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September 8, 2015

COURIER

Ontario Energy Board
P.O. Box 2319
27th Floor, 2300 Yonge Street
Toronto, ON M4P 1E4

Attention: Ms. K. Walli, Board Secretary

Dear Ms. Walli:

Re: Wataynikaneyap Power LP - Electricity Transmission Licence Application

We are counsel to 2472883 Ontario Limited ("Wataynikaneyap Power GP") and Wataynikaneyap Power LP ("WPLP"). Wataynikaneyap Power GP on behalf of WPLP (the "Applicant") hereby applies to the Ontario Energy Board (the "Board") for a Transmission Licence pursuant to ss. 57(b) and 60 of the *Ontario Energy Board Act, 1998* (the "OEB Act").

The Applicant is seeking an order of the Board granting an Electricity Transmission Licence because it is developing, and intends to construct, own and operate a transmission system in northwestern Ontario, in the area north of Dryden (the "Transmission System"). Through a two-phased project, the Transmission System will connect remote First Nation communities that currently do not have access to the provincial electricity grid, enhance opportunities for the development and connection of clean and renewable generation facilities over the long term, as well as reinforce and enhance reliability on the existing system to accommodate these outcomes.

Enclosed is the Applicant's completed application form, together with all attachments (the "Application"), as well as payment of the applicable filing fee. The Applicant is not seeking any exemptions from any licence or code requirements in connection with the Application.

1. The Applicant

Wataynikaneyap Power GP / Wataynikaneyap Power LP

Wataynikaneyap Power GP is an Ontario company and the general partner of WPLP, an Ontario limited partnership. Wataynikaneyap Power GP is held 51% by 2472881 Ontario Limited ("First Nation GP") and 49% by Fortis-RES GP Inc. The limited partnership interests in WPLP are held 51% by First Nation LP and 49% by Fortis-RES LP.

First Nation GP / First Nation LP

First Nation LP is an Ontario limited partnership whose general partner is First Nation GP. The shares of First Nation GP, as well as the limited partnership interests in First Nation LP, are held directly by 20 First Nations (the "Participating First Nations") in equal shares. The Participating First Nations are as follows:

- Bearskin Lake First Nation
- Cat Lake First Nation
- Deer Lake First Nation
- Kasabonika Lake First Nation
- Keewaywin First Nation
- Kingfisher Lake First Nation
- Kitchenuhmaykoosib Inninuwug First Nation
- Lac Seul First Nation
- McDowell Lake First Nation
- Muskrat Dam First Nation
- North Caribou First Nation
- North Spirit Lake First Nation
- Poplar Hill First Nation
- Sachigo Lake First Nation
- Sandy Lake First Nation
- Slate Falls First Nation
- Wabigoon Lake Ojibway Nation
- Wapekeka First Nation
- Wawakapewin First Nation
- Wunnumin Lake First Nation

Fortis / RES

Fortis-RES LP is an Ontario limited partnership whose general partner is Fortis-RES GP Inc. The shares of the general partner, Fortis-RES GP Inc., are held equally by FortisOntario Inc. and RES Canada Transmission Holdings Inc. The limited partnership interests in Fortis-RES LP are held equally by Fortis Inc. and RES Canada Transmission Holdings LP. FortisOntario Inc. owns and operates generation, transmission and distribution businesses in Ontario and is an affiliate of Fortis Inc., which is a leader in the North American electricity and gas utility business. RES Canada Transmission Holdings Inc. and RES Canada Transmission Holdings LP are affiliates of Renewable Energy Systems Canada Inc., which owns and operates generation facilities in Ontario, and which is a subsidiary of Renewable Energy Systems Holdings Ltd., a United Kingdom-based, global leader in renewable energy, energy storage and transmission development.

2. The Planned Transmission System

WPLP is developing, and intends to construct, own and operate the Transmission System in northwestern Ontario. The first phase of the project will consist of a new 300 km, 230 kV single circuit overhead transmission line from east of Dryden (Dinorwic) to Pickle Lake, including associated stations and ancillary facilities. The second phase of the project will consist of approximately 905 km of new 115 kV and 44 kV transmission lines north of Pickle Lake, and approximately 595 km of new 115 kV and 44 kV transmission lines north of Red Lake, each including associated stations and ancillary facilities. WPLP currently anticipates that at least 16 remote First Nations communities, all of which are Participating First Nations, will be able to connect to the provincial electricity grid upon completion of second phase of the project. In addition, the project is expected to provide opportunities for proponents to develop and connect renewable and clean energy projects, including in particular from waterpower, which would otherwise not be feasible.

The Transmission System is being developed to meet a recognized need. The Province's 2010 Long-Term Energy Plan ("LTEP") identified a new line to Pickle Lake as a priority transmission project required to serve industry needs and help future remote community connection. Following up on this commitment, the Province's 2013 LTEP states that the Ontario Power Authority "looked at the costs of connecting the remote First Nation communities in the northwest; these communities are currently not connected to the province's electricity grid and rely instead on expensive diesel fuel to generate their electricity. Connecting the remote First Nation communities in Northwestern Ontario is a priority." The 2013 LTEP further notes that development of the Transmission System will increase capacity to support new demand, including from mining, as well as from the connection of remote communities.

Further support for the Transmission System is provided by the *Remote Community Connection Plan*, issued by the former Ontario Power Authority on August 21, 2014. This Plan established a business case for connecting up to 21 remote communities that currently rely on diesel generation, 15 of which are Participating First Nations that hold interests in First Nation LP, which has a controlling interest in WPLP. In addition, the Independent Electricity System Operator made a number of recommendations in its *North of Dryden Integrated Regional Resource Plan*, issued on January 27, 2015, which are consistent with WPLP's plans for the Transmission System.

3. Technical and Financial Expertise, Experience and Resources

The combined experience and resources of the Applicant, through its limited partners and their respective affiliates, provides the Applicant with a very high level of technical and financial capability, expertise and experience with respect to activities such as transmission system planning, stakeholder consultations, community engagement, project development, project management, as well as with respect to the construction, ownership, operation and maintenance of electricity transmission facilities. This expertise is summarized below.

First Nation GP / First Nation LP

First Nation LP is indirectly owned by the Participating First Nations, which through a preliminary project organization, known as Wataynikaneyap Power Corporation, undertook all aspects of the early project development work, including extensive engagement within the affected communities, as well as with key regulators and governmental authorities. This early development work also included:

- formation of the current project organization;
- development of preliminary transmission line routing;
- development of transmission system technical parameters;
- engagement of environmental and technical consultants; and
- obtaining approval from the Ministry of the Environment and Climate Change for the Environmental Assessment Terms of Reference in respect of Phase One.

In addition, the Participating First Nations have traditional territories that are situated along the Transmission System corridors. As such, through the Participating First Nations, First Nation LP also has a very high level of experience and expertise with respect to the geographic area in which the Transmission System will be situated and the environmental attributes that will potentially be affected. In addition, the Participating First Nations possess a unique capability for working with potentially affected stakeholders that may be affected by the project.

Fortis

Fortis Inc. is a leader in the North American electric and gas utility business, with total assets of approximately $28 billion and fiscal 2014 revenues of $5.4 billion. Its regulated utilities serve more than 3 million customers across Canada and in the United States and the Caribbean. FortisOntario Inc., an affiliate of Fortis Inc., owns and operates generation, transmission and distribution businesses in the Province of Ontario. Its transmission and distribution operations include approximately 3,300 km of high and low voltage lines that serve a total of over 65,000 customers through its subsidiaries Canadian Niagara Power Inc., Cornwall Street Railway Light & Power Company Ltd. and Algoma Power Inc. In addition, FortisOntario owns minority interests in three additional local distribution companies that serve a total of nearly 40,000 customers.

RES

Renewable Energy Systems Canada Inc. ("RES Canada") is a wholly-owned subsidiary of Renewable Energy Systems Holdings Ltd. ("RES Ltd."). RES Ltd. and its subsidiaries are worldwide leaders in renewable energy, energy storage, and transmission development and construction, with total assets of more than $593 million and fiscal 2014 revenue exceeding $1.4 billion. RES Canada, together with its affiliate, Renewable Energy Systems Americas Inc. ("RES Americas") (collectively, "RES") is one of the top renewable energy companies in North America. RES has developed and/or constructed over 7,500 MW of wind, solar, and battery storage projects, and over 1,000 km of transmission lines, throughout the U.S. and Canada. In Ontario, RES Canada has developed and/or constructed 478 MW of wind generation projects, 70 MW of solar generation projects, and 4 MW of battery storage projects, along with associated transmission lines to interconnect projects to the Ontario transmission system.

4. Lexi Decision

On August 10, 2009, the Board issued a Decision denying an application by Lexi Transmission Corporation ("Lexi") for an electricity transmission licence (EB-2009-0164) (the "Lexi Decision"). In the Lexi Decision, the Board clarified how it considers transmission licence applications for applicants that do not yet have transmission facilities in Ontario.

In its application, Lexi stated that it had no active transmission business in Ontario but that its proposed business activities generally included the development, construction, ownership and operation of transmission assets. Lexi's intended business was to be province-wide and was to include all types of transmission reinforcements and enhancements that were referred to in the Integrated Power System Plan.

In the Lexi Decision, the Board identified two threshold tests for transmission licence applications: (1) whether there is a specific project which underpins the application, and (2) in the absence of a specific project, whether the applicant is engaged in transmission activity elsewhere and whether it has the necessary technical and financial expertise to undertake transmission activity in Ontario.

In the present Application, there is a specific and well-defined project underpinning WPLP's Application, as described above. The project that underpins the Application has been identified in the Long-Term Energy Plan as a priority by the Government of Ontario and it has been the subject of analysis and consideration by the former OPA and the IESO. Moreover, as demonstrated above, the Applicant through its limited partners and their respective affiliates has the necessary technical and financial expertise to undertake the relevant transmission activities. As such, the Applicant satisfies the threshold test.

5. No Exemptions

The Applicant is not seeking any exemptions from any licence or code requirements in connection with the Application. However, recognizing that certain requirements of the transmission licence may not be relevant until such time as WPLP has transmission assets in

Ontario, the Applicant relies upon the Board's findings at p. 6 of its August 31, 2011 Decision and Order in EB-2011-0126 that "those sections of the Board's regulatory instruments that cannot be complied with by a transmission licence holder without assets in the province are simply inapplicable, and no specific exemption is necessary."

6. Procedural Matters

The Applicant requests that the Board consider this Application by way of a written hearing. We further request that the Board direct all correspondence with respect to the Application to the Applicant and its counsel as follows:

Torys LLP 79 Wellington St. W., 30th Floor Box 270, TD South Tower Toronto, Ontario M5K 1N2 Attention: Mr. Charles Keizer Tel: 416-865-7512 Fax: 416-865-7380 ckeizer@torys.com Mr. Jonathan Myers Tel: 416-865-7532 Fax: 416-865-7380 jmyers@torys.com	Wataynikaneyap Power LP c/o Shibogama First Nations Council P.O. Box 449 81 King St. Sioux Lookout, Ontario P8T 1A5 Attention: Ms. Margaret Kenequanash Tel: (807) 737-2662 Fax: (807)737-1583 margaretk@shibogama.on.ca
FortisOntario Inc. 1130 Bertie Street P.O. Box 1218 Fort Erie, Ontario L2A 5Y2 Attention: Mr. Douglas Bradbury Tel: (905) 994-3634 Fax: (905) 871-8676 regulatoryaffairs@fortisontario.com	Renewable Energy Systems Canada Inc. 300 Léo-Pariseau, Suite 2516 Montreal, Quebec H2X 4B3 Attention: Ms. Michele Beauchamp Tel: (514) 525-2113 x. 233 Fax: (514) 524-9669 Michele.Beauchamp@res-americas.com

Yours truly,

for Charles Keizer

Tel 416.865.7512
ckeizer@torys.com

cc: Ms. Margaret Kenequanash, WPLP
Ms. M. Beauchamp, RES
Mr. D. Bradbury, Fortis
Mr. J. Myers, Torys LLP

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Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4
Telephone: 1-888-632-6273
Facsimile: (416) 440-7656

Commission de l'Énergie de l'Ontario
2300 rue Yonge
C.P. 2319
Toronto, ON M4P 1E4
Téléphone: 1-888-632-6273
Télécopieur: (416) 440-7656

For Office Use Only	
Application Number	
Date Received	

A. General information

1. Type of Application

New licence	☒
Renewal	☐
Amendment to an existing Licence	☐

2. Applicant

Please provide the following information about the Applicant

Full Legal Name of Applicant	Ontario Corporation Number, Canadian Corporation Number or Business Registration Number	Date of Formation or Incorporation
2472883 Ontario Limited on behalf of Wataynikaneyap Power LP	BIN: 250676426	July 6, 2015

Business Address:

c/o Shibogama First Nations Council, P.O. Box 449, 81 King St.

City	Prov.	Country	Postal/Zip Code
Sioux Lookout	ON	Canada	P8T 1A5

Phone Number	FAX Number	E-Mail Address (if applicable)
807-737-2662	807-737-1583	

3. Primary Contact for this Application

Please provide the following information about the Primary Contact for this Application:

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _______	Last Name: Keizer	Full First Name: Charles	Initial:
	Position Held: Partner		

Contact Address (if R.R., give Lot, Concession No. and Township) Torys LLP, 79 Wellington St. W., 30th Floor, Box 270, TD South Tower			
City Toronto	Province Ontario	Country Canada	Postal/Zip Code M5K 1N2
Phone Number 416-865-7512	FAX Number 416-865-7380	E-mail Address (if applicable) ckeizer@torys.com	

4. Transmission Facilities

Please provide a description of the transmission facilities involved in this Application:

Please see Appendix - Response #4, attached hereto.

B. Corporate Information

Organizational

5. Business Classification

Please indicate the Applicant's Business Classification (check appropriate type below):

- ☐ Sole Proprietor
- ☐ Partnership
- ☐ Corporation
- ☒ Other (describe) General Partnership on behalf of a Limited Partnership

6. Business Activities

Please provide a description of the Applicant's business activities:

The Applicant is 2472883 Ontario Limited ("Wataynikaneyap Power GP"), an Ontario corporation, on behalf of Wataynikaneyap Power LP, an Ontario limited partnership. The Applicant intends to carry on the business activities initiated by Wataynikaneyap Power Corporation, which activities have been associated with the planning and development of the Transmission System in northwestern Ontario. To this end, the Applicant has, through a recent restructuring, acquired the development assets relating to the project from Wataynikaneyap Power Corporation, including the approved environmental assessment Terms of Reference for Phase 1. The Applicant will continue with such planning and development activities, and will engage in business activities relating to the construction, ownership, operation and maintenance of the Transmission System. Accordingly, the Applicant's near term business activities are expected to include, but not be limited to, working towards completion of environmental assessment requirements, continuing to engage in stakeholders consultations and working towards filing an application for leave to construct the Transmission System. Subject to being granted leave to construct the Transmission System, it would be the Applicant's further intention to complete the development and construction of the relevant facilities, as well as to operate and maintain those facilities and to finance and recover costs and prudent transmission investments through the Board's established electricity transmission rate-setting processes.

7. Affiliates of the Applicant

a) Please provide the following information for all Affiliates of the Applicant:

Full Legal Name of Affiliate Company: 2472881 Ontario Limited ("First Nation GP")

Pursuant to the meaning of "affiliate" under Section 1 of the Ontario *Business Corporations Act*, the Applicant has no energy sector affiliates. The Applicant is Wataynikaneyap Power GP on behalf of Wataynikaneyap Power LP. Wataynikaneyap Power GP is controlled by 2472881 Ontario Limited ("First Nation GP"). As such, the only affiliate of the Applicant is First Nation GP, which is not a regulated entity in the energy sector.

Business Address: c/o Shibogama First Nations Council, P.O. Box 449, 81 King St.

City	Prov.	Country	Postal/Zip Code
Sioux Lookout	Ontario	Canada	P8T 1A5

Phone Number	FAX Number	E-Mail Address (if applicable)

Description of Business Activities:

Please see Appendix - Response #7(a), attached hereto.

b) Please attach a Corporate organization chart describing the relationships between the Applicant and its Affiliates and, if applicable, the respective ownership percentages by the Applicant in each Affiliate.

Corporate structure charts showing the broader organizational structure of the Applicant and its limited partners, including their respective affiliates, are attached hereto as **Schedule 'C'**.

8. Energy Sector Activities

Has the Applicant or an Affiliate undertaken any energy sector activities in Ontario or any other jurisdiction? If yes, please provide the following information for each: Please see Part 9 regarding the energy sector activities of the limited partners and their respective affiliates.	Yes ☐ No ☒
Full Legal Name of Company:	Licence/Registration Number:
Jurisdiction:	Type of Business Activity (e.g. Generation, Transmission, Distribution):

Technical Capability and Experience

9. Technical Ability

a) Please describe the applicant's technical ability to carry out the activities applied for including the Applicant's specific experience in Ontario and in other jurisdictions.

Please see Appendix - Response #9(a), attached hereto.

b) If the Applicant intends to utilize the capability of others by contracting transmission activities, please indicate below which activities and to whom they will be contracted:

☒ Design	Contracted to: Qualified Contractor
☒ Construction	Contracted to: Qualified Contractor
☒ Customer Connection	Contracted to: Qualified Contractor
☒ Inspection & Maintenance	Contracted to: Qualified Contractor
☒ Operation	Contracted to: Qualified Contractor
☒ Other (describe) Project Management	Contracted to: Fortis-RES PM Inc.

10. Information About Each Key Individual

Mr. ☐ Mrs. ☐ Miss ☐ Ms. ☒ Other: ________	Last Name: Kenequanash	Full First Name: Margaret	Initial:
	Position Held: Director (Chair)		

Please explain the person's experience in the electrical transmission business and in the energy field in general.

[redacted]

a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the *Ontario Energy Board Act, 1998.*

Yes ☐ No ☐ [redacted]

If yes, provide business names and licence number(s) and describe the individuals specific related experience.

b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation?

Yes ☐ No ☐ [redacted]

If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.

c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled?

Yes ☐ No ☐ [redacted]

If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.

Note:
Attach a copy of Item 10 for each Key Individual: Officer and Director, Partner or sole Proprietor.

10. Information About Each Key Individual

Mr. ☒ Mrs. ☐	Last Name: McKay	Full First Name: Frank	Initial:
Miss ☐ Ms. ☐ Other: ________	Position Held: Director and Vice-President - Government Relations		

Please explain the person's experience in the electrical transmission business and in the energy field in general.

[redacted]

a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the *Ontario Energy Board Act, 1998.*

Yes No [redacted]

If yes, provide business names and licence number(s) and describe the individuals specific related experience.

b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation?

Yes No [redacted]

If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.

c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled?

Yes No [redacted]

If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.

Note:
Attach a copy of Item 10 for each Key Individual: Officer and Director, Partner or sole Proprietor.

10. Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: ________	Last Name: Hawkes	Full First Name: Scott	Initial:
	Position Held: Director, President and Secretary		

Please explain the person's experience in the electrical transmission business and in the energy field in general.

[redacted]

a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the *Ontario Energy Board Act, 1998.*

Yes No [redacted]

If yes, provide business names and licence number(s) and describe the individuals specific related experience.

[redacted]

b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation?

Yes No [redacted]

If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.

c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled?

Yes No [redacted]

If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.

Note:
Attach a copy of Item 10 for each Key Individual: Officer and Director, Partner or sole Proprietor.

10. Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: ________	Last Name: Vaninetti	Full First Name: Jerry	Initial:
	Position Held: Director and Vice President - Development		

Please explain the person's experience in the electrical transmission business and in the energy field in general.

[redacted]

a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the *Ontario Energy Board Act, 1998.*

Yes No [redacted]

If yes, provide business names and licence number(s) and describe the individuals specific related experience.

b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation?

Yes No [redacted]

If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.

c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled?

Yes No [redacted]

If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.

Note:
Attach a copy of Item 10 for each Key Individual: Officer and Director, Partner or sole Proprietor.

10. Information About Each Key Individual

Mr. ☒ Mrs. ☐	Last Name: Cutfeet	Full First Name: John	Initial:
Miss ☐ Ms. ☐ Other: ________	Position Held: Vice President - Communications		

Please explain the person's experience in the electrical transmission business and in the energy field in general.

[redacted]

a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the *Ontario Energy Board Act, 1998.*

Yes No [redacted]

If yes, provide business names and licence number(s) and describe the individuals specific related experience.

b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation?

Yes No [redacted]

If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.

c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled?

Yes No [redacted]

If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.

Note:
Attach a copy of Item 10 for each Key Individual: Officer and Director, Partner or sole Proprietor.

11. Financial Information

Please attach financial statements of the Applicant for each of the past two fiscal years. This may include audited financial statements, annual reports, prospectuses or other such information. See Schedule "D".

Transmission Facilities Information

12. Facilities

Please indicate whether the Applicant's transmission facilities are:

[X] New assets to be constructed?	Proposed In-service date: December 2019 for Phase One and March 2024 for Phase Two. Please attach a statement explaining the financing arrangements.
[ ] Existing assets presently owned by the Applicant?	
[ ] Existing assets not presently owned by the applicant (i.e. to be purchased)?	Please indicate from whom assets will be purchased:
[ ] Other (describe)	

13. Purpose of Facilities

Please indicate the intended purpose(s) of the Applicant's transmission facilities:

- [ ] To provide a connection between a generator and a transmission system.
- [X] To provide a connection between a transmission system and a load customer.
- [ ] To provide a connection between a generator and a load customer.
- [X] To provide a connection between one transmission system and another
- [ ] To import or export power
- [X] Other (please describe): To enable connection of remote First Nations communities to the provincial grid, enhance opportunities for the development and connection of clean and renewable generation facilities over the long term, and reinforce and enhance reliability on the existing transmission system to accommodate these outcomes.

If parties other than the Applicant are involved, please indicate the specific names of the participants (generator, load customer, transmission system(s):

The Applicant's Phase One facilities will provide a connection between Hydro One Networks Inc.'s transmission system and the portion of the Applicant's Phase Two facilities running north from Pickle Lake. The Applicant's Phase Two facilities will serve the distribution systems that are currently operated either by HORCI or IPAs (see response to part 7(a), above). It is the Applicant's expectation that all communities connecting to the Transmission System will be served by licensed electricity distributors.

14. Location of Facilities

Please indicate the location (township or other such description as appropriate) of the Applicant's transmission facilities and attach a single-line diagram indicating the length (km), capacity (MW) and operating voltage (kV) of each element.

Please see Appendix - Response #14, attached hereto.

15. Licensing History

	Yes	No
Has the Applicant obtained Ontario Energy Board, National Energy Board, Federal Energy Regulatory Commission or any other regulatory approvals required for the acquisition, construction or operation of the transmission facilities?	☐	☒

If no, please indicate the status and plans for seeking these approvals.

The Applicant intends to file an application in approximately January 2017 with the Ontario Energy Board for leave to construct the planned Transmission System. Thus far, the Applicant has obtained approval from the Ministry of the Environment and Climate Change for the Terms of Reference in respect of Phase One.

16. Service to other parties

If the transmission facilities are to be used to deliver electricity to a party other than the Applicant please attach the following:

a) a summary of business plans relating to the Applicant's proposed transmission business for the next five years. This should include the following:
   - a forecast of annual peak demand (MW) and energy (MWH) transmitted and/or transformed.
   - annual pro forma financial statements including forecasts of costs, revenues and project financing indicating the underlying assumptions on which the forecasts are based. Please see Appendix - Response #16, attached hereto.

b) estimates of net annual cash flows for subsequent periods to demonstrate financial feasibility and security.

c) indication of the Applicant's plans to seek Ontario Energy Board approval for rates for transmission services.

17. Proposed business transactions impact

Please provide a brief summary of the expected impact of the proposed business transactions on the Ontario electricity market under the following headings:

- Facilitate competition and enhance access to transmission services
- Improve reliability and quality of supply
- Promote economic and efficient electrical energy supply

Please see Appendix - Response #17, attached hereto.

Other Information

18. Ontario market activities

Please indicate whether the Applicant intends to be involved with other electricity sector activities in the Ontario market?		
☐ Buy or Sell (Wholesale) electricity	Yes ☐	No ☒
☐ Distribute electricity	Yes ☐	No ☒
☐ Retail electricity	Yes ☐	No ☒
☐ Generate electricity	Yes ☐	No ☒
If yes to any of the above: a) If affiliates have not yet been established, please indicate when this is planned ____		
b) Has Applicant or an affiliate applied for an Ontario Energy Board Licences? – If no, when planned? ____	Yes ☐	No ☐

C. Notice and Consent

AS REQUIRED BY THE FREEDOM OF INFORMATION AND PROTECTION OF INDIVIDUAL PRIVACY ACT

In order to complete or verify the information provided on this form, it may be necessary for the Ontario Energy Board to collect additional information from some or all of the following sources: federal, provincial/state and municipal governments; licensing bodies; banks; professional and industry associations; and former and current employers. **Only information relevant to your application will be collected.**

The public official who can answer questions about the collection of information is:

Board Secretary
Ontario Energy Board
2300 Yonge Street, P.O. Box 2319
Toronto, Ontario M4P 1E4

Note: The issuance of an electricity transmitter licence does not guarantee accreditation by the IESO, or connection to a transmission or distribution system.

NOTE: This application must be signed by the proprietor or by at least one partner, officer or director of the organization.

WARNING: It is an offence to knowingly provide false information on this application.

I/We consent to the collection of this information as authorized under the *Ontario Energy Board Act, 1998*. Yes ☑

I/We understand that this information will be used to determine whether I am/we are and remain qualified for the licence for which I am/we are applying. Yes ☑

Print Name and Title	Signature of Applicant(s)	Date Signed
Margaret Kenequanash Director	[signature]	Sept 4, 2015

D. Acknowledgement

NOTE: This acknowledgement must be signed by the proprietor or by at least one partner, officer or director of the organization.

I understand and acknowledge that, as a licenced electricity transmitter, I will be required, unless otherwise exempted:

- To provide non-discriminatory access to all persons wishing to connect to the transmission system.
- To comply with all licence conditions including the provisions of:
  - The Ontario Energy Board Affiliate Relationships Code for Electricity Distributors and Transmitters
  - The Ontario Energy Board Transmission System Code
  - The Market Rules made under section 32 of the Electricity Act.

Print Name and Title	Signature of Applicant(s)	Date Signed
Margaret Kenequanash Director		Sept 4, 2015

APPENDIX - RESPONSE #4

TRANSMISSION FACILITIES

General Description

The Applicant is in the process of planning and developing, and intends to construct, own and operate, a new electricity transmission system in northwestern Ontario, in the area north of Dryden (the "Transmission System"). The Project is composed of two phases. The first phase of the project will consist of a new 300 km, 230 kV single circuit overhead transmission line from east of Dryden (Dinorwic) to Pickle Lake, including associated stations and ancillary facilities ("Phase One"). The second phase of the project will consist of approximately 905 km of new 115 kV and 44 kV transmission lines north of Pickle Lake, and approximately 595 km of new 115 kV and 44 kV transmission lines north of Red Lake, including associated stations and ancillary facilities ("Phase Two"). A map depicting the currently anticipated routing for the Transmission System, which routing is being considered through the environmental assessment process, is attached hereto as **Schedule 'A'**. A single-line diagram for the planned Transmission System is attached hereto as **Schedule 'B'**.

WPLP currently anticipates that 16 remote First Nations communities, all of which are Participating First Nations (as defined in Part 7(a), below), will connect to the provincial electricity grid upon completion of second phase of the project. In addition, the project is expected to provide opportunities for proponents to develop and connect renewable and clean energy projects, including in particular from waterpower, which would otherwise not be feasible.

Need for the Transmission System

The Transmission System is being developed to meet a recognized need. Moreover, as noted below, the connection of the remote First Nations communities to the Transmission System has been found to be economic. These aspects have been the focus of significant consideration and analysis over the past five years by the Province, the Independent Electricity System Operator, and the Ontario Power Authority, including through the Northwest Ontario First Nation Transmission Planning Committee, also as set out below.

Provincial Long Term Energy Plans

In the 2010 Long Term Energy Plan ("LTEP"), the Province identified a new line to Pickle Lake as a priority transmission project required for purposes of serving industry needs and to help future remote community connection. The Province noted that "Ontario's remote First Nation communities currently rely on diesel generation for their electricity supply — but diesel fuel is expensive, difficult to transport, and poses environmental and health risks. According to analysis done so far, transmission connection would be less expensive over the long term than continued diesel use for many remote communities. New transmission supply to Pickle Lake is a crucial first step to enable the connection of remote communities in northwestern Ontario . . . As part of this project, the government will also ask the OPA to develop a plan for remote community connections beyond Pickle Lake." (p. 50). Following this, the Province issued a Supply Mix Directive to the OPA on February 17, 2011, requiring the OPA to include a new line to Pickle Lake in its Integrated Power System Plan and requiring the OPA "to develop a plan for remote community connections beyond Pickle Lake."

In the 2013 LTEP, the Province indicated that "connecting remote northwestern First Nation communities is a priority for Ontario" (p. 7). The Province further explained that "a new line to Pickle Lake . . . is integral to regional needs and economic development. It will help serve new demand in the area north of Dryden, as well as provide increased capacity to connect remote communities north of Pickle Lake. Given its importance to the connection of remote communities, this project continues to be a key priority for Ontario" (p. 51). With respect to the remote communities, the 2013 LTEP states that the government "recognizes the unique problems faced by 25 remote First Nation communities in the province's northwest. They are not connected to the grid, and get their electricity from on-site generators burning diesel fuel. These are increasingly expensive sources of electricity that pollute the environment. For most communities, diesel fuel has to be brought in on ice roads in the winter, even though the shipping season is getting shorter because of warmer winters. When roads are not available, reliance on even more expensive airfreight is often the only option to bring in diesel fuel . . . The OPA's study shows that there is a strong economic case for connecting up to 21 of the remote First Nation communities with new transmission and distribution lines . . . (and that) grid connection could be 30% to 40% less expensive than the continued use of diesel fuel" (p. 70).

OPA Analysis re Remote Community Connections

A key report relating to the project is the *Technical Report for the Connection of Remote First Nation Communities in Northwest Ontario,* which was prepared by the OPA for the Northwest Ontario First Nation Transmission Planning Committee. An initial draft was issued in 2012 and an updated draft was issued on August 21, 2014. This report provides a summary of the OPA's technical analysis and provides a baseline of options for the remote community connection plan, which is intended to establish the technical and economic viability of connecting remote communities to the provincial grid. The report notes that diesel generation is 3 to 10 times more expensive than the average cost of the provincial supply mix. In addition, the volume of diesel fuel required for electricity generation, based on forecast demand in the remote communities, is expected to increase by 450% over the next 40 years and, because winter roads are approaching capacity, a greater percentage would require much more costly delivery by air. The report concludes that, based on the avoided cost of diesel, there is an economic case for connecting up to 21 of the 25 remote communities to the grid.

As noted, 15 of these 21 communities are Participating First Nations that indirectly control WPLP through First Nation LP. This would save approximately $1B over the 40 year planning period relative to continued diesel supply, and would result in a 20-25 year payback period, which is reasonable for electricity infrastructure that is expected to last 50 years without refurbishment. This analysis does not reflect the additional economic, societal, developmental or environmental benefits that would result. The report further concludes that radial lines from supply points at Red Lake, Pickle Lake and/or Marathon/Nipigon to the communities would provide the best overall balance of cost, operability and reliability. Finally, the report notes that the financial benefits would accrue to those currently funding the systems in these communities, namely the federal government and Ontario electricity customers.

IESO's North of Dryden Integrated Regional Resource Plan

Another key report is the IESO's *North of Dryden Integrated Regional Resource Plan*, which was issued in draft on August 16, 2013 and in final form on January 27, 2015. The purpose of this Plan is to identify the near-term and medium- to long-term electricity supply needs for the planning area and assesses options available to address those needs in a timely, reliable and cost-effective manner. The Plan identified a near-term need for additional Load Meeting Capability in the transmission system currently serving the Red Lake and Pickle Lake subsystems. The Plan also identified that the majority of the forecasted growth is expected to occur in the medium-term, which is the period in which remote communities and new mines are expected to develop and connect to the transmission system. Ultimately, the Plan recommends a solution that is consistent with Phase One of the Applicant's planned Transmission System.

Support for Renewables and Clean Energy

The IESO's *North of Dryden Integrated Regional Resource Plan* noted that the Transmission System will provide opportunities for proponents to develop run of river hydroelectric and other renewable resources that are otherwise not feasible. This conclusion is consistent with the findings in several internal studies prepared on the Applicant's behalf during the pre-development phase of the project, which identified a significant number of clean energy projects and sites (primarily waterpower) that could become economically viable once the Transmission System is in place.

APPENDIX - RESPONSE #7(a)

AFFILIATES OF THE APPLICANT

Description of Business Activities for First Nation GP: First Nation GP is an Ontario company (2472881 Ontario Limited) and is the general partner of First Nation LP, an Ontario limited partnership. The shares of First Nation GP, as well as the limited partnership interests in First Nation LP, are held directly by 20 First Nations (the "Participating First Nations") in equal shares. The primary business activity of First Nation GP is holding the investments of the Participating First Nations, through First Nation LP, in WPLP. As indicated below, the Participating First Nations include 16 communities that currently rely on diesel generation and 4 communities that are grid-connected. Of the 16 communities that rely on diesel generation, 9 are currently served by Hydro One Remote Communities Inc. ("HORCI"), 6 are currently served by community-owned, non-regulated, independent power authorities ("IPAs") and 1 does not currently have any community-based electricity supply. These are the 16 communities that are currently expected to connect to the Transmission System. The Participating First Nations are as follows:

Diesel Generation

Served by HORCI

- Bearskin Lake First Nation
- Deer Lake First Nation
- Kasabonika Lake First Nation
- Kingfisher Lake First Nation
- Kitchenuhmaykoosib Inninuwug First Nation
- North Caribou First Nation
- Sachigo Lake First Nation
- Sandy Lake First Nation
- Wapekeka First Nation

Served by IPAs

- Keewaywin First Nation
- Muskrat Dam First Nation
- North Spirit Lake First Nation
- Poplar Hill First Nation
- Wawakapewin First Nation
- Wunnumin Lake First Nation

No Community Supply

- McDowell Lake First Nation

Grid Connected

- Cat Lake First Nation
- Lac Seul First Nation
- Slate Falls First Nation
- Wabigoon Lake Ojibway Nation

APPENDIX - RESPONSE #9(a)

TECHNICAL ABILITY

As indicated in response to Part 6, the Applicant is Wataynikaneyap Power GP on behalf of Wataynikaneyap Power LP, a limited partnership established for the purpose of planning, developing, constructing, owning, operating and maintaining the Transmission System. The limited partnership interests of Wataynikaneyap Power LP are held 51% by First Nation LP and 49% by Fortis-RES LP. The general partnership interest in Wataynikaneyap Power LP is held by 2472883 Ontario Limited ("Wataynikaneyap Power GP"), the shares of which are held 51% by 2472881 Ontario Limited ("First Nation GP") and 49% by Fortis-RES GP Inc. In addition, the Applicant has entered into a Management Agreement with Fortis-RES PM Inc. (the "Project Manager"), which is held equally by FortisOntario Inc. and RES Canada Transmission Holdings Inc. Each of the limited partners, along with their respective affiliates, including the Project Manager, brings unique skills, resources and experience to Wataynikaneyap Power LP, including with respect to technical and financial capabilities, project development capabilities, Aboriginal engagement and stakeholder relationship capabilities, as follows.

First Nation LP / First Nation GP

First Nation LP and First Nation GP hold controlling interests in Wataynikaneyap Power LP and Wataynikaneyap Power GP, respectively. The shares of First Nation GP, as well as the limited partnership interests in First Nation LP, are held directly by the 20 Participating First Nations, which are listed in part 7(a), above.

Through a preliminary project organization, known as Wataynikaneyap Power Corporation, the Participating First Nations undertook all aspects of the early project development work for the Transmission System, including Aboriginal engagement with the affected communities and extensive stakeholdering with key regulators and governmental authorities. This early development work also included formation of the current project organization, data collection, development of transmission line routing and technical parameters, engagement of environmental and technical consultants and obtaining approval from the Ministry of the Environment and Climate Change for the Environmental Assessment Terms of Reference in respect of Phase One.

