 4)	$ 23,151,396	$ 22,253,391
Investment-related assets (Note 4)	84,899	65,977
Contributions receivable		
Members	21,390	17,985
Employers	43,803	26,668
Capital assets (Note 5)	1,962	2,331
Total assets	23,303,450	22,366,352
Liabilities		
Investment-related liabilities (Note 4)	190,383	99,991
Accounts payable and accrued charges	36,852	35,543
Contributions payable	1,020	–
Total liabilities	228,255	135,534
Net assets available for benefits	23,075,195	22,230,818
Pension obligations (Note 6)	23,509,215	22,562,386
Deficit (Note 7)	$ (434,020)	$ (331,568)

See accompanying notes

On behalf of the Board:

M. Vincenza Sera
Chair

Patti Croft
Chair, Audit Committee

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31 (in thousands of dollars)	2015	2014
Investment operations		
Net investment income (Note 8)	$ 1,223,981	$ 1,641,904
Operating expenses – investment operations (Note 10)	(22,563)	(19,604)
Net investment operations	1,201,418	1,622,300
Pension operations		
Contributions (Note 9)		
Members	318,315	310,338
Employers and sponsor	413,289	408,753
Transfer of service from other plans	111,431	81,382
Retirement pension payments	(1,038,418)	(989,261)
Termination and other benefits	(137,349)	(94,113)
Operating expenses – pension operations (Note 10)	(24,309)	(23,638)
Net pension operations	(357,041)	(306,539)
Net increase in net assets for the year	844,377	1,315,761
Net assets, at beginning of year	22,230,818	20,915,057
Net assets, at end of year	$ 23,075,195	$ 22,230,818

See accompanying notes

Statement of Changes in Pension Obligations

For the year ended December 31 (in thousands of dollars)	2015	2014
Pension obligations, at beginning of year	**$ 22,562,386**	$ 21,894,206
Increase in pension obligations		
Interest on pension obligations	**1,329,768**	1,292,110
Benefits accrued		
Service accrual	**604,304**	614,031
Transfer of service from other plans	**111,431**	81,382
Past service buybacks	**33,357**	31,838
Experience losses	**97,914**	3,959
Total increase	**2,176,774**	2,023,320
Decrease in pension obligations		
Benefits paid	**1,175,767**	1,083,374
Changes in actuarial assumptions (Note 6)	**54,178**	271,766
Total decrease	**1,229,945**	1,355,140
Net increase in pension obligations	**946,829**	668,180
Pension obligations, at end of year	**$ 23,509,215**	$ 22,562,386

See accompanying notes

Notes to the Financial Statements

Note 1 *Public Service Pension Act*

Effective January 1, 1990, the Province of Ontario (the "Province") enacted the *Public Service Pension Act*, 1990 ("*PSPAct*") to continue the pension plan for the employees of the Province and certain of its agencies. The terms of the Public Service Pension Plan ("PSPP" or the "Plan") are stated in Schedule 1 to the *PSPAct*. Ontario Pension Board ("OPB") is the administrator of the PSPP.

Note 2 Description of PSPP

The following is a brief description of the PSPP. For more complete information, reference should be made to the *PSPAct*.

a) General

The PSPP is a contributory defined benefit pension plan. Membership is mandatory for persons or classes of persons who satisfy the eligibility requirements provided in the *PSPAct*. Persons who are entitled, but not required, to join the Plan, including Deputy Ministers and contract employees, may elect to participate. Under the PSPP, both the members and the employers make contributions. The PSPP is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency (Registration Number 0208777) as a registered pension plan not subject to income taxes.

b) Contributions

The PSPP is integrated with the Canada Pension Plan ("CPP"). Contribution rates are 6.4% of the salary on which contributions are made up to the Year's Maximum Pensionable Earnings ("YMPE") and 9.5% of the salary above the YMPE. Employers contribute matching amounts.

Ontario Provincial Police ("OPP") officers are required to contribute an additional 2% of salary, which is matched by the employer. These additional contributions are used to fund an unreduced early retirement provision available to OPP officers meeting a minimum 50 years of age and 30 years of service. The contribution rates for OPP officers, inclusive of the additional 2% of salary, are 9.2% of the salary on which contributions are made up to the YMPE, and 12.3% of the salary above the YMPE. The contribution rates for OPP civilians are 6.775% of the salary on which contributions are made up to the YMPE, and 9.875% of the salary above the YMPE.

Contributions from members and employers are remitted to OPB. The portion of these contributions that exceeds *Income Tax Act* (*Canada*) limits is transferred to the Province's Public Service Supplementary Benefits Account ("PSSBA").

c) Pensions

A pension is payable at age 65 based on the number of years of credit in the PSPP multiplied by 2% of the average salary during the best consecutive 60-month period, less an offset for integration with the CPP at age 65. An unreduced pension can be received before age 65 if the member's age and years of credit total 90 ("Factor 90") or when the member reaches age 60 and has 20 or more years of credit.

OPP officers are eligible for a pension payable based on the average salary during the best 36-month period. Likewise, OPP Civilians are eligible for a pension payable based on the average salary during the best 48-month period. In addition, OPP officers are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

d) Death benefits

Upon the death of a member or pensioner, benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or retired member's estate.

e) Disability pensions

Based on meeting all eligibility criteria, a disability pension may be available to members with a minimum of 10 years of credit in the PSPP. The amount of the disability pension is dependent on years of credit and average salary.

f) Termination payments

Members terminating employment before age 55 who are eligible for a deferred pension may be entitled to transfer the commuted value of the pension to a locked-in registered retirement savings arrangement, to transfer to another pension plan, or to purchase a life annuity.

g) Escalation of benefits

Current pensions and deferred pension benefits are increased for inflation based on the Consumer Price Index to a maximum of 8% in any one year. Any inflation above 8% in any one year is applied to increase the pension in subsequent years when the adjustment is less than 8%.

Note 3 Summary of significant accounting policies

Basis of presentation

The financial statements are prepared in accordance with Canadian accounting standards for pension plans and present the position of the PSPP as a separate entity independent of the employers and Plan members.

In accordance with Section 4600, Pension Plans, of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook, Canadian accounting standards for private enterprises in Part II of the CPA Canada Handbook have been chosen for accounting policies that do not relate to the investment portfolio or pension obligations to the extent that those standards do not conflict with the requirements of Section 4600.

a) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts on the statements of changes in net assets available for benefits and changes in pension obligations during the reporting period. Actual results could differ from those estimates. The most significant estimates affecting the financial statements relate to the determination of the pension obligations and the fair values of the Plan's Level 3 investments.

b) Investments and Related Liabilities

Investments are stated at fair value, including accrued income. Fair value 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.

Fair value of financial instruments is determined as follows:

(i) Short-term investments are recorded at cost, which, together with accrued interest or discount earned, approximates fair value.

(ii) Bonds and OPB Finance Trust debentures are valued at quoted market prices, where available. For those debt instruments for which quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

(iii) Equities are valued at quoted market prices at closing where available. Where quoted market prices are not available, other industry pricing conventions that are used by market participants such as ask price are used to estimate the values.

(iv) Pooled fund values for publicly traded securities are supplied by the fund managers based upon fair value quotations.

(v) Derivative financial instruments such as foreign exchange and bond forwards, equity futures contracts and options are recorded at fair value using year-end market prices where available. For those instruments for which market prices are not available, estimated fair values are determined using appropriate valuation models based on industry-recognized methodologies.

(vi) Real estate, consisting primarily of income-producing properties, and participating mortgages are valued at estimated fair value determined annually by independent appraisals. The cost of properties acquired during the year may be used as an approximation of their fair value where there has been no significant change in fair value. Non-operating real estate investments such as vacant land and real estate assets under construction are carried at their latest independently appraised values, plus any additional development costs.

(vii) Private market and alternative investments, which include infrastructure, private equity, private debt and real estate funds, are valued using the most recently available financial information provided by the fund managers and adjusted for any transactions during the interim period up to the reporting date of these financial statements.

(viii) Mortgages and private debt are valued using discounted future cash flows based on year-end market yields and comparable securities, as appropriate.

Investment transactions are recorded on trade date. Interest is recognized on an accrual basis when earned. Dividend income is recognized on the ex-dividend date. Distributions from investments in pooled funds are recognized when declared by the fund managers. Since real estate is valued on a fair value basis, depreciation and amortization are not recorded. Interest on participating mortgages is accrued at the rate stated in the instrument, and any participation income is recognized on an accrual basis. Transaction costs are expensed as incurred.

Net investment income (loss) also includes fair value changes. Fair value changes represent both realized and unrealized gains and losses. Realized gains or losses are recognized when OPB has transferred to the purchaser the significant risks and rewards of ownership of the investment, the purchaser has made a substantial commitment demonstrating its intent to honour its obligation, and the collection of any additional consideration is reasonably assured.

c) Pension obligations

Pension obligations are determined based on an actuarial valuation prepared by an independent firm of actuaries based on an actuarial valuation report prepared for funding purposes. This valuation uses the projected benefit cost method pro-rated on service and management's best estimate of various economic and non-economic assumptions.

d) Contributions

Contributions due to the PSPP at year-end are recorded as receivable. Transfers into the Plan and purchases of prior service are recorded after cash is received and the transfer or purchase transaction is completed.

e) Capital assets

Capital assets are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the capital assets as follows:

Computer equipment: 3 years

Leasehold improvements: Remaining term of lease

Furniture and fixtures: 10 years

f) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The fair values of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end.

Note 4 Investments

Investments before allocating the effect of derivative contracts consist of the following:

Investments

As at December 31 (in thousands of dollars)	2015	2014
Cash and short-term investments		
Canada	$ 489,584	$ 744,777
Foreign	179,568	178,848
	669,152	923,625
Bonds and private debt		
Canada	6,317,419	5,527,631
Foreign	620,595	778,617
	6,938,014	6,306,248
Equities		
Canada	1,813,019	2,117,745
Foreign	7,753,984	8,365,759
	9,567,003	10,483,504
Real estate (net of financing, Note 4(i))	4,247,082	3,425,640
Infrastructure	1,167,558	754,609
Private equity	562,587	359,765
Total investments	23,151,396	22,253,391
Investment-related assets		
Pending trades	10,322	17,936
Derivatives receivable	74,577	48,041
Total investment-related assets	84,899	65,977
Investment-related liabilities		
Pending trades	10,978	29,278
Derivatives payable	179,405	70,713
Total investment-related liabilities	190,383	99,991
Total net investments	$ 23,045,912	$ 22,219,377

a) Investment asset mix

The Plan's actual and target investment asset mix is summarized below as at December 31:

Asset mix

	2015		2014		
	Asset Allocation %		Asset Allocation %		
	Total Plan	**Target**	Total Plan	Target	SIP&P Range
Asset categories					
Cash and equivalents[1]	**(0.3%)**	**3.0%**	0.3%	3.0%	
Fixed income	**27.0%**	**25.0%**	27.5%	31.0%	
Long bonds	**1.8%**	**3.5%**	n/a	n/a	
Real return bonds	**0.3%**	**1.0%**	0.0%	0.0%	
Fixed income	**28.8%**		27.8%		10%–45%
Canadian equities	**9.8%**	**10.5%**	10.3%	10.5%	
Foreign developed equities	**20.5%**	**19.0%**	24.1%	20.0%	
Emerging equities	**15.0%**	**14.5%**	17.3%	15.0%	
Private equity	**2.4%**	**2.0%**	1.8%	1.0%	
Equity	**47.7%**		53.5%		15%–75%
Real estate	**18.5%**	**17.5%**	15.3%	16.5%	
Infrastructure	**5.0%**	**4.0%**	3.4%	3.0%	
Real assets	**23.5%**		18.7%		20%–45%
Total investments	**100.0%**	**100.0%**	100.0%	100.0%	

[1] The asset categories in this Asset Mix table are adjusted to reflect the market exposures after allocating derivatives positions to the asset classes to which they relate, offset by an adjustment to cash and equivalents. This reallocation can result in a negative cash and equivalents position when the synthetic position created using derivative contracts is additive to existing positions. As at December 31, 2015, an overall synthetic long position in equity futures and positions in forward foreign exchange contracts reduced the cash and equivalents position by $0.6 billion and $0.1 billion, respectively, resulting in a negative synthetic cash position of $0.1 billion.

The Plan approved an updated Strategic Asset Allocation ("SAA") on September 19, 2014, which is summarized in the Statement of Investment Policies & Procedures ("SIP&P") most recently updated and approved on November 4, 2015. A transition plan to achieve the updated SAA was also approved on September 19, 2014. The transition plan is being phased in over a five-year period. During this period, the asset mix of the Plan's investments may not fall within the SIP&P ranges. However, the ultimate goal of the Plan is to achieve the specified SIP&P ranges of each asset category by the end of the phase-in period.

For purposes of assessing the investment asset mix of the Plan for SIP&P purposes, the investment asset categories reflect the impact of derivative contracts, and investment-related receivables and liabilities. As at December 31, 2015, the asset mix of the Plan's investments was within the acceptable ranges as specified in the SIP&P.

b) Financial instruments risk

The Plan is subject to financial risks as a result of its investing activities that could impact its cash flows, income, and assets available to meet benefit obligations. These risks include market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. OPB manages these risks in accordance with its SIP&P, which prescribes the asset mix policy, diversification requirements, performance expectations, limits on individual investments, valuation standards, and guidelines for the management of the Plan.

Market risk – Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market factors. Market risk comprises the following:

(i) Interest rate risk – Interest rate risk refers to the effect on the fair value of the Plan's assets and liabilities due to fluctuations in market interest rates. The value of the Plan's investments is affected by changes in nominal and real interest rates. Pension liabilities are exposed to fluctuations in long-term interest rates and inflation. The Plan has established an asset mix policy that balances interest rate-sensitive investments with other investments. OPB's fixed income investments have the most significant exposure to interest rate risk. Duration and weighting for the fixed income portfolio are actively managed. Modified duration is a measure of the sensitivity of the price of a fixed income instrument to a change in interest rates. Given the Plan's modified duration of 7.3 years at December 31, 2015 (2014 – 6.4 years), a parallel shift in the yield curve of +/-1% would result in an approximate impact of $514 million (2014 – $404 million) on net investments with all other variables held constant. In practice, actual results may differ materially from this sensitivity analysis. See the schedule of fixed income maturities for further information.

(ii) Foreign currency risk – Foreign currency exposure arises from the Plan holding foreign currency denominated investments and entering into contracts that provide exposure to currencies other than the Canadian dollar. Fluctuations in the value of the Canadian dollar against these foreign currencies can have an impact on the fair value of investments. In addition to passively hedging a portion of its foreign currency exposure, the Plan also has an active currency hedging strategy in place through the use of foreign exchange forward contracts, which are accounted for at fair value. The total currency exposure, the impact of foreign exchange forward contracts and the net currency exposure are as follows:

Foreign currency exposure in 2015

As at December 31, 2015 (in thousands of dollars)	Gross Exposure	Foreign Exchange Contracts Receivable	Foreign Exchange Contracts Payable	Net Exposure
U.S. Dollar	**$ 4,938,316**	**$ 1,077,956**	**$ (3,209,621)**	**$ 2,806,651**
Hong Kong Dollar	**569,550**	**1,220**	**(187)**	**570,583**
Indian Rupee	**408,856**	**6,044**	**–**	**414,900**
Chinese Renminbi	**356,932**	**–**	**–**	**356,932**
Pound Sterling	**446,489**	**349,787**	**(1,147,302)**	**(351,026)**
Japanese Yen	**130,731**	**245,080**	**(90,069)**	**285,742**
South Korean Won	**283,070**	**–**	**–**	**283,070**
Other	**2,130,090**	**634,644**	**(1,125,678)**	**1,639,056**
Total foreign	**9,264,034**	**2,314,731**	**(5,572,857)**	**6,005,908**
Canadian Dollar	**13,876,812**	**5,233,197**	**(2,070,005)**	**17,040,004**
	$ 23,140,846	**$ 7,547,928**	**$ (7,642,862)**	**$ 23,045,912**

Foreign currency exposure in 2014

As at December 31, 2014 (in thousands of dollars)	Gross Exposure	Foreign Exchange Contracts Receivable	Foreign Exchange Contracts Payable	Net Exposure
U.S. Dollar	$ 4,881,526	$ 279,731	$ (3,179,966)	$ 1,981,291
Hong Kong Dollar	550,818	1,902	(579)	552,141
Indian Rupee	388,158	8,609	(4,113)	392,654
South Korean Won	288,546	540	–	289,086
New Taiwan Dollar	245,620	103	–	245,723
Chinese Renminbi	243,272	–	–	243,272
Brazilian Real	254,718	2,906	(15,770)	241,854
Other	2,783,144	194,162	(1,802,743)	1,174,563
Total foreign	9,635,802	487,953	(5,003,171)	5,120,584
Canadian Dollar	12,634,486	4,596,849	(132,542)	17,098,793
	$ 22,270,288	$ 5,084,802	$ (5,135,713)	$ 22,219,377

The impact of a 5% absolute change in foreign exchange rates compared to the Canadian dollar, holding all other variables constant, is 5% of the net exposure of the impacted currency, as follows:

Exchange rate sensitivity

		Change in Net Assets Available for Benefits as of:	
	Change in Exchange Rates	**December 31, 2015 (in thousands of dollars)**	December 31, 2014 (in thousands of dollars)
U.S. Dollar	+ / - 5%	**+ / - $ 140,333**	+ / - $99,065
Hong Kong Dollar	+ / - 5%	**+ / - 28,529**	+ / - 27,607
Indian Rupee	+ / - 5%	**+ / - 20,745**	+ / - 19,633
Chinese Renminbi	+ / - 5%	**+ / -17,847**	+ / - 12,164
Pound Sterling	+ / - 5%	**+ / -(17,551)**	+ / - (7,300)
Japanese Yen	+ / - 5%	**+ / -14,287**	+ / - 5,159
South Korean Won	+ / - 5%	**+ / - 14,154**	+ / - 14,454
Other	+ / - 5%	**+ / - 81,953**	+ / - 85,248
Total	+ / - 5%	**+ / - $ 300,297**	+ / - $ 256,030

(iii) Other price risk – Other price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices other than those arising from foreign currency or interest rate risk, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. An absolute change in the fair value of OPB's investments which are exposed to other price risk will have a direct proportional impact on the fair value of the investments. OPB's investments in equities have the most significant exposure to other price risk. The impact of a 10% absolute change in the price of an investment, holding all other variables constant, is 10% of the net exposure of the impacted investment, as follows:

Price risk

			Change in Net Assets as of:	
Equities	Stock Market Benchmark	Change in Price Index	**December 31, 2015 (in millions of dollars)**	December 31, 2014 (in millions of dollars)
Canadian	S&P/TSX Composite Index	+ / - 10%	**+ / - $ 224.9**	+ / - $ 229.3
Foreign	MSCI World (C$)	+ / - 10%	**+ / - 472.0**	+ / - 534.5
Emerging	MSCI Emerging Equity Index (C$)	+ / - 10%	**+ / - 347.1**	+ / - 385.9
			+ / - $1,044.0	+ / - $ 1,149.7

The sensitivity analysis is performed using the investment asset mix weights summarized in Note 4(a).

Credit risk – The Plan is exposed to the risk of loss through over-the-counter ("OTC") derivative transactions, arising from a default or insolvency of a counterparty. This risk is significantly mitigated by the fact that for any counterparties where the Plan transacts in OTC derivatives of greater than one year in duration, an International Swaps and Derivatives Association ("ISDA") master agreement must be in place accompanied by a Credit Support Annex ("CSA"), which forms part of the ISDA. Under these agreements, collateral is exchanged with counterparties on a daily basis to manage the credit risk arising from any existing OTC derivative contracts with that counterparty. In addition, under the ISDA master agreement for OTC derivatives, the Plan has the right to settle obligations on a net basis in the event of default, insolvency, bankruptcy or other early termination.

The Plan assumes credit risk exposure through bonds and private debt investments. As at December 31, 2015, the Plan's greatest credit exposure to a securities issuer is with the Government of Canada in the form of interest-bearing securities for $983 million (2014 – with the Province of Ontario for $740 million). The credit ratings of the Plan's fixed income and bond investments are as follows:

Credit Rating as of December 31, 2015

(in thousands of dollars)

AAA	AA	A	BBB	BB	B	CCC	Not Rated	Total
$1,826,884	**$2,056,754**	**$1,085,702**	**$685,353**	**$364,499**	**$181,828**	**$8,712**	**$728,282**	**$6,938,014**

Credit Rating as of December 31, 2014

(in thousands of dollars)

AAA	AA	A	BBB	BB	B	CCC	Not Rated	Total
$1,289,411	$1,918,559	$1,004,203	$599,894	$536,336	$216,066	$15,693	$726,086	$6,306,248

The majority of the "not rated" classification in the table above is comprised of fixed income pooled fund and private debt investments.

Liquidity risk – Liquidity risk is the risk that the Plan has insufficient cash flows to meet its pension obligations and operating expenses as they become due. The more typical cash requirements of the Plan are in the form of monthly retirement benefit payments as well as periodic termination and other benefit payments and expenses. The Plan also has financial liabilities in the form of derivatives which all mature within one year. The cash requirements and the fulfillment of any financial liabilities are typically met through cash sources such as investment income, proceeds from the sales of investments, and member and employer contributions. The majority of the Plan's assets are also invested in securities that are traded in active markets and can be divested on a timely basis. The largest sources of cash during the year were the member, employer and sponsor contributions. The maturities of the Plan's fixed income and bond investments are as follows:

Fixed Income Maturities as of December 31, 2015

(in thousands of dollars)

< 1 year	≥ 1–5 years	≥ 5–10 years	≥ 10–20 years	≥ 20 years	Funds	Total
$562,336	**$1,819,378**	**$1,638,002**	**$1,096,245**	**$1,609,876**	**$212,777**	**$6,938,014**

Fixed Income Maturities as of December 31, 2014

(in thousands of dollars)

< 1 year	≥ 1–5 years	≥ 5–10 years	≥ 10–20 years	≥ 20 years	Funds	Total
$497,490	$1,675,177	$1,812,171	$986,996	$1,160,483	$173,931	$6,306,248

c) Cash and short-term investments

As at December 31 (in thousands of dollars)	2015	2014
Canada		
Cash	**$ 46,569**	$ 75,655
Short-term notes and treasury funds	**426,095**	652,960
Term deposits	**16,550**	15,500
Accrued interest	**370**	662
	$ 489,584	$ 744,777
Foreign		
Cash	**$ 162,247**	$ 133,994
Short-term notes and treasury funds	**17,319**	44,844
Accrued interest	**2**	10
	$ 179,568	$ 178,848

d) Fixed income and equity investments

Included in the bonds and private debt Canadian totals are $41 million (2014 – nil) related to pooled funds. Included in foreign equities totals are $374 million (2014 – $362 million) related to pooled funds.

e) Derivative contracts

Derivative contracts are financial contracts whose values change as a result of changes in the values of an underlying asset, index, yield curve or foreign exchange rate.

OPB uses derivatives, either directly with counterparties in the OTC market or on regulated exchanges, to facilitate asset allocation, alter the overall risk-return profile of the Plan, and manage or hedge risk. The Plan utilizes the following types of derivative contracts:

Futures contracts

Futures contracts are standardized agreements which can be purchased or sold on a futures exchange market at a predetermined future date and price, in accordance with terms specified by the regulated futures exchange, and are subject to daily cash margining. These types of derivatives are used to efficiently modify exposures without actually purchasing or selling the underlying asset.

Forward contracts

Foreign exchange forward contracts are negotiated agreements between two parties to exchange a notional amount of one currency for another at a price specified at origination of the contract, with settlement at a specified future date. Foreign exchange forward contracts are used by the Plan to modify currency exposure for both passive and active hedging.

A bond forward is a contractual obligation to either buy or sell an interest rate-sensitive financial instrument on a predetermined future date at a specified price. Bond forward contracts are used to modify the Plan's exposure to interest rate risk, such as hedging a potential new debenture issue.

Derivative contracts

As at December 31 (in thousands of dollars)	2015		2014	
	Notional	**Fair Value**	Notional	Fair Value
Equity derivatives				
Futures	**$ 624,416**	**$ (6,744)**	$ 793,468	$ 28,239
Currency derivatives				
Forwards	**7,473,626**	**(94,934)**	5,085,078	(50,911)
Fixed income derivatives				
Bond forwards	**266,617**	**(3,150)**	–	–
Value of derivative contracts	**$ 8,364,659**	**$ (104,828)**	$ 5,878,546	$ (22,672)

All derivative contracts have remaining maturities of less than one year as at December 31, 2015.

f) Securities lending

At year-end, $1.578 billion (2014 – $1.416 billion) of OPB's securities were on loan to third parties. Pursuant to a securities lending agreement, OPB's custodian arranges the loans and OPB earns a fee. The custodian follows strict lending criteria and over-collateralizes the loans with securities that have credit ratings equal to or better than the securities loaned. OPB does not employ cash collateral in its securities lending program. Securities under lending arrangements continue to be recognized as OPB's investments as OPB retains the rewards and risks associated with these securities. At year-end, $1.664 billion (2014 – $1.496 billion) of securities were held as collateral, providing a 5.5% (2014 – 5.6%) cushion against the potential credit risk associated with these securities lending activities.

g) Fair values

Canadian accounting standards for pension plans require disclosure of a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the financial statement date. The three levels are defined as follows:

Level 1: Fair value is based on quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include equity securities traded in an active exchange market.

Level 2: Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes mutual and pooled funds; hedge funds; Government of Canada, provincial and other government bonds; Canadian corporate bonds; and certain derivative contracts.

Level 3: Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This category generally includes investments with underlying real estate properties, private equity investments and securities that have liquidity restrictions.

The following tables present the level within the fair value hierarchy for investments and derivatives, excluding pending trades.

Fair value hierarchy 2015

As at December 31 (in thousands of dollars)	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Cash and short-term investments				
Canada	**$ 46,569**	**$ 443,015**	**$ –**	**$ 489,584**
Foreign	**162,247**	**17,321**	**–**	**179,568**
Bonds and private debt				
Canada	**–**	**5,954,125**	**363,294**	**6,317,419**
Foreign	**–**	**593,523**	**27,072**	**620,595**
Equities				
Canada	**1,813,019**	**–**	**–**	**1,813,019**
Foreign	**7,380,483**	**373,501**	**–**	**7,753,984**
Real estate	**–**	**–**	**4,247,082**	**4,247,082**
Private equity	**–**	**–**	**562,587**	**562,587**
Infrastructure	**–**	**–**	**1,167,558**	**1,167,558**
Forward contracts	**–**	**74,577**	**–**	**74,577**
	$ 9,402,318	**$ 7,456,062**	**$ 6,367,593**	**$ 23,225,973**
Financial liabilities				
Futures	**$ (6,744)**	**$ –**	**$ –**	**$ (6,744)**
Forward contracts	**–**	**(172,661)**	**–**	**(172,661)**
	$ (6,744)	**$ (172,661)**	**$ –**	**$ (179,405)**

Fair value hierarchy 2014

As at December 31 (in thousands of dollars)	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Cash and short-term investments				
Canada	$ 75,655	$ 669,122	$ –	$ 744,777
Foreign	133,994	44,854	–	178,848
Bonds and private debt				
Canada	–	5,115,812	411,819	5,527,631
Foreign	144	753,478	24,995	778,617
Equities				
Canada	2,117,745	–	–	2,117,745
Foreign	8,003,790	361,969	–	8,365,759
Futures	28,239	–	–	28,239
Real estate	–	–	3,425,640	3,425,640
Private equity	–	–	359,765	359,765
Infrastructure	–	–	754,609	754,609
Forward exchange contracts	–	19,802	–	19,802
	$ 10,359,567	$ 6,965,037	$ 4,976,828	$ 22,301,432
Financial liabilities				
Forward exchange contracts	$ –	$ (70,713)	$ –	$ (70,713)

There were no significant transfers between Levels 1, 2, or 3 during the years ended December 31, 2015 and 2014.

The following tables present a reconciliation of all Level 3 assets and liabilities measured at fair value for the years ended December 31, 2015 and 2014.

Level 3 reconciliation 2015

(in thousands of dollars)	Fair Value as at January 1, 2015	Transfers In/(Out)	Acquisitions	Dispositions	Issuance of Debt	Fair Value Changes	Fair Value as at December 31, 2015
Financial assets							
Private debt							
Canada	$ 411,819	$ –	$ 31,741	$ (72,122)	$ –	$ (8,144)	$ 363,294
Foreign	24,995	–	12,083	(14,281)	–	4,275	27,072
Real estate	3,425,640	–	1,291,555	(129,492)	(500,000)	159,379	4,247,082
Private equity	359,765	–	150,411	(38,509)	–	90,920	562,587
Infrastructure	754,609	–	406,727	(94,207)	–	100,429	1,167,558
	$ 4,976,828	$ –	$ 1,892,517	$ (348,611)	$ 500,000)	$ 346,859	$ 6,367,593

Level 3 reconciliation 2014

(in thousands of dollars)	Fair Value as at January 1, 2014	Transfers In/(Out)	Acquisitions	Dispositions	Issuance of Debt	Fair Value Changes	Fair Value as at December 31, 2014
Financial assets							
Private debt							
Canada	$ 433,106	$ –	$ 32,234	$ (44,766)	$ –	$ (8,755)	$ 411,819
Foreign	11,264	–	19,195	(6,059)	–	595	24,995
Real estate	2,927,351	–	553,229	(54,918)	–	(22)	3,425,640
Private equity	108,272	–	261,128	(16,886)	–	7,251	359,765
Infrastructure	527,112	–	205,124	(10,980)	–	33,353	754,609
	$ 4,007,105	$ –	$ 1,070,910	$ (133,609)	$ –	$ 32,422	$ 4,976,828

h) Commitments and guarantees

As at December 31, 2015, OPB has provided funding commitments for certain investments in the amount of $3,436 million (2014 – $1,671 million), of which $1,591 million (2014 – $772 million) has been advanced to date.

OPB has provided a guarantee for the payment of principal and interest on $1,250 million in debentures which were issued by OPB Finance Trust, a trust established for the benefit of OPB and its related entities. Four series of debentures have been issued as at December 31, 2015:

1. $350 million, Series A, 30-year debentures due 2042, with interest payable semi-annually at 3.89%.
2. $150 million, Series B, 50-year debentures due 2062, with interest payable semi-annually at 3.87%.
3. $250 million, Series C, 10-year debentures due 2023, with interest payable semi-annually at 2.90%.
4. $500 million, Series D, 7-year debentures due 2022, with interest payable semi-annually at 1.88%.

The proceeds from the issuance of the 30-year and 50-year debentures were loaned to two OPB real estate subsidiaries. In turn, these real estate companies repaid amounts owed to OPB.

The proceeds from the issuance of the 10-year debentures were loaned to a real estate trust established for the benefit of OPB.

On February 24, 2015, OPB Finance Trust issued $250 million of Series D debentures at an effective yield of 1.885% and subsequently on November 17, 2015, the Series D debentures were reopened to raise an additional $250 million at an effective yield of 2.300%. The proceeds from the issuance of the 7-year debentures were loaned to three real estate subsidiaries and a real estate trust.

Subsequent to year-end, on February 2, 2016, OPB Finance Trust issued $250 million of Series E debentures at an effective yield of 2.956%. The debentures are due on February 2, 2026 with an interest rate of 2.95% per annum, calculated and payable semi-annually. The repayment of principal and interest for the Series E debentures is fully guaranteed by OPB.

OPB's real estate investments are shown net of the OPB Finance Trust debentures and any other financings specifically assumed by these real estate entities.

In addition to the guarantee on the debentures, $19 million of letters of credit are guaranteed by OPB as at December 31, 2015.

i) Investment in real estate

The Real Estate portfolio is comprised of direct holdings of real estate properties, partial ownerships of real estate investments held through funds or similar investment vehicles and participating mortgages. Those investments are recorded at their fair values determined in accordance with OPB's valuation policy.

The following table provides a breakdown of the Real Estate portfolio by its major components.

Investment in real estate

As at December 31 (in thousands of dollars)	2015	2014
Assets		
Real estate properties	**$ 2,274,625**	$ 2,399,106
Investments[1]	**3,276,149**	1,820,043
Total assets	**5,550,774**	4,219,149
Liabilities		
Debentures[2]	**1,289,521**	783,891
Other liabilities, net	**14,171**	9,618
Total liabilities	**1,303,692**	793,509
Net investment in real estate	**$ 4,247,082**	$ 3,425,640

[1] Investments held through non-controlling co-ownerships, funds, or similar investment vehicles consist of real estate properties, any related assets and liabilities and participating mortgages. These assets and liabilities are presented on a net basis.

[2] The debentures represent securities issued by OPB Finance Trust and are guaranteed by OPB (see Note 4(h)).

Note 5 Capital assets

As at December 31, 2015 (in thousands of dollars)	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Computer equipment	**$ 4,624**	**$ 3,995**	**$ 629**
Furniture and fixtures	**2,483**	**1,808**	**675**
Leasehold improvements	**1,641**	**983**	**658**
Total capital assets	**$ 8,748**	**$ 6,786**	**$ 1,962**

As at December 31, 2014 (in thousands of dollars)	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	$ 4,262	$ 3,613	$ 649
Furniture and fixtures	2,478	1,577	901
Leasehold improvements	1,607	826	781
Total capital assets	$ 8,347	$ 6,016	$ 2,331

Note 6 Pension obligations

a) Accounting basis

The value of pension obligations of $23.5 billion (2014 – $22.6 billion) is an estimate of pension benefit obligations accrued to date for members and retired members. The accounting valuation is determined by applying best estimate assumptions and the projected benefit cost method (pro-rated on service), as required under Canadian accounting standards for pension plans. Under this method, the accrued pension benefits are based on service earned up to the reporting date. The accrued pension benefits as at December 31, 2015 were computed by extrapolating data used for the December 31, 2014 funding valuation prepared by the independent actuary for management purposes.

Actuarial assumptions – The actuarial assumptions used in determining the value of accrued pension benefits reflect management's best estimate of future economic and non-economic events. The primary economic assumptions, as at December 31, are:

Economic Assumptions	**2015**	2014
Investment return	**5.95%**	5.95%
Inflation	**2.10%**	2.10%
Real rate of return	**3.85%**	3.85%
Salary increases		
2015	**1.5% + promotional scale**	1.0% + promotional scale
2016	**1.5% + promotional scale**	1.5% + promotional scale
2017	**1.5% + promotional scale**	1.5% + promotional scale
2018	**2.0% + promotional scale**	2.0% + promotional scale
2019	**2.5% + promotional scale**	2.5% + promotional scale
2020 and thereafter	**3.1% + promotional scale**	3.1% + promotional scale

The non-economic assumptions include mortality, withdrawal and retirement rates. During 2015, the changes in actuarial assumptions resulted in a decrease of $54 million (2014 – a decrease of $272 million) to the Plan's pension obligations. A survivorship adjustment for spouses, offset by the strengthening of the mortality assumption as a result of Plan experience, was the main contributor to the decrease in obligations in 2015.

b) Funding basis

The funding valuation of the PSPP is based on methods required under the *PSPAct* and the *Pension Benefits Act* (Ontario) ("*PBA*"). The *PBA* and the *Income Tax Act* (Canada) require that an actuarial funding valuation of the PSPP be completed and filed with the regulatory authorities at least every three years. The most recent filing was a funding valuation as at December 31, 2013, prepared by Aon Hewitt, which disclosed a funding shortfall of $804 million on a going-concern basis. The effective date of the next funding valuation that is required to be filed will be as at December 31, 2016. A funding valuation was prepared for management purposes as at December 31, 2014 by Aon Hewitt, which disclosed a funding shortfall of $430 million on a going-concern basis.

