ATTACHMENT 12
ENERSOURCE CORPORATION 2014 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements of

ENERSOURCE CORPORATION

Years ended December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Enersource Corporation

We have audited the accompanying consolidated financial statements of Enersource Corporation, which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained in our 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 consolidated financial position of Enersource Corporation as at December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 26, 2015
Toronto, Canada

ENERSOURCE CORPORATION

Consolidated Statement of Financial Position
(In thousands of Canadian dollars)
As at December 31, 2014 and 2013

	Note	December 31, 2014	December 31, 2013 Recast- Note 2(d)
Assets			
Current assets:			
Cash and cash equivalents	5	$ 15,322	$ 58,800
Accounts receivable	6	59,414	58,172
Unbilled revenue		73,045	70,049
Income taxes receivable		711	-
Inventories	2,7	4,073	3,104
Prepaid expenses		2,181	3,521
Customer deposits	8	23,367	21,920
Total current assets		178,113	215,566
Non-current assets:			
Property, plant and equipment	2,9	556,617	531,936
Intangible assets	10	16,309	17,330
Promissory note	11	2,068	-
Deferred tax assets	13	16,747	13,393
Total non-current assets		591,741	562,659
Total assets		**$ 769,854**	**$ 778,225**
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	14	$ 105,858	$ 109,691
Income taxes payable		-	490
Advance payments		4,962	3,672
Deferred revenue		77	241
Customer deposits	8	23,367	21,920
Current portion of environmental provision	21	1,600	2,825
Total current liabilities		135,864	138,839
Non-current liabilities:			
Debentures payable	15	318,137	318,042
Deferred contributions	16	15,153	11,333
Post-employment benefits	17	7,035	5,986
Environmental provision	21	1,267	-
Total non-current liabilities		341,592	335,361
Total liabilities		477,456	474,200
Shareholders' equity:			
Share capital	18	175,691	175,691
Accumulated other comprehensive income		446	916
Retained earnings		116,261	127,418
Total shareholders' equity		292,398	304,025
Total liabilities and shareholders' equity		**$ 769,854**	**$ 778,225**

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

On behalf of the Board of Directors:

____________________ Director ____________________ Director

ENERSOURCE CORPORATION

Consolidated Statement of Comprehensive Income
(In thousands of Canadian dollars)
Years ended December 31, 2014 and 2013

	Note	December 31, 2014	December 31, 2013
Revenue:			
Energy sales	23	$ 786,505	$ 765,984
Distribution	23	111,675	124,010
Services		9,779	12,452
Other revenue	24	21,020	18,728
		928,979	921,174
Operating expenses:			
Energy purchases	23	801,795	770,026
Employee salaries and benefits		35,532	36,085
Materials and transportation		6,065	6,206
Contract labour		9,198	8,334
Other expenses		12,247	13,408
Conservation and demand management	24	14,546	14,274
Depreciation of property, plant and equipment	9	26,040	25,608
Amortization of intangible assets		3,556	3,198
		908,979	877,139
Results from operating activities		20,000	44,035
Non-operating revenue (expense):			
Interest income		816	1,212
Interest expense		(16,248)	(16,047)
Interest expense on accrued post-employment benefits		(285)	(260)
		(15,717)	(15,095)
Profit before income tax expense		4,283	28,940
Income tax expense	12	869	8,165
Profit for the year		3,414	20,775
Other comprehensive income (loss) net of income tax:			
Remeasurements of the defined benefit obligation		(639)	1,247
Income tax recovery (expense)		169	(331)
		(470)	916
Total comprehensive income for the year		**$ 2,944**	**$ 21,691**

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

ENERSOURCE CORPORATION

Consolidated Statement of Cash Flows
(In thousands of Canadian dollars)
Years ended December 31, 2014 and 2013

	Note	December 31, 2014	December 31, 2013 Recast-Note 2(d)
Cash flows from operating activities:			
Comprehensive income for the year		$ 2,944	$ 21,691
Adjustments for:			
Depreciation of property, plant and equipment		26,040	25,608
Amortization of intangible assets		3,556	3,198
Amortization of deferred contributions		(318)	(195)
Gain on disposal of property, plant and equipment		(56)	(183)
Post-employment benefits		1,049	(791)
Environmental provision	21	1,267	-
Promissory note	11	(2,068)	-
Income tax expense		700	8,496
Interest income		(816)	(1,212)
Interest expense		16,248	16,047
Income tax paid		(5,253)	(5,085)
		43,293	67,574
Change in non-cash working capital	19	(7,192)	(4,727)
Net cash from operating activities		36,101	62,847
Cash flows from investing activities:			
Customer deposits		(1,447)	(2,188)
Interest received		853	1,290
Capitalized interest		348	379
Additions to property, plant and equipment		(51,278)	(53,856)
Additions to intangible assets		(2,699)	(2,301)
Additions to deferred contributions		4,138	5,944
Proceeds from sale of property, plant and equipment		131	231
Cash used in investing activities		(49,954)	(50,501)
Cash flows from financing activities:			
Customer deposits		1,447	2,188
Dividend paid	18	(14,571)	(12,080)
Interest paid		(16,501)	(16,378)
Cash used in financing activities		(29,625)	(26,270)
Decrease in cash and cash equivalents, during the year		(43,478)	(13,924)
Cash and cash equivalents, beginning of year		58,800	72,724
Cash and cash equivalents, end of year		$ 15,322	$ 58,800

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

ENERSOURCE CORPORATION

Consolidated Statement of Changes in Equity
(In thousands of Canadian dollars)
Years ended December 31, 2014 and 2013

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance at January 1, 2014	$ 175,691	$ 916	$ 127,418	$ 304,025
Profit for the year	-	-	3,414	3,414
Other comprehensive loss, net of tax	-	(470)	-	(470)
Dividends paid	-	-	(14,571)	(14,571)
Balance at December 31, 2014	$ 175,691	$ 446	$ 116,261	$ 292,398

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance at January 1, 2013	$ 175,691	$ (926)	$ 119,649	$ 294,414
Profit for the year	-	-	20,775	20,775
Other comprehensive income, net of tax	-	916	-	916
Accumulated other comprehensive income transferred to retained earnings	-	926	(926)	-
Dividends paid	-	-	(12,080)	(12,080)
Balance at December 31, 2013	$ 175,691	$ 916	$ 127,418	$ 304,025

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

1. General Information

a) Corporate Information

Enersource Corporation (the "Corporation"), incorporated under the Ontario Business Corporations Act, was formed to conduct electricity distribution and non-regulated utility service ventures. The Corporation is owned 90% by the City of Mississauga (the "City") and 10% by BPC Energy Corporation ("Borealis"), a wholly owned subsidiary of the Ontario Municipal Employees Retirement System ("OMERS").

The Corporation's equity is not traded in a public market. The Corporation's registered office is located at 2185 Derry Road West in Mississauga, Ontario, L5N 7A6.

The accompanying consolidated financial statements include the accounts of the Corporation's wholly owned subsidiaries: Enersource Hydro Mississauga Inc. ("Enersource Hydro"), Enersource Services Inc., Enersource Technologies Inc. ("Technologies") and Enersource Power Services Inc. ("Power Services"). On July 7, 2014, Enersource Hydro Mississauga Services Inc. officially changed its name to Enersource Power Services Inc.

b) Nature of operations

The Corporation provides electricity distribution services to businesses and residences in the City of Mississauga, Ontario through its subsidiary, Enersource Hydro.

Power Services provides utility services, including electricity distribution infrastructure design, construction and operations and streetlight construction and maintenance services to customers in Ontario.

Enersource Services Inc. is the parent company of Power Services, the Corporation's non-regulated businesses, which also owns 100% of Technologies.

2. Basis of Preparation

a) Statement of compliance

The accompanying annual consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards ("IFRS")* as issued by the *International Accounting Standards Board ("IASB").*

These consolidated financial statements have been approved by the Corporation's Board of Directors on February 27, 2015.

b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis.

c) Rate setting

Enersource Hydro, as an electricity distributor, is both licensed and regulated by the Ontario Energy Board ("OEB") which has a legislative mandate to oversee various aspects of the electricity industry. The OEB exercises statutory authority through setting or approving all rates charged by Enersource Hydro and establishing standards of service for Enersource Hydro's customers.