In addition to the experience and expertise derived from this early development work, the Participating First Nations have traditional territories that are situated along the Transmission System corridors. As such, through the Participating First Nations, First Nation LP has a very high level of experience and expertise with respect to the geographic area in which the Transmission System will be situated and the environmental attributes that will potentially be affected. In addition, the Participating First Nations possess a unique capability for working with potentially affected land users/rights holders, communities and others that may be affected by the project.

Fortis-RES

The limited partnership interests in Fortis-RES LP are held equally by Fortis Inc. and RES Canada Transmission Holdings LP. The shares the general partner, Fortis-RES GP Inc., are held equally by FortisOntario Inc. and RES Canada Transmission Holdings Inc.

The Project Manager, with whom the Applicant has entered into a Management Agreement, is held equally by FortisOntario Inc. and RES Canada Transmission Holdings Inc. The Project Manager is responsible for managing the development, construction, operation and maintenance of the Transmission System, including during the development period, the construction period, once it becomes operational and during any required refurbishment, rebuild or decommissioning that may be required in the future.

The technical experience and expertise of these partners and their affiliates, including the Project Manager, is set out below.

Fortis

FortisOntario Inc., an affiliate of Fortis Inc., owns and operates Canadian Niagara Power Inc. (“CNPI”), Cornwall Street Railway Light & Power Company Ltd. (“Cornwall Electric”) and Algoma Power Inc. (“Algoma”). CNPI is a licensed and rate-regulated transmitter (ET-2003-0073) whose transmission facilities are interconnected with Hydro One Networks Inc. in Niagara Falls, Ontario, as well as with US National Grid in New York State. CNPI provides transmission service in and around Fort Erie, Ontario. CNPI is also a licensed distributor (ED-2002-0572) that provides electricity distribution service to the Town of Fort Erie, the City of Port Colborne and the Town of Gananoque. Algoma is a licensed distributor (ED-2009-0072) that serves customers in northern Ontario, north and east of the City of Sault Ste. Marie. Cornwall Electric is a licensed distributor (ED-2004-0405) that serves customers in Cornwall, Ontario. Together, these entities serve a total of over 65,000 customers and operate approximately 3,300 km of transmission and distribution lines. FortisOntario also owns a 10 per cent strategic interest in Westario Power, Rideau St. Lawrence, and Grimsby Power, three regional distribution companies serving approximately 40,000 customers.

With respect to its significant recent development activity, Fortis Inc. has recently completed a several key projects. For example, in 2015 through a partnership with Columbia Power Corporation and Columbia Basin Trust, Fortis completed a 335 MW hydroelectric generating facility in British Columbia at an estimated cost of $900M. This project included construction of a 10 km, 230 kV transmission line. In 2011, Fortis Inc.’s subsidiary FortisBC completed its approximately 40 km, 230 kV Okanagan Transmission Reinforcement Project at a cost of approximately $100M. In 2011, FortisBC also completed the development of a liquefied natural gas facility and associated infrastructure, including a substation, 5 km 25kV power line and two 5 km natural gas transmission lines at an approximate cost of $200M.

Fortis Inc. is a leading North American electricity and gas utility company with total assets of approximately $28B and fiscal 2014 revenue of $5.4B. Its regulated utilities serve more than 3 million customers across Canada, the United States and the Caribbean. Fortis Inc. currently operates a total of approximately 9,000 km of electricity transmission lines and 177,000 km of electricity distribution lines. It is a member of the Utilities Standards Forum, has dedicated engineering staff that has expertise with respect to a wide range of technical codes, standards and guidelines and has a sophisticated organization for material and equipment procurement. Fortis has significant experience with the acquisition and operation of rights-of-way. FortisOntario alone operates over 3000 km of right-of-way, of which nearly 2,000 km is situated in northern Ontario. FortisOntario also has significant experience with respect to permitting, licencing and regulatory matters. Fortis also has substantial construction experience, both in terms of its internal construction capabilities and in retaining and overseeing qualified construction contractors. Fortis owns and operates multiple operation centres across Canada, including six in Ontario. Its day-to-day system operations are managed from two control rooms within Ontario. Through CNPI, Fortis also has significant experience with the long-term assessment and management of transmission assets, including vegetation management, as well as with respect to environmental, health and safety compliance, regulatory compliance, community relations, human resources and finance.

RES

Renewable Energy Systems Canada Inc. ("RES Canada") owns and operates generation facilities in Ontario, and is a subsidiary of Renewable Energy Systems Holdings Ltd. ("RES Ltd."). Formed in the United Kingdom in 1982, RES Ltd. and its subsidiaries (collectively the "RES Group") are worldwide leaders in renewable energy, energy storage, and transmission development and construction, with total assets of more than $593 million and fiscal 2014 revenue exceeding $1.4 billion.

RES Canada, together with its affiliate, Renewable Energy Systems Americas Inc. ("RES Americas") (collectively, "RES") is one of the leading renewable energy companies in North America. RES has developed and/or constructed over 7,500 MW of wind, solar, and battery storage projects, and over 1,000 km of transmission lines at voltages up to 345 kV, in the U.S. and Canada, including of particular note the 345 kV, 230 kV Montana-Alberta Tie Line to provide an integrated intertie between U.S. and Canadian power markets. Through this experience, RES has developed expertise with respect to project management, stakeholder and community outreach, project planning, design and engineering, environmental assessment and permitting, transmission route assessment, regulatory approvals, material procurement, construction management, and project delivery.

In Ontario, RES Canada has developed and/or constructed 478 MW of wind generation projects, 70 MW of solar generation projects, and 4 MW of battery storage projects, including over 50 km of associated 230 kV transmission lines to interconnect generation facilities to the Ontario transmission system. This includes 10 km of 230 kV transmission to connect the Greenwich Wind Energy Project in Dorion, 34.3 km of 230 kV transmission to connect the South Kent Wind Farm in Chatham-Kent, and 10 km of 230 kV transmission to connect the Talbot Wind Energy Project in Chatham. While RES Canada owns a 50% stake in RES Canada Transmission LP, which holds Ontario Transmission Licence (ET-2011-0282), this licence is not in effect, as RES Canada Transmission LP does not own or operate transmission facilities in Ontario. In addition, RES Canada Energy Storage LP holds generation licence (EB-2013-0204) in connection with the Amphora Ontario Storage project.

The combined expertise, experience and resources of the Applicant, through its limited partners and their respective affiliates, including the Project Manager, provides the Applicant with a high level of technical and financial capability, expertise and experience with respect to the activities associated with this Application, including transmission planning, stakeholder consultations, project development, project management, as well as the construction, ownership, operation and maintenance of electricity transmission facilities.

APPENDIX - RESPONSE #14

LOCATION OF FACILITIES

The Transmission System will be situated in northwestern Ontario, generally in the area north of Dryden. Phase One will run 300 km, from the area east of Dryden (Dinorwic) north to Pickle Lake. Phase Two will include an approximately 905 km line running north from Pickle Lake, as well as an approximately 595 km line running north from Red Lake. A map depicting the currently anticipated routing for the Transmission System, which routing is being considered through the environmental assessment process, is attached hereto as **Schedule 'A'**. A single-line diagram for the planned Transmission System is attached hereto as **Schedule 'B'**.

APPENDIX - RESPONSE #16

SERVICE TO OTHER PARTIES

The Applicant's plans will be further articulated as part of its application for leave to construct the relevant facilities. Copies of the IESO's *North of Dryden and Remote Communities Feasibility Study* and its *North of Dryden Integrated Regional Resource Plan* are available at http://www.ieso.ca/Pages/Ontario's-Power-System/Regional-Planning/Northwest-Ontario/North-of-Dryden.aspx. The Applicant intends to seek OEB approval for transmission rates such that rates would be in place prior to the Phase 1 facilities going into service.

APPENDIX - RESPONSE #17

PROPOSED BUSINESS TRANSACTIONS IMPACT

Facilitate Competition and Enhance Access to Transmission Services

The Applicant's planned Transmission System will enhance access to transmission services by enabling the connection of remote First Nation communities that currently do not have access to the provincial electricity grid. Phase Two will involve connecting at least 16 remote First Nation communities north of Pickle Lake and north of Red Lake. Phase One will expand capacity and reinforce transmission between Dryden and Pickle Lake so as to accommodate Phase Two. In addition, the Transmission System will enhance opportunities for the development and connection of clean and renewable generation facilities over the long term.

Improve Reliability and Quality of Supply

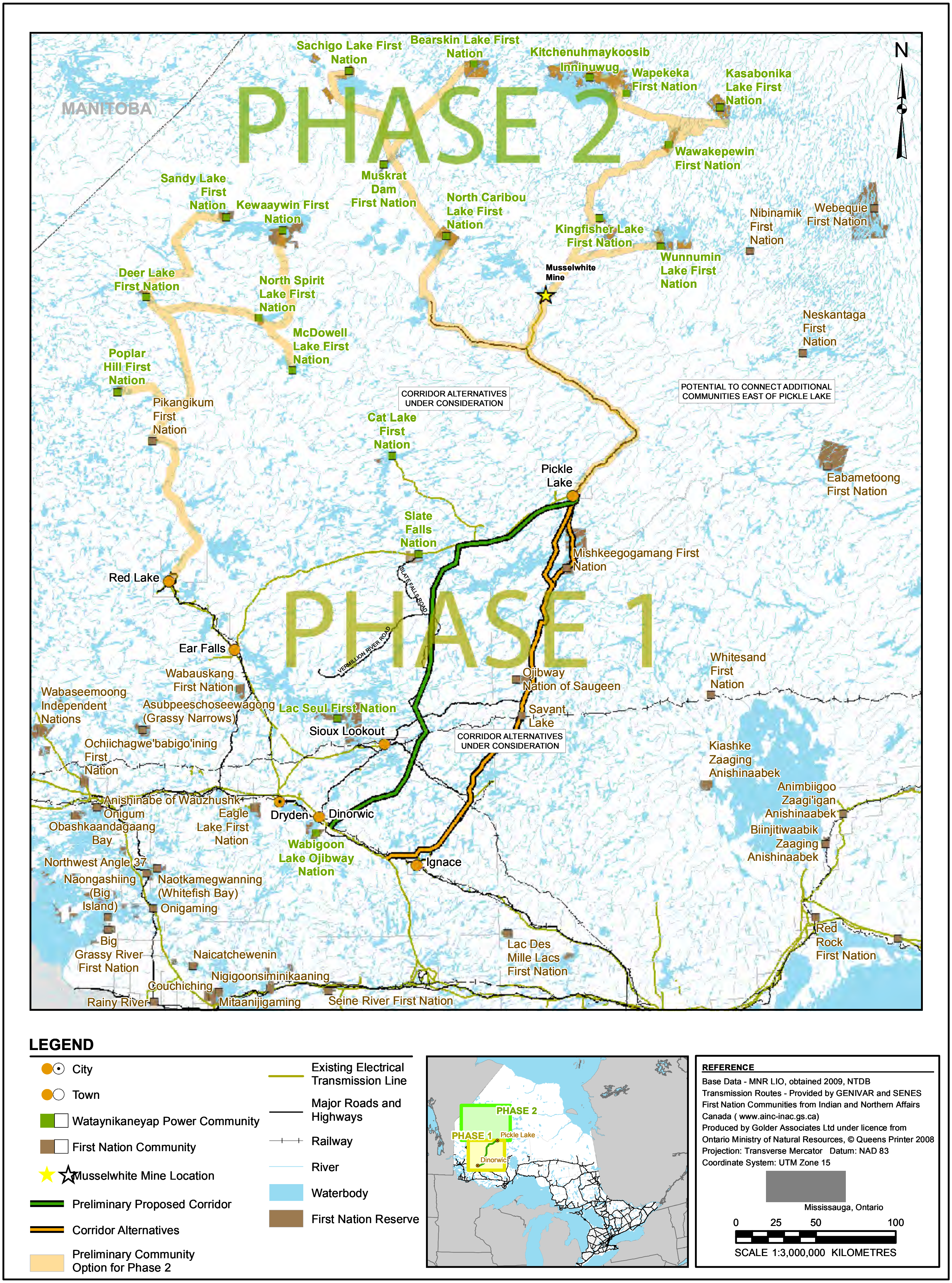
Phase One will enhance reliability of the grid between Dryden and Pickle Lake. The existing E1C line in this area is more than 70 years old, is operating at capacity and is susceptible to frequent and prolonged outages. Moreover, by enabling the connection of at least 16 remote First Nations communities, Phase Two will significantly enhance the reliability and quality of electricity supply for these communities, which are currently isolated from the grid and dependent on diesel generation.

Promote Economic and Efficient Electrical Energy Supply

The updated draft *Remote Community Connection Plan* was issued on August 21, 2014 (the "2014 Plan"). The 2014 Plan notes that there are a total of 27 remote First Nation communities in northwestern Ontario with electricity supply. Of these, two (Cat Lake and Slate Falls) were once supplied by diesel generation but have subsequently been connected to the grid. The 25 other remote First Nation communities are not connected to the grid and use local diesel generation. The 2014 Plan states that "diesel generation that is used to supply electricity in remote communities is on average the highest cost electricity generation resource currently supplying Ontario customers. Typically, diesel generation costs are three to ten times higher than the average cost of the provincial generation supply mix." As a result of the high cost for diesel-generated electricity supply, the 2014 Plan concludes that (a) there is an economic case for connecting up to 21 of the 25 remote communities in northwestern Ontario to the provincial grid, (b) connecting these 21 communities would result in savings of about $1B over 40 years relative to their continued supply from diesel generation, and (c) that the $1B of savings only reflects the avoidable cost of diesel fuel and system expansion and not the additional economic, societal, developmental and environmental benefits that would also arise from connection of the remote communities. See also response to Part 4, above.

<u>SCHEDULE 'A'</u>

Transmission System Map

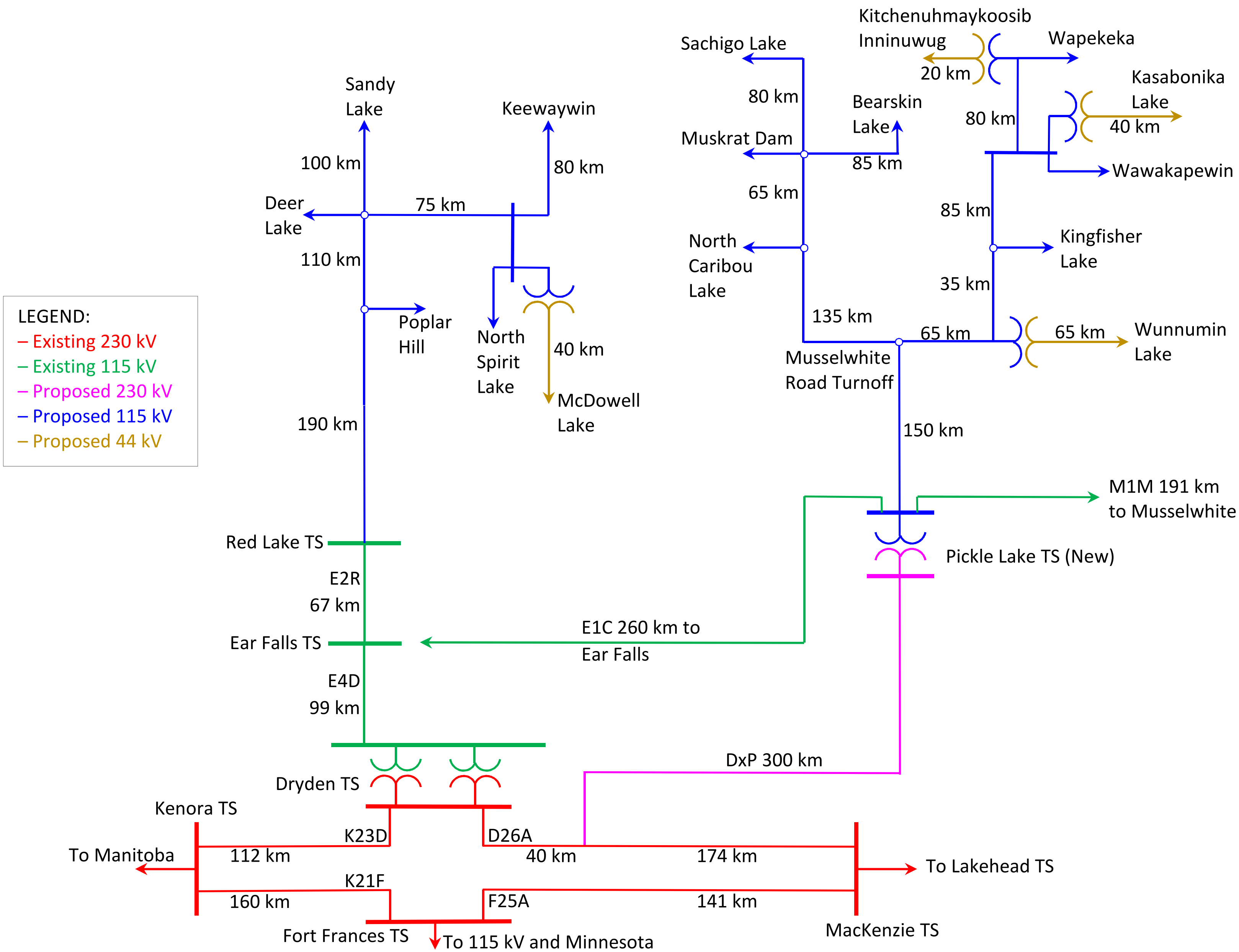


G:\Projects\2011\11-1151-0456_Dryden_To_PickleLake_TransmissionLine\GIS\MXDs\Working\StakeholderConsultation_AboriginalEngagement\WorkPlan\Round3_EngagementWorkshop\Phase1_2_Areas.mxd

SCHEDULE 'B'

Single Line Diagram

Representative Single-Line Diagram – Wataynikaneyap Transmission Proposal



Notes

1. The following existing infrastructure detail is omitted for clarity:
- Generation Facilities
- Load details on E1C, E4D & E2R lines
- 115 kV lines in the Dryden/Ear Falls/Red Lake area other than E1C, M1M, E4D & E2R

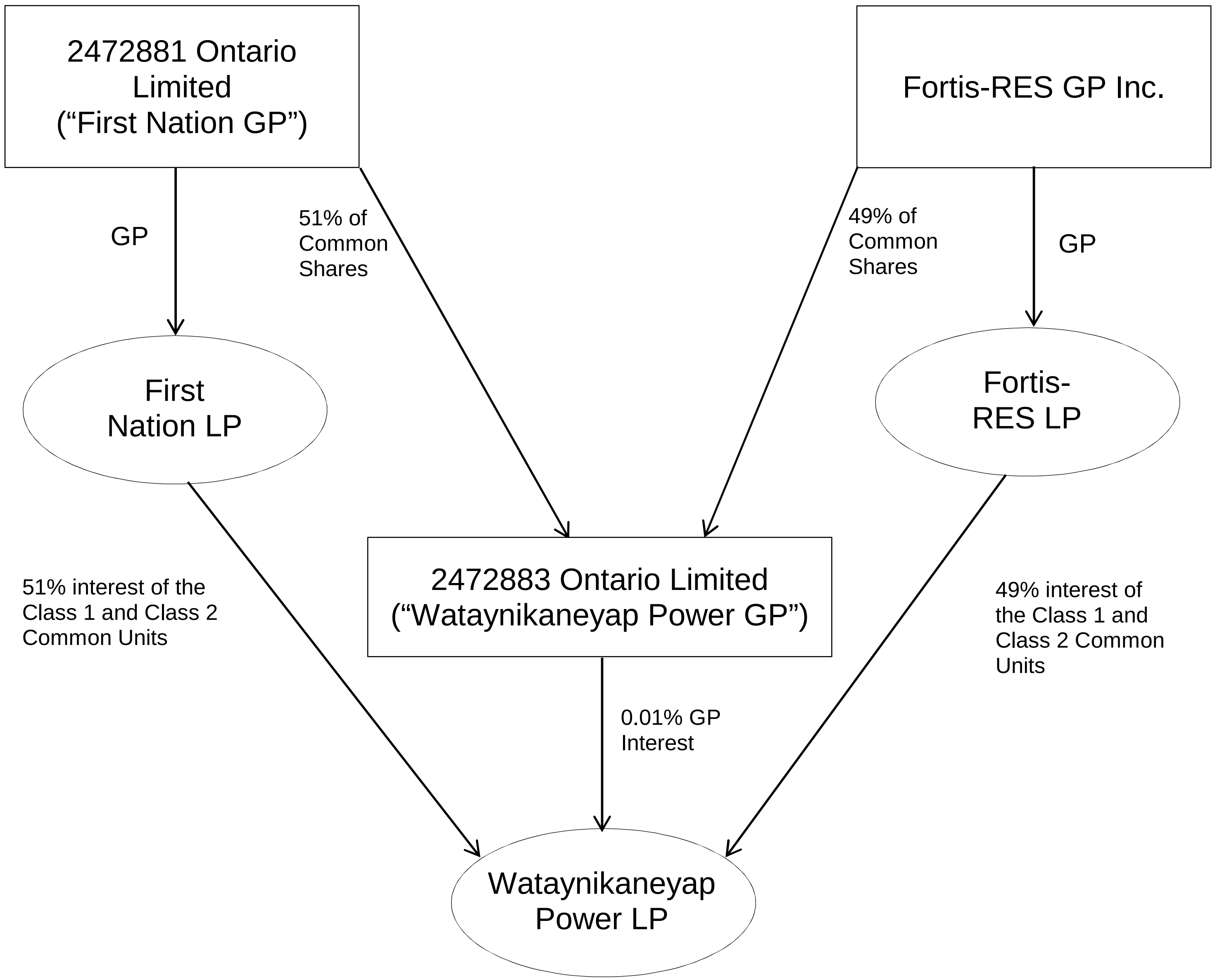
2. E1C is shown as radial from Pickle Lake to Ear Falls (Nomally open at Ear Falls TS) on completion of the proposed project.

SCHEDULE 'C'

Corporate Organization Charts

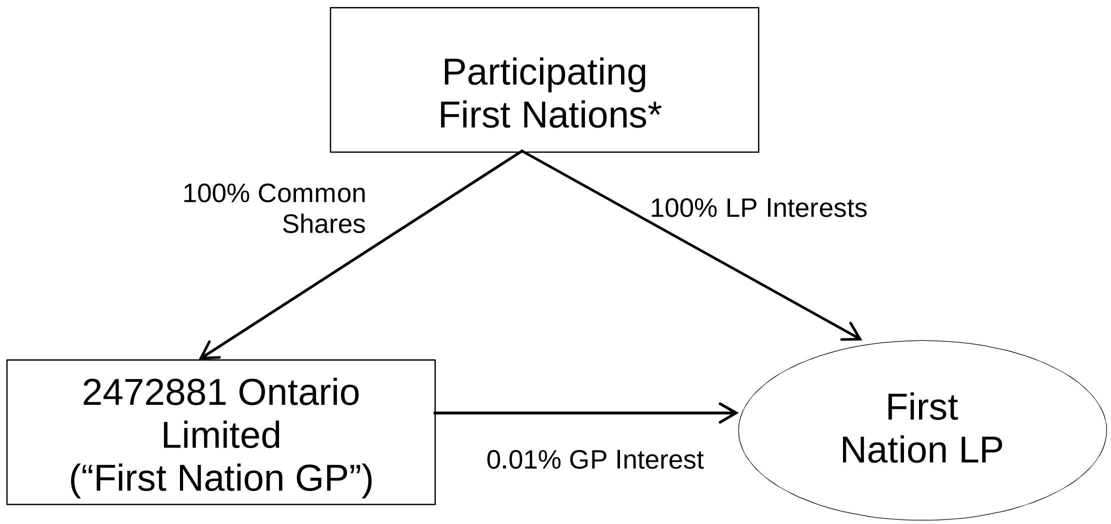
(i) Wataynikaneyap Power LP

OWNERSHIP OF WATAYNIKANEYAP POWER LP



(ii) First Nation LP

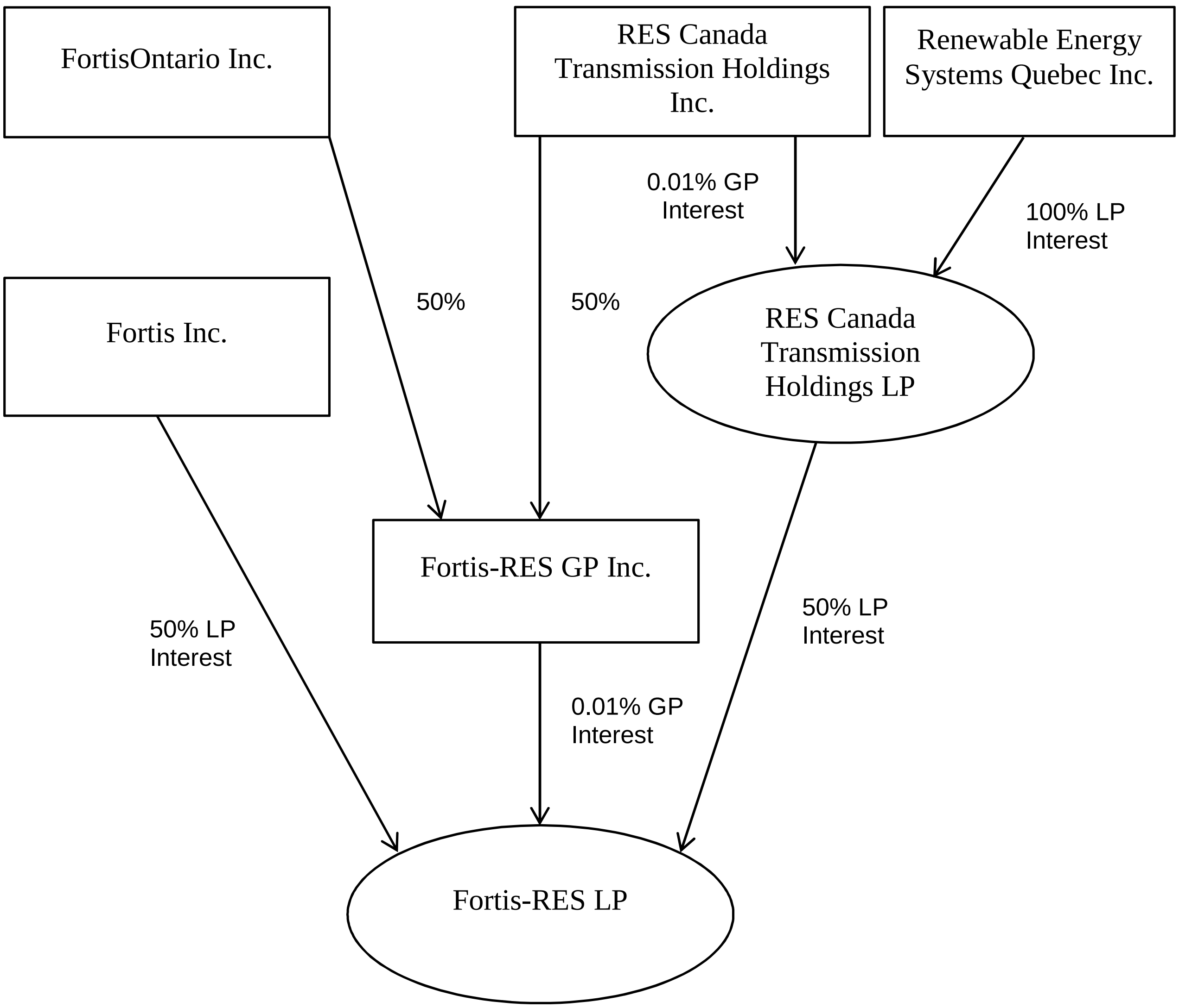
OWNERSHIP OF 2472881 ONTARIO LIMITED AND FIRST NATION LP



*The following twenty First Nations constitute the “Participating First Nations” with ownership interests in 2472881 Ontario Limited and First Nations LP. Each of these First Nations holds 5% of the Common Shares of 2472881 Ontario Limited and 5% of the limited partnership interests in First Nation LP: Bearskin Lake, Cat Lake, Kasabonika Lake, Kingfisher Lake, Kitchenuhmaykoosib Inninuwug, Lac Seul, Muskrat Dam, North Caribou Lake, Sachigo Lake, Slate Falls, Wapekeka, Wawakapewin, Wunnumin Lake, Deer Lake, McDowell Lake, Keewaywin, North Spirit Lake, Poplar Hill, Sandy Lake and Wabigoon Lake.

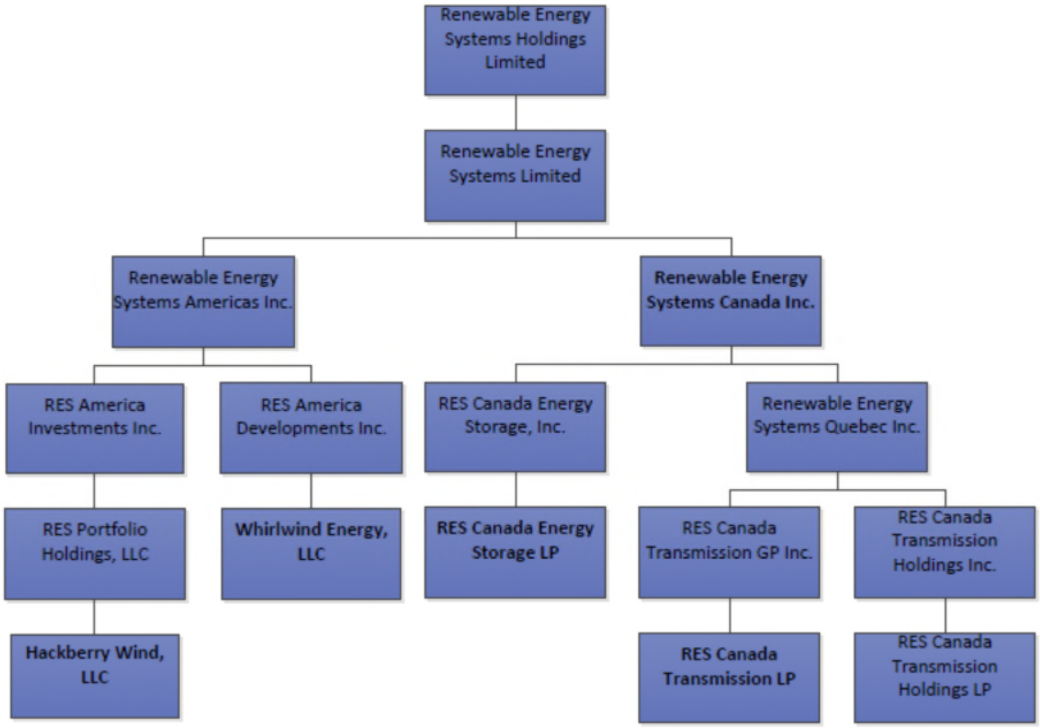
(iii) Fortis-RES LP

OWNERSHIP OF FORTIS-RES LP AND FORTIS-RES GP INC.



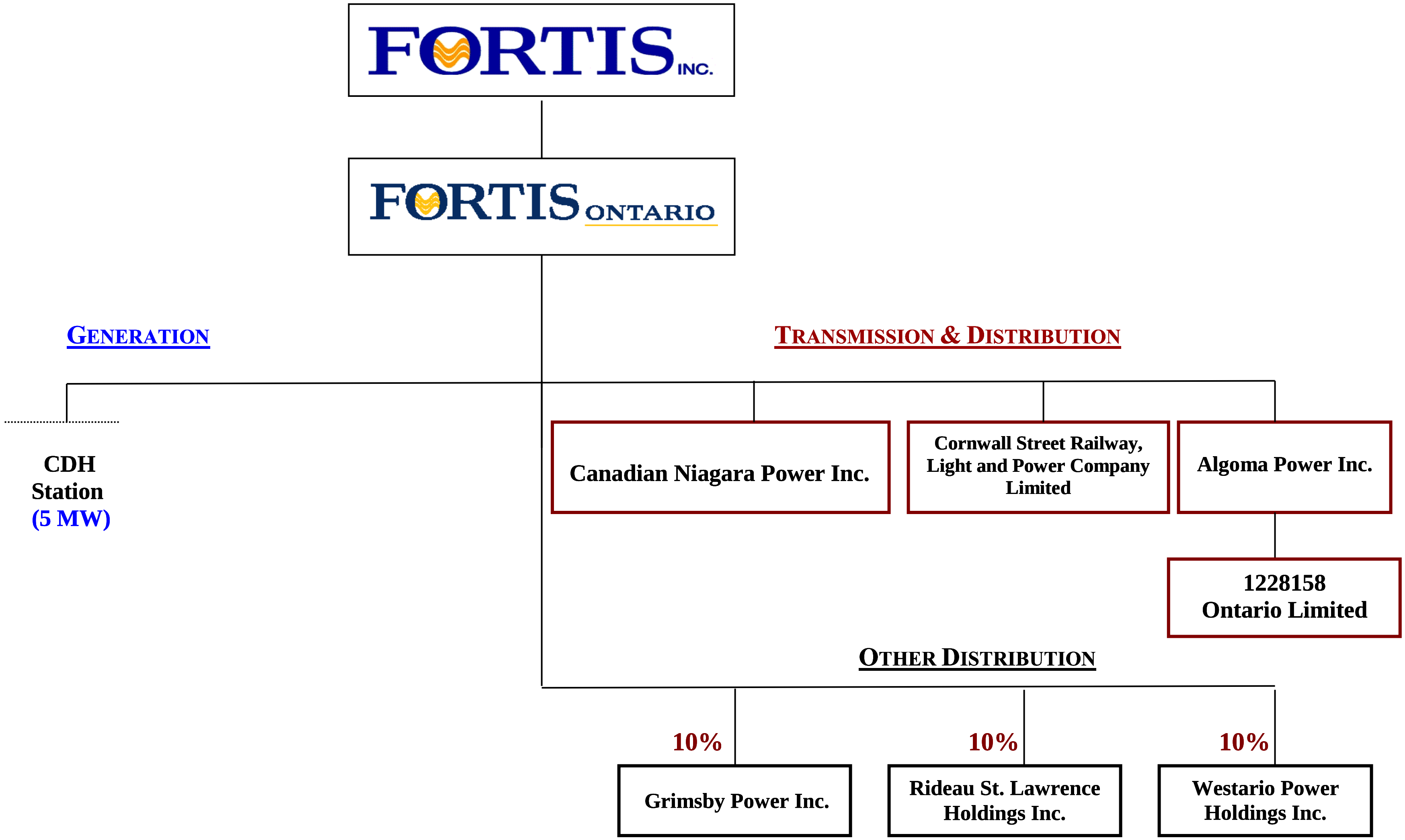
(iv) Renewable Energy Systems Holdings Limited

RES Corporate Structure



(v) Fortis Inc.

FORTISONTARIO INC. CORPORATE STRUCTURE



SCHEDULE 'D'

Financial Information

Note: As the Applicant is newly formed, financial information is provided for Wataynikaneyap Power Corporation (as the predecessor company to First Nation GP), as well as for FortisOntario Inc. and Renewable Energy Systems Canada Inc. (as the entities behind the newly formed Fortis-RES LP).

(i) Wataynikaneyap Power Corporation

- 2013 Audited Financial Statements

Wataynikaneyap Power Corporation
P.O. Box 449
Sioux Lookout, ON P0V 2T0

Holukoff Chiarella
Chartered Accountants
101-1180 Pembina Highway
Winnipeg, MB R3T 2A4

Dear Sirs:

We are providing this letter in connection with your audit of the financial statements of Wataynikaneyap Power Corporation as at December 31, 2013 and for the period then ended.

We understand that your audit was made in accordance with Canadian generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as you considered necessary in the circumstances for the purpose of expressing an opinion on the financial statements. We also understand that such an audit would not necessarily disclose misstatements and irregularities, should there by any.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

In connection with your audit of the financial statements of Wataynikaneyap Power Corporation for the year period ended December 31, 2013, we hereby confirm that to the best of our knowledge and belief:

1. We are responsible for the fair presentation of the financial statements of the organization prepared in accordance with Canadian generally accepted accounting principles.

2. We are responsible for adopting sound accounting policies, establishing and maintaining internal controls to, among other things, help assure the preparation of the financial statements in conformity to Canadian generally accepted accounting principles and our aforementioned basis of accounting and preventing and detecting fraud.

3. We have made available to you, all:
   - financial records and related data
   - minutes of the meetings of Council.

4. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.

5. We have approved the journal entries that were proposed by you in the course of your work and acknowledge that these journal entries have been recorded in the accounting records of the organization in the appropriate accounting period. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements. All financial statement misstatements identified and discussed with us in the course of the audit have been recorded.