The funding valuation is used as a basis for funding and Plan design decisions. Differences between the accounting and funding valuation results may arise due to such factors as variances between estimated and actual data, economic and demographic assumptions or conditions, actuarial methodology, and subsequent events.

Note 7 Deficit

In these financial statements, the amount by which net assets available for benefits is less than the pension obligations is represented by the deficit, which as at December 31, 2015 was $434 million (2014 – $332 million).

Note 8 Net investment income

For the year ended December 31 (in thousands of dollars)	**Investment Income[1]**	**Fair Value Changes**	**2015 Total**	Investment Income[1]	Fair Value Changes	2014 Total
Cash and short-term investments						
Canada	**$ 9,520**	**$ 16,365**	**$ 25,885**	$ 13,603	$ 16,487	$ 30,090
Foreign[2]	**1,788**	**(615,953)**	**(614,165)**	1,735	(163,538)	(161,803)
	11,308	**(599,588)**	**(588,280)**	15,338	(147,051)	(131,713)
Fixed income						
Special Province of Ontario Debentures[3]	**–**	**–**	**–**	14,208	(12,490)	1,718
Bonds and private debt						
Canada	**242,205**	**(5,720)**	**236,485**	235,655	257,127	492,782
Foreign	**45,739**	**35,309**	**81,048**	53,187	14,378	67,565
	287,944	**29,589**	**317,533**	303,050	259,015	562,065
Equities						
Canada	**59,804**	**(273,612)**	**(213,808)**	52,105	93,010	145,115
Foreign	**221,159**	**944,398**	**1,165,557**	195,262	724,694	919,956
	280,963	**670,786**	**951,749**	247,367	817,704	1,065,071
Real estate	**196,493**	**147,291**	**343,784**	141,650	(22)	141,628
Infrastructure	**41,908**	**99,303**	**141,211**	18,215	33,353	51,568
Private equity	**46,865**	**90,532**	**137,397**	21,276	7,251	28,527
Total investment income	**$ 865,481**	**$ 437,913**	**$1,303,394**	$ 746,896	$ 970,250	$1,717,146
Investment management and related fees (Note 8(c))			**(79,413)**			(75,242)
Net investment income			**$ 1,223,981**			$1,641,904

[1] Investment income includes interest on cash and short-term investments, fixed income and participating mortgages, dividend income on equities, real estate dividend income and distribution income from various pooled funds.

[2] Fair value changes on cash and short-term investments include gains (losses) on foreign exchange contracts.

[3] Special Province of Ontario Debentures matured in 2014.

a) Interest income

For the year ended December 31 (in thousands of dollars)	2015	2014
Cash and short-term investments		
Canada		
Cash	**$ 5,059**	$ 6,541
Short-term notes and treasury funds	**4,394**	6,984
Term deposits	**67**	78
	$ 9,520	$ 13,603
Foreign		
Cash	**$ 1,784**	$ 499
Short-term notes and treasury funds	**4**	1,236
	$ 1,788	$ 1,735

Earnings from pooled short-term investment funds are included with short-term notes and treasury funds.

b) Dividend income

Dividend income includes $46.4 million (2014 – $18.5 million) from pooled equity funds.

c) Investment management and related fees

For the year ended December 31 (in thousands of dollars)	2015	2014
Portfolio fund management	**$ 63,104**	$ 58,239
Transaction costs	**9,659**	10,641
Custodial	**5,607**	4,768
Private market	**1,043**	1,594
	$ 79,413	$ 75,242

Transaction costs include commissions and fees on trades.

Note 9 Contributions

For the year ended December 31 (in thousands of dollars)	**2015**	2014
Members		
Current service required	**$ 289,515**	$ 282,837
Prior service	**28,800**	27,501
Total contributions from members	**318,315**	310,338
Employers		
Current service		
Regular contributions	**289,043**	283,063
PSSBA transfer	**(12,637)**	(10,253)
For members receiving Long Term Income Protection benefits	**11,485**	11,089
Prior service	**4,557**	4,337
	292,448	288,236
Sponsor payments		
Special payments	**98,989**	98,989
Additional current service	**21,852**	21,528
	120,841	120,517
Total contributions from employers and sponsor	**413,289**	408,753
Total contributions	**$ 731,604**	$ 719,091

The contribution requirements are set out in the *PSPAct* and summarized in Note 2(b).

Members who are receiving benefits on Long Term Income Protection have their contributions to the PSPP paid by their employers.

The Province, as sponsor of the Plan, contributed $99 million (2014 – $99 million) in Special Payments in 2015 towards the funding shortfall identified in the filed funding valuation as at December 31, 2013. In 2015, the Province made $22 million (2014 – $22 million) in additional employer current service contributions.

For 2015 and 2014, the contributions to the Plan were made in accordance with the funding requirements as specified by the most recently filed actuarial funding valuation.

There were no required contributions past due as at December 31, 2015 and 2014.

Note 10 Operating expenses

Pension operations

For the year ended December 31 (in thousands of dollars)	**2015**	2014
Staffing costs	**$ 12,916**	$ 13,097
Staff development and support	**99**	193
Office premises and operations	**2,894**	3,120
Information technology and project management	**6,486**	5,174
Professional services	**868**	932
Communication	**288**	309
Depreciation	**457**	515
Board remuneration	**57**	68
Audit	**244**	230
	$ 24,309	$ 23,638

Investment operations

For the year ended December 31 (in thousands of dollars)	**2015**	2014
Staffing costs	**$ 13,409**	$ 11,555
Staff development and support	**179**	171
Office premises and operations	**2,656**	2,238
Information technology and project management	**3,231**	2,651
Professional services	**2,319**	2,222
Communication	**124**	133
Depreciation	**315**	302
Board remuneration	**86**	102
Audit	**244**	230
	$ 22,563	$ 19,604

Included in the above operating expenses are:

External audit services

For the year ended December 31 (in thousands of dollars)	**2015**	2014
External audit and related services provided to Ontario Pension Board	**$ 256**	$ 253
External audit and related services provided to and recorded by subsidiary operations	**311**	241
Total fees	**$ 567**	$ 494

Actuarial services

For the year ended December 31 (in thousands of dollars)	**2015**	2014
Actuarial services provided to Ontario Pension Board	**$ 410**	$ 539

Note 11 Capital management

The funding surpluses or deficits determined periodically through the funding valuations prepared by an independent actuary are defined as the Plan's capital. The actuary's funding valuation is used to measure the long-term health of the Plan. The last filed actuarial valuation report for funding purposes was prepared by Aon Hewitt as of December 31, 2013, which disclosed a funding shortfall of $804 million on a going-concern basis and a deficit of $871 million on a solvency basis. The effective date of the next required actuarial valuation for funding purposes is December 31, 2016.

The objective of managing the Plan's capital is to ensure the Plan is funded to fully pay out the Plan's benefits. The funding valuation determines the annual minimum contribution levels to eliminate any shortfalls. The Plan's SIP&P also provides guidance with respect to the investment of the Plan's assets (see Note 4(a)) in order to assist with the management of any funding excesses or shortfalls. The SIP&P was last amended in November 2015, resulting in the asset mix targets as shown in Note 4(a). The Plan's rate of return expectation has been set in the SIP&P at a 3.85% real rate of return, net of fees.

Note 12 Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2015 financial statements.

Supplementary Information

Fixed income maturities

As at December 31 (in thousands of dollars)	2015		2014	
	Fair Value	**Current Yield %**	Fair Value	Current Yield %
Bonds				
Canada				
0–1 year	**$ 532,406**	**0.98–12.01**	$ 483,372	0.14–13.11
≥ 1–5 years	**1,646,854**	**0.25–14.19**	1,437,397	1.00–17.83
≥ 5–10 years	**1,330,725**	**0.75–11.16**	1,382,513	1.49–12.71
≥ 10 years	**2,622,330**	**1.07–11.37**	2,064,021	2.18–10.38
	6,132,315		5,367,303	
Foreign				
0–1 year	**29,930**	**3.16–7.00**	14,118	3.21–12.90
≥ 1–5 years	**172,524**	**2.48–38.10**	237,780	1.05–15.76
≥ 5–10 years	**307,277**	**2.04–21.61**	429,658	1.11–20.28
≥ 10 years	**83,791**	**1.43–10.12**	83,458	1.14–9.54
	593,522		765,014	
Fixed income funds	**212,177**		173,931	
Total fixed income	**$ 6,938,014**		$ 6,306,248	

Investments over $200 million

As at December 31, 2015 (in thousands of dollars)	Maturities	Coupon %	Fair Value[1]
Fixed income			
OPB Investment Inc. (holding company, 100% owned)	–	–	$ 215,844
Bonds	–	–	
Canada	–	–	
Government of Canada	2017–2064	0.25–10.50	$ 877,424
Province of Ontario	2017–2062	1.62–9.50	835,386
Canada Housing Trust No.1	2016–2025	0.79–4.10	533,546
Province of Quebec	2017–2055	0.00–9.63	335,606
Real estate, net of financing			
Investment in real estate holdings, comprising OPB Realty Inc. (holding company, 100% owned), OPB (EMTC) Inc. (holding company, 100% owned), OPB (Southgate) Inc. (holding company, 100% owned), OPB (155 Wellington) Inc. (holding company, 100% owned), OPB Finance Trust (financing entity, 100% beneficial interest), OPB Real Estate Investments 2 Ltd. (holding company, 100% owned), OPB (Centre 10) Inc. (holding company, 100% owned) and OPB (TDC) Inc. (holding company, 100% owned).	–		$ 3,091,271

Infrastructure and equities

As at December 31, 2015 (in thousands of dollars)	Shares/Units[2]	Fair Value[2]
Infrastructure		
OPB Infrastructure 2 Ltd. (holding company, 100% owned)	–	$ 662,590
Private equities		
OPB Private Equity 5 Ltd. (holding company, 100% owned)	–	$ 255,817
Equities		
Other International		
Leith Wheeler International Fund	22,664	$ 373,501

[1] Includes guaranteed instruments issued by subsidiaries/agencies.

[2] Includes all share classes and American Depositary Receipts.

Real estate properties – Location and gross leasable area

As at December 31, 2015 (in thousands of square feet)	Location	Gross Leasable Area
Retail		
Pen Centre	St. Catharines	1,048
Southgate Centre	Edmonton	942
St. Vital Centre	Winnipeg	931
Pickering Town Centre	Pickering	922
Erin Mills Town Centre	Mississauga	868
Erin Mills Town Plaza	Mississauga	59
Woodgrove Centre	Nanaimo	748
Midtown Plaza	Saskatoon	734
Cornwall Centre	Regina	569
Halifax Shopping Centre	Halifax	526
Halifax Shopping Centre Annex	Halifax	420
West End Mall	Halifax	183
Carlingwood Shopping Centre	Ottawa	521
		8,471
Office		
TD Centre	Toronto	4,494
RBC Centre	Toronto	1,211
Centre 10	Calgary	370
Pickering Office Tower	Pickering	127
Halifax Office Complex	Halifax	80
		6,282
Residential		
Engelhart Apartments	Toronto	85
Total properties		**14,838**

* Area shown above reflects 100% of each property's square footage. Southgate Centre and RBC Centre are 50% owned by Ontario Pension Board through its subsidiaries OPB (Southgate) Inc. and OPB (155 Wellington) Inc. Woodgrove Centre, Midtown Plaza, Cornwall Centre and Engelhart Apartments are 50% owned by Ontario Pension Board through its subsidiary OPB Real Estate Investments 2 Limited. TD Centre is 30% owned by Ontario Pension Board through its subsidiary OPB (TDC) Inc.

Financial Services Commission of Ontario

Deputy Superintendent
Pension Division

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Commission des services financiers de l'Ontario

Surintendant adjoint
Division des régimes de retraite

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Ontario

June 28, 2016

Pension Benefits Guarantee Fund

Management's Responsibility for Financial Information

The CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario ("FSCO") pursuant to the *Financial Services Commission of Ontario Act, 1997* and specifically, subsection 82(2) of the *Pension Benefits Act*, is responsible for the administration of the Pension Benefits Guarantee Fund.

Under the direction of the Superintendent, FSCO Management (Management) is responsible for the integrity and fair presentation of all information in the financial statements and notes. The financial statements have been prepared by Management in accordance with Canadian Public Sector Accounting Standards. The preparation of financial statements involves the use of Management's judgment and best estimates particularly when transactions affecting the current period cannot be determined with certainty until future periods.

In the administration of the Pension Benefits Guarantee Fund, Management is dedicated to the highest standards of integrity in provision of its services and has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and safeguarding of its assets.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian Public Sector Accounting Standards for Government Not-For-Profit organizations. They have been approved by the Commission's Audit & Risk Committee. The Auditor's report follows.

Lester J. Wong
Deputy Superintendent, Pensions

Kwan Lee
Chief Accountant

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Financial Services Commission of Ontario
and to the Minister of Finance

I have audited the accompanying financial statements of the Pension Benefits Guarantee Fund of the Financial Services Commission of Ontario, which comprise the statement of financial position as at March 31, 2016, and the statements of operations and fund surplus, cash flows and re-measurement gains and losses 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 Canadian public sector accounting 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission's Pension Benefits Guarantee Fund as at March 31, 2016, and the results of its operations, its cash flows and its re-measurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

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Toronto, Ontario
June 28, 2016

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Financial Position
As at March 31, 2016

	March 31, 2016 ($ '000)	March 31, 2015 ($ '000)
ASSETS		
Current		
Cash (overdraft)	-	(123)
Accounts receivable	72,243	62,014
Investments (Note 4)	528,116	480,768
	600,359	542,659
LIABILITIES AND FUND SURPLUS		
Current		
Accounts payable and accrued liabilities	5,940	4,449
Current portion of loan payable (Note 5)	11,000	11,000
Claims payable	24,476	33,840
	41,416	49,289
Loan payable (Note 5)	117,216	121,540
	158,632	170,829
Fund surplus from operation	442,671	371,687
Accumulated remeasurement gains (losses)	(944)	143
Fund surplus	441,727	371,830
	600,359	542,659

See accompanying notes to financial statements

Approved by:

Brian Mills
Chief Executive Officer
and Superintendent of Financial Services
Financial Services Commission of Ontario

FINANCIAL SERVICES COMMISSION OF ONTARIO

Statement of Operations and Fund Surplus
For the year ended March 31, 2016

	2016 ($ '000)	2015 ($ '000)
Revenue		
Premium revenue	70,944	(536)
Pension plan recoveries (Note 7)	16,534	6,463
Investment income (Note 4)	4,881	5,283
	92,359	11,210
Expenses		
Claims	8,491	3,960
Amortization of loan discount (Note 5)	6,676	6,883
Pension consulting services (Note 8)	5,446	3,756
Administration fee (Note 9)	597	485
Investment management fees (Note 9)	165	155
	21,375	15,239
Excess (deficit) of revenue over expenses	70,984	(4,029)
Fund surplus, beginning of year	371,687	375,717
Fund surplus, end of year	442,671	371,687

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Cash Flows
For the year ended March 31, 2016

	March 31, 2016 ($ '000)	March 31, 2015 ($ '000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess (deficit) of revenue over expenses	70,984	(4,029)
Items not affecting cash:		
Amortization of loan discount (Note 5)	6,676	6,883
Losses on disposal of investments	333	492
	77,993	3,346
Changes in non cash working capital		
Accounts receivable	(10,229)	62,074
Claims payable	(9,364)	(17,076)
Accounts payable and accrued liabilities	1,491	(6,595)
	59,891	41,749
Cash flows from investing activities		
Purchases of investments	(2,973,205)	(3,258,352)
Proceeds from sale of investments	2,924,437	3,227,479
	(48,768)	(30,873)
Cash flows from financing activities		
Loan repayments	(11,000)	(11,000)
	(11,000)	(11,000)
Change in cash position	123	(124)
Cash position, beginning of year	(123)	1
Cash (overdraft) position, end of year	-	(123)

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Re-measurement Gains and Losses
For the year ended March 31, 2016

	March 31, 2016 ($ '000)	March 31, 2015 ($ '000)
Accumulated re-measurement gains (losses), beginning of year	**143**	**(8)**
Unrealized losses attributed to portfolio investments	(1,420)	(341)
Realized losses reclassified to the statement of operations	333	492
Accumulated re-measurement gains (losses), end of year	**(944)**	**143**

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2016

1. STATUTORY AUTHORITY

The Pension Benefits Guarantee Fund (the “Fund” or “PBGF”) is continued under the *Pension Benefits Act, R.S.O. 1990, c. P.8* (the “Act”).

2. FUND OPERATIONS

The purpose of the Fund is to guarantee payment of pension benefits of certain defined benefit pension plans that are wound up under conditions specified in the Act and regulations thereto. The regulations also prescribe an assessment payable into the Fund by plan registrants.

The Act provides that if the assets of the Fund are insufficient to meet payments for claims, the Lieutenant Governor in Council may authorize the Minister of Finance of Ontario to make loans or grants on such terms and conditions as the Lieutenant Governor in Council directs. The total liability of the Fund to guarantee pension benefits is limited to the assets of the Fund including any loans or grants received from the Province.

The CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario (“FSCO”) pursuant to the *Financial Services Commission of Ontario Act, 1997* and specifically, subsection 82(2) of the *Pension Benefits Act,* is responsible for the administration of the Fund, and the Fund reimburses FSCO for the costs of the services provided to the Fund. The investments of the Fund are managed by the Ontario Financing Authority, on a fee-for-service basis which is paid by the Fund.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund have been prepared by the management of FSCO in accordance with Public Sector Accounting Standards for Government Not-For-Profit organizations (PSA-GNFPO) as issued by the Public Sector Accounting Board (PSAB). Accordingly, management has used the following significant accounting policies in their preparation.

(a) Financial Instruments

The Fund follows PSA-GNFPO accounting standards relating to financial instruments. Under these standards, all financial instruments are included on the balance sheet and are measured either at fair value or at cost or amortized cost as follows:

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2016

- Cash and investments are recorded at fair value, with changes in fair value during the period recognized in the statement of re-measurement gains and losses until realized. Fair value is determined from quoted prices for similar investments.

- Accounts receivable, account payable and accrued liabilities are valued at cost which approximate fair value given their short term maturities.

- The non-interest bearing loan payable is reflected at amortized cost using the effective interest rate method due to the concessionary nature of the loan. The initial valuation was determined by discounting future cash flows using the provincial cost of borrowing. The resulting benefit (the difference between the face value of the loan and the net present value) was accounted for as a grant in the year received and is amortized to loan discount expense over the term of the loan.

(b) Claims Payable

Claims payable are estimates of the liabilities in respect of those defined benefit pension plans prescribed by the Act that are wound up or in the process of being ordered wound up under conditions specified in the Act, and the claim amounts can be reasonably estimated. Liabilities are also recognized when there is a high probability that a company will not emerge from creditor protection and the pension plan will be wound up on a specified date and the claim can be reasonably estimated. Claims payable are based on information provided by appointed pension plan administrators from estimates provided by actuarial consultants. These estimates represent the present value of future payments to settle claims for benefits and expenses by pension plans.

Differences in the liabilities, if any, between the amounts recognized based on estimates and the actual claims made, will be charged or credited to claims expense in the year when the actual amounts are determined.

(c) Premium Revenue

An estimate of the premium revenue due from defined benefit pension plans at rates prescribed by the Act is recorded until receipt of the annual assessment certificate nine months after the plan’s fiscal year end.

Differences in premium revenue, if any, between the estimated amounts recognized and the actual revenues due are charged or credited to premium revenue in the year.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2016

The negative revenue for fiscal 2015 is due to an overestimation of premium revenue made during fiscal 2014. Better than estimated plan funding positions of these plans resulted in an overestimation of premium revenue.

	2016	2015
	($'000)	($'000)
Estimated revenue	61,300	59,500
Actual revenue related to current and prior years received in current year	69,144	61,364
Less: prior year's estimated revenue	(59,500)	(121,400)
	70,944	**(536)**

(d) Use of Estimates

The preparation of financial statements in accordance with PSA-GNFPO accounting standards requires that FSCO's management make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses for the period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates and the differences could be material. Areas where significant estimates must be made include premium revenue and claims payable.

4. INVESTMENTS

As the administrator, investing the assets of the Fund, FSCO has established a Pension Benefits Guarantee Fund Management Committee. The Committee has developed a Statement of Investment Policies and Guidelines which is reviewed regularly and provides operational objectives, investment principles, policies and guidelines for the management of the investments.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2016

Investments consist of:

	2016 ($'000) Fair Value	2016 ($'000) Cost	2015 ($'000) Fair Value	2015 ($'000) Cost
Discounted notes	291,607	291,607	273,097	273,097
Government bonds	236,509	237,453	207,671	207,528
	528,116	529,060	480,768	480,625

Investment income includes interest earned from interest bearing securities and realized gains and losses from the sale of securities.

The Fund's investment portfolio is exposed to various risks, which are mitigated by the type of investment and therefore risk is low.

The market value sensitivity of the Money Market Portfolio at the end of the last quarter was $0.81M for a 1.00% change in rates. The market value sensitivity of the Government Bond Laddered Portfolio at the end of the last quarter was $0.83M for a 1.00% change in rates.

Discounted notes with maturities between April 2016 and June 2016 have yields in the range of 0.462% to 0.830% (2015 – maturities between April 2015 and July 2015 had yields in the range of 0.528% to 1.230%).

The government bonds maturing between April 2016 and December 2018 have yields in the range of 0.884 to 1.433% (2015 – maturing between December 2015 and December 2017 have yields in the range of 1.084 to 1.492%).

5. LOAN PAYABLE

Non-interest Bearing Loan

On March 31, 2004, the Fund obtained a $330M loan from the Province, a related party. The loan is non-interest bearing and repayable to the Province in thirty equal annual installments of $11M. The loan agreement provides for the Minister of Finance to advance any installment payment date depending on the cash position of the Fund. Repayments

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2016

over the next five years total $55M.

The face value of this non-interest bearing loan has been discounted at an effective interest rate of 5.0368% to reflect its amortized cost outstanding as of March 31, 2016 as follows:

	2016 ($'000)	2015 ($'000)	2011 ($'000)
Face Value	198,000	209,000	253,000
Less: Discount	(69,784)	(76,460)	(105,139)
Amortized Cost	128,216	132,540	147,861
Classified as:			
Current Portion	11,000	11,000	11,000
Long Term Portion	117,216	121,540	136,861
Balance	128,216	132,540	147,861

The discount of $69.78M is amortized to loan discount expense over the remaining term of the loan, based on the effective interest rate method. The amortization schedule for the subsequent five fiscal years is as follows:

Fiscal Year	($'000)
2017	6,458
2018	6,229
2019	5,989
2020	5,737
2021	5,471

6. FINANCIAL INSTRUMENTS

The main risks that the Fund's financial instruments are exposed to are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. The Fund is exposed to credit risk relating to the collection of receivables. The Fund considers this risk to be low.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2016

The Fund's accounts receivable consists of premium revenue receivable of $71.2M, investment income receivable of $0.8M and the HST receivable of $0.2M.

The premium revenue receivable recorded is based on an assessment formula set out in section 37 of Regulation 909 of the Act and is calculated as follows:

- Base assessment of $5 per Ontario plan beneficiary plus specified percentages of the plans PBGF assessment base;
- Maximum assessment of $300 per Ontario plan beneficiary; and
- Minimum assessment of $250 for each plan.

The probability for a pension plan to become insolvent and not pay the premium within a year is very low. In addition, in the event that a pension plan would become insolvent within a year, there are legal options for the Fund that can be exercised to collect the premiums. Historically, the Fund has been able to collect the amounts estimated as premium receivable.

The risk of not collecting the investment income and the HST receivable is considered to be minimal.

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its cash flow obligations as they fall due. The Fund's exposure to liquidity risk is minimal as the Fund has sufficient funds in its investment portfolio to settle all current liabilities and the Fund's exposure is limited to the assets of the Fund including any loans or grants received from the Province. As at March 31, 2016, the Fund has an investment balance of $528M (2015 - $481M) to settle current liabilities of $41M (2015 - $49M). In addition, the Fund has the ability to meet sudden and unexpected claims by converting the investment holdings to cash without delay or significant transaction costs.

Market risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Fund. Short-term financial instruments (receivables, accounts payable) are not subject to significant market risk. The Fund manages its market risk by investing assets in low-risk and liquid securities. The Fund's market risk is considered to be low.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2016

7. PENSION PLAN RECOVERIES

Following the settlement of all benefits, payment of expenses and the submission of the final wind up report, any remaining funds are recovered by the Fund. During fiscal 2016, the Fund had $16.5M (2015 – $6.5M) in recoveries. Approximately $5.3M in recoveries is expected in the fiscal year 2017.

8. PENSION CONSULTING SERVICES

The Fund periodically engages the services of external experts to represent the Fund's interests in insolvency proceedings respecting employers who are unable to meet their funding obligations under the *Pension Benefits Act*. For fiscal 2016, $5.4M was paid to such external experts (2015 - $3.8M paid).

9. RELATED PARTY TRANSACTIONS

For fiscal 2016, an administration fee of $0.6M (2015 - $0.5M) was incurred and has been paid to FSCO for management salaries and benefits, accounting, information technology, legal, pension and other services. The Fund and FSCO are related parties.

Investment Management fees consist mainly of fees paid to the Ontario Financing Authority, a related party.

The costs of processing premium revenue transactions are absorbed by FSCO without charge to the Fund.

Other related party transactions during the year have been disclosed in note 5.

10. CONTINGENT LIABILITIES

There is currently a company operating under *Companies' Creditors Arrangement Act* protection whose pension plans could make significant claims on the Fund. As these potential claims remain at an early stage, an estimate of the claims which might be incurred, if any, cannot be determined.

Provincial Judges Pension Fund

Management Responsibility for Financial Reporting

The financial statement has been prepared in accordance with the financial reporting provisions prescribed by the Memorandum of Agreement between the Ontario Conference of Judges and the Lieutenant Governor in Council, the then Minister of Government Services and the Provincial Judges Pension Board (the Standstill Agreement) dated December 20, 2013 and of necessity include some amounts that are based on estimates and judgments. The financial statement has been properly prepared within reasonable limits of materiality and in light of information available up to June 8, 2016.

Management is responsible for the integrity of the financial statement and maintains a system of internal control designed to provide reasonable assurance that the financial information is accurate and reliable and the Fund's deposits and payments are adequately accounted for. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The financial statement has been audited by the Office of the Auditor General of Ontario, whose responsibility it is to express an opinion on whether it has been prepared in accordance with the financial reporting provisions prescribed by the Standstill Agreement. The Independent Auditor's Report that appears as part of the financial statement outlines the scope of the Auditors examination and opinion.

On behalf of management

Mark A. Henry
Director, Managed Plans
Ontario Pension Board

Janette Jozefacki
Director, Total Compensation Strategy Branch
Treasury Board Secretariat

Rob Gagné
Director, Pay & Benefits Operations Branch
Pay and Benefits Services Division
Ontario Shared Services
Ministry of Government and Consumer Services

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Provincial Judges Pension Board and to the Minister of Finance

I have audited the accompanying Statement of Changes in Fund Balance of the Provincial Judges Pension Fund as at March 31, 2016, and a summary of significant accounting policies and other explanatory information (together the "financial statement"). The financial statement has been prepared by management in accordance with the financial reporting provisions prescribed by the Memorandum of Agreement between the Ontario Conference of Judges and the Lieutenant Governor in Council, Minister of Government Services and the Provincial Judges Pension Board (the Standstill Agreement) dated December 20, 2013.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation of this financial statement in accordance with the financial reporting provisions prescribed by the Standstill Agreement, and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on this financial statement based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

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

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statement of the Provincial Judges Pension Fund as at March 31, 2016 is prepared in accordance with the financial reporting provisions of the Standstill Agreement.

Basis of Accounting

Without modifying my opinion, I draw attention to Note 2 to the financial statement, which describes the basis of accounting. The financial statement is prepared to assist the Provincial Judges Pension Fund to meet the reporting requirements of the Standstill Agreement, and as a result the financial statement may not be suitable for another purpose.

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Toronto, Ontario
June 8, 2016

Susan Klein, CPA, CA, LPA
Assistant Auditor General

Provincial Judges Pension Fund

Statement of Changes in Fund Balance

For the Year Ended March 31, 2016

	2016 ($ 000)	2015 ($ 000)
Deposits		
Contributions		
Participants	4,419	4,285
Province of Ontario (Note 4)	34,512	34,512
Interest earned	47,201	46,292
	86,132	85,089
Payments		
Pension payments and survivor allowances	37,837	35,463
Refund of contributions	13	196
	37,850	35,659
Net increase in the Fund	48,282	49,430
Fund Balance with the Minister of Finance		
Beginning of year	848,490	799,060
End of year	896,772	848,490

See accompanying notes to the financial statement.

Approved on behalf of the Board:

D.A. Oakley

Chair

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2016

1. Description and Administration of the Fund

The Treasury Board Secretariat is responsible for overall oversight of the Provincial Judges Pension Fund [Fund] including administration of all contributions to the funds and interest earned. The Provincial Judges Pension Board [Board], as originally designated by Ontario Regulation 67/92 of the Courts of Justice Act, is responsible for the administration of pension payments and survivor allowances.

On Oct 31, 2013, Ontario Regulation 67/92 was repealed and was replaced by Ontario Regulation 290/13 under the same legislation. The new Regulation splits the Provincial Judges Pension Fund into two plans, the Provincial Judges Pension Fund and the Provincial Judges Supplementary Pension Account.

The Fund is registered for income tax purposes and provides for pension benefits up to the limit permitted under the Income Tax Act. The Provincial Judges Supplementary Pension Account provides for pension benefits above the limit prescribed by the Income Tax Act for post-1991 service.

On December 20, 2013, a Court Order was issued, based on an agreement among parties to the litigation challenging the constitutionality of the Provincial Judges Supplementary Pension Account, that effectively ordered management to administer the Fund as one plan with the same administrative practices as were in place under Ontario Regulation 67/92, until the litigation is resolved (Memorandum of Agreement called the “Standstill Agreement”). Parties to this process have until June 30, 2016 to resolve the status of the Divisional Court application, seek to schedule the Application or reach an agreement to extend the deadline. Pursuant to the direction of the Canada Revenue Agency, the administrative practices for the Provincial Judges Pension Plan were and continues to be to administer the Plan in a manner consistent with the requirements of the Federal Income Tax Act and related Income Tax Act Regulations.

As a result, this financial statement continues to be presented as one Fund.

The Fund is held within the Consolidated Revenue Fund of the Province of Ontario and is included as an employee future benefit liability within the consolidated financial statements of the Province.

The Fund is not subject to the reporting requirements under the Pension Benefits Act and Regulations.

The following brief description of the Fund is provided for general purposes only. For more complete information, reference should be made to the Regulations.

(A) GENERAL

The purpose of the Fund is to provide pension payments to retired Provincial Judges who are members of the Plan or survivor allowances to the eligible dependents of these Judges.

(B) FUNDING POLICY

Participants are required to contribute 7% of their salary to the earlier occurrence of meeting their basic service requirement or attaining age 70 years.

The contribution required from the Province is determined by an actuarial valuation as described in note 4.

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2016

1. Description and Administration of the Fund (Continued)

(C) PENSION PAYMENTS

A pension payment is available based on the age and the number of years of full-time service for which the participant has credit upon ceasing to hold office and is based on the salary of a full-time judge of the highest judicial rank held by the participant while in office. The participant is entitled to these payments during his/her lifetime.

(D) DISABILITY PENSION PAYMENTS

A full pension is available at age 65 for participants with a minimum of five years of full-time service who are unable to serve in office due to injury or chronic illness.

(E) SURVIVOR ALLOWANCES

A survivor allowance equal to 60% of the qualifying judge's pension payment is paid to the spouse during the spouse's lifetime or to children who meet the age, custody, education or disability criteria defined by Regulation.

(F) DEATH REFUNDS

A death refund can be payable to the personal representative of a participant where there is no further entitlement to a survivor allowance. The amount of the refund is equal to the participant's contributions in the Fund plus interest, less entitlements already paid out.

(G) WITHDRAWAL REFUNDS

Upon ceasing to hold office for a reason other than death, participants not eligible to receive pension payments are entitled to receive a refund of their contributions to the Fund plus interest.

(H) ANNUAL INFLATIONARY ESCALATION OF ENTITLEMENTS

- Judges Retired Before June 1, 2007:

  The annual inflationary increase for judges who retired before June 1, 2007 is based on changes in the Average Weekly Earnings published by Statistics Canada and subject to a maximum of 7% in any one year, and is effective on April 1 in every year. In addition, the pensions are adjusted based on the salary increases of sitting judges as recommended by the Provincial Judges Remuneration Commission.

- Judges Retired On Or After June 1, 2007:

  The annual inflationary increase for judges who retired on or after June 1, 2007 and elected to be paid under the plan provisions effective on that date is based on changes in the Consumer Price Index, and is effective on January 1 in every year.

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2016

1. Description and Administration of the Fund (Continued)

(I) INTEREST REVENUE

Interest is credited to the account for the Fund, held in the Consolidated Revenue Fund of the Province of Ontario, at the average of the monthly Ontario Borrowing Rates for a 25-year maturity as follows:

- on the net monthly increases to the account accumulating during the fiscal year at the interest rate for the fiscal year; and
- on the net increases to the account for each of the preceding 25 years at the interest rates applicable to those years, providing the funds remain on deposit with the Consolidated Revenue Fund.

2. Significant Accounting Policies

(A) BASIS OF ACCOUNTING

The financial statement is prepared by management in accordance with the Memorandum of Agreement between the Ontario Conference of Judges and the Lieutenant Governor in Council, the then-Minister of Government Services and the Provincial Judges Pension Board (the Standstill Agreement). The basis of accounting prescribed by the Standstill Agreement is consistent with both the repealed Regulation 67/92 and the current Regulation 290/13 under the Courts of Justice Act and consists of contributions and money paid, transferred or credited to the Fund, less money paid out, except for the fact no Supplementary Pension Account was established.

3. Administrative Expenses

Administrative expenses are paid by the Province of Ontario and are not reflected in this financial statement.

4. Liability for Future Benefits

The Provincial Judges Remuneration Commission (Commission) was established under the *Courts of Justice Act* to conduct an independent review of the salary, pension and benefits for all provincial judges. The Commission's salary and non-pension benefits recommendations are binding; recommendations on pension benefits are non-binding. The most recent report of the Commission was the Eighth Provincial Judges Remuneration Commission released on November 12, 2013, covering the period April 1, 2010 to March 31, 2014. The report did not recommend any salary increases in addition to the annual inflationary increases already received. A new Commission, once appointed, is expected to issue recommendations covering the period from April 1, 2014 to March 31, 2018.

The Province is responsible for the unfunded liability of the Provincial Judges Pension Fund and funds this liability in amounts recommended by periodic actuarial valuations of the Plan. The Provincially determined contribution for fiscal 2016 was $34,512,000, which maintained contributions consistent with recommendations in the March 31, 2011 actuarial funding valuation, as a current actuarial valuation had yet to be performed. Any required adjustments to contributions, as a result of performing a current actuarial valuation when the litigation is resolved, will be accounted for in the period the valuation is performed.

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2016

4. Liability for Future Benefits (Continued)

Significant assumptions in the March 31, 2011 actuarial funding valuation, the most recent valuation conducted, are as follows:

Assumption	March 2011 Valuation
Expected Return on Plan Assets	4.60%
Discount Rate on Future Cash Inflows	4.60%
Salary Rate Increases	4.00%
Age of Retirement	graduated scale from age 60 to 75
Method of Valuation	Aggregate Cost Method

The Public Guardian and Trustee For the Province of Ontario

Management's Responsibility for Financial Information

Management is responsible for the financial statements and all other information presented in the financial statements. The financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS), and, where appropriate, include amounts based on management's best estimates and judgments.