Enersource Hydro is subject to a cost of service regulatory mechanism under which the OEB establishes the revenues required to: (i) recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) provide a fair and reasonable return on utility investment, or rate base. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The OEB has the power to establish electricity prices to be charged to low volume consumers and designated consumers who do not choose an electricity retailer. The OEB may adjust electricity commodity prices charged to these consumers every six months as required.

On April 27, 2012, Enersource Hydro submitted a cost of service rate application to the OEB to change distribution rates effective January 1, 2013. The application was approved by the OEB on December 19, 2012.

On August 16, 2013, Enersource Hydro submitted an Incentive Regulation Mechanism Application to the OEB to change distribution rates effective January 1, 2014. The application was approved by the OEB on December 5, 2013.

(In thousands of Canadian dollars)

2. Basis of Preparation (continued)

d) Change in classification

During the current year, the Corporation modified the classification of major spare parts from inventories to property, plant and equipment to reflect more appropriately the way in which economic benefits are derived from the use of these items. Comparative amounts in the statement of financial position and the statement of cash flows were reclassified for consistency. These reclassifications did not have any impact on the statement of comprehensive income or the statement of changes in equity.

The following table summarizes the impact of the reclassification on the Corporation's previously reported results:

Statement of Financial Position	Property, plant and equipment	Inventories
As at December 31, 2013	$ 526,557	$ 8,483
Reclassification	5,379	(5,379)
As at December 31, 2013 recast	$ 531,936	$ 3,104

Statement of Cash Flows	Additions to property, plant and equipment	Non-cash working capital
As at December 31, 2013	$ (48,477)	$ (10,106)
Reclassification	(5,379)	5,379
As at December 31, 2013 recast	$ (53,856)	$ (4,727)

3. Key Accounting Judgements, Estimates and Assumptions

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and amounts reported and disclosed in the financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty and judgments at the end of the reporting period that could have a significant impact on the consolidated financial statements, relate to the following:

a) Useful lives of depreciable assets

The Corporation relies on a third party independent study to componentize and determine the estimated useful lives of its distribution system assets. The useful life values from the study were derived from industrial statistics, research studies, reports and past utility experience. Actual lives of assets may vary from estimated useful lives.

b) Post-employment benefits other than pensions

The costs of post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, any expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

c) Accounts receivable impairment

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

d) Unbilled revenue

Unbilled revenue is based on either the actual usage at the end of the period or an assessment of unbilled electricity distribution services supplied to customers between the date of the last meter reading and the period ending date. The Corporation applies judgement to the measurement of the estimated consumption and to the valuation of that consumption.

4. Significant Accounting Policies

a) Financial instruments

All financial assets of the Corporation are classified as loans and receivables and all financial liabilities are classified as other financial liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently they are accounted for based on their classification as following:

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Financial assets are assessed at each reporting period to determine whether there is any objective evidence that they are impaired. Impairment provisions are recognized when there is objective evidence that the Corporation will be unable to collect all of the amounts due under the terms receivable. The impairment loss is calculated as the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. All impairment losses are recognized in net income.

Loans and receivables are comprised of cash and cash equivalents, accounts receivable, promissory note, unbilled revenue and customer deposits.

ii) Other financial liabilities

All non-derivative financial liabilities are classified as other liabilities. They are initially recognized at fair value plus transaction costs that are directly attributable to their issue, and are subsequently carried at amortised cost using the effective interest rate method.

Financial liabilities are derecognized from the statement of financial position when the Corporation is discharged from the obligation, or when the obligation is cancelled or expired.

Financial liabilities are further classified as current or non-current depending on whether they are due within twelve months of the reporting date.

Other financial liabilities are comprised of accounts payable and accrued liabilities, advance payments, debentures payable and deposits payable.

The Corporation does not enter into derivative instruments.

4. Significant Accounting Policies (continued)

b) Inventories

Inventories consist of parts and supplies acquired for internal construction, consumption or recoverable work. The Corporation accounts for major spare parts and standby equipment as property, plant and equipment.

Inventory is carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence. Cost is comprised of the purchase price and other directly attributable expenditures to bring the inventories to their present condition and location.

c) Customer deposits

Customers may be required to post security to obtain electricity or other services, which are interest bearing and refundable on demand. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded as customer deposits and are reported separately from the Corporation's own cash and cash equivalents.

d) Property, plant and equipment (“PP&E”)

PP&E is measured at cost less accumulated depreciation and impairment losses. Cost includes all directly attributable expenditures to acquire and bring the asset into operation including labour, employee benefits, materials and transportation costs, contracted services and borrowing costs where applicable. Subsequent expenditures are included in an asset’s carrying amount or recognized as a separate asset, where appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be reliably measured. All other subsequent expenditures, including the costs of day-to-day servicing, repairs and maintenance, are expensed as incurred.

An asset is derecognized at its carrying value when it is disposed of or when no future economic benefits are expected from its use. The gain or loss arising on the disposal or retirement of an item of PP&E is determined as the difference between the proceeds from sale and the carrying amount of the asset, and is recognized in the statement of comprehensive income.

Major spare parts and standby equipment are accounted for as PP&E since they support the Corporation’s distribution system reliability. Depreciation of PP&E is recorded in the statement of comprehensive income on a straight-line basis over the estimated useful life of each component of PP&E. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

4. Significant Accounting Policies (continued)

Estimated useful lives for the main categories of PP&E are shown in the table below:

Buildings and other fixtures	20 - 60 years
Distribution system and station equipment	15 - 40 years
Overhead and underground distribution system	15 - 55 years
Other PP&E	3 - 25 years

Assets under construction and spare parts accounted as PP&E, which are not available for use, are not depreciated.

During the construction period of qualifying assets, borrowing costs are capitalized as a component of the cost of self-constructed assets. The capitalization rate is the Corporation's weighted average cost of borrowings.

e) Intangible assets

Intangible assets include easements and computer software.

Easements are measured at cost and are held in perpetuity. Since there is no foreseeable limit to the period over which these easements are expected to provide benefit to the Corporation, they have been assessed as having indefinite useful lives and are not amortized.

Computer software is measured at cost less accumulated amortization and impairment losses. Cost includes expenditures associated with the initial acquisition or development and other directly attributable expenditures to prepare the asset for its intended use.

Computer software is amortized on a straight line basis over the estimated useful life of the related asset from the date that they are available for use. The estimated useful lives and amortization methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Software in development is not amortized.

Estimated useful lives for intangible assets are shown in the table below:

Computer software	2 - 10 years
Easements	Indefinite

4. Significant Accounting Policies (continued)

f) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is tested and assessed.

PP&E and intangible assets with finite lives are tested for recoverability at the cash-generating unit ("CGU") level (or groups of CGUs), which is the smallest identifiable group of assets that generates independent cash inflows. An impairment of PP&E and intangible assets with finite lives is recognized in the statement of comprehensive income when the asset's carrying value exceeds its estimated recoverable amount. The recoverable amount is the higher of its value in use and fair value less costs of disposal. Where fair value less costs to sell is not reliably available, value in use is used as the recoverable amount. Value in use is calculated as the present value of the estimated future cash flows expected to be derived from an asset, CGU or group of CGUs.

The Corporation evaluates indefinite life intangible assets for impairment annually or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. For purposes of such an evaluation, the fair value estimate is compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

An impairment charge may be reversed only if there is objective evidence that a change in the estimate used to determine the asset's recoverable amount since the last impairment was recognized is warranted. A reversal of an impairment charge is recognized immediately in the statement of comprehensive income

g) Regulatory accounting

On January 30, 2014, the IASB issued interim standard *IFRS 14, Regulatory Deferral Accounts*. This standard allows first-time adopters of IFRS to apply previous Generally Accepted Accounting Principles to account for rate-regulated assets and liabilities. As the Corporation is not a first-time adopter, it does not recognize assets and liabilities arising from rate regulated activities. Instead, the Corporation records revenues in accordance with its revenue recognition policy and expenses as operating costs when incurred. Regulatory balances that have an effect on comprehensive income under IFRS are disclosed in Note 23.