6. There have been no:

   (a) Fraud or irregularities involving management or employees who have significant roles in internal control, whether or not perceived to have a material effect on the financial statements.

   (b) Fraud involving others that could have a material effect on the financial statements.

   (c) Violations or possible violations of laws or regulations (including the failure to file reports required by regulatory bodies) whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

7. We are aware of the environmental laws and regulations that impact on our organization and we are in compliance. There are no known environmental liabilities that have not been accrued for or disclosed in the financial statements.

8. There are no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

9. The following, where applicable, have been properly recorded or disclosed in the financial statements:

   (a) Changes during the period under review in the organization's accounting principles or practices.

   (b) Related-party transactions (e.g. transactions with unconsolidated subsidiaries, Chief and Councillors, directors, band members, management, and members of their immediate families) including sales, purchases, loans, transfers, leasing arrangements, guarantees and amounts receivable from or payable to related parties.

...3

(c) Guarantees, whether written or oral, under which the organization is contingently liable.

(d) All assets to which the organization has title and all known liabilities of the organization at period end.

(e) Information regarding the terms and conditions, interest rate risk and credit risk of financial instruments. There were no derivative or off-balance sheet financial instruments held at period end.

(f) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed (e.g. potential or pending claims, lawsuits, labour claims or negotiations or anticipated tax assessments).

(g) Major commitments such as capital asset purchase agreements, deferred compensation, bonuses, pensions and profit-sharing plans, purchase or sale of all or a portion of the business.

10. We have disclosed to you all significant customers and/or suppliers of the organization who individually represent a significant volume of transactions with the organization. Except as disclosed in the financial statements, where applicable, we are of the opinion that the volume of transactions (sales, services, purchases, borrowing or lending) done by the organization with any one party is not of sufficient magnitude that discontinuance would have a material negative effect on the ongoing operations of the organization.

11. The organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the financial statements, where applicable. Where the value of any asset has been impaired, an appropriate provision has been made in the financial statements.

12. Provision has been made for any material loss to be sustained in the fulfillment of, or from inability to fulfill, any sales commitments.

13. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.

14. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.

15. No events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

...4

16. We have provided all information on revenues and expenses and there are no additional revenues or expenses that have been reported by Windigo First Nations Council that should be included in or reported in these financial statements.

17. The minute books of the organization are a complete record of all meetings and resolutions of the Council throughout the reporting period and to the present date.

18. We have responded fully to all inquiries made to us by you during your examination.

Yours truly,

WATAYNIKANEYAP POWER CORPORATION

Signature Pat Beardy DIRECTOR

Signature __________________ DIRECTOR

Date Sept 27/14

DRAFT - SUBJECT TO CHANGE

WATAYNIKANEYAP POWER CORPORATION

FINANCIAL STATEMENTS

FOR THE PERIOD ENDED DECEMBER 31, 2013

WATAYNIKANEYAP POWER CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2013

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of Wataynikaneyap Power Corporation are the responsibility of management and have been approved by Board of Directors.

Management is responsible for the integrity and objectivity of the financial statements. Estimates are necessary in the preparation of these financial statements and, based on careful judgments, have been properly reflected. Management has established systems of internal control, which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

The financial statements have been audited by Holukoff Chiarella in accordance with Canadian generally accepted auditing standards on behalf of the Shareholders. Holukoff Chiarella have full and free access to the Board of Directors.

Pat Batiler

DIRECTOR

DIRECTOR

EXHIBIT "A"

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Wataynikaneyap Power Corporation

We have audited the accompanying financial statements of Wataynikaneyap Power Corporation, which comprise the balance sheet as at December 31, 2013 and the statements of operations and deficit and cash flows for the period 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 private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 company as at December 31, 2013, and its financial performance and its cash flows for the period then ended in accordance with Canadian accounting standards for private enterprises.

WINNIPEG, MANITOBA
, 2014

CHARTERED ACCOUNTANTS
LICENCED PUBLIC ACCOUNTANTS

DRAFT - SUBJECT TO CHANGE

WATAYNIKANEYAP POWER CORPORATION
BALANCE SHEET
AS AT DECEMBER 31, 2013

ASSETS

		2013
CURRENT ASSETS		
Cash in bank	$	11
Deferred expenses		4,714,628
	$	**4,714,639**

LIABILITIES

CURRENT LIABILITIES		
Accounts payable	$	1,695
Due to Shibogama First Nations Council		1,103
		2,798
Promissory note payable, Note 3		4,714,628

SHAREHOLDERS' EQUITY

SHARE CAPITAL		
Authorized		
Unlimited preferred and common shares		
Issued		
4 Common shares		4
DEFICIT		(2,791)
		(2,787)
	$	**4,714,639**

APPROVED BY THE BOARD:

Pat Butler DIRECTOR

DIRECTOR

WATAYNIKANEYAP POWER CORPORATION
STATEMENT OF OPERATIONS AND DEFICIT
FOR THE PERIOD ENDED DECEMBER 31, 2013

		2013
REVENUE		
Central Corridor Energy Group (CCEG)	$	2,529
EXPENSES		
Accounting and audit	$	1,695
Legal		3,605
Bank charges and interest		20
		5,320
NET LOSS FOR THE YEAR AND DEFICIT AT END OF THE YEAR	$	(2,791)

WATAYNIKANEYAP POWER CORPORATION
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED DECEMBER 31, 2013

		2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$	(2,791)
Change in non-cash working capital items		
Due to Shibogama First Nations Council		1,103
Promissory note payable		4,714,628
Deferred expenses		(4,714,628)
Accounts payable		1,695
		7
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuing of shares		4
NET CHANGE IN CASH POSITION and CASH POSITION AT END OF YEAR	$	11

WATAYNIKANEYAP POWER CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2013

1. SIGNIFICANT ACCOUNTING POLICIES

Incorporation and Purpose

The company was incorporated under the Corporations Act of Ontario by Articles of Incorporation dated April 2, 2013 to be set up to pursue the transmission Development Project in Northwestern Ontario.

These financial statements have been prepared in accordance with Canadian accounting standards for private enterprises, and include the following significant accounting policies:

a) Financial Instruments

The company's financial instruments consist cash in bank, and accounts payable. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risk arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

b) Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for private enterprises 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 revenue and expenditures during the reported period. Actual results could differ from management's best estimates as additional information becomes available in the future.

2. INCOME TAXES

At December 31, 2013 the company had unused non-capital losses for tax purposes of $2,791, which can be applied to offset future taxable income. The losses expire in 2033. The tax benefit of these losses has not been recognized in these financial statements.

WATAYNIKANEYAP POWER CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2013

3. PROMISSORY NOTE PAYABLE

Balance outstanding and owing on the Grid as defined by the Shareholders Agreement dated April 2, 2013. The principal balance owing is not subject to any interest.

Repayment

(a) Subject to Section (b), the Holder acknowledges and agree that: (i) the Issuer shall not be required at any time or from time to time to repay the Principal to the Holder in lawful money of Canada or any other legal currency; (ii) the Principal may only be treated as Recoverable Contributions pursuant to the terms of the Shareholders Agreement; and (iii) any Principal that is treated as a Recoverable Contribution pursuant to the terms of the Shareholders Agreement may only be offset against any Capital Contribution that the Holder may be required to pay to the Issuer in its capacity as a transmission customer of the Issuer. Any Principal that is not or cannot be treated as a Recoverable Contribution pursuant to the terms of the Shareholders Agreement shall be forgiven by the Holder.

(b) Notwithstanding Section (a), if a Customer Capital Contribution is not required to be made by the Holder, in its capacity as a transmission customer of the Issuer, to the Issuer, then the Holder may recover the Indebtedness from the Issuer over time for a term not to exceed 10 years.

4. SUBSEQUENT EVENT

Subsequent to year-end Central Corridor Energy Group, on behalf of 1876981 Ontario Inc., submitted a summary of expenses incurred from September 2008 through to June 2013, totaling $4,039,216. Once a final amount has been approved by the Board of Directors this will be set up as deferred expenses and a promissory note issued.

(ii) Wataynikaneyap Power Corporation

- 2014 Audited Financial Statements

WATAYNIKANEYAP POWER CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2014

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of Wataynikaneyap Power Corporation are the responsibility of management and have been approved by Board of Directors.

Management is responsible for the integrity and objectivity of the financial statements. Estimates are necessary in the preparation of these financial statements and, based on careful judgments, have been properly reflected. Management has established systems of internal control, which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

The financial statements have been audited by Holukoff Chiarella in accordance with Canadian generally accepted auditing standards on behalf of the Shareholders. Holukoff Chiarella has full and free access to the Board of Directors.

DIRECTOR

DIRECTOR

WATAYNIKANEYAP POWER CORPORATION
BALANCE SHEET
AS AT DECEMBER 31, 2014

ASSETS

	2014	2013
CURRENT ASSETS		
Cash in bank	$ 9,781	11
Deferred expenses	10,137,625	4,714,628
	$ **10,147,406**	**4,714,639**

LIABILITIES

	2014	2013
CURRENT LIABILITIES		
Accounts payable	$ 2,500	1,695
Due to Shibogama First Nations Council	9,288	1,105
	11,788	2,800
Promissory note payable, Note 3	10,137,625	4,714,628

SHAREHOLDERS' EQUITY

	2014	2013
SHARE CAPITAL		
Authorized		
Unlimited preferred and common shares		
Issued		
4 Common shares	2	2
DEFICIT	(2,009)	(2,791)
	(2,007)	(2,789)
	$ **10,147,406**	**4,714,639**

APPROVED BY THE BOARD:

_________________ DIRECTOR _________________ DIRECTOR

Wataynikaneyap Power Corporation
P.O. Box 449
Sioux Lookout, ON P0V 2T0

Holukoff Chiarella
Chartered Accountants
101-1180 Pembina Highway
Winnipeg, MB R3T 2A4

Dear Sirs:

We are providing this letter in connection with your audit of the financial statements of Wataynikaneyap Power Corporation as at December 31, 2014 and for the period then ended.

We understand that your audit was made in accordance with Canadian generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as you considered necessary in the circumstances for the purpose of expressing an opinion on the financial statements. We also understand that such an audit would not necessarily disclose misstatements and irregularities, should there by any.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

In connection with your audit of the financial statements of Wataynikaneyap Power Corporation for the year period ended December 31, 2014, we hereby confirm that to the best of our knowledge and belief:

1. We are responsible for the fair presentation of the financial statements of the organization prepared in accordance with Canadian generally accepted accounting principles.

2. We are responsible for adopting sound accounting policies, establishing and maintaining internal controls to, among other things, help assure the preparation of the financial statements in conformity to Canadian generally accepted accounting principles and our aforementioned basis of accounting and preventing and detecting fraud.

3. We have made available to you, all:
   - financial records and related data
   - minutes of the meetings of Council.

4. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.

5. We have approved the journal entries that were proposed by you in the course of your work and acknowledge that these journal entries have been recorded in the accounting records of the organization in the appropriate accounting period. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements. All financial statement misstatements identified and discussed with us in the course of the audit have been recorded.

6. There have been no:

   (a) Fraud or irregularities involving management or employees who have significant roles in internal control, whether or not perceived to have a material effect on the financial statements.

   (b) Fraud involving others that could have a material effect on the financial statements.

   (c) Violations or possible violations of laws or regulations (including the failure to file reports required by regulatory bodies) whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

7. We are aware of the environmental laws and regulations that impact on our organization and we are in compliance. There are no known environmental liabilities that have not been accrued for or disclosed in the financial statements.

8. There are no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

9. The following, where applicable, have been properly recorded or disclosed in the financial statements:

   (a) Changes during the period under review in the organization's accounting principles or practices.

   (b) Related-party transactions (e.g. transactions with unconsolidated subsidiaries, Chief and Councillors, directors, band members, management, and members of their immediate families) including sales, purchases, loans, transfers, leasing arrangements, guarantees and amounts receivable from or payable to related parties.

(c) Guarantees, whether written or oral, under which the organization is contingently liable.

(d) All assets to which the organization has title and all known liabilities of the organization at period end.

(e) Information regarding the terms and conditions, interest rate risk and credit risk of financial instruments. There were no derivative or off-balance sheet financial instruments held at period end.

(f) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed (e.g. potential or pending claims, lawsuits, labour claims or negotiations or anticipated tax assessments).

(g) Major commitments such as capital asset purchase agreements, deferred compensation, bonuses, pensions and profit-sharing plans, purchase or sale of all or a portion of the business.

10. We have disclosed to you all significant customers and/or suppliers of the organization who individually represent a significant volume of transactions with the organization. Except as disclosed in the financial statements, where applicable, we are of the opinion that the volume of transactions (sales, services, purchases, borrowing or lending) done by the organization with any one party is not of sufficient magnitude that discontinuance would have a material negative effect on the ongoing operations of the organization.

11. The organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the financial statements, where applicable. Where the value of any asset has been impaired, an appropriate provision has been made in the financial statements.

12. Provision has been made for any material loss to be sustained in the fulfillment of, or from inability to fulfill, any sales commitments.

13. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.

14. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.

15. No events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

16. We have provided all information on revenues and expenses and there are no additional revenues or expenses that have been reported by Windigo First Nations Council that should be included in or reported in these financial statements. We have provided information and documentation on all claims submitted and Promissory Notes being considered or approved by the Board of Directors.

17. The minute books of the organization are a complete record of all meetings and resolutions of the Council throughout the reporting period and to the present date.

18. We have responded fully to all inquiries made to us by you during your examination.

Yours truly,

WATAYNIKANEYAP POWER CORPORATION

Signature ______________ DIRECTOR

Signature ______________ DIRECTOR

Date August 26, 2015

(iii) FortisOntario Inc.

- 2013 Audited Financial Statements

Consolidated Financial Statements

FortisOntario Inc.

December 31, 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
FortisOntario Inc.

We have audited the accompanying consolidated financial statements of **FortisOntario Inc.**, which comprise the consolidated balance sheet as at December 31, 2013 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for private enterprises, 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 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 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 **FortisOntario Inc.** as at December 31, 2013 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
February 13, 2014.

FortisOntario Inc.

CONSOLIDATED BALANCE SHEET

[in thousands of dollars]

As at December 31

	2013 $	2012 $
ASSETS		
Current		
Cash	**5,397**	2,212
Accounts receivable *[note 15]*	**26,871**	26,524
Income taxes recoverable	**601**	795
Due from related parties *[note 9]*	**—**	122
Materials and supplies	**204**	284
Regulatory assets *[note 17]*	**3,815**	1,863
Prepaid expenses	**720**	752
Total current assets	**37,608**	32,552
Utility capital assets, net *[notes 3 and 4]*	**212,580**	193,402
Intangible assets, net *[note 5]*	**28,064**	28,113
Long-term investments *[note 6]*	**3,821**	3,821
Accrued pension benefit asset *[note 7]*	**8,879**	7,871
Future tax assets *[note 8]*	**—**	979
Other assets	**111**	851
Regulatory assets *[note 17]*	**12,422**	23,226
Goodwill *[note 3]*	**46,094**	46,094
	349,579	336,909
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities *[notes 15 and 17]*	**22,916**	19,316
Regulatory liabilities *[note 17]*	**1,632**	1,569
Due to related parties *[note 9]*	**86**	—
Short-term loan payable *[note 15]*	**3,000**	3,000
Total current liabilities	**27,634**	23,885
Long-term payable *[note 15 and 17]*	**375**	625
Long-term debt *[notes 10 and 15]*	**103,284**	103,212
Future tax liabilities *[note 8]*	**86**	—
Accrued other retirement benefit liability *[note 7]*	**13,404**	12,620
Accrued pension benefit liability *[note 7]*	**1,487**	1,341
Contributions in aid of construction	**19,018**	17,564
Regulatory liabilities *[note 17]*	**5,039**	3,791
Total liabilities	**170,327**	163,038
Commitments and contingencies *[note 14]*		
Shareholder's equity		
Capital stock *[note 11]*	**2**	2
Contributed surplus	**108,606**	108,606
Retained earnings	**70,644**	65,263
Total shareholder's equity	**179,252**	173,871
	349,579	336,909

See accompanying notes

Approved on behalf of the Board:

Director Director

FortisOntario Inc.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

[in thousands of dollars]

Year ended December 31

	2013	2012
	$	$
REVENUE		
Sale of energy	**131,564**	125,136
Distribution revenue	**49,840**	47,881
Transmission revenue	**4,856**	4,802
Other revenue	**3,553**	4,567
	189,813	182,386
EXPENSES		
Cost of power purchased	**130,930**	124,579
Operating	**28,607**	25,716
Operating lease	**—**	450
Amortization *[note 12]*	**10,490**	12,110
	170,027	162,855
Operating earnings before the following	**19,786**	19,531
Dividend income *[note 9]*	**112**	88
Other regulatory adjustments *[note 17]*	**(1,035)**	—
Interest expense *[notes 10 and 15]*	**(6,596)**	(6,580)
Earnings before income taxes	**12,267**	13,039
Provision for income taxes *[note 8]*	**2,886**	1,475
Net earnings for the year	**9,381**	11,564
Retained earnings, beginning of year	**65,263**	57,699
Dividends paid *[note 9]*	**(4,000)**	(4,000)
Retained earnings, end of year	**70,644**	65,263

See accompanying notes

FortisOntario Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended December 31

	2013 $	2012 $
OPERATING ACTIVITIES		
Net earnings for the year	**9,381**	11,564
Add (deduct) items not affecting cash		
Amortization	**10,490**	12,110
Future income taxes	**1,065**	748
Loss (gain) on disposal of utility capital assets	**35**	(106)
Accrued pension benefits	**1,497**	1,220
Accrued other retirement benefits	**1,495**	1,465
Long-term regulatory assets and liabilities net of smart meters capitalized and stranded meters retired *[note 17]*	**5,663**	(2,012)
Accrued pension benefit asset	**(2,359)**	(2,335)
Accrued other retirement benefit liability	**(711)**	(627)
	26,556	22,027
Net change in non-cash working capital balances related to operations *[note 13]*	**1,877**	207
Cash provided by operating activities	**28,433**	22,234
INVESTING ACTIVITIES		
Additions to utility capital assets	**(22,548)**	(20,354)
Acquisition of Port Colborne Hydro Inc. *[note 3]*	**—**	(6,900)
Additions to intangible assets	**(1,724)**	(3,493)
Proceeds on sale of utility capital assets	**415**	250
Decrease (increase) in other assets	**813**	(305)
Cash used in investing activities	**(23,044)**	(30,802)
FINANCING ACTIVITIES		
Decrease in long-term payable	**(250)**	(250)
Advance of short-term loan payable	**—**	3,000
Dividends paid	**(4,000)**	(4,000)
Increase in contributions in aid of construction	**2,046**	2,237
Cash provided by (used in) financing activities	**(2,204)**	987
Net increase (decrease) in cash during the year	**3,185**	(7,581)
Cash, beginning of year	**2,212**	9,793
Cash, end of year	**5,397**	2,212

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of FortisOntario Inc. [the "Corporation"] and its wholly owned subsidiaries, Canadian Niagara Power Inc. ["CNPI"], FortisOntario District Heating Inc. [formerly 1161557 Ontario Inc.], Cornwall Street Railway, Light and Power Company Limited ["Cornwall Electric"], and Algoma Power Inc. ["API"].

The principal businesses of the Corporation are the generation of electricity and the transmission and distribution of electricity to customers within Ontario. Certain of these businesses are regulated by the Ontario Energy Board ["OEB"].

2. BASIS OF ACCOUNTING AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

These consolidated financial statements have been prepared in accordance with the accounting standards for private enterprises ["ASPE"], as per Part II of the *CPA Handbook* – Accounting, which constitutes generally accepted accounting principles for non-publicly accountable enterprises in Canada.

B. SIGNIFICANT ACCOUNTING POLICIES

Future accounting policy changes

Effective January 1, 2014, the Corporation will adopt new CPA Handbook Section 3462, *Employee Future Benefits,* for its accounting of pension benefits and other retirement benefits. As required, the adoption of this new ASPE standard will be applied retroactively.

Adoption of CPA Handbook Section 3462 as of January 1, 2014 requires that unamortized pension and other retirement benefit amounts as at December 31, 2013 be retroactively charged to retained earnings. Therefore, an amount of $13,530 will be charged to retained earnings effective January 1, 2014, offset by a corresponding increase in recorded pension liabilities of $9,764 and other retirement benefit liabilities of $3,766. The Corporation made application to the OEB to allow recognition of regulatory assets in the amount $10,363 related to unamortized amounts in CNPI and API that would otherwise be collected from customers through rates in subsequent years. In December 2013, the OEB issued a Decision and Order approving the establishment of specific deferral accounts for CNPI and API to recognize these amounts as long-term regulatory assets, which will be disposed of in future cost of service proceedings, subject to the OEB's prudence review at that time. The Corporation will record a corresponding increase in retained earnings for the amount of $10,363 as of January 1, 2014 and recognize $10,363 in long-term regulatory assets. The net charge to the Corporation's retained earnings will be $3,167 as a result of the adoption of Section 3462.

For future years, pension and other retirement benefit expense will differ from amounts recognized under current standards in CPA Handbook Section 3461, *Employee Future Benefits*. The effect on the future financial statements of the Corporation is unknown. However, there is a potential for these differences to be material as the new standards will result in a more volatile pension and other retirement benefit expense. The Corporation made an application to the OEB for CNPI and API to continue to account for pension and other retirement benefits under the current Section 3461, until such time as the effect of these accounting standard changes can be flowed through to customers under the OEB regulated rate environment. In December 2013, the OEB issued a Decision and Order approving the establishment of specific variance accounts for CNPI and API to recognize the difference in expense between CPA Handbook Sections 3461 and 3462 as long-term regulatory assets or liabilities, which will be disposed of in future cost of service proceedings, subject to the OEB's prudence review at that time.

Regulation

CNPI
The transmission and distribution rates of CNPI are based upon cost-of-service rate regulation by the OEB. Earnings are regulated on the basis of a rate of return on rate base plus a recovery of all allowable distribution costs of CNPI.

On May 11, 2012, CNPI filed a Cost of Service Application for electricity distribution rates effective January 1, 2013. The application included the integration of smart meter costs into rate base, the recovery of stranded assets related to conventional meters and a rate rider designed to capture additional smart meter expenditures forecast to the end of 2012. The application also proposed changes to accounting policy and estimates for utility capital assets. Since the majority of distributors in Ontario are transitioning to International Financial Reporting Standards ["IFRS"], and the OEB is requiring consistency amongst distributors, CNPI updated amortization rates and its capitalization of overhead policy effective for 2013. The OEB commissioned an amortization study, which was used as a guideline in updating the amortization rates. Consistent with *International Accounting Standard 16* under IFRS, CNPI proposed that indirect overhead not be capitalized.

The OEB issued its Final Decision and Order on December 20, 2012 for new rates effective January 1, 2013, which resulted in a 6.8% increase for the average residential consumer in Fort Erie, a 5.9% increase for the average residential consumer in Gananoque and a 7.4% increase for the average residential consumer in Port Colborne effective January 1, 2013. The Decision and Order provides an 8.93% return on equity ["ROE"] with a 60%/40% debt equity structure.

On August 16, 2013, CNPI filed its 2014 4th Generation Incentive Rate-setting Application ["IRM"] for electricity distribution rates effective January 1, 2014. This application is based on the OEB's guidelines for 4th Generation Incentive Regulation Mechanism.

On January 9, 2014, the OEB issued its Decision and Order for CNPI; the final 4th Generation Incentive Price Index was 1.25% comprising 1.7% inflation, a 0% productivity factor and a 0.45% stretch factor [i.e., 1.7% - (0% + 0.45%)]. Rates are effective January 1, 2014. The overall bill impact for the average residential consumer is a 0.9% increase in Fort Erie, a 0.8% increase for the average residential consumer in Gananoque, and a 0.2% increase for the average residential consumer in Port Colborne.

API
The distribution rates of API are based upon cost-of-service rate regulation by the OEB. Earnings are regulated on the basis of a rate of return on rate base plus a recovery of all allowable distribution costs of API.

API is subject to the Ontario Regulation 335/07, which is the Rural and Remote Rate Protection subsidy program ["RRRP"]. The RRRP is calculated as the deficiency between the approved revenue requirement from the OEB and current customer distribution rates adjusted for the average rate increase across the Province of Ontario. API qualifies for this subsidy because it has less than seven customers per kilometre and a service area that extends beyond 10,000 kilometres. All general service and large customer classes have been reclassified as residential class under Ontario Regulation 445/07.

In June 2010, API filed a cost of service electricity distribution rate application. On November 11, 2010, API received a Decision and Order for new rates effective December 1, 2010 to December 31, 2011. The total rate increase impact to API was approximately 3.8%, which includes an RRRP adjustment factor of 2.5%, as established by the OEB as being the average rate increase to customers across Ontario for 2009. The application was based on a debt/equity structure of 60%/40% and requested an ROE of 9.85%.

On September 15, 2011, API filed for an incentive based electricity distribution rate application with the OEB for rates effective January 1, 2012. API proposed a solution that would index both the electricity rates and the RRRP funding. The IRM maintained an ROE of 9.85% with a 60%/40% debt equity structure. In its Decision dated March 5, 2012, the OEB approved a price cap index of 2.81% for customers subject to RRRP funding and 0.38% for those customers not subject to RRRP funding. RRRP funding for 2012 was set at $11,314.

On October 22, 2012, API filed an incentive based distribution rates application for rates effective January 1, 2013. On March 28, 2013, the OEB issued its Decision and Order for API's 2013 distribution rates and smart meter initiative cost recovery. On the basis of the 3rd Generation

Incentive Rate Mechanism and Ontario Regulation 442/01, the overall revenue requirement increased by 0.88%; inflationary increase of 2.2% less a productivity factor of 0.72% and a stretch factor of 0.6%. Residential and commercial customer's rates were adjusted by the average increase in rates of all other distributor's rate changes in the most recent rate year, a 3.75% increase in distribution rates, while Seasonal and Street lighting customers realized a 0.88% increase equivalent to the IRM adjustment. The difference in recovery from rates and the revenue requirement is compensated in the RRRP funding. The Decision and Order also stipulated that API will recover the smart meter costs allocated to the Residential R1 class through the RRRP funding mechanism while the smart meter costs allocated to Seasonal customers will be collected through a rate rider. The RRRP funding for 2013 is $12,369. All rates adjustments and changes to RRRP funding were effective January 1, 2013.

On August 16, 2013, API filed an application with the OEB seeking approval to change distribution rates effective January 1, 2014 based on the 4th Generation Incentive Regulation Mechanism. On December 19, 2013, the OEB issued a Procedural Order in respect of API's 2014 4th Generation Incentive Rate Setting Application. This Procedural Order made API's current distribution rates interim as of January 1, 2014 and ordered a written review of the circumstances that may have influenced the assignment of a stretch factor for API. Final submissions in this matter are due on February 14, 2014 and a final decision is expected in March 2014.

Cornwall Electric
Cornwall Electric is subject to a rate-setting mechanism under the Franchise Agreement, which is the retail rate and service agreement between Cornwall Electric and The Corporation of the City of Cornwall. The rate-setting mechanism is based on a price cap with commodity cost flow-through. The base revenue requirement is adjusted annually for inflation, load growth, number of customers and premises vacancies. The rate years covering the operations for 2013 are from July 1, 2012 to June 30, 2013 and from July 1, 2013 to June 30, 2014.

Materials and supplies

Materials and supplies are recorded at average cost. Materials and supplies expensed to operating expenses in 2013 were $191 [2012 - $286].

[in thousands of dollars]

Utility capital assets, change in capitalization policy and service life of utility capital assets

[a] Nature of distribution, transmission and generation assets

Distribution assets
Distribution assets are those used to distribute electricity at lower voltages [generally below 50 kilovolts]. These assets include poles, towers and fixtures, low-voltage wires, transformers, overhead and underground conductors, street lighting, meters, metering equipment and other related equipment.

Transmission assets
Transmission assets are those used to transmit electricity at higher voltages [generally at 50 kilovolts and above]. These assets include poles, wires and conductors, substations, support structures and other related equipment.

Generation assets
Generation assets are those used to generate electricity. These assets include thermal generating stations, gas turbines and other related equipment.

[b] Service life ranges and average remaining service life of utility capital assets

The service life ranges and average remaining service life of the utility capital assets are as follows:

	Service life range [years]	Average remaining service life [years]
Distribution	10 to 50	33.0
Transmission	25 to 50	24.0
Generation	25 to 50	14.2

Utility capital assets are stated at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the utility capital assets using the straight-line method at a composite rate of 2.5% [2012 - 3.0%].

Contributions in aid of construction represent funding of utility capital assets contributed by customers. These accounts are being reduced annually by an amount equal to the charge for amortization provided on the contributed portion of the assets involved.

[c] Change in capitalization policy and service life of utility capital assets

General expenses capitalized ["GEC"] are capitalized overhead costs that are not directly attributable to specific utility capital assets but relate to the Corporation's overall capital program. Prior to 2013, GEC was permitted to be capitalized by the OEB's Distribution Rate Handbook and Accounting Procedures Handbook. In 2012, CNPI filed a cost of service application with the OEB based on a 2013 Test Year. The OEB is currently using "modified IFRS" as an accounting basis. As discussed in "Regulation" above, CNPI had proposed changes to its capitalization policy in its cost of service application. These changes encompass adjustments to the useful lives of assets, changes to labour rates, and the elimination of GEC. The impact of these changes has resulted in higher operating expenses and lower amortization expense. CNPI had requested the recovery of these changes in distribution rates. The changes were approved by the OEB and were incorporated on January 1, 2013 in CNPI.

Due to an OEB mandate for comparability and consistency among all regulated utilities, API and Cornwall Electric incorporated changes to their capitalization policies consistent with CNPI as discussed above. The impact of these changes has resulted in higher operating expenses and lower amortization for API and Cornwall Electric. API, as permitted by the OEB, has recognized the financial differences arising as a result of accounting changes to amortization expense and capitalization policies *[note 17]*.

The statement of income and retained earnings reflects a decrease in amortization for the year ended December 31, 2013 by approximately $3,200 as a result of the changes in accounting estimates. As well, the statement of income and retained earnings reflects an increase in operating expenses of approximately $3,100 due to the elimination of GEC.

These changes were accounted for prospectively for regulatory purposes, and due to the complex nature of assigning overhead costs to property, plant and equipment, the Corporation could not reasonably quantify the retrospective impact of these changes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

Intangible assets

Intangible assets are stated at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the intangible assets using the straight-line method.

The service life ranges and average remaining service life of the intangible assets are as follows:

	Service life range [years]	Average remaining service life [years]
Software costs	5 to 10	5.7
Land and transmission rights	33 to 40	32.0
Other	50	30.3

Asset retirement obligations

ASPE requires the recognition of an asset retirement obligation in the period during which a legal obligation associated with the retirement of a tangible long-lived asset is incurred and when a reasonable estimate of this amount can be made.

The Corporation has determined that there are asset retirement obligations associated with some parts of its transmission, distribution and generation systems; however, none of these are material or require recognition under Section 3110 of the CPA Handbook.

Long-term investments

The Corporation accounts for its long-term investments using the cost method.

Goodwill

Goodwill represents the excess of the acquisition cost of the shares of CNPI, Cornwall Electric and Eastern Ontario Power Inc. [amalgamated with CNPI as of January 1, 2004] over the assigned value of identifiable net assets acquired, as well as the excess of the purchase price of the remaining utility capital assets of Port Colborne Hydro Inc. ["PCHI"] over the fair value of these assets *[note 3]*.

ASPE requires that goodwill shall be tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the reporting unit to which the goodwill is assigned may exceed the fair value of the reporting unit. Any impairment in value is charged to earnings during the year.

Other assets

Other assets are amortized over their useful lives.

Revenue recognition

Revenue from the sale, transmission and distribution of electricity is recognized on the accrual basis. Electricity is metered upon delivery to customers and is recognized as revenue using approved rates when consumed. Meters are read periodically and bills are issued to customers based on these readings. At the end of the year, a certain amount of consumed electricity will not have been billed. Electricity that is consumed but not yet billed to the customers is estimated and accrued as revenue in the current year. Unbilled revenue included in accounts receivable as at December 31, 2013 is $14,889 [2012 - $12,792].

The Corporation of the City of Cornwall Franchise Agreement provides that Cornwall Electric sets electricity rates such that Cornwall Electric is guaranteed an annual gross margin on power sold of $12,815 [2012 - $12,631]. This guaranteed gross margin covers the rate years from July 1, 2012 to June 30, 2013 and from July 1, 2013 to June 30, 2014. The guaranteed gross margin is accrued on a pro-rated basis over the course of the year.

Operating lease

The Corporation had previously entered into an operating lease [which expired in April 2012] with the City of Port Colborne, whereby the Corporation operated and maintained the City of Port Colborne's electricity distribution assets and provided service to the residents of Port Colborne. The Corporation recognized all revenue relating to this agreement in operating revenue and recorded the cost of the lease as operating lease expense. On April 16, 2012, subsequent to the expiration of the lease, the remaining utility capital assets of PCHI were acquired by the Corporation *[note 3]*.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the consolidated balance sheet date. Gains and losses on translation are included in the consolidated statement of earnings and retained earnings. Revenue and expenses are translated at the exchange rate prevailing on the transaction date.

Employee benefit plans

The Corporation accrues its obligations under employee benefit plans. The cost of pension benefits and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of discount rates, salary escalation, retirement ages of employees and expected health care costs. Pension plan assets are valued at fair value. The excess of any cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Effective January 1, 2014, the Corporation will adopt new CPA Handbook Section 3462, *Employee Future Benefits.* See "Future accounting policy changes" above for a detailed discussion on these changes.

Income taxes

The Corporation follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the temporary differences between the tax and accounting bases of assets and liabilities. Future tax assets and liabilities are measured using the enacted and substantively enacted tax rates expected to apply to taxable income in the period in which the temporary differences are expected to be recovered or settled. The Corporation recognizes regulatory assets and liabilities related to future tax assets and liabilities for the amount of future income taxes expected to be recovered from customers in future electricity rates for CNPI and API.

Use of estimates

The preparation of financial statements in conformity with ASPE 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

3. ACQUISITION OF THE REMAINING UTILITY CAPITAL ASSETS OF PORT COLBORNE HYDRO INC.

On April 16, 2012, the Corporation acquired all of the remaining utility capital assets of PCHI. In April 2011, the Corporation had provided the Corporation of the City of Port Colborne and PCHI, an irrevocable written notice of CNPI's election to exercise the purchase option under the operating lease agreement, at the purchase option price of $6,900.

PCHI is regulated under the OEB and thus its determination of revenue and earnings is based on regulated rates of return that are applied to historical values which do not change with a change of ownership of the assets. Therefore, for all of the remaining utility capital assets associated with PCHI, no fair market value adjustments were recorded as part of the purchase price because all of the economic benefits and obligations associated with them beyond regulated rates of return accrue to the customers. Accordingly, the book value of the remaining utility capital assets of PCHI transferred to the Corporation has been assigned as fair value for the purchase price allocation.

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

	$
Utility capital assets	2,882
Goodwill	4,018
Total purchase price	6,900

[in thousands of dollars]

4. UTILITY CAPITAL ASSETS

Utility capital assets consist of the following:

	2013		
	Cost $	**Accumulated amortization** $	**Net book value** $
Transmission	**26,278**	**12,251**	**14,027**
Distribution	**304,276**	**130,407**	**173,869**
Generation	**15,877**	**9,706**	**6,171**
Other	**46,087**	**27,574**	**18,513**
	392,518	**179,938**	**212,580**

	2012		
	Cost $	**Accumulated amortization** $	**Net book value** $
Transmission	23,351	11,807	11,544
Distribution	281,814	124,713	157,101
Generation	15,557	9,199	6,358
Other	45,963	27,564	18,399
	366,685	173,283	193,402

The amounts above include assets under construction of $8,193 [2012 - $4,749], which are not subject to amortization.