Management is also responsible for developing and maintaining systems of internal control that provide reasonable assurance that financial information is reliable, that all financial transactions are properly authorized, that assets are safeguarded, and that the Public Guardian and Trustee for the Province of Ontario adheres to legislation and regulatory requirements. These systems include the communication of policies and the Public Guardian and Trustee for the Province of Ontario's code of ethics and business conduct throughout the organization. Management continually monitors the systems of internal controls for compliance.

The financial statements have been examined by the Office of the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards (IFRS). The Auditor's Report outlines the scope of the auditor's examination and opinion.

Kenneth R. Goodman
Public Guardian and Trustee

Steven R. Adams, CPA, CGA
Acting Chief Financial Officer

June 22, 2016

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Public Guardian and Trustee for the Province of Ontario and to the Attorney General

I have audited the accompanying financial statements of The Public Guardian and Trustee for the Province of Ontario, which comprise the statement of financial position as at March 31, 2016, and the statements of income and comprehensive income, statement of changes in net assets attributable to beneficiaries of estates and trusts administered, statement of changes in equity of the administration fund and statement of 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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of The Public Guardian and Trustee for the Province of Ontario as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Toronto, Ontario
June 22, 2016

Susan Klein, CPA, CA, LPA
Assistant Auditor General

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Statement of Financial Position

As at March 31

in thousands of dollars	Note	2016	2015
Estates and Trusts			
Assets			
Cash and cash equivalents	4.1	**$ 71,761**	$ 72,055
Accounts receivable	6	**4,449**	5,366
Investments at fair value through profit or loss:			
Bonds and other debt securities - client owned	4.1	**47,323**	40,172
Diversified fund	4.2	**81,455**	83,429
Canadian income and dividend fund	4.3	**89,839**	86,721
Equity securities - client owned	4.4	**33,475**	33,019
Held to maturity investments:			
Fixed income funds	4.5	**1,197,685**	1,143,354
Real estate		**91,493**	96,142
Other assets	7	**14,852**	14,360
Total assets		**1,632,332**	1,574,618
Liabilities			
Accounts payable and accrued liabilities	8	**49,697**	47,576
Net assets attributable to beneficiaries of Estates and Trusts		**1,582,635**	1,527,042
Total liabilities and net assets attributable to beneficiaries of Estates and Trusts		**$ 1,632,332**	$ 1,574,618
Administration Fund			
Assets			
Cash and cash equivalents		**$ 306**	$ 2,614
Accounts receivable	6	**2,026**	2,261
Investments at fair value through profit or loss:			
Diversified fund	4.2	**73,048**	73,637
Canadian income and dividend fund	4.3	**23,234**	23,233
Held to maturity investments:			
Fixed income funds	4.5	**2,953**	-
Total assets		**101,567**	101,745
Liabilities			
Accounts payable and accrued liabilities	8	**4,564**	5,019
Total liabilities		**4,564**	5,019
Equity			
Funds and reserves		**17,500**	17,500
Unappropriated fund		**79,503**	79,226
Total equity		**97,003**	96,726
Total liabilities and equity		**$ 101,567**	$ 101,745

On behalf of The Public Guardian and Trustee for the Province of Ontario

Kenneth R Goodman

Public Guardian and Trustee

S R Adams

Acting Chief Financial Officer

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

The Public Guardian and Trustee for the Province of Ontario

Statement of income and comprehensive income - Estates and Trusts

For the year ended March 31

in thousands of dollars	Note	2016	2015
Estates and Trusts			
Income			
Pensions		**$ 93,780**	$ 90,708
Social benefits		**94,191**	90,369
Other income		**37,100**	36,757
		225,071	217,834
Expenses			
Accommodation		**121,832**	116,397
Allowances		**42,097**	40,973
Fees charged by the Public Guardian and Trustee	9	**27,823**	26,614
Living expenses		**10,409**	10,020
Taxes		**11,160**	9,296
Real estate		**11,442**	8,898
Other expenses		**7,173**	7,240
Medical expenses		**6,286**	6,360
Funeral expenses		**6,218**	6,059
Utilities		**4,969**	5,016
Insurance		**1,898**	1,795
Total expenses		**251,307**	238,668
Net investment income			
Interest income from fixed income funds		**25,466**	27,710
Other interest and dividend income	10	**8,576**	8,301
Net realized gain on sale of investments	11.1	**4,616**	5,517
Net realized and unrealized foreign exchange gain		**470**	1,807
Net change in unrealized (loss)/gain on investments at fair value through profit or loss	11.2	**(6,912)**	5,896
		32,216	49,231
Total income and comprehensive income for the year		**$ 5,980**	$ 28,397

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

Statement of income and comprehensive income - Administration Fund

For the year ended March 31

in thousands of dollars	Note	2016	2015
Administration Fund			
Revenue			
Fees charged on estates and trusts	9	**$ 27,823**	$ 26,614
Grants received from the Ministry of the Attorney General	15	**18,296**	16,869
		46,119	43,483
Expenses			
Salaries, wages and benefits	13	**35,991**	34,706
General administration	14	**3,141**	3,208
Fees incurred		**1,683**	1,660
Transportation and communication expenses		**1,251**	1,054
Supplies and equipment expenses		**340**	320
Claims		**431**	99
		42,837	41,047
Net investment income			
Other interest and dividend income	10	**2,836**	2,719
Interest (expense)/income from fixed income funds		**(126)**	246
Net realized and unrealized foreign exchange gain		**422**	1,596
Net realized gain on sale of investments	11.1	**3,076**	3,213
Net change in unrealized (loss)/gain on investments at fair value through profit or loss	11.2	**(6,921)**	1,169
		(713)	8,943
Investment expenses	12	**2,292**	1,925
Net investment income/(loss)		**(3,005)**	7,018
Total income and comprehensive income for the year		**$ 277**	$ 9,454

Statement of changes in net assets attributable to beneficiaries of Estates and Trusts Administered

(in thousands of dollars)

	Client Trusts	Minors	Litigants	Deceased Estates	Cemetery Trusts	Forfeited Corporate Assets	Corporate Trusts	Land Titles	Total
Balance at March 31, 2014	$ 599,407	399,665	284,271	147,904	25,894	22,530	82	1,389	$ 1,481,142
Total income/(loss) and comprehensive income/(loss) for the year	11,693	13,074	5,505	(2,494)	38	388	156	37	28,397
Other changes in net assets attributable to beneficiaries:									
Contributions during the year	176,665	46,521	152,450	42,014	1,211	3,012	-	-	421,873
Distributions during the year	(153,010)	(63,288)	(143,888)	(38,423)	(600)	(2)	(1)	(402)	(399,614)
Other adjustments to Client accounts	4,050	(1,427)	(6,307)	5	-	-	-	-	(3,679)
Funds escheated to the Crown (note 16)	-	-	-	(1,077)	-	-	-	-	(1,077)
Total increase/(decrease) in net assets attributable to beneficiaries	39,398	(5,120)	7,760	25	649	3,398	155	(365)	45,900
Balance at March 31, 2015	$ 638,805	394,545	292,031	147,929	26,543	25,928	237	1,024	$ 1,527,042
Total income/(loss) and comprehensive income/(loss) for the year	**1,708**	**2,781**	**4,794**	**(3,493)**	**(190)**	**43**	**308**	**29**	**5,980**
Other changes in net assets attributable to beneficiaries:									
Contributions during the year	**199,003**	**62,429**	**152,009**	**60,045**	**711**	**582**	**-**	**-**	**474,779**
Distributions during the year	**(175,254)**	**(60,262)**	**(140,172)**	**(46,386)**	**(1,602)**	**(17)**	**(1)**	**(296)**	**(423,990)**
Other adjustments to Client accounts	**(188)**	**(127)**	**(53)**	**197**	**-**	**-**	**-**	**-**	**(171)**
Funds escheated to the Crown (note 16)	**-**	**-**	**-**	**(1,005)**	**-**	**-**	**-**	**-**	**(1,005)**
Total increase/(decrease) in net assets attributable to beneficiaries	**25,269**	**4,821**	**16,578**	**9,358**	**(1,081)**	**608**	**307**	**(267)**	**55,593**
Balance at March 31, 2016	**$ 664,074**	**399,366**	**308,609**	**157,287**	**25,462**	**26,536**	**544**	**757**	**$ 1,582,635**

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

Statement of changes in equity of the Administration Fund

(in thousands of dollars)

		Assurance Fund	Litigation Reserve Fund	Reserve for Doubtful Accounts	Capacity Assessment Fund	Total Funds and Reserves	Unappropriated Fund		Total
Balance at March 31, 2014	$	14,300	3,000	100	100	17,500	69,772	$	87,272
Total income for the year		-	-	-	-	-	9,454		9,454
Transfers to/(from) reserves									
Transfers made during the year		243	(162)	-	18	99	(99)		-
Reserves released during the year		(243)	162	-	(18)	(99)	99		-
Total increase/(decrease) in equity		-	-	-	-	-	9,454		9,454
Balance at March 31, 2015	$	14,300	3,000	100	100	17,500	79,226	$	96,726
Total income for the year		**-**	**-**	**-**	**-**	**-**	**277**		**277**
Transfers to/(from) reserves									
Transfers made during the year		**315**	**84**	**-**	**32**	**431**	**(431)**		**-**
Reserves released during the year		**(315)**	**(84)**	**-**	**(32)**	**(431)**	**431**		**-**
Total increase/(decrease) in equity		**-**	**-**	**-**	**-**	**-**	**277**		**277**
Balance at March 31, 2016	**$**	**14,300**	**3,000**	**100**	**100**	**17,500**	**79,503**	**$**	**97,003**

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

The Public Guardian and Trustee for the Province of Ontario

Statement of Cash flows

For the period ended March 31 *in thousands of dollars*	Estates and Trusts 2016	Estates and Trusts 2015	Administration Fund 2016	Administration Fund 2015
Cash flows from operating activities				
Income and comprehensive income	**$ 5,980**	$ 28,397	**$ 277**	$ 9,454
Adjustments for:				
Net unrealized loss/(gain) on investments and foreign currency at fair value	**7,272**	(7,121)	**6,499**	(2,765)
Changes in working capital items				
Accounts receivable	**917**	3,307	**235**	2,422
Accounts payable and accrued liabilities	**2,121**	(1,719)	**(455)**	(3,282)
Net cash from operating activities	**16,290**	22,864	**6,556**	5,829
Cash flows from investing activities				
Acquisition of investments	**(1,503,380)**	(1,092,994)	**(8,864)**	(5,932)
Proceeds from sale of investments	**1,451,377**	1,082,159	**-**	**-**
Proceeds from sale of real estate	**40,538**	32,689	**-**	-
Net (increase)/decrease in other assets	**(492)**	108	**-**	-
Net cash from investing activities	**(11,957)**	21,962	**(8,864)**	(5,932)
Cash flows from financing activities				
Client Capital Contributions	**264,701**	312,012	**-**	-
Client Capital Distributions	**(268,152)**	(349,353)	**-**	-
Client Capital Net Other	**(1,176)**	(4,756)	**-**	-
Net cash from financing activities	**(4,627)**	(42,097)	**-**	-
(Decrease) increase in cash and cash equivalents	**(294)**	2,729	**(2,308)**	(103)
Cash and cash equivalent, beginning of the year	**72,055**	69,326	**2,614**	2,717
Cash and cash equivalent, end of the year	**$ 71,761**	$ 72,055	**$ 306**	$ 2,614

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

Notes to financial statements
March 31, 2016 and March 31, 2015

1. Reporting entity

The Office of the Public Guardian and Trustee for the Province of Ontario, Canada ("The Public Guardian and Trustee" or "OPGT") is part of the Province of Ontario's Ministry of the Attorney General. The Public Guardian and Trustee is appointed under *The Public Guardian and Trustee Act* and performs duties under a number of statutes with the following main responsibilities:

- The guardianship of property of incapable adults;
- The administration of estates of persons who have died in Ontario intestate and without next-of-kin;
- The gathering of assets reverting to the Crown under the Escheats Act;
- The management of funds, mortgages and securities paid into or lodged with the Accountant of the Superior Court of Justice on behalf of minors and litigants; and
- A general supervisory role over charitable property.

The Public Guardian and Trustee has perpetual succession and an official seal and may sue and be sued in his or her corporate name. The Office of The Public Guardian and Trustee has close to 400 staff located in six regional offices throughout the Province of Ontario with the main office located in Toronto at 595 Bay Street, Suite 800, Toronto, ON, M5G 2M6.

These financial statements comprise the following:

a) Estates and Trusts: This represents accounts administered by the Public Guardian and Trustee acting as guardian or trustee under the *Substitute Decisions Act*, the *Public Guardian and Trustee Act*, the *Crown Administration of Estates Act*, the *Estates Act* and various other statutes;

b) Administration Fund: This represents the operating account of The Public Guardian and Trustee. The Administration Fund is used to accumulate fees charged to each estate and trust for services as prescribed by the Fee Schedule created pursuant to *The Public Guardian and Trustee Act*. Operating grants are received as required from the Ministry of the Attorney General to fund the operations of OPGT.

Cash balances in the Administration Fund which are not required for operating purposes are invested along with the cash funds of Estates and Trusts. The Administration Fund receives the net interest income of these investment activities, after interest is distributed on the funds of Estates and Trusts in accordance with the interest rates prescribed by *The Public Guardian and Trustee Act.*

The Public Guardian and Trustee in its capacity as Accountant of the Superior Court of Justice also acts as custodian of miscellaneous securities and documents having a face value of $1,002,580 (March 31, 2015: $1,038,283) and mortgages as required. These amounts are not reflected in the financial statements as The Public Guardian and Trustee does not act as trustee of these funds but simply as custodian of the instruments on behalf of the client. The Public Guardian and Trustee as custodian also holds letters of credit, lien bonds, guardianship bonds and performance guarantee bonds for litigants.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These financial statements were authorized for issue by the Public Guardian and Trustee on June 22, 2016.

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

2. Basis of preparation (continued)

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for the investments at fair value through profit or loss in the statement of financial position which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency for both Estates and Trusts and the Administration Fund. Except as otherwise indicated, all financial information presented in Canadian dollars has been rounded to the nearest dollar.

(d) Use of estimates and judgements

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

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year, as well as critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included in notes 3(c).

3. Significant accounting policies

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

(a) Foreign currency

Transactions in foreign currencies are translated into Canadian Dollars using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted to Canadian Dollars at the exchange rate at the reporting period end date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in Canadian Dollars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the reporting period end date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Canadian Dollars at the exchange rate on the reporting period end date. Foreign currency differences arising on translation are recognized in profit or loss on a net basis.

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

3. Significant accounting policies (continued)

(b) Net investment income/(loss)

Net investment income/(loss) comprises interest income on funds invested, dividend income, gains on the disposal of investment securities, changes in the value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets. Income and expenses are presented on a net basis only when permitted under IFRS, for example, gains and losses from financial instruments at fair value through profit or loss.

(i) Interest income and expense

Interest income and expense is recognized on an accrual basis in profit or loss, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the carrying amount of the financial instrument. When calculating the effective interest rate, estimates are made of future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

(ii) Dividend income

Dividend income is recognized in profit or loss on the date that the right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(iii) Net gain/(loss) on investments at fair value through profit or loss

Net gain/(loss) on investments at fair value through profit or loss includes realized and unrealized fair value changes, but excludes interest and dividend income. The net realized gain/(loss) on investments at fair value through profit or loss is calculated using the average cost method.

(c) Financial assets and liabilities

(i) Financial assets

Financial assets in OPGT include the following: financial assets at fair value through profit or loss, held-to-maturity financial assets and loans and receivables.

The Public Guardian and Trustee does not directly enter into derivative financial contracts.

Financial assets at fair value through profit or loss

Financial assets are designated at fair value through profit or loss upon initial recognition when the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund manages, evaluates and reports internally such investments on a fair value basis and makes purchase and sale decisions based on their fair value in accordance with their documented risk management or investment strategies. Upon initial recognition, transaction costs associated with the asset are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Public Guardian and Trustee does not acquire or hold financial instruments for the purpose of trading or short-term profit taking on behalf of the Estates and Trusts and the Administration Fund.

Financial assets at fair value through profit or loss comprise investments in client-owned bonds and other debt securities, the Diversified Fund, the Canadian Income and Dividend fund and client-owned equity securities.

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire, or when the rights to receive the contractual cash flows or when substantially all the risks and rights of ownership of the financial asset are transferred.

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

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

3. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(i) Financial assets (continued)

Held-to-maturity financial assets

If the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value, which includes any premium or discount, plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent these investment securities from being classified as held-to-maturity for the current and the following two financial years.

Held-to-maturity financial assets comprise investments in fixed income funds. Fixed income funds are funds invested in money-market instruments and in bonds under a laddered buy-and-hold strategy.

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. Loans and receivables comprise accounts receivable.

Loans and receivables of Estates and Trust clients are recognized initially on the date that the OPGT assumes guardianship of an individual's property or becomes the estate trustee. All other purchases and sales of financial assets (including assets designated at fair value through profit or loss) are recognized on the settlement date, which is the date that the financial assets are delivered to or on behalf of Estates and Trusts.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, current bank balances and short-term deposits with banks. All cash equivalents are highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value.

(ii) Financial liabilities

Financial liabilities are recognized initially on the date at which the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund become a party to the contractual provisions of the instrument. The Public Guardian and Trustee on behalf of the Estates and Trusts and the Administration Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial liabilities comprise accounts payable and accrued liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs.

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

3. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(iii) Fair value measurement

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 on the measurement date. Fair value does not take into consideration transaction costs expected to be incurred on transfer or disposal of a financial instrument.

The Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Equity and fixed income securities publicly traded are measured at the bid price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counter party where appropriate.

All changes in fair value are recognized in profit or loss as part of net gain from financial instruments at fair value through profit or loss. Other interest and dividend income is recognized in profit and loss separately.

(iv) Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that its value 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.

Objective evidence that financial assets (including equity securities) are impaired includes significant financial difficulty of the borrower, default or delinquency by a borrower, restructuring of an amount due on terms that the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund would not consider otherwise, indications that a borrower or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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 profit or loss. 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 profit or loss.

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

3. Significant accounting policies (continued)

(d) Real estate and other assets

Real estate included within the statement of financial position primarily represents residential properties currently owned by clients of The Public Guardian and Trustee. Other assets comprise jewellery, art, collectibles, nominal assets, vehicles, cash value of insurance policies, prepaid funeral costs and similar items. The IFRS Framework identifies acceptable measurement bases for all assets, which include cost and fair value.

The policy is to measure real estate assets at historic cost and other assets at the fair value determined when the asset is initially recognized.

(e) Operating leases

All the leases entered into by the Public Guardian and Trustee on behalf of the Estates and Trusts and the Administration Fund are classified as operating leases and are not recognized in the statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Contingent lease payments are accounted for in the period in which they are incurred or when they are reasonably estimable and become known.

(f) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term employee benefit plans if the Administration Fund has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Post-employment benefits

Staff of the Public Guardian and Trustee are employees of the Ontario Public Service which provides pension benefits to its employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund. The Province funds the employer's contribution to the Pension Funds. In addition, the cost of post-retirement, non-pension employee benefits are paid by the Province. As such, the Public Guardian and Trustee makes no contributions on these post-employment benefit plans. There is no contractual agreement or stated policy for charging the net benefit cost for the plans as a whole (measured in accordance with IAS 19, *Employee Benefits*) to individual reporting entities of the Government of Ontario. As a result, the costs associated with post-employment benefits are not reflected in the financial statements.

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

3. Significant accounting policies (continued)

(g) Income and expenses

Income from pensions, social benefits and settlements and items of a related nature is recognized when received or receivable. Other income comprising compensation, transaction and service fees are recognized as the related services are performed.

Expenses are recognized as incurred on an accrual basis. Investment management fees, placement and transaction fees that do not qualify for inclusion as part of the initial measurement of an asset are expensed as the services are received.

(h) Government grants

Grants are in the form of funding of the Public Guardian and Trustee operating expenses as the expenses are incurred and are recognized. Grants that compensate the Administration Fund for the operations of The Public Guardian and Trustee by way of amounts recovered from the Ministry of the Attorney General, are recognized in profit or loss as income on a systematic basis in the same periods in which the expenses are recognized.

(i) Income taxes

The Public Guardian and Trustee is exempt from federal and provincial income taxes under the Income Tax Act (Canada).

(j) Funds and reserves – Administration Fund

Assurance Fund

The *Public Guardian and Trustee Act* and the regulations under the Act provide that an Assurance Fund shall be established to meet losses for which The Public Guardian and Trustee might become liable. During the year, the Assurance Fund released and was reimbursed $315,305 (2015: $242,929) by the Unappropriated Fund.

Litigation Reserve Fund

This reserve is used to cover expenses and costs of legal proceedings paid by The Public Guardian and Trustee on behalf of its litigation guardian clients. During the year, legal costs incurred on behalf of clients of $84,143 (2015: recovery net of legal costs of $162,262) were released (recovered) from this reserve and were reimbursed by the Unappropriated Fund.

Reserve for Doubtful Accounts

The intent of this reserve is to provide for all clients' accounts whereby The Public Guardian and Trustee has advanced funds on a client's behalf and has a statutory lien pursuant to section 8.1 of the *Public Guardian and Trustee Act* but may not be able to recover the amount from the client.

Capacity Assessment Fund

This reserve was set up to cover fees of capacity assessors when a client is unable to pay costs of an assessment or re-assessment. During the year, the Capacity Assessment Fund released and was reimbursed $31,718 (2015: $18,298) by the Unappropriated Fund.

Unappropriated Fund

Pursuant to Section 9(5) of the *Public Guardian and Trustee Act*, the Lieutenant Governor in Council may from time to time direct the payment into the Consolidated Revenue Fund of the Province of any balance at the credit of the Administration Fund. No such transfers were made during the year.

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

3. Significant accounting policies (continued)

(k) Provisions

A provision is recognized if, as a result of a past event, the Public Guardian and Trustee has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(l) New standards and interpretations not yet adopted

IFRS 9, Financial Instruments

IFRS 9 deals with recognition, derecognition, classification and measurement of financial assets and financial liabilities. Its requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial asset: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit and loss account (P&L). A financial asset would be measured at amortized cost if it is held within a business model whose object is to hold assets in order to collect contractual cash flows, and the asset's contractual cash terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.

For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual security-by-security basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss. However, dividends on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

The requirements of IFRS 9 relating to derecognition are unchanged from IAS 39.

The required implementation date of IFRS 9 is on or after 1 January 2018 and earlier application is permitted. Although early application is permitted, management does not plan to adopt this standard until necessary for the OPGT. Management expects that the adoption of this standard will not have a significant impact on the measurement of the amounts recognized in the financial statements.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. Management is of the opinion that this standard has no application to the operations of the OPGT.

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

4. Investments in financial assets

4.1 Estates and Trusts – cash and cash equivalents, bonds and other debt securities – client owned

As at March 31, 2016

(In thousands of dollars)

	2016	2015
Cash and cash equivalents		
Cash	16,129	25,034
Cash equivalents	55,632	47,021
	71,761	72,055
Client owned – Bonds and other debt securities		
Bonds – Federal Government	421	1,751
Bonds – Provincial Governments	782	1,004
Bonds – Corporate	9,817	4,264
Other Debt Securities – Financial institutions	36,303	33,153
	47,323	40,172
	119,084	112,227

These balances do not include client holdings by way of their investment in Public Guardian and Trustee Funds by virtue of their unit holdings in the various OPGT funds.

Cash equivalents, notes and bonds have an annual interest of between 0.00–11.7% (2015: 0.00–11.7%) and, at the reporting date, have remaining maturity periods ranging between 0–40 years (2015: 0–30 years).

Interest rates on mid term investments (notes and bonds with maturities greater than one year) are as follows:

	2016	2015
Bonds – Federal Government		
1–3 years	0.0–5.5%	0.5–8.0%
3 years +	0.0–1.2%	0.0–1.5%
Bonds – Provincial Governments		
1–3 years	0.1–6.1%	1.3–6.1%
3 years +	0.0–4.4%	4.3–4.4%
Bonds – Corporate		
1–3 years	1.5–5.1%	5.1–6.1%
3 years +	2.6%	6.5%
Financial institutions		
1–3 years	0.0–11.7%	0.0–11.7%
3 years +	0.0–5.0%	1.0–4.6%

Interest income is distributed to client accounts based on an interest rate as approved by The Public Guardian and Trustee's Investment Advisory Committee. During the year, the approved rate for Canadian funds from April 1, 2015 to February 29, 2016: 2.25%, March 1-31, 2016: 2.0% (at March 31, 2015: 2.25%), and for the United States Dollar funds: 0.30% (2015: 0.30%).

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

4. Investments in financial assets (continued)

4.2 Diversified fund

The Public Guardian and Trustee has a Diversified fund that includes high quality equity and fixed income securities. This fund is a unitized trust and was established in order to provide an alternative for those clients whose investment objectives require a broader, longer range investment strategy. The fund is subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by The Public Guardian and Trustee with emphasis on the need to preserve and enhance capital over the longer term.

As at March 31, 2016 *(In thousands of dollars)*	2016	2015
Cash	2,650	3,264
Short-term notes	2,226	2,279
Bonds	47,996	47,879
Canadian equity securities	60,186	59,258
Foreign equity securities	42,468	44,090
Net other (liabilities)/assets	(1,023)	296
	154,503	157,066

The short term notes and bonds yield, on a fair value basis, annual interest of between 0.75–10.0% (2015: 0.875–12.20%) and, at the reporting date, have remaining maturity periods ranging between 63 days to 92 years (2015: 10 days to 93 years). The weighted average yield on investments in Canadian and Foreign equity securities is 0.07% (2015: 14.50%).

The financial assets held in the Diversified fund as at March 31, 2016 are held by:

In thousands of dollars	2016	2015
Estates and Trusts	81,455	83,429
Administration Fund	73,048	73,637
	154,503	157,066

The investment returns on this fund accrue directly to the unit holders.

4.3 Canadian income and dividend fund

The Public Guardian and Trustee has a Canadian income and dividend fund that consists of a balanced portfolio of high quality income-producing Canadian securities. The fund includes dividend-paying common and preferred equities and fixed income securities intended to generate a consistent stream of income and long-term capital appreciation. The fund is subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by The Public Guardian and Trustee.

As at March 31, 2016 *(In thousands of dollars)*	2016	2015
Cash	71	364
Short-term notes	2,016	474
Bonds	48,571	49,744
Canadian equity securities	62,115	58,054
Other assets	300	1,318
	113,073	109,954

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

4. Investments in financial assets (continued)

4.3 Canadian income and dividend fund (continued)

The short term notes and bonds yield, on a fair value basis, annual interest of between 0.95–11.0% (2015: 0.95–11.0%) and, at the reporting date, have remaining maturity periods ranging between 19 days to 92 years (2015: 10 days to 93 years). The average yield on investments in Canadian equity securities is 4.48% (2015: 1.30%).

The financial assets held in the Canadian Income and Dividend Fund as at March 31 are held by:

As at March 31, 2016 *(In thousands of dollars)*	2016	2015
Estates and Trusts	89,839	86,721
Administration Fund	23,234	23,233
	113,073	109,954

The income earned in this fund may be distributed in cash to unit holders monthly or reinvested in this fund.

4.4 Equity securities – client owned

As at March 31, 2016 *(In thousands of dollars)*	2016	2015
Canadian listed securities	29,962	28,444
United States listed securities	900	868
Other listed securities	2,239	3,656
Unlisted securities	374	51
		33,019

These balances do not include indirect client holdings by way of their investment in Public Guardian and Trustee Funds by virtue of unit holdings in the various OPGT funds.

4.5 Fixed Income Funds

As at March 31, 2016 *(In thousands of dollars)*	2016	2015
Bonds – Federal Government	36,622	18,994
Bonds – Provincial and Municipal Governments	424,237	372,533
Bonds – Corporate	744,967	742,368
Cash and Accrued Interest	9,930	9,459
Due to brokers	(15,118)	-
	1,200,638	1,143,354

The bonds yield (at cost) annual interest of between 1.00-5.45% (2015: 1.10–5.45%) and, at the reporting date, have remaining maturity periods ranging between 1 day to 10 years (2015: 27 days to 11 years).

The financial assets held in the fixed income funds as at March 31, 2016 are held by:

In thousands of dollars	2016	2015
Estates and Trusts	1,197,685	1,143,354
Administration Fund	2,953	-
	1,200,638	1,143,354

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

5. Financial risk management

The Public Guardian and Trustee has exposure to credit risk, liquidity risk and market risk arising from financial instruments. This note presents information about OPGT's exposure to each of the above risks, and the OPGT's objectives, policies and processes for management of capital and measuring and managing risk.

5.1 Credit risk

Management of credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Public Guardian and Trustee, resulting in a financial loss to the Estates and Trusts and the Administration Fund. It arises principally from debt securities held and accounts receivable.

The Public Guardian and Trustee mitigates this risk by engaging experienced investment managers and structuring their investment policies and goals to minimize the risk to clients' capital. In particular, investments in lower investment grade fixed income instruments (typically a rating of BBB) are minimized. As well, investment managers are required to report immediately adverse changes in the credit ratings of financial instruments.

Client accounts receivable are reviewed on an individual basis; any necessary adjustments to amounts recorded are made at that time.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date for the financial assets of both Estates and Trusts and the Administration Fund was:

As at March 31, 2016 *(In thousands of dollars)*	2016	2015
Cash and cash equivalents	72,067	74,669
Accounts receivable	6,475	7,627
Investments at fair value through profit or loss:		
Bonds and other debt securities– client owned	47,323	40,172
Diversified fund	51,849	53,422
Canadian income and dividend fund	50,958	50,582
Held to maturity investments:		
Fixed income funds	1,200,638	1,143,354
	1,429,310	1,369,826

Credit quality

As at March 31, Estates and Trusts and the Administration Fund hold unit investments in the Public Guardian and Trustee's unit funds that have underlying debt securities with the following credit quality:

Debt Securities

	2016	2015
AAA/Aaa	18.98%	18.66%
AA/Aa	79.01%	79.18%
BBB/Baa	2.01%	2.16%

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

5. Financial risk management (continued)
5.1 Credit risk (continued)

Concentration of credit risk
As at March 31, the debt securities of Estates and Trusts and the Administration Fund hold unit investments in the Public Guardian and Trustee's unitized funds that have underlying debt securities that were concentrated in the following sectors:

Debt Securities

	2016	2015
Government and public sector	64.10%	67.06%
Banks and financial services	29.90%	27.35%
Other corporate	6.00%	5.59%

Past due and impaired assets
No financial assets carried at amortized cost were past due or impaired at March 31, 2016.

5.2 Liquidity risk
Liquidity risk is the risk that investment managers engaged by the Public Guardian and Trustee will not be able to easily liquidate a financial asset or liability.

The objective of the Public Guardian and Trustee is to ensure that adequate financial resources are available to meet ongoing requirements and to discharge the obligations of Estates and Trusts and the Administration Fund. The Public Guardian and Trustee mitigates liquidity risk by maintaining significant holdings in short-term, liquid, money market instruments within OPGT's fixed income funds.

Maturity analysis for financial instruments
As at March 31, 2016, the financial assets and liabilities of Estates and Trusts and the Administration Fund had the following remaining contractual maturity profile:

2016

In thousands of dollars	Carrying Amount	Less than 3 months	3 to 12 months	>1 year
Financial assets				
Cash and cash equivalents	72,067	72,067	-	-
Accounts receivable	6,475	5,887	-	588
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	47,323	15,116	9,757	22,450
Diversified fund	154,503	106,563	747	47,193
Canadian income and dividend fund	113,073	65,352	3,263	44,458
Equity securities – client owned	33,475	33,475	-	-
Held to maturity investments:				
Fixed income funds	1,200,638	191,106	154,774	854,758
	1,627,554	489,566	168,541	969,447
Financial liabilities				
Accounts payable and accrued liabilities	54,261	6,825	-	47,436
Net assets attributable to beneficiaries of Estates and Trusts	1,582,635	1,288,599	40,284	253,752
	1,636,896	1,295,424	40,284	301,188

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

5. Financial risk management (continued)
5.2 Liquidity risk (continued)

2015

In thousands of dollars	Carrying Amount	Less than 3 months	3 to 12 months	>1 year
Financial assets				
Cash and cash equivalents	74,669	74,669	-	-
Accounts receivable	7,627	6,670	-	957
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	40,172	12,272	10,059	17,841
Diversified fund	157,066	110,687	3,838	42,541
Canadian income and dividend fund	109,954	61,747	3,737	44,470
Equity securities – client owned	33,019	33,019	-	-
Held to maturity investments:				
Fixed income funds	1,143,354	149,500	125,151	868,703
	1,565,861	448,564	142,785	974,512
Financial liabilities				
Accounts payable and accrued liabilities	52,595	8,030	-	44,565
Net assets attributable to beneficiaries of Estates and Trusts	1,527,042	1,265,659	35,385	225,998
	1,579,637	1,273,689	35,385	207,563

5.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect investment income or the value of the holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Market risk comprises currency risk, interest rate risk and other price risks (including equity price risk).

5.3.1 Currency risk

Currency risk is the risk that the fair value of investment assets and earnings on those assets will fluctuate as a result of changes in foreign exchange rates. Investments in the Diversified Fund are exposed to this risk which is also part of the return potential in the fund. Hedging foreign currency exposure is considered by management as part of an annual review of investment policies.

At March 31, the carrying value of net financial assets and liabilities held in foreign currencies expressed in Canadian Dollars is as follows:

In thousands of dollars	2016	2015
Estates and Trusts		
United States Dollars	28,633	30,914
Euros	7,456	6,358
Other foreign currencies	7,045	8,364
	43,134	45,636

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

5. Financial risk management (continued)
5.3 Market risk (continued)
5.3.1 Currency risk (continued)

The table below sets out the impact on net financial assets and liabilities from a reasonably possible weakening of the Canadian Dollar against the other currencies by 5% (2015: 5%) at March 31. The analysis assumes that all other variables, in particular interest rates, remain constant.

In thousands of dollars	2016	2015
United States Dollars	1,432	1,546
Euros	373	318
Other foreign currencies	352	418
	2,157	2,282

A strengthening of the Canadian Dollar against the other currencies would have resulted in a proportionate but opposite effect to the amounts shown above.

5.3.2 Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. By adopting a hold to maturity policy on its fixed income funds, the Public Guardian and Trustee has significantly mitigated this risk, particularly for short-term, temporary movements in market interest rates.

The table below sets out the impact on the net financial assets and liabilities from a reasonably possible increase of 50-75 basis points in interest rates as at March 31. The impact of such an increase has been estimated by calculating the fair value changes of the fixed interest debt securities, excluding the fixed income funds which are held to maturity. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

In thousands of dollars	2016	2015
Impact on client (Estates and Trusts) and Administration fund assets	(963)	(737)

5.3.3 Equity price risk

Equity price risk is the risk that the fair value of equity securities will fluctuate as a result of changes in the market price of equity instruments whether caused by factors specific to an individual investment or factors affecting all instruments traded in the market which, for international equities, includes changes in currency rates.

The Public Guardian and Trustee has mitigated this risk by engaging experienced investment managers and structuring their investment policies and goals, including limits on the holding of individual securities, limits on the investments in non-government debt, and defining asset component ranges to minimize the risk to clients' capital. As well, investments in financial instruments that are subject to changes in market prices, including equity securities, are undertaken only when the client can invest for a medium to longer term.