4. Significant Accounting Policies (continued)

h) Revenue recognition

The Corporation's principal sources of revenue are:

(i) Energy sales and distribution revenue

Energy sales and distribution revenue are recorded on the basis of cyclical billings based on electricity usage and include unbilled revenue for electricity consumed but not yet billed. The unbilled revenue accrual for the period is based on estimated energy consumption. Energy sales are recognized based on OEB and Independent Electricity System Operator ("IESO") prevailing energy rates and electricity consumed by customers. Distribution revenue attributable to the delivery of electricity is recognized based upon OEB-approved distribution rates and estimated electricity consumed by the customer.

(ii) Services revenue

Services revenue related to the sale of non-regulated services are recognized as services are rendered or contract milestones are achieved. Amounts received in advance of these milestones are presented as deferred revenue.

(iii) Other revenue

Other revenue includes government grants under Conservation and Demand Management ("CDM") programs, amortization of customer contributions and other general revenue. Government grants under CDM programs are recognized when there is reasonable assurance that the grant will be received and all related conditions will be met. Grants are recognized as income on a systematic basis over the period to match to the costs they are intended to compensate.

The Corporation receives customer contributions to construct certain items of PP&E. These contributions are recorded as deferred contributions and amortized into income over the life of the related asset.

Other general revenues are recognized as the services are rendered.

i) Employee benefits

(i) Short-term employee benefits

The Corporation provides short-term employee benefits such as salaries, employment insurance, short-term compensated absences, health and dental care. Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as the related service is provided. Short-term employee benefits are recognized as an expense unless they qualify for capitalization as part of an item of PP&E or intangible asset.

4. Significant Accounting Policies (continued)

(ii) Defined benefit pension plan

The Corporation's current pension plan is administered by OMERS and is a multi-employer public sector defined benefit pension plan funded by equal contributions from participating employers and employees as well as by investment earnings of the plan. Pension contributions received from all OMERS employers and members are combined and used jointly to purchase investments. Under OMERS' funding and investment structure, investment and actuarial evaluations are determined on a commingled basis across all employers and as a result, information for individual employers is unavailable.

As the Corporation does not have the information to account for its proportionate share of the defined benefit obligation and plan assets, the Corporation accounts for its participation in OMERS as a defined contribution plan, and all contributions to the plan are recognized as an expense.

(iii) Post-employment benefits

The Corporation provides post-employment life, health, and dental benefits to its employees. An actuary determines the cost of these benefits as well as measures the plan obligation. The actuary uses the projected unit credit method, prorated on service and based on management's best estimate and assumptions. Under this method, the projected post-employment benefit is deemed to be earned on a pro rata basis over the years of service in the attribution period, and ends at the earliest age the employee could retire and qualify for benefits.

Remeasurements of the net defined benefit liability, which are comprised of actuarial gains and losses, are recognized immediately in the statement of financial position with a charge or credit to other comprehensive income. Current service costs are recognized in the statement of comprehensive income under employee salaries and benefits and net interest expense on accrued post-employment benefits are presented as a separate line in the statement of comprehensive income. The Corporation accumulates remeasurements of the defined benefit obligation and transfers them to retained earnings upon OEB's review and approval.

j) Deferred contributions

Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers when the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements.

Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as deferred contributions and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset.

4. Significant Accounting Policies (continued)

k) Income taxes

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes ("PILs") to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada), the Taxation Act, 2007 (Ontario), as modified by the Electricity Act, 1998, and related regulations. References in these financial statements to income taxes are with respect to PILs.

The Corporation recognizes deferred tax using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are probable. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment. Deferred income tax assets and liabilities are offset since they relate to income taxes levied by the same taxation authority.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Current taxes are based on taxable profit or loss for the year, which differ from profit or loss as reported in the consolidated statement of comprehensive income because it excludes items that are taxable or deductible in other years and items that are neither taxable nor deductible. The Corporation’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Both current and deferred taxes are included as part of income tax expense on the statement of comprehensive income.

l) Foreign currency translation

Transactions in foreign currencies are translated to Canadian dollars at the prevailing rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing period-end rates. Exchange gains or losses are recognized as income in the period in which they arise.

4. Significant Accounting Policies (continued)

m) Provisions and contingencies

The Corporation recognizes provisions if, as a result of a past event, there is a present legal or constructive obligation that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The evaluation of the likelihood of the contingent events requires judgement by management as to the probability of exposure to potential gain or loss. Actual results could differ from these estimates.

A contingent asset is not recognized in the consolidated financial statements. However, a contingent asset is disclosed where an inflow of economic benefits is probable.

n) Consolidation

The Corporation prepares consolidated financial statements. All intercompany balances and transactions are eliminated in preparing the consolidated financial statements.

o) New standards and interpretations adopted

The IASB has issued an amendment to *IAS 32 Financial Instruments: Presentation*, which provides further guidance on the requirement for offsetting financial instruments. The amendment is effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The adoption of this amendment did not have an impact on the Corporation's results of operations, financial position, and disclosures.

p) New standards and interpretations not yet adopted

Certain new or amended standards issued by the IASB do not have to be adopted in the current period. The standards that the Corporation anticipates might have an impact on its consolidated financial statements or note disclosures are described below.

(In thousands of Canadian dollars)

4. Significant Accounting Policies (continued)

In May 2014, the IASB issued *IFRS 15, Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. The standard is effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. IFRS 15 is available for early adoption. The purpose of this standard is to:

(i) remove inconsistencies and weaknesses in previous revenue requirements;

(ii) provide a more robust framework for addressing revenue issues;

(iii) improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets;

(iv) provide more useful information to users of financial statements through improved disclosure requirements; and

(v) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

In July 2014, the IASB issued *IFRS 9 Financial Instruments* which will replace *IAS 39 Financial Instruments: Recognition and Measurement.* The new standard provides revised guidance on the classification and measurement of financial assets, including impairment, and supplements the new hedge accounting principles published in 2013 as part of IFRS 9. The standard is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. IFRS 9 is available for early adoption.

In August 2014, the IASB issued an amendment to *IAS 27 Separate Financial Statements*, which allows the use of the equity method and applies to the accounting for associates, joint ventures and subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2016 and must be applied retrospectively.

The Corporation will quantify the effect, if any, of the above mentioned standards, once a full analysis and assessment is completed.

5. Cash and Cash Equivalents

Cash and cash equivalents include cash at the bank, cash on hand and short term investments with a maturity of 90 days or less from the date of purchase.

	December 31, 2014	December 31, 2013
Cash	$ 4,730	$ 43,311
Short term investments	10,592	15,489
Total cash and cash equivalents	$ 15,322	$ 58,800

(In thousands of Canadian dollars)

5. Cash and Cash Equivalents (continued)

There are no restrictions, pledges or limitations to the use of the cash and cash equivalents, except for $10,520 (December 31, 2013 - $5,203) posted as letters of credit.

6. Accounts Receivable

The components of accounts receivable are as follows:

	December 31, 2014	December 31, 2013
Trade receivables	$ 53,335	$ 54,162
Less: allowance for doubtful accounts	(1,928)	(2,142)
Trade receivables, net	$ 51,407	$ 52,020
Receivables due from related parties (Note 20)	4,406	3,838
Other receivables	3,601	2,314
Total accounts receivable, net	$ 59,414	$ 58,172
Of which:		
Not yet due (less than 16 days)	$ 36,539	$ 37,076
Past due 1 day but not more than 14	16,163	13,779
Past due 15 days but not more than 44	5,394	5,168
Past due 45 days but not more than 74	1,516	1,988
Past due 75 days but not more than 104	651	765
Past due more than 104 days	1,079	1,538
Less: allowance for doubtful accounts	(1,928)	(2,142)
Total accounts receivable, net	$ 59,414	$ 58,172

The allowance for doubtful accounts as at December 31, 2014 was 3.1% (December 31, 2013 – 3.6%), of the total accounts receivable which includes accounts receivable that are not yet due or past due, that the Corporation has deemed to be impaired.

7. Inventories

The amount of inventory consumed by the Corporation and recognized as an expense during 2014 was $2,155 (2013 – $2,197). The amount of inventory that was written down due to obsolescence in 2014 was $nil (2013 - $127).