[in thousands of dollars]

5. INTANGIBLE ASSETS

Intangible assets consist of the following:

	2013		
	Cost $	**Accumulated amortization** $	**Net book value** $
Software costs	**14,649**	**8,794**	**5,855**
Land and transmission rights	**27,788**	**5,884**	**21,904**
Other	**406**	**101**	**305**
	42,843	**14,779**	**28,064**

	2012		
	Cost $	**Accumulated amortization** $	**Net book value** $
Software costs	13,445	7,772	5,673
Land and transmission rights	27,317	5,192	22,125
Other	406	91	315
	41,168	13,055	28,113

6. LONG-TERM INVESTMENTS

The Corporation's long-term investments are summarized as follows:

	2013 $	**2012** $
Investment in common shares of Westario Power Holdings Inc.	**2,076**	2,076
Investment in common shares of Rideau St. Lawrence Holdings Inc.	**452**	452
Investment in Class B preferred shares of Niagara Power Incorporated	**1,293**	1,293
	3,821	3,821

Through the ownership of the Class B preferred shares of Niagara Power Incorporated, the Corporation holds a 10% economic interest in Grimsby Power Inc.

[in thousands of dollars]

7. EMPLOYEE BENEFIT PLANS

The Corporation maintains three defined benefit pension plans and two defined contribution pension plans providing pension benefits, and three defined benefit plans providing other retirement benefits to most of its employees. The Corporation also makes contributions to the Ontario Municipal Employees' Retirement System ["OMERS"] plan on behalf of some of its employees. OMERS is a multi-employer defined benefit pension plan providing pension benefits and is accounted for as a defined contribution pension plan.

Information about the Corporation's defined benefit plans for the Corporation, CNPI and Cornwall Electric is as follows:

	Pension benefit plans		Other retirement plans	
	2013	**2012**	**2013**	**2012**
	$	$	$	$
Accrued benefit obligation				
Balance, beginning of year	**26,187**	23,654	**11,457**	9,913
Current service cost	**387**	349	**138**	121
Interest cost	**1,082**	1,184	**457**	516
Benefits paid	**(1,505)**	(1,566)	**(627)**	(510)
Actuarial losses (gains)	**(782)**	2,274	**(1,021)**	1,417
Plan amendments	**—**	292	**—**	—
Balance, end of year	**25,369**	26,187	**10,404**	11,457
Plan assets				
Fair value, beginning of year	**24,354**	22,789	**—**	—
Actual return on plan assets	**1,525**	1,666	**—**	—
Contributions	**1,722**	1,718	**627**	510
Benefits paid	**(1,505)**	(1,566)	**(627)**	(510)
Plan expenses	**(158)**	(253)	**—**	—
Fair value, end of year	**25,938**	24,354	**—**	—
Funded status - surplus (deficit)	**569**	(1,833)	**(10,404)**	(11,457)
Unamortized amounts				
Actuarial losses	**5,030**	6,478	**2,344**	3,454
Prior service costs	**261**	311	**—**	—
Transitional obligation	**289**	321	**—**	—
Accrued benefit asset (liability)	**6,149**	5,277	**(8,060)**	(8,003)

[in thousands of dollars]

The measurement date for the plan assets and the accrued benefit obligation is December 31, 2013. The effective date of the most recent actuarial valuation was as of December 31, 2011 and the date of the next required valuation for funding purposes is December 31, 2014.

The plan assets held at the measurement date are represented by the following categories:

	%
Canadian equity funds	**15**
U.S. equity funds	**13**
EAFE equity funds	**12**
Canadian fixed income funds	**56**
Cash and short-term investments	**4**

As at December 31, 2013, one of the two defined benefit pension plans had a net accrued benefit liability of $315 [2012 - $325]. This plan had no plan assets in 2013 or 2012.

[in thousands of dollars]

Included in the accrued pension benefit liability as at December 31, 2013 is an unfunded defined contribution plan pension liability of $1,038 [2012 - $890] relating to the supplementary employee retirement plan.

	Pension benefit plans		Other retirement plans	
	2013	**2012**	**2013**	**2012**
	$	$	$	$
Significant assumptions used				
Discount rate – beginning of period	**4.20%**	5.10%	**4.40%**	5.25%
Discount rate – end of period	**4.80%**	4.20%	**4.90%**	4.40%
Expected long-term rate of return on plan assets	**6.00%**	6.25%	**—**	—
Rate of compensation increase	**4.00%**	4.00%	**—**	—
Initial health care trend rate	**—**	—	**5.96%**	6.51%
Average remaining service period of active employees [years]	**6**	7	**14-17**	13-17
Net benefit expense for the year				
Current service cost	**562**	524	**102**	121
Interest cost	**1,082**	1,184	**457**	516
Expected return on plan assets	**(1,450)**	(1,411)	**—**	—
Actuarial losses	**529**	310	**88**	80
Amortization of transitional obligation and past service costs	**82**	42	**—**	46
Net benefit expense	**805**	649	**647**	763

Effective July 1, 2009, employees of the "distribution" division of Great Lakes Power Limited ["GLPL"] were transferred to API. The employees were members of the Retirement Fund of GLPL prior to July 1, 2009. The Retirement Fund of API [formerly Retirement Fund of Great Lakes Power Distribution] was established for employees transferred to API. On January 27, 2011, the Financial Services Commission of Ontario approved the transfer of assets from the GLPL Plan to the Retirement Plan of API. On April 5, 2011, assets in the amount of $16,192 were transferred with respect to the employees' benefits accrued prior to July 1, 2009 in the GLPL Plan, as well as benefits in the GLPL Plan for inactive members formerly employed by the "distribution" division of GLPL.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

Information about the Corporation's defined benefit plans for API is as follows:

	Pension benefit plans		Other retirement plans	
	2013	**2012**	**2013**	**2012**
	$	$	$	$
Accrued benefit obligation				
Balance, beginning of year	**23,934**	20,772	**7,136**	5,859
Current service cost	**534**	414	**284**	172
Interest cost	**1,046**	1,093	**306**	311
Employee contributions	**166**	153	—	—
Benefits paid	**(873)**	(873)	**(124)**	(118)
Actuarial losses (gains)	**(1,191)**	2,375	**(1,020)**	912
Plan amendments	—	—	**184**	—
Balance, end of year	**23,616**	23,934	**6,766**	7,136
Plan assets				
Fair value, beginning of year	**19,645**	18,136	—	—
Actual return on plan assets	**1,894**	1,492	—	—
Contributions	**1,046**	890	**124**	118
Benefits paid	**(873)**	(873)	**(124)**	(118)
Fair value, end of year	**21,712**	19,645	—	—
Funded status - deficit	**(1,904)**	(4,289)	**(6,766)**	(7,136)
Unamortized amounts				
Actuarial losses	**4,007**	6,211	**823**	1,895
Transitional obligation	**177**	221	**429**	624
Prior service costs	—	—	**170**	—
Accrued benefit asset (liability)	**2,280**	2,143	**(5,344)**	(4,617)

The measurement date for the plan assets and the accrued benefit obligation is December 31, 2013. The effective date of the most recent actuarial valuation was as of July 1, 2012 and the date of the next required valuation for funding purposes is July 1, 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

The plan assets held at the measurement date are represented by the following categories:

	%
Canadian equity funds	**18**
U.S. equity funds	**17**
EAFE equity funds	**16**
Canadian fixed income funds	**47**
Cash and short-term investments	**2**

As at December 31, 2013, one of the defined benefit pension plans had a net accrued benefit liability of $135 [2012 - $126]. This plan had no plan assets in 2013 or 2012.

	Pension benefit plans		Other retirement plans	
	2013	**2012**	**2013**	**2012**
	$	$	$	$
Significant assumptions used				
Discount rate – beginning of period	**4.40%**	5.30%	**4.40%**	5.25%
Discount rate – end of period	**5.00%**	4.40%	**5.00%**	4.40%
Expected long-term rate of return on plan assets	**6.00%**	6.25%	**—**	—
Rate of compensation increase	**4.00%**	4.00%	**—**	—
Initial health care trend rate	**—**	—	**6.53%**	6.95%
Average remaining service period of active employees [years]	**14**	14	**16**	17
Net benefit expense for the year				
Current service cost	**503**	414	**281**	172
Interest cost	**1,046**	1,093	**306**	311
Expected return on plan assets	**(1,176)**	(1,130)	**—**	—
Actuarial losses	**275**	150	**52**	24
Amortization of transitional obligation and past service costs	**44**	44	**209**	195
Net benefit expense	**692**	571	**848**	702

The total expense for the Corporation's defined contribution pension plans for the year amounted to $436 [2012 - $393]. The pension cost associated with the OMERS plan was $461 [2012 - $408].

[in thousands of dollars]

8. INCOME TAXES

The following is a reconciliation of the combined statutory income tax rate to the effective income tax rate:

	2013 %	2012 %
Statutory income tax rate	**26.50**	26.50
Impact of future tax rate adjustments	**—**	(10.45)
Prior year adjustments on smart meters	**1.45**	—
Future income taxes transferred to regulatory assets	**(5.09)**	(4.10)
Other	**0.67**	(0.64)
Effective income tax rate	**23.53**	11.31

The provision for (recovery of) income taxes consists of the following:

	2013 $	2012 $
Current income taxes	**2,446**	1,261
Future income taxes	**1,065**	748
Future income taxes transferred to regulatory assets	**(625)**	(534)
	2,886	1,475

Future income taxes are provided for temporary differences. Future tax assets and liabilities as at December 31 are comprised of the following:

	2013 $	2012 $
Future tax assets (liabilities)		
Utility capital assets	**(3,684)**	(2,834)
Employee future benefits	**1,593**	1,613
Rate mitigation accrual	**2,136**	2,297
Other assets	**(131)**	(97)
Net future tax assets (liabilities)	**(86)**	979

[in thousands of dollars]

9. RELATED PARTY TRANSACTIONS

During the year, the Corporation entered into transactions with related parties summarized as follows:

	2013 $	2012 $
Receipts		
Dividends on common shares of		
Westario Power Holdings Inc.	**56**	67
Rideau St. Lawrence Holdings Inc.	**13**	13
Niagara Power Incorporated	**43**	8
Interest on short-term loan to Fortis Inc.	**—**	15
Services provided to		
Westario Power Holdings Inc.	**210**	400
FortisAlberta Inc.	**14**	13
Fortis Inc.	**11**	69
Fortis Properties Corporation	**16**	118
Fortis Generation East Limited Partnership	**547**	115
Grimsby Power Inc.	**93**	178
Payments		
Dividends to Fortis Inc.	**4,000**	4,000
Purchased power from Fortis Properties Corporation	**—**	744
Purchased power from Fortis Generation East Limited Partnership	**1,483**	246
Services provided by		
Fortis Inc.	**613**	602
Newfoundland Power Inc.	**24**	18
Maritime Electric Company, Limited	**2**	4
FortisAlberta Inc.	**—**	13
Westario Power Holdings Inc.	**5**	—
FortisBC Inc.	**6**	—

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

[in thousands of dollars]

As at December 31, the amounts due from (to) related parties are summarized as follows:

	2013 $	**2012** $
Fortis Inc.	**(60)**	30
FortisAlberta Inc.	**5**	—
Grimsby Power Inc.	**14**	7
Westario Power Holdings Inc.	**39**	108
Fortis Generation East Limited Partnership	**(84)**	(23)
	(86)	122

Details of the relationships with related parties are as follows:

- Fortis Inc. owns a 100% interest in the capital stock of the Corporation.
- Maritime Electric Company, Limited is a wholly owned subsidiary of FortisWest Inc., which itself is a wholly owned subsidiary of Fortis Inc.
- Fortis Properties Corporation is a wholly owned subsidiary of Fortis Inc.
- Newfoundland Power Inc. is a wholly owned subsidiary of Fortis Inc.
- Westario Power Holdings Inc. is 10% owned by the Corporation.
- FortisAlberta Inc. is a wholly owned subsidiary of Fortis Inc.
- The Corporation owns 10 Class B preferred shares of Niagara Power Incorporated.
- The Corporation indirectly owns 10% of Grimsby Power Inc. through the ownership of the Class B preferred shares in Niagara Power Incorporated.
- Fortis Generation East Limited Partnership is a wholly owned subsidiary of Fortis Inc.
- FortisBC Inc. is a wholly owned subsidiary of Fortis Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

10. LONG-TERM DEBT

Long-term debt consists of the following:

	2013 $	2012 $
7.092% senior unsecured notes due August 14, 2018		
Canadian Niagara Power Inc.	**30,000**	30,000
Cornwall Street Railway, Light and Power Company Limited	**22,000**	22,000
5.118% senior unsecured notes due December 16, 2041		
Algoma Power Inc.	**52,000**	52,000
Unamortized debt issue costs	**(716)**	(788)
	103,284	103,212

The senior unsecured notes of CNPI and Cornwall Electric bear interest at 7.092% and are repayable at maturity on August 14, 2018. Interest expense on long-term debt for the year was $3,688 [2012 - $3,710].

The senior unsecured notes of API bear interest at 5.118% and are repayable at maturity on December 16, 2041. Interest expense for the year was $2,660 [2012 - $2,654].

11. CAPITAL STOCK

The authorized and issued capital stock consists of 1,001 common shares without par value.

12. AMORTIZATION

The amortization of utility capital assets and other assets consist of the following:

	2013 $	2012 $
Amortization of utility capital assets	**9,249**	10,780
Amortization of intangible assets	**1,740**	1,998
Amortization of contributions in aid of construction	**(499)**	(668)
	10,490	12,110

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

13. CONSOLIDATED STATEMENT OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	2013 $	2012 $
Accounts receivable	**(347)**	(3,523)
Due from/to related parties	**208**	4,838
Materials and supplies	**80**	93
Prepaid expenses	**32**	(186)
Accounts payable and accrued liabilities	**3,600**	(586)
Regulatory assets/liabilities	**(1,890)**	379
Income taxes recoverable/payable	**194**	(808)
	1,877	207

Supplemental cash flow information:

	2013 $	2012 $
Interest paid	**6,603**	6,493
Income taxes paid	**3,005**	2,220

14. COMMITMENTS AND CONTINGENCIES

The Corporation has a building lease agreement until December 31, 2014 with annual rent, operating costs and municipal taxes of $595.

The Corporation is contingently liable under certain issued letters of credit amounting to $14,300.

15. FINANCIAL RISK MANAGEMENT

The Corporation is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments in the normal course of business.

Credit risk: Risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument.

[in thousands of dollars]

Liquidity risk:	Risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.
Market risk:	Risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices.

Credit risk

For cash, trade and other accounts receivable due from customers, the Corporation's credit risk is limited to the carrying values on the consolidated balance sheet.

The Corporation is exposed to credit risk from its distribution customers but, has various policies to minimize this risk. These policies include requiring customer deposits, performing disconnections and using third-party collection agencies for overdue accounts. The Corporation has a large and diversified distribution customer base which minimizes the concentration of credit risk.

The aging of the Corporation's consolidated trade and other receivables due from customers is as follows:

	2013 $
Not past due	**26,078**
Past due 0-30 days	**644**
Past due 31-60 days	**154**
Past due 61 days and over	**339**
	27,215
Less allowance for doubtful accounts	**344**
	26,871

Liquidity risk

The Corporation's exposure to liquidity risk is minimal. Financing of regulated capital and other expenditures is done through internally generated funds. These funds are a result of allowable rate-regulated returns and recoveries under the OEB rate regulation mechanism and the Cornwall Electric Franchise Agreement as described in note 2.

The Corporation is a subsidiary of Fortis Inc., a large investor-owned utility which has had the ability to raise sufficient and cost-effective financing. However, the ability to arrange financing on a go-forward basis is subject to numerous factors, including the results of operations and financial position of Fortis Inc. and its subsidiaries, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

[in thousands of dollars]

Also, to mitigate any liquidity risk, certain subsidiaries of the Corporation have committed revolving credit facilities and letters of credit facilities totalling $30,000, of which $12,700 is unused. The revolving credit facilities and letters of credit facilities are renewed on an annual basis. The following summary outlines the credit facilities of the Corporation:

	2013 $	2012 $
Total credit facilities	**30,000**	30,000
Letters of credit outstanding	**(14,300)**	(14,300)
Short-term loan outstanding	**(3,000)**	(3,000)
Credit facilities available	**12,700**	12,700

The facilities of the subsidiaries are guaranteed by the Corporation. The credit facilities bear interest at the bankers' acceptance rate plus 1.20% in the case of bankers' acceptances, and at the bank's prime lending rate plus 0.25% in the case of bank loans.

The following is an analysis of the contractual maturities of the Corporation's financial liabilities as at December 31, 2013:

	< 1 year $	1-3 years $	4-5 years $	> 5 years $	Total $
Accounts payable and accrued liabilities	**21,208**	—	—	—	**21,208**
Government remittances payable	**219**	—	—	—	**219**
Customer deposits	**559**	**308**	**622**	—	**1,489**
Short-term loan payable	**3,000**	—	—	—	**3,000**
Long-term payable	—	**375**	—	—	**375**
Long-term debt	—	—	**52,000**	**52,000**	**104,000**
	24,986	**683**	**52,622**	**52,000**	**130,291**

[in thousands of dollars]

Market risk

Interest rate risk

Long-term debt is at fixed interest rates, thereby minimizing cash flow and interest rate fluctuation exposure. The Corporation is primarily subject to risks associated with fluctuating interest rates on its short-term borrowings. As at December 31, 2013, the Corporation's short-term borrowings is $3,000 [2012 - $3,000].

16. CAPITAL MANAGEMENT

The Corporation manages the capital of CNPI and API to approximate the deemed capital structure reflected in the utility's customer rates or anticipated future rates. For CNPI, effective January 1, 2013, the distribution rates are based on a deemed capital structure of 60% debt and 40% equity. CNPI's capital structure consists of third-party debt, affiliated debt and common equity, but excludes unamortized debt issue costs. API's distribution rates effective on December 1, 2010 are also based on a deemed capital structure of 60% debt and 40% equity. API's debt consists of third-party debt, excluding unamortized debt issue costs.

The managed capital of CNPI and API, combined, is as follows:

	2013 Actual		2012 Actual	
	$	%	$	%
Debt	**102,000**	**54**	102,000	56
Equity	**87,059**	**46**	80,542	44
	189,059	**100**	182,542	100

Certain of the Corporation's long-term debt obligations and credit facility agreements have covenants that restrict the issuance of additional debt such that subsidiary debt cannot exceed 75% of their respective capital structures as defined in the agreements. As at December 31, 2013, the subsidiaries were in compliance with their debt covenants.

17. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of regulatory requirements.

CNPI and API pay the cost of power on behalf of their customers and recover these costs through retail billings to their customers. The cost of power includes charges for transmission, wholesale market operations and the power itself from Ontario's Independent Electricity System Operator.

The balance of the retail settlement variance account represents the costs that have not been recovered from, or settled through, customers as of the consolidated balance sheet date. The OEB's Distribution Rate Handbook and Accounting Procedures Handbook allow these costs to be deferred and recovered through future rate adjustments, as discussed in note 2B. In the absence of rate regulation, these costs would be expensed in the period they are incurred.

The seasonal revenue accrual is related to previous shortfalls in revenue for API's contributions from the seasonal customer class. The total cost allocated to the seasonal customer class was significantly higher than the total revenue generated through rates by that class. In order to recover the full cost, significant rate shock would have been incurred. In API's 2008 OEB Decision, the OEB had accepted API's proposal to mitigate significant rate impacts to the seasonal customer class by limiting the rate increase to 10%. As a result of the new 2010 Decision, API will collect the past amounts due from the seasonal customer class over a five-year period through specific rate adders. Effective with the new rates on December 1, 2010, the seasonal customer class rates are now designed to recover the full cost associated with this rate class.

The OEB has the general power to include or exclude costs, revenue, gains or losses in the rates of a specific period, resulting in the timing of revenue and expense recognition which may differ in the Corporation's regulated operations from those otherwise expected in non-regulated businesses. This change in timing gives rise to the recognition of regulatory assets and liabilities. The Corporation continually assesses the likelihood of recovery of its regulatory assets and believes that its regulatory assets and liabilities will be factored into the setting of future rates, as discussed in note 2B. If future recovery through rates is no longer considered probable, the appropriate carrying amount will be written off in the period that the assessment is made.

The Corporation of the City of Cornwall Franchise Agreement provides that Cornwall Electric is guaranteed an annual gross margin on energy sold subject to regulatory adjustments. The cost of power is a flow-through to the customers and the retail rates include an estimate of that power for the upcoming rate year. Variances occur as a result of actual gross margins differing from guaranteed gross margins. Gross margins will differ due to differences in the actual cost of power and electric usage by customers from expected levels. In the absence of rate regulation, there would be no guaranteed gross margin and Cornwall Electric's revenue would have been higher by $589 in 2013.

In 2010, Cornwall Electric was subject to back charges in the amount of $1,250 as a result of previous errors in the billing of cost of power by its electricity provider HQ Energy Marketing, Inc. ["MEHQ"]. As per agreement, MEHQ is billing and collecting these amounts from Cornwall Electric effective July 1, 2011 over a five-year period. For 2013, an amount of $250 has been recorded as current accounts payable and $375 has been recorded as a long-term payable, which represents the balance of the back charges owing to MEHQ. Since the cost of power is a flow-through to the customers, an equal offsetting amount of $625 is recognized as a regulatory asset to be recovered from customers through future rate adjustments until July 2016.

[in thousands of dollars]

In 2013, upon approval by the OEB, the Corporation integrated smart meters into rate base from amounts previously held as regulatory assets in CNPI of $4,365 and API of $3,262 as well as removed stranded meter assets of $1,238 in CNPI from utility capital assets and recognized these amounts as regulatory assets.

In 2013, the smart meter revenue and expense balances previously held in regulatory assets were transferred to the statement of earnings per the guidance provided in the OEB Accounting Procedures Handbook. The net disposition costs were $366. As discussed in note 2 under "Change in capitalization policy and service life of utility capital assets", API recorded a regulatory liability of $669 in OEB account 1576. The following table provides the detailed revenue and costs associated with these regulatory adjustments.

	$
Smart meters	
Billed revenue	**4,098**
Less: return on equity previously booked	**(1,792)**
	2,306
Amortization	**(2,217)**
Operating costs	**(151)**
Reduction in regulatory interest income	**(304)**
Net smart meter disposition costs	**(366)**
Transitional adjustments for API related to accounting changes to amortization expense and capitalization policy	**(669)**
Other regulatory adjustments	**(1,035)**

[in thousands of dollars]

Regulatory assets and liabilities are not subject to a regulatory return; however, the balances include an accrual for interest recoverable/payable as permitted by the regulators. The purpose of the following table is to provide reconciliation between the regulatory assets and liabilities and the remaining rebate period:

	2013 $	2012 $	Remaining rebate period
Current regulatory assets			
Amounts approved in current rates	**3,255**	1,724	**1 year**
The Corporation of the City of Cornwall franchise revenue variances	**560**	139	**1 year**
	3,815	1,863	
Long-term regulatory assets			
Amounts approved in current rates	**798**	2,264	**2 years**
Retail settlement and other variance accounts	**2,992**	3,122	**2 years**
The Corporation of the City of Cornwall franchise revenue variances	**2,504**	3,514	**2 years**
Seasonal revenue accrual	**760**	760	
Smart meter variance account	**40**	8,519	**in rate-base 2013**
Future income taxes to be recovered from customers	**5,328**	5,040	**Life of assets**
Other	**—**	7	
	12,422	23,226	
Current regulatory liabilities			
Amounts approved in current rates	**—**	205	**1 year**
Ontario clean energy benefits	**1,565**	1,364	**1 month**
Other	**67**	—	
	1,632	1,569	
Long-term regulatory liabilities			
Amounts approved in current rates	**342**	273	**2 years**
Future income taxes to be recovered from customers	**—**	337	**life of assets**
Retail settlement and other variance accounts	**3,850**	2,761	**2 years**
Other	**847**	420	
	5,039	3,791	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

18. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2013 consolidated financial statements.

(iv) FortisOntario Inc.

- 2014 Audited Financial Statements

Consolidated Financial Statements

FortisOntario Inc.

December 31, 2014

Building a better
working world

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
FortisOntario Inc.

We have audited the accompanying consolidated financial statements of **FortisOntario Inc.**, which comprise the consolidated balance sheet as at December 31, 2014, and the consolidated statements of earnings and retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for private enterprises, 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 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 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 **FortisOntario Inc.** as at December 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 4, 2015

FortisOntario Inc.

CONSOLIDATED BALANCE SHEET

[in thousands of dollars]

As at December 31

	2014	**2013**
	$	$
ASSETS		*[restated]*
Current		
Cash	**5,527**	5,397
Accounts receivable *[note 14]*	**26,658**	26,871
Income taxes recoverable	**510**	601
Due from related parties *[note 8]*	**138**	—
Materials and supplies	**239**	204
Regulatory assets *[note 16]*	**1,606**	3,815
Prepaid expenses	**740**	720
Total current assets	**35,418**	37,608
Utility capital assets, net *[note 3]*	**222,383**	212,580
Intangible assets, net *[note 4]*	**27,653**	28,064
Long-term investments *[note 5]*	**3,821**	3,821
Accrued pension benefits *[note 6]*	**6,677**	272
Future tax assets *[note 7]*	**425**	3,280
Other assets	**157**	111
Regulatory assets *[note 16]*	**16,842**	20,276
Goodwill	**46,094**	46,094
	359,470	352,106
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities *[note 16]*	**21,469**	22,916
Regulatory liabilities *[note 16]*	**1,616**	1,632
Due to related parties *[note 8]*	—	86
Short-term loan payable *[note 14]*	—	3,000
Total current liabilities	**23,085**	27,634
Long-term payable *[notes 14 and 16]*	**125**	375
Long-term debt *[notes 9 and 14]*	**103,355**	103,284
Accrued other retirement benefits *[note 6]*	**17,704**	17,126
Accrued pension benefits *[note 6]*	**1,971**	1,859
Contributions in aid of construction	**21,196**	19,018
Regulatory liabilities *[note 16]*	**7,957**	5,622
Total liabilities	**175,393**	174,918
Commitments and contingencies *[note 13]*		
Shareholder's equity		
Capital stock *[note 10]*	**2**	2
Contributed surplus	**108,606**	108,606
Retained earnings	**75,469**	68,580
Total shareholder's equity	**184,077**	177,188
	359,470	352,106

See accompanying notes

Approved on behalf of the Board:

Director Director

FortisOntario Inc.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

[in thousands of dollars]

Year ended December 31

	2014	2013
	$	$
		[restated]
REVENUE		
Sale of energy	**133,250**	131,564
Distribution	**50,728**	49,840
Transmission	**4,854**	4,856
Other	**3,621**	3,553
	192,453	189,813
EXPENSES		
Cost of power purchased	**132,659**	130,930
Operating	**29,675**	29,318
Amortization *[note 11]*	**9,783**	9,492
	172,117	169,740
Operating earnings before the following	**20,336**	20,073
Dividend income *[note 8]*	**115**	112
Other regulatory adjustments *[note 16]*	**(710)**	(1,035)
Interest expense *[notes 9 and 14]*	**(6,660)**	(6,596)
Earnings before income taxes	**13,081**	12,554
Provision for income taxes *[note 7]*	**2,192**	2,962
Net earnings for the year	**10,889**	9,592
Retained earnings, beginning of year as previously reported	**70,644**	65,263
Retroactive adjustments for transition to new CPA Handbook Section 3462 *[note 2]*	**(2,064)**	(2,275)
Retained earnings as restated, beginning of year	**68,580**	62,988
Dividends paid *[note 8]*	**(4,000)**	(4,000)
Retained earnings, end of year	**75,469**	68,580

See accompanying notes

FortisOntario Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended December 31

	2014	2013
	$	$
		[restated]
OPERATING ACTIVITIES		
Net earnings for the year	**10,889**	9,592
Add (deduct) items not affecting cash		
Amortization	**10,783**	10,490
Future income taxes	**2,855**	1,141
Loss (gain) on disposal of utility capital assets	**(161)**	35
Accrued pension benefits	**(3,719)**	1,137
Accrued other retirement benefits	**1,253**	1,568
Long-term regulatory assets and liabilities	**5,769**	5,663
Accrued pension benefits	**(2,574)**	(2,359)
Accrued other retirement benefits	**(675)**	(711)
	24,420	26,556
Net change in non-cash working capital balances related to operations *[note 12]*	**771**	1,877
Cash provided by operating activities	**25,191**	28,433
INVESTING ACTIVITIES		
Additions to utility capital assets	**(19,469)**	(22,548)
Additions to intangible assets	**(1,327)**	(1,724)
Proceeds on sale of utility capital assets	**227**	415
Decrease in other assets	**25**	813
Cash used in investing activities	**(20,544)**	(23,044)
FINANCING ACTIVITIES		
Decrease in long-term payable	**(250)**	(250)
Repayment of short-term loan payable	**(3,000)**	—
Dividends paid	**(4,000)**	(4,000)
Increase in contributions in aid of construction	**2,733**	2,046
Cash used in financing activities	**(4,517)**	(2,204)
Net increase in cash during the year	**130**	3,185
Cash, beginning of year	**5,397**	2,212
Cash, end of year	**5,527**	5,397

See accompanying notes

FortisOntario Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of FortisOntario Inc. [the "Corporation"] and its wholly owned subsidiaries, Canadian Niagara Power Inc. ["CNPI"], FortisOntario District Heating Inc. [formerly 1161557 Ontario Inc.], Cornwall Street Railway, Light and Power Company Limited ["Cornwall Electric"], and Algoma Power Inc. ["API"].

The principal businesses of the Corporation are the generation of electricity and the transmission and distribution of electricity to customers within Ontario. Certain of these businesses are regulated by the Ontario Energy Board ["OEB"].

2. BASIS OF ACCOUNTING AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

These consolidated financial statements have been prepared in accordance with Canadian accounting standards for private enterprises ["ASPE"], as per Part II of the CPA Handbook – Accounting, which constitutes generally accepted accounting principles for non-publicly accountable enterprises in Canada.

B. SIGNIFICANT ACCOUNTING POLICIES

Regulation

CNPI distribution

The distribution rates of CNPI are based upon cost-of-service rate regulation by the OEB. Earnings are regulated on the basis of a rate of return on rate base plus a recovery of all allowable distribution costs of CNPI.

On May 11, 2012, CNPI filed a Cost of Service Application for electricity distribution rates effective January 1, 2013. The application included the integration of smart meter costs into rate base, the recovery of stranded assets related to conventional meters and a rate rider designed to capture additional smart meter expenditures forecast to the end of 2012. The application also proposed changes to the accounting policy and estimates for utility capital assets. Since the majority of distributors in Ontario are transitioning to International Financial Reporting Standards ["IFRS"], and the OEB is requiring consistency amongst distributors, CNPI updated amortization rates and its capitalization of overhead policy effective for 2013. The OEB commissioned an amortization study, which was used as a guideline in updating the amortization rates. Consistent with International Accounting Standard 16 under IFRS, CNPI proposed that indirect overhead costs not be capitalized.

The OEB issued its Final Decision and Order on December 20, 2012 for new rates effective January 1, 2013, which resulted in a 6.8% increase for the average residential consumer in Fort Erie, a 5.9% increase for the average residential consumer in Gananoque and a 7.4% increase for the average residential consumer in Port Colborne effective January 1, 2013. The Decision and Order approves a 2013 base revenue requirement of $18,966,180 and provides an 8.93% return on equity ["ROE"] with a 60%/40% debt equity structure.

On August 16, 2013, CNPI filed its 2014 4th Generation Incentive Rate-setting Application ["4GIRM"] for electricity distribution rates effective January 1, 2014. This application was based on the OEB's guidelines for 4th Generation Incentive Regulation Mechanism. On January 9, 2014, the OEB issued its Decision and Order for CNPI; the final 4th Generation Incentive Price Index was 1.25% comprising 1.7% inflation, a 0% productivity factor and a 0.45% stretch factor [i.e., 1.7% - (0% + 0.45%)]. Rates were effective January 1, 2014. The overall bill impact for the average residential consumer in Fort Erie is a 0.9% increase, a 0.8% increase for the average residential consumer in Gananoque, and a 0.2% increase for the average residential consumer in Port Colborne.

On August 13, 2014, CNPI submitted its 2015 4GIRM for electricity distribution rates effective January 1, 2015. This application is a second in a series of rate applications to fully harmonize electricity distribution rates in Port Colborne with those of Fort Erie and Gananoque. The OEB issued its Decision and Order on December 4, 2014, and the net price cap index adjustment for 2015 is 1.15% [i.e. 1.6% - (0% + 0.45%)]. The overall bill impact for the average residential consumer in Fort Erie is a 1.4% decrease, a 1.5% decrease for the average residential consumer in Gananoque, and a 3.2% decrease for the average residential consumer in Port Colborne. These overall decreases are the result of the disposition of regulatory deferral and variance accounts.

CNPI transmission

The transmission rates of CNPI are based upon cost-of-service rate regulation by the OEB. Earnings are regulated on the basis of a rate of return on rate base plus a recovery of all allowable transmission costs of CNPI.

On November 17, 2014, CNPI submitted a Revenue Requirement Application for its Transmission business. This Application seeks approval of CNPI's 2015 and 2016 Transmission Revenue Requirement. It is anticipated that the OEB's review of this Application will occur in the first quarter of 2015.

API distribution

The distribution rates of API are based upon cost-of-service rate regulation by the OEB. Earnings are regulated on the basis of a rate of return on rate base plus a recovery of all allowable distribution costs of API.

API is subject to Ontario Regulation 335/07, which is the Rural and Remote Rate Protection subsidy program ["RRRP"]. The RRRP is calculated as the deficiency between the approved revenue requirement from the OEB and current customer distribution rates adjusted for the average rate increase across the Province of Ontario. API qualifies for this subsidy because it has less than seven customers per kilometre and a service area that extends beyond 10,000 kilometres. All general service and large customer classes have been reclassified as residential class under Ontario Regulation 445/07.

On October 22, 2012, API filed an incentive based distribution rates application for rates effective January 1, 2013. On March 28, 2013, the OEB issued its Decision and Order for API's 2013 distribution rates and smart meter initiative cost recovery. On the basis of the 3rd Generation Incentive Rate Mechanism ["3GIRM"] and Ontario Regulation 442/01, the overall revenue requirement increased by 0.88%; inflationary increase of 2.2% less a productivity factor of 0.72% and a stretch factor of 0.6%. Residential and commercial customers' rates were adjusted by the average increase in rates of all other distributors' rate changes in the most recent rate year, a 3.75% increase in distribution rates, while Seasonal and Street lighting customers realized a 0.88% increase equivalent to the 3GIRM adjustment. The difference in recovery from rates and the revenue requirement is compensated in the RRRP funding. The Decision and Order also stipulated that API will recover the smart meter costs allocated to the Residential R1 class through the RRRP funding mechanism while the smart meter costs allocated to Seasonal customers will be collected through a rate rider. The RRRP funding for 2013 was $12,369. All rates adjustments and changes to RRRP funding were effective January 1, 2013.

On August 16, 2013, API filed an application with the OEB seeking approval to change distribution rates effective January 1, 2014 based on 4GIRM. On December 19, 2013, the OEB issued a Procedural Order in respect of API's 2014 4GIRM. This Procedural Order made API's current distribution rates interim as of January 1, 2014 and ordered a written review of the circumstances that may have influenced the assignment of a stretch factor for API. In their Decision and Order dated February 20, 2014, the OEB agreed with API that the appropriate stretch factor to be used in the determination of price cap index for 2014 electricity distribution rates is the mid-point 0.3%. As a result, the 2014 net price cap index adjustment for API is 1.4% [i.e. 1.7% - (0% + 0.3%)]. The 2014 electricity distribution rates were effective January 1, 2014 and implemented on March 1, 2014, and a provision was made to collect foregone revenues through a rate rider. As a result of the OEB's Decision and Order the average residential customer of API experienced a 3.6% reduction in their electricity charges. The reduction is a result of the elimination of certain deferral and variance account rate riders for 2014.

In May 2014, API filed a cost of service electricity distribution rate application for rates effective January 1, 2015 based on a 2015 test year.

On September 8, 2014, a Settlement Conference convened at the OEB offices; neither a full nor partial settlement was reached by the parties. A Settlement Conference Call among the parties and OEB staff was reconvened on September 18, 2014, at which time a partial proposed settlement agreement was achieved. The base revenue requirement for the test year is being reduced by $589,731 to $22,836,700. The unsettled matters were presented in an oral hearing on October 20, 2014 and API presented its final written submissions on November 21, 2014.

The OEB issued its Decision and Order on January 8, 2015. The Decision and Order approves a 2015 Base Revenue Requirement of $22,816,180 and provides a 9.30% ROE with a 60%/40% debt equity structure.