Investments are made in funds, namely the Diversified fund and the Canadian income and dividend fund that have the following benchmarks for concentration of asset portfolios:

Diversified fund:

- Equity investments listed on Canadian stock exchanges - 50% of fund assets
- Equity investments listed on US stock exchanges - 25% of fund assets
- Equity investments listed on other stock exchanges - 25% of fund assets
- Unlisted equity investments - none

Canadian income and dividend fund:

- Equity investments listed on Canadian stock exchanges - 100% of fund assets

Investment managers are permitted to vary from these benchmarks within stipulated limits.

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

5. Financial risk management (continued)

5.3 Market risk (continued)

5.3.3 Equity price risk (continued)

Investment managers further monitor concentration of risk based on counterparties and industry sectors. At March 31, equity investments are concentrated in the following sectors:

	2016	2015
Banks and financial services	48%	43%
Information technology	13%	11%
Retail	8%	7%
Industrial and manufacturing	24%	14%
Other	7%	25%
	100%	100%

Investment managers engaged by the Public Guardian and Trustee estimate future reasonably possible equity price fluctuations for equity securities on an individual investment basis. The table below sets out the impact on the net financial assets and liabilities from a reasonably possible decrease of 10% in the price of individual equity securities as at March 31. This analysis assumes that all other variables, in particular interest and foreign currency rates, remain constant.

In thousands of dollars	2016	2015
Impact on value of equity securities	(19,824)	(19,486)

A strengthening in the individual equity market prices of 10% as at March 31 would have resulted in a proportionate but opposite effect to the amounts shown above.

5.4 Fair value disclosures

The accounting policy for fair value measurements is detailed in accounting policy 3c(iii).

5.4.1 Fair values versus carrying amounts

The carrying amounts approximate fair value for all financial assets and liabilities, except for the fixed income funds, which are held to maturity investments, and for real estate whose fair values for the Estates and Trusts administered by OPGT are $1,212,586 (2015: $1,169,088) and $102,866 (2015: $107,869) respectively . As a result, the fair value of net assets attributable to beneficiaries of Estates and Trust clients is $1,608,909 (2015: $1,564,503).

5.4.2 Fair value hierarchy

The fair value measurements used by the Public Guardian and Trustee place the highest priority on observable market inputs and the lowest priority on unobservable internally developed inputs. Accordingly, the Public Guardian and Trustee classifies its assets and liabilities that are measured at fair value, or for which fair value information is disclosed, within a three-level valuation hierarchy that reflects the inputs to valuation techniques used to determine fair value. Level 1 represents valuations based on unadjusted quoted prices in active markets for identical assets or liabilities, level 2 comprises valuations using models or techniques that incorporate observable market information and level 3 comprises valuations based models without observable market information as inputs. The classification determination is based on the lowest level of input that is significant to the valuation.

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

5. Financial risk management (continued)

5.4 Fair value disclosures (continued)

5.4.2 Fair value hierarchy (continued)

The following fair value hierarchy table presents information about financial assets measured or disclosed at fair value on a recurring basis as of March 31, 2016 and March 31, 2015.

Estates and Trusts

As of March 31, 2016 *In thousands of dollars*	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	71,761	-	-	71,761
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	-	47,323	-	47,323
Diversified fund	81,455	-	-	81,455
Canadian income and dividend fund	89,839	-	-	89,839
Equity securities – client owned	33,101	374	-	33,475
Real estate	-	-	102,866	102,866
	276,156	47,697	102,866	426,719

As of March 31, 2015 *In thousands of dollars*	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	72,055	-	-	72,055
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	-	40,172	-	40,172
Diversified fund	83,429	-	-	83,429
Canadian income and dividend fund	86,721	-	-	86,721
Equity securities – client owned	32,968	51	-	33,019
Real estate	-	-	107,869	107,869
	275,173	40,223	107,869	423,265

Administration Fund

As of March 31, 2016 *In thousands of dollars*	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	306	-	-	306
Investments at fair value through profit or loss:				
Diversified fund	73,048	-	-	73,048
Canadian income and dividend fund	23,234	-	-	23,234
	96,588	-	-	96,588

As of March 31, 2015 *In thousands of dollars*	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	2,614	-	-	2,614
Investments at fair value through profit or loss:				
Diversified fund	73,637	-	-	73,637
Canadian income and dividend fund	23,233	-	-	23,233
	99,484	-	-	99,484

The following was used to determine the fair value measurements categorized in Level 2:

- The fair value of bonds and equities was determined by obtaining quoted market prices or executable dealer quotes for identical or similar instruments in inactive markets, or other inputs that are observable or can be corroborated by observable market data.

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During 2016 and 2015 there were no significant transfers of financial instruments between Level 1 and Level 2.

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

5. Financial risk management (continued)

5.5 Capital management

The Public Guardian and Trustee's operating capital is shown in the Administration Fund, and consists of various specific purpose funds and an unappropriated fund (detailed in the statement of changes in equity of the Administration Fund). The Public Guardian and Trustee is not subject to externally imposed capital requirements.

The Public Guardian and Trustee's objectives when managing its Administration Fund are to safeguard its ability to continue operations and provide adequate resources to service clients and safeguard clients' interests. The Public Guardian and Trustee expects its current capital (fund) resources, together with future cash flows from operations, to be sufficient to support The Public Guardian and Trustee's ability to operate on an ongoing basis. The objectives have not changed during the year.

The Public Guardian and Trustee has invested part of its Administration Fund in the Diversified and Canadian income and dividend funds. Investment income earned is, in part, used to replenish the various specific purpose funds for expenses incurred.

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

	Estates and Trusts 2016	Estates and Trusts 2015	Admin Fund 2016	Admin Fund 2015
6. Accounts receivable				
As at March 31, 2016				
In thousands of dollars				
Accrued revenue	-	-	1,992	2,229
Balances due from the Federal and Provincial Government, its Agencies and Crown Corporations	-	-	17	18
Balances due from the Administration Fund	1,953	3,005	-	-
Other receivables	2,496	2,361	17	14
	4,449	5,366	2,026	2,261
7. Other assets				
As at March 31, 2016				
In thousands of dollars				
Life Insurance	5,955	6,024	-	-
Prepaid Funerals, Cemetery plots and burial Instruments	5,154	5,110	-	-
Furniture and Medical Aid Equipment	1,534	886	-	-
Jewellery	993	1,037	-	-
Vehicles	691	589	-	-
Collectibles	200	176	-	-
Art	13	195	-	-
Other	312	343	-	-
	14,852	14,360	-	-
8. Accounts payable and accrued liabilities				
As at March 31, 2016				
In thousands of dollars				
Accrued expenses	1,930	2,083	2,611	2,014
Balances due to the Federal and Provincial Government, its Agencies and Crown Corporations	6,614	4,484	-	-
Balances due to Estates and Trusts	-	-	1,953	3,005
Other liabilities of Estates and Trust clients	41,153	41,009	-	-
	49,697	47,576	4,564	5,019

Other liabilities of Estates and Trusts include mortgages payable, credit card balances, health facility accommodation fees, and charges for services such as telecommunication and utilities.

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

9. Fees charged by the Administration Fund to Estates and Trusts

For the period ended March 31, 2016

In thousands of dollars

	Admin Fund 2016	Admin Fund 2015
Client trusts	20,218	18,908
Minors	2,544	2,580
Deceased Estates	3,004	3,099
Litigants	1,836	1,748
Cemetery trusts	212	209
Forfeited corporate assets/corporate trusts	9	70
	27,823	26,614

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

10. Other interest and dividend income

For the period ended March 31, 2016

In thousands of dollars

	Estates and Trusts 2016	Estates and Trusts 2015	Admin Fund 2016	Admin Fund 2015
Earned on investments at fair value through profit or loss				
Bonds and other debt securities – client owned	2,759	2,538	-	-
Diversified fund	2,238	2,139	1,992	1,869
Canadian income and dividend fund	3,192	3,149	844	850
Earned on loans and receivables				
Accounts receivable	387	475	-	-
	8,576	8,301	2,836	2,719

11. Gain/loss on investments

11.1 Net realized gain/(loss) on sale of investments at fair value through profit or loss

For the period ended March 31, 2016

In thousands of dollars

	Estates and Trusts 2016	Estates and Trusts 2015	Admin Fund 2016	Admin Fund 2015
Bonds and other debt securities – client owned	(69)	7	-	-
Diversified fund	2,447	2,954	2,911	3,117
Canadian income and dividend fund	622	354	165	96
Equity securities-client owned	1,616	2,202	-	-
	4,616	5,517	3,076	3,213

11.2 Net change in unrealized gain/(loss) on investments at fair value through profit or loss

For the period ended March 31, 2016

In thousands of dollars

	Estates and Trusts 2016	Estates and Trusts 2015	Admin Fund 2016	Admin Fund 2015
Bonds and other debt securities – client owned	237	652	-	-
Diversified fund	(5,848)	2,282	(5,913)	1,484
Canadian income and dividend fund	(3,742)	(1,205)	(1,008)	(315)
Equity securities-client owned	2,441	4,167	-	-
	(6,912)	5,896	(6,921)	1,169

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

12. Investment expenses

For the period ended March 31, 2016

In thousands of dollars	Admin Fund 2016	Admin Fund 2015
Investment management fees	977	935
Investment dealer fees	526	268
Custodian fees	283	268
Investment counsel fees	189	187
Bank charges	317	267
	2,292	1,925

13. Salaries, wages and benefits

For the period ended March 31, 2016

In thousands of dollars	Admin Fund 2016	Admin Fund 2015
Salaries and wages	31,614	30,559
Compulsory employer contributions	2,086	1,936
Other benefits	1,743	1,899
Termination benefits	548	312
	35,991	34,706

14. General Administration

For the period ended March 31, 2016

In thousands of dollars	Admin Fund 2016	Admin Fund 2015
Systems Development and Data Processing	1,915	1,854
Leases and rentals	426	463
Training and education	95	181
Security	147	197
Miscellaneous expenses	558	513
	3,141	3,208

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

15. Related party transactions

The Government of the Province of Ontario, its Agencies and its Crown Corporations are related parties to the Public Guardian and Trustee. Under IFRS, a reporting entity is exempt from the disclosure requirements of IAS 24, *Related Party Disclosures* in relation to related party transactions and outstanding balances, including commitments, with a government that has control, joint control or significant influence over the reporting entity and another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The Public Guardian and Trustee has utilized this exemption in preparing these financial statements.

In the normal course of business, transactions occur with the Government of the Province of Ontario, its Agencies and its crown Corporations and include the following types of transactions and outstanding balances, all of which have been recognized in these financial statements:

a) Investments in certain financial instruments that are issued by these related parties;
b) Expenditure on certain services including information technology and telecommunication costs provided by these related parties; and
c) The Province of Ontario provides funding for the operations of OPGT including expenditures relating to salaries, wages and benefits, transportation and communication costs, supplies, equipment and general administrative costs. In addition, OPGT remits surplus income to the Province of Ontario on a quarterly basis. During the year the Province provided funding amounting to $40,723,179 (2015: $39,287,917) and recovered $22,426,749 (2015: $22,418,776), for a net grant by the Province of $ 18,296,430 (2015: $16,869,141).

In addition, in the normal course of business, the following transactions are entered into with these related parties at no charge to the Public Guardian and Trustee and therefore are not reflected in the financial statements:

a) Staff of the Public Guardian and Trustee are employees of the Ontario Public Service which provides pension benefits to its employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund. The Province funds the employer's contribution to the Pension Funds;
b) The cost of post-retirement, non-pension employee benefits are paid by the Province;
c) The Public Guardian and Trustee occupies leased premises paid for by the Ministry of the Attorney General; and
d) The Province provides payroll and payment processing for the Public Guardian and Trustee.

Key management personnel compensation

Staff, including key management personnel are employees of the Ministry of the Attorney General, Ontario Public Service (OPS). All management compensation is in accordance with Management Board of Cabinet Compensation Directives and compensation follows approved OPS compensation practices. This includes public disclosure for all individuals earning more than $100,000 in a calendar year.

The benefit costs as set out in the schedule below does not include any specific post–employment, termination or other long term benefits but the cost of these benefits are funded by the Province as set out in Note 3(f) (ii).

In addition to the salaries and mandatory employer contributions to government programs (Canada Pension Plan and Employment Insurance), senior managers also participate in various group life, health and dental plans for which the employer shares the premiums.

Notes to financial statements (continued)
March 31, 2016 and March 31, 2015

15. Related party transactions (continued)

Key management personnel are members of the OPGT's Office management committee. Their compensation comprises the following:

In thousands of dollars	Admin Fund 2016	Admin Fund 2015
Salaries and Wages	1,127	1,040
Employee benefits	23	21

16. Funds Escheated to the Crown

Deceased Estates include estates administered under the *Crown Administration of Estates Act* and the *Estates Act*. The Public Guardian and Trustee is authorized by the *Escheats Act* to take possession of property reverting to the Crown under the *Succession Law Reform Act*. After a period of ten years, any property so received by the Public Guardian and Trustee which remains unclaimed is required to be transferred to the Consolidated Revenue Fund (CRF) of the Province of Ontario. Such property transfers to the CRF are included in the statement of changes in net assets attributable to beneficiaries of Estates and Trusts. During the year, escheats from Deceased Estates totalling $1,004,715 (2015: $1,077,375) were transferred to the CRF.

Under the *Escheats Act*, the Public Guardian and Trustee may take possession of assets of dissolved corporations which have been forfeited to the Crown under various corporate statutes. Such property transfers to the CRF are included in the statement of changes in net assets attributable to beneficiaries of Estates and Trusts.

17. Contingencies and commitments

The Public Guardian and Trustee is involved in various legal actions arising in the normal course of business operations, the outcome and ultimate disposition of which are not determinable at this time. Liabilities for any settlements will be recognized if and when the criteria for recognizing provisions is met (see accounting policy note 3 (k)).

18. Corresponding figures

Certain 2015 corresponding figures have been reclassified to conform with the financial statement presentation adopted in 2016.

WORKPLACE SAFETY AND INSURANCE BOARD

Workplace Safety and Insurance Board financial statements for the year ended December 31, 2015 are found at 3-171 to 3-219.

LOSSES DELETED FROM THE ACCOUNTS

(Under the *Financial Administration Act)*
for the fiscal year ended March 31, 2016

MINISTRY	**2015-2016**
FINANCE………………………………………………………….…..…………	$251,066,979.24
COMMUNITY AND SOCIAL SERVICES……………………………………..	65,302,129.14
TRAINING, COLLEGES AND UNIVERSITIES….……………………………	57,214,978.99
ECONOMIC DEVELOPMENT, EMPLOYMENT AND INFRASTRUCTURE/RESEARCH AND INNOVATION……………………...	8,081,359.34
ATTORNEY GENERAL……………………………………………………...	6,738,409.73
MUNICIPAL AFFAIRS AND HOUSING………………………………………	1,954,111.28
NATURAL RESOURCES AND FORESTRY…………………………………..	1,678,635.03
HEALTH AND LONG-TERM CARE ………………………………………….	1,490,338.26
TRANSPORTATION ……………………………………………………...	1,371,455.72
CHILDREN AND YOUTH SERVICES ………………………………………..	360,407.63
AGRICULTURE, FOOD AND RURAL AFFAIRS …………………………...	247,333.00
ABORIGINAL AFFAIRS …………………………………………………….	244,997.00
COMMUNITY SAFETY AND CORRECTIONAL SERVICES ………………	167,746.12
EDUCATION ……………………………………………………..…..………	28,878.76
GOVERNMENT AND CONSUMER SERVICES....……………………………	14,009.22
NORTHERN DEVELOPMENT AND MINES …………………………….....	9,903.74
LABOUR ……………………………………………………….…..………….	2,928.74
TOTAL …..……………………………………………………….…..…………	$395,974,600.94

REVENUE REMISSIONS

Details of Remission granted under the *Financial Administration Act*
for Revenue and Other Debt for the year ended March 31, 2016

Description of the Order-in-Council	Amount
OIC 846/2013: In June 2013, remission was granted to the City of Toronto for the principal sum outstanding and the accrued interest owing under a 2004 Debenture, Asset Identification and Transfer Process Agreement between the Ministry of Municipal Affairs and Housing and the City of Toronto. As of June 1, 2013, the principal amount outstanding was $170,171,125 and the accrued interest owing was $43,969,479. The amount remitted under this Order shall be determined for each fiscal year of the Province of Ontario, commencing with the 2013-14 fiscal year. The remission shall be equal to the amount by which the Greater Toronto Area Pooling Compensation transfer payments for the fiscal year were less than the payments for the corresponding year set out in the order. For fiscal year 2015-16, the Greater Toronto Area Pooling Compensation total transfer payment was $37,500,000 while the payment set out in the Order in Council was $133,900,000. The amount remitted each fiscal year shall be allocated first to the remission of the outstanding principal amount and any remainder to the remission of the accrued interest owing.	$96,400,000
OIC 110/2016: Remission was granted to Falcon Capital Inc. (“Falcon”) and to The Second Cup Coffee Company Inc. (“Second Cup”) on account of Employer Health Tax (EHT) and interest collected under the *Employer Health Tax Act* (the “Act”). Falcon was the successor to several other corporations (the “Predecessor Corporations “) which carried on business in Ontario in 2004. Second Cup is affiliated with Falcon. Due to an administrative error, an assessment was incorrectly determined in 2007 that Falcon owed $36,241.57 in 2004 EHT and interest on the EHT. In satisfaction of the assessment, the Province transferred credit amount of $33,848.90 out of Falcon’s corporation tax	36,348.90

account and EHT account, and $2,500 out of the EHT account of Second Cup. Because of the expiry of the relevant time periods under the Act, the Ministry of Finance does not have the authority to pay the refund to Falcon.

Approved by:

JEFF HERNANDEZ
Strategic Lead / Controller
Corporate Planning & Finance Branch

Date: August 22, 2016

Hydro One Brampton Networks Inc.

IFRS Financial Statements
Years ended December 31, 2015 and 2014

KPMG LLP
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4100 Yonge Street Suite 200
Toronto ON M2P 2H3
Canada

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Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro One Brampton Networks Inc.

We have audited the accompanying financial statements of Hydro One Brampton Networks Inc., which comprise the statements of financial position as at December 31, 2015, December 31, 2014 and January 1, 2014, the statements of income and comprehensive income, statements of changes in shareholder's equity and cash flows for the years ended December 31, 2015, and December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hydro One Brampton Networks Inc. as at December 31, 2015, December 31, 2014 and January 1, 2014, and its financial performance and its cash flows for the years ended December 31, 2015, and December 31, 2014 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 24, 2016
Toronto, Canada

HYDRO ONE BRAMPTON NETWORKS INC.
Statement of income and other comprehensive income
For the years ended December 31, 2015 and 2014

Year ended December 31 (Canadian dollars in thousands)	2015	2014
Revenues		
Energy Sales	**466,594**	422,415
Distribution	**66,967**	59,611
Other	**4,619**	4,218
	538,180	486,244
Costs		
Purchased power (Note 21)	**459,132**	425,874
Operation, maintenance and administration (Notes 20 and 21)	**27,862**	26,669
Depreciation of property, plant and equipment and amortization of intangible assets (Notes 7 and 8)	**18,246**	15,166
	505,240	467,709
Financing costs (Notes 5 and 21)	**11,418**	11,021
Income before taxes	**21,522**	7,514
Income tax expense (Note 6)	**5,451**	2,310
Net income for the year	**16,071**	5,204
Net movement in regulatory balances, net of tax (Note 9)	**(1,818)**	8,497
Net income after net movement in regulatory balances	**14,253**	13,701
Other comprehensive income		
Item that will not be reclassified to income or loss		
Remeasurement of post-retirement benefits, net of tax	**140**	1,947
Total other comprehensive income	**140**	1,947
Total income and other comprehensive income for the year	**14,393**	15,648

See accompanying Notes to Financial Statements.

HYDRO ONE BRAMPTON NETWORKS INC.
Statements of financial position
As at December 31, 2015, December 31, 2014 and January 1, 2014

(Canadian dollars in thousands)	**December 31, 2015**	December 31, 2014	January 1, 2014
Assets			
Non-current assets:			
Property, plant and equipment (Note 7)	**362,029**	333,684	306,292
Intangible assets (Note 8)	**21,446**	14,333	15,151
Deferred tax assets (Note 6)	**-**	2,549	4,818
	383,475	350,566	326,261
Current assets:			
Cash	**40,521**	-	-
Accounts receivable (Note 14)	**73,293**	63,597	66,739
Income tax receivable	**-**	2,346	1,679
Materials and supplies	**1,074**	1,195	1,195
	114,888	67,138	69,613
Total assets	**498,363**	417,704	395,874
Regulatory balances (Note 9)	**9,970**	9,166	7,105
Total assets and regulatory balances	**508,333**	426,870	402,979

See accompanying notes to Financial Statements.

HYDRO ONE BRAMPTON NETWORKS INC.
Statements of financial position (continued)
As at December 31, 2015, December 31, 2014 and January 1, 2014

(Canadian dollars in thousands)	**December 31, 2015**	December 31, 2014	January 1, 2014
Liabilities			
Non-current liabilities:			
Accounts payable and accrued liabilities	**151**	114	3,275
Deferred revenue (Note 17)	**25,721**	14,500	988
Deferred tax liabilities (Note 6)	**901**	-	-
Employee future benefits (Note 15)	**4,324**	4,280	5,943
	31,097	18,894	10,206
Long-term debt (Note 10)	**192,239**	192,209	182,243
	223,336	211,103	192,449
Current liabilities:			
Bank indebtedness	-	2,705	8,114
Current tax liabilities	**478**	-	-
Accounts payable and accrued liabilities (Note 16)	**72,321**	77,183	67,957
Accrued interest	**7,047**	1,412	1,382
Deferred revenue (Note 17)	**1,172**	547	-
Employee future benefits (Note 15)	**170**	126	195
	81,188	81,973	77,648
Total liabilities	**304,524**	293,076	270,097
Shareholder's equity			
Share capital (Note 18)	**104,501**	51,501	51,501
Retained earnings	**92,243**	77,990	72,589
Accumulated other comprehensive income (Note 15)	**2,087**	1,947	-
Total shareholder's equity	**198,831**	131,438	124,090
Regulatory balances (Note 9)	**4,978**	2,356	8,792
Total liabilities, shareholder's equity and regulatory balances	**508,333**	426,870	402,979

See accompanying notes to Financial Statements.

On behalf of the Board of Directors:

Serge Imbrogno
Chair

Paul Tremblay
Director

HYDRO ONE BRAMPTON NETWORKS INC.
Statements of Changes in Shareholder's Equity
As at December 31, 2015, December 31, 2014 and January 1, 2014

(Canadian dollars in thousands)	Share capital	Accumulated other comprehensive income	Retained earnings	Total
Balance at January 1, 2014	51,501	-	72,589	124,090
Net income after net movement in regulatory balances	-	-	13,701	13,701
Other comprehensive income	-	1,947	-	1,947
Dividends	-	-	(8,300)	(8,300)
Balance at December 31, 2014	51,501	1,947	77,990	131,438
Balance at January 1, 2015	51,501	1,947	77,990	131,438
Issuance of common shares	53,000	-	-	53,000
Net income after net movement in regulatory balances	-	-	14,253	14,253
Other comprehensive income	-	140	-	140
Balance at December 31, 2015	**104,501**	**2,087**	**92,243**	**198,831**

See accompanying notes to Financial Statements.

HYDRO ONE BRAMPTON NETWORKS INC.
Statements of Cash Flows
For the years ended December 31, 2015 and 2014

Year ended December 31 (Canadian dollars in thousands)	**2015**	2014
Operating activities		
Net income after net movement in regulatory balances	**14,253**	13,701
Adjustments for non-cash items:		
Depreciation of PP&E and amortization of intangible assets (net of removal costs)	**18,078**	16,148
Amortization of debt costs	**30**	27
Amortization of deferred revenue	**(605)**	(542)
Post-retirement benefits	**228**	215
Net interest expense	**12,030**	11,719
Income tax expense	**332**	2,722
	44,346	43,990
Changes in non-cash balances related to operations (Note 22)	**(9,906)**	8,703
Income taxes received (paid)	**1,000**	(525)
Regulatory balances	**1,818**	(8,497)
Net cash from operating activities	**37,258**	43,671
Investing activities		
Interest received	**97**	117
Property, plant and equipment	**(44,785)**	(42,509)
Intangible assets	**(8,244)**	(231)
Capital contributions received	**12,376**	14,557
Net cash used in investing activities	**(40,556)**	(28,066)
Financing activities		
Long-term debt issued	**-**	10,000
Transaction costs related to debt issue	**-**	(61)
Interest paid	**(6,476)**	(11,835)
Common shares issuance (Note 18)	**53,000**	-
Dividends paid (Note 19)	**-**	(8,300)
Net cash raised (used) in financing activities	**46,524**	(10,196)
Net change in cash and cash equivalents	**43,226**	5,409
Cash and cash equivalents, January 1	**(2,705)**	(8,114)
Cash (bank indebtedness), December 31	**40,521**	(2,705)

See accompanying notes to Financial Statements.

HYDRO ONE BRAMPTON NETWORKS INC.
Notes to Financial Statements
Years ended December 31, 2015 and 2014

1. DESCRIPTION OF THE BUSINESS

Hydro One Brampton Networks Inc. (Hydro One Brampton or the Company) was incorporated on April 25, 2000 under the *Business Corporations Act* (Ontario). Hydro One Brampton was owned by Hydro One Inc. (Hydro One) until August 31, 2015. On August 31, 2015, Hydro One declared a dividend in kind of all of its issued and outstanding common shares of Hydro One Brampton. All issued and outstanding shares of Hydro One Brampton were transferred to Brampton Distribution Holdco Inc. which is wholly owned by the Province of Ontario (Province). The principal business of the Company is the ownership, operation and management of electricity distribution systems and facilities located at 175 Sandalwood Parkway West in Brampton, Ontario, L7A 1E8. The Company's business is regulated by the Ontario Energy Board (OEB).

2. BASIS OF PREPARATION

The annual financial statements of Hydro One Brampton for the year ended December 31, 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS). These Financial Statements have been prepared in accordance with the significant accounting policies described in Note 3. IFRS 1, "First-time Adoption of IFRS" has been applied in preparing these financial statements. These are the Company's first financial statements prepared in accordance with IFRS. Previously, the Company's financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles (CGAAP) as defined by Part V of Handbook of the Chartered Professional Accountants of Canada. The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS Statement of Financial Position as at January 1, 2014 ("the transition date"), for the purposes of the transition. (Note 25).

The Company has evaluated the events and transactions occurring subsequent to the date of the Statement of Financial Position date through to March 24, 2016, when the Company's Financial Statements were approved and authorized for issue by the Company's Board of Directors. This evaluation included the identification of events and transactions requiring recognition in the Financial Statements and/or disclosure in the Notes to the Financial Statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied in the preparation of these financial statements are detailed below:

Rate-setting

The Company's electricity distribution rates are subject to rate regulation by the OEB and are based on an approved revenue requirement that includes a rate of return of 9.3% (2014 – 9.66%). On December 18, 2014, the OEB approved Hydro One Brampton's 2015 rates on the basis of its cost of service application. The revised rates were implemented January 1, 2015. On December 10, 2015, the OEB approved Hydro One Brampton's 2016 rates on the basis of the OEB's Price Cap Incentive rate setting plan (Price Cap IR) option. The revised rates were implemented on January 1, 2016.

In January 2014, the IASB issued IFRS 14 "*Regulatory Deferral Accounts*" as an interim standard giving entities the option to continue with their legacy pre-IFRS accounting policies when adopting IFRS for the first time. Specifically, qualifying entities conducting rate-regulated activities have the option of continuing to recognize regulatory balances according to their previous national GAAP (i.e. CGAAP). As these regulatory balances provide readers with useful information about the Company's financial position, financial performance and cash flows, the Company opted to implement IFRS 14. IFRS 14 will remain in force until either repealed or replaced by permanent guidance on rate regulated accounting expected to result from the IASB's current Rate Regulated Activities Project. IFRS 14 is effective for annual periods beginning on or after January 1, 2016, but early adoption is permitted. The Company has elected to early adopt IFRS 14 effective January 1, 2014 for the purpose of preparing its initial Financial Statements under IFRS.

HYDRO ONE BRAMPTON NETWORKS INC.
Notes to Financial Statements
Years ended December 31, 2015 and 2014

The Company has determined that certain debit and credit balances arising from its rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14. Under the Company's legacy rate-regulated accounting policies, which are continued under IFRS 14, the timing and recognition of certain expenses, losses revenues and gains may differ from that otherwise expected under IFRS. This has the effect of more appropriately reflecting the economic impact of the regulator's decisions regarding the Company's regulated operations. Amounts arising from such timing differences are recorded as regulatory debit and credit balances on the Company's Statements of Financial Position, and represent existing rights and obligations regarding future cash flows expected to be recovered from, or refunded to customers, based on expected and actual decisions and approvals by the OEB. Regulatory balances are recognized only if the OEB directs the relevant regulatory treatment or if future OEB direction is judged to be probable. In the event that the inclusion of the whole or a part of such balances is assessed to no longer be probable based on management's judgment, the balances will be derecognized with any resulting gain or loss being recorded in the Company's Statement of Income and Other Comprehensive Income in the period when the assessment is made.

Regulatory balances are segregated on the Statement of Financial Position and the net change in these balances is presented on the Statement of Income and Other Comprehensive Income as Net Movements in Regulatory Balances, net of income taxes. The netting of regulatory debit and credit balances is not permitted on the Statement of Financial Position. The measurement of regulatory balances is subject to certain estimates and assumptions by Management, including assumptions made in interpreting the OEB's regulations and decisions.

Revenue Recognition

Energy Sales and Distribution Revenue

Distribution revenues attributable to the sale and delivery of electricity are recognized as electricity is delivered to customers. Distribution revenues reflect actual consumption billed, actual customer consumption yet to be billed, and an estimate for any other unbilled consumption. Actual customer consumption yet to be billed is calculated using smart meter data and actual billing rates and an estimate for the price for energy. Unbilled revenues that relate to energy used by consumers from the last meter reading dates during the period to the end of the year are estimated based on actual consumption from smart meters.

Other Revenue

Other revenue includes amortization of customer contributions, government grants and incentives under Conservation and Demand Management (CDM) programs, revenue from billable customer demand activities and other general revenues. Certain items of property, plant and equipment are acquired or constructed with the assistance of contributions from customers or developers (customer contributions). These contributions are usually defined by OEB industry codes and may be received in the form of cash or as in-kind contribution. These customer contributions are recognized as deferred revenue and are amortized to revenue over the lives of the related assets. Government grants under CDM programs are recognized as income when there is reasonable assurance that the grant will be received and all related conditions will be met. 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 payment will be received. Other revenue related to billable activities is recognized as services are rendered.

Corporate Income Taxes

Under the *Electricity Act, 1998*, Hydro One Brampton is required to make payments in lieu of corporate income taxes (PILs) to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing taxable income and other relevant amounts contained in the *Income Tax Act (Canada)* and the *Corporations Tax Act (Ontario)* as modified by the Electricity Act, 1998, and related regulations. The provision for PILs is calculated using the liability method.

IFRS 14 requires the recognition of regulatory balances and related deferred tax assets and liabilities representing those deferred tax amounts expected to be refunded to, or recovered from, customers through future electricity

HYDRO ONE BRAMPTON NETWORKS INC.
Notes to Financial Statements
Years ended December 31, 2015 and 2014

distribution rates. Any related gross-up reflecting the income tax benefits associated with reduced revenues resulting from the realization of deferred tax assets, is recorded within Regulatory Balances. Deferred taxes that are not included in the rate-setting process are charged or credited to the Statements of Income and Other Comprehensive Income.

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be paid to, or recovered from, the OEFC. The tax rates and tax laws used to compute these amounts are those that are enacted or substantively enacted. Management periodically reevaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities. The amount of current tax payable or receivable is Management's best estimate of the tax amounts expected to be paid or received and reflect any uncertainty related to income taxes.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax is measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized using the tax rates and tax laws that have been enacted or substantively enacted, at the reporting date.

Materials and Supplies

Materials and supplies represent consumables, minor spare parts and construction material held for internal construction and maintenance of property, plant and equipment assets (PP&E). These assets are carried at the lower of average cost or net realizable value. The Company classifies all major construction related spares and components of its electricity distribution infrastructure as property, plant and equipment but does not commence depreciation on this material until it is put into service as part of a component of PP&E.

Cash and Cash Equivalents

Cash and cash equivalents include cash in bank accounts and short-term investments with terms to maturity of 90 days or less from their date of acquisition. On the Statement of Cash Flows, cash and cash equivalents may represent bank indebtedness that is repayable on demand.

Accounts Receivable

The carrying amount of accounts receivable and unbilled revenue is reduced through an allowance for doubtful accounts, if applicable. When the Company considers that there are no realistic prospects of recovery of an account receivable, the relevant amount is determined to be impaired and is written off. If the amount of impairment loss subsequently decreases due to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through net income.

Property, Plant and Equipment

Property, plant and equipment is recorded at historical acquisition cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. For property, plant and equipment used in rate-regulated activities, the Company elected to use the exemption available for assets subject to rate regulation such that the previous CGAAP carrying amount became the deemed acquisition cost under IFRS 1 at the date of transition (Note 25). The cost of self-constructed assets includes the cost of direct materials and direct labour, directly attributable overheads, and borrowing costs on qualifying assets. Significant parts of PP&E that have different useful lives are accounted for as separate items (major components) of PP&E.

PP&E consist of land, land rights and buildings, distribution assets, vehicles and other tangible assets. In addition, major spare parts and standby equipment are also accounted for as PP&E.

Some of the Company's distribution assets, particularly those located on unowned easements and rights-of-way, may have decommissioning or asset retirement obligations, constructive or otherwise. The majority of the Company's land rights (easements and rights-of-way) are subject to extension or renewal and are expected to be available for a perpetual duration. As the Company expects to use the majority of its installed assets into perpetuity, no removal date can be determined and consequently no reasonable estimate of the fair value of such asset retirement obligations can be made. If, at some future date, it becomes possible to estimate the fair value cost of removing the assets that the Company is legally or constructively required to remove, a related asset retirement obligation will be recognized at that time. The discounted amount is not material.

An item of PP&E is derecognized upon disposal or when no future economic benefits are expected from either use or disposal. Any gain or loss arising on asset derecognition (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Income and Other Comprehensive Income. The cost of replacing an item of PP&E, or a major part thereof, is recorded as an addition to the carrying amount of PP&E and the carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of PP&E assets is recorded in net income as incurred.

Construction in Progress

Construction in progress assets are generally assets that are undergoing active construction or development and which are not currently available for use. Such assets are therefore not depreciated. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use. Management has assessed a substantial period of time to mean six months or more.

Intangible Assets

Intangible assets are measured at cost on an analogous basis as PP&E. The Company elected to use the exemption available for assets subject to rate regulation such that the previous CGAAP carrying amount became the deemed acquisition cost under IFRS 1 at the date of transition, January 1, 2014 (Note 25). Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over their estimated useful economic lives and are assessed for impairment whenever there is an indication that the carrying value may be impaired. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit (CGU) level.

Any gain or loss arising on asset derecognition (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in net income.

Depreciation and Amortization

The capital costs of PP&E and intangible assets are depreciated on a straight-line basis over their estimated remaining service lives. Remaining lives and methods of depreciation are reviewed by Management at each financial year end. Detailed reviews are performed periodically, generally as preparation for an OEB cost of service application and such reviews may involve inputs from an external depreciation consultant. Any changes arising from such a review are implemented on a remaining service life basis consistent with their inclusion in rates. The OEB approved new depreciation rates as part of the Company's 2015 cost of service rate decision.