During 2014, the Corporation reclassified $4,581 (2013 – $5,379) from inventory to PP&E as described in Note 2 (d).

(In thousands of Canadian dollars)

8. Deposits and Guarantees

The following outlines the deposits and letters of credit/guarantees of the Corporation posted as security. The amounts are comprised of cash and cash equivalents in the form of deposits and letters of credit/letters of guarantee, under which the Corporation is contingently liable.

	December 31, 2014		December 31, 2013	
	Cash and cash equivalents	Letters of credit/ guarantees	Cash and cash equivalents	Letters of credit/ guarantees
Customer deposits (a)	$ 23,367	$ -	$ 21,920	$ -
Security with the IESO (b)	-	11,450	-	11,450
Security with the City of Brampton (c)	-	10,170	-	4,853
Security with the City of Mississauga (d)	-	350	-	350
	$ 23,367	$ 21,970	$ 21,920	$ 16,653

(a) Customer deposits

The Corporation collects cash and cash equivalents as deposits from certain customers to reduce credit risk.

(b) Security with the IESO

Entities that purchase electricity in Ontario through the IESO are required to post security to mitigate the risk of their default on their expected activity in the market. The IESO could draw on this security if the Corporation fails to make the payment required by a default notice issued by the IESO. The Corporation has posted a letter of credit as security in the amount of $11,450 as at December 31, 2014 (December 31, 2013 - $11,450).

(c) Security with the City of Brampton

The Corporation has posted letters of credit in the amount of $10,170 as at December 31, 2014 (December 31, 2013 - $4,853) relating to contracts with the City of Brampton to provide routine and emergency maintenance of street lighting and related services. The City of Brampton could draw on this security by issuing a certificate demonstrating that the Corporation has failed to fulfill its obligations related to these contracts.

(d) Security with the City of Mississauga

The Corporation has posted a letter of credit in the amount of $350 as at December 31, 2014 (December 31, 2013 - $350) relating to a contract with the City of Mississauga for the installation of Light Emitting Diode (“LED”) streetlight luminaires and monitoring system components. The City of Mississauga could draw on this security by issuing a certificate demonstrating that the Corporation has failed to fulfill its obligations related to this contract.

(In thousands of Canadian dollars)

9. PP&E

PP&E consists of the following as at December 31, 2014:

	December 31, 2013	Additions/ Depreciation	Disposals/ Retirements	December 31, 2014
Cost				
Distribution system	$ 417,267	$ 37,372	$ (1,315)	$ 453,324
Distribution station equipment	58,970	3,852	(246)	62,576
Other PP&E	71,667	4,824	(2,227)	74,264
Buildings and fixtures	34,041	4,187	-	38,228
Land	9,879	-	-	9,879
Construction in progress	4,944	560	-	5,504
Subtotal	$ 596,768	$ 50,795	$ (3,788)	$ 643,775
Accumulated depreciation				
Distribution system	$ (38,998)	$ (14,332)	$ 249	$ (53,081)
Distribution station equipment	(5,238)	(1,925)	33	(7,130)
Other PP&E	(18,071)	(7,080)	1,983	(23,168)
Buildings and fixtures	(2,525)	(1,254)	-	(3,779)
Land	-	-	-	-
Subtotal	$ (64,832)	$ (24,591)	$ 2,265	$ (87,158)
Carrying amount	$ 531,936	$ 26,204	$ (1,523)	$ 556,617

PP&E consists of the following as at December 31, 2013:

	December 31, 2012	Additions/ Depreciation	Disposals/ Retirement	2013 Adjustment Note 2(d)	December 31, 2013 Recast
Cost					
Distribution system	$ 378,722	$ 35,688	$ (1,739)	$ 4,596	$ 417,267
Distribution station equipment	55,681	3,520	(231)	-	58,970
Other PP&E	65,389	6,511	(1,144)	911	71,667
Buildings and fixtures	32,378	1,663	-	-	34,041
Land	9,892	-	(13)	-	9,879
Construction in progress	5,459	(387)	-	(128)	4,944
Subtotal	$ 547,521	$ 46,995	$ (3,127)	$ 5,379	$ 596,768
Accumulated depreciation					
Distribution system	$ (25,615)	$ (13,653)	$ 270	$ -	$ (38,998)
Distribution station equipment	(3,439)	(1,831)	32	-	(5,238)
Other PP&E	(11,852)	(6,944)	725	-	(18,071)
Buildings and fixtures	(1,384)	(1,141)	-	-	(2,525)
Land	-	-	-	-	-
Subtotal	$ (42,290)	$ (23,569)	$ 1,027	$ -	$ (64,832)
Carrying amount	$ 505,231	$ 23,426	$ (2,100)	$ 5,379	$ 531,936

(In thousands of Canadian dollars)

9. PP&E (continued)

During 2014, the Corporation reclassified $4,581 (2013 – $5,379) from inventory to PP&E as described in note 2(d).

The carrying amount of PP&E, that have been derecognized before the end of their estimated useful lives and have been recorded as depreciation expense on the statement of comprehensive income, was $1,449 in 2014 (2013 - $2,039).

During the year, borrowing costs of $304 (2013 - $354) were capitalized as part of the costs of PP&E. A capitalization rate of 5.091% (2013 – 5.091%) was used to determine the amount of borrowing costs to be capitalized. During the year, the Corporation has included $483 (2013 - $1,482) of accrued liabilities in the additions to PP&E.

PP&E and intangible asset purchase commitments outstanding as at December 31, 2014 total $10,076 (December 31, 2013 - $10,907).

10. Intangible Assets

Intangible assets consist of the following as at December 31, 2014:

	December 31, 2013	Additions/ Amortization	Disposals/ Retirements	December 31, 2014
Cost				
Computer software	$ 23,717	$ 2,087	$ (19)	$ 25,785
Easements	565	18	-	583
Software in development	1,186	430	-	1,616
Subtotal	$ 25,468	$ 2,535	$ (19)	$ 27,984
Accumulated amortization				
Computer software	$ (8,138)	$ (3,556)	$ 19	$ (11,675)
Easements	-	-	-	-
Subtotal	$ (8,138)	$ (3,556)	$ 19	$ (11,675)
Carrying amount	$ 17,330	$ (1,021)	$ -	$ 16,309

(In thousands of Canadian dollars)

10. Intangible Assets (continued)

Intangible assets consist of the following as at December 31, 2013:

	December 31, 2012	Additions/ Amortization	Disposals/ Retirements	December 31, 2013
Cost				
Computer software	$ 22,089	$ 1,652	$ (24)	$ 23,717
Easements	524	28	13	565
Software in development	1,004	182	-	1,186
Subtotal	$ 23,617	$ 1,862	$ (11)	$ 25,468
Accumulated amortization				
Computer software	$ (4,964)	$ (3,198)	$ 24	$ (8,138)
Easements	-	-	-	-
Subtotal	$ (4,964)	$ (3,198)	$ 24	$ (8,138)
Carrying amount	$ 18,653	$ (1,336)	$ 13	$ 17,330

During the year, borrowing costs of $44 (2013 - $25) were capitalized as part of the cost of intangible assets. A capitalization rate of 5.091% (2013 – 5.091%) was used to determine the amount of borrowing costs to be capitalized. During 2014, the Corporation has included $164 (2013 - $440) of accrued liabilities in the additions to intangible assets.

11. Promissory Note Receivable

The Corporation holds a promissory note of $2,068 from Trans Power Holding Inc. relating to the sale of its investment in Enerpower Utility Inc. The promissory note, which matures in February 15, 2020, bears a fixed annual interest rate of 6.25%, with payments due annually. The promissory note is open for repayment at any time without notice, bonus or penalty.