Cornwall Electric
Cornwall Electric is subject to a rate-setting mechanism under the Franchise Agreement, which is the retail rate and service agreement between Cornwall Electric and The Corporation of the City of Cornwall. The rate-setting mechanism is based on a price cap with commodity cost flow-through. The base revenue requirement is adjusted annually for inflation, load growth, number of customers and premises vacancies. The rate years covering the operations for 2014 are from July 1, 2013 to June 30, 2014 and from July 1, 2014 to June 30, 2015.

Materials and supplies

Materials and supplies are recorded at average cost. Materials and supplies expensed to operating expenses in 2014 were $202 [2013 – $191].

Utility capital assets, capitalization policy and service life of utility capital assets

[a] Nature of distribution, transmission and generation assets

Distribution assets
Distribution assets are those used to distribute electricity at lower voltages [generally below 50 kilovolts]. These assets include poles, towers and fixtures, low-voltage wires, transformers, overhead and underground conductors, street lighting, meters, metering equipment and other related equipment.

[in thousands of dollars]

Transmission assets
Transmission assets are those used to transmit electricity at higher voltages [generally at 50 kilovolts and above]. These assets include poles, wires and conductors, substations, support structures and other related equipment.

Generation assets
Generation assets are those used to generate electricity. These assets include thermal generating stations, gas turbines and other related equipment.

[b] Service life ranges and average remaining service life of utility capital assets

The service life range and average remaining service life of the utility capital assets are as follows:

	Service life range [years]	Average remaining service life [years]
Distribution	10 to 50	32.7
Transmission	20 to 50	20.6
Generation	25 to 50	13.5

Utility capital assets are stated at cost less accumulated amortization. Amortization is provided over their estimated useful lives using the straight-line method at a composite rate of 2.5% [2013 – 2.5%].

Contributions in aid of construction represent funding of utility capital assets contributed by customers. These accounts are being reduced annually by an amount equal to the charge for amortization provided on the contributed portion of the utility capital assets involved.

[c] Capitalization policy and service life of utility capital assets

General expenses capitalized ["GEC"] are capitalized overhead costs that are not directly attributable to specific utility capital assets but relate to the Corporation's overall capital program. Prior to 2013, GEC was permitted to be capitalized by the OEB's Distribution Rate Handbook and Accounting Procedures Handbook. In 2012, CNPI filed a cost of service application with the OEB based on a 2013 test year. The OEB is currently using "modified IFRS" as an accounting basis. As discussed in "Regulation" above, CNPI had proposed changes to its capitalization policy in its cost of service application. These changes encompass adjustments to the useful lives of utility capital assets, changes to labour rates, and the elimination of GEC. The impact of these changes has resulted in higher operating expenses and lower amortization expense. CNPI had requested the recovery of these changes in the distribution rates. The changes were approved by the OEB and were incorporated on January 1, 2013 for CNPI.

[in thousands of dollars]

Due to an OEB mandate for comparability and consistency among all regulated utilities, API and Cornwall Electric incorporated changes to their capitalization policies consistent with CNPI as discussed above effective January 1, 2013. The impact of these changes has resulted in higher operating expenses and lower amortization for API and Cornwall Electric. API, as permitted by the OEB, has recognized the financial differences arising as a result of accounting changes to amortization expense and capitalization policies *[note 16]*.

In 2013, these changes were accounted for prospectively for regulatory purposes, and due to the complex nature of assigning overhead costs to property, plant and equipment, the Corporation could not reasonably quantify the retrospective impact of these changes.

Intangible assets

Intangible assets are stated at cost less accumulated amortization. Amortization is provided over their estimated useful lives using the straight-line method.

The service life range and average remaining service life of the intangible assets are as follows:

	Service life range [years]	Average remaining service life [years]
Software costs	5 to 10	5.7
Land and transmission rights	40	30.9
Other	50	29.3

Asset retirement obligations

ASPE requires the recognition of an asset retirement obligation in the period during which a legal obligation associated with the retirement of a tangible long-lived asset is incurred and when a reasonable estimate of this amount can be made.

The Corporation has determined that there are asset retirement obligations associated with some parts of its transmission, distribution and generation systems; however, none of these are material or require recognition under Section 3110 of the CPA Handbook.

Long-term investments

The Corporation accounts for its long-term investments using the cost method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

Goodwill

Goodwill represents the excess of the acquisition cost of the shares of CNPI, Cornwall Electric and Eastern Ontario Power Inc. [amalgamated with CNPI as of January 1, 2004] over the assigned value of identifiable net assets acquired, as well as the excess of the purchase price of the remaining utility capital assets of Port Colborne Hydro Inc. over the fair value of these assets.

ASPE requires that goodwill shall be tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the reporting unit to which the goodwill is assigned may exceed the fair value of the reporting unit. Any impairment in value is charged to earnings during the year.

Other assets

Other assets are amortized over their useful lives.

Revenue recognition

Revenue from the sale, transmission and distribution of electricity is recognized on the accrual basis. Electricity is metered upon delivery to customers and is recognized as revenue using approved rates when consumed. Meters are read periodically and bills are issued to customers based on these readings. At the end of the year, a certain amount of consumed electricity will not have been billed. Electricity that is consumed but not yet billed to the customers is estimated and accrued as revenue in the current year. Unbilled revenue included in accounts receivable as at December 31, 2014 is $14,995 [2013 –$14,889].

The Corporation of the City of Cornwall Franchise Agreement provides that Cornwall Electric sets electricity rates such that Cornwall Electric is guaranteed an annual gross margin on power sold of $12,956 [2013 –$12,815]. This guaranteed gross margin covers the rate years from July 1, 2013 to June 30, 2014 and from July 1, 2014 to June 30, 2015. The guaranteed gross margin is accrued on a pro-rated basis over the course of the year.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the consolidated balance sheet date. Gains and losses on translation are included in earnings for the year. Revenue and expenses are translated at the exchange rate prevailing on the transaction date.

Employee benefit plans and change in accounting policy

Effective January 1, 2014, the Corporation has adopted new CPA Handbook Section 3462, *Employee Future Benefits,* for its accounting of pension benefits and other retirement benefits. As allowed under new Section 3462, the Corporation has made an accounting policy choice to measure its defined benefit plan obligations using the funding valuation approach. This approach uses the most recent completed actuarial valuations prepared for funding purposes as the basis of measuring defined benefit plan obligations. Even though other retirement benefits are not funded, Section 3462 allows that such liabilities can be measured on a basis consistent with funded plans. As well, the Corporation is using a roll-forward technique in the years between valuations to estimate the defined benefit obligations. Pension plan assets are valued at fair value as of the consolidated balance sheet date. As required, the adoption of this new ASPE standard has been applied retroactively and the 2013 comparatives reflect these changes.

As a result of adopting CPA Handbook Section 3462 as of January 1, 2014, previously recognized unamortized pension and other retirement benefit amounts as at December 31, 2013 have been retroactively charged to retained earnings. As well, prior years' pension and other retirement benefits expenses have been restated upon the adoption of Section 3462. As a result, an amount of $12,701 has been charged to retained earnings effective January 1, 2014, offset by a corresponding increase in recorded pension liabilities of $8,978 and other retirement benefit liabilities of $3,723. The Corporation made an application to the OEB to allow recognition of regulatory assets related to unamortized amounts, and restatement of prior years' pension and other retirement benefit expenses, in CNPI and API that would otherwise be collected from customers through rates in subsequent years. In December 2013, the OEB issued a Decision and Order approving the establishment of specific deferral accounts for CNPI and API to recognize these amounts as long-term regulatory assets, which will be disposed of in the future cost of service proceedings, subject to the OEB's prudence review at that time. The Corporation has recorded a corresponding increase in retained earnings for the amount of $9,893 as of January 1, 2014 and has recognized $9,893 in long-term regulatory assets. The net charge to the Corporation's retained earnings is $2,808 as a result of the adoption of Section 3462 for these unamortized pension and other retirement benefit amounts and prior years' expense restatements. As well, the Corporation has reversed previously recognized future income tax liabilities in the amount of $3,366 related to the changes in the pension and other retirement benefit liabilities as of January 1, 2014. For CNPI and API, the Corporation has recognized offsetting regulatory liabilities related to the future income taxes expected to be recovered from customers in future electricity rates as of January 1, 2014 in the amount of $2,622. The net increase in the Corporation's retained earnings associated with the reversal of future tax liabilities is $744 as of January 1, 2014. Therefore, the total net charge to retained earnings as a result of the adoption of Section 3462 is $2,064, of which $211 relates to differences in pension and other retirement benefits expense for the year 2013 and $2,275 is a charge for years prior to 2013.

The Corporation made an application to the OEB for CNPI and API to continue to account for pension and other retirement benefits under the former Section 3461. In December 2013, the OEB issued a Decision and Order approving the establishment of specific variance accounts for CNPI and API as of January 1, 2013 to recognize the difference in expense between Sections 3461 and 3462 as long-term regulatory assets or liabilities for 2013 and future years, which will be disposed of in the future cost of service proceedings, subject to the OEB's prudence review at that time. For 2014, the difference in expense between former Section 3461 and the new Section 3462 using the funding valuation approach is a charge to income of $4,011 for pension expense, and a charge to income of $101 for other retirement benefits. Therefore, a total of $4,112 has been recognized as long-term regulatory liabilities in accordance with the OEB's Decision and Order in 2014. As well, an amount of $1,090 related to future income taxes on these amounts has been recognized as long-term regulatory assets in 2014.

Income taxes

The Corporation follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the temporary differences between the tax and accounting bases of assets and liabilities. Future tax assets and liabilities are measured using the enacted and substantively enacted tax rates expected to apply to taxable income in the period in which the temporary differences are expected to be recovered or settled. The Corporation recognizes regulatory assets and liabilities related to future tax assets and liabilities for the amount of future income taxes expected to be recovered from customers in future electricity rates for CNPI and API.

Use of estimates

The preparation of consolidated financial statements in conformity with ASPE 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

[in thousands of dollars]

3. UTILITY CAPITAL ASSETS

Utility capital assets consist of the following:

	2014		
	Cost $	**Accumulated amortization** $	**Net book value** $
Transmission	**28,621**	**12,983**	**15,638**
Distribution	**318,338**	**136,220**	**182,118**
Generation	**15,999**	**10,224**	**5,775**
Other	**47,835**	**28,983**	**18,852**
	410,793	**188,410**	**222,383**

	2013		
	Cost $	**Accumulated amortization** $	**Net book value** $
Transmission	26,278	12,251	14,027
Distribution	304,276	130,407	173,869
Generation	15,877	9,706	6,171
Other	46,087	27,574	18,513
	392,518	179,938	212,580

The amounts above include assets under construction of $10,198 [2013 –$8,193], which are not subject to amortization.

[in thousands of dollars]

4. INTANGIBLE ASSETS

Intangible assets consist of the following:

	2014		
	Cost $	**Accumulated amortization** $	**Net book value** $
Software costs	**15,686**	**9,818**	**5,868**
Land and transmission rights	**28,079**	**6,589**	**21,490**
Other	**406**	**111**	**295**
	44,171	**16,518**	**27,653**

	2013		
	Cost $	**Accumulated amortization** $	**Net book value** $
Software costs	14,649	8,794	5,855
Land and transmission rights	27,788	5,884	21,904
Other	406	101	305
	42,843	14,779	28,064

5. LONG-TERM INVESTMENTS

The Corporation's long-term investments are summarized as follows:

	2014 $	**2013** $
Investment in common shares of Westario Power Holdings Inc.	**2,076**	2,076
Investment in common shares of Rideau St. Lawrence Holdings Inc.	**452**	452
Investment in Class B preferred shares of Niagara Power Incorporated	**1,293**	1,293
	3,821	3,821

Through the ownership of the Class B preferred shares of Niagara Power Incorporated, the Corporation holds a 10% economic interest in Grimsby Power Inc.

[in thousands of dollars]

6. EMPLOYEE BENEFIT PLANS

The Corporation maintains three defined benefit pension plans and two defined contribution pension plans providing pension benefits, and three defined benefit plans providing other retirement benefits to most of its employees. The Corporation also makes contributions to the Ontario Municipal Employees' Retirement System ["OMERS"] plan on behalf of some of its employees. OMERS is a multi-employer defined benefit pension plan providing pension benefits and is accounted for as a defined contribution pension plan.

Information about the defined benefit plans for the Corporation, CNPI and Cornwall Electric is as follows:

	Pension benefit plans		Other retirement plans	
	2014	**2013**	**2014**	**2013**
	$	$	$	$
		[restated]		*[restated]*
Accrued benefit obligation				
Balance, beginning of year	**24,552**	24,558	**10,413**	10,343
Current service cost	**386**	368	**107**	102
Finance cost	**1,166**	1,166	**497**	491
Benefits paid	**(1,556)**	(1,504)	**(549)**	(627)
Actuarial losses (gains)	**(37)**	(36)	**100**	104
Balance, end of year	**24,511**	24,552	**10,568**	10,413
Plan assets				
Fair value, beginning of year	**25,938**	24,354	—	—
Interest income	**1,225**	1,138	—	—
Return on plan assets	**2,556**	228	—	—
Contributions	**1,736**	1,722	**549**	627
Benefits paid	**(1,556)**	(1,504)	**(549)**	(627)
Fair value, end of year	**29,899**	25,938	—	—
Funded status – plan surplus (deficit)	**5,388**	1,386	**(10,568)**	(10,413)

The measurement date for the plan assets and the accrued benefit obligation is December 31, 2014. The effective date of the most recent actuarial valuation was as of December 31, 2011 and the date of the next required valuation for funding purposes is as of December 31, 2014.

[in thousands of dollars]

The plan assets held at the measurement date are represented by the following categories:

	%
Canadian equity funds	**14**
U.S. equity funds	**13**
EAFE equity funds	**11**
Canadian fixed income funds	**60**
Cash and short-term investments	**2**

As at December 31, 2014, one of the two defined benefit pension plans had a net accrued benefit liability of $354 [2013 restated - $367]. This plan had no plan assets in 2014 or 2013.

Included in the accrued pension benefit liability as at December 31, 2014 is an unfunded defined contribution plan pension liability of $1,189 [2013 –$1,038] relating to the supplementary employee retirement plan.

	Pension benefit plans		**Other retirement plans**	
	2014	**2013**	**2014**	**2013**
	$	$	$	$
		[restated]		*[restated]*
Significant assumptions used				
Discount rate – beginning of year	**4.75%**	4.75%	**4.75%**	4.75%
Discount rate – end of year	**4.75%**	4.75%	**4.75%**	4.75%
Rate of compensation increase	**4.00%**	4.00%	**—**	—
Initial health care trend rate	**—**	—	**5.93%**	5.96%
Average remaining service life of active employees [years]	**5**	6	**9-16**	10-17
Net benefit expense (credit) for the year				
Current service cost	**386**	368	**107**	102
Finance cost	**(59)**	28	**497**	491
Remeasurement costs	**(2,594)**	(263)	**100**	104
Regulatory adjustments	**2,004**	312	**26**	24
Net benefit expense (credit)	**(263)**	445	**730**	721

Information about the Corporation's defined benefit plans for API is as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

	Pension benefit plans		Other retirement plans	
	2014	**2013**	**2014**	**2013**
	$	$	$	$
Accrued benefit obligation		*[restated]*		*[restated]*
Balance, beginning of year	**23,646**	22,829	**6,713**	6,150
Current service cost	**465**	460	**276**	268
Finance cost	**1,123**	1,084	**319**	292
Employee contributions	**191**	166	**—**	—
Benefits paid	**(1,279)**	(873)	**(127)**	(124)
Actuarial gains	**(35)**	(20)	**(45)**	(41)
Plan amendments	**—**	—	**—**	168
Balance, end of year	**24,111**	23,646	**7,136**	6,713
Plan assets				
Fair value, beginning of year	**21,712**	19,645	**—**	—
Interest income	**1,030**	929	**—**	—
Return on plan assets	**2,127**	965	**—**	—
Contributions	**1,028**	1,046	**127**	124
Benefits paid	**(1,279)**	(873)	**(127)**	(124)
Fair value, end of year	**24,618**	21,712	**—**	—
Funded status – plan surplus (deficit)	**507**	(1,934)	**(7,136)**	(6,713)

The measurement date for the plan assets and the accrued benefit obligation is December 31, 2014. The effective date of the most recent actuarial valuation was as of July 1, 2012 and the date of the next required valuation for funding purposes is as of July 1, 2015.

The plan assets held at the measurement date are represented by the following categories:

	%
Canadian equity funds	**17**
U.S. equity funds	**18**
EAFE equity funds	**15**
Canadian fixed income funds	**49**
Cash and short-term investments	**1**

As at December 31, 2014, one of the defined benefit pension plans had a net accrued benefit liability of $428 [2013 restated - $454]. This plan had no plan assets in 2014 or 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

	Pension benefit plans		Other retirement plans	
	2014	**2013**	**2014**	**2013**
	$	$	$	$
		[restated]		*[restated]*
Significant assumptions used				
Discount rate – beginning of year	**4.75%**	4.75%	**4.75%**	4.75%
Discount rate – end of year	**4.75%**	4.75%	**4.75%**	4.75%
Rate of compensation increase	**4.00%**	4.00%	**—**	—
Initial health care trend rate	**—**	—	**6.41%**	6.53%
Average remaining service year of active employees [years]	**14**	14	**16**	16
Net benefit expense for the year				
Current service cost	**465**	460	**276**	268
Finance cost	**93**	156	**319**	292
Plan amendments	**—**	—	**—**	168
Remeasurement costs	**(2,162)**	(986)	**(46)**	(41)
Regulatory adjustments	**2,007**	1,062	**75**	161
Net benefit expense	**403**	692	**624**	848

The total expense for the Corporation's defined contribution pension plans for the year amounted to $446 [2013 –$436]. The pension cost associated with the OMERS plan was $495 [2013 – $461].

[in thousands of dollars]

7. INCOME TAXES

The following is a reconciliation of the combined statutory income tax rate to the effective income tax rate:

	2014	2013
	%	%
		[restated]
Statutory income tax rate	**26.50**	26.50
Prior year adjustments on smart meters	**—**	1.45
Future income taxes transferred to regulatory assets	**(9.08)**	(5.02)
Other	**(0.66)**	0.67
Effective income tax rate	**16.76**	23.60

The provision for income taxes consists of the following:

	2014	2013
	$	$
		[restated]
Current income taxes	**1,678**	2,446
Future income taxes	**2,855**	1,141
Future income taxes transferred to regulatory assets	**(2,341)**	(625)
	2,192	2,962

Future income taxes are provided for temporary differences. Future tax assets and liabilities as at December 31 are comprised of the following:

	2014	2013
	$	$
		[restated]
Future tax assets (liabilities)		
Utility capital assets	**(5,110)**	(3,684)
Employee future benefits	**3,492**	4,959
Rate mitigation accrual	**1,987**	2,136
Other assets	**56**	(131)
Net future tax assets	**425**	3,280

[in thousands of dollars]

8. RELATED PARTY TRANSACTIONS

During the year, the Corporation entered into transactions with related parties summarized as follows:

	2014 $	**2013** $
Receipts		
Dividends on common shares of		
Westario Power Holdings Inc.	**71**	56
Rideau St. Lawrence Holdings Inc.	**16**	13
Niagara Power Incorporated	**28**	43
Services provided to		
Westario Power Holdings Inc.	**367**	210
FortisAlberta Inc.	**16**	14
Maritime Electric Company Limited	**39**	—
CH Energy Group Inc.	**35**	—
Fortis Inc.	—	11
Fortis Properties Corporation	—	16
Fortis Generation East Limited Partnership	**485**	547
Grimsby Power Inc.	**98**	93
Payments		
Dividends to Fortis Inc.	**4,000**	4,000
Purchased power from Fortis Generation East Limited Partnership	**1,679**	1,483
Interest on promissory notes to Fortis Inc.	**36**	—
Services provided by		
Fortis Inc.	**700**	613
Newfoundland Power Inc.	**11**	24
Maritime Electric Company, Limited	**2**	2
Westario Power Holdings Inc.	—	5
FortisBC Inc.	—	6

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

[in thousands of dollars]

As at December 31, the amounts due from (to) related parties are summarized as follows:

	2014 $	**2013** $
Fortis Inc.	**(23)**	(60)
FortisAlberta Inc.	**—**	5
Grimsby Power Inc.	**8**	14
Westario Power Holdings Inc.	**52**	39
Fortis Generation East Limited Partnership	**67**	(84)
CH Energy Group Inc.	**35**	—
Newfoundland Power Inc.	**(1)**	—
	138	(86)

Details of the relationships with related parties are as follows:

- Fortis Inc. owns a 100% interest in the capital stock of the Corporation.
- Maritime Electric Company Limited is a wholly owned subsidiary of FortisWest Inc., which itself is a wholly owned subsidiary of Fortis Inc.
- Fortis Properties Corporation is a wholly owned subsidiary of Fortis Inc.
- Newfoundland Power Inc. is a wholly owned subsidiary of Fortis Inc.
- Westario Power Holdings Inc. is 10% owned by the Corporation.
- FortisAlberta Inc. is a wholly owned subsidiary of Fortis Inc.
- The Corporation owns 10 Class B preferred shares of Niagara Power Incorporated.
- The Corporation indirectly owns 10% of Grimsby Power Inc. through the ownership of the Class B preferred shares in Niagara Power Incorporated.
- Fortis Generation East Limited Partnership is a wholly owned subsidiary of Fortis Inc.
- FortisBC Inc. is a wholly owned subsidiary of Fortis Inc.
- CH Energy Group Inc. is a wholly owned subsidiary of Fortis Inc.

[in thousands of dollars]

9. LONG-TERM DEBT

Long-term debt consists of the following:

	2014 $	2013 $
7.092% senior unsecured notes due August 14, 2018		
Canadian Niagara Power Inc.	**30,000**	30,000
Cornwall Street Railway, Light and Power Company Limited	**22,000**	22,000
5.118% senior unsecured notes due December 16, 2041		
Algoma Power Inc.	**52,000**	52,000
Unamortized debt issue costs	**(645)**	(716)
	103,355	103,284

The senior unsecured notes of CNPI and Cornwall Electric bear interest at 7.092% and are repayable at maturity on August 14, 2018. Interest expense on long-term debt for the year was $3,688 [2013 –$3,688].

The senior unsecured notes of API bear interest at 5.118% and are repayable at maturity on December 16, 2041. Interest expense for the year was $2,661 [2013 –$2,660].

10. CAPITAL STOCK

The authorized and issued capital stock consists of 1,001 common shares without par value.

11. AMORTIZATION

The amortization of utility capital assets and other assets consist of the following:

	2014 $	2013 $
Amortization of utility capital assets	**9,600**	9,249
Amortization of intangible assets	**1,738**	1,740
Amortization of contributions in aid of construction	**(555)**	(499)
	10,783	10,490
Vehicle amortization allocated	**(1,000)**	(998)
	9,783	9,492

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2014

12. CONSOLIDATED STATEMENT OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	2014 $	2013 $
Accounts receivable	**213**	(347)
Due from/to related parties	**(224)**	208
Materials and supplies	**(35)**	80
Prepaid expenses	**(20)**	32
Accounts payable and accrued liabilities	**(1,447)**	3,600
Regulatory assets/liabilities	**2,193**	(1,890)
Income taxes recoverable/payable	**91**	194
	771	1,877

Supplemental cash flow information:

	2014 $	2013 $
Interest paid	**6,696**	6,603
Income taxes paid	**2,288**	3,005

13. COMMITMENTS AND CONTINGENCIES

The Corporation has a building lease agreement until December 2019 with annual rent, operating costs and municipal taxes of $600.

The Corporation has gas purchase obligations until October 2019 at approximately $730 per year.

The Corporation is contingently liable under certain issued letters of credit amounting to $14,300.

14. FINANCIAL RISK MANAGEMENT

The Corporation is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments in the normal course of business.

[in thousands of dollars]

Credit risk:	Risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument.
Liquidity risk:	Risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.
Market risk:	Risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices.

Credit risk

For cash, trade and other accounts receivable due from customers, the Corporation's credit risk is limited to the carrying values on the consolidated balance sheet.

The Corporation is exposed to credit risk from its distribution customers but has various policies to minimize this risk. These policies include requiring customer deposits, performing disconnections and using third-party collection agencies for overdue accounts. The Corporation has a large and diversified distribution customer base which minimizes the concentration of credit risk.

The aging of the Corporation's consolidated trade and other receivables due from customers is as follows:

	2014 $
Not past due	**25,473**
Past due 0-30 days	**940**
Past due 31-60 days	**254**
Past due 61 days and over	**334**
	27,001
Less allowance for doubtful accounts	**343**
	26,658

Liquidity risk

The Corporation's exposure to liquidity risk is minimal. Financing of regulated capital and other expenditures is done through internally generated funds. These funds are a result of allowable rate-regulated returns and recoveries under the OEB rate regulation mechanism and the Cornwall Electric Franchise Agreement as described in note 2.

The Corporation is a subsidiary of Fortis Inc., a large investor-owned utility which has had the ability to raise sufficient and cost-effective financing. However, the ability to arrange financing on a go-forward basis is subject to numerous factors, including the results of operations and financial position of Fortis Inc. and its subsidiaries, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

[in thousands of dollars]

Also, to mitigate any liquidity risk, certain subsidiaries of the Corporation have committed revolving credit facilities and letters of credit facilities totalling $30,000, of which $15,700 is unused. The revolving credit facilities and letters of credit facilities are renewed on an annual basis. The following summary outlines the credit facilities of the Corporation:

	2014	**2013**
	$	$
Total credit facilities	**30,000**	30,000
Letters of credit outstanding	**(14,300)**	(14,300)
Short-term loan outstanding	**—**	(3,000)
Credit facilities available	**15,700**	12,700

The facilities of the subsidiaries are guaranteed by the Corporation. The credit facilities bear interest at the bankers' acceptance rate plus 1.20% in the case of bankers' acceptances, and at the bank's prime lending rate plus 0.20% in the case of bank loans.

The following is an analysis of the contractual maturities of the Corporation's financial liabilities as at December 31, 2014:

	< 1 year	**1-3 years**	**4-5 years**	**> 5 years**	**Total**
	$	$	$	$	$
Accounts payable and accrued liabilities	**19,426**	**—**	**—**	**—**	**19,426**
Government remittances payable	**224**	**—**	**—**	**—**	**224**
Customer deposits	**579**	**387**	**853**	**—**	**1,819**
Long-term payable	**—**	**125**	**—**	**—**	**125**
Long-term debt	**—**	**—**	**52,000**	**52,000**	**104,000**
	20,229	**512**	**52,853**	**52,000**	**125,594**

[in thousands of dollars]

Market risk

Interest rate risk

Long-term debt is at fixed interest rates, thereby minimizing cash flow and interest rate fluctuation exposure. The Corporation is primarily subject to risks associated with fluctuating interest rates on its short-term borrowings. As at December 31, 2014, the Corporation's short-term borrowings is nil [2013 –$3,000].

15. CAPITAL MANAGEMENT

The Corporation manages the capital of CNPI and API to approximate the deemed capital structure reflected in the utility's customer rates or anticipated future rates. For CNPI, effective January 1, 2013, the distribution rates are based on a deemed capital structure of 60% debt and 40% equity. CNPI's capital structure consists of third-party debt, affiliated debt and common equity, but excludes unamortized debt issue costs. API's distribution rates effective on January 1, 2015 are also based on a deemed capital structure of 60% debt and 40% equity. API's debt consists of third-party debt, excluding unamortized debt issue costs.

The managed capital of CNPI and API, combined, is as follows:

	2014 Actual		**2013 Actual**	
	$	%	$	%
Debt	**102,000**	**53**	102,000	54
Equity	**90,056**	**47**	87,059	46
	192,056	**100**	189,059	100

Certain of the Corporation's long-term debt obligations and credit facility agreements have covenants that restrict the issuance of additional debt such that subsidiary debt cannot exceed 75% of their respective capital structures as defined in the agreements. As at December 31, 2014, the subsidiaries were in compliance with their debt covenants.

16. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of regulatory requirements.

CNPI and API pay the cost of power on behalf of their customers and recover these costs through retail billings to their customers. The cost of power includes charges for transmission, wholesale market operations and the power itself from Ontario's Independent Electricity System Operator. The balance of the retail settlement variance account represents the costs that have not been recovered from, or settled through, customers as of the consolidated balance sheet date. The OEB's Distribution Rate Handbook and Accounting Procedures Handbook allow these costs to be deferred and recovered through future rate adjustments, as discussed in note 2B. In the absence of rate regulation, these costs would be expensed in the period they are incurred.

The seasonal revenue accrual is related to previous shortfalls in revenue for API's contributions from the seasonal customer class. The total cost allocated to the seasonal customer class was significantly higher than the total revenue generated through rates by that class. In order to recover the full cost, significant rate shock would have been incurred. In API's 2008 OEB Decision, the OEB had accepted API's proposal to mitigate significant rate impacts to the seasonal customer class by limiting the rate increase to 10%. As a result of the new 2010 Decision, API will collect the past amounts due from the seasonal customer class over a five-year period through specific rate adders. Effective with the new rates on December 1, 2010, the seasonal customer class rates are now designed to recover the full cost associated with this rate class.

The OEB has the general power to include or exclude costs, revenue, gains or losses in the rates of a specific period, resulting in the timing of revenue and expense recognition which may differ in the Corporation's regulated operations from those otherwise expected in non-regulated businesses. This change in timing gives rise to the recognition of regulatory assets and liabilities. The Corporation continually assesses the likelihood of recovery of its regulatory assets and believes that its regulatory assets and liabilities will be factored into the setting of future rates, as discussed in note 2B. If future recovery through rates is no longer considered probable, the appropriate carrying amount will be written off in the period that the assessment is made.

The Corporation of the City of Cornwall Franchise Agreement provides that Cornwall Electric is guaranteed an annual gross margin on energy sold subject to regulatory adjustments. The cost of power is a flow-through to the customers and the retail rates include an estimate of that power for the upcoming rate year. Variances occur as a result of actual gross margins differing from guaranteed gross margins. Gross margins will differ due to differences in the actual cost of power and electric usage by customers from expected levels. In the absence of rate regulation, there would be no guaranteed gross margin and Cornwall Electric's revenue would have been higher by $2,520 in 2014.

[in thousands of dollars]

In 2010, Cornwall Electric was subject to back charges in the amount of $1,250 as a result of previous errors in the billing of cost of power by its electricity provider HQ Energy Marketing, Inc. ["MEHQ"]. As per agreement, MEHQ is billing and collecting these amounts from Cornwall Electric effective July 1, 2011 over a five-year period. For 2014, an amount of $250 has been recorded as current accounts payable and $125 has been recorded as a long-term payable, which represents the balance of the back charges owing to MEHQ. Since the cost of power is a flow-through to the customers, an equal offsetting amount of $375 is recognized as a regulatory asset to be recovered from customers through future rate adjustments until July 2016.

In 2013, upon approval by the OEB, the Corporation integrated smart meters into rate base from amounts previously held as regulatory assets in CNPI of $4,365 and API of $3,262 as well as removed stranded meter assets of $1,238 in CNPI from utility capital assets and recognized these amounts as regulatory assets. On January 8, 2015, API received approval from the OEB to remove stranded meter assets of $278 from utility capital assets and recognize these amounts as regulatory assets.

In 2013, the smart meter revenue and expense balances previously held in regulatory assets were transferred to the consolidated statement of earnings per the guidance provided in the OEB Accounting Procedures Handbook. The net disposition costs were $366.

In 2014, as discussed in note 2 under "Capitalization policy and service life of utility capital assets", API has recorded a regulatory liability of $710 [2013 – $669] in OEB account 1576 for a total cumulative regulatory liability of $1,379.

The following table provides the detailed revenue and costs associated with these regulatory adjustments:

	2014 $	2013 $
Smart meters		
Billed revenue	—	4,098
Less: return on equity previously booked	—	(1,792)
	—	2,306
Amortization	—	(2,217)
Operating costs	—	(151)
Reduction in regulatory interest income	—	(304)
Net smart meter disposition costs	—	(366)
Transitional adjustments for API related to accounting changes to amortization expense and capitalization policy	**(710)**	(669)
Other regulatory adjustments	**(710)**	(1,035)

[in thousands of dollars]

Regulatory assets and liabilities are not subject to a regulatory return; however, the balances include an accrual for interest recoverable/payable as permitted by the regulators. The purpose of the following table is to provide reconciliation between the regulatory assets and liabilities and the remaining rebate period:

	2014 $	2013 $ *[restated]*	Remaining rebate period
Current regulatory assets			
Amounts approved in current rates	**597**	3,255	**1 year**
The Corporation of the City of Cornwall franchise revenue variances	**1,009**	560	**1 year**
	1,606	3,815	
Long-term regulatory assets			**2 years**
Amounts approved in current rates	**798**	798	**2 years**
Retail settlement and other variance accounts	**4,368**	2,992	
The Corporation of the City of Cornwall franchise revenue variances	**—**	2,504	**2 years**
Seasonal revenue accrual	**760**	760	**in rate-base**
Smart meter variance account	**41**	40	**2013**
Future income taxes to be recovered from customers	**5,047**	3,289	**Life of assets** **EARSL**
Pension and other retirement benefits	**5,828**	9,893	
	16,842	20,276	
Current regulatory liabilities			
Amounts approved in current rates	**6**	—	**1 year**
Ontario clean energy benefits	**1,546**	1,565	**1 month**
Other	**64**	67	
	1,616	1,632	
Long-term regulatory liabilities			
The Corporation of the City of Cornwall franchise revenue variances	**465**	—	
Future income taxes to be recovered from customers	**—**	583	**life of assets**
Retail settlement and other variance accounts	**6,029**	4,202	**2 years**
Other	**1,463**	837	
	7,957	5,622	

17. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2014 consolidated financial statements.

(v) Renewable Energy Systems Canada Inc.

- Year End July 31, 2013 Financial Statements

Note: The financials for Renewable Energy Systems Canada Inc. are unaudited as they are part of the consolidated financials for Renewable Energy Systems Holdings Limited. As such, we have included both the unaudited financials for Renewable Energy Systems Canada Inc. and the audited financial statements for Renewable Energy Systems Holdings Limited.

Note: There are two sets of statements for 2013 due to the entity undergoing an amalgamation wherein the FY2013 year-end was changed from October 31 to July 31, and then back to October 31 for the remainder of FY2013. For FY2014, year-end was October 31.

Renewable Energy Systems Canada Inc.
Statement of Operations and Balance Sheet in CAD
For Year Ended July 31, 2013

Statement of Operations in CAD

REVENUE	$	-
COST OF GOODS SOLD		
Cost of Goods Sold	$	-
Gain on Settlement of Derivatives	$	-
Unrealized Gain/Loss on Derivatives	$	-
GROSS PROFIT (LOSS)	$	-
OPERATING EXPENSES		
Selling, General, and Administration	$	(7,854,030)
Operating Expenses - Development	$	(3,588,883)
Turbine Deposit Write-Off	$	-
Depreciation and Amortization	$	(495,698)
Accretion	$	(2,332)
Foreign Currency Gain/Loss	$	(775,454)
Gain on Sale of Turbine Deposit	$	-
TOTAL OPERATING EXPENSES	$	(12,716,398)
INCOME FROM OPERATIONS	$	(12,716,398)
EARNINGS FROM UNCONSOLIDATED AFFILIATES	$	1,292,031
MINORITY INTEREST IN NET GAIN/LOSS OF SUBSIDIARY	$	-
INTEREST INCOME	$	2,645,244
INTEREST EXPENSE	$	(30,561)
INCOME BEFORE INCOME TAXES PROVISION	$	(8,809,683)
INCOME TAX PROVISION	$	5,434,535
NET INCOME (LOSS)	**$**	**(3,375,148)**

Balance Sheet in CAD

ASSETS

CURRENT ASSETS		
Cash and Cash Equivalent	$	77,434
Restricted Cash - Current	$	-
Accounts Receivable	$	(44,208,299)
Costs and Earnings in Excess of Billings	$	-
Derivative Asset - Current	$	-
Turbine Deposits	$	-
Prepaid Expenses and Other Assets	$	384,258
Deferred Costs	$	-
Income Tax Receivable	$	-
Deferred Tax Asset - Current	$	(3,345,202)
TOTAL CURRENT ASSETS	$	(47,091,809)
Restricted Cash - Long Term	$	-
Accrued Receivable - Long Term	$	-
Notes Receivable - Related Party	$	-
Loan Receivable	$	-
Derivative Asset - Long Term	$	-
Property and Equipment, Net	$	2,398,259
Wind Plant Assets	$	-
Development Work in Progress	$	-
Deferred Financing Costs	$	-
Deferred Tax Asset - Long Term	$	(770,954)
Other Long Term Assets	$	-
Goodwill	$	2,025
Investment in Unconsolidated Subsidiary	$	2,314,724
TOTAL ASSETS	**$**	**(43,147,754)**

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts Payable	$	(68,273)
Advances from Related Parties	$	-
Billings in Excess of Costs and Earnings	$	-
Accrued Liabilities	$	(498,805)
Income Taxes Payable	$	3,532,893
Asset Retirement Obligation - Short Term	$	-
Current Derivative Liability	$	-
Current Maturities of Long Term Debt	$	-
TOTAL CURRENT LIABILITIES	$	2,965,814

Accrued Liability - Long Term	$	-
Notes Payable - Related Party	$	(1,240,977)
Long-Term Debt - Net of Current Maturities	$	-
Derivative Liability - Long Term	$	-
Construction Debt	$	-
Asset Retirement Obligation	$	(260,932)
Deferred Tax Liability	$	-
TOTAL LIABILITIES	$	1,463,906
Commitments and Contigencies	$	-
Minority Interest in Subsidiary	$	-
STOCKHOLDERS' EQUITY		
Common Stock	$	(200)
Additional Paid in Capital	$	-
Other Equity	$	(20)
Retained Earnings	$	41,684,069
TOTAL STOCKHOLDERS' EQUITY	$	41,683,849
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$**	**43,147,754**
	$	-

(vi) Renewable Energy Systems Canada Inc.