HYDRO ONE BRAMPTON NETWORKS INC.
Notes to Financial Statements
Years ended December 31, 2015 and 2014

The estimated service lives for the principal categories of PP&E and intangibles are, in aggregate, as shown in the table below:

	Years
Land rights	Indefinite
Buildings	25 to 50
Distribution assets:	
Distribution equipment	20 to 75
Transformer stations	10 to 40
Transformers and meters	15 to 40
Vehicles and other:	
Trucks and equipment	7 to 10
Office and computer equipment	5 to 10
Other	5 to 15
Intangible assets:	
Computer software	5
Capital contributions to Hydro One	40

The majority of land rights (including easements) are held in perpetuity and are not depreciated. Depreciation rates for finite life easements are based on contract life.

Where a disposition of a component of PP&E occurs through sale, a gain or loss is calculated based on net proceeds and is presented within depreciation expense. Depreciation expense also includes the costs incurred to remove PP&E where no decommissioning liability has been recognized.

Deferred Revenue

Contributions received towards the cost of property, plant and equipment are recorded as deferred revenue and amortized to revenue on a straight line basis over the estimated economic useful lives of the assets to which they relate.

In addition, amounts are received pursuant to agreements with developers for the estimated costs for the remediation of deficiencies to residential subdivisions (subdivision deficiencies) for which the related services have yet to be performed. These amounts are recorded initially as deferred revenue and are recognized as revenue in the fiscal year the related expenditures are incurred or services performed.

Impairment

Non-Financial Assets

The carrying costs of the Company's PP&E and intangible assets are generally included in rate base where they earn an OEB-approved rate of return. In addition, the capital costs of the Company's assets are generally recoverable in OEB-approved revenue requirements. As such, the Company's assets would only indicate that an impairment trigger exists in the event that the OEB disallows recovery or if such disallowance is judged to be probable.

PP&E and intangible assets are reviewed at each reporting date to determine whether any indication exists of potential impairment. If such an indication exists, the relevant asset's recoverable amount is tested for impairment.

Financial Assets

A financial asset is considered to be impaired if objective evidence indicates that there has been a negative effect on the recoverable amount (estimated future cash flows to accrue from that asset). If there is evidence that an

HYDRO ONE BRAMPTON NETWORKS INC.
Notes to Financial Statements
Years ended December 31, 2015 and 2014

impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at original effective interest rate.

An impairment loss related to financial assets is reversed if, and to the extent there has been a change in the estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have existed had no impairment loss been recognized.

Reversals of impairment are recognized in finance costs.

Financial Instruments

All financial assets are classified as Loans and Receivables and all financial liabilities are classified as Other Liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(g). The Corporation does not enter into derivative instruments.

Cash equivalents include short-term investments with maturities of three months or less when purchased.

Employee Future Benefits

Pension

Full-time employees participate in the Ontario Municipal Employees Retirement System Fund (OMERS), a multi-employer, contributory, defined benefit public sector pension fund. OMERS provides retirement pension payments based on a member's length of service and salary. Both participating employers and members are required to make plan contributions. The OMERS plan assets are pooled together to provide benefits to all plan participants and the plan assets are not segregated in separate accounts for each member entity. The OMERS plan has approximately 451,000 members, of whom approximately 214 are current employees of Hydro One Brampton. The Company's future contributions may be increased substantially if other entities withdraw from the plan.

The OMERS plan is accounted for as a defined contribution plan by the Company because it is not practicable to determine the present value of the Company's obligation, the fair value of plan assets or the related current service cost applicable to Hydro One Brampton employees. Hydro One Brampton recognizes its pension expense based on contributions to the OMERS plan, with a portion of these contributions being capitalized. The expensed portion is included in operation, maintenance and administration costs in the Statements of Income and Other Comprehensive Income.

Post-Retirement Benefits (OPRB)

The Company provides some or all of its retired employees with life insurance and medical and dental benefits beyond those provided by government sponsored plans. The costs of the Company's unfunded post-retirement benefit plan is recognized over the periods during which employees render service.

The obligations for this plan is actuarially determined using the projected unit credit method, which incorporates Management's best estimate of future salary levels, retirement ages of employees, health care costs, and other actuarial factors. Changes in actuarial assumptions and experience adjustments give rise to actuarial gains and losses which are recognized in OCI as they arise. The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest actuarial valuation was performed as at December 31, 2015.

All OPRB costs are attributed to labour and recognized in either net income or are capitalized as part of the cost of PP&E and intangible assets.

HYDRO ONE BRAMPTON NETWORKS INC.

Notes to Financial Statements

Years ended December 31, 2015 and 2014

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Dividends

Common share dividends are declared at the sole discretion of the Company's Board of Directors and are recommended by Management based upon results of operations, financial condition, cash requirements and other relevant factors such as industry practice and shareholder expectations. Common share dividends are declared and paid within the same period.

Use of Judgments and Estimates

The preparation of the Company's financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods. Actual results could differ from these estimates including changes as a result of future decisions made by the OEB.

Key judgments and estimates affecting the financial statements are summarized below:

- Estimation of service lives for property, plant and equipment and intangible assets (Note 7 & 8)
- Recognition and measurement of regulatory balances (Note 9)
- Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and loss carryforwards can be used (Note 6)
- Measurement of defined benefit obligations – key actuarial assumptions (Note 15)
- Measurement of unbilled revenue
- Asset impairments and asset retirement obligations
- Allowance for doubtful accounts (Note 14); and
- Recognition and measurement of environmental provisions

4. FUTURE ACCOUNTING PRONOUNCEMENTS

A number of new accounting standards, amendments and interpretations have been issued by the IASB and are not yet effective for the year ended December 31, 2015. As such they have not been applied in preparing these Financial Statements. The Company continues to analyze these standards and has initially determined that the following could have a significant impact on its financial statements.

Revenues from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The standard outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers. It supersedes current revenue recognition guidance including IAS 18 Revenues, IAS 11 Construction Contracts and related interpretations. The new revenue model applies to all contracts with customers except those that are within the scope of other IFRSs, such as leases, insurance contracts and financial instruments. IFRS 15 specifies how and when the entity should recognize revenue and additional disclosure requirements. The new standard is effective for annual periods beginning on or after January 1, 2018 and the Company is currently evaluating the impact of the new standard.

HYDRO ONE BRAMPTON NETWORKS INC.
Notes to Financial Statements
Years ended December 31, 2015 and 2014

Financial Instruments

The IASB published the final version of IFRS 9 Financial Instruments in July 2014. The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. IFRS 9 has an expected credit loss model for a timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. It also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and the Company is currently evaluating the impact of the new standard.

Leases

The IASB published IFRS 16 Leases in January 2016. It replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. IFRS 16 is effective from 1 January 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts. The Company is currently evaluating the impact of the new standard.

5. FINANCING COSTS

(Canadian dollars in thousands)	**2015**	2014
Financing costs:		
Interest expense:		
Interest on long-term debt	**11,897**	11,705
Amortization of deferred debt costs and debt premiums	**30**	27
Other interest expense	**230**	131
Less interest capitalized on construction and development in progress	**(642)**	(725)
Total financing costs	**11,515**	11,138
Finance income:		
Interest income:		
Less interest income on short term bank deposits	**97**	117
Total financing income	**97**	117
Net financing costs	**11,418**	11,021

HYDRO ONE BRAMPTON NETWORKS INC.
Notes to Financial Statements
Years ended December 31, 2015 and 2014

6. INCOME TAX EXPENSE

A) Amount Recognized in Net Income

(Canadian dollars in thousands)	2015	2014
Current tax expense		
Current period	**1,518**	37
Adjustments for prior year(s)	**495**	4
	2,013	41
Deferred tax expense		
Origination and reversal of temporal differences	**(1,246)**	2,682
Reduction in tax rate	**(435)**	(1)
	(1,681)	2,681
Total income tax expense	**332**	2,722
Income tax recorded in net movement in regulatory balances	**5,119**	(412)
Income tax expense and income tax recorded in net movement in regulatory balances	**5,451**	2,310

The total provision for PILs includes deferred income taxes using the Statement of Financial Position liability method of accounting.

B) Amount Recognized in Other Comprehensive Income

	2015			2014		
	Before tax	**Tax (expense) benefit**	**Net of tax**	Before tax	Tax (expense) benefit	Net of tax
Remeasurement of post-retirement benefit obligation	**2,087**	**-**	**2,087**	1,947	-	1,947
	2,087	**-**	**2,087**	1,947	-	1,947

HYDRO ONE BRAMPTON NETWORKS INC.
Notes to Financial Statements
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(Canadian dollars in thousands)	2015	2014
Income before tax	**14,583**	16,424
Federal and Ontario statutory tax rate	**26.5%**	26.5%
Income taxes at statutory rates	**3,865**	4,352
Increase (decrease) resulting from:		
Net temporary differences:		
Capital cost allowance in excess of depreciation and amortization	**(3,383)**	(1,355)
Capitalized interest deducted for tax purposes	**(170)**	(192)
Employee future benefits expense in excess of cash payments	**6**	39
Other	**(51)**	(115)
Net temporary differences	**(3,598)**	(1,623)
Net permanent differences	**65**	(7)
Current income tax	**332**	2,722
Total effective income tax rate	**2.28%**	16.58%

Deferred Tax Assets and Liabilities

(Canadian dollars in thousands)	**December 31, 2015**	December 31, 2014	January 1, 2014
Deferred income tax assets (liabilities)			
Post-retirement benefits in excess of cash payments	**1,743**	1,684	1,627
Capital cost allowance in excess of depreciation and amortization	**(2,790)**	751	3,066
Other	**146**	114	125
Total deferred tax assets (liabilities)	**(901)**	2,549	4,818

HYDRO ONE BRAMPTON NETWORKS INC.
Notes to Financial Statements
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Movements in Deferred Tax Balances

(Canadian dollars in thousands)	Net balance January 1, 2014	Recognized in net income	**Net balance, December 31,2014**
Post-retirement benefits	1,627	57	**1,684**
PP&E and intangibles	3,066	(2,315)	**751**
Other	125	(11)	**114**
	4,818	(2,269)	**2,549**

(Canadian dollars in thousands)	Net balance January 1, 2015	Recognized in net income	**Net balance, December 31,2015**
Post-retirement benefits	1,684	59	**1,743**
PP&E and intangibles	751	(3,541)	**(2,790)**
Other	114	32	**146**
	2,549	(3,450)	**(901)**

HYDRO ONE BRAMPTON NETWORKS INC.
Notes to Financial Statements
Years ended December 31, 2015 and 2014

7. PROPERTY, PLANT AND EQUIPMENT

(Canadian dollars in thousands)	Land, land rights & buildings	Distribution assets	Vehicles & other	Construction in progress	Total
Deemed cost (net book value) at January 1, 2014	31,448	258,833	9,940	6,071	306,292
Additions	492	40,525	2,133	-	43,150
Retirements	-	(2,090)	(910)	(359)	(3,359)
Net book value at December 31, 2014	**31,940**	**297,268**	**11,163**	**5,712**	**346,083**
Additions	467	38,614	4,176	2,204	45,461
Retirements	-	(4,958)	(1,381)	-	(6,339)
At December 31, 2015	**32,407**	**330,924**	**13,958**	**7,916**	**385,205**
Accumulated depreciation:					
At January 1, 2014	-	-	-	-	-
Depreciation	808	11,750	1,890	-	14,448
Retirements	-	(1,196)	(853)	-	(2,049)
At December 31, 2014	**808**	**10,554**	**1,037**	-	**12,399**
Depreciation	850	11,897	1,656	-	14,403
Retirements	-	(2,360)	(1,266)	-	(3,626)
At December 31, 2015	**1,658**	**20,091**	**1,427**	-	**23,176**
Carrying amounts (net book value):					
At December 31, 2015	**30,749**	**310,833**	**12,531**	**7,916**	**362,029**
At December 31, 2014	**31,132**	**286,714**	**10,126**	**5,712**	**333,684**
At January 1, 2014	**31,448**	**258,833**	**9,940**	**6,071**	**306,292**

Hydro One Brampton did not have any impairments in the periods presented above.

During 2015 $3,999 thousand (December 31, 2014 $3,639 thousand, January 1, 2014 $3,834 thousand) of future use assets were recognized in PP&E.

Losses on derecognition of PP&E are presented as an element of depreciation expense on the Statement of Income and Comprehensive Income. These losses amounted to $2,534 thousand (2014 - $816 thousand).

The Company capitalizes borrowing costs for all qualifying assets. Borrowing costs were capitalized on qualifying property, plant and equipment and intangible assets under construction or development at a rate of 6.16% (December 31, 2014 - 6.16 %; January 1, 2014 - 6.07%). Borrowing costs of $642 thousand were capitalized in 2015 (2014 - $725 thousand) as part of the costs of PP&E.

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8. INTANGIBLE ASSETS

Canadian dollars in thousands	Contributed capital paid	Computer software	Total
Deemed cost (net book value) at January 1, 2014	13,505	1,646	15,151
Additions	-	229	229
Retirements	-	-	-
Net book value at December 31, 2014	**13,505**	**1,875**	**15,380**
Additions	7,705	541	8,246
Retirements	-	-	-
At December 31, 2015	**21,210**	**2,416**	**23,626**
Accumulated amortization:			
at January 1, 2014	-	-	-
Additions	370	677	1,047
Retirements	-	-	-
At December 31, 2014	**370**	**677**	**1,047**
Additions	467	666	1,133
Retirements	-	-	-
At December 31, 2015	**837**	**1,343**	**2,180**
Carrying amount (net book value):			
At December 31, 2015	**20,373**	**1,073**	**21,446**
At December 31, 2014	**13,135**	**1,198**	**14,333**
At January 1, 2014	**13,505**	**1,646**	**15,151**

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9. REGULATORY BALANCES

Regulatory balances arise as a result of the rate-making process. A continuity schedule of the carrying amount of regulatory balances is provided as follows.

(Canadian dollars in thousands)	January1, 2015	Additions	Carrying charges	Recovery	Other movements	December 31, 2015	Remaining recovery period
Regulatory debit balances:							
Accounting changes under CGAAP	4,835	-	-	(1,612)	-	3,223	2 years
Regulatory deferred tax asset	509	5,119	-	-	-	5,628	Note [1]
LRAM variance account	142	376	3	-	-	521	Note [1]
Retail settlement variance accounts	3,456	-	-	-	(3,456)	-	Note [1]
LV variance account	155	249	3	-	-	407	Note [1]
Renewable generation funding adder	-	126	-	1	-	127	Note [1]
Other	69	11	-	(16)	-	64	Note [1]
Total	9,166	5,881	6	(1,627)	(3,456)	9,970	

(Canadian dollars in thousands)	January 1, 2015	Additions	Carrying charges	Recovery	Other movements	December 31, 2015	Remaining recovery period
Regulatory credit balances:							
Retail settlement variance accounts	-	7,722	15	-	(3,456)	4,281	Note [1]
Regulatory balances approved for disposition	2,290	-	11	(1,724)	-	577	2 years
Other	66	54	-	-	-	120	Note [1]
Total	2,356	7,776	26	(1,724)	(3,456)	4,978	

[1] The Company expects to apply for disposition of these regulatory balances at a future date. These balances incur carrying charges at 1.10% per annum (December 31, 2014 – 1.47%, January 1, 2014 – 1.47%).

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(Canadian dollars in thousands)	January 1, 2014	Additions	Carrying charges	Recovery	Other movements	December 31, 2014	Remaining recovery period
Regulatory debit balances:							
Accounting changes under CGAAP	2,684	2,151	-	-	-	4,835	3 years
Regulatory deferred tax asset	924	(412)	-	-	(3)	509	Note [1]
LRAM variance account	307	361	6	(532)	-	142	Note [1]
Retail settlement variance accounts	194	3,414	45	(197)	-	3,456	Note [1]
LV variance account	160	154	3	(162)	-	155	Note [1]
Smart meters	1,158	4	(25)	(1,137)	-	-	-
IFRS transition costs	961	-	13	(974)	-	-	-
Stranded meters	522	-	7	(529)	-	-	-
Other	195	11	2	(139)	-	69	Note [1]
Total	7,105	5,683	51	(3,670)	(3)	9,166	

(Canadian dollars in thousands)	January 1, 2014	Additions	Carrying charges	Recovery	Other movements	December 31, 2014	Remaining recovery period
Regulatory credit balances:							
Regulatory balances approved for disposition	8,399	86	91	(6,286)	-	2,290	1 year
Regulatory deferred tax liability	3	-	-	-	(3)	-	
Renewable generation funding adder	313	(347)	8	26	-	-	-
Other	77	64	2	(77)	-	66	Note [1]
Total	8,792	(197)	101	(6,337)	(3)	2,356	

[1] The Company expects to apply for disposition of these regulatory balances at a future date. These balances incur carrying charges at 1.10% per annum (December 31, 2014 – 1.47%, January 1, 2014 – 1.47%).

In the absence of IFRS 14, carrying charges would not have been accreted on these regulatory balances, and financing costs would have been lower in 2015 by $20 thousand (2014 – $50 thousand).

The "Additions" column consists of additions to regulatory balances (for both debits and credits). The "Recovery" column refers to amounts collected through rate riders and other adjustments. The "Other movements" column consists of reclassification between regulatory debit and credit balances.

No impairments were recorded in 2015 or 2014.

The Company is subject to regulatory risks, including the approval by the OEB of rates that permits a reasonable opportunity to recover the estimated costs of providing safe and reliable service on a timely basis and earn the approved rates of return. The OEB approves distribution rates based on projected electricity load and consumption levels. If actual load or consumption materially falls below projected levels, the income for could be materially adversely affected. Also, the current revenue requirements for these businesses are based on cost assumptions that may not materialize. There is no assurance that the OEB would allow rate increases sufficient to offset unfavourable financial impacts from unanticipated changes in electricity demand or in costs.

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The OEB's new Renewed Regulatory Framework for Electricity (RRFE) requires that the term of a cost of service rate application (distribution business) be a five-year period. There are risks associated with forecasting over a longer period. Changes in the industry may alter the investment needs or require changes to rate setting that could result in a significant impact on the Company's capability to execute its plan.

The load could also be negatively affected by successful CDM programs. The Company is also subject to risk of revenue loss from other factors, such as economic trends and weather. The risk exists that the OEB may not allow full recovery of such investments in the future. To the extent possible, the Company aims to mitigate this risk by ensuring prudent expenditures, seeking from the regulator clear policy direction on cost responsibility, and pre-approval of the need for capital expenditures.

While the Company expects that all expenditures would be fully recoverable after OEB review, any future regulatory decision to disallow or limit the recovery of such costs would lead to potential asset impairment and charges to results of operations, which could have a material adverse effect on the Company.

Regulatory debit balances

Accounting Changes Under CGAAP

On July 17, 2012 the OEB issued a letter which required electricity distributors that had yet to adopt IFRS to implement changes to their regulatory capitalization and depreciation expense policies effective January 1, 2013. The OEB required these accounting changes to be implemented consistent with their regulatory accounting policies as set out for Modified IFRS as contained in the *Report of the Board, Transition to International Financial Reporting Standards*, EB-2008-0408, the Kinectrics Report, and the Revised 2012 *Accounting Procedures Handbook for Electricity Distributors* (APH). The regulatory policy changes required entities to adopt IFRS-based accounting treatments for costing and depreciating their PP&E and intangible assets, even while retaining CGAAP. A regulatory balance was provided for entities that did not have the ability to adjust rates due to their scheduled rebasing year. Based on the direction in the OEB's letter, to December 31, 2014 the Company had accumulated $4,836 thousand of adjustments in the regulatory balance. As part of its 2015 Cost of Service application, the OEB approved the Company's request for the disposition of the balance in this account.

In addition, in its letter dated June 25, 2013, the OEB required that a rate of return component be calculated on the balance in the regulatory account rather than the usual accretion of interest. In the OEB's decision on the Company's 2015 Cost of Service application, the OEB approved the recovery of the $4,835 thousand plus a return component of $1,046 thousand for a total recovery of $5,881 thousand over three years. In the absence of IFRS 14 depreciation expense would have been lower by $56 thousand (2014 – $1,551 thousand).

Regulatory Deferred Tax Asset (Liability)

Deferred taxes (i.e. PILS) are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. The Company has recognized balances which correspond to the taxes that flow through the rate-making process. In the absence of regulatory accounting, the Company's provision for income tax would have been recognized using the liability method and there would have been no regulatory balances established for taxes to be recovered through future rates. As a result, the 2015 provision for income tax would have been higher by $3,598 thousand (December 31, 2014 - $1,623 thousand, January 1, 2014 $1,750 thousand).

Lost Revenue Adjustment Mechanism (LRAM) Variance Account

The LRAM Variance account represents the difference between the results of actual approved impacts of authorized CDM activities related to the CDM programs which started in 2011 and the level of CDM program activities included in the Company's approved load forecast. In the absence of regulatory accounting, revenue would have been lower by $376 thousand in 2015 (2014 - $361 thousand).

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Low Voltage (LV) Variance Account

The Company records the variance arising from LV transactions which are not part of the electricity wholesale market. In December 2014, the OEB approved the disposition of the amounts accumulated in this account from January 1 to December 31, 2013, including accrued carrying charges, to be disposed over a 12-month period from January 1 to December 31, 2015 in the *Regulatory Balances Approved for Disposition* Account. In the absence of rate-regulated accounting, cost of purchased power would have been lower by $249 thousand in 2015 (2014 - $154 thousand higher).

Renewable Generation Funding Adder

In December 2014 the OEB approved the disposition of the balance in this account accumulated from January 2011 to December 2013, including accrued carrying charges, to be disposed over a 12-month period from January 1 to December 31, 2015. In the absence of regulatory accounting, revenue would have been lower by $126 thousand in 2015 (2014 – $347 thousand).

Regulatory credit balances

Retail Settlement Variance Accounts

The Company has recognized RSVA's under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. In December 2014, the OEB approved the disposition of the total RSVA balance accumulated from January 1 to December 31, 2013 to be disposed over a 24-month period from January 2014 to December 2015. At December 2015 the Company had a credit as compared to a debit at December 31, 2014. In the absence of regulatory accounting, distribution revenues would have been higher by $7,722 thousand (2014 - $3,414 lower).

Regulatory Balances Approved for Disposition

In 2014, the OEB approved the Company's request to refund regulatory balances of $2,064 thousand over a 12-month period commencing January 1, 2015. The balances consisted of RSVA regulatory debit balances and refundable variances for previous rate riders since the Company's Cost of Service application in 2011.

10. DEBT

(Canadian dollars in thousands)	**December 31, 2015**	December 31, 2014	January 1, 2014
Long-term debt:			
6.95% notes due June 1, 2032	**143,000**	143,000	143,000
4.41% notes due September 26, 2041	**20,000**	20,000	20,000
3.22% notes due January 13, 2022	**20,000**	20,000	20,000
4.19% notes due June 6, 2044	**10,000**	10,000	-
Total debt	**193,000**	193,000	183,000
Unamortized balance of transaction costs	**761**	791	757
Long-term debt net of deferred transaction costs	**192,239**	192,209	182,243

On August 31, 2015, long-term debt, net of deferred transaction costs, of $192,239 thousand was transferred from Hydro One Inc. to Brampton Distribution Holdco Inc. The long-term debt consists of four promissory notes, subject to redemption or repurchase in whole or in part, by the Company before maturity.

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11. CARRYING AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. These are described below:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means.
- Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

Valuation Technique and Assumptions for Measuring Fair Value

Long-term debt

Long-term debt is generally recorded at cost. The Company has not entered into any hedging relationships. The fair value of the long-term debt is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities. The fair value measurement of long-term debt is categorized as Level 2. The total fair value of the Company's long-term debt at December 31, 2015 was $250,684 thousand (December 31, 2014 - $257,222 thousand, January 1, 2014 - $224,304 thousand) with a total carrying value of $193,000 thousand (December 31, 2014 - $193,000, January 1, 2014 - $183,000).

There were no transfers from Level 2 to Level 1 in 2015 and no transfers in either direction in 2014. There were no instruments categorized under Level 3 for years ended December 31, 2015, December 31, 2014 and January 1, 2014.

Other financial assets and liabilities

The carrying amounts of cash and cash equivalents, bank overdraft, accounts receivable, and accounts payable and accrued liabilities, approximate fair value due to the short maturity of these instruments.

12. FINANCIAL RISK MANAGEMENT

Hydro One Brampton is subject to interest rate risk, credit risk and liquidity risk that arises in the normal course of the Company's business.

Interest Rate Risk

Hydro One Brampton is exposed to fluctuations in interest rates as the regulated rate of return for the Company's distribution business is derived using a formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields and the spread in 30 year "A" rated Canadian utility bonds, over the 30 year benchmark Government of Canada bond yield. The Company estimates that a 1% reduction in the deemed rate of return on equity would reduce its results of operations by approximately $1,600 thousand based on the 2015 cost of service application. In 2012, 2013 and 2014, Hydro One Brampton's distribution rates were updated based on the OEB's third generation Incentive Regulation Mechanism (IRM) policies.

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Credit Risk

Financial assets create credit risk that a counter-party will fail to discharge an obligation, causing a financial loss. The Company incurs credit risk in respect of accounts receivable transactions in the normal course of business. The maximum exposure to credit risk is represented by the carrying value of financial assets.

As at December 31, 2015, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, the Company did not earn a significant amount of revenue from any individual customer. As at December 31, 2015, December 31, 2014 and January 1, 2014 there were no significant balances of accounts receivable due from any single customer.

Overdue accounts receivables are regularly monitored. Customers are assessed at each reporting date in order to determine impairment. Based on customer credit risk assessment, a certain percentage of the overdue receivables are recognized as an allowance for credit losses at each reporting period. The Company's maximum exposure to credit risk for accounts receivable is limited to the carrying amount on the Statement of Financial Position. In the year, the Company's allowance for accounts receivable remained relatively unchanged at $1,184 thousand as at December 31, 2015 (December 31, 2014 - $1,015 thousand; January 1, 2014 - $906 thousand). Minor adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. As of December 31, 2015, 1.8% of accounts receivable were deemed to be significantly aged (2014 – 1.5%).

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due by delivering cash or another financial asset. Short-term liquidity is provided through cash and cash equivalents, funds from operations, and an established revolving credit facility of $50,000 thousand, if required. The short-term liquidity available to the Company should be sufficient to fund normal operating requirements. The Company monitors the level of expected cash inflows related to accounts receivable together with expected cash outflows on accounts payable.

The following are the remaining contractual maturities of the financial liabilities at the reporting dates:

Year ended December 31, 2015 (*Canadian dollars in thousands*):

Financial Liabilities	Due within 1 year $	Due within 2 years $	Due within 3 years $	Due within 4 years $	Due within 5 years $	Due after 5 years $
Accounts payable and accrued liabilities	72,321	-	-	-	-	-
Interest on long-term debt	18,931	11,884	11,884	11,884	11,884	148,806
Long-term debt	-	-	-	-	-	193,000
	91,252	**11,884**	**11,884**	**11,884**	**11,884**	**341,806**

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Year ended December 31, 2014 (*Canadian dollars in thousands*):

Financial Liabilities	Due within 1 year $	Due within 2 years $	Due within 3 years $	Due within 4 years $	Due within 5 years $	Due after 5 years $
Bank indebtedness	2,705	-	-	-	-	-
Accounts payable and accrued liabilities	77,183	-	-	-	-	-
Interest on long-term debt	13,295	11,884	11,884	11,884	11,884	161,012
Long-term debt	-	-	-	-	-	193,000
	93,183	**11,884**	**11,884**	**11,884**	**11,884**	**354,012**

As at January 1, 2014 (*Canadian dollars in thousands*):

Financial Liabilities	Due within 1 year $	Due within 2 years $	Due within 3 years $	Due within 4 years $	Due within 5 years $	Due after 5 years $
Bank indebtedness	8,114	-	-	-	-	-
Accounts payable and accrued liabilities	67,957	-	-	-	-	-
Interest on long-term debt	12,846	11,465	11,465	11,465	11,465	161,679
Long-term debt	-	-	-	-	-	183,000
	88,917	**11,465**	**11,465**	**11,465**	**11,465**	**344,679**

13. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of shareholder's equity, long-term debt, and cash and bank indebtedness. The Company's capital structure was as follows:

(Canadian dollars in thousands)	**December 31, 2015**	December 31, 2014	January 1, 2014
(Cash) bank indebtedness	**(40,521)**	2,705	8,114
Long-term debt	**192,239**	192,209	182,243
	151,718	194,914	190,357
Share capital	**104,501**	51,501	51,501
Retained earnings	**92,243**	77,990	72,589
Accumulated other comprehensive income	**2,087**	1,947	-
	198,831	131,438	124,090
Total capital	**350,549**	326,352	314,447

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14. ACCOUNTS RECEIVABLE

(Canadian dollars in thousands)	**December 31, 2015**	December 31, 2014	January 1, 2014
Current assets:			
Accounts receivable	**73,574**	60,976	65,065
Less: Allowance for doubtful accounts	**(1,184)**	(1,015)	(906)
Accounts receivable, net	**72,390**	59,961	64,159
Receivables due from related parties (Note 21)	**903**	3,636	2,580
Total accounts receivable	**73,293**	63,597	66,739

Which consists of:

(Canadian dollars in thousands)	**December 31, 2015**	December 31, 2014	January 1, 2014
Unbilled revenue	**46,933**	40,935	36,523
Customer receivables			
Current	**23,150**	20,658	28,293
30 - 60 days	**2,430**	1,493	1,416
61 - 90 days	**673**	597	559
Over 90 days	**1,291**	929	854
Less: Allowance for doubtful accounts	**(1,184)**	(1,015)	(906)
Total accounts receivable	**73,293**	63,597	66,739

15. EMPLOYEE FUTURE BENEFITS

Hydro One Brampton accounts for its participation in OMERS as a defined contribution plan. During 2015, the Company contributed $1,910 thousand to the plan (2014 - $1,848 thousand).

The Company also provides certain medical, dental and life insurance benefits to its retired employees and their dependents. The Company recognizes these post-retirement costs in the period in which the employees render services. Costs are determined by independent actuaries using the projected benefit method pro-rated on service and based on assumptions that reflect Management's best estimates.

The Company recognizes the unfunded status of its post-retirement plan (Plan) as a liability on its Statement of Financial Position. Actuarial gains and losses are recognized in accumulated other comprehensive income (AOCI). For the year ended December 31, 2015, the measurement date for the Plan was December 31.

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Information about the Company's post-retirement benefit plan is as follows:

Year ended December 31 (Canadian dollars in thousands)	**2015**	2014
Change in defined benefit obligation		
Defined benefit obligation, beginning of year	**4,406**	6,138
Current service cost	**170**	274
Interest cost	**173**	272
Benefits paid	**(115)**	(72)
Net actuarial gain recognized in AOCI	**(140)**	(1,947)
Past service cost	**-**	(259)
Defined benefit obligation, December 31	**4,494**	4,406

The Company presents its benefit obligations on its Statement of Financial Position within the following line items:

(Canadian dollars in thousands)	**December 31, 2015**	December 31, 2014	January 1, 2014
Employee future benefits – non-current	**4,324**	4,280	5,943
Employee future benefits – current	**170**	126	195
Unfunded status	**4,494**	4,406	6,138

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2015 and 2014:

Year ended December 31 (Canadian dollars in thousands)	**2015**	2014
Current service cost	**170**	274
Interest cost	**173**	272
Past service cost	**-**	(259)
Net periodic benefit cost	**343**	287

Assumptions

The measurement of the obligations of the Plan and costs of providing benefits under the Plan involves various factors, including the development of valuation assumptions and accounting policy elections. When developing the required assumptions, the Company considers historical information as well as future expectations. The measurement of benefit obligations and costs is impacted by several assumptions including the discount rate applied to benefit obligations, the incidence of mortality, the level of compensation and rate of compensation increases, employee age, length of service, and the anticipated rate of increase of health care costs, among other factors. The impact of changes in assumptions used to measure the obligations of the Plan is recognized in AOCI.

The following weighted average assumptions were used to determine the benefit obligations and benefit expense at December 31, 2015, December 31, 2014 and January 1, 2014. Assumptions used to determine current year-end benefit obligations are the assumptions used to estimate the subsequent year's net periodic benefit costs.

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The significant actuarial assumptions used in measuring the defined benefit obligation are as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
Discount rate for the expense	**4.00%**	4.50%	4.00%
Discount rate for the defined benefit obligation	**4.00%**	4.00%	4.50%
Rate of compensation scale escalation (without merit)	**3.00%**	3.00%	3.00%
Rate of increase of long-term supplementary medical costs[1]	**7.82%**	8.05%	8.26%
Rate of increase of prescription drugs[1]	**7.82%**	8.05%	8.26%
Rate of increase of dental costs	**4.50%**	4.50%	4.50%

[1] 7.82% in 2015, grading down to 4.50% per annum after 2031 (December 31, 2014 - 8.05% per annum, grading down to 4.50% per annum after 2031; January 1, 8.26% per annum, grading down to 4.50% per annum after 2031)

Sensitivity Analysis

The effect of 1% change in health care cost trends on the post-retirement benefits is as follows:

Year ended December 31 (Canadian dollars in thousands)	**2015**	**2014**
Effect of 1% increase in health care cost trends on:		
Defined benefit obligation	**221**	225
Service and interest costs	**32**	46
Effect of 1% decrease in health care cost trends on:		
Defined benefit obligation	**(196)**	(200)
Service and interest costs	**(26)**	(40)

16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(Canadian dollars in thousands)	**December 31, 2015**	December 31, 2014	January 1, 2014
Accounts payable – energy purchases	**42,558**	36,489	31,976
Customer deposits	**4,779**	4,602	4,558
Debt retirement charge payable	**2,043**	2,106	2,072
Commodity taxes payable	**940**	479	216
Payroll payable	**748**	981	1,583
Other payables and accrued liabilities	**21,253**	32,526	27,552
Total accounts payable and accrued liabilities	**72,321**	77,183	67,957

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17. DEFERRED REVENUE

(Canadian dollars in thousands)	**December 31, 2015**	December 31, 2014	January 1, 2014
Capital contributions, net of amortization	**25,786**	14,015	-
Subdivision deficiencies	**1,107**	1,032	988
Total deferred revenue	**26,893**	15,047	988
Less: current portion of deferred revenue			
Capital contributions	**1,162**	539	-
Other	**10**	8	-
	1,172	547	-
Non-current portion of deferred revenue	**25,721**	14,500	988

The reconciliation between the opening and closing capital contribution balances is as follows:

(Canadian dollars in thousands)	**December 31, 2015**	December 31, 2014
Beginning balance, January 1	**14,015**	-
Receipt of capital contributions	**12,376**	14,557
Amortization	**(605)**	(542)
Balance at December 31	**25,786**	14,015

18. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. On August 31, 2015, Hydro One subscribed for 357 shares for an aggregate subscription price of $53,000,000. Also on August 31, 2015, subsequent to the subscription of common shares, Hydro One declared a dividend in kind of all of its issued and outstanding common shares of Hydro One Brampton. All issued and outstanding shares of Hydro One Brampton were transferred to Brampton Distribution Holdco Inc. 2,357 shares were issued as at December 31, 2015 (December 31, and January 1, 2014 - 2,000 shares were issued).

19. DIVIDENDS

Common dividends are declared at the sole discretion of the Hydro One Brampton Board of Directors, and are recommended by Management based on results of operations, financial condition, cash requirements and other relevant factors such as industry practice and shareholder expectations.

No common dividends were declared or paid during 2015 (2014 - $8,300 thousand).