(In thousands of Canadian dollars)

12. Income Taxes

The components of income tax expense for the years ended December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Current income tax expense:		
Expense for the year	$ 4,611	$ 7,831
Utilization of future timing differences in the current year	(558)	54
Total current Income tax expense	4,053	7,885
Deferred income tax expense:		
Reversal of temporary differences	(3,733)	(190)
Reduction of future timing differences	549	470
Total deferred Income tax expense	(3,184)	280
Total income tax expense	$ 869	$ 8,165

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

	December 31, 2014	December 31, 2013
Federal and Ontario statutory income tax rate	26.50%	26.50%
Profit before provision for income taxes	$ 4,283	$ 28,940
Provision for income taxes at statutory rate:	1,135	7,669
Increase (decrease) resulting from:		
Non-taxable portion of capital gain	(274)	-
Other timing differences between accounting net Income and net income for tax purpose	8	496
Provision for income taxes	$ 869	$ 8,165
Effective income tax rate	20.29%	28.21%

(In thousands of Canadian dollars)

13. Deferred Tax Assets

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The net deferred tax asset consists of the following:

	December 31,2014	December 31, 2013
PP&E and intangible assets	$ 11,385	$ 14,640
Energy variances	2,907	(3,332)
Employee post-employment benefits other than pensions	1,865	1,587
Unutilized tax loss	213	-
Other temporary differences	377	498
Net deferred income tax assets	$ 16,747	$ 13,393

At December 31, 2014, the Corporation has non-capital loss carry forwards totalling $803 (2013 - $nil), which expires in 2034.

Deferred tax assets have been recognized to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilized. The Company has recognized deferred tax assets in the amount of $279 (2013 – $15) the utilization of which is dependent on future taxable profits. The recognition of these deferred tax assets is based on taxable income forecasts that incorporate existing circumstances that will result in positive taxable income against which non-capital loss carry-forwards can be utilized.

14. Accounts Payable and Accrued Liabilities

The components of accounts payable and accrued liabilities are as follows:

	December 31, 2014	December 31, 2013
Amounts due to the IESO for energy purchases	$ 72,601	$ 70,245
Trade payables due to related parties (Note 20)	88	26
Other trade payables	4,843	5,179
Accrued expenses	18,463	23,992
Other non-trade payables	9,863	10,249
Total accounts payable and accrued liabilities	$ 105,858	$ 109,691

(In thousands of Canadian dollars)

15. Debentures Payable

	December 31, 2014	December 31, 2013
4.52 % Series A Debentures due April 29, 2021	$ 110,000	$ 110,000
Deferred debt issue cost (net of accumulated amortization of $251) (December 31, 2013 $178)	(540)	(613)
5.30 % Series B Debentures due April 29, 2041	210,000	210,000
Deferred debt issue cost (net of accumulated amortization of $78) (December 31, 2013 $56)	(1,323)	(1,345)
Net debentures payable	$ 318,137	$ 318,042

The Corporation has a private placement debt of $320,000 comprised of $110,000 of Series A, 10-year debentures with fixed coupon rate of 4.52%, and $210,000 of Series B 30-year debentures with fixed coupon rate of 5.30%.

Interest expense for the year ended December 31, 2014 included $16,097 (December 31, 2013 - $16,053) in respect of interest on the debt. The amortization of the debt issue cost for the year ended December 31, 2014 was $95 (December 31, 2013 - $91).

The Corporation has the following material covenants associated with its long-term debt:

(i) The Corporation will duly and punctually pay or cause to be paid payments of principal and interest to each holder of the debentures.

(ii) The Corporation will, and will cause each designated subsidiary to maintain its corporate existence (unless all of its assets are or have been conveyed to the Corporation or another designated subsidiary), and will carry on and conduct its business in a proper and efficient manner.

(iii) The Corporation will provide to the Trustee copies of (i) within 120 days of each fiscal year end of the Corporation, annual audited consolidated financial statements of the Corporation together with a report of the Corporation's auditors thereon; (ii) within 60 days of the end of the first, second and third quarters of the Corporation's fiscal year, interim consolidated financial statements. The corporation's first interim consolidated financial report prepared in accordance with IFRS for the first quarter in which such report is required to be prepared, which may be provided within 90 days of the end of such quarter.

(iv) The Corporation will, and will cause each Designated Subsidiary to, from time to time pay or cause to be paid all taxes (including transfer taxes), rates, levies, payments in lieu of taxes, assessments (ordinary or extraordinary), government fees or dues lawfully levied, assessed or imposed upon or in respect of its respective property or any part thereof or upon its income and profits as and when the same become due and payable and to withhold and remit any amounts required to be withheld by it from payments due to others and remit the same to any government or agency thereof.

(In thousands of Canadian dollars)

15. Debentures Payable (continued)

(v) The Corporation will not, and will not permit any Designated Subsidiary to, create, assume or suffer to exist any Security Interest, other than permitted encumbrances, on any of its assets to secure any obligation, unless at the same time it secures equally and rateably therewith all the debentures issued pursuant to the Trust Indenture then outstanding.

(vi) The Corporation shall not issue, incur or become liable for obligations that exceed 75% of the total consolidated capitalization.

(vii) The Corporation may not amalgamate or consolidate with or merge into any other Person, or permit any other Person to amalgamate or consolidate with or merge into with the Corporation, or directly or indirectly transfer, sell, lease or otherwise dispose of all or substantially all of its property or assets. Notwithstanding the foregoing, a Designated Subsidiary shall be permitted to merge with another entity provided that, after giving effect to such merger, it continues to be a Designated Subsidiary

(viii) No default or event of default shall have occurred and be continuing, or shall occur.

The Corporation is in compliance with all credit agreement covenants and limitations associated with its debt.

16. Deferred Contributions

The continuity of deferred contributions is as follows:

	December 31, 2014	December 31, 2013
Deferred contributions, net, beginning of year	$ 11,333	$ 5,584
Additions to deferred contributions	4,138	5,944
Contributions recognized as revenue	(318)	(195)
Deferred contributions, net, end of year	$ 15,153	$ 11,333

17. Post-employment Benefits

The Corporation’s retirement plan is comprised of a defined contribution plan. In addition, the Corporation provides other post-employment benefits such as primarily life insurance, health and dental coverage, on a shared basis.

a) OMERS pension plan

The most recently available OMERS annual report is for the year ended December 31, 2013, which reported that the plan was 88% funded, with a fund deficit of $8,641,000. This fund deficit is likely to result in future payments by the participating employers. The Corporation shares in the actuarial risks of other participants in the plan and therefore its future contributions could increase due to their actuarial losses. In addition, the Corporation’s contributions may also increase if other entities withdraw from the plan.

(In thousands of Canadian dollars)

17. Post-employment Benefits (continued)

The Corporation expensed contributions to OMERS of $4,210 (December 31, 2013 – $3,968) for the year ended December 31, 2014. These amounts are included under employee salaries and benefit in the statement of comprehensive income.

b) Post-employment benefits other than pension

Post-employment benefits other than pension are subject to annual actuarial valuations. A valuation of the post-employment benefits was performed as of December 31, 2014.

A reconciliation of the defined benefit obligation is as following:

	December 31, 2014	December 31, 2013
Accrued benefit obligation, beginning of year	$ 5,986	$ 6,777
Current service cost	325	376
Interest on accrued benefit obligation	285	260
Benefits paid	(200)	(180)
Re-measurements recognized in other comprehensive income	639	(1,247)
Accrued benefit obligation, end of year	$ 7,035	$ 5,986

Total expense recognized in profit or loss	December 31,2014	December 31,2013
Current service costs	$ 325	$ 376
Interest on obligation	285	260
Total expense for the year	$ 610	$ 636

The significant actuarial assumptions used to determine the present value of the obligation are as follows:

Actuarial assumptions	December 31, 2014	December 31, 2013
Discount rate (beginning of year)	4.75%	3.75%
Discount rate (end of year)	4.00%	4.75%
Health care cost increases	9.00%	9.00%
Dental cost increases	4.00%	4.00%
Rate of compensation increase	3.00%	3.00%

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing to $6,010. A 1% decrease in the assumed discount rate would result in the defined benefit obligation increasing to $7,713.

In 2013, the Corporation reclassified $926 from accumulated other comprehensive income to retained earnings.