- August 1 to October 31, 2013 Financial Statements

<u>Note</u>: The financials for Renewable Energy Systems Canada Inc. are unaudited as they are part of the consolidated financials for Renewable Energy Systems Holdings Limited. As such, we have included both the unaudited financials for Renewable Energy Systems Canada Inc. and the audited financial statements for Renewable Energy Systems Holdings Limited.

<u>Note</u>: There are two sets of statements for 2013 due to the entity undergoing an amalgamation wherein the FY2013 year-end was changed from October 31 to July 31, and then back to October 31 for the remainder of FY2013. For FY2014, year-end was October 31.

Renewable Energy Systems Canada Inc.
Statement of Operations and Balance Sheet in CAD
For Period August 1 through October 31, 2013

Statement of Operations in CAD

REVENUE	$	6,106
COST OF GOODS SOLD		
Cost of Goods Sold	$	-
Gain on Settlement of Derivatives	$	-
Unrealized Gain/Loss on Derivatives	$	-
GROSS PROFIT (LOSS)	$	6,106
OPERATING EXPENSES		
Selling, General, and Administration	$	(1,334,345)
Operating Expenses - Development	$	(1,208,948)
Turbine Deposit Write-Off	$	-
Depreciation and Amortization	$	(132,293)
Accretion	$	-
Foreign Currency Gain/Loss	$	(225,320)
Gain on Sale of Turbine Deposit	$	-
TOTAL OPERATING EXPENSES	$	(2,900,906)
INCOME FROM OPERATIONS	$	(2,894,801)
EARNINGS FROM UNCONSOLIDATED AFFILIATES	$	(180,902)
MINORITY INTEREST IN NET GAIN/LOSS OF SUBSIDIARY	$	-
INTEREST INCOME	$	710,335
INTEREST EXPENSE	$	(22,091)
INCOME BEFORE INCOME TAXES PROVISION	$	(2,387,458)
INCOME TAX PROVISION	$	(410,373)
NET INCOME (LOSS)	**$**	**(2,797,831)**

Balance Sheet in CAD

ASSETS

CURRENT ASSETS		
Cash and Cash Equivalent	$	1,299,207
Restricted Cash - Current	$	-
Accounts Receivable	$	(48,164,084)
Costs and Earnings in Excess of Billings	$	-
Derivative Asset - Current	$	-
Turbine Deposits	$	-
Prepaid Expenses and Other Assets	$	368,172
Deferred Costs	$	-
Income Tax Receivable	$	-
Deferred Tax Asset - Current	$	(1,571,284)
TOTAL CURRENT ASSETS	$	(48,067,989)
Restricted Cash - Long Term	$	-
Accrued Receivable - Long Term	$	-
Notes Receivable - Related Party	$	-
Loan Receivable	$	-
Derivative Asset - Long Term	$	-
Property and Equipment, Net	$	2,396,963
Wind Plant Assets	$	-
Development Work in Progress	$	-
Deferred Financing Costs	$	-
Deferred Tax Asset - Long Term	$	(935,487)
Other Long Term Assets	$	-
Goodwill	$	2,025
Investment in Unconsolidated Subsidiary	$	2,241,004
TOTAL ASSETS	**$**	**(44,363,484)**

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts Payable	$	(129,410)
Advances from Related Parties	$	-
Billings in Excess of Costs and Earnings	$	-
Accrued Liabilities	$	(666,802)
Income Taxes Payable	$	2,613,136
Asset Retirement Obligation - Short Term	$	-
Current Derivative Liability	$	-
Current Maturities of Long Term Debt	$	-
TOTAL CURRENT LIABILITIES	$	1,816,924

Accrued Liability - Long Term	$	-
Notes Payable - Related Party	$	(1,674,187)
Long-Term Debt - Net of Current Maturities	$	-
Derivative Liability - Long Term	$	-
Construction Debt	$	-
Asset Retirement Obligation	$	(260,932)
Deferred Tax Liability	$	-
TOTAL LIABILITIES	$	(118,195)
Commitments and Contigencies	$	-
Minority Interest in Subsidiary	$	-
STOCKHOLDERS' EQUITY		
Common Stock	$	(200)
Additional Paid in Capital	$	-
Other Equity	$	(20)
Retained Earnings	$	44,481,899
TOTAL STOCKHOLDERS' EQUITY	$	44,481,679
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$**	**44,363,484**
	$	-

(vii) Renewable Energy Systems Canada Inc.

- Year End October 31, 2014 Financial Statements

Note: The financials for Renewable Energy Systems Canada Inc. are unaudited as they are part of the consolidated financials for Renewable Energy Systems Holdings Limited. As such, we have included both the unaudited financials for Renewable Energy Systems Canada Inc. and the audited financial statements for Renewable Energy Systems Holdings Limited.

Note: There are two sets of statements for 2013 due to the entity undergoing an amalgamation wherein the FY2013 year-end was changed from October 31 to July 31, and then back to October 31 for the remainder of FY2013. For FY2014, year-end was October 31.

Renewable Energy Systems Canada Inc.
Statement of Operations and Balance Sheet in CAD
For Year Ended October 31, 2014

Statement of Operations in CAD

REVENUE	$	793,955
COST OF GOODS SOLD		
Cost of Goods Sold	$	-
Gain on Settlement of Derivatives	$	-
Unrealized Gain/Loss on Derivatives	$	-
GROSS PROFIT (LOSS)	$	793,955
OPERATING EXPENSES		
Selling, General, and Administration	$	(5,063,270)
Operating Expenses - Development	$	(5,196,198)
Turbine Deposit Write-Off	$	-
Depreciation and Amortization	$	(772,020)
Accretion	$	-
Foreign Currency Gain/Loss	$	161,934
Gain on Sale of Turbine Deposit	$	-
TOTAL OPERATING EXPENSES	$	(10,869,553)
INCOME FROM OPERATIONS	$	(10,075,598)
EARNINGS FROM UNCONSOLIDATED AFFILIATES	$	(65,780)
MINORITY INTEREST IN NET GAIN/LOSS OF SUBSIDIARY	$	-
INTEREST INCOME	$	1,859,180
INTEREST EXPENSE	$	(941)
INCOME BEFORE INCOME TAXES PROVISION	$	(8,283,138)
INCOME TAX PROVISION	$	2,764,389
NET INCOME (LOSS)	**$**	**(5,518,749)**

Balance Sheet in CAD

ASSETS

CURRENT ASSETS

Cash and Cash Equivalent	$	108,000
Restricted Cash - Current	$	-
Accounts Receivable	$	(36,533,768)
Costs and Earnings in Excess of Billings	$	-
Derivative Asset - Current	$	-
Turbine Deposits	$	-
Prepaid Expenses and Other Assets	$	405,567
Deferred Costs	$	-
Income Tax Receivable	$	-
Deferred Tax Asset - Current	$	(151,530)
TOTAL CURRENT ASSETS	$	(36,171,731)
Restricted Cash - Long Term	$	-
Accrued Receivable - Long Term	$	-
Notes Receivable - Related Party	$	-
Loan Receivable	$	-
Derivative Asset - Long Term	$	-
Property and Equipment, Net	$	2,283,528
Wind Plant Assets	$	-
Development Work in Progress	$	-
Deferred Financing Costs	$	-
Deferred Tax Asset - Long Term	$	(730,731)
Other Long Term Assets	$	15,000
Goodwill	$	2,025
Investment in Unconsolidated Subsidiary	$	4,181,452
TOTAL ASSETS	**$**	**(30,420,456)**

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts Payable	$	(134,868)
Advances from Related Parties	$	-
Billings in Excess of Costs and Earnings	$	(1,000,000)
Accrued Liabilities	$	(552,768)
Income Taxes Payable	$	4,403,926
Asset Retirement Obligation - Short Term	$	-
Current Derivative Liability	$	-
Current Maturities of Long Term Debt	$	-
TOTAL CURRENT LIABILITIES	$	2,716,290

Accrued Liability - Long Term	$	-
Notes Payable - Related Party	$	(1,192,451)
Long-Term Debt - Net of Current Maturities	$	-
Derivative Liability - Long Term	$	-
Construction Debt	$	-
Asset Retirement Obligation	$	(260,932)
Deferred Tax Liability	$	-
TOTAL LIABILITIES	$	1,262,907
Commitments and Contigencies	$	-
Minority Interest in Subsidiary	$	-
STOCKHOLDERS' EQUITY		
Common Stock	$	(200)
Additional Paid in Capital	$	-
Other Equity	$	(520)
Retained Earnings	$	29,158,269
TOTAL STOCKHOLDERS' EQUITY	$	29,157,549
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$**	**30,420,456**
	$	(0)

(viii) Renewable Energy Systems Holdings Limited

- 2013 Audited Financial Statements

Renewable Energy Systems Holdings Limited

Annual Report and Financial Statements

31 October 2013

Registered in England and Wales
No. 4913497

Renewable Energy Systems Holdings Limited
Report and Financial Statements for the year ended 31 October 2013
Contents

Renewable Energy Systems Holdings Limited
Company Information

Directors
C McAlpine
G M McAlpine BA (Hons) MSc
I D Mays MBE, BSc PhD
S Reilly
D C Joyce CA
M C Shelley ACA
D S Jenkins FCA

Secretary
D Hearth

Independent auditor
Deloitte LLP
Chartered Accountants
London

Registered office
Beaufort Court
Egg Farm Lane
Kings Langley
Hertfordshire
WD4 8LR

Registered number
4913497

Renewable Energy Systems Holdings Limited
Directors' Report
For the year ended 31 October 2013

The Directors present their report and audited financial statements for the year ended 31 October 2013 for the Renewable Energy Systems Holdings Limited Group ("the Group").

Principal activities
The principal activities of the Group are the development, construction and operational management of renewable energy projects and infrastructure. This includes the sale of fully developed projects and also the production and sale of electricity from projects where ownership has been retained. The Group has operations in Europe, the Americas, Australasia and Africa.

Directors
The directors who have held office throughout the year, and those that have been appointed in the year, are as follows:

C McAlpine (*Chairman*)
G M McAlpine
I D Mays
M C Shelley
D S Jenkins
S Reilly
D C Joyce

Directors Indemnities
The Company has made no qualifying third party indemnity provisions for the benefit of its directors.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group is set out in the Consolidated Balance Sheet and the accompanying notes to the financial statements. The Group's cash and borrowings positions are set out in the Strategic Report and notes 18, 19, 20 and 25 to the financial statements. A description of the Group's financial risks is also set out in the Strategic report.

At the year end the Group had cash of £194.3 million (2012: £76.5 million). In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group uses a mixture of long-term limited recourse borrowings and access to a medium term revolving credit facility, which at 31 October 2013, was not drawn down upon. As a consequence, the directors believe that the Group will be able to manage its business risks successfully. The Group intends to secure further facilities in the forthcoming year as it seeks to invest in the construction of projects reaching financial close in the UK and France.

Cash forecasts identifying the liquidity requirements of the Group are produced regularly. These are reviewed by the board to ensure that sufficient financial facilities are available for at least twelve months from the date of signing the accounts.After making enquiries, the directors have a reasonable expectation that the company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Disabled employees
In dealing with disabled persons, the Group acts in accordance with its Equal Opportunity and Diversity policy, which specifies that employees with disabilities will receive fair treatment and be considered according to their ability to do the job, following reasonable adjustments where appropriate. Decisions on recruitment, selection, training, promotion and career management are based on objective and job-related criteria.

Employee consultation
Information affecting Group employees is communicated using a combination of methods including self-service intranet, email, team meetings, individual consultation as well as the cascading of the quarterly Core Brief from the Chief Executive Officer.A Group-wide bonus scheme is in operation to enable employees to share in the success of the Group and to recognise their efforts in contributing to that success.

Dividends
Subsequent to the year end, the company declared an interim dividend of £24.9m. £0.1m was waived and £24.8m was paid (2012: £nil). This is not included in the accounts.

Auditor
Each of the persons who is a director at the date of approval of this report confirms that:

1) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and

2) the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as the company's auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:

I D Mays
Chief Executive Officer
7 February 2014

Renewable Energy Systems Holdings Limited
Strategic Report
For the year ended 31 October 2013

We set out below our Strategic Report.

Objectives, Strategy and Business Model
The Group continues to focus resource on markets where substantial renewable energy growth is expected, including its core markets in Europe and North America and continues to invest in development activities in both established and new markets in line with the Group's strategic plan.

The Group is engaged in renewable energy project development, construction and energy generation in the markets in which it operates around the world. This is generally achieved by establishing local operations, overseen by three regional boards of directors which report to the main Board. The Group aims to continue to grow its portfolio of energy generating assets, by funding its own portfolio of development assets through to the completion of construction. This is achieved via a combination of; recycling cash generated from selling development assets reaching financial close (with or without follow-on construction contracts), third party construction activity, sale of energy generated from operational assets, and non-recourse bank financing.

As well as expanding the Group's operation into new renewable technologies and new territories, the Group continues to diversify into technologies which are complementary to its core renewable energy operations, such as energy storage technologies and transmission development and construction.

Financial overview
The Group achieved turnover of £453.0 million (2012: £449.1 million). Profit before tax totalled £144.6 million (2012: £0.5 million).

During the year, the Group sold fourteen operational wind farm subsidiaries and one operational solar PV park subsidiary to a new listed renewable energy fund, The Renewables Infrastructure Group ("TRIG"). These former subsidiaries are located in the UK, France and the Republic of Ireland respectively. At the same time, the Group also acquired 15 million shares which at 31 October 2013 represented 5% of the total equity of TRIG. The Group retains operational and asset management responsibilities over the assets which were sold. In addition to acquiring projects from the open market, TRIG will have a right of first offer over a pipeline of projects developed by RES, worth an estimated £200 million in enterprise value annually (on average). The transaction resulted in profits of £191.7 million.

Offsetting the profits on sale of windfarm subsidiaries to TRIG, the Group has continued to invest heavily in it's development business, with the majority of these costs being expensed rather than capitalised. In addition the Group booked an impairment charge totalling £12.4m in relation to an operating asset in France where wind yields have remained below original expectations.

Cash balances at 31 October 2013 totalled £194.3 million (2012: £76.5 million) and remain strong despite continued investment in the Group's portfolio of retained operational assets in the United Kingdom and France. As a result of the transfer of project finance debt associated with the disposal of windfarm subsidiaries to TRIG, at 31 October 2013 the Group had total bank and related party loans of £221.4 million (2012: £485.1 million) of which 97% (2012: 92%) are long-term, limited recourse project finance debt.

Net assets at 31 October 2013 totalled £326.7 million (2012: £179.0 million).

Strategic Review
The Group monitors a number of financial and non-financial Key Performance Indicators (KPIs) which include, but are not limited to, health and safety performance, sustainability (which incorporates four primary strands: reputation, business, social and environment), megawatts (MWs) of wind and solar PV assets both in development and constructed, annual valuation of the operating portfolio of assets, turnover and profit before tax. Further detail is provided in the preceding and following paragraphs within the Strategic Report, and in the segmental analysis in note 2.

The Group constructed projects totalling 595 MWs in the year ended 31 October 2013, of which 38 MWs were completed in relation to three projects which have been retained within the Group in Scotland, France and England respectively. These construction MWs are calculated on a percentage completion basis. No development or construction profits are recognised in the year in respect of projects retained within the Group.

The following commentary summarises the performance in the year, for the Group's core markets.

The Americas

Activity in the USA centred around the progression of a 270 MW third party construction project for a wind farm in Washington. In addition, a 220 MW wind development project was sold during the year. Looking ahead, the Group has secured a pipeline of 460 MW of construction work to commence from 2014, relating to three specific projects, linked to the current Production Tax Credit regime.

Construction in Canada saw the progression of a 270 MW third party construction and commencement of the construction of five solar PV farms totalling 50 MW. Significant wind and solar PV development opportunities exist across Canada, and the Group continues to invest in this market.

The Group also continues to progress wind farm development opportunities in Chile.

Europe

In the United Kingdom, construction was completed on two wind farms totalling 22 MW which have been retained by the Group with the construction phase being financed on balance sheet. The Group also sold a 99 MW development asset to a major utility.

In France, despite delays in the consenting process, the Group continues to invest in development sites expected to yield significant construction activity in 2013 and beyond. Construction was completed on a 16 MW wind energy project which has been retained by the Group and project financed.

Sweden saw the sale of a 144 MW development project, which includes a follow-on an Engineer, Procure and Construct (EPC) construction contract, to be completed in 2014.

The Group continues to invest in wind farm development opportunities in Turkey, Norway and Germany.

Australasia and Africa

In Australia, the Group is actively engaged in positioning its second major project towards financial close. Development work continues in South Africa, ahead of the next tendering process.

Offshore

The Group continues to expand its project development, engineering, construction, operation and maintenance services to the offshore wind and marine energy industries. This includes wind farms in development, construction and operation throughout the offshore waters of primarily the United Kingdom and France.

The Group, as a member of two separate consortia, continues to develop an offshore wind farm off the south east coast of County Down, Northern Ireland with potential for 600 MW of capacity and a 500 MW offshore wind project in the area of Saint-Brieuc, off the coast of Brittany, France.

The Group is actively engaged in other offshore wind opportunities in both Europe and North America.

Generation

Despite the sale to TRIG, the Group retains a portfolio of 15 operational wind farms in the UK, Ireland, France, Sweden, and the USA, which collectively total 240 turbines. Overall, the results of the operating wind farm portfolio exceeded expectations during the year.

Principal trading risks

The Directors believe the principal risks and uncertainties facing the Group arise from the unpredictable duration of local planning processes necessary to build-out wind farm development sites and the uncertainty associated with potential changes to national renewable energy incentive schemes.

Variability of Wind

The Group's revenues are impacted by inherent variability in local wind conditions from year-to-year. In the medium and longer term, wind conditions are expected to closely match statistical trends based on historic data utilised in the project feasibility studies in the early development phase.

Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including currency, interest, credit, liquidity and price risk. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The Group does not use derivatives for speculative purposes.

(i) Currency risk

Exposure to foreign currency movements from operating activities are hedged through the use of forward foreign exchange contracts.

(ii) Interest risk

The Group's policy is to actively manage interest rate risk on long-term borrowings. This is achieved by using interest rate swaps which are both fixed and floating in nature.

(iii) Credit risk

The Group's policy is to limit counterparty exposures by setting credit limits and monitoring credit ratings.

(iv) Liquidity risk

Cash forecasts identifying the liquidity requirements of the Group are produced monthly. These are reviewed by the board to ensure that sufficient financial facilities will be available for at least the following twelve month period.

(v) Price risk

The Group enters into long-term Power Purchase Agreements for its operating wind farms. Turbine supply contracts are typically executed at project financial close, prior to which project profitability is assessed by the Group's risk management processes. Financial guarantees are sought for any significant stage payments made by the Group ahead of fulfilment of all the obligations from the supplier, for example in the case of Turbine supply contracts.

Approved by the Board and signed on its behalf by:

I D Mays
Chief Executive Officer
7 February 2014

Renewable Energy Systems Holdings Limited
Statement of Directors' Responsibilities
For the year ended 31 October 2013

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and accounting estimates that are reasonable and prudent;

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and,

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report
To the member of Renewable Energy Systems Holdings Limited

We have audited the financial statements of Renewable Energy Systems Holdings Limited ("the Group") for the year ended 31 October 2013 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's member, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 October 2013 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Andrew Clark FCA

Andrew Clark (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
7 February 2014

Renewable Energy Systems Holdings Limited
Consolidated Profit and Loss Account
For the year ended 31 October 2013

	Notes	2013 £'000	2012 £'000
Group turnover	2	**452,977**	**449,113**
Cost of sales		(395,448)	(397,968)
(Impairment)/writeback of operating assets	10	(12,407)	9,138
Total cost of sales		(407,855)	(388,830)
Gross profit		**45,122**	**60,283**
Administrative expenses		(58,230)	(51,536)
Profit on disposal of wind farm subsidiaries	7,14	191,650	31,513
Share of operating loss in associates	3	(4,218)	(3,257)
Share of operating loss in joint ventures	4	(2,478)	(434)
Total operating profit	7	**171,846**	**36,569**
Loss on disposal of subsidiary	14	(199)	-
Investment income and interest receivable			
Group	5	8,759	4,187
Associates		13	333
Interest payable and similar charges			
Group	6	(35,254)	(40,451)
Associates		(588)	(109)
Profit on ordinary activities before taxation		**144,577**	**529**
Tax credit/(charge) on profit on ordinary activities	9	1,985	12,017
Profit on ordinary activities after taxation		**146,562**	**12,546**
Equity minority interests		1,027	245
Profit for the financial year	23	**147,589**	**12,791**

All transactions are derived from continuing operations.

Renewable Energy Systems Holdings Limited
Consolidated Statement of Total Recognised Gains and Losses
For the year ended 31 October 2013

	2013 £'000	2012 £'000
Profit for the financial year	147,589	12,791
Revaluation of TRIG Investment	225	-
Income to be settled in TRIG shares	48	-
Currency translation differences on foreign currency net investment	812	(2,474)
	148,674	10,317

Renewable Energy Systems Holdings Limited
Consolidated Balance Sheet
As at 31 October 2013

	Notes	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Fixed assets					
Intangible assets - goodwill	11		6,879		9,900
Tangible assets	12		350,600		577,148
Associates	13		-		1,048
Joint ventures:	13				
Share of gross assets		2,871		587	
Share of gross liabilities		(690)		(360)	
			2,181		227
Other investments	13		15,275		50
			374,935		588,373
Current assets					
Stocks and work in progress	15	42,174		48,171	
Debtors					
- due within one year	16	136,285		122,722	
- due after one year	16	38,207		11,469	
Cash at bank and in hand	18	194,264		76,475	
			410,930		258,837
Creditors: amounts falling due within one year	19		(220,382)		(203,516)
Net current assets			190,548		55,321
Total assets less current liabilities			565,483		643,694
Creditors: amounts falling due after more than one year	20		(204,265)		(451,445)
Provisions for liabilities and charges	21		(34,565)		(13,281)
Net assets	2		**326,653**		**178,968**
Capital and reserves					
Called up share capital	22		60,000		60,000
Merger reserve	23		9,584		9,584
Revaluation reserve	23		225		-
Other reserves	23		(4,143)		(5,003)
Profit and loss account	23		262,220		114,631
Shareholder's funds	24		**327,886**		**179,212**
Minority interests			(1,233)		(244)
Total capital and reserves			**326,653**		**178,968**

The financial statements of Renewable Energy Systems Holdings Limited Group (registered number 4913497) were approved by the Board of Directors and authorised for issue on 7 February 2014, and were signed on its behalf by:

I D Mays
Director
7 February 2014

Renewable Energy Systems Holdings Limited
Company Balance Sheet
As at 31 October 2013

	Notes	2013 £'000	2012 £'000
Fixed assets			
Investments	13	42,801	45,591
Current assets			
Debtors	16	4,612	4,410
Creditors: amounts falling due within one year	19	-	-
Net current assets		4,612	4,410
Total assets less current liabilities		**47,413**	**50,001**
Capital and reserves			
Called up share capital	22	60,000	60,000
Profit and loss account	22	(12,587)	(9,999)
Total Shareholder's Funds	24	**47,413**	**50,001**

The financial statements of Renewable Energy Systems Holdings Limited (registered number 4913497) were approved by the Board of Directors and authorised for issue on 7 February 2014, and were signed on its behalf by:

I D Mays
Director
7 February 2014

Renewable Energy Systems Holdings Limited
Consolidated Cash Flow Statement
For the year ended 31 October 2013

	2013 £'000	2012 £'000
Net cash inflow from Group operating activities	37,707	25,721
Returns on investments and servicing of finance	(20,426)	(27,078)
Taxation	(997)	(7,449)
Capital expenditure and financial investment	(73,116)	(42,870)
Acquisitions and disposals	210,959	(554)
Cash outflow before management of liquid resources and financing	154,127	(52,230)
Financing	(36,428)	16,294
Increase/(decrease) in cash in the year	117,699	(35,936)

Reconciliation of Group operating profit to Group operating cash flows

	2013 £'000	2012 £'000
Group operating profit	171,846	36,569
Add back: share of operating loss of associates and joint venture	6,696	3,691
Depreciation and impairment charges	32,693	24,936
Amortisation and impairment charges	1,282	1,824
Decommissioning provisions	(240)	(832)
Decrease/(increase) in stocks	5,997	(11,276)
(Increase)/decrease in debtors	15,170	9,915
Increase/(decrease) in creditors	(4,087)	(7,212)
Less:profit on disposal of wind farm subsidiaries	(191,650)	(31,894)
Net cash inflow from Group operating activities	37,707	25,721

Reconciliation of net cash flow to movement in net funds

	2013 £'000	2012 £'000
Increase/(decrease) in cash in the year	117,699	(35,936)
Cash flow from changes in debt	36,428	(16,294)
Changes in net debt resulting from cash flows	154,127	(52,230)
Exchange movements and other non-cash movements	227,407	16,204
Movement in net funds in the year	381,534	(36,026)
Net debt at the start of the year	(408,654)	(372,628)
Net debt at the end of the year	(27,120)	(408,654)

The analysis of cash flow headings shown above including the analysis of net debt is shown in note 27.

1 Accounting policies

The financial statements have been prepared on a consistent basis for the current and preceding years in accordance with applicable United Kingdom laws and accounting standards. The particular accounting policies adopted by the directors are described below and have been applied consistently throughout the year and the preceding year, except as noted.

Accounting convention

The financial statements have been prepared under the historical cost convention except for investments.

Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries at 31 October 2013 and their results for the year ended on that date. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Intangible assets - goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is five to twenty years based on expected lives of the related business and assets. Provision is made for any impairment.

Foreign currencies

Transactions of UK companies denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at that date. The translation differences are dealt with in the profit and loss account.

The financial statements of foreign subsidiaries are translated into Sterling at the closing rate of exchange for the balance sheet and average rate of exchange for the year for profit and loss balances. Any differences arising there from are taken directly to reserves. The differences arising from the translation of the opening net investment in subsidiaries at the closing rate and matched long-term foreign currency borrowings are taken directly to reserves.

Turnover

Turnover represents the value of work carried out to date for the development, construction and operation of wind farms and related activities.

Generation turnover is recognised at the time that the electricity is generated.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs, as contracts progress. Turnover is calculated by reference to the value of work performed to date, as a proportion of the total contract value. Provision is made for the full amount of foreseeable losses on contracts.

The Group funds various US windfarms with US tax equity funding arrangements. Under UK GAAP the Group retains control of these wind farms and the results are fully consolidated into the Group. Turnover therefore includes the sale of Production Tax Credits and Capital Allowances to tax equity funders.

Development costs

Development costs are capitalised into development work-in-progress to the extent that they are site-specific costs attributable to bringing that site into a completed state, and where there is a realistic expectation (i.e. more likely than not) that the development costs will be recovered. However, the majority of development costs are expensed as incurred.

Tangible fixed assets

All tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Wind and solar PV farm tangible fixed assets which are to be retained by the Group are capitalised incrementally throughout the construction phase and depreciated from the point when the assets are first energised.

Depreciation

Fixed assets other than freehold land are depreciated over their useful economic lives on a straight-line basis at the following rates per annum:

Wind and solar PV farms	4% to 5%
Freehold buildings	2%
Short leasehold land and buildings	20%
Fixtures and fittings	20%
Other plant and equipment	20% to 33%

Government grants

Government grants received as contributions towards expenditure on fixed assets are treated as deferred income and credited to the profit and loss account over the expected useful economic life of the asset.

1 Accounting policies (continued)

Operating leases
Operating lease rentals are charged to the profit and loss account over the life of the lease.

Operating lease rentals for land on which the Group's wind farms are situated are charged to the profit and loss account at a contractual percentage of revenue generated by the wind farm.

Other operating lease rentals are charged to the profit and loss account in equal amounts over the life of the lease.

Investments
Except as stated below investments held as fixed assets are stated at cost less provision for impairment. The investment in TRIG is valued using a directors valuation which is permissible under UK GAAP. Any revaluation movements are taken through the Statement of Total Recognised Gains and Losses. The directors valuation is based on the market value at the balance sheet date.

Associates and joint ventures
In the Group financial statements investments in associates and joint ventures are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of associates' and joint ventures' profit less losses while the Group's share of net assets of the associates and joint ventures is shown in the consolidated balance sheet. Goodwill arising on the acquisition of associates and joint ventures is accounted for in accordance with the policy set out above. Unamortised goodwill is included in the carrying value of the investment in associates and joint ventures respectively.

Amounts recoverable on contracts
Amounts recoverable on long-term contracts which are stated within debtors, are stated at the net sales value of work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as long-term contract balances in stock.

Stocks
Work in progress is valued at the lower of cost and net realisable value.

Long-term contract balances represent costs incurred on specific contracts, net of amounts transferred to cost of sales in respect of work recorded as turnover.

Taxation
Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and tax law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

As noted above, the Group funds various US wind farms with US tax equity funding arrangements and the consolidated results of the wind farms are reflected in the Group financial statements. For this reason, all of the tax benefits arising from the wind farms, including production tax credits and capital allowances, are dealt with in the Group financial statements as they are earned. Where such benefits are passed on to the tax equity funders, these benefits reduce the amount due to these funders.

Long-term incentive plans
The Group operates a number of long-term incentive schemes for senior employees. Cash payments are made over time based on increases in the value of Group companies. The charges under these schemes are allocated to the relevant accounting periods in which the Group benefits from the services of the employee concerned. This varies depending on the award dates, the vesting dates and the conditions imposed on continuing employment with the Group.

Retirement benefits
The company's subsidiaries, Renewable Energy Systems Limited and Renewable Energy Systems UK & Ireland Limited are members of the defined benefits section of the Sir Robert McAlpine Limited Staff Pension and Life Assurance Scheme. As the assets and liabilities of the scheme are not separately identifiable between member companies of the scheme, the Group accounts for the charges in respect of the scheme as if it were a defined contribution scheme.

For defined contribution schemes the amount charged to the profit and loss in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

1 **Accounting policies (continued)**

Decommissioning costs
Provisions for decommissioning are recognised in full when the related facilities are constructed. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related plant and equipment. The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to plant and equipment. The unwinding of the discount on the decommissioning provision is included as a finance cost.

Derivative financial instruments
The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

For an interest rate swap to be treated as a hedge, the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a variable rate to a fixed rate. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

Loan issue costs
Costs relating to the issue of bank loans are netted against the carrying amount of debt and amortised over the estimated life of the loan, being charged to the profit and loss account as part of interest payable and similar charges.

Interest during construction
Interest during construction is expensed as incurred.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report and Strategic Report. The financial position of the Group is set out in the Consolidated Balance Sheet and the accompanying notes to the financial statements. The Group's cash and borrowings positions are set out in the Directors' Report and notes 18, 19, 20 and 25 to the financial statements. A description of the Group's financial risks is also set out in the Strategic report.

At the year end the Group had cash of £194.3 million (2012: £76.5 million). In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group uses a mixture of long-term limited recourse borrowings and medium term revolving credit facilities. The directors believe that the Group will be able to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

2 Segmental analysis

By class of business:

	Turnover		Group operating profit/(loss)		Net assets/(liabilities)	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Development and construction of wind and solar farms	313,527	326,952	(39,545)	(21,924)	176,495	88,985
Production and sale of electricity	103,538	102,125	23,451	37,077	108,910	81,120
Consultancy and other renewables	35,912	20,036	(3,710)	(10,097)	41,248	8,863
Disposal of operating wind farms	-	-	191,650	31,513	-	-
	452,977	449,113	171,846	36,569	326,653	178,968

By geographical area of origin:

	Turnover		Group operating profit/(loss)		Net assets/(liabilities)	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000
UK	114,629	84,692	182,724	28,835	190,471	50,395
Rest of Europe	74,699	90,862	12,594	(6,151)	17,882	34,493
North America	263,606	266,445	(17,106)	13,615	116,962	90,324
Rest of the World	43	7,114	(6,366)	270	1,338	3,756
	452,977	449,113	171,846	36,569	326,653	178,968

Turnover by destination is not materially different from turnover by origin.

3 Share of operating loss in associates

	2013 £'000	2012 £'000
Group share of operating loss	(4,218)	(3,257)

4 Share of operating loss in joint ventures

	2013 £'000	2012 £'000
Group share of operating loss	(2,478)	(434)

5 Investment income and interest receivable

	2013 £'000	2012 £'000
Interest receivable from associates	928	827
Interest receivable from related parties	301	185
Bank interest receivable and similar income	709	420
Foreign exchange gain on financing arrangements	6,821	2,755
	8,759	4,187

6 Interest payable and similar charges

	2013 £'000	2012 £'000
Bank loans and overdrafts	20,720	25,252
Interest payable to related parties	1,629	1,805
Amortisation of loan issue costs	1,106	1,018
Foreign exchange loss on financing arrangements	6,995	7,273
Other interest	369	352
Notional interest on tax equity debt	4,435	4,751
	35,254	40,451

7 Group operating profit

	2013 £'000	2012 £'000
Group operating profit is stated after charging / (crediting):		
Depreciation on owned assets (see note 12)	20,276	34,074
Amortisation of goodwill (see note 11)	1,282	1,774
Impairment loss/(write back) on fixed assets (see note 12)	12,417	(9,138)
Impairment of goodwill (see note 11)	-	50
Foreign exchange on trading activities	228	(118)
Auditor's remuneration (see below)	1,329	1,002
Operating lease rentals	4,948	5,075
Profit on disposal of wind farm subsidiaries	(191,650)	(31,513)

Cost of sales include an impairment charge on an operating wind farm plant in France as outlined in note 10.

The analysis of auditor's remuneration is as follows:	2013 £'000	2012 £'000
Fees payable to the company's auditor for the audit of the Group's annual accounts	72	58
Fees payable to the company's auditor for the audit of the Group's annual accounts - prior year	-	20
The audit of the company's subsidiaries pursuant to legislation	531	524
The audit of the company's associates and joint ventures pursuant to legislation	12	9
The audit of the company's subsidiaries pursuant to legislation - prior year	2	16
Total audit fees	617	627
Other services pursuant to legislation:		
Tax services	565	169
Other services	147	206
Total non-audit fees	712	375
Total auditor's remuneration	1,329	1,002

8 Employee information

	2013 £'000	2012 £'000
Remuneration of the directors of the company:		
Emoluments	2,007	1,447
Pension contributions	62	107
Total emoluments	2,069	1,554

In 2013, in addition to the above, entitlement under long-term incentive plans was £nil (2012 entitlement: £1,386,570).

	2013 £'000	2012 £'000
Remuneration of the highest paid director:		
Emoluments	812	663
Pension contributions	26	80
Total emoluments	838	743

In 2013, in addition to the above, entitlement of the highest paid director under long-term incentive plans was £nil (2012 entitlement: £1,386,570).