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20. OPERATING, MAINTENANCE AND ADMINISTRATION

Operating, maintenance and administration expenses comprise:

December 31 (thousands of Canadian dollars)	**2015**	**2014**
Labour	**14,226**	12,704
Supplies and external services	**9,708**	8,713
Vehicles	**844**	1,033
Materials	**502**	919
Other	**2,582**	3,300
	27,862	26,669

21. RELATED PARTY TRANSACTIONS

The Company had transactions with the following related parties and companies under Province's common control:

Name of the Company	Relationship	Country of Incorporation
Province of Ontario	Owner of Brampton Distribution Holdco Inc.	Canada
Brampton Distribution Holdco Inc.	Parent	Canada
Hydro One Inc. (Hydro One)	Under Province's Common Control	Canada
Hydro One Networks Inc.	Under Province's Common Control	Canada
Hydro One Remote Communities Inc.	Under Province's Common Control	Canada
Hydro One Telecom Link Limited	Under Province's Common Control	Canada
IESO	Under Province's Common Control	Canada
Ontario Electricity Financial Corporation (OEFC)	Under Province's Common Control	Canada
Ontario Energy Board (OEB)	Under Province's Common Control	Canada

Transactions with the Province and entities under its common control

Hydro One Brampton is wholly owned by Brampton Distribution Holdco Inc. who is owned by the Province of Ontario. Hence, Brampton Distribution Holdco Inc., Hydro One and its subsidiaries, IESO, and OEB are related parties to Hydro One Brampton because they are also controlled or significantly influenced by the Province of Ontario. Transactions with these parties were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the parties.

Transactions between these parties and Hydro One Brampton were as follows:

In 2015, the Company purchased power from the IESO-administered spot market in the amount of $415,233 thousand (2014 - $393,002 thousand).

The IESO is responsible for funding some of the Company's CDM programs. The funding includes program costs, incentives and management fees and bonuses. In 2015, the Company received $9,250 thousand (2014 - $4,523 thousand) from the IESO in respect of the CDM programs and had a net accounts receivable of $304 thousand (December 31, 2014 - $675 thousand; January 1, 2014 -$185 thousand).

Under the Ontario Energy Board Act, 1998, the OEB is required to recover all of its annual operating costs from gas and electricity distributors and electricity transmitters by way of fees. In 2015, Hydro One Brampton incurred $424 thousand (2014 - $397 thousand) in OEB fees.

The provision for PILs was paid or payable to the OEFC.

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As at December 31, 2015, long-term debt of $193,000 thousand was due to Brampton Distribution Holdco Inc. The debt was transferred from Hydro One Inc. to Brampton Distribution Holdco Inc. on August 31, 2015. Net financing charges for 2015 include interest expense on this debt in the amount of $11,899 thousand. The total interest accrued and payable at the end of 2015 is $7,047 thousand (2014 - $1,412 thousand).

Hydro One and Subsidiaries

The Company made load guarantee contributions for the construction of transmission connection facilities of $7,705 thousand (2014 – nil). In addition, certain transmission, connection, and administrative services were purchased from Hydro One Networks and Hydro One totaling $3,421 thousand (2014 - $3,591 thousand). In 2015, the Company provided transmission and connection services to Hydro One Networks totaling $1,060 thousand (2014 - $856 thousand). The Company recorded other rental revenues from Hydro One Networks of $34 thousand (2014 - $59 thousand).

During 2015 the Company made no capital contributions nor purchases for computer software from Hydro One Networks (2014 – $84 thousand).

No common dividends were declared and paid to the Province, Brampton Distribution Holdco or Hydro One during 2015 (2014 - $8,300 thousand to Hydro One).

As at December 31, 2015, no long-term debt was due to Hydro One (December 31, 2014 - $193,000 thousand; January 1, - $183,000 thousand). Net financing costs paid to Hydro One for 2015 include interest expense of $6,264 thousand (2014 - $11,704 thousand). Additionally, interest expense payments on the inter-company demand facility was made in the amount of $107 thousand (2014 – $86 thousand).

Hydro One provided prudential support of $78,000 thousand to the IESO on behalf of the Company in the form of parental guarantees to August 31, 2015 (December 31, 2014 - $78,000 thousand; January 1, 2014 - $75,000 thousand).

The amounts due to or from related parties as a result of the transactions referred to above are as follows:

December 31 (Canadian dollars in thousands)	2015	2014	2013
Due from related parties	**903**	3,636	2,580
Due to related parties[1]	**(46,698)**	(41,055)	(36,325)

[1] Included in due to related parties at December 31, 2015 are amounts owing to the IESO in respect of power purchases of $37,345 thousand (December 31, 2014 – $36,348 thousand and January 1, 2014 – $32,299 thousand).

Sales to and purchases from related parties occur at normal market prices or at a proxy for fair value based on the requirements of the OEB's Affiliate Relationship Code. Outstanding balances at period end are unsecured, interest free and settled in cash.

Key management personnel are comprised of Hydro One Brampton's senior management team. The following compensation has been provided to key management personnel and members of the Board of Directors who have the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly:

Year ended December 31 (Canadian dollars in thousands)	2015	2014
Salaries and short term employee benefits	**1,470**	378
Retirement OMERS & OPRB contributions	**97**	52
Compensation paid for contract management personnel	**766**	457
Other compensation	**-**	127
Directors Honorarium	**3**	6
	2,336	1,020

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22. NET CHANGE IN NON-CASH BALANCES RELATED TO OPERATIONS

The changes in non-cash balances related to operations consist of the following:

Year ended December 31 (Canadian dollars in thousands)	**2015**	2014
Accounts receivable	**(9,696)**	3,142
Income tax receivable	**2,346**	(667)
Materials and supplies	**121**	-
Deferred tax assets	**2,549**	2,269
Accounts payable and accrued liabilities	**(6,273)**	8,564
Income tax payable	**478**	-
Long-term accounts payable and accrued liabilities	**(1,295)**	(5,358)
Deferred tax liabilities	**901**	-
Other	**963**	753
Total	**(9,906)**	8,703

23. CONTINGENCIES

Legal Proceedings

The Company is involved in various lawsuits, claims and regulatory proceedings in the normal course of business. In the opinion of Management, the outcome of such matters, except as noted below, will not have a materially adverse effect on the Company's financial position, results of operations or cash flows.

24. COMMITMENTS

Prudential Support

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on this security if the Company fails to make the payment required by a default notice issued by the IESO. In August 2015 Hydro One Brampton posted a letter of credit as security in the amount of $5,500 thousand (December 31, 2015 - $5,500 thousand). Prior to August 2015, prudential support was provided using parental guarantees through Hydro One Inc. (December 31, 2014 - $78,000 thousand; January 1, 2014 - $75,000 thousand).

25. TRANSITION TO IFRS

IFRS 1 Elective and Mandatory Exemptions

Hydro One Brampton adopted IFRS effective January 1, 2014 consistent with the date authorized by the Canadian Accounting Standards Board for rate regulated enterprises that selected the optional deferral in implementation. Based on this adoption date, the Company's IFRS transition date and date of the first IFRS opening Statement of Financial Position is January 1, 2014. An explanation of the significant adjustments made by the Company and how the transition to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and accompanying notes.

IFRS 1 sets out the procedures that a company must follow when it adopts IFRS for the first time as the basis for preparing its Financial Statements. A company is required to establish its IFRS accounting policies immediately prior to its date of IFRS implementation. In the Company's case this is December 31, 2015. In general, these policies must be retrospectively applied to determine the IFRS opening Statement of Financial Position amounts at the date of transition. IFRS 1 provides a specific number of elective and mandatory exemptions to the general principle of retroactive restatement. These exemptions are described below with the Company's choices where applicable.

Mandatory Exemptions

Estimates

Hindsight was not used to create or revise estimates and accordingly, the estimates previously made by the Company under CGAAP are retained for the January 1, 2014 IFRS Statement of Financial Position.

Elective Exemptions

Regulatory Deferral Accounts IFRS 14

IFRS 1 offers an optional exemption for a first-time adopter to adopt IFRS 14 on initial adoption of IFRS. On January 30, 2014 the IASB published IFRS 14 allowing an entity with rate-regulated activities to continue to recognize amounts that qualify as regulatory balances in its financial statements in accordance with its previous national GAAP (CGAAP). This interim standard requires regulatory balances and movements therein to be presented as separate line items on the face of the financial statements, distinguished from assets, liabilities, income and expenses that are recognized in accordance with other IFRSs. An entity that recognizes regulatory balances in its financial statements is required to provide extensive disclosures to enable users of the financial statements to understand the features and nature of, and risks associated with, rate regulation; and the effect of rate regulation on the entity's financial position, performance and cash flows. The effect of the reclassifications would enhance comparability of IFRS 14 compliant financial statements with those of entities not applying IFRS 14. Hydro One Brampton has applied this exemption and has early adopted IFRS 14. As a result, the Company will continue to apply its previous CGAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory balances.

Carrying Amount of PP&E and Intangible Assets as Deemed Cost

IFRS 1 offers an optional exemption for a first-time adopter that has rate-regulated property, plant and equipment and intangible assets. This exemption allows the adopting entity to deem the net book value of its PP&E and intangible assets immediately prior to transition as its deemed acquisition cost at transition. Deemed acquisition cost includes original cost, less accumulated depreciation or amortization less unamortized capital contributions received. The deemed cost of acquisition may also include historical acquisition costs that would not qualify for capitalization under IFRS.

Hydro One Brampton has elected to use this exemption for its PP&E and intangible assets, all of which are rate-regulated. Therefore, the closing net book values of PP&E and intangible assets under CGAAP as at December 31, 2013 is the Company's deemed acquisition cost on the January 1, 2014, IFRS transition date. Pre-transition accumulated depreciation is no longer presented, although it is tracked as information for the OEB.

The impact of this change is to decrease both the cost and accumulated depreciation of PP&E by $278,717 thousand and to decrease both the cost and accumulated amortization of intangible assets by $4,851 thousand, as at January 1, 2014.

Decommissioning Liabilities Included in the Cost of PP&E

International Financial Reporting Interpretations Committee (IFRIC) Statement 1 ("Changes in Existing Decommissioning, Restoration, and Similar Liabilities") requires specified changes in decommissioning, restoration or similar liabilities be added to, or deducted from, the cost of the asset to which it relates retrospectively, with the adjusted depreciable amount of the asset being depreciated prospectively over its remaining useful life. IFRS 1 provides an exemption for changes that occurred before the date of transition date and permits the measurement of the decommissioning liability as at transition date in accordance with IAS 37 ("Provisions, Contingent Liabilities

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and Contingent Assets"). A first-time adopter need not apply IFRIC 1 retrospectively for decommissioning liabilities that arose prior to transition date.

Borrowing Cost (IAS 23, "Borrowing Cost")

Another first time adoption exemption allows an enterprise to choose an effective application date of January 1, 2009 for IAS 23 rather than conducting a full retrospective application of the standard. However, the Company did not apply this exemption as it instead elected to implement the first time adoption for rate-regulated activities enabling it to deem the December 31, 2013 net carrying amount of its property, plant and equipment and intangible assets under CGAAP as its acquisition cost on IFRS transition date, January 1, 2014.

Under CGAAP, the Company capitalized financing costs on PP&E under construction and intangible assets under development using OEB mandated industry interest rates for allowance for funds used during construction until transition date. Subsequent to the transition date, the Company will continue to capitalize financing costs on its internally constructed or developed assets consistent with the requirements of IAS 23.

Customer Contributions (IFRIC 18, "Transfers of Assets from Customers")

IFRS 1 allows first time adopters to adopt IFRIC 18 effective the later of July 1, 2009 or the date of transition to IFRS. Under IFRIC 18, the Company is required to recognize capital contributions as deferred revenues rather than as contra asset as allowed under CGAAP. In the absence of a finite term operating agreement with the contributing customer, such deferred revenues are recognized in results from operations as revenue on a straight-line basis over the service life of the related PP&E. When there is an operating or service agreement, the revenue is recognized over the term specified in the agreement.

As the Company elected the deemed cost exemption available under IFRS 1 for rate regulated PP&E, this exemption was not required for customer contributions received prior to the transition date. Subsequent to transition, capital contributions are recorded as deferred revenue and amortized to revenue straight-line over the estimated remaining service life of the related PP&E. The Company has applied IFRIC 18 prospectively beginning on the IFRS transition date.

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Impact of Transition to IFRS

The reconciliation of Statement of Financial Position for the as at January 1, 2014 and December 31, 2014 from CGAAP to IFRS is provided below:

Reconciliation of financial position as at January 1, 2014 (Canadian dollars in thousands)	Notes	CGAAP	Presentation differences	Measurement & recognition differences	IFRS
Non-current assets:					
Property, plant and equipment	(b)	306,542	(250)	-	306,292
Intangible assets		15,151	-	-	15,151
Deferred tax assets	(a, c)	5,669	73	(924)	4,818
Regulatory assets	(d)	5,023	(5,023)	-	-
		332,385	(5,200)	(924)	326,261
Current assets:					
Accounts receivable		66,739	-	-	66,739
Income tax receivable		1,679	-	-	1,679
Deferred tax assets	(a)	73	(73)	-	-
Materials and supplies		1,195	-	-	1,195
Regulatory assets	(d)	1,158	(1,158)	-	-
		70,844	(1,231)	-	69,613
Total assets		**403,229**	**(6,431)**	**(924)**	**395,874**
Regulatory balances	(c, d)	-	**6,181**	**924**	**7,105**
Total assets and regulatory balances		**403,229**	**(250)**	-	**402,979**

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Reconciliation of financial position as at January 1, 2014 (Canadian dollars in thousands)	Notes	CGAAP	Presentation differences	Measurement & recognition differences	IFRS
Non-current liabilities:					
Long-term debt		182,243	-	-	182,243
Employee future benefits	(c)	7,068	-	(1,125)	5,943
Regulatory liabilities	(d)	4,526	(4,526)	-	-
Accounts payable and accrued liabilities		3,275	-	-	3,275
Deferred revenue		988	-	-	988
		198,100	(4,526)	(1,125)	192,449
Current liabilities:					
Bank indebtedness		8,114	-	-	8,114
Accounts payable and accrued liabilities		67,957	-	-	67,957
Accrued interest		1,382	-	-	1,382
Regulatory liabilities	(d)	4,266	(4,266)	-	-
Employee future benefits other than pension		195	-	-	195
		81,914	(4,266)	-	77,648
Total liabilities		**280,014**	**(8,792)**	**(1,125)**	**270,097**
Shareholder's equity					
Share capital		51,501	-	-	51,501
Retained earnings	(b, c)	71,714	(250)	1,125	72,589
Total shareholder's equity		**123,215**	**(250)**	**1,125**	**124,090**
Regulatory balances	(d)	-	**8,792**	-	**8,792**
Total liabilities, shareholder's equity and regulatory balances		**403,229**	**(250)**	-	**402,979**

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Reconciliation of financial position as at December 31, 2014 (Canadian dollars in thousands)	Notes	CGAAP	Presentation differences	Measurement & recognition differences	IFRS
Non-current assets:					
Property, plant and equipment	(b)	318,271	-	15,413	333,684
Intangible assets		14,333	-	-	14,333
Deferred tax assets	(a, c)	875	53	1,621	2,549
Regulatory assets	(d)	9,213	(9,213)	-	-
		342,692	(9,160)	17,034	350,566
Current assets:					
Accounts receivable	(b)	65,102	-	(1,505)	63,597
Income tax receivable		2,346	-	-	2,346
Deferred tax assets	(a)	53	(53)	-	-
Materials and supplies		1,195	-	-	1,195
Regulatory assets	(d)	6,330	(6,330)	-	-
		75,026	(6,383)	(1,505)	67,138
Total assets		**417,718**	**(15,543)**	**15,529**	**417,704**
Regulatory balances	(c, d)	-	**10,787**	**(1,621)**	**9,166**
Total assets and regulatory balances		**417,718**	**(4,756)**	**13,908**	**426,870**

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Reconciliation of financial position as at December 31, 2014 (Canadian dollars in thousands)	Notes	CGAAP	Presentation differences	Measurement & recognition differences	IFRS
Non-current liabilities:					
Long-term debt		192,209	-	-	192,209
Employee future benefits other than pension	(c)	7,565	-	(3,285)	4,280
Regulatory liabilities	(d)	66	(66)	-	-
Deferred revenue	(b)	1,032	-	13,468	14,500
Accounts payable and accrued liabilities		114	-	-	114
		200,986	(66)	10,183	211,103
Current liabilities:					
Bank indebtedness		2,705	-	-	2,705
Accounts payable and accrued liabilities	(b)	76,646	-	537	77,183
Accrued interest		1,412	-	-	1,412
Deferred revenue	(b)	-	-	547	547
Regulatory liabilities	(d)	7,046	(7,046)	-	-
Employee future benefits other than pension		126	-	-	126
		87,935	(7,046)	1,084	81,973
Total liabilities		**288,921**	**(7,112)**	**11,267**	**293,076**
Shareholder's equity					
Share capital		51,501	-	-	51,501
Retained earnings	(b, c)	77,296	-	694	77,990
Accumulated other comprehensive income	(c)	-	-	1,947	1,947
Total shareholder's equity		**128,797**	-	**2,641**	**131,438**
Regulatory balances	(d)	-	**2,356**	-	**2,356**
Total liabilities, shareholder's equity and regulatory balances		**417,718**	**(4,756)**	**13,908**	**426,870**

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The reconciliation of Statement of Income and Other Comprehensive Income for the year ended December 31, 2014 from CGAAP to IFRS is provided below:

Year ended December 31 (Canadian dollars in thousands)	Notes	CGAAP	Presentation differences	Measurement & recognition differences	IFRS
Revenues					
Energy	(d)	425,874	(3,459)	-	422,415
Distribution	(d)	64,085	(4,474)	-	59,611
Other	(b, d)	5,839	(2,163)	542	4,218
		495,798	(10,096)	542	486,244
Costs					
Purchased power		425,874	-	-	425,874
Operation, maintenance and administration	(c)	26,754	-	(85)	26,669
Depreciation of property, plant and equipment and amortization of intangible assets	(b)	15,461	(1,137)	842	15,166
		468,089	(1,137)	757	467,709
Financing costs		11,070	-	(49)	11,021
Income before taxes		16,639	(8,959)	(166)	7,514
Income taxes	(b, d)	2,757	2,630	(3,077)	2,310
Net income		**13,882**	**(11,589)**	**2,911**	**5,204**
Net movement in regulatory balances, net of tax	(d)	-	11,540	(3,043)	8,497
Net income after net movement in regulatory balances		**13,882**	**(49)**	**(132)**	**13,701**
Other comprehensive income, net of tax					
Item that will not be reclassified to income or loss					
Remeasurement of post-retirement benefit obligation	(c)	-	-	1,947	1,947
Total other comprehensive income for the year		-	-	**1,947**	**1,947**
Total income and other comprehensive income for the year		**13,882**	**(49)**	**1,815**	**15,648**

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The reconciliation of Statement of Changes in Shareholder's Equity for the year ended December 31, 2014 from CGAAP to IFRS is provided below:

Year ended December 31 (Canadian dollars in thousands)	Notes	CGAAP	Presentation differences	Measurement & recognition differences	IFRS
Share capital		**51,501**	**-**	**-**	**51,501**
Retained earnings, January 1, 2014	(b, c)	71,714	-	875	72,589
Net income after net movement in regulatory balances	(c)	13,882	-	(181)	13,701
Other comprehensive income	(c)	-	-	1,947	1,947
Dividends		(8,300)	-	-	(8,300)
Retained earnings, December 31, 2014		**77,296**	**-**	**2,641**	**79,937**
Total equity		**128,797**	**-**	**2,641**	**131,438**

IFRS measurement, recognition and presentation adjustments

The following descriptions relate to the measurement, recognition and presentation adjustments included in the Statements of Financial Position and Statements of Income and Other Comprehensive Income and cash flows:

a) Current and Deferred Taxes (Presentation)

The conversion to IFRS does not result in an adjustment to the current tax amounts reported in prior periods under CGAAP. Changes made to deferred tax amounts previously reported under CGAAP are the result of certain amounts previously recorded in deferred tax assets and liabilities being reclassified to the deferred tax assets and liabilities within the regulatory balances account (discussed below).

IFRS does not permit deferred tax assets or liabilities to be recorded as current assets or liabilities. As a result, current deferred tax assets of $73 thousand at the transition date and $53 thousand as at December 31, 2014, were reclassified to/from current to non-current deferred taxes on the Statements of Financial Position. This reclassification was irrespective of the underlying assets or liabilities to which they relate, or the expected date of reversal of the temporary difference.

b) Customer Contributions (Presentation)

Under IFRIC 18, customer contributions made towards the Company's acquisition or construction of property, plant and equipment are recorded as deferred revenues to be amortized over the period of the estimated remaining service life of the related assets. Under CGAAP, these customer contributions were netted against the acquisition or construction costs of property, plant and equipment. These assets were depreciated on a net basis, after taking into account the contributed capital contra amount. The Company elected to deem the closing net carrying amounts under CGAAP as its deemed IFRS acquisition cost on the transition date. This deemed cost included any customer contributions recorded prior to January 1, 2014. Subsequent to transition, customer capital contributions are recorded as deferred revenue and amortized to revenue over the remaining service life of the related property, plant and equipment.

As at December 31, 2014, the impact was to increase property, plant and equipment by $15,541 thousand, current deferred revenue by $547 thousand and non-current deferred revenue by $13,468 thousand. For the year ended December 31, 2014, $542 thousand was amortised from deferred revenue to other revenue.

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c) Employee Future Benefits (Measurement and Recognition)

Under CGAAP, the Company disclosed, but was not required to recognize, the net unfunded status of post-retirement benefit obligations on the Statements of Financial Position. Under IFRS, the Company recognized the unfunded status of post-retirement benefit obligations in retained earnings on the transition date to IFRS and to Other Comprehensive Income.

The impact for the Company at January 1, 2014 was to decrease the long-term employee future benefits payable and increase the retained earnings by $1,125 thousand each, and to decrease the deferred tax assets by $319 thousand with an offset increasing the regulatory assets balance by $319 thousand. As at December 31, 2014, the impact was to decrease the long-term employee future benefits payable by an additional $2,160 thousand, increase other comprehensive income by $1,947, decrease deferred tax assets by $1,621 thousand, decrease operation, maintenance and administration by $85 thousand, decrease property, plant and equipment by $128 thousand, increase net income by $85 thousand and increase regulatory assets balances by $1,621.

d) Regulatory Balances (Presentation)

IFRS 14 permits a rate-regulated entity to continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment, and derecognition of regulatory balances. However, all regulatory balances and related deferred tax amounts are reclassified to a new and separate section of the Statement of Financial Position. As well, the net income effect of all changes in regulatory balances must be segregated in a new separate section of the Statements of Income and Other Comprehensive Income.

For the Company, the impact of IFRS 14 at January 1, 2014 was to transfer the deferred tax asset gross-up and deferred tax liabilities on regulatory balances to regulatory balances, and to transfer all other regulatory debit and credit balances to separate lines below what was formerly known as "Total assets" and "Total liabilities and shareholder's equity", respectively. The impact of this change as at January 1, 2014 was to reduce current regulatory assets by $1,158 thousand, non-current regulatory assets by $5,023 thousand, current regulatory liabilities by $4,266 thousand and noncurrent regulatory liabilities by $4,526 thousand, and increase regulatory debit balances by $6,181 thousand and regulatory credit balances by $8,792 thousand. Additionally, as at January 1, 2014 regulatory assets increased by $608 as a result of recognition of regulatory deferred tax movements generated by temporary differences in deferred taxes.

As at December 31, 2014, the impact was to reduce current regulatory assets by $6,330 thousand, non-current regulatory assets by $9,213 thousand, current regulatory liabilities by $7,046 thousand and noncurrent regulatory liabilities by $66 thousand, and increase regulatory debit balances by $10,787 thousand and regulatory credit balances by $2,356 thousand. Additionally, as at December 31, 2014 regulatory assets decreased by $2,434 as a result of recognition of regulatory deferred tax movements generated by temporary differences in deferred taxes.

Workplace Safety and Insurance Board

RESPONSIBILITY FOR FINANCIAL REPORTING

Role of Management

The accompanying consolidated financial statements are the responsibility of the management of the Workplace Safety and Insurance Board (the "WSIB") and have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements include amounts based on management's best estimates and judgments.

Management is responsible for the preparation and fair presentation of these consolidated financial statements 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. The Board of Directors has established an Audit and Finance Committee to oversee that management fulfills these responsibilities. The Audit and Finance Committee meets periodically with management, internal auditors, and external auditors to oversee that their responsibilities are properly discharged with respect to the application of critical accounting policies, consolidated financial statement presentation, disclosures, and recommendations on internal controls.

Role of the Chief Actuary

With respect to the preparation of the consolidated financial statements, the Chief Actuary works with the WSIB actuarial staff to prepare a valuation, including the selection of appropriate assumptions applicable to the WSIB's benefit liabilities at the consolidated statements of financial position date to determine the valuation of benefit liabilities. Additionally, the Chief Actuary provides an opinion to the Board of Directors regarding the appropriateness of the benefit liabilities recorded by management of the WSIB at the date of the consolidated statements of financial position. The work to form that opinion includes an examination of the sufficiency and reliability of data and a review of the valuation processes. The Chief Actuary is responsible for assessing whether the assumptions and methods used for the valuation of the benefit liabilities are in accordance with accepted actuarial practice, applicable legislation, and associated regulations and directives. In performing the valuation of these liabilities, which are by their very nature inherently variable, the Chief Actuary makes assumptions as to future interest and mortality rates, expenses, related trends, and other contingencies, taking into consideration the circumstances of the WSIB. It is certain that the benefit liabilities will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, the projections make no provision for future claim categories not sufficiently recognized in the claims experience and inventories. The Chief Actuary's report outlines the scope of the valuation and his opinion.

Role of the External Auditors

The external auditors, Ernst & Young LLP, working under the direction of the Auditor General of Ontario, have performed an independent and objective audit of the consolidated financial statements of the WSIB in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors make use of the work of the Chief Actuary and his report on the benefit liabilities of the WSIB. The external auditors have full and unrestricted access to the Board of Directors and the Audit and Finance Committee to discuss audit, financial reporting, and related findings. The external auditors' report outlines the scope of their audit and their opinion on the consolidated financial statements of the WSIB.

Thomas Teahen	**Pamela Steer**
President and Chief Executive Officer	Chief Financial Officer
April 21, 2016	
Toronto, Ontario	

INDEPENDENT AUDITOR'S REPORT

To the Workplace Safety and Insurance Board,
The Minister of Labour and the Auditor General of Ontario

Pursuant to the Workplace Safety and Insurance Act, 1997 (Ontario), which provides that the accounts of the **Workplace Safety and Insurance Board** (the "WSIB") shall be audited by the Auditor General of Ontario or under his direction by an auditor appointed by the Lieutenant Governor in Council for that purpose, we have audited the accompanying consolidated financial statements of the WSIB, which comprise the consolidated statement of financial position as at December 31, 2015, the consolidated statements of comprehensive income, changes in deficiency of assets, and cash flows for the year then ended December 31, 2015, and the notes to the financial statements.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

We believe that the audit evidence we have obtained in our audit 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 the WSIB 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.

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 21, 2016

ACTUARIAL OPINION

On the Valuation of the Benefit Liabilities of the Workplace Safety and Insurance Board as at December 31, 2015

I have completed the actuarial valuation of the benefit liabilities of the Workplace Safety and Insurance Board (the "WSIB") for its consolidated statements of financial position as at December 31, 2015 (the "valuation date").

In my opinion, the benefit liabilities of $27,830 million make reasonable provision for future payments for loss of earnings, other short and long-term disability, health care, survivor and retirement income benefits with respect to claims which occurred on or before the valuation date, and for occupational disease claims expected to arise after the valuation date as a result of exposures incurred in the workplace on or before the valuation date in respect of occupational diseases with a long latency period that are recognized by the WSIB. This amount provides for future claim administration costs, but does not include a provision for claims related to workers of Schedule 2 employers.

The valuation was based on the provisions of the *Workplace Safety and Insurance Act*, *1997* (Ontario), (the "WSIA") and on the WSIB's policies and administrative practices in effect at the time of the valuation. This includes the amendment to *Sections 49, 50 and 51* of the WSIA for the indexation of benefits described in note 13 to the consolidated financial statements.

The data on which the valuation is based were provided by the WSIB; I applied such checks of reasonableness of the data as I considered appropriate, and have concluded that the data are sufficiently reliable to permit a realistic valuation of the liabilities and are consistent with WSIB's consolidated financial statements. In my opinion, the data on which the valuation is based are sufficient and reliable for the purpose of the valuation.

The economic assumptions adopted for purposes of computing the liabilities have been selected taking account of the WSIB's strategic plan and investment policies. For this valuation, an annual discount rate of 4.75% (4.75% to 2017 and 5.25% thereafter for the previous valuation) was used to discount expected payments. Other economic assumptions underlying the calculations include annual changes in the Consumer Price Index (CPI) of 2.0% (unchanged from the previous valuation), amounts subject to partial indexing to increase at 0.5%, 1.0% and 2.0% annually for 2016, 2017 and 2018 and later, health care costs and wage annual escalation rates of 4.0% (unchanged from the previous valuation) and 3.0% (unchanged from the previous valuation) respectively. In my opinion, the assumptions are appropriate for the purpose of the valuation.

The methods and assumptions employed in the valuation were consistent with those used in the previous valuation, after taking account of changes in claim patterns. Projections of future claim payments and awards have been made using factors developed from the WSIB's claims experience, mortality and other assumptions. In my opinion, the methods employed in the valuation are appropriate for the purpose of the valuation.

Changes to the actuarial basis, in addition to the discount rate mentioned above, include updates to continuance rates, locked-in profile assumption and the methodology for valuing some future awards benefits. Along with these updates, four years of experience were used in determining the future awards provision for several benefits such as rehabilitation and temporary compensation benefits (two years of experience was used for the previous valuation). The impact of the changes in actuarial assumptions and methods on the benefit liabilities is disclosed in note 13 to the consolidated financial statements.

Details of the data, actuarial assumptions, valuation methods and analysis of results are set out in my actuarial report as at the valuation date, of which this statement of opinion forms part.

In my opinion, the amount of the benefit liabilities makes appropriate provision for all personal injury compensation obligations and the consolidated financial statements fairly represent the results of the valuation. This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.

Donald Blue, FSA, FCIA
Vice-President and Chief Actuary
Workplace Safety and Insurance Board
April 21, 2016
Toronto, Ontario

WORKPLACE SAFETY AND INSURANCE BOARD
Consolidated Statements of Financial Position
(millions of Canadian dollars)

	Note	December 31 2015	December 31 2014
Assets			
Cash and cash equivalents		1,581	1,473
Receivables	6	1,614	1,511
Public equity securities	7	10,055	9,136
Bonds	7	6,756	6,307
Derivative assets	7	68	158
Other invested assets	7	7,947	6,960
Property, equipment and intangible assets	9	284	234
Total assets		**28,305**	**25,779**
Liabilities			
Payables and accruals		1,077	1,186
Derivative liabilities	7	133	97
Long-term debt	10	116	52
Loss of Retirement Income Fund liability	11	1,724	1,663
Employee benefit plans liability	12	1,222	1,227
Benefit liabilities	13	27,830	26,800
Total liabilities		**32,102**	**31,025**
Deficiency of assets			
Unfunded liability attributable to WSIB stakeholders		(6,599)	(7,890)
Non-controlling interests	17	2,802	2,644
Total deficiency of assets		**(3,797)**	**(5,246)**
Total liabilities and deficiency of assets		**28,305**	**25,779**

Commitments and contingent liabilities (note 14)

Approved by the Board of Directors

Elizabeth Witmer
Chair
April 21, 2016

Lea Ray
Audit and Finance Committee (Chair)
April 21, 2016

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

WORKPLACE SAFETY AND INSURANCE BOARD
Consolidated Statements of Comprehensive Income
For the years ended December 31
(millions of Canadian dollars)

	Note	2015	2014
Revenues			
Premiums		4,846	4,628
Net mandatory employer incentive programs		(162)	(124)
		4,684	4,504
Net investment income			
Investment income	7	1,338	2,042
Investment expenses	7	(139)	(115)
Total net investment income		1,199	1,927
Total revenues		**5,883**	**6,431**
Expenses			
Benefit costs			
Benefit payments	13	2,332	2,420
Claim administration costs	13	398	363
Change in actuarial valuation of benefit liabilities	13	1,030	(160)
		3,760	2,623
Loss of Retirement Income Fund contributions	11	56	59
Administration and other expenses		406	358
Legislated obligations and funding commitments		263	276
Total expenses		**4,485**	**3,316**
Excess of revenues over expenses		**1,398**	**3,115**
Other comprehensive income (loss)			
Remeasurements of employee defined benefit plans	12	45	(296)
Total comprehensive income		**1,443**	**2,819**

	Note	2015	2014
Excess of revenues over expenses attributable to:			
WSIB stakeholders		1,246	2,873
Non-controlling interests	17	152	242
		1,398	**3,115**
Total comprehensive income attributable to:			
WSIB stakeholders		1,291	2,577
Non-controlling interests	17	152	242
		1,443	**2,819**

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

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Changes in Deficiency of Assets
For the years ended December 31
(millions of Canadian dollars)

	Note	Deficiency of assets		
		Unfunded liability attributable to WSIB stakeholders	**Non-controlling interests**	**Total**
Balance at December 31, 2013		(10,467)	2,394	(8,073)
Excess of revenues over expenses		2,873	242	3,115
Remeasurements of employee defined benefit plans	12	(296)	-	(296)
Change in ownership share in investments	17	-	8	8
Balance at December 31, 2014		(7,890)	2,644	(5,246)
Excess of revenues over expenses		1,246	152	1,398
Remeasurements of employee defined benefit plans	12	45	-	45
Change in ownership share in investments	17	-	6	6
Balance at December 31, 2015		**(6,599)**	**2,802**	**(3,797)**

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

WORKPLACE SAFETY AND INSURANCE BOARD
Consolidated Statements of Cash Flows
For the years ended December 31
(millions of Canadian dollars)

	2015	2014
Operating activities:		
Total comprehensive income	1,443	2,819
Adjustments:		
Amortization of net premium on investments	3	3
Depreciation and amortization of property, equipment and intangible assets	16	14
Changes in fair value of investments	(822)	(1,589)
Changes in fair value of investment properties	24	(16)
Dividend income from public equity securities	(320)	(266)
Income from joint ventures	(32)	(35)
Interest income	(222)	(221)
Interest expense	9	13
Total comprehensive income after adjustments	99	722
Changes in non-cash balances related to operations:		
Receivables, excluding those related to investing activities	55	59
Payables and accruals, excluding those related to investing and financing activities	(17)	(29)
Loss of Retirement Income Fund liability	61	125
Employee benefit plans liability	(5)	307
Benefit liabilities	1,030	(160)
Total changes in non-cash balances related to operations	1,124	302
Net cash provided by operating activities	**1,223**	**1,024**
Investing activities:		
Dividends received from public equity securities and joint ventures	348	288
Interest received	222	219
Purchases of property, equipment and intangible assets	(66)	(88)
Purchases of investments	(10,844)	(10,069)
Proceeds on sales and maturities of investments	9,463	9,139
Net additions to investment properties	(191)	(216)
Acquisitions of joint ventures	(36)	(75)
Proceeds on dispositions of joint ventures	3	1
Net cash required by investing activities	**(1,101)**	**(801)**
Financing activities:		
Proceeds on dispositions of non-controlling interests	137	157
Distributions paid by subsidiaries to non-controlling interests	(131)	(149)
Net repayment of debt	(11)	(19)
Interest paid on debt	(9)	(13)
Net cash required by financing activities	**(14)**	**(24)**
Net increase in cash and cash equivalents	**108**	**199**
Cash and cash equivalents, beginning of year	1,473	1,274
Cash and cash equivalents, end of year	**1,581**	**1,473**

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

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Consolidated Financial Statements
December 31, 2015

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WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Consolidated Financial Statements
December 31, 2015
(millions of Canadian dollars)

1. Nature of Operations

The Workplace Safety and Insurance Board (the "WSIB") is a statutory corporation created by an Act of the Ontario Legislature in 1914 and domiciled in the Province of Ontario (the "Province"). As a trust agency of the Government of Ontario (as classified in the Agency and Appointments Directive), the WSIB is responsible for administering the *Workplace Safety and Insurance Act, 1997* (Ontario) (the "WSIA"), which establishes a no-fault insurance scheme that provides benefits to workers who experience workplace injuries or illnesses.