(In thousands of Canadian dollars)

18. Share Capital

	December 31, 2014	December 31, 2013
Authorized:		
Unlimited, Class A shares, voting		
1,000 Class B shares, non-voting		
100 Class C shares, voting		
Issued:		
180,555,562 Class A shares	$ 155,628	$ 155,628
1,000 Class B shares	1	1
100 Class C shares	20,062	20,062
	$ 175,691	$ 175,691

The holders of Class A shares and Class C shares are entitled to receive notice of, to attend, and to vote at all general and special meetings of the Corporation's shareholders. The holders of Class B shares are not entitled to vote at any meeting of the Corporation's shareholders (except as required by law) and are only entitled to receive notice of special meetings called to consider certain fundamental changes. Holders of Class A shares are entitled to one vote per share. Holders of Class C shares are entitled to such number of votes in respect of each Class C share as will entitle the holders of the Class C shares, as a class, to the proportion of the total number of votes of all shareholders entitled to vote at any such meeting that the Class C total base equity is of the aggregate regulated rate base equity of the Corporation's and its subsidiaries.

The holders of the Class A shares and holders of the Class C shares, in priority to the holders of the Class B shares, are entitled to receive, if, as and when declared by the Corporation's Board of Directors, concurrent preferential dividends at a rate per annum equal to the regulated rate of return on the rate base equity represented by each such class of shares. Once these preferential dividend entitlements have been satisfied, holders of each class of shares are entitled to receive, on a concurrent basis with each other class of shares, additional dividends if, as and when declared by the Corporation's Board of Directors and in such amounts and payable in such manner as may be determined from time to time by the Corporation's Board of Directors. Holders of the Class A shares and the Class C shares are together entitled to 60% of any such additional dividends, which are to be allocated between the holders of each such class of shares in proportion to the rate base equity represented by each such class. Holders of the Class B shares are entitled to 40% of any such additional dividends. Class A, B and C shares have no par value.

Dividends may be declared by the Board of Directors through a resolution. In 2014, a dividend of $14,571 (2013 - $12,080) was declared and paid to the Shareholders of the Corporation.

(In thousands of Canadian dollars)

19. Change in Non-cash Working Capital

	December 31, 2014	December 31, 2013 Recast-Note 2(d)
Accounts receivable	$ (1,282)	$ 6,989
Unbilled revenue	(2,996)	(10,686)
Inventories	(969)	5,370
Prepaid and deposits	1,340	(1,143)
Accounts payable	(3,833)	2,399
Environmental provision	(1,225)	2,455
Advance payments	1,290	1,594
Deferred revenue	(164)	(13,627)
Accrued PP&E and intangible assets	647	1,922
Decrease in non-cash operating working capital	$ (7,192)	$ (4,727)

20. Related Party Transactions

The Corporation's operations include the provision of electricity and services to its principal shareholder, the City. Electricity is billed to the City at the prices and terms as any other Enersource Hydro customer not with an electricity retailer. Street lighting maintenance and construction services are provided at an exchange amount, being that amount agreed to by the parties. A summary of amounts charged by the Corporation to the City is as follows:

	December 31, 2014	December 31, 2013
Electrical energy	$ 10,912	$ 10,586
Street lighting maintenance and construction	7,280	8,011
Street lighting energy	5,843	6,716

As at December 31, 2014, accounts payable and accrued liabilities include $88 (December 31, 2013 - $26) due to the City. Accounts receivable include $4,406 (December 31, 2013 - $3,838) due from the City.

During 2014, the Corporation paid $1,179 (2013 - $944) in property taxes to the City.

The Corporation charged Borealis $9 in 2014 (2013 - $9) for an access agreement. These transactions were recorded at the exchange amount being the amount agreed to by the parties.

In 2014, a dividend of $13,114 (2013 - $10,872) was declared and paid to the City and a dividend of $1,457 (2013 - $1,208) was declared and paid to Borealis.

No Director had, during or at the end of the period, any material interest in any contract of significance in relation to the Corporation’s business.

(In thousands of Canadian dollars)

20. Related Party Transactions (continued)

The following compensation has been provided to the key management personnel of the Corporation and members of the Board of Directors (Directors Honorarium), which have the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

	December 31, 2014	December 31, 2013
Salaries and short term employee benefits	$ 2,233	$ 1,985
Retirement OMERS contributions	246	212
Other compensation	50	37
Directors Honorarium	270	227
	$ 2,799	$ 2,461

21. Contingencies, Provisions, Commitments and Guarantees

a) Contingencies

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members. Insurance premiums charged to each member consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Current liability coverage is provided to a level of $24,000 per occurrence. The Corporation has also obtained additional general liability insurance of $10,000 per occurrence through Mearie Insurance Services Inc.

The Corporation has been jointly named as a defendant in several actions. No provision has been made for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

(i) Enersource Hydro is party to a connection and cost recovery agreement with Hydro One Networks Inc. (“Hydro One”) as regulated by the OEB under the Transmission System Code. Under this agreement, Hydro One is required to build a transmission station for Enersource Hydro in order to accommodate anticipated electricity load growth. In return, Enersource Hydro is required to provide a capital contribution to cover a portion of the cost of the connection facility. The capital contribution is determined using the economic evaluation methodology as prescribed by the OEB and represents the difference between the total capital cost of constructing and operating the transmission facility and the projection of revenue earned on the conveyance of electricity through such facility. Periodic true-up calculations are carried at the end of each of the fifth, tenth and possibly the fifteenth year of operation of the facility. Based on a preliminary review of the CCRA for the Churchill Meadows transmission facility constructed in 2010, a revenue shortfall to Hydro One may exist.

(In thousands of Canadian dollars)

21. Contingencies, Provisions, Commitments and Guarantees (continued)

Enersource Hydro expects to be presented with a request for settlement in 2015 when the first periodic true-up is scheduled. At this time, Enersource Hydro cannot reliably estimate the amount due to the uncertainty of future events impacting the settlement not wholly within its control; therefore no obligation amount has been recorded in these financial statements. Any amount recorded in the future relating to this true-up will result in the recognition of a corresponding intangible asset.

b) Environmental provision

The Corporation is subject to Canadian federal, provincial and municipal environmental regulations. As part of the Corporation's risk mitigation strategy, environmental assessments and environmental remediation are underway at various sites. The Corporation records a liability for the estimated future expenditures associated with testing and remediation of contaminated lands at various municipal substations and neighbouring properties. Actual environmental expenditures may vary from these estimates. These estimates are reviewed at the end of each reporting period and adjusted to reflect the current best estimate at that point of time. As at December 31, 2014, the Corporation provided $2,867 (December 31, 2013 - $2,825) for testing and future site remediation. Based on the latest estimates and the remediation work plan, $1,267 of the total provision is expected to be settled after twelve months after the reporting date.

	December 31, 2014	December 31, 2013
Environmental provision, beginning of year	$ 2,825	$ 370
Addition	1,000	2,731
Utilized in the year	(783)	(276)
Unwind of discount	(175)	-
Environmental provision, end of year	$ 2,867	$ 2,825
Environmental provision, current	$ 1,600	$ 2,825
Environmental provision, non-current	1,267	-
Environmental provision, end of year	$ 2,867	$ 2,825

c) Commitments

(i) The Corporation has entered into a commercial lease arrangement on a premise which is recognized and reported as part of other costs in the statement of comprehensive income. For the year ended December 31, 2014, the Corporation recognized minimum lease payments of $151 (December 31, 2013 - $145) in the statement of comprehensive income. The lease has a life of one year with yearly renewal options. There are no restrictions placed upon the Corporation by entering into this lease. As at December 31, 2014, the Corporation’s committed future minimum annual lease payments under operating leases were $143 for 2015. The future minimum lease commitments would change depending on the decision to renew the agreement.

21. Contingencies, Commitments and Guarantees (continued)

(ii) The Corporation has numerous cancellable operating leases which are predominantly in the form of encroachment permits required to place distribution infrastructure assets on a rights-of-way or private property. The lease terms are between one and twenty years, and the amounts of these leases are immaterial and have been included in other costs in the statement of comprehensive income.

d) Guarantees

In the normal course of operations, the Corporation executes agreements that provide for indemnification to third parties in transactions such as service agreements, leases and purchases of goods. Under these agreements, the Corporation agrees to indemnify the counterparty against loss or liability arising from the acts or omissions of the Corporation in relation to the agreement.