	2013 £'000	2012 £'000
Staff costs of the Group including directors' emoluments:		
Wages and salaries	74,048	65,711
Social security costs	9,015	8,332
Pension and other costs	3,279	2,761
	86,342	76,804

	2013 No.	2012 No.
Average number employed during the year including directors:		
Engineering, technical & project management	879	835
Management and administration	240	226
	1,119	1,061

Retirement benefits in the company were accruing to one director during the year (2012: one) under defined benefit schemes.

Three of the directors of the company were remunerated for their services to the Renewable Energy Systems Holdings Limited Group by member companies of the Group (2012: three). The other directors of the company were paid by associated companies of the Newarthill Limited Group (a group under common control), and did not receive remuneration for services to the Renewable Energy Systems Holdings Limited Group.

The Group operates a number of long-term incentive programmes for senior employees such that cash payments are made over time based on increases in the value of Group entities. The values are determined by independent valuers based on cash flow and market based methodologies. During the year changes in the value of Group entities gave rise to entitlements for senior employees with various future vesting conditions. In the year £4.7 million was expensed (2012: £3.9m) and entitlements in future periods are currently estimated to be up to £6.6 million (2012: £6.9m) as the services from such senior employees are received. Future changes in the valuation of Group entities will also affect amounts to be accrued in future periods.

9 Tax charge on profit on ordinary activities

(a) Analysis of tax charge in the year :

	2013 £'000	2012 £'000
Current tax:		
UK corporation tax for the year at 23.41% (2012: 24.83%)	3,877	(2)
Overseas tax for the year	4,032	6,039
Adjustments in respect of previous years - UK	22	524
Adjustments in respect of previous years - Overseas	(880)	(2,159)
Total current tax charge	7,051	4,402
Deferred tax:		
Timing differences, origination and reversal	(6,800)	(14,843)
Prior year adjustments	(1,118)	(873)
Total deferred tax credit	(7,918)	(15,716)
Share of associates' tax	(1,118)	(703)
Total tax (credit)/charge	(1,985)	(12,017)

(b) Factors affecting the tax charge for the current year :

	2013 £'000	2012 £'000
Profit on ordinary activities before tax	144,577	529
Tax at 23.41% (2012: 24.83%)	33,851	131
Effects of:		
Fixed asset timing differences	(13,136)	3,385
Tax losses carried forward	22,342	13,955
Permanent differences	16,465	8,636
Income not taxable	(49,531)	(21,134)
Utilisation of losses	(64)	(3,709)
Movement in short term timing differences	4,160	6,354
Effects of overseas tax rates	(6,177)	(1,581)
Prior year adjustments	(858)	(1,635)
	7,052	4,402

10 Impairment of operating assets

An impairment charge of £12.4m on a French operating wind farm was measured by discounting forecasted future cash flows to estimate the value-in-use of operating wind farms and comparing this result against the depreciated book value of the asset. Cash flow projections reflect management's current estimate of future generation revenues and operating costs. A project specific pre-tax discount rate of 8.25% was used which reflects the pre-tax weighted average cost of capital for each income generating unit under review. For this purpose, cash flows were assessed over the remaining useful life the asset.

11 Intangible fixed assets - goodwill

	2013 £'000	2012 £'000
Cost:		
At 1 November	27,724	27,724
Disposals (see note 14)	(4,237)	-
At 31 October	23,487	27,724
Amortisation:		
At 1 November	17,824	16,000
Impairment	-	50
Charge for the year	1,282	1,774
Eliminated on disposal	(2,498)	-
At 31 October	16,608	17,824
Net book value:		
At 31 October	6,879	9,900

12 Tangible fixed assets

Group	Freehold land and buildings	Short leasehold land and buildings	Fixtures and fittings	Plant and equipment	Assets in course of construction	Total
Cost:	£'000	£'000	£'000	£'000	£'000	£'000
At 1 November 2012	15,136	4,079	5,417	684,856	61,761	771,249
Exchange rate adjustments	27	(1)	(1)	13,317	627	13,969
Additions	1,144	234	483	8,512	42,646	53,019
Disposals	(413)	-	(10)	(310,694)	-	(311,117)
Reclassification	-	-	-	99,977	(99,977)	-
At 31 October 2013	15,894	4,312	5,889	495,968	5,057	527,120
Depreciation:						
At 1 November 2012	1,929	1,739	4,373	186,060	-	194,101
Exchange rate adjustments	-	(1)	(2)	4,187	-	4,184
Charge for the year	111	646	603	18,916	-	20,276
Impairment charge (see note 10)	10	-	-	12,407	-	12,417
Disposals	-	-	(2)	(54,456)	-	(54,458)
At 31 October 2013	2,050	2,384	4,972	167,114	-	176,520
Net book value:						
At 31 October 2013	13,844	1,928	917	328,854	5,057	350,600
At 31 October 2012	13,207	2,340	1,044	498,796	61,761	577,148

Wind farm assets in the course of construction are reclassified as plant and equipment when energisation is achieved and the wind farms commence exporting electricity to the grid network. Renewable Energy Systems Holdings Limited has no tangible fixed assets.

13 Fixed asset investments

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Subsidiary undertakings	-	-	42,801	45,591
Joint ventures	2,181	227	-	-
Associates	-	1,048	-	-
Other investments	15,275	50	-	-
	17,456	1,325	42,801	45,591

Principal subsidiary undertakings are listed in note 33 to the financial statements.

Associates and joint ventures:	Associates		Joint ventures	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Share of net assets at 1 November	1,048	3,580	227	99
Exchange rate adjustments	(179)	(202)	15	8
Additions	-	-	4,417	554
Disposals	-	-	-	-
Share of retained loss for the year	(3,675)	(2,330)	(2,478)	(434)
Share of net (liabilities)/assets at 31 October	(2,806)	1,048	2,181	227

Investments in associates comprise the Group's share of net assets in an operating wind farm in Sweden and an offshore development project in France.

Other investments above relate to a shareholding of 15,000,000 shares of £1 nominal value in The Renewables Infrastructure Group "TRIG", a listed renewables fund.

The following information is given in respect of the Group's share of all associates and joint ventures:

	Associates		Joint ventures	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Turnover	4,006	4,180	88	69
Fixed assets	33,571	33,820	19	-
Current assets	6,588	1,590	2,852	587
Liabilities due within one year	(9,117)	(3,004)	(690)	(360)
Liabilities due after one year	(33,848)	(31,358)	-	-

14 Disposal of subsidiary undertakings

During July and August 2013 the Group sold its 100% per cent interest in the ordinary share capital of the following subsidiaries to TRIG:

- Grange Renewable Energy Limited
- Green Hill Energy Limited
- Roos Energy Limited
- Hill of Towie Limited
- Altahuillion Wind Farm Limited
- Lough Hill Windfarm Limited
- Forss Wind Farm Limited
- MHB Wind Farms Limited/ MHB Wind Farms (Holdings) Limited
- Lendrum's Bridge Wind Farm Limited/ Lendrum's Bridge (Holdings) Limited
- CEPE des Claves SARL
- CEPE de Cuxac SARL
- CEPE de Haut Cabardes SARL
- CEPE de Haut Languedoc SARL
- CEPE de Puit Castan SARL

The profit after tax of the subsidiaries disposed up to the date of disposal was £5.7m, and for the prior financial year was a loss after tax of £9.7m.

Net assets disposed of and the related sale proceeds were as follows:

	2013 **£'000**
Fixed assets	251,745
Current assets	61,231
Creditors	(249,103)
Net assets	63,873

Sales proceeds were £254.4 million satisfied by cash.

Cash flows in respect of the sale comprised:

Cash consideration	254,455
Cash at bank and in hand disposed	46,701
External debt repayments	52,841
Intercompany debt repayments	40,406

The profit on disposal of subsidiaries to TRIG of £191,650,000 has been included within operating profit.

14 Disposal of subsidiary undertakings (continued)

In May 2013 the Group sold its 100% per cent interest in the ordinary share capital of Wood Energy Limited for a consideration of £1. The retained loss of Wood Energy up to the date of disposal was £12,877, and for its last financial year was £888,537.

Net assets disposed of and the related sale proceeds were as follows:

	2013 £'000
Fixed assets	5
Current assets	1,297
Creditors	(1,095)
Net assets	207
Sales proceeds were £1.	
Related goodwill	1,739
Loss on sale	(2,175)
Cash flows in respect of the sale comprised:	
Cash consideration	-
Cash at bank and in hand disposed	457

In March 2013 the Group also sold 50% of the share capital of a Turkish development subsidiary for £6,043,000, resulting in a profit on disposal of £1,976,000.

15 Stocks and work in progress

	Group	
	2013	2012
	£'000	£'000
Work in progress	40,253	46,842
Stocks	1,174	1,329
Long-term contract balances	747	-
	42,174	48,171

16 Debtors

Amounts falling due within one year:	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Trade debtors	63,813	66,734	-	-
Amounts recoverable on contracts	629	5,805	-	-
Amounts owed by Group undertakings	-	-	4,612	4,410
Amounts owed by related parties (see note 31)	3,029	2,743	-	-
Amounts owed by associated companies	15,880	10,245	-	-
Value added tax	4,052	6,394	-	-
Other debtors	4,166	4,052	-	-
Deferred tax asset (see note 17)	16,764	7,679	-	-
Corporation tax	3,110	4,473	-	-
Prepayments and accrued income	24,842	14,597	-	-
	136,285	122,722	4,612	4,410

Amounts falling due after more than one year:	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Deferred tax asset (see note 17)	37,961	11,216	-	-
Other debtors	246	253	-	-
	38,207	11,469	-	-
Total debtors	174,492	134,191	4,612	4,410

17 Deferred taxation

	2013 £'000	2012 £'000
Included in debtors falling due within one year (see note 16)	16,764	7,679
Included in debtors falling due after more than one year (see note 16)	37,961	11,216
Included in provisions for liabilities and charges (see note 21)	(25,343)	(6,625)
	29,382	12,270

Movement in temporary timing differences during the year:

	2012 £'000	Exchange rate adjustments £'000	Credited to profit and loss account £'000	Disposal of subsidiary £'000	2013 £'000
Fixed asset timing differences	(17,312)	(759)	(13,469)	16,231	(15,309)
Losses	24,482	693	16,340	(2,152)	39,363
Other short-term timing differences	5,100	232	5,047	(5,051)	5,328
	12,270	166	7,918	9,028	29,382

In the UK the rate of corporation tax will change from 23% to 21% from 1 April 2014. As deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods of reversal, all UK deferred tax closing balances have been restated using a rate of 21%.

The UK government has also enacted a future reduction in the main rate of corporation tax of 1 per cent down to 20% by 1 April 2015. The future 1 per cent main rate of corporation tax reductions are expected to have a similar impact on our financial statements as outlined above, however the actual impact will be dependent on our position at that time.

Factors that may affect the future tax charge

A deferred tax asset has not been recognised in respect of timing differences where there is insufficient evidence that assets will be recovered within the foreseeable future. The amount of assets not recognised by the Group is £8,786,000 (2012: £6,930,000), and the company is £nil (2012: £nil).

Unprovided deferred tax	2013 £'000	2012 £'000
Accelerated capital allowances	284	349
Losses	7,410	5,973
Short-term timing differences	1,092	608
	8,786	6,930

18 Cash at bank and in hand

Cash at bank and in hand includes amounts held for restricted purposes as follows: Group £8,128,000 (2012: £26,127,000); company £nil (2012: £nil).

Restricted cash balances relate to cash held in non-recourse special project companies.

19 Creditors: amounts falling due within one year

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Bank loans (see note 25)	17,388	34,601	-	-
Payments received on account	55,530	6,766	-	-
Trade creditors	42,299	32,387	-	-
Amounts owed to related parties (see note 31)	1,848	4	-	-
Corporation tax	1,767	908	-	-
Value added tax	9,474	6,593	-	-
Other creditors	6,655	6,839	-	-
Accruals and deferred income	85,421	115,418	-	-
	220,382	203,516	-	-

20 Creditors: amounts falling due after more than one year

	Group	
	2013 £'000	2012 £'000
Bank loans (see note 25)	203,996	418,528
Amounts owed to related parties (see note 31)	-	32,000
Other creditors	56	656
Accruals and deferred income	213	261
	204,265	451,445

Amounts owed to related parties in 2012 comprised a loan payable to Sir Robert McAlpine Enterprises Limited, a company under common control. The interest rate on this loan was fixed at 5%. This loan was repaid in full in October 2013.

21 Provisions for liabilities and charges

Group:	2012 £'000	Movement £'000	2013 £'000
Other provisions	6,656	(240)	6,416
Share of Associate net liabilities (see note 13)	-	2,806	2,806
Deferred tax (see note 17)	6,625	18,718	25,343
At 31 October	13,281	21,284	34,565

Other provisions include amounts relating to decommissioning. Decommissioning provisions will be utilised at the end of each wind farm's useful life, which varies between December 2014 and September 2033.

Included in the movement is a release of £1.7m of decommissioning provision relating to assets sold to TRIG.

22 Called up share capital

	2013 £'000	2012 £'000
Authorised:		
60,000,000 (2012: 60,000,000) ordinary shares of £1 each	60,000	60,000
Called up,		
60,000,000 (2012: 60,000,000) ordinary shares of £1 each	60,000	60,000

23 Reserves

Group	Merger reserve £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 November 2012	9,584	-	(5,003)	114,631	119,212
Retained profit for the year	-	-	-	147,589	147,589
Revaluation of TRIG Investment	-	225	-	-	225
Income to be settled in TRIG shares			48		48
Currency translation differences on foreign currency net investments			80		80
Currency translation arising on consolidation	-	-	732	-	732
At 31 October 2013	9,584	225	(4,143)	262,220	267,886

The only movement in reserves in the parent company was a retained loss in the year of £2,588,000 (2012: loss of £4,013,000). As permitted by section 408 of the Companies Act 2006, no profit and loss of the parent company is presented.

Other reserves in the current year includes currency translation differences on foreign currency net investments and the settlement of management services income in TRIG shares. The revaluation reserve includes the gain on revaluation of the TRIG investments.

24 Reconciliation of movements in shareholder's funds

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Retained profit/(loss) for the year	147,589	12,791	(2,588)	(4,013)
Other recognised gains/(losses) relating to the year	1,085	(2,474)	-	-
Net addition/(reduction) to equity shareholder's funds	148,674	10,317	(2,588)	(4,013)
Opening equity shareholder's funds	179,212	168,895	50,001	54,014
Closing equity shareholder's funds	327,886	179,212	47,413	50,001

25 Borrowings

	Group 2013 £'000	Group 2012 £'000
Bank loans are repayable by instalments as follows:		
One year or less	17,388	34,601
Between one and two years	17,410	30,183
Between two and five years	58,189	142,050
In five years or more	128,397	278,295
	221,384	485,129

Facilities were fully drawn at year end and are repayable in non-equal instalments over periods up to 20 years. Average interest rate is 5.98% and the underlying interest rate risk is actively managed through the use of interest rate swaps.

A total of 97% (2012: 92%) of the Group's borrowings are non-recourse long-term project finance debt secured by fixed and floating charges on the Group's operating wind projects. The remaining borrowings are mortgages secured on the Group's properties. Loans in respect of assets in the course of construction are arranged on a limited recourse basis, restricting the lenders' recourse to the assets of the project company. £224.7m of the reduction in borrowings is due to loans transferred with the assets sold to TRIG.

The above figures are presented after deduction of unamortised loan issue costs of £3,725,000 (2012: £10,503,000) which are being written off over the term of the loans.

26 Financial commitments

Group financial commitments are as follows:

	Group 2013 £'000	Group 2012 £'000
Wind farm construction costs contracted for but not provided for on wind farms to be retained within the Group	12,237	49,573

These commitments are financed either by limited recourse bank loans or self financed by the RES Group.

Annual commitments for land and buildings (which principally relate to office buildings) under non-cancellable leases are shown below. Certain operating lease costs are variable in nature and are linked to the performance of wind farms, and are included below at the estimated annual amount.

	Land and buildings 2013 £'000	Land and buildings 2012 £'000	Other 2013 £'000	Other 2012 £'000
Operating lease expiring:				
One year or less	694	246	192	68
Between one and two years	529	442	195	233
Between two and five years	470	716	138	85
In five years or more	1,895	3,628	-	-
	3,588	5,032	525	386

27 Cash flow statement

(a) Analysis of cash flows for headings netted in cash flow statement	2013 £'000	2012 £'000
Returns on investments and servicing of finance		
Interest received	1,933	600
Interest paid	(22,359)	(27,678)
Net cash outflow from returns on investments and servicing of finance	(20,426)	(27,078)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(53,019)	(87,739)
Receipts from sale of tangible fixed assets	-	28,555
Payments for investments	(15,000)	-
Receipts from sale of investments	-	17,683
Loans to associates	(5,097)	(1,369)
Net cash outflow from capital expenditure and financial investment	(73,116)	(42,870)
Acquisitions and disposals		
Purchase of shares in joint ventures	(2,297)	(554)
Sale of shares in subsidiary undertakings	260,414	-
Net cash balance disposed of with respect to subsidiary undertakings	(47,158)	-
Net cash outflow from acquisitions and disposals	210,959	(554)
Financing		
Repayment of loans	(90,798)	(54,614)
New secured loans	54,370	70,908
Net cash inflow	(36,428)	16,294

(b) Analysis of net debt	At 1 Nov 2012 £'000	Cash flow £'000	Exchange & Other £'000	At 31 Oct 2013 £'000
Cash at bank and in hand	**76,475**	117,699	90	**194,264**
Loans due within one year	**(34,601)**	16,952	261	**(17,388)**
Loans due after one year	**(450,528)**	19,476	227,056	**(203,996)**
	(408,654)	**154,127**	**227,407**	**(27,120)**

Major non-cash transactions

The analysis of movements in net debt shown above includes Production Tax Credits and Capital Allowances surrendered to tax equity partners of 2013: £9.6m (2012: £9.9m) and Loans transferred to TRIG in 2013 of £224.7m.

28 Retirement benefits

Renewable Energy Systems Limited and Renewable Energy Systems UK & Ireland Limited (both Group companies) are participating employers in the defined benefits section of the Sir Robert McAlpine Limited Staff Pension and Life Assurance Scheme ("the Scheme"). The assets of the Scheme are held separately from those of the Group. The pension cost relating to the Scheme is assessed in accordance with the advice of an external, qualified actuary using the projected unit method. The defined benefits section of the Scheme is closed to new entrants and under the projected unit method the current service cost will increase as the members approach retirement.

Following the demerger from the SRM group in 2009, the Group is required to disclose the information shown below, in relation to its membership of the Scheme. The amounts disclosed relate to the Scheme and these disclosures are also included in the annual report and financial statements of Newarthill Limited, the Scheme's principal employer, copies of which are publicly available. Newarthill Limited's consolidated annual report and financial statements also include the full FRS 17 balance and associated annual charges and credits, including the impact on deferred taxation. These disclosures show the scheme to have a net deficit of £30.1m at 31 October 2013 (2012: £35.7m), after deducting amounts attributable to members, and before deducting deferred tax. As the assets and liabilities of the Scheme cannot be separately identified between different participating companies within the Scheme, the Group continues to account for the Scheme as if it were a defined contribution scheme. Costs incurred by the Group for the year were £392,000 (2012: £227,000) and there were no amounts outstanding by way of amounts owing or outstanding commitments.

RES On Site Limited, Wood Energy Limited (sold during the year), PV Systems Limited and Inbuilt Limited, (all Group companies), together with the Group companies noted in the preceding paragraph, are contributing employers of the defined contribution section of the Scheme, whereby employee contributions are matched by company contributions. During the year the cost was £1,049,000 (2012: £924,000) and all such costs are expensed as incurred. At the year end there were £18,000 of contributions deducted relating to amounts deducted from payroll but yet to be paid over to the pension scheme.

The company's overseas subsidiaries also operate local defined contribution schemes, whereby employee contributions are matched by company contributions. During the year the cost was £1,679,000 (2012: £1,610,000) and all such costs were expensed as incurred. At the year end there were no contributions deducted but not yet paid over to the pension scheme.

29 Derivatives not included at fair value

At the balance sheet date the company has the following open derivatives that were not included in the accounts at fair value:

	2013 £'000	2012 £'000
Fair value of derivatives:		
(a) Loss on currency hedge contracts	-	(590)
(b) Loss on interest rate swaps	(8,018)	(22,952)
	(8,018)	(23,542)

30 Contingent liabilities

There were contingent liabilities in respect of guarantees and ordinary contract performance bonds given on construction activities in the normal course of business. The Group does not expect these to result in material costs in the future.

In July 2013 a subsidiary company in the USA purchased a wind development site for an initial consideration of £205,000. Further amounts of between £2.0m and £2.2m will be due and payable when all of the conditions of the purchase and sale agreement are satisfied

31 Related party transactions

Renewable Energy Systems Holdings Limited has taken advantage of the exemption which is conferred by FRS 8 "Related Party Disclosures" that allows it not to disclose transactions with 100% or more Group undertakings. At the year end date the following balances with related parties were outstanding:

Related party	Relationship	Balance	Amount 2013 £'000	Amount 2012 £'000
Sir Robert McAlpine Enterprises Limited	Entity under common control	Loan payable	-	(32,000)
Sir Robert McAlpine Limited	Entity under common control	Trading balance	(59)	(4)
Sir Robert McAlpine Limited	Entity under common control	Trading balance	12	27
Evrencik Limited	Joint venture	Loan payable	1,789	-
Wadlow Energy Holdings Limited	15% investment	Loan receivable	3,017	2,716

The loan and trading balances noted above are included in debtors and creditors. Interest of £1,629,000 (2012: £1,805,000) in respect of the loan paid up in full during the year and the joint venture loan is included in interest payable. During the year the company purchased services in the ordinary course of business from entities under common control totalling £5,517,000 (2012: £4,228,000).

32 Ultimate controlling party

The ultimate controlling party of the company is The McAlpine Partnership Trust, of which two Trustees are also directors of the company.

33 Subsidiary undertakings

The following represent the principal subsidiaries as at 31 October 2013, the majority of which are involved in the development and construction of wind farms or the production and sale of wind generated electricity. The proportion of voting rights held by the Group is the same as the proportion of shares held.

Company name	Country of incorporation	Holding %
Direct subsidiary undertakings		
Renewable Energy Systems Limited	GB	100%
RES Enterprises Limited	GB	100%
Indirect subsidiary undertakings		
Development and construction subsidiaries:		
Renewable Energy Systems Construction Limited	GB	100%
Renewable Energy Systems UK & Ireland Limited	GB	100%
RES B9 (NI Offshore Wind) Ltd	GB	80%
Eole-RES s.a.	France	100%
RES Méditerranée s.a.s.	France	100%
RES Italia	Italy	100%
RES Anatolia	Turkey	100%
NV Nordisk Vindkraft AB (formerly RES Skandinavien AB)	Sweden	100%
Renewable Energy Systems Americas Inc.	USA	100%
Renewable Energy Systems Canada Inc.	Canada	100%
RES Australia Pty Limited	Australia	100%
RES Chile SpA	Republic of Chile	100%
Renewable Energy Systems Southern Africa Pty	South Africa	100%
Cayman Land Partners Ltd	Cayman Islands	100%
Operating wind farm subsidiaries and wind farms under construction:		
RES-GEN Limited	GB	100%
Dyffryn Brodyn Limited	GB	100%
Four Burrows Limited	GB	100%
MC Power Limited	GB	100%
Tallentire Energy Limited	GB	100%
Cark Limited	Republic of Ireland	100%
Taurbeg Limited	Republic of Ireland	100%
CEPE du Souleilla s.a.r.l.	France	100%
CEPE du Pays de Saint Seine s.a r l.	France	100%
CEPE de La Salesse s.a.r.l	France	100%
CEPE de Marsanne s.a.r.l.	France	100%
CEPE de Grand Bois s.a.r.l.	France	100%
Whirlwind Wind LLC	USA	100%
Hackberry Wind LLC	USA	100%

(ix) Renewable Energy Systems Holdings Limited

- 2014 Audited Financial Statements

Renewable Energy Systems Holdings Limited

Annual Report and Financial Statements

31 October 2014

Registered in England and Wales
No. 4913497

Renewable Energy Systems Holdings Limited
Report and Financial Statements for the year ended 31 October 2014
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Renewable Energy Systems Holdings Limited
Company Information

Directors
C McAlpine
G M McAlpine BA (Hons) MSc
I D Mays MBE, BSc PhD
D C Joyce CA
M C Shelley ACA
D S Jenkins FCA

Secretary
D Hearth

Independent auditor
Deloitte LLP
Chartered Accountants and Statutory Auditor
London

Registered office
Beaufort Court
Egg Farm Lane
Kings Langley
Hertfordshire
WD4 8LR

Registered number
4913497

Renewable Energy Systems Holdings Limited
Directors' Report
For the year ended 31 October 2014

The Directors present their report and audited financial statements for the year ended 31 October 2014 for the Renewable Energy Systems Holdings Limited Group ("the Group").

Principal activities
The principal activities of the Group are the development, construction and operational management of renewable energy projects and infrastructure. This includes the sale of fully developed projects and also the production and sale of electricity from projects where ownership has been retained. The Group has operations in Europe, the Americas, Australasia, Asia and Africa.

Directors
The directors who have held office throughout the year are as follows:

C McAlpine (*Chairman*)
G M McAlpine
I D Mays
M C Shelley
D S Jenkins
S Reilly (resigned 31 May 2014)
D C Joyce

Directors Indemnities
The Company has made no qualifying third party indemnity provisions for the benefit of its directors.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group is set out in the Consolidated Balance Sheet and the accompanying notes to the financial statements. The Group's cash and borrowings positions are set out in the Strategic Report and notes 17, 18, 19 and 24 to the financial statements. A description of the Group's financial risks is also set out in the Strategic report.

At the year end the Group had cash of £67.6 million (2013: £194.3 million). In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group uses a mixture of medium and long term non recourse borrowings and access to a medium term revolving credit facility under which £20 million was drawn at 31 October 2014. As a consequence, the directors believe that the Group will be able to manage its business risks successfully. In the forthcoming year, the Group intends to fund its growth by a combination of project sales and securing further facilities within the UK and France.

Cash forecasts identifying the liquidity requirements of the Group are produced regularly. These are reviewed by the board to ensure that sufficient financial facilities are available for at least twelve months from the date of signing the accounts. After making enquiries, the directors have a reasonable expectation that the company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Disabled employees
In dealing with disabled persons, the Group acts in accordance with its Equal Opportunity and Diversity policy, which specifies that employees with disabilities will receive fair treatment and be considered according to their ability to do the job, following reasonable adjustments where appropriate. Decisions on recruitment, selection, training, promotion and career management are based on objective and job-related criteria.

Employee consultation
Information affecting Group employees is communicated using a combination of methods including self-service intranet, email, team meetings and individual consultation. A Group-wide bonus scheme is in operation to enable employees to share in the success of the Group and to recognise their efforts in contributing to that success.

Dividends
In the year the directors declared a dividend of £24.8m (2013: £nil).

Auditor
Each of the persons who is a director at the date of approval of this report confirms that:

1) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and

2) the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as the company's auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:

I D Mays
Chief Executive Officer
27 March 2015

Renewable Energy Systems Holdings Limited
Strategic Report
For the year ended 31 October 2014

We set out below our Strategic Report.

The Strategic Report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Renewable Energy Systems Holdings Limited and its subsidiary undertakings when viewed as a whole. In line with the Companies Act 2006, certain matters otherwise required by regulations to be disclosed in the Directors' Report, are considered to be of strategic importance by the directors and as such have been disclosed in the Strategic Report. These include financial overview and performance and can be found on this and the following pages.

Objectives, Strategy and Business Model
The Group continues to focus resource on markets where substantial renewable energy growth is expected, including its core markets in Europe and North America and continues to invest in development activities in both established and newer markets in line with the Group's strategic plan.

The Group is engaged in renewable energy project development, construction and energy generation in the markets in which it operates around the world. This is generally achieved by establishing local operations, overseen by two regional boards of directors which report to the main Board. The Group aims to continue to grow its portfolio of energy generating assets, by funding its own portfolio of development assets through to either financial close or the completion of construction. This is achieved via a combination of; recycling cash generated from selling development assets reaching financial close (with or without follow-on construction contracts), third party construction activity, sale of energy generated from operational assets, non-recourse bank financing and corporate finance facilities.

As well as expanding the Group's operations into new renewable technologies and new territories, the Group continues to diversify into technologies which are complementary to its core renewable energy operations, such as energy storage and demand side management technologies and also transmission development and construction.

Financial overview
The Group achieved turnover of £671.9 million (2013: £453.0 million). Profit before tax totalled £1.5 million (2013: £144.6 million).

The increase in turnover of the Group compared to prior year was due to the increased number of projects reaching financial close and then entering the construction phase. During the year, the Group financially closed 1,185MW (2013: 809MW) with the main increase arising in North America. The decrease in profit before tax in the year is due to the Group's significant investment in the development portfolio and also by retaining constructed assets rather than selling them. The prior year also included an exceptional sale where the Group disposed of fourteen operational wind farm subsidiaries and one operational solar PV park subsidiary to a new listed renewable energy fund, The Renewables Infrastructure Group ('TRIG'). This transaction resulted in profits of £191.7 million. During the year the Group also booked an impairment charge of £9.5 million in relation to a project in Sweden where future revenues are expected to be lower than the previous expectations due to low electricity and green certificate prices.

Cash balances at 31 October 2014 totalled £67.6 million (2013: £194.3 million) with the decrease resulting from the continued investment in the Group's portfolio of retained operational assets and construction funding of some significant projects, some of which are expected to be sold in the forthcoming financial year.

Net assets at 31 October 2014 totalled £291.3 million (2013: £326.7 million). The decrease is due to the loss in the year and a dividend of £24.8m paid.

Strategic Review
The Group monitors a number of financial and non-financial Key Performance Indicators (KPIs) which include, but are not limited to, health and safety performance, sustainability (which incorporates four primary strands: reputation, business, social and environment), megawatts (MWs) of wind and solar PV assets both in development and constructed, annual valuation of the operating portfolio of assets, turnover and profit before tax. Further detail is provided in the preceding and following paragraphs within the Strategic Report, and in the segmental analysis in note 2.

The Group financially closed 1,185MW in the year ended 31 October 2014 and constructed projects totalling 1,017 MWs in the year, of which 129 MWs were completed in relation to projects which have been retained within the Group in UK, France and North America. These construction MWs are calculated on a percentage completion basis. No development or construction profits are recognised in the year in respect of projects retained within the Group. KPIs for sustainability are being developed and will be included as a key business measure when established.

The following commentary summarises the performance in the year, for the Group's core markets.

The Americas

Activity in the USA centred around the development, construction and sale of seven projects totalling 1,010MW. This includes two projects totalling 350MW which the Group is constructing on balance sheet using a combination of equity and external financing for which a sale has already been agreed at the end of construction estimated as late 2015. The forthcoming year will also benefit as the construction of these projects will be completed in 2015. Looking ahead, the Group expects to close a number of further projects in the forthcoming year.

In the USA, the Group also constructed their first energy storage projects with more forecasted for the forthcoming financial year.

Construction in Canada saw the completion of the 270 MW third party construction of a wind project and of five solar PV farms totalling 50 MW. Significant wind and solar PV development opportunities exist across Canada, and the Group continues to invest in this market.

The Group also continues to progress wind farm development opportunities in Chile and hopes to fully develop the first project in the forthcoming year.

Europe

In the United Kingdom, construction was completed on two wind farms totalling 25 MW which have been retained by the Group with the construction phase being financed on balance sheet. The Group also sold two operating assets totalling 22MW that were built in the prior year and also commenced construction on a 5MW PV solar project, the Group's first in the UK.

Australasia, Asia and Africa

In Australia, the Group is actively engaged in positioning its second major project towards financial close. In South Africa, the Group has sold its first project in that market although the majority of turnover arises from achieving further development milestones such as securing a Feed In Tariff and completing development. The Group is also increasing its activities in Japan by working with local partners to secure development sites.

Offshore

The Group continues its project development, engineering, construction, operation and maintenance services to the offshore wind and marine energy industries. This includes wind farms in development, construction and operation throughout the offshore waters of primarily the United Kingdom and France. These activities are included in consultancy and other renewables within the segmental analysis in note 2.

The Group, as a member of two separate consortia, continues to develop an offshore wind farm a 500 MW offshore wind project in the area of Saint-Brieuc, off the coast of Brittany, France but is investigating options for its 600MW capacity project off the south east coast of County Down, Northern Ireland due to changes in government policy.

The Group is actively engaged in other offshore wind opportunities in both Europe, North America and Asia.

Generation

The Group retains a portfolio of 15 operational wind farms in the UK, Ireland, France, Sweden, and the USA, which the Group's ownership share collectively totals 419 MWs. Overall, the results of the operating wind farm portfolio was slightly below expectations during the year due to low production in the USA in the winter and the UK and Ireland in the summer.

Principal trading risks

The Directors believe the principal risks and uncertainties facing the Group arise from the unpredictable duration of local planning processes necessary to build out wind farm development sites and the uncertainty associated with potential changes to national renewable energy incentive schemes. The Group's revenues also are impacted by inherent variability in local wind conditions from year-to-year. In the medium and longer term, wind conditions are expected to closely match statistical trends based on historic data utilised in the project feasibility studies in the early development phase. All of these risks are controlled and mitigated using appropriate project and risk reporting at a project and a board level with appropriate actions taken to minimise risks by diversifying those activities by both geographical location and technology.

Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including currency, interest, credit, liquidity and price risk. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The Group does not use derivatives for speculative purposes.

(i) Currency risk

Exposure to foreign currency movements from operating activities are hedged through the use of forward foreign exchange contracts.

(ii) Interest risk

The Group's policy is to actively manage interest rate risk on long-term borrowings. This is achieved by using interest rate swaps which are both fixed and floating in nature.

(iii) Credit risk

The Group's policy is to limit counterparty exposures by setting credit limits and monitoring credit ratings.

(iv) Liquidity risk

Cash forecasts identifying the liquidity requirements of the Group are produced monthly. These are reviewed by the board to ensure that sufficient financial facilities will be available for at least the following twelve month period.

(v) Price risk

The Group enters into long-term Power Purchase Agreements for its operating wind farms. Turbine supply contracts are typically executed at project financial close, prior to which project profitability is assessed by the Group's risk management processes. Financial guarantees are sought for any significant stage payments made by the Group ahead of fulfilment of all the obligations from the supplier, for example in the case of Turbine supply contracts.

Approved by the Board and signed on its behalf by:

I D Mays
Chief Executive Officer
27 March 2015

Renewable Energy Systems Holdings Limited
Statement of Directors' Responsibilities
For the year ended 31 October 2014

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and accounting estimates that are reasonable and prudent;

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and,

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report
To the member of Renewable Energy Systems Holdings Limited

We have audited the financial statements of Renewable Energy Systems Holdings Limited ("the Group") for the year ended 31 October 2014 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's member, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:
- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 October 2014 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Andrew Clark FCA

Andrew Clark (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
27 March 2015

Renewable Energy Systems Holdings Limited
Consolidated Profit and Loss Account
For the year ended 31 October 2014

	Notes	2014 £'000	2013 £'000
Group turnover	2	**671,906**	**452,977**
Cost of sales		(589,939)	(395,448)
Impairment of operating assets		-	(12,407)
Total cost of sales		(589,939)	(407,855)
Gross profit		**81,967**	**45,122**
Administrative expenses		(62,493)	(58,230)
Profit on disposal of wind farm subsidiaries	7,13	7,473	191,650
Share of operating loss in associates	3	(3,625)	(4,218)
Share of operating loss in joint ventures	4	(2,013)	(2,478)
Impairment of associate	7	(9,520)	-
Total operating profit	7	**11,789**	**171,846**
Loss on disposal of subsidiary	14	-	(199)
Investment income and interest receivable			
Group	5	10,449	8,759
Associates		-	13
Interest payable and similar charges			
Group	6	(20,759)	(35,254)
Associates		-	(588)
Profit on ordinary activities before taxation		1,479	**144,577**
Tax (charge)/credit on profit on ordinary activities	9	(9,756)	1,985
(Loss)/profit on ordinary activities after taxation		(8,277)	146,562
Equity minority interests		866	1,027
(Loss)/profit for the financial year	22	(7,411)	147,589

All transactions are derived from continuing operations.