The WSIB promotes workplace health and safety in the Province and provides a workplace compensation system for Ontario based employers and workers. The WSIB is funded entirely by employer premiums and does not receive any government funding or assistance. Revenues are also earned from a diversified investment portfolio held to meet future obligations on existing claims.

The WSIB's registered office is located at 200 Front Street West, Toronto, Ontario, M5V 3J1.

2. Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements as at and for the year ended December 31, 2015 were authorized for issuance by the WSIB's Board of Directors on April 21, 2016.

3. Summary of Significant Accounting Policies

Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis, except for the following items:

(a) financial instruments classified as at fair value through profit or loss, which are measured at fair value;

(b) investment properties, which are measured at fair value; and

(c) liabilities for employee defined benefit plans, which are measured as the present value of the defined benefit obligations less the fair value of plan assets.

Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities controlled by the WSIB.

The financial statements of subsidiaries are included in the WSIB's consolidated financial statements from the date control commences until the date control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to reflect accounting policies consistent with those of the WSIB. All intercompany transactions and balances are eliminated.

The majority of the WSIB's investment portfolio is held in subsidiaries in which the WSIB Employees' Pension Plan is a non-controlling interest (note 17).

WORKPLACE SAFETY AND INSURANCE BOARD
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(b) Non-controlling interests

Non-controlling interests represent the WSIB Employees' Pension Plan and other investors' proportionate interest of the net assets and total comprehensive income of subsidiaries in which the WSIB directly or indirectly owns less than a 100% interest. Total comprehensive income and the surplus or deficiency of assets related to these subsidiaries are allocated to WSIB stakeholders and non-controlling interests.

(c) Investments in joint ventures

Joint ventures are entities over which the WSIB has joint control and has rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, investments are initially recognized at cost and adjusted for the WSIB's proportionate share of the joint ventures' total comprehensive income.

(d) Joint operations

Joint operations are investments in economic activities or entities over which the WSIB has joint control and has rights to specific assets, and obligations for specific liabilities, relating to the arrangement.

The WSIB's consolidated financial statements include its share of assets, liabilities, revenues and expenses related to the joint operations.

Foreign currency

The WSIB's functional and presentation currency is the Canadian dollar. The Canadian dollar is also the functional currency of each of the WSIB's subsidiaries and joint ventures.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the period-end rates of exchange. Non-monetary assets and liabilities that are measured at fair value are also translated at the period-end rates of exchange. Foreign exchange gains and losses are recognized in investment income or administration and other expenses.

Financial instruments

The WSIB recognizes financial assets and financial liabilities when it becomes a party to a contract.

Financial assets and financial liabilities classified as at fair value through profit or loss ("FVTPL") are measured at fair value on initial recognition and transaction costs are expensed when incurred. All other financial assets and financial liabilities are measured at fair value plus transaction costs on initial recognition.

WORKPLACE SAFETY AND INSURANCE BOARD
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Measurement in subsequent periods depends on the classification of the financial instrument. The WSIB's financial instruments are classified as follows:

Financial asset or financial liability	Classification
Cash and cash equivalents	FVTPL (a)
Receivables	Loans and receivables (b)
Public equity securities	FVTPL (a)
Bonds	FVTPL (a)
Alternative investments	FVTPL (a)
Derivative assets	FVTPL (a)
Payables and accruals	Other financial liabilities (c)
Derivative liabilities	FVTPL (a)
Long-term debt	Other financial liabilities (c)

(a) Financial assets and financial liabilities at FVTPL

Financial assets and financial liabilities are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management, or if they are derivatives. Financial assets and financial liabilities classified as FVTPL are measured at fair value, with changes recognized in investment income.

Financial assets and financial liabilities that are classified as FVTPL are managed based on their fair value in accordance with the WSIB's documented risk management or investment strategy.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method. Loans and receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

(c) Other financial liabilities

Other financial liabilities are financial liabilities that are not derivative liabilities or classified as FVTPL. Subsequent to initial recognition, other financial liabilities are carried at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all transaction costs and other premiums or discounts) through the expected life of the financial instrument to the net carrying amount on initial recognition.

Investment properties

Investment properties are properties held to earn rental income or for capital appreciation, or both. Investment properties acquired through an asset purchase are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, investment properties are measured at fair value with changes in fair value recognized as investment income during the period in which they arise.

Fair values of investment properties are primarily based on discounted expected future cash flows of each property, using discount and terminal capitalization rates reflective of the characteristics, location and market of each property. The future cash flows of each property are based on estimates of future cash flows from current and future leases.

WORKPLACE SAFETY AND INSURANCE BOARD
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Valuations of significant investment properties are performed by third-party appraisers, on an annual basis at a minimum, at varying dates throughout the year. On a quarterly basis, the fair value of investment properties is updated based on valuation models incorporating available market evidence.

Property, equipment and intangible assets

Property, equipment and intangible assets are measured at cost less accumulated depreciation and any accumulated impairment losses. When significant components of an item of property and equipment have different useful lives, they are accounted for as separate items.

Intangible assets include both internally developed and acquired software. Development costs associated with internally developed software are recognized as an intangible asset when certain criteria are met. The criteria to capitalize development costs include the WSIB's intention and ability to complete the development of the software from which it is probable the WSIB will generate future economic benefits.

Depreciation of property and equipment, and amortization of intangible assets are included in administration and other expenses on the consolidated statements of comprehensive income. Property, equipment and intangible assets are depreciated and amortized on a straight-line basis over their estimated useful lives as follows:

Land	Not depreciated
Buildings	
Primary structure	60 years
Components with different useful lives	10 - 30 years
Leasehold improvements	Lesser of the lease term or 10 years
Office and computer equipment	3 - 5 years
Intangible assets	3 - 8 years

Premium revenues

Premium revenues are comprised of premiums from Schedule 1 employers and administration fees from Schedule 2 employers.

(a) Schedule 1 employer premiums

Schedule 1 employers are those for which the WSIB is liable to pay benefit compensation for workers' claims. Schedule 1 employer premiums are assessed and are receivable when employers report their insurable earnings for the current year. For employers who have not reported, premiums are estimated and included in the accrued premiums receivable. Premium revenues are recognized over the coverage period.

(b) Schedule 2 employer administration fees

Schedule 2 employers are employers that self-insure the provision of benefits under the WSIA. Schedule 2 employers are liable to pay all benefit compensation and administration costs for their workers' claims.

The WSIB administers the payment of the benefits for workers of Schedule 2 employers and recovers the cost of these benefits plus administration fees from the employers. The administration fees are recognized as the services are provided. The benefits paid on behalf of Schedule 2 employers and the amounts collected to recover the benefits paid are not included in the WSIB's revenues or expenses.

WORKPLACE SAFETY AND INSURANCE BOARD
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Investment income

Investment income is comprised of the following:

(a) Realized and unrealized gains and losses on financial instruments are recognized in investment income in the period they arise.

(b) Interest and dividend income

Interest income is recognized in investment income as it accrues. Dividend income is recognized in investment income when the WSIB's right to receive payment has been established.

(c) Income from joint ventures

The WSIB's proportionate share of its joint ventures' total comprehensive income is recognized in investment income in the period it is recognized by the joint venture.

(d) Income from investment properties

Changes in fair value, rental income and service charges from investment properties are recognized in investment income in the period to which they relate.

Mandatory employer incentive programs

Schedule 1 employers participate in mandatory employer incentive programs that may result in adjustments to premium rates. Certain of these programs involve a surcharge to, or refund of, premiums based on the employer's claims experience. An estimate of the surcharges or refunds is recognized in the period to which they relate.

Legislated obligations and funding commitments

(a) Legislated obligations

The WSIB is required to reimburse the Government of Ontario for all administrative costs of the *Occupational Health and Safety Act* (the "OHSA"). The WSIB is also required to fund costs associated with the Ministry of Labour's (the "MoL") prevention activities, the Workplace Safety and Insurance Appeals Tribunal (the "WSIAT"), and the offices of each of the Worker and Employer Adviser. The expenses related to these legislated obligations are recognized as an expense in the period to which the funding relates.

(b) Funding commitments

The WSIB provides grant funding to carry on investigations, research and training. The expenses related to these funding commitments are recognized as an expense in the period to which the funding relates.

(c) Voluntary employer incentive programs

The WSIB provides financial incentives to Schedule 1 employers who undertake specific measures to improve health and safety. An estimate of the cost of these incentive programs is recognized as an expense in legislated obligations and funding commitments in the period the measures are undertaken by the employer.

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Loss of Retirement Income Fund liability

The Loss of Retirement Income Fund liability represents an obligation for payments of retirement benefits to certain workers. The WSIB contributes five percent of the loss of earnings benefits to the Loss of Retirement Income Fund for injured workers of Schedule 1 employers who have received loss of earnings benefits for twelve consecutive months. Schedule 2 employers are required to contribute five percent of the loss of earnings benefits for their workers once loss of earnings benefits are received for twelve continuous months. Workers eligible for loss of retirement income benefits can choose to contribute a further five percent from their loss of earnings benefits. For claims incurred prior to January 1, 1998, the contribution from the WSIB and Schedule 2 employers is 10% of every future economic loss payment made to injured workers. Total contributions are segregated within the WSIB's investment portfolio as the Loss of Retirement Income Fund.

The WSIB's obligation pursuant to the WSIA is to provide retirement benefits equal to the total contributions plus income earned on those contributions. As such, the Loss of Retirement Income Fund liability is measured at an amount equivalent to the fair value of the assets in the Loss of Retirement Income Fund. The WSIB's contributions to the Loss of Retirement Income Fund are recognized as the Loss of Retirement Income Fund contributions expense.

Benefit liabilities

Benefit liabilities represent the actuarially determined present value of the estimated future payments for reported and unreported claims incurred on or prior to the reporting date using best estimate assumptions related to workers of Schedule 1 employers. In addition, an obligation is estimated for claims in respect of occupational diseases currently recognized by the WSIB for which a claim has not yet been reported. The future payments are for estimated obligations for loss of earnings, labour market re-entry costs, short and long-term disability, health care, survivor benefits, retirement income benefits and claim administration costs. The benefit liabilities are determined in accordance with the Standards of Practice of the Canadian Institute of Actuaries, including the standards for Public Personal Injury Compensation Plans, and legislation in effect at the end of the reporting period. Changes in the estimate of future benefit payments are recognized in benefit costs expense.

Benefit liabilities do not include any amounts for claims related to workers of Schedule 2 employers; these claims are ultimately paid by the self-insured Schedule 2 employers.

Employee future benefits

The WSIB sponsors a defined benefit pension plan, a post-retirement benefit program, and other employee defined benefits.

The cost of employee benefit plans is recognized as the employees provide service to the WSIB. The obligations for these plans are measured as the present value of the benefit obligation less the fair value of plan assets and are included in the employee benefit plans liability. The employee benefit plans liability represents the combined deficit of the plans at the reporting date.

The cost of the defined benefit plans is actuarially determined using the projected unit credit method and includes management's estimate of compensation increases, health care cost trend rates, mortality, and retirement ages of employees. These estimates are reviewed annually with the WSIB's external actuaries. The discount rate used to value the obligations is based on long-term high quality corporate bonds.

WORKPLACE SAFETY AND INSURANCE BOARD
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The changes in defined benefit obligations and plan assets are recognized when they occur as follows:

(a) Service costs and the net interest cost are recognized in administration and other expenses; and

(b) Remeasurements, actual experience which differs from assumptions which result in actuarial gains or losses, are recognized in other comprehensive income. Remeasurements are never reclassified to expenses; other comprehensive income related to the remeasurements is immediately transferred to the unfunded liability.

4. Critical Accounting Estimates and Judgments

The WSIB is required to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the consolidated financial statements, and actual results could differ from those estimates. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

In addition, the WSIB has made judgments, aside from those that involve estimates, in the process of applying its accounting policies. These judgments can affect the amounts recognized in the consolidated financial statements.

Benefit liabilities (note 13)

Benefit liabilities represent the actuarially determined present value of estimated future payments for reported and unreported claims incurred on or prior to the reporting date, including claims in respect of occupational diseases currently recognized by the WSIB. The measurement of benefit liabilities requires the actuary to make estimates and assumptions for a number of factors, including those for claim duration, mortality rates, wage escalation, general inflation and discount rates. Changes in these estimates and assumptions could have a significant impact on the measurement of benefit liabilities and benefit costs.

Employee benefit plans (note 12)

The costs and liabilities associated with defined benefit pension plans and other long-term employee benefit plans are determined in accordance with actuarial valuations. The actuarial valuations rely on estimates and assumptions including those for wage escalation, expected return on plan assets, health care and dental cost inflation, retirement ages, life expectancies and discount rates. Changes in these estimates could have an impact on the employee benefit plans liability and total comprehensive income.

Fair value measurement of financial instruments (note 7)

Where possible, the fair value of publicly traded financial instruments is based on quoted market prices. Where quoted market prices are not available, the fair value for financial instruments is based on valuation models that use observable market inputs such as interest rate yield curves. Valuation models incorporate prevailing market rates and may require estimates for economic risks and projected cash flows. Note 7 of the consolidated financial statements provides the estimated fair values of financial instruments categorized by the nature of the inputs used in the valuation techniques.

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Consolidated Financial Statements
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Fair value measurement of investment properties (note 7)

The WSIB's investment properties are owned indirectly through subsidiaries or joint operations. Investment properties are re-measured to fair value at each reporting date, estimated based on the annual valuations performed by independent qualified appraisers. The annual third-party appraisals are performed at varying dates throughout the year; at each reporting date the fair value of investment properties is updated based on valuation models incorporating available market evidence. When estimating the fair value of investment properties, estimates and assumptions are made that have a significant effect on the reported values of investment properties. Estimates and assumptions used in determining the fair value of the investment properties include discount and terminal capitalization rates, inflation rates, vacancy rates and future net cash flows of the properties.

5. Future Changes in Accounting Standards

The following new or amended accounting standards have been issued by the International Accounting Standards Board ("IASB"). These new or amended standards are not yet effective and the WSIB has not completed its assessment of their impact on its consolidated financial statements.

IFRS 9 Financial Instruments ("IFRS 9")

In July 2014, the IASB issued IFRS 9 which will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 will be effective for the WSIB beginning on January 1, 2018 on a retrospective basis.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or at fair value, replacing the multiple classifications in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also includes guidance on the classification and measurement of financial liabilities, which largely carries forward the existing requirements in IAS 39.

The standard introduces a new single model for the measurement of impairment losses on all financial instruments subject to impairment accounting. The expected credit loss model replaces the current "incurred loss" model and is based on a forward looking approach.

Exposure drafts

(a) Insurance contracts

In June 2013, the IASB issued a revised exposure draft containing proposals for significant changes to the existing recognition, measurement, presentation and disclosure requirements for insurance contracts. The IASB continues to work on these proposals with the objective of finalizing a new standard to replace IFRS 4 *Insurance Contracts*. This is an important standard that is expected to have a significant effect on the WSIB's consolidated financial statements, primarily as it relates to the measurement of benefit liabilities.

(b) Other

The IASB regularly issues exposure drafts with proposals for new standards or amendments to existing standards. The WSIB's consolidated financial statements do not include disclosure of all exposure drafts issued by the IASB.

WORKPLACE SAFETY AND INSURANCE BOARD
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(millions of Canadian dollars)

6. Receivables

Receivables are comprised of the following:

	2015	**2014**
Premiums receivable	259	230
Less: Allowance for doubtful accounts	(92)	(79)
	167	151
Accrued premiums receivable	507	481
	674	632
Employer incentive programs surcharges	353	451
Other assets	35	33
Accounts receivable	1,062	1,116
Investment receivables	552	395
Total receivables	**1,614**	**1,511**

7. Invested Assets and Net Investment Income

(a) Invested assets

WSIB's investment portfolio is diversified across various asset classes. The invested assets are currently diversified among five primary investment strategies as follows:

Public equities	Investment in the equity, or securities convertible into equity, of public corporations.
Fixed income	Bonds, debentures and other fixed income investments.
Multi-asset	Investments that seek to provide a diversified source of total return generated from the broad market and from active management. Investments within multi-asset may include derivatives, commodities, currencies, hedge funds, equities and fixed income investments.
Real estate	Real estate debentures and properties in Canada and the United States diversified across office, retail, industrial and mixed-use assets.
Infrastructure	Investments in transportation, utilities, energy and healthcare facilities.

The WSIB's invested assets are held directly or held indirectly through investments in subsidiaries, joint ventures or joint operations.

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The following provides a summary of the nature of the invested assets by investment strategy:

	Public equities	Fixed income	Multi-asset	Real estate	Infra-structure	Other	2015	2014
Public equity securities	9,605	-	450	-	-	-	**10,055**	**9,136**
Bonds	-	6,324	432	-	-	-	**6,756**	**6,307**
Derivative assets	3	-	63	-	2	-	**68**	**158**
Alternative investments[1]	-	-	4,566	420	966	72	6,024	5,239
Investment properties	-	-	-	1,361	-	-	1,361	1,194
Joint ventures	-	-	-	431	131	-	562	527
Other invested assets	-	-	4,566	2,212	1,097	72	**7,947**	**6,960**

1. Alternative investments include private market investments, pooled funds and annuities.

(b) Net investment income

Net investment income by investment strategy, including income from cash and cash equivalents and derivatives, for the years ended December 31 is as follows:

	Public equities	Fixed income	Multi-asset	Real estate	Infra-structure	Other	2015	2014
Public equity securities	1,218	-	90	-	-	-	1,308	1,068
Bonds	-	225	61	-	-	3	289	532
Alternative investments	-	-	851	35	184	6	1,076	685
Investment properties	-	-	-	33	-	-	33	69
Income from joint ventures	-	-	-	18	14	-	32	35
Derivatives	(310)	-	(894)	(7)	(103)	-	(1,314)	(214)
Cash and cash equivalents	-	-	-	-	-	2	2	5
Less: Income attributable to Loss of Retirement Income Fund (note 11)	(52)	(12)	(6)	(5)	(5)	(8)	(88)	(138)
Investment income	**856**	**213**	**102**	**74**	**90**	**3**	**1,338**	**2,042**
Less: Investment expenses	(60)	(1)	(49)	(3)	(26)	-	(139)	(115)
Net investment income	**796**	**212**	**53**	**71**	**64**	**3**	**1,199**	**1,927**

Net investment income, including income from cash and cash equivalents and derivatives, for the years ended December 31 is comprised of the following:

	2015	2014
Net gains on financial instruments	822	1,579
Interest and dividend income	539	497
Income from investment properties	33	69
Income from joint ventures	32	35
Less: Income attributable to Loss of Retirement Income Fund (note 11)	(88)	(138)
Investment income	**1,338**	**2,042**
Less: Investment expenses	(139)	(115)
Net investment income	**1,199**	**1,927**

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(c) Investments under securities lending program

The WSIB participates in a securities lending program through an intermediary for the purpose of generating fee income. Non-cash collateral, the fair value of which represents at least 102% of the fair value of the loaned securities, is maintained until the underlying securities have been returned to the WSIB. The fair value of the loaned securities is monitored on a daily basis by an intermediary financial institution with additional collateral obtained or refunded as the fair value of the underlying securities fluctuates. While in the possession of the counterparties, the loaned securities may be resold or repledged by such counterparties. The intermediary indemnifies the WSIB against any shortfalls in collateral in the event of default by the counterparty. These transactions are conducted under terms that are usual and customary to security lending activities as well as requirements determined by exchanges where a financial institution acts as an intermediary.

Under the terms of the securities lending program, the WSIB retains substantially all the risks and rewards of ownership of the loaned securities and also retains contractual rights to the cash flows. These securities are not derecognized from the consolidated statements of financial position.

As at December 31, 2015, the fair value of investments loaned under the securities lending program was $1,238 (2014 – $1,075). As at December 31, 2015, the fair value of securities maintained as collateral was approximately $1,310 (2014 – $1,133).

(d) Derivative assets and derivative liabilities

Derivative assets and derivative liabilities include foreign exchange forward contracts which are utilized to hedge investments denominated in a foreign currency, and for active trading. Equity index, fixed income and commodity futures are held to provide international and asset class diversification. These futures are collateralized with cash and treasury bills and used to replicate the return of the respective equity, fixed income or commodity investments. The foreign exchange derivative assets and derivative liabilities are subject to netting arrangements and in practice are settled on a net basis, but do not meet the criteria to be presented on a net basis. As such, the derivative assets and derivative liabilities are presented separately in the consolidated statements of financial position.

The notional amounts in the table below are not recorded as assets or liabilities in our consolidated financial statements as they represent the face amounts to which a rate or a price is applied to determine the amount of cash flows to be exchanged. Notional principal amounts do not represent the potential gains or losses associated with market risks and are not indicative of the credit risks associated with derivative financial instruments.

The notional amounts and the fair values of the derivative assets and liabilities as at December 31 are as follows:

	2015			2014		
		Fair value			Fair value	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Forward exchange contracts	10,585	45	107	9,439	103	34
Fixed income futures	2,625	8	8	2,897	27	1
Commodity futures	317	3	10	653	2	49
Equity index futures	396	7	2	482	20	2
Options	15	5	3	18	6	6
Swaps	249	-	3	310	-	5
	14,187	**68**	**133**	**13,799**	**158**	**97**

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(e) Investment properties

The reconciliation of carrying amounts for investment properties is set forth below:

	2015	2014
Balance, beginning of year	1,194	970
Asset acquisitions	146	184
Capital expenditures	49	32
Net gains (losses) from changes in fair values	(24)	16
Disposals	(4)	-
Other	-	(8)
Balance, end of year	**1,361**	**1,194**

Rental income and service charges from investment properties during the year were $106 (2014 – $102) and are included in investment income. Operating expenses from investment properties during the year were $49 (2014 – $49) and are offset against rental income.

(f) Joint ventures

The WSIB’s ownership in the joint ventures, which hold investment properties, ranges from 38% - 77%. The following provides a summary of the financial position information of the WSIB’s joint ventures:

	2015	2014
Total assets	1,498	1,497
Total liabilities	(262)	(326)
Net assets	**1,236**	**1,171**
WSIB's share of net assets	**562**	**527**

The following provides a summary of the net income of the WSIB’s joint ventures:

	2015	2014
Revenues	121	143
Expenses	(67)	(68)
Gains from increases in fair value	1	12
Net income	**55**	**87**
WSIB’s share of net income	**32**	**35**

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(g) Joint operations

The following amounts related to the joint operations are included in the WSIB's consolidated financial statements:

	Simcoe Place	Mississauga Property I	Mississauga Property II	Other	2015	2014
Other assets	11	8	5	1	25	22
Property and equipment	116	-	-	-	116	120
Investment properties	-	77	139	50	266	126
Payables	(5)	(2)	(2)	(13)	(22)	(73)
Long-term debt	(20)	-	(69)	-	(89)	(26)
Net assets	**102**	**83**	**73**	**38**	**296**	**169**
Investment income	-	9	3	-	12	9
Investment expenses	-	(6)	(2)	-	(8)	(6)
Administration and other expenses	(25)	-	-	-	(25)	(26)
Total comprehensive income (loss)	**(25)**	**3**	**1**	**-**	**(21)**	**(23)**

The WSIB's ownership interests in joint operations at December 31, 2015 are as follows:

- The WSIB has a 75% undivided co-ownership interest in an office tower situated at 200 Front Street West, Toronto, Ontario ("Simcoe Place"). The WSIB occupies approximately 76.2% of the premises and recognizes its share of the property within property and equipment and its share of operating expenses in administration and other expenses.

- The WSIB has a 50% undivided co-ownership interest in an office and retail complex of four office buildings and adjoining development lands located in the City of Mississauga, Ontario (the "Mississauga Property I").

- The WSIB has a 50% undivided co-ownership interest in an office building located in the City of Mississauga, Ontario (the "Mississauga Property II").

(h) Fair value measurement and disclosures

Estimates of fair value used for measurement and disclosure are designed to approximate amounts that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants.

The carrying amounts of cash and cash equivalents, public equity securities, bonds, other invested assets, derivative assets and derivative liabilities are their fair values. Due to their short-term nature, the carrying amounts of receivables and payables approximate their fair values.

Due to the estimation process and the need to use judgment, the aggregate fair value amounts may not be realizable in settlement of assets or liabilities.

Fair value hierarchy

The WSIB uses a fair value hierarchy to categorize the inputs used in valuation techniques to estimate the fair values of assets and liabilities.

The table below provides a general description of the valuation methods used for fair value measurements.

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Hierarchy level	Valuation method
Level 1	Fair value is measured as the closing bid price for identical assets in an active public market at the reporting date.
Level 2	Where bid prices in an active public market are not available, observable inputs are used to estimate fair value using a market approach or an income approach. When using a market approach, fair value is estimated by adjusting the market price of a similar asset or liability, using inputs such as quoted interest or currency rates. Estimated fair value using an income approach is based on fixed future cash flows discounted using market interest rates for similar assets or liabilities.
Level 3	*Alternative investments* The fair value of alternative investments in real estate entities is estimated using valuations of the underlying investment properties, with the same methods as noted below for investment properties. *Investment properties* Fair values of investment properties are estimated based on valuations performed by qualified appraisers. The valuations of the investment properties are primarily based on discounted expected future cash flows of each property, using discount and terminal capitalization rates reflective of the characteristics, location and market of the property. The future cash flows are based on, among other things, rental income from current leases and assumptions about rental income from future leases reflecting current conditions, less future cash outflows relating to such current and future leases.

Measurements of the fair value of an asset or liability may use multiple inputs that are categorized in different levels of the fair value hierarchy. In these cases, the asset or liability is classified in the hierarchy level of the lowest level input that is significant to the measurement.

During the years ended December 31, 2015 and December 31, 2014, there were no changes in the levels of classification of financial instruments. Transfers between levels within the hierarchy are recognized at the end of the reporting period.

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The following table provides the fair value hierarchy classifications for assets and liabilities:

	December 31, 2015				December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets and liabilities measured at fair value								
Cash and cash equivalents[1]	624	957	-	1,581	658	815	-	1,473
Public equity securities	10,011	44	-	10,055	9,097	39	-	9,136
Bonds	-	6,756	-	6,756	-	6,307	-	6,307
Alternative investments	-	5,604	420	6,024	-	4,867	372	5,239
Investment properties	-	-	1,361	1,361	-	-	1,194	1,194
Derivative assets	-	68	-	68	-	158	-	158
Derivative liabilities	-	(133)	-	(133)	-	(97)	-	(97)
Liabilities for which fair value is disclosed								
Long-term debt[2]	-	(128)	-	(128)	-	(64)	-	(64)

1. Cash and cash equivalents include cash of $624 and short-term money market securities of $957 (December 31, 2014 – $658 and $815, respectively).
2. Carrying amount at December 31, 2015 was $116 (December 31, 2014 – $52).

Alternative investments in real estate entities (level 3 fair value measurements)

The table below provides a reconciliation of the fair value of alternative investments in real estate entities:

	2015	**2014**
Balance at beginning of year	372	371
Purchases	68	3
Sales	(41)	(8)
Net gains recognized in net investment income	21	6
Balance at end of year	**420**	**372**

The following discount and terminal capitalization rates were used in the discounted cash flow estimates of fair value:

	2015	**2014**
Real estate entities		
Discount rates	5.3% - 7.3%	5.5% - 8.3%
Terminal capitalization rates	4.5% - 6.8%	4.8% - 7.8%

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Change in assumption	Increase (decrease) in the fair value of real estate entities 2015	2014
50 basis point increase in the discount rate and terminal capitalization rate	(36)	(37)
50 basis point decrease in the discount rate and terminal capitalization rate	45	43
5 percent increase in the expected future cash flows of underlying properties	19	21
5 percent decrease in the expected future cash flows of underlying properties	(19)	(21)

Investment properties (level 3 fair value measurements)

The following discount and terminal capitalization rates were used in the discounted cash flow estimates of fair value:

	2015	2014
Office properties		
Discount rates	6.5% - 8.3%	6.5% - 8.3%
Terminal capitalization rates	5.8% - 7.5%	5.8% - 7.3%
Industrial properties		
Discount rates	6.0% - 7.5%	6.0% - 8.0%
Terminal capitalization rates	5.0% - 7.3%	5.0% - 7.5%
Retail properties		
Discount rates	6.3% - 7.0%	6.3% - 8.0%
Terminal capitalization rates	5.8% - 6.3%	5.8% - 6.5%

Change in assumption	Increase (decrease) in the fair value of investment properties 2015	2014
50 basis point increase in the discount rate and terminal capitalization rate	(88)	(88)
50 basis point decrease in the discount rate and terminal capitalization rate	103	103
5 percent increase in the stabilized net operating income or expected future cash flows	53	54
5 percent decrease in the stabilized net operating income or expected future cash flows	(53)	(54)

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8. Financial Risk Management

The WSIB is exposed to a number of risks and uncertainties related to its financial instruments and benefit liabilities. These risks and the WSIB's risk mitigation policies and techniques are disclosed in Section 15 – Risk Factors of the Management's Discussion and Analysis.

Invested assets

The Board of Directors of the WSIB has established a Statement of Investment Policies and Procedures ("SIPP"), which establishes the policies governing the WSIB's investment portfolio. The WSIB's risk governance process and the investment strategies are disclosed in Section 2 – Our Business of the Management's Discussion and Analysis. The SIPP requires that the WSIB's investment portfolio be diversified across certain asset classes and is currently diversified among five primary investment strategies. Refer to Note 7 for a summary of the invested assets by investment strategies.

Liquidity risk

As at December 31, 2015, 63.9% (2014 – 68.0%) of the WSIB's investment portfolio was invested in readily marketable fixed income securities and publicly traded equities.

The following provides the carrying values of all financial instruments by contractual maturity or expected cash flow:

	Within 1 year	2 - 5 years	6 - 10 years	Over 10 years	No fixed maturity	2015	2014
Cash and cash equivalents	1,581	-	-	-	-	1,581	1,473
Receivables	1,614	-	-	-	-	1,614	1,511
Public equity securities	-	-	-	-	10,055	10,055	9,136
Bonds	23	2,695	1,856	2,182	-	6,756	6,307
Alternative investments	-	-	-	-	6,024	6,024	5,239
Derivative assets	68	-	-	-	-	68	158
Payables and accruals	(1,077)	-	-	-	-	(1,077)	(1,186)
Derivative liabilities	(133)	-	-	-	-	(133)	(97)
Long-term debt		(3)	(80)	(33)	-	(116)	(52)

Credit risk

(a) Bonds

The WSIB's fixed income securities consist primarily of high quality, investment grade debt instruments. An investment grade debt instrument is one that is rated BBB and above. The WSIB manages its credit risk through diversification and a due diligence process, by selecting multiple highly rated counterparties and by setting counterparty exposure limits.

The following provides information regarding the credit rating of the WSIB's bonds:

		2015		2014
AAA	2,550	37.7%	2,311	36.7%
AA	782	11.6%	1,812	28.7%
A	3,025	44.8%	1,832	29.0%
BBB	399	5.9%	351	5.6%
BB	-	- %	1	- %
	6,756	**100.0%**	**6,307**	**100.0%**

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Credit risk associated with bonds also includes concentration risk. Concentration risk arises from the exposure of investments from one particular issuer, a group of issuers, a geographic region, or an industry sector. These groups share similar characteristics such as type of industry, regulatory compliance, and economic and political conditions, which may impact the issuers' ability to meet their contractual commitments.

The WSIB manages concentration risk through limits on exposure to issuers, regions and industry sectors. Through these limits, not more than five percent of the fair value of the investment portfolio is invested in the securities of a single non-government issuer.

The following provides information regarding the concentration of bonds.

		2015		2014
Provincial and municipal	3,413	50.5%	3,198	50.7%
Federal government and agencies	2,077	30.7%	1,672	26.5%
Financial services	493	7.3%	595	9.4%
Utilities and telecommunications	352	5.2%	380	6.0%
Other corporate	129	1.9%	163	2.6%
Natural resources	100	1.5%	105	1.7%
Consumer products and merchandising	74	1.1%	65	1.0%
Real estate	70	1.0%	69	1.1%
Asset-backed securities	25	0.4%	31	0.5%
Communications and publishing	19	0.3%	24	0.4%
Industrial products	4	0.1%	5	0.1%
	6,756	**100.0%**	**6,307**	**100.0%**

(b) Securities lending program

The WSIB manages counterparty risk relating to its securities lending program by establishing a pre-approved, qualified borrower list and through exposure limits. Non-cash collateral is comprised primarily of government bonds and major bank short-term notes.

(c) Accounts receivable from Schedule 2 employers

At December 31, 2015, the WSIB held collateral in the form of letters of credit in the amount of $270 (2014 – $310) with Schedule 2 employers. These letters of credit can be drawn on demand.

Market risk

(a) Currency risk

The WSIB is exposed to a number of foreign currencies in its investment portfolio. The WSIB also uses foreign exchange contracts as an additional source of return, for economic hedging strategies to manage investment risk, to improve liquidity, or to manage exposure to asset classes or strategies.

The WSIB has a currency hedging policy which is reviewed and approved on an annual basis by the Investment Committee. The currency hedging policy provides guidelines about hedging currencies, hedging instruments, rebalancing frequency and overall currency hedging controls and process. To manage the currency risk, the WSIB monitors closely the currency exposure and has established a currency hedge rebalancing guideline. The policy specifies, among other operational matters, the rebalance frequency and the threshold of hedge ratio deviation that will trigger a rebalancing transaction.

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The following provides a sensitivity analysis of the effect of a one percent increase or decrease in the Canadian dollar compared to the five foreign currencies that represent 86% (2014 – 82%) of the WSIB's foreign currency exposure in its investment portfolio:

Currency	Total net exposure	Effect of 1% change
United States dollar	4,580	46
Euro	563	5
Hong Kong dollar	305	3
Japanese yen	281	3
British Pound sterling	196	2
	5,925	**59**

(b) Interest rate risk

The WSIB uses option adjusted modified duration to measure the sensitivity of the fair value of bonds to a change in interest rates. A parallel shift in the yield curve of one percent, with all other variables held constant, would result in an increase or decrease in the fair value of investments of approximately $513 (2014 – $474). This information is based on the assumption that the investments are not impaired and interest rates and equity prices move independently.

(c) Price risk

The WSIB is exposed to price risk through its investments in public equity securities. The WSIB's price risk mitigation strategies are discussed in Section 15 – Risk Factors of the Management's Discussion and Analysis.

The estimated effect on the fair value of public equity securities resulting from a 10% change in market prices, holding all other factors constant, is $1,006 (2014 – $914).

Benefit liabilities

The WSIB is exposed to the risk that the actual obligations for benefit payments exceed its estimate of benefit liabilities. Benefit liabilities are influenced by factors such as the discount rate used to value future claims, expected inflation, availability, utilization and cost of health care services, injury severity and duration, availability of return-to-work programs and re-employment opportunities at pre-injury employers, wage growth, new medical findings that affect the recognition of occupational diseases, legislated changes to benefit rates or modification of the recognition of workplace injuries, which are sometimes applied retroactively, and precedents established through various claims appeals processes.