22. Financial Instruments and Risk Management

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

Level 1 – inputs are unadjusted quoted prices for identical instruments in active markets,

Level 2 – inputs other than quoted market prices included within Level 1 that are observable for the instrument, either directly or indirectly, and

Level 3 – inputs that are not based on observable market data.

The Corporation’s debentures have a principal amount of $320,000 as at December 31, 2014 (December 31, 2013 - $320,000) and have a fair value of $382,629 (December 31, 2013 - $350,758). The fair value has been calculated using level 3 inputs. The valuation techniques used took into consideration accrued interest, Government of Canada benchmark yields and statistical data.

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

(a) Market Risk

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Corporation does not have commodity risk due to the flow through nature of energy purchases and costs and its foreign exchange risk is not considered material since the Corporation's exposure is limited to U.S. dollar cash and cash equivalents holdings of $138 as at December 31, 2014 (December 31, 2013 - $99).

22. Risk Management and Financial Instruments (continued)

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference between actual interest income earned by the Corporation and the interest revenue reduction approved by the OEB may have a negative impact on the results of operations.

The Corporation minimizes interest rate risk by issuing long-term fixed rate debt.

(b) Credit Risk

Financial assets create credit risk that counterparties will fail to discharge an obligation, causing a financial loss.

The Corporation manages counterparties credit risk through various techniques including, limiting total exposure levels with individual counterparties consistent with the Corporation's policies, and monitoring the financial condition of counterparties. Short-term investments held as at December 31, 2014, met the credit exposure limits specified under the Corporation's Investment Policy.

The Corporation's distribution revenue is earned on a broad base of customers principally located in Mississauga. As a result, the Corporation did not earn a significant amount of revenue from any individual customer. As at December 31, 2014, there were no significant balances of accounts receivable due from any single customer.

Management believes that the credit risk of accounts receivable is not significant due to the following reasons:

(i) There is a broad base of customers with no single customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance in either year.

(ii) Enersource Hydro, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or letter of credit from customers to mitigate risk of payment default.

(iii) The percentage of accounts receivable that is past due for more than 75 days is approximately 2.8% (2013 – 3.8%) of the total gross accounts receivable (See note 6).

(iv) Enersource Hydro included an amount for accounts receivable write-offs within operating expense for rate setting purposes.

(c) Liquidity Risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, as well as an established $50,000 banking line of credit, if required. Short-term liquidity is expected to be sufficient to fund normal operating requirements.

22. Risk Management and Financial Instruments (continued)

The Corporation has contractual obligations in the normal course of business; future minimum undiscounted contractual maturities are as follows:

Financial Liabilities	Due within 1 year	Due between 1 and 5 years	Due past 5 years
Accounts payable and accrued liabilities	$ 105,858	$ -	$ -
Debentures payable (interest and principal)	16,097	80,484	558,571
Total	$ 121,955	$ 80,484	$ 558,571

23. Divisional Information

The Corporation consists primarily of two operating divisions, regulated and non-regulated operations. Non-regulated operations are primarily comprised of engineering design, construction and maintenance services for utilities and developers and street lighting design and maintenance services. The regulated operation provides electricity distribution services to business and residences in the City of Mississauga.

The designation of activities to the two operating divisions is based on a combination of regulatory status and the nature of the products and services provided. The accounting policies followed by the divisions are the same as those described in the summary of significant accounting policies.

Financial information that adjusts IFRS results to show the effect of rate regulation is used by the Corporation's Board of Directors, as well as members of key Management having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. This group is determined to be the Chief Operating Decision Maker ("CODM") and it assesses operating performance principally on the basis of earnings adjusted for regulatory items as shown in the divisional information disclosed below.

(In thousands of Canadian dollars)

23. Divisional Information (continued)

2014	Enersource Hydro regulated	Regulatory adjustments	Non-regulated	Consolidating eliminations	Total
Energy revenue	$ 786,505	$ -	$ -	$ -	$ 786,505
Distribution revenue	123,629	(11,954)	-	-	111,675
Other revenue	19,270	-	12,168	(639)	30,799
	929,404	(11,954)	12,168	(639)	928,979
Energy purchases	(786,505)	(15,290)	-	-	(801,795)
Operating expenses	(66,560)	(22)	(11,645)	639	(77,588)
Depreciation and amortization	(29,246)	(183)	(171)	4	(29,596)
Interest income	751	(263)	328	-	816
Interest expense	(16,664)	218	(87)	-	(16,533)
Profit (loss) before income tax expense	31,180	(27,494)	593	4	4,283
Income tax expense (recovery)	5,115	(4,164)	(82)	-	869
Other comprehensive loss	-	(440)	(30)	-	(470)
Comprehensive income (loss) for year ended December 31, 2014	$ 26,065	$ (23,770)	$ 645	$ 4	$ 2,944

2013	Enersource Hydro regulated	Regulatory adjustments	Non-regulated	Consolidating eliminations	Total
Energy revenue	$ 765,984	$ -	$ -	$ -	$ 765,984
Distribution revenue	121,726	2,284	-	-	124,010
Other revenue	19,031	-	12,831	(682)	31,180
	906,741	2,284	12,831	(682)	921,174
Energy purchases	(765,984)	(4,042)	-	-	(770,026)
Operating expenses	(68,590)	(170)	(10,218)	671	(78,307)
Depreciation and amortization	(28,299)	(354)	(161)	8	(28,806)
Interest income	1,111	(224)	325	-	1,212
Interest expense	(17,130)	905	(82)	-	(16,307)
Profit (loss) before income tax expense	27,849	(1,601)	2,695	(3)	28,940
Income tax expense	5,609	1,853	703	-	8,165
Other comprehensive income	-	860	56	-	916
Comprehensive income (loss) for year ended December 31, 2013	$ 22,240	$ (2,594)	$ 2,048	$ (3)	$ 21,691

(In thousands of Canadian dollars)

23. Divisional Information (continued)

Total assets for the Corporation's two operating divisions are as follows:

	December 31, 2014	December 31, 2013
Enersource Hydro regulated	$ 747,236	$ 746,245
Non-regulated	30,574	31,980
Consolidating elimination	(7,956)	-
	$ 769,854	$ 778,225

Total liabilities for the Corporation's two operating divisions are as follows:

	December 31, 2014	December 31, 2013
Enersource Hydro regulated	$ 481,414	$ 469,373
Non-regulated	3,998	4,827
Consolidating elimination	(7,956)	-
	$ 477,456	$ 474,200

Total regulatory balances that have been derecognized under IFRS that will be recovered or refunded through future distribution rates are as follows:

	December 31, 2013	2014 activity	December 31, 2014
Regulatory assets	$ (3,377)	$ 7,913	$ 4,536
Regulatory liabilities	(20,179)	20,179	-
Net regulatory assets (liabilities)*	$ (23,556)	$ 28,092	$ 4,536

**Income tax recovery on other comprehensive loss of $158 has been excluded from net regulatory assets as at December 31, 2014.*

IFRS 14 Regulatory Deferral Accounts was issued by the IASB on January 30, 2014 and permits first time adopters of IFRS to use previous Generally Accepted Accounting Principles to account for regulatory deferral account balances. As the Corporation is not a first time adopter, the Corporation does not recognize assets and liabilities arising from rate regulated activities. Since the economics of rate regulation have not changed from the adoption of IFRS, the CODM will continue to assess operating performance principally on the basis of earnings adjusted for the following significant regulatory activities:

(i) Retail settlement variances are caused by the difference between the actual price of the electricity commodity throughput and the prices set by the OEB. Specifically, these amounts include variances between the amounts charged by Hydro One and the IESO for the operation of the electricity markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates. Under regulatory accounting, the Corporation would have adjusted energy purchases for these variances. Under IFRS, the Corporation recognizes these differences in future periods as an increase or decrease to distribution revenue.

23. Divisional Information (continued)

(ii) The OEB approved deferral accounts to record transitional differences associated with the implementation of IFRS, any incremental costs needed to comply with Environment Canada's new regulations associated with Polychlorinated biphenyls, costs relating to stranded conventional meters, and unearned revenue and costs associated with Enersource Hydro's smart metering program. On December 19, 2012 the OEB approved the recovery of these deferral accounts and the Corporation has recognized the related revenue.