Renewable Energy Systems Holdings Limited
Consolidated Statement of Total Recognised Gains and Losses
For the year ended 31 October 2014

	2014 £'000	2013 £'000
(Loss)/profit for the financial year	(7,411)	147,589
Revaluation of TRIG investment	258	225
Income to be settled in TRIG shares	215	48
Currency translation differences on foreign currency net investment	(2,995)	812
	(9,933)	148,674

Renewable Energy Systems Holdings Limited
Consolidated Balance Sheet
As at 31 October 2014

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Fixed assets					
Intangible assets - goodwill	10		5,706		6,879
Tangible assets	11		346,585		350,600
Associates	12		-		-
Joint ventures:	12				
Share of gross assets		2,102		2,871	
Share of gross liabilities		(301)		(690)	
			1,801		2,181
Other investments	12		15,726		15,275
			369,818		374,935
Current assets					
Stocks and work in progress	14	157,498		42,174	
Debtors					
- due within one year	15	219,525		136,285	
- due after one year	15	19,731		38,207	
Cash at bank and in hand	17	67,580		194,264	
			464,334		410,930
Creditors: amounts falling due within one year	18		(249,932)		(220,382)
Net current assets			214,402		190,548
Total assets less current liabilities			584,220		565,483
Creditors: amounts falling due after more than one year	19		(265,246)		(204,265)
Provisions for liabilities and charges	20		(27,724)		(34,565)
Net assets	2		**291,250**		**326,653**
Capital and reserves					
Called up share capital	21		60,000		60,000
Merger reserve	22		9,584		9,584
Revaluation reserve	22		483		225
Other reserves	22		(6,923)		(4,143)
Profit and loss account	22		230,021		262,220
Shareholder's funds	23		**293,165**		**327,886**
Minority interests			(1,915)		(1,233)
Total capital and reserves			**291,250**		**326,653**

The financial statements of Renewable Energy Systems Holdings Limited Group (registered number 4913497) were approved by the Board of Directors and authorised for issue on 27 March 2015, and were signed on its behalf by:

I D Mays
Director
27 March 2015

Renewable Energy Systems Holdings Limited
Company Balance Sheet
As at 31 October 2014

	Notes	2014 £'000	2013 £'000
Fixed assets			
Investments	12	42,801	42,801
Current assets			
Debtors	15	24,799	4,612
Creditors: amounts falling due within one year	18	(59)	-
Net current assets		24,740	4,612
Total assets less current liabilities		67,541	47,413
Capital and reserves			
Called up share capital	21	60,000	60,000
Profit and loss account	22	7,541	(12,587)
Total Shareholder's Funds	23	67,541	47,413

The financial statements of Renewable Energy Systems Holdings Limited (registered number 4913497) were approved by the Board of Directors and authorised for issue on 27 March 2015, and were signed on its behalf by:

I D Mays
Director
27 March 2015

Renewable Energy Systems Holdings Limited
Consolidated Cash Flow Statement
For the year ended 31 October 2014

	2014 £'000	2013 £'000
Net cash (outflow)/inflow from Group operating activities	(112,703)	37,707
Returns on investments and servicing of finance	(8,519)	(20,426)
Taxation	(3,358)	(997)
Capital expenditure and financial investment	(85,993)	(73,116)
Acquisitions and disposals	11,147	210,959
Equity dividends paid	(24,788)	-
Cash (outflow)/ inflow before management of liquid resources and financing	(224,214)	154,127
Financing	97,041	(36,428)
(Decrease)/increase in cash in the year	(127,173)	117,699

Reconciliation of Group operating (loss)/profit to Group operating cash flows		
Group operating profit	11,789	171,846
Add back: share of operating loss of associates and joint venture	5,638	6,696
Depreciation and impairment charges	22,002	32,693
Amortisation and impairment charges	1,173	1,282
Decommissioning provisions	542	(240)
(Increase)/decrease in stocks	(114,632)	5,997
(Increase)/decrease in debtors	(102,516)	15,170
Increase/(decrease) in creditors	70,774	(4,087)
Less:profit on disposal of wind farm subsidiaries	(7,473)	(191,650)
Net cash (outflow)/inflow from Group operating activities	(112,703)	37,707

Reconciliation of net cash flow to movement in net funds		
(Decrease)/increase in cash in the year	(127,173)	117,699
Cash flow from changes in debt	(97,041)	36,428
Changes in net debt resulting from cash flows	(224,214)	154,127
Exchange movements and other non-cash movements	36,540	227,407
Movement in net funds in the year	(187,674)	381,534
Net debt at the start of the year	(27,120)	(408,654)
Net debt at the end of the year	(214,794)	(27,120)

The analysis of cash flow headings shown above including the analysis of net debt is shown in note 26.

1 Accounting policies

The financial statements have been prepared on a consistent basis for the current and preceding years in accordance with applicable United Kingdom laws and accounting standards. The particular accounting policies adopted by the directors are described below and have been applied consistently throughout the year and the preceding year, except as noted.

Accounting convention
The financial statements have been prepared under the historical cost convention except for investments.

Basis of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries at 31 October 2014 and their results for the year ended on that date. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Intangible assets - goodwill
Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is five to twenty years based on expected lives of the related business and assets. Provision is made for any impairment.

Foreign currencies
Transactions of UK companies denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at that date. The translation differences are dealt with in the profit and loss account.

The financial statements of foreign subsidiaries are translated into Sterling at the closing rate of exchange for the balance sheet and average rate of exchange for the year for profit and loss balances. Any differences arising there from are taken directly to reserves. The differences arising from the translation of the opening net investment in subsidiaries at the closing rate and matched long-term foreign currency borrowings are taken directly to reserves.

Turnover
Turnover represents the value of work carried out to date for the development, construction and operation of wind farms and related activities.

Generation turnover is recognised at the time that the electricity is generated.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs, as contracts progress. Turnover is calculated by reference to the value of work performed to date, as a proportion of the total contract value. Provision is made for the full amount of foreseeable losses on contracts.

The Group funds various US windfarms with US tax equity funding arrangements. Under UK GAAP the Group retains control of these wind farms and the results are fully consolidated into the Group. Turnover therefore includes the sale of Production Tax Credits and Capital Allowances to tax equity funders.

Development costs
Development costs are capitalised into development work-in-progress to the extent that they are site-specific costs attributable to bringing that site into a completed state, and where there is a realistic expectation (i.e. more likely than not) that the development costs will be recovered. However, the majority of development costs are expensed as incurred.

Tangible fixed assets
All tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Wind and solar PV farm tangible fixed assets which are to be retained by the Group are capitalised incrementally throughout the construction phase and depreciated from the point when the assets are first energised.

Depreciation
Fixed assets other than freehold land are depreciated over their useful economic lives on a straight-line basis at the following rates per annum:

Wind and solar PV farms	4% to 5%
Freehold buildings	2%
Short leasehold land and buildings	20%
Fixtures and fittings	20%
Other plant and equipment	20% to 33%

Government grants
Government grants received as contributions towards expenditure on fixed assets are treated as deferred income and credited to the profit and loss account over the expected useful economic life of the asset.

1 Accounting policies (continued)

Operating leases
Operating lease rentals are charged to the profit and loss account over the life of the lease.

Operating lease rentals for land on which the Group's wind farms are situated are charged to the profit and loss account at a contractual percentage of revenue generated by the wind farm.

Other operating lease rentals are charged to the profit and loss account in equal amounts over the life of the lease.

Investments
Except as stated below investments held as fixed assets are stated at cost less provision for impairment. The investment in TRIG is valued using a directors valuation which is permissible under UK GAAP. The directors valuation is based on the market value at the balance sheet date. Any revaluation movements are taken through the Statement of Total Recognised Gains and Losses.

Associates and joint ventures
In the Group financial statements investments in associates and joint ventures are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of associates' and joint ventures' profit less losses while the Group's share of net assets of the associates and joint ventures is shown in the consolidated balance sheet. Goodwill arising on the acquisition of associates and joint ventures is accounted for in accordance with the policy set out above. Unamortised goodwill is included in the carrying value of the investment in associates and joint ventures respectively.

Amounts recoverable on contracts
Amounts recoverable on long-term contracts which are stated within debtors, are stated at the net sales value of work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as long-term contract balances in stock.

Stocks
Work in progress is valued at the lower of cost and net realisable value.

Long-term contract balances represent costs incurred on specific contracts, net of amounts transferred to cost of sales in respect of work recorded as turnover.

Taxation
Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and tax law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

As noted above, the Group funds various US wind farms with US tax equity funding arrangements and the consolidated results of the wind farms are reflected in the Group financial statements. For this reason, all of the tax benefits arising from the wind farms, including production tax credits and capital allowances, are dealt with in the Group financial statements as they are earned. Where such benefits are passed on to the tax equity funders, these benefits reduce the amount due to these funders.

Long-term incentive plans
The Group operates a number of long term incentive schemes for senior employees. Cash payments are made over time based on increases in the value of Group companies. The charges under these schemes are allocated to the relevant accounting periods in which the Group benefits from the services of the employee concerned. This varies depending on the award dates, the vesting dates and the conditions imposed on continuing employment with the Group.

Retirement benefits
The company's subsidiaries, Renewable Energy Systems Limited and RES UK & Ireland Limited are members of the defined benefits section of the Sir Robert McAlpine Limited Staff Pension and Life Assurance Scheme. As the assets and liabilities of the scheme are not separately identifiable between member companies of the scheme, the Group accounts for the charges in respect of the scheme as if it were a defined contribution scheme.

For defined contribution schemes the amount charged to the profit and loss in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

1 Accounting policies (continued)

Decommissioning costs
Provisions for decommissioning are recognised in full when the related facilities are constructed. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related plant and equipment. The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to plant and equipment. The unwinding of the discount on the decommissioning provision is included as a finance cost.

Derivative financial instruments
The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

For an interest rate swap to be treated as a hedge, the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a variable rate to a fixed rate. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

Loan issue costs
Costs relating to the issue of bank loans are netted against the carrying amount of debt and amortised over the estimated life of the loan, being charged to the profit and loss account as part of interest payable and similar charges.

Interest during construction
Interest during construction is expensed as incurred.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report and Strategic Report. The financial position of the Group is set out in the Consolidated Balance Sheet and the accompanying notes to the financial statements. The Group's cash and borrowings positions are set out in the Directors' Report and notes 17, 18, 19 and 24 to the financial statements. A description of the Group's financial risks is also set out in the Strategic Report.

At the year end the Group had cash of £67.6 million (2013: £194.3 million). In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group uses a mixture of long-term limited recourse borrowings and medium term revolving credit facilities. The directors believe that the Group will be able to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

2 Segmental analysis

By class of business:

	Turnover		Group operating profit		Net assets	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Development and construction of wind and solar farms	599,903	313,527	3,778	(39,545)	173,347	176,495
Production and sale of electricity	58,773	103,538	2,113	23,451	94,794	108,910
Consultancy and other renewables	13,230	35,912	(1,575)	(3,710)	23,109	41,248
Disposal of operating wind farms	-	-	7,473	191,650	-	-
	671,906	452,977	11,789	171,846	291,250	326,653

By geographical area of origin:

	Turnover		Group operating profit		Net assets	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
UK	31,865	114,629	(24,529)	182,724	95,466	190,471
Rest of Europe	234,574	74,699	(8,733)	12,594	37,900	17,882
North America	404,144	263,606	49,178	(17,106)	156,787	116,962
Rest of the World	1,323	43	(4,127)	(6,366)	1,097	1,338
	671,906	452,977	11,789	171,846	291,250	326,653

Turnover by destination is not materially different from turnover by origin.

3 Share of operating loss in associates

	2014 £'000	2013 £'000
Group share of operating loss	(3,625)	(4,218)

4 Share of operating loss in joint ventures

	2014 £'000	2013 £'000
Group share of operating loss	(2,013)	(2,478)

5 Investment income and interest receivable

	2014 £'000	2013 £'000
Interest receivable from associates	1,006	928
Interest receivable from related parties	-	301
Bank interest receivable and similar income	702	709
Foreign exchange gain on financing arrangements	7,627	6,821
Dividend receivable from investments	936	
Profit on sale of investments	178	-
	10,449	8,759

6 Interest payable and similar charges

	2014 £'000	2013 £'000
Bank loans and overdrafts	11,112	20,720
Interest payable to related parties	-	1,629
Amortisation of loan issue costs	367	1,106
Foreign exchange loss on financing arrangements	5,213	6,995
Other interest	155	369
Notional interest on tax equity debt	3,912	4,435
	20,759	35,254

7 Group operating profit

	2014 £'000	2013 £'000
Group operating profit is stated after charging / (crediting):		
Depreciation on owned assets (see note 11)	22,002	20,276
Amortisation of goodwill (see note 10)	1,173	1,282
Impairment loss/(write back) on fixed assets	-	12,417
Foreign exchange on trading activities	891	228
Auditor's remuneration (see below)	973	1,329
Operating lease rentals	5,417	4,948
Impairment of associate	9,520	-
Profit on disposal of wind farm subsidiaries	(7,473)	(191,650)

The analysis of auditor's remuneration is as follows:	2014 £'000	2013 £'000
Fees payable to the company's auditor for the audit of the Group's annual accounts	62	72
Fees payable to the company's auditor for the audit of the Group's annual accounts - prior year	-	-
The audit of the company's subsidiaries pursuant to legislation	537	531
The audit of the company's associates and joint ventures pursuant to legislation	2	12
The audit of the company's subsidiaries pursuant to legislation - prior year	18	2
Total audit fees	619	617
Other services pursuant to legislation:		
Tax services	319	565
Other services	35	147
Total non-audit fees	354	712
Total auditor's remuneration	973	1,329

6 Employee Information

	2014 £'000	2013 £'000
Remuneration of the directors of the company:		
Emoluments	1,546	2,007
Pension contributions	53	62
Total emoluments	1,599	2,069

In 2014, in addition to the above, entitlement under long-term incentive plans was £1,244,207 (2013 entitlement: £nil).

	2014 £'000	2013 £'000
Remuneration of the highest paid director:		
Emoluments	793	812
Pension contributions	27	26
Total emoluments	820	838

In 2014, in addition to the above, entitlement of the highest paid director under long-term incentive plans was £844,500 (2013 entitlement: £nil).

	2014 £'000	2013 £'000
Staff costs of the Group including directors' emoluments:		
Wages and salaries	82,532	74,048
Social security costs	9,693	9,015
Pension and other costs	3,886	3,279
	96,111	86,342

	2014 No.	2013 No.
Average number employed during the year including directors:		
Engineering, technical & project management	1,058	879
Management and administration	248	240
	1,306	1,119

Retirement benefits in the company were accruing to one director during the year (2013: one) under defined benefit schemes.

Three of the directors of the company were remunerated for their services to the Renewable Energy Systems Holdings Limited Group by member companies of the Group (2013: three). The other directors of the company were paid by associated companies of the Newarthill Limited Group (a group under common control), and did not receive remuneration for services to the Renewable Energy Systems Holdings Limited Group.

The Group operates a number of long-term incentive programmes for senior employees such that cash payments are made over time based on increases in the value of Group entities. The values are determined by independent valuers based on cash flow and market based methodologies. During the year changes in the value of Group entities gave rise to entitlements for senior employees with various future vesting conditions. In the year £4.4m was expensed (2013: £4.7m) and entitlements in future periods are currently estimated to be up to £2.1m (2013: £6.6m) as the services from such senior employees are received. Future changes in the valuation of Group entities will also affect amounts to be accrued in future periods.

Renewable Energy Systems Holdings Limited
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9 Tax charge on profit on ordinary activities

(a) Analysis of tax charge/(credit) in the year :

	2014 £'000	2013 £'000
Current tax:		
UK corporation tax for the year at 21.83% (2013: 23.41%)	(3,951)	3,877
Overseas tax for the year	4,837	4,032
Adjustments in respect of previous years - UK	50	22
Adjustments in respect of previous years - Overseas	152	(880)
Total current tax charge	1,088	7,051
Deferred tax:		
Timing differences, origination and reversal	9,355	(6,800)
Prior year adjustments	(25)	(1,118)
Total deferred tax charge/(credit)	9,330	(7,918)
Share of associates' tax	(662)	(1,118)
Total tax charge/(credit)	9,756	(1,985)

(b) Factors affecting the tax charge for the current year :

	2014 £'000	2013 £'000
Profit on ordinary activities before tax	1,479	144,577
Tax at 21.83% (2013: 23.41%)	323	33,851
Effects of:		
Fixed asset timing differences	(555)	(13,136)
Tax losses (carried forward)/utilised	(4,718)	22,342
Permanent differences	7,419	16,465
Income not taxable	(9,263)	(49,531)
Utilisation of losses	(8,748)	(64)
Movement in short term timing differences	8,642	4,160
Effects of overseas tax rates	7,785	(6,177)
Prior year adjustments	203	(859)
Current tax charge	1,088	7,051

10 Intangible fixed assets - goodwill

	2014 £'000	2013 £'000
Cost:		
At 1 November	23,487	27,724
Disposals	-	(4,237)
At 31 October	23,487	23,487
Amortisation:		
At 1 November	16,608	17,824
Charge for the year	1,173	1,282
Eliminated on disposal	-	(2,498)
At 31 October	17,781	16,608
Net book value:		
At 31 October	5,706	6,879

11 Tangible fixed assets

Group	Freehold land and buildings	Short leasehold land and buildings	Fixtures and fittings	Plant and equipment	Assets in course of construction	Total
Cost:	£'000	£'000	£'000	£'000	£'000	£'000
At 1 November 2013	15,894	4,312	5,889	495,968	5,057	527,120
Exchange rate adjustments	5	-	(2)	(11,819)	(344)	(12,160)
Additions	226	396	770	49,179	45,406	95,977
Disposals	(1,879)	(47)	(81)	(72,371)	-	(74,378)
Reclassification	(1)	(427)	9	4,716	(4,297)	-
At 31 October 2014	14,245	4,234	6,585	465,673	45,822	536,559
Depreciation:						
At 1 November 2013	2,050	2,384	4,972	167,114	-	176,520
Exchange rate adjustments	-	-	14	(5,190)	-	(5,176)
Charge for the year	113	629	529	20,731	-	22,002
Disposals	(429)	(47)	(71)	(2,825)	-	(3,372)
Reclassification	-	(320)	65	255	-	-
At 31 October 2014	1,734	2,646	5,509	180,085	-	189,974
Net book value:						
At 31 October 2014	12,511	1,588	1,076	285,588	45,822	346,585
At 31 October 2013	13,844	1,928	917	328,854	5,057	350,600

Wind farm assets in the course of construction are reclassified as plant and equipment when energisation is achieved and the wind farms commence exporting electricity to the grid network. Renewable Energy Systems Holdings Limited has no tangible fixed assets.

12 Fixed asset investments

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Subsidiary undertakings	-		42,801	42,801
Joint ventures	1,801	2,181	-	-
Associates	-	-	-	-
Other investments	15,726	15,275	-	-
	17,527	17,456	42,801	42,801

Principal subsidiary undertakings are listed in note 32 to the financial statements.

Associates and joint ventures:	Associates 2014 £'000	Associates 2013 £'000	Joint ventures 2014 £'000	Joint ventures 2013 £'000
Share of net (liabilities)/assets at 1 November	(2,806)	1,048	2,181	227
Exchange rate adjustments	502	(179)	(286)	15
Additions	481	-	1,919	4,417
Disposals	-	-	-	-
Share of retained loss for the year	(2,968)	(3,675)	(2,013)	(2,478)
Share of net (liabilities)/assets at 31 October	(4,791)	(2,806)	1,801	2,181
Goodwill at 1 November	-	-	-	-
Additions	1,519	-	-	-
Amortisation	(221)	-	-	-
Goodwill at 31 October	1,298	-	-	-
Net book value	(3,493)	(2,806)	1,801	2,181

Investments in associates comprise the Group's share of net assets in an operating wind farm in Sweden and an offshore development project in France.

Other investments above relate to a 3.6% shareholding in the shares of The Renewables Infrastructure Group "TRIG", a listed renewables fund. The movement in the year arises from shares purchase of £3,973,000 , share sale of £3,750,000 and a revaluation gain of £258,000.

The following information is given in respect of the Group's share of all associates and joint ventures:

	Associates 2014 £'000	Associates 2013 £'000	Joint ventures 2014 £'000	Joint ventures 2013 £'000
Turnover	3,829	4,006	25	88
Fixed assets	29,952	33,571	124	19
Current assets	2,643	6,588	1,978	2,852
Liabilities due within one year	(5,812)	(9,117)	(301)	(690)
Liabilities due after one year	(31,574)	(33,848)	-	-

13 Disposal of subsidiary undertakings

During June 2014 the Group sold its 100% per cent interest in the ordinary share capital of the following subsidiaries to TRIG:

- Meikle Carewe Power Limited ("MC Power")
- Tallentire Energy Limited ("Tallentire")

The loss after tax of the subsidiaries disposed up to the date of disposal was £0.8m, and for the prior financial year was a loss after tax of £1.0m.

In July 2014 and October 2014 respectively the Group also sold its 100% per cent interest in the ordinary share capital of the following French subsidiaries:

- CEPE des Portes de la Côte d'Or ("PCO")
- CEPE de la Forterre ("Forterre")

The loss after tax of the subsidiaries disposed up to the date of disposal was £0.1m and £0.1m respectively, and for the prior financial year it was a loss after tax of £0.1m and £0.1m respectively.

Net assets disposed of and the related sale proceeds were as follows:

		MC Power and Tallentire £'000	PCO £'000	Forterre £'000	Total £'000
Fixed assets		34,011	1,342	33,731	69,084
Current assets		4,494	664	6,736	11,894
Creditors		(26,279)	(2,000)	(40,210)	(68,489)
Provisions for liabilities and charges		(609)	-	-	(609)
Net assets		11,617	6	257	11,880
Cash sales proceeds were:					
Cash flows in respect of the sale comprised:					
Cash consideration		19,090	6	257	19,353
Cash at bank and in hand disposed	(see note 26)	4,022	1	1	4,024

The profit on disposal of subsidiaries to TRIG of £7,473,000 has been included within operating profit.

14 Stocks and work in progress

	Group	
	2014	2,013
	£'000	£'000
Work in progress	146,139	40,253
Stocks	2,363	1,174
Long-term contract balances	8,996	747
	157,498	42,174

Work in progress includes amounts incurred for the construction of Pleasant Valley and Border Winds projects in the USA. An agreement has been made to sell these at the end of construction.

15 Debtors

Amounts falling due within one year:	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Trade debtors	91,709	63,813	-	-
Amounts recoverable on contracts	7,943	629	-	-
Amounts owed by Group undertakings	-	-	24,799	4,612
Amounts owed by related parties (see note 30)	11	3,029	-	-
Amounts owed by associated companies	6,110	15,880	-	-
Value added tax	16,464	4,052	-	-
Other debtors	10,756	4,166	-	-
Deferred tax asset (see note 16)	10,340	16,764	-	-
Corporation tax	8,485	3,110	-	-
Prepayments and accrued income	67,707	24,842	-	-
	219,525	136,285	24,799	4,612

Amounts falling due after more than one year:	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Deferred tax asset (see note 16)	18,905	37,961	-	-
Other debtors	826	246	-	-
	19,731	38,207	-	-
Total debtors	239,256	174,492	24,799	4,612

16 Deferred taxation

	2014 £'000	2013 £'000
Included in debtors falling due within one year (see note 15)	10,340	16,764
Included in debtors falling due after more than one year (see note 15)	18,905	37,961
Included in provisions for liabilities and charges (see note 20)	(9,601)	(25,343)
	19,644	29,382

Movement in timing differences during the year:

	2013 £'000	Exchange rate adjustments £'000	Credited to profit and loss account £'000	Disposal of subsidiary £'000	2014 £'000
Fixed asset timing differences	(15,309)	754	(372)	348	(14,579)
Losses	39,363	(1,541)	(14,361)	-	23,461
Other short-term timing differences	5,328	32	5,403	(1)	10,762
	29,382	(755)	(9,330)	347	19,644

In the UK the rate of corporation tax will change from 21% to 20% from 1 April 2015. As deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods of reversal, all UK deferred tax closing balances have been restated using a rate of 20%.

Factors that may affect the future tax charge

A deferred tax asset has not been recognised in respect of timing differences where there is insufficient evidence that assets will be recovered within the foreseeable future. The amount of assets not recognised by the Group is £8,670,000 (2013: £8,786,000), and the company is £nil.

Unprovided deferred tax	2014 £'000	2013 £'000
Accelerated capital allowances	41	284
Losses	6,437	7,410
Short-term timing differences	2,192	1,092
	8,670	8,786

17 Cash at bank and in hand

Cash at bank and in hand includes amounts held for restricted purposes as follows: Group £11,090,000 (2013: £8,128,000); company £nil (2013: £nil).

Restricted cash balances relate to cash held in non-recourse special project companies.

18 Creditors: amounts falling due within one year

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Bank loans (see note 24)	17,330	17,388	-	-
Payments received on account	45,139	55,530	-	-
Trade creditors	57,114	42,299	-	-
Amounts owed to related parties (see note 30)	-	1,848	-	-
Corporation tax	1,644	1,767	59	-
Value added tax	17,915	9,474	-	-
Other creditors	9,655	6,655	-	-
Accruals and deferred income	101,135	85,421	-	-
	249,932	220,382	59	-

19 Creditors: amounts falling due after more than one year

	Group	
	2014 £'000	2013 £'000
Bank loans (see note 24)	265,044	203,996
Other creditors	-	56
Accruals and deferred income	202	213
	265,246	204,265

20 Provisions for liabilities and charges

Group:	2013 £'000	Movement £'000	2014 £'000
Other provisions	6,416	8,214	14,630
Share of Associate net liabilities (see note 12)	2,806	687	3,493
Deferred tax (see note 16)	25,343	(15,742)	9,601
At 31 October	34,565	(6,841)	27,724

Other provisions include amounts relating to decommissioning. Decommissioning provisions will be utilised at the end of each wind farm's useful life, which varies between 2015 and 2034.

Included in the movement is a release of £283,000 of decommissioning provision relating to assets sold to TRIG.

21 Called up share capital

	2014 £'000	2013 £'000
Authorised:		
60,000,000 (2013: 60,000,000) ordinary shares of £1 each	60,000	60,000
Called up, issued and fully paid:		
60,000,000 (2013: 60,000,000) ordinary shares of £1 each	60,000	60,000

22 Reserves

Group	Merger reserve £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 November 2013	9,584	225	(4,143)	262,220	267,886
Retained loss for the year	-	-	-	(7,411)	(7,411)
Dividend paid	-	-	-	(24,788)	(24,788)
Revaluation of TRIG Investment	-	-	215	-	215
Income to be settled in TRIG shares	-	258	-	-	258
Currency translation differences on foreign currency net investments		-	107	-	107
Currency translation arising on consolidation	-	-	(3,102)	-	(3,102)
At 31 October 2014	9,584	483	(6,923)	230,021	233,165

The only movements in reserves in the parent company was a retained profit in the year of £44,916,000 (2013: loss of £2,588,000) and a dividend paid of £24,788,000 (2013: £nil) . As permitted by section 408 of the Companies Act 2006, no profit and loss of the parent company is presented.

Other reserves in the current year includes currency translation differences on foreign currency net investments and the settlement of management services income in TRIG shares. The revaluation reserve includes the gain on revaluation of the TRIG investments.

23 Reconciliation of movements in shareholder's funds

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Retained (loss)/profit for the year	(7,411)	147,589	44,916	(2,588)
Dividend paid (41.4566p per share)	(24,788)	-	(24,788)	
Other recognised (losses)/gains relating to the year	(2,522)	1,085	-	-
Net (reduction)/addition to equity shareholder's funds	(34,721)	148,674	20,128	(2,588)
Opening equity shareholder's funds	327,886	179,212	47,413	50,001
Closing equity shareholder's funds	293,165	327,886	67,541	47,413

24 Borrowings

	Group	
	2014	2013
	£'000	£'000
Bank loans are repayable by instalments as follows:		
One year or less	17,330	17,388
Between one and two years	94,718	17,410
Between two and five years	48,777	58,189
In five years or more	121,548	128,397
	282,373	221,384

Facilities were fully drawn at year end and are repayable in non-equal instalments over periods up to 20 years. Average interest rate is 5.67% and the underlying interest rate risk is actively managed through the use of interest rate swaps.

A total of 91% (2013: 97%) of the Group's borrowings are non-recourse long-term project finance debt secured by fixed and floating charges on the Group's operating wind projects. The remaining borrowings are mortgages secured on the Group's properties and a revolving credit facility. Loans in respect of assets in the course of construction are arranged on a limited recourse basis, restricting the lenders' recourse to the assets of the project company.

The above figures are presented after deduction of unamortised loan issue costs of £3,896,000 (2013: £3,725,000) which are being written off over the term of the loans.

25 Financial commitments

Group financial commitments are as follows:

	Group	
	2014	2013
	£'000	£'000
Wind farm construction costs contracted for but not provided for on wind farms to be retained within the Group	9,783	12,237

These commitments are financed either by limited recourse bank loans or self financed by the RES Group.

Annual commitments for land and buildings (which principally relate to office buildings) under non-cancellable leases are shown below. Certain operating lease costs are variable in nature and are linked to the performance of wind farms, and are included below at the estimated annual amount.

	Land and buildings		Other	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Operating lease expiring:				
One year or less	786	694	30	192
Between one and two years	401	529	359	195
Between two and five years	937	470	125	138
In five years or more	2,140	1,895	-	-
	4,264	3,588	514	525

26 Cash flow statement

	2014 £'000	2013 £'000
(a) Analysis of cash flows for headings netted in cash flow statement		
Returns on investments and servicing of finance		
Interest received	2,638	1,933
Interest paid	(11,157)	(22,359)
Net cash outflow from returns on investments and servicing of finance	(8,519)	(20,426)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(86,856)	(53,019)
Receipts from sale of tangible fixed assets	1,924	-
Payments for investments	(666)	(15,000)
Receipts from sale of investments	178	-
Loans to associates	(573)	(5,097)
Net cash outflow from capital expenditure and financial investment	(85,993)	(73,116)
Acquisitions and disposals		
Purchase of shares in joint ventures	(1,919)	(2,297)
Sale of shares in subsidiary undertakings	19,090	260,414
Net cash balance disposed of with respect to subsidiary undertakings	(4,024)	(47,158)
Purchase of shares in associates	(2,000)	-
Net cash outflow from acquisitions and disposals	11,147	210,959
Financing		
Repayment of loans	(15,928)	(90,798)
New secured loans	112,969	54,370
Net cash inflow	97,041	(36,428)

(b) Analysis of net debt

	At 1 Nov 2013 £'000	Cash flow £'000	Exchange & Other £'000	At 31 Oct 2014 £'000
Cash at bank and in hand	194,264	(127,173)	489	67,580
Loans due within one year	(17,388)	(350)	408	(17,330)
Loans due after one year	(203,996)	(96,691)	35,643	(265,044)
	(27,120)	(224,214)	36,540	(214,794)

Major non-cash transactions

The analysis of movements in net debt shown above includes Production Tax Credits and Capital Allowances surrendered to tax equity partners of 2014: £3.8m (2013: £9.8m).

27 Retirement benefits

Renewable Energy Systems Limited and Renewable Energy Systems UK & Ireland Limited (both Group companies) are participating employers in the defined benefits section of the Sir Robert McAlpine Limited Staff Pension and Life Assurance Scheme ("the Scheme"). The assets of the Scheme are held separately from those of the Group. The pension cost relating to the Scheme is assessed in accordance with the advice of an external, qualified actuary using the projected unit method. The defined benefits section of the Scheme is closed to new entrants and under the projected unit method the current service cost will increase as the members approach retirement.

Following the demerger from the SRM group in 2009, the Group is required to disclose the information shown below, in relation to its membership of the Scheme. The amounts disclosed relate to the Scheme and these disclosures are also included in the annual report and financial statements of Newarthill Limited, the Scheme's principal employer, copies of which are publicly available. Newarthill Limited's consolidated annual report and financial statements also include the full FRS 17 balance and associated annual charges and credits, including the impact on deferred taxation. These disclosures show the scheme to have a net deficit of £39.8m at 31 October 2014 (2013 deficit: £30.1m), after deducting amounts attributable to members, and before deducting deferred tax. As the assets and liabilities of the Scheme cannot be separately identified between different participating companies within the Scheme, the Group continues to account for the Scheme as if it were a defined contribution scheme. Costs incurred by the Group for the year were £407,000 (2013: £392,000) and there were no amounts outstanding by way of amounts owing or outstanding commitments.

RES On Site Limited, PV Systems Limited and RES Advisory Limited, (all Group companies), together with the Group companies noted in the preceding paragraph, are contributing employers of the defined contribution section of the Scheme, whereby employee contributions are matched by company contributions. During the year the cost was £1,428,000 (2013: £1,049,000) and all such costs are expensed as incurred. At the year end there were £73,000 of contributions deducted relating to amounts deducted from payroll but yet to be paid over to the pension scheme.

The company's overseas subsidiaries also operate local defined contribution schemes, whereby employee contributions are matched by company contributions. During the year the cost was £2,052,000 (2013: £1,679,000) and all such costs were expensed as incurred. At the year end there were no contributions deducted but not yet paid over to the pension scheme.

28 Derivatives not included at fair value

At the balance sheet date the company has the following open derivatives that were not included in the accounts at fair value:

	2014 £'000	2013 £'000
Fair value of derivatives:		
(a) Loss on currency hedge contracts	(355)	-
(b) Loss on interest rate swaps	(15,139)	(8,018)
	(15,494)	(8,018)

29 Contingent liabilities

There were contingent liabilities in respect of guarantees and ordinary contract performance bonds given on construction activities in the normal course of business. The Group does not expect these to result in material costs in the future.

30 Related party transactions

Renewable Energy Systems Holdings Limited has taken advantage of the exemption which is conferred by FRS 8 "Related Party Disclosures" that allows it not to disclose transactions with 100% or more Group undertakings. At the year end date the following balances with related parties were outstanding:

Related party	Relationship	Balance	Amount 2014 £'000	2013 £'000
Sir Robert McAlpine Limited	Entity under common control	Trading balance	-	(59)
Sir Robert McAlpine Limited	Entity under common control	Trading balance	11	12

The loan and trading balances noted above are included in debtors (note 15) and creditors (note 18). The joint venture loan is included in interest payable. During the year the company purchased services in the ordinary course of business from entities under common control totalling £4,493,000 (2013: £5,517,000).

31 Ultimate controlling party

The ultimate controlling party of the company is The McAlpine Partnership Trust, of which two Trustees are also directors of the company.

32 Subsidiary undertakings

The following represent the principal subsidiaries as at 31 October 2014, the majority of which are involved in the development and construction of wind farms or the production and sale of wind generated electricity. The proportion of voting rights held by the Group is the same as the proportion of shares held.

Company name	Country of incorporation	Holding %
Direct subsidiary undertakings		
Renewable Energy Systems Limited	UK	100%
RES Enterprises Limited	UK	100%
Indirect subsidiary undertakings		
Development and construction subsidiaries:		
Renewable Energy Systems Construction Limited	UK	100%
Renewable Energy Systems UK & Ireland Limited	UK	100%
RES B9 (NI Offshore Wind) Ltd	UK	80%
Eole-RES s.a.	France	100%
RES Méditerranée s.a.s.	France	100%
RES Italia	Italy	100%
RES Anatolia	Turkey	100%
NV Nordisk Vindkraft AB (formerly RES Skandinavien AB)	Sweden	100%
Renewable Energy Systems Americas Inc.	USA	100%
Renewable Energy Systems Canada Inc.	Canada	100%
RES Australia Pty Limited	Australia	100%
RES Chile SpA	Republic of Chile	100%
Renewable Energy Systems Southern Africa (Pty) Limited	South Africa	100%
Cayman Land Partners Ltd	Cayman Islands	100%
Operating wind farm subsidiaries and wind farms under construction:		
RES-GEN Limited	UK	100%
Dyffryn Brodyn Limited	UK	100%
Four Burrows Limited	UK	100%
Jack Lane Energy Limited	UK	100%
Woolley Hill Electrical Energy Limited	UK	100%
Wryde Croft Wind Farm Limited	UK	100%
Cark Limited	Republic of Ireland	100%
Taurbeg Limited	Republic of Ireland	100%
CEPE du Souleilla s.a.r.l.	France	100%
CEPE du Pays de Saint Seine s.a.r.l.	France	100%
CEPE de La Salesse s.a.r.l.	France	100%
CEPE de Marsanne s.a.r.l.	France	100%
CEPE de Grand Bois s.a.r.l.	France	100%
Whirlwind Wind LLC	USA	100%
Hackberry Wind LLC	USA	100%