The WSIB mitigates these risks by utilizing both proprietary and commercially available actuarial models, assessing historical loss development patterns in addition to augmenting its resources with the recruitment of a Chief Statistician and the formation of an Actuarial Advisory Board consisting of individuals with expertise in the area of actuarial science and economics specifically related to worker compensation matters.

Note 13 provides further information regarding the nature of benefit liabilities.

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9. Property, Equipment and Intangible Assets

	Property and equipment				Intangible assets		
	Land	**Buildings**	**Leasehold improvements**	**Office and computer equipment**	**Internally developed software**	**Acquired software**	**Total**
Cost							
Balance at December 31, 2013	40	102	68	30	85	8	333
Additions	-	-	1	-	86	1	88
Dispositions	-	-	-	(9)	-	-	(9)
Balance at December 31, 2014	40	102	69	21	171	9	412
Additions	-	-	2	1	63	-	66
Balance at December 31, 2015	40	102	71	22	234	9	478
Accumulated depreciation							
Balance at December 31, 2013	-	19	63	25	60	6	173
Depreciation	-	3	4	3	3	1	14
Dispositions	-	-	-	(9)	-	-	(9)
Balance at December 31, 2014	-	22	67	19	63	7	178
Depreciation	-	3	1	2	9	1	16
Balance at December 31, 2015	-	25	68	21	72	8	194
Carrying amounts							
At December 31, 2015	40	77	3	1	162	1	284
At December 31, 2014	40	80	2	2	108	2	234

The carrying amount for internally developed software at December 31, 2015 includes $87 of costs for software that was not yet available for use and therefore was not yet subject to amortization (2014 – $105).

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10. Long-term Debt

Long-term debt is comprised of the following:

	2015	2014
Mortgages payable	69	5
Obligations under finance leases	47	47
	116	**52**

Mortgages payable

Mortgages related to investment properties are held with a total principal balance of $74 of which $5 was included in payables and accruals (2014 – $32 of which $27 was included in payables and accruals). The mortgages have annual fixed interest rates of 3.6% - 4.5%, and mature between 2016 and 2025. For the year ended December 31, 2015, interest of $2 was included in investment expenses (2014 – $2).

At December 31, 2015, future principal payments on mortgages payable were as follows:

	Principal payments
Not later than one year	5
Later than one year and not later than five years	-
Later than five years	69
	74

Obligations under finance leases

The WSIB has a finance lease related to the land at Simcoe Place (note 7) with minimum annual lease payments of $4 (2014 – $4). The lease expires in 2027, at which point the WSIB has an option to purchase a 75% interest in the land for $2. Management considers this option to be advantageous and expects the option will be exercised, subject to the Lieutenant Governor in Council approval. The effective interest rate on this finance lease is 19.59%.

The WSIB has three operating leases for investment properties. The WSIB has elected to measure these investment properties at fair value and to account for the related operating leases as finance leases. These leases have total annual minimum lease payments of $2 and interest rates ranging from 5.6% - 7.8%. Two of the leases have remaining lease terms of 36 years; the other has a remaining lease term of 72 years.

Future minimum lease payments under finance leases are as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Not later than one year	6	(6)	-
Later than one year and not later than five years	24	(21)	3
Later than five years	108	(64)	44
	138	**(91)**	**47**

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11. Loss of Retirement Income Fund Liability

The reconciliation of carrying amounts for the Loss of Retirement Income Fund liability is set forth below:

	2015	2014
Balance, beginning of year	1,663	1,538
Contributions from the WSIB	56	59
Optional contributions from injured workers	7	7
Contributions from Schedule 2 employers	4	4
Investment income (note 7)	88	138
Benefits paid in cash	(94)	(83)
Balance, end of year	**1,724**	**1,663**

The following provides a summary of the assets by strategy as defined by the Loss of Retirement Income Fund's SIPP:

	2015		2014	
Public equities	554	32%	534	32%
Fixed income	360	21%	334	20%
Multi-asset	347	20%	361	22%
Real estate	115	7%	122	7%
Infrastructure	62	3%	41	2%
Other	78	5%	81	5%
Included in total invested assets (note 7)	1,516	88%	1,473	88%
Cash and cash equivalents	208	12%	190	12%
	1,724	**100%**	**1,663**	**100%**

12. Employee Benefit Plans

The WSIB sponsors a registered defined benefit pension plan, supplemental defined benefit pension plans, and other defined benefit plans. Other defined benefit plans provide benefits such as disability income benefits, vacation and attendance programs, and post-employment dental, health and life insurance benefits.

The registered pension plan and the post-retirement benefit program represent approximately 81% and 15%, or a combined 96%, of the total employee benefit obligation.

The Employees' Pension Plan

The WSIB Employees' Pension Plan provides for partially indexed pensions based on years of service and the best five consecutive years' average earnings in the last 10 years of employment. The Employees' Pension Plan is a registered pension plan under the *Ontario Pension Benefits Act* ("PBA") and the Canada Revenue Agency.

Minimum funding requirements under the PBA are determined based on actuarial valuations on a going concern basis that are required at a minimum of every three years. Deficits under the going concern basis may be funded over up to 15 years, beginning one year from the valuation date. In addition, solvency valuations must be performed which simulate a plan wind-up. Deficiencies established on a solvency basis may be funded over up to five years, beginning one year from the valuation date.

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The WSIB's general practice is to contribute the minimum required under the PBA, but additional contributions may be made for tactical purposes, such as to meet a particular funding threshold. The WSIB Employees' Pension Plan is open to new entrants, and employees pay contributions based on a fixed formula (as percentages of payroll), with the WSIB responsible for the balance of the cost.

The WSIB applied for temporary solvency funding relief based on the December 31, 2012 solvency valuation, and the application was approved in June 2013. The temporary solvency relief provisions allow a longer period over which to fund the solvency deficiencies.

The Post-Retirement Benefit Plan

The Post-Retirement Benefit Plan provides extended health, dental, vision, and life insurance benefits for employees who meet the eligibility requirements. Employees must be in receipt of a WSIB pension and either be at least age 65 at the time of retirement or have 10 years of pensionable service to qualify for benefits. The plan is funded on a pay as you go basis.

Governance of defined benefit plans

The Board of Directors of the WSIB oversees the administration of the employee benefit plans in accordance with applicable legislation and approves the governance structure, including the mandates of those to whom administrative duties and responsibilities were delegated. The Board of Directors approves actuarial valuation reports and establishes employer contributions, approves audited plan financial statements, appoints and terminates key service providers and monitors plan funded status and regulatory, legislative and governance compliance.

The Board of Directors receives assistance in the fulfilment of its responsibilities related to the employee benefit plans through various committees, including the Audit and Finance Committee, the Human Resources and Compensation Committee and the Investment Committee.

Risks

Given that employee contributions to the employee benefit plans (if any) are fixed, the WSIB generally bears the risks associated with the defined benefit plans. The most significant sources of risk for the WSIB include:

(a) A decline in discount rates that increases the obligation and expense;

(b) Investment returns which are lower than expected;

(c) Lower than expected rates of mortality; and

(d) Health care cost inflation being higher than assumed.

In general, the WSIB manages the risks through plan design reviews and, in relation to investment risks, through risk control mechanisms in the WSIB Employees' Pension Plan's SIPP. The SIPP requires that the plan assets be diversified across certain asset classes and investment strategies. Measurement, assessment and management of risk is conducted using tools and analysis, including asset-liability studies, measures of standard deviation and tracking error, and sensitivity analysis. Other risks, such as operational risks, are managed through internal controls or other risk control mechanisms.

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Long-term employee benefit plans expenses

The cost of the long-term employee benefit plans recognized in administration and other expenses is as follows:

	2015	2014
Service cost	101	76
Net interest on the employee benefit plans liability	51	45
	152	**121**

Remeasurements of the employee defined benefit plans recognized in other comprehensive loss (income) are as follows:

	2015	2014
Actuarial losses (gains) arising from changes in financial assumptions	(33)	329
Actuarial losses arising from changes in demographic assumptions	4	113
Actuarial losses (gains) arising from demographic and other experience	31	(19)
Excess of actual return on plan assets over interest income	(47)	(127)
Total remeasurements of employee defined benefit plans	**(45)**	**296**

Employee benefit plans liability

The employee benefit plans liability is comprised of the following:

	2015	2014
Present value of wholly or partly funded obligations	3,243	3,118
Present value of unfunded obligations	736	708
Total present value of obligations	3,979	3,826
Fair value of plan assets	(2,757)	(2,599)
Employee benefit plans liability	**1,222**	**1,227**

The movement in the total present value of defined benefit obligations is as follows:

	2015	2014
Balance, beginning of year	3,826	3,263
Current service cost	101	80
Contributions by employees	23	26
Interest expense on the defined benefit obligations	155	156
Actuarial losses (gains) arising from changes in financial assumptions	(33)	329
Actuarial losses arising from changes in demographic assumptions	4	113
Actuarial losses (gains) arising from demographic and other experience	31	(23)
Benefits paid	(128)	(118)
Balance, end of year	**3,979**	**3,826**

Benefits to be paid during 2016 are projected to be $138, and the WSIB's contributions to the plans are estimated to be $112.

The weighted-average duration of the total long-term benefit plans obligation at December 31, 2015 is 17.0 years (2014 – 17.3 years).

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Fair value of plan assets

The movement in the total fair value of plan assets is as follows:

	2015	2014
Balance, beginning of year	2,599	2,343
Excess of actual returns on plan assets over interest income	47	127
Interest income on plan assets	104	111
Contributions by the WSIB	112	110
Contributions by employees	23	26
Benefits paid	(128)	(118)
Balance, end of year	**2,757**	**2,599**

Plan assets are comprised of the following:

	2015		2014	
Plan assets by major category				
Public equities	1,035	38%	989	38%
Fixed income	700	25%	641	25%
Real estate	214	8%	217	8%
Infrastructure	115	4%	75	3%
Multi-asset and other	693	25%	677	26%
Total	**2,757**	**100%**	**2,599**	**100%**

Actuarial assumptions

The significant actuarial assumptions used in the determination of the present value of the defined benefit obligations are as follows:

	2015	2014
Discount rate – plan expenses[1]	4.0%	4.7%
Discount rate – accrued benefit obligation[1]	4.0%	4.0%
Inflation	1.8%	1.8%
Salary increases	3.3%	3.3%
Health care increases[2]	6.0%	6.0%
Dental increases	4.0%	4.0%

1. Weighted-average based on obligation.
2. The 2015 assumptions for health care increases include drug cost increases of 6.0% in 2016 and 2017, declining 0.25% per annum to 4.5% in 2023 and thereafter. The 2014 assumptions for health care increases include drug cost increases of 6.0% in 2015, 2016 and 2017, declining 0.5% per annum to 4.5% in 2020 and thereafter.

The 2015 and 2014 assumptions for mortality rates are based on 104% of CPM 2014 (Private) table projected generationally using scale B.

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Sensitivity of actuarial assumptions

Changes in the actuarial assumptions used have a significant effect on the employee benefit plans obligation. The following provides an estimate of the potential impact of a change in the more significant assumptions:

Sensitivity in assumptions	Increase (decrease) in the obligations 2015
Discount rate	
1% increase in assumption	(590)
1% decrease in assumption	764
Compensation, indexation, government benefit changes	
1% increase in assumption	442
1% decrease in assumption	(368)
Health care and dental costs escalation rate	
1% increase in assumption	127
1% decrease in assumption	(98)

The sensitivities above assume all other assumptions are held constant.

The measurement of the defined benefit obligations is also sensitive to the mortality assumptions. The current longevities underlying the measurement of the defined benefit obligations as at December 31 are as follows:

	2015
Longevity for those currently age 65	
Males	21.3 years
Females	23.7 years
Longevity at age 65 for those currently age 45	
Males	22.4 years
Females	24.7 years

If the mortality rates were to be reduced proportionately such that the average life expectancy for a 65 year-old female was increased by two years, and the mortality rate was adjusted proportionately for all other plan members, the defined benefit obligations for the WSIB Employees' Pension Plan and Retiree Health, Dental and Life Insurance Benefit Plan would increase by $162 (5.0%) and $46 (8.1%), respectively.

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13. Benefit Liabilities and Benefit Costs

Benefit liabilities

Benefit liabilities are based on the level and nature of entitlement under the WSIA and adjudication practices in effect at that date.

Benefit liabilities are comprised of the following:

	2015	2014
Loss of earnings	9,096	9,015
Workers' pensions	6,587	6,115
Health care	3,938	3,849
Survivor benefits	2,860	2,687
Future economic loss	1,502	1,608
External providers	184	239
Non-economic loss	291	253
Long latency occupational diseases	2,137	1,886
Claim administration costs	1,235	1,148
Benefit liabilities	**27,830**	**26,800**

A summary of the changes in benefit liabilities is as follows:

	2015	2014
Benefit liabilities, beginning of year	26,800	26,960
Benefit costs	3,760	2,623
Benefit costs paid during the year	(2,730)	(2,783)
Benefit liabilities, end of year	**27,830**	**26,800**

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Further details of the changes in benefit liabilities are as follows:

	Loss of earnings	Workers' pensions	Future economic loss	Health care	Non-economic loss	External providers	Survivor benefits	Claim admin.	Occupa-tional diseases	LRI[1]	2015	2014
Benefit liabilities, beginning of year	8,588	6,115	1,462	3,849	253	239	2,687	1,148	1,886	573	**26,800**	26,960
Claim costs recognized during the year	706	-	-	453	37	45	100	400	-	32	**1,773**	1,751
Payments processed during the year	(839)	(577)	(204)	(446)	(43)	(34)	(189)	(398)	-	(56)	**(2,786)**	(2,842)
Interest expense on the liability	388	278	61	172	12	12	125	49	90	24	**1,211**	1,283
Impact of legislative change	212	596	41	-	32	-	-	31	26	10	**948**	127
Impact of actuarial remeasurement	98	240	24	152	16	1	132	29	173	16	**881**	830
Changes in claims experience	(491)	(65)	(22)	(242)	(16)	(79)	5	(24)	(38)	(25)	**(997)**	(1,309)
Benefit liabilities, end of year	**8,662**	**6,587**	**1,362**	**3,938**	**291**	**184**	**2,860**	**1,235**	**2,137**	**574**	**27,830**	**26,800**

1. Loss of Retirement Income Fund ("LRI").

Benefit costs

Benefit costs are comprised of the following:

	2015	2014
Benefit payments	**2,332**	**2,420**
Claim administration costs		
Allocation from administration and other expenses	378	344
Allocation from legislated obligations and funding commitments	20	19
	398	**363**
Change in actuarial valuation of benefit liabilities	**1,030**	**(160)**
Benefit costs	**3,760**	**2,623**

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Benefit payments represent cash paid during the year to or on behalf of injured workers. Benefit payments are comprised of the following:

	2015	2014
Loss of earnings	839	863
Workers' pensions	577	596
Health care	446	452
Survivor benefits	189	184
Future economic loss	213	230
External providers	34	44
Non-economic loss	43	48
Other	(9)	3
Benefit costs paid to or on behalf of injured workers	**2,332**	**2,420**
Claim administration costs	398	363
Benefit costs paid during the year	**2,730**	**2,783**

Change in actuarial valuation

The change in the actuarial valuation of benefit liabilities is comprised of the following:

	2015	2014
Changes in estimate of cost of claims	(2,010)	(2,400)
Changes in actuarial assumptions and methods	881	830
Changes in legislation	948	127
Accretion[1]	1,211	1,283
	1,030	**(160)**

1. Accretion represents the estimated interest cost of the benefits liability, considering the discount rate, benefit liabilities at the beginning of the year and payments during the year.

The changes in actuarial assumptions and methods are comprised of the following:

	2015	2014
Changes in discount rate	1,026	569
Changes in methods and assumptions for loss of earnings benefits	(154)	(22)
Changes in methodology for future awards	(1)	64
Changes in average awards	10	92
Changes in occupational disease assumptions and methods	-	127
	881	**830**

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Actuarial assumptions and methods

The actuarial present value of future benefit payments depends on actuarial assumptions, including economic assumptions, which are based on past experience modified for current trends and expected development. Actuarial assumptions are reviewed annually when the actuarial valuation is performed. Management believes the valuation methods and assumptions are, in aggregate, appropriate for the valuation of benefit liabilities. The following table summarizes the main underlying actuarial assumptions used in estimating the categories of benefit liabilities:

Actuarial Assumption	Note	Loss of earnings	Workers' pensions	Health care	Survivor benefits	Future economic loss	External providers	Non-economic loss	Long latency occupational diseases (e)
Discount rate	(a)	√	√	√	√	√	√	√	√
Indexation	(a)	√	√	-	√	√	-	√	√
Wage escalation	(a)	√	√	-	√	√	√	√	√
Health care escalation	(a)	-	-	√	-	-	-	-	√
Wage loss	(b)	√	-	-	-	√	-	-	√
Mortality	(c)	√	√	√	√	√	-	√	√
Claims incidence	(d)	√	-	-	-	-	-	-	√
Termination	(d)	√	-	-	-	-	-	-	√
Exposure index	(d)	√	√	√	√	√	√	√	√
Expenses	(f)	√	√	√	√	√	√	√	√

(a) Economic assumptions

The following provides a summary of the primary economic assumptions used in the actuarial valuation of benefit liabilities:

	2015	2014
Discount rate	2016 and thereafter – 4.75%	2015-2017 – 4.75% thereafter – 5.25%
Indexation of benefits rate[1]:		
Fully indexed to inflation	2.0%	2.0%
Partially indexed	2016 – 0.5% 2017 – 1.0% 2018 and thereafter – 2.0%	0.5%
Wage escalation rate	3.0%	3.0%
Health care costs escalation rate	4.0%	4.0%

1. On December 10, 2015, the Ontario government passed the *Budget Measures Act, 2015,* which amended *Chapter 38, Schedule 23, Sections 49, 50 and 51* under the WSIA. Effective January 1, 2018, the alternate and prescribed temporary indexing factors will be replaced by one indexing factor. The new indexing factor will be based on the percentage change over a 12-month period in the Consumer Price Index measured at the previous October and will be directly applied to the benefit amount. In the interim, *Ontario Regulation 454/09* prescribes temporary indexing factors of 0.5% for 2016 and 1.0% for 2017 with the current indexing methodology.

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(b) Wage loss

Wage loss refers to the proportion of a worker's wages that is lost due to an injury. Most benefits influenced by wage loss are based on historical experience and limits in the WSIA.

(c) Mortality

The assumptions for the mortality rates were the same as the rates used in 2014 except adjusted for an additional year of mortality improvement. The base mortality rates were updated in 2013 to reflect recent experience. Mortality rates are used to estimate the duration for which the WSIB will continue to be required to make payments to injured workers or survivors receiving monthly pension amounts. The mortality assumptions are determined separately for injured workers and survivors as follows:

(i) the mortality assumption for injured workers is based on an actuarial study of the mortality levels by age and gender experienced by WSIB disability income recipients from 2006 to 2010, adjusted to reflect any prevailing improvements (or otherwise) in the experience of WSIB injured workers up to and including 2015;

(ii) the mortality assumption for those receiving survivor benefits is based on an actuarial study of mortality levels experienced by WSIB survivors, and the 2009-2011 Province of Ontario population mortality table developed by Statistics Canada, adjusted to reflect any prevailing improvements (or otherwise) in the experience of WSIB survivors up to and including 2015; and

(iii) the mortality rates for both injured workers and survivors are projected for future years using the Canada Pension Plan's mortality improvement factors. As such, future mortality rates are reduced to allow for greater future longevity expected for injured workers and survivors.

(d) Claims incidence, termination and exposure index

Claims incidence refers to the number of claims incurred during the year and requires actuarial assumptions for the number of claims expected to have been incurred but not reported at December 31, 2015. Termination refers to the actuarial assumptions regarding the future duration of claims. Exposure index refers to the indicator used to assist in predicting certain future costs for different injury years and represents, on a relative basis, the level of risk insured by the WSIB.

The assumptions regarding claims incidence are determined based on the number of claims incurred in past years. The termination assumption is determined using average termination experience of the WSIB from three recent injury years and modified for the existing claims expected to be of longer duration. The exposure index has been developed using the number of claims incurred up to injury year 1998, and for subsequent years, the number of workers covered by the WSIB, adjusted by the variation in the average risk associated with these workers. The termination rates and loss of earnings future lock-in claim profile has been updated in 2015 to reflect recent experience.

(e) Occupational diseases

Occupational diseases refer to future occupational disease claims arising from exposures up to the valuation date to hazardous substances or conditions, such as asbestos and excessive noise. An in-depth study was performed in 2014 to estimate the number of latent occupational disease claims, the latency periods and their expected costs. In 2014, the expected cost was updated to reflect most recent experience. These costs are for loss of earnings, labour market re-entry, future economic loss, health care, survivor benefits, retirement income benefits, and claim administration costs. The assumptions used for the determination of benefit liabilities were primarily based on the historical experience of the WSIB.

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(f) Expenses

Ratios of claim administration costs to the amounts of claims paid are used to estimate the future costs of claim administration for current claims. These ratios had been developed in analyzing claims administration and other claims related management costs for all cost centers at the WSIB by claim type, duration and amount.

Sensitivity of actuarial assumptions

Changes in the actuarial assumptions used have a significant effect on the benefit costs recognized. The following provides an estimate of the potential impact of a change in the more significant assumptions:

Change in assumption	Increase in benefit costs 2015
100 basis point decrease in the discount rate	3,022
100 basis point increase in the inflation rate:	
Impact of benefits indexation rate	1,865
Impact of wage growth	457
Impact of health care cost escalation	578

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Claims development

Benefit liabilities include the current estimate of future payments related to claims incurred during 2015 and prior years. Each reporting period, benefit liabilities are adjusted for changes in the estimate of the future payments, and the change in estimate is recognized in benefit costs. The table below provides the development of the estimates related to claims incurred from 2006 to 2015.

	Year of injury										
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
Year of estimate											
2006	2,353										
2007	2,606	2,488									
2008	2,675	2,458	2,393								
2009	2,984	2,786	2,620	2,164							
2010	3,091	3,105	3,052	2,418	2,361						
2011	3,231	3,286	3,065	2,207	2,744	2,760					
2012	3,245	3,423	3,241	2,518	2,270	2,363	2,815				
2013	3,153	3,135	3,077	2,340	2,065	2,019	2,274	2,627			
2014	3,093	3,094	2,794	2,270	1,955	1,897	2,000	2,296	2,453		
2015	3,132	3,147	2,826	2,069	1,840	1,764	1,843	1,981	2,145	2,317	
Current estimate of cumulative claims costs	3,132	3,147	2,826	2,069	1,840	1,764	1,843	1,981	2,145	2,317	23,064
Cumulative payments made	(1,613)	(1,532)	(1,313)	(838)	(612)	(498)	(455)	(412)	(329)	(164)	(7,766)
Outstanding claims (undiscounted)	1,519	1,615	1,513	1,231	1,228	1,266	1,388	1,569	1,816	2,153	15,298
Effect of discounting	(614)	(664)	(637)	(547)	(563)	(601)	(670)	(769)	(868)	(945)	(6,878)
Discounted outstanding claims	905	951	876	684	665	665	718	800	948	1,208	8,420
Discounted outstanding claims prior to 2006 injury year											16,038
Claim administration costs											1,235
Long latency occupational diseases											2,137
Total outstanding claims											**27,830**

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Rate setting

In accordance with the WSIA, the WSIB's obligations are satisfied by charging annual premiums to all Schedule 1 employers and investment income. The premiums are determined based on a percentage of insurable earnings of each Schedule 1 employer. Schedule 1 employers are classified within specific rate groups, which are based on the nature of the employer's business. The premium rate applicable to particular rate groups and Schedule 1 employers within that group is determined as the sum of four main components:

(a) the cost of new claims, which is based on the expected number of claims and benefit payment costs of that rate group;

(b) administration costs, which are based on the rate group's share of expected administration costs and legislative obligations of the WSIB;

(c) the cost of old claims, which is based on the amortization of the shortfall between the costs of old claims and the accumulated assets supporting those claims; and

(d) experience rating, which, depending on the size and class of the employer, is based on relative historical cost performance of the employer relative to other employers in the same rate group.

Concentration of risks

The WSIB provides workplace injury insurance for all Schedule 1 employers with workers in the Province. In this respect, the WSIB's risks are concentrated among the workplace risks associated with the various industries in the Province. The insurable earnings by industry for the year ended December 31, 2015 are provided below.

Industry	**Insurable earnings**	**% of total**
Agriculture	2,166	1.2%
Automotive	7,508	4.1%
Construction	20,053	11.0%
Education	6,865	3.8%
Electrical	5,447	3.0%
Food	5,014	2.8%
Forestry	452	0.2%
Health care	24,100	13.2%
Manufacturing	39,205	21.5%
Mining	1,990	1.1%
Municipal	2,178	1.2%
Primary metals	1,654	0.9%
Process and chemicals	4,630	2.5%
Pulp and paper	749	0.4%
Services	49,729	27.3%
Transportation	10,472	5.8%
Total	**182,212**	**100.0%**

In addition, the WSIB's risks are concentrated among the workplace injuries and diseases that result in disabilities or deaths to injured workers. The WSIA does not provide the WSIB with the ability to diversify away from these risks. Additional risks can arise from appeals or legislative changes, which can produce an immediate increase in benefit liabilities.

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Premium rates are the only means to mitigate these risks, other than investment income. Premium rates are adjusted annually as benefit liabilities and risks are reviewed and then differentiated by rate group in order to reflect the higher or lower expected costs and loss frequency associated with particular rate groups. In addition, the rates charged to larger employers in the same rate group are further adjusted based on the historical claims experience of that employer relative to the rate group as a whole.

Liquidity of benefit liabilities risks

The following table provides an estimate of the expected timing of undiscounted cash flows for benefit payments for claims:

	2015	**2014**
Up to one year	5%	5%
Over one year and up to five years	17%	18%
Over five years and up to ten years	18%	19%
Over ten years and up to fifteen years	15%	15%
Over fifteen years	45%	43%
	100%	**100%**

14. Commitments and Contingent Liabilities

Operating leases

The WSIB is the lessee to a number of operating leases for office space and computer equipment, with lease terms up to 10 years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Minimum lease payments
Not later than one year	15
Later than one year and not later than five years	31
Later than five years	25
	71

During the year ended December 31, 2015, operating lease payments of $15 (2014 – $15) were recognized in administration and other expenses. The payments included charges for operating expenses related to the leases of office space and other items.

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Leases of investment properties

The WSIB is the lessor of a number of operating leases of its investment properties. These leases typically have a term of 3 to 15 years, with an option to renew. The future minimum lease payments to be received under non-cancellable operating leases are as follows:

	Minimum lease payments
Not later than one year	69
Later than one year and not later than five years	209
Later than five years	189
	467

Investment commitments

The WSIB had the following commitments related to its investment portfolio:

	2015	2014
Real estate, multi-asset and infrastructure investments	1,322	948
Investments in joint ventures	110	127
Purchases or development of investment properties	7	8
	1,439	**1,083**

Legislated obligations and funding commitments

Known commitments related to legislated obligations and funding commitments as at December 31, 2015 were approximately $254 for 2016 (2014 – $251 for 2015).

Other commitments

At December 31, 2015, the WSIB has additional commitments going forward under non-cancellable contracts for purchases of goods and services with minimum future payments of approximately $126 (2014 – $113).

Legal actions

The WSIB is engaged in various legal proceedings and claims that have arisen in the ordinary course of business, the outcome of which is subject to future resolution. Based on information currently known to the WSIB, management believes the probable ultimate resolution of all existing legal proceedings and claims will not have a material effect on the WSIB's financial position.

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15. Funding and Capital Management

As the trust agency for administering the Province's compensation system, the WSIB's capital management objective is to ensure sufficient funding to provide compensation and other benefits to workers and to the survivors of deceased workers. The WSIA requires the WSIB to make payments for current benefits as they come due and to provide for future benefits. Further, the WSIA requires the WSIB to maintain sufficient funding so as not to burden unduly or unfairly any class of Schedule 1 employers with payments, in any year in respect of current benefits, or in future years in respect of future benefits.

The capital resources available to the WSIB are comprised of its total assets less total liabilities, excluding those attributable to non-controlling interests. At December 31, 2015, the WSIB's capital is represented by the unfunded liability attributable to WSIB stakeholders of $6,599 (2014 – $7,890).

Ontario Regulation 141/12 ("Regulation 141"), which came into force January 1, 2013, requires the WSIB to meet prescribed Sufficiency Ratios by certain dates over the next 15 years. This regulation was amended by *Ontario Regulation 338/13* ("Regulation 338"), which came into force January 1, 2014 and further clarifies the measurement of assets and liabilities included in the Sufficiency Ratio. The Sufficiency Ratio is calculated by comparing total assets to total liabilities, with certain assets and liabilities measured on a different basis than that required under IFRS. The WSIB is required to meet the following Sufficiency Ratios, as defined by regulation:

December 31, 2017	60%
December 31, 2022	80%
December 31, 2027	100%

On August 8, 2013, the Minister of Labour (the "Minister") formally accepted the WSIB's Sufficiency Plan describing the measures being taken by the WSIB to improve the Sufficiency Ratio and how these measures will achieve the prescribed targets. The WSIB prepares a quarterly Sufficiency Report to Stakeholders to report on its progress towards meeting the legislated funding requirements.

As at December 31, 2015, the Sufficiency Ratio, as defined in Regulation 141 and amended by Regulation 338, was 77.9% (2014 – 71.6%).

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16. Related Party Transactions

Government of Ontario and related entities

The WSIB is a trust agency of the Government of Ontario, responsible for administering the WSIA. As such, the WSIB is considered a government-related entity and is provided partial exemptions under IFRS from its disclosure of transactions with the Government of Ontario and its controlled ministries, agencies, and Crown corporations.

Pursuant to the WSIA, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the OHSA. The WSIB is also required to fund costs associated with the MoL's prevention activities, the WSIAT and the offices of each of the Worker and Employer Adviser. These reimbursements and associated amounts charged to employers are determined and approved by the Minister. The WSIB also provides grant funding to carry on investigations, research and training. The total funding provided under these legislated obligations and funding commitments for the year ended December 31, 2015 was $243 (2014 – $245).

The WSIB is required to reimburse the Ministry of Health and Long-Term Care ("MOHLTC") for physicians' fees for services to injured workers, as well as an administrative fee to the MOHLTC. Amounts paid to the MOHLTC for physicians' fees and administrative services for the year ended December 31, 2015 were $36 (2014 – $37).

In addition to legislated obligations and workplace health and safety expenses, which the WSIB collectively presents in legislated obligations and funding commitments expense, the consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various controlled ministries, agencies and Crown corporations of the Government of Ontario.

Included in investments are $1,515 of marketable fixed income securities issued by the Government of Ontario and related entities (2014 – $1,394).

Key management remuneration

The remuneration of key management, which includes the Board of Directors, is included in administration and other expenses.

	2015	**2014**
Salaries and short-term benefits	4.4	3.0
Long-term employee benefit plans	0.4	0.3
	4.8	**3.3**

Post-employment benefit plans

The WSIB's two employee defined benefit pension plans and other long-term employee benefit plans are considered related parties. Note 12 provides details of transactions with these post-employment benefit plans.

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17. Interests in Other Entities

Interests in subsidiaries

The WSIB's consolidated financial statements include the financial statements of all its subsidiaries.

(a) Directly owned subsidiaries

The WSIB's invested assets are held directly or indirectly by the following subsidiaries:

	WSIB's ownership		Country of incorporation and operation
	2015	2014	
Wholly owned subsidiary			
799549 Ontario Inc.	100.0%	100.0%	Canada
Partly-owned subsidiaries ("Investment Pools")			
Absolute Return (2012) Pooled Fund Trust	90.7%	90.3%	Canada
Diversified Markets (2010) Pooled Fund Trust	89.5%	90.1%	Canada
Diversified Markets (2009) Pooled Fund Trust	89.5%	88.9%	Canada
WSIB Investments (Fixed Income) Pooled Fund Trust	89.5%	89.4%	Canada
WSIB Investments (Infrastructure) Pooled Fund Trust	89.5%	88.1%	Canada
WSIB Investments (International Realty) Limited[1]	89.5%	N/A	Canada
WSIB Investments (Public Equities) Pooled Fund Trust	89.5%	88.8%	Canada
WSIB Investments (Realty) Limited	89.5%	88.2%	Canada
WSIB Investments (Total Return) Pooled Fund Trust	89.5%	89.1%	Canada
Simcoe Pacific Pooled Fund Trust[2]	89.5%	N/A	Canada

1. WSIB Investments (International Realty) Limited was incorporated on March 20, 2015 and commenced operations in April 2015.
2. Simcoe Pacific Pooled Fund Trust was created on April 23, 2014. The trust agreement was amended on May 22, 2015 and began operations in July 2015.

The WSIB Employees' Pension Plan is the non-controlling interest in each of the Investment Pools listed above; its non-controlling ownership ranges from 9.3% - 10.5%. The following provides aggregated summary financial information for the Investment Pools, before intercompany eliminations:

Summary information from statements of financial position	2015	2014
Total assets	26,209	23,748
Total liabilities	(303)	(233)
Surplus of assets	**25,906**	**23,515**
Attributable to the WSIB Employees' Pension Plan	**2,699**	**2,551**

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Summary information from statements of comprehensive income	2015	2014
Investment income	1,415	2,168
Investment expenses	(30)	(24)
Net investment income, net income and comprehensive income	**1,385**	**2,144**
Attributable to the WSIB Employees' Pension Plan	**151**	**237**

Details of the nature of investments held by the Investment Pools are included in note 7.

(b) Other subsidiaries

WSIB Investments (Realty) Limited and WSIB Investments (Infrastructure) Pooled Fund Trust hold invested assets in a number of wholly and partly-owned subsidiaries. The surplus of assets of WSIB Investments (Realty) Limited that is attributable to non-controlling interests at December 31, 2015 is $103 (2014 – $93).

(c) Reconciliation of non-controlling interests

The following provides a reconciliation of the unfunded liability attributable to WSIB stakeholders and non-controlling interests, including the effect of changes in ownership:

	Unfunded liability attributable to WSIB stakeholders	Non-controlling interests		
		Investment Pools	Other subsidiaries	Total
Balance at December 31, 2013	(10,467)	2,313	81	2,394
Total comprehensive income	2,577	237	5	242
Distributions paid by subsidiaries to non-controlling interests	-	(146)	(3)	(149)
Disposition of non-controlling interests[1]	-	147	10	157
Balance at December 31, 2014	(7,890)	2,551	93	2,644
Total comprehensive income	1,291	151	1	152
Distributions paid by subsidiaries to non-controlling interests	-	(127)	(4)	(131)
Disposition of non-controlling interests[1]	-	124	13	137
Balance at December 31, 2015	**(6,599)**	**2,699**	**103**	**2,802**

1. Disposition of non-controlling interests represent net contributions by non-controlling interests and resulted in changes in the WSIB's ownership share in the Investment Pools; however, there was no effect on the unfunded liability attributable to WSIB stakeholders. The net contributions by non-controlling interests in other subsidiaries did not result in any changes in the WSIB's ownership share.

Interests in joint ventures

WSIB Investments (Realty) Limited and WSIB Investments (Infrastructure) Pooled Fund Trust hold invested assets in a number of joint ventures. Summary financial information for the joint ventures in aggregate is provided in note 7.

Interests in joint operations

799549 Ontario Inc. and WSIB Investments (Realty) Limited hold invested assets in a number of joint operations. Summary financial information for the joint operations in aggregate is provided in note 7.