(iii) The OEB approved a variance account to record lost revenues associated with the delivery of CDM programs between 2011 and 2014. The variance account tracks the difference between the results of actual, verified impacts of CDM activities and the level of CDM program activities included in the distributor's load forecast. The Corporation may recover or refund this revenue through future distribution rates.

(iv) The OEB requires Enersource Hydro to track the difference between revenue and costs associated with providing retailers with customer settlement services as retail cost variance account deferrals. Under IFRS, the Corporation recognizes these differences as an increase or decrease to distribution revenue when incurred and will recover or refund these differences through future distribution rates.

(v) The difference in income taxes or PILs resulting from legislative or regulatory changes to tax rates or rules as compared to rate-setting is recorded in an OEB approved variance account in regulatory accounting. Under IFRS, the Corporation recognizes these differences as an increase or decrease to distribution revenue.

(vi) The OEB requires the Corporation to accrue interest on regulatory assets and liabilities balances. Under IFRS, the Corporation recognizes the net interest on these balances in future periods as an increase or decrease to distribution revenue once approved for recovery or refund by the OEB.

(vii) The OEB approved four deferral accounts to record qualifying incremental capital investments, OM&A expenses and funding adders approved by the OEB related to the connection of renewable generation or the development of smart grid. Under IFRS, the Corporation capitalizes or expenses these items as incurred and recognizes revenue in accordance with the Corporation's revenue recognition policy.

(viii) The OEB approved a deferral account to record any re-measurements of the post-employment net defined liability including actuarial gains or losses. Under IFRS, the Corporation recognizes any re-measurements of the post-employment net defined liability in other comprehensive income.

To the extent that the OEB's future actions are different from the Corporation's expectations, the timing and amount of recovery or settlement of amounts included in the adjustment for regulatory activities could be significantly different from the amounts that are eventually recovered or settled through distribution rates in the future.

24. CDM

The Corporation recognized $14,563 (2013- $14,278) of Ontario Power Authority ("OPA") funding in other revenue for the year ended December 31, 2014. The Corporation recognized $14,546 (2013- $14,274) of OPA costs under operating expenses for the year ended December 31, 2014. The Corporation currently has no unfilled obligations relating to the government grants received by the OPA.

ATTACHMENT 13
ENERSOURCE 2013 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Financial Statements of

ENERSOURCE HYDRO MISSISSAUGA INC.

Years ended December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Enersource Hydro Mississauga Inc.

We have audited the accompanying financial statements of Enersource Hydro Mississauga Inc., which comprise the statement of financial position as at December 31, 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Enersource Hydro Mississauga Inc. as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

KPMG LLP
Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
February 28, 2014

ENERSOURCE HYDRO MISSISSAUGA INC.

Statements of Financial Position
(In thousands of Canadian dollars)

	December 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents (Note 5)	$ 32,134	$ 47,819
Accounts receivable, net (Note 6, Note 20)	53,945	62,257
Unbilled revenue	70,049	59,363
Income taxes receivable	-	2,531
Amounts due from related parties, without interest (Note 20)	1,213	189
Inventory (Note 7)	8,204	8,140
Prepaid expenses	2,214	1,534
Deposits (Note 8)	21,920	19,732
Total current assets	189,679	201,565
Non-current assets:		
Property, plant and equipment (Note 9)	525,970	504,483
Intangible assets (Note 10)	17,330	18,653
Deferred tax assets (Note 12)	13,348	13,897
Total non-current assets	556,648	537,033
Total assets	$ 746,327	$ 738,598
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (Note 13)	$ 106,265	$ 103,680
Income taxes payable	527	-
Advance payments	3,578	2,039
Deferred revenue	32	13,688
Amount due to related parties, without interest (Note 20)	82	1,312
Deposits payable (Note 8)	21,920	19,732
Environmental provision (Note 21)	2,825	370
Total current liabilities	135,229	140,821
Non-current liabilities:		
Debentures payable (Note 14)	318,042	317,951
Deferred contributions (Note 15)	11,333	5,584
Employee post-employment benefits (Note 16)	4,852	5,503
Total non-current liabilities	334,227	329,038
Total liabilities	469,456	469,859
Shareholders' equity:		
Share capital (Note 18)	155,629	155,629
Accumulated other comprehensive income (Note 17)	860	(869)
Retained earnings	120,382	113,979
Total shareholders' equity	276,871	268,739
Total liabilities and shareholders' equity	$ 746,327	$ 738,598

Contingencies, commitments and guarantees (Note 21)

See accompanying notes to the financial statements

ENERSOURCE HYDRO MISSISSAUGA INC.

Statements of Comprehensive Income
(In thousands of Canadian dollars)

Years ended December 31, 2013 and 2012

	December 31, 2013	December 31, 2012
Revenue:		
Energy sales	$ 765,984	$ 711,877
Distribution	124,010	91,894
Other income (Note 24)	19,031	17,947
	909,025	821,718
Operating Expenses:		
Energy purchases (Note 13)	770,026	704,527
Employee salaries and benefits	26,425	26,798
Materials and transportation	3,861	3,965
Contract services	4,688	4,869
Other costs	9,447	7,917
Shared services	10,065	9,706
Conservation and demand management (Note 24(a))	14,274	12,298
Depreciation of property, plant and equipment	25,455	24,968
Amortization of intangible assets	3,198	2,851
	867,439	797,899
Results from operating activities	41,586	23,819
Non-operating revenue (expense):		
Interest income	887	1,309
Interest expense	(16,014)	(15,751)
Interest expense on accrued post-employment benefits	(211)	(211)
	(15,338)	(14,653)
Profit before income tax expense	26,248	9,166
Income tax expense (recovery) (Note 11)	7,462	(836)
Profit for the year	18,786	10,002
Other comprehensive income (loss) net of income tax:		
Remeasurements of the post-employment net benefit liability (Note 17)	1,131	(384)
Income tax recovery (expense)	(271)	92
	860	(292)
Comprehensive income for the year	$ 19,646	$ 9,710

See accompanying notes to the financial statements

ENERSOURCE HYDRO MISSISSAUGA INC.

Statements of Cash Flows
(In thousands of Canadian dollars)

Years ended December 31, 2013 and 2012

	December 31, 2013	December 31, 2012
Cash flows from operating activities:		
Operating Activities:		
Comprehensive income for the year	$ 19,646	$ 9,710
Adjustments for:		
Depreciation of property, plant and equipment	25,455	24,968
Amortization of intangible assets	3,198	2,851
Amortization of deferred contributions	(195)	(112)
Gain on disposal of property, plant and equipment	(198)	(196)
Employee post-employment benefits	(651)	809
Income tax expense	7,733	(928)
Interest income	(887)	(1,309)
Interest expense	16,014	15,751
Income tax paid	(4,125)	(2,566)
	65,990	48,978
Change in non-cash operating working capital (Note 19)	(10,484)	10,574
Net cash from operating activities	55,506	59,552
Cash flows from investing activities:		
Deposits	(2,188)	2,961
Interest received	888	1,310
Capitalized interest	379	683
Additions to property, plant and equipment	(48,488)	(64,755)
Additions to intangible assets	(2,301)	(2,970)
Additions to deferred contributions	5,944	1,248
Proceeds on disposal of property, plant and equipment	246	303
Net cash used in investing activities	(45,520)	(61,220)
Cash flows from financing activities:		
Deposits	2,188	(2,961)
Dividends paid (Note 18)	(11,514)	(12,384)
Interest paid	(16,345)	(16,303)
Net cash used in financing activities	(25,671)	(31,648)
Decrease in cash and cash equivalents	(15,685)	(33,316)
Cash and cash equivalents, beginning of year	47,819	81,135
Cash and cash equivalents, end of year	$ 32,134	$ 47,819

See accompanying notes to the financial statements

ENERSOURCE HYDRO MISSISSAUGA INC.

Statements of Changes in Equity
(In thousands of Canadian dollars)

Years ended December 31, 2013 and 2012

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance at January 1, 2013	$ 155,629	$ (869)	$ 113,979	$ 268,739
Profit for the year	-	-	18,786	18,786
Other comprehensive income	-	860		860
Accumulated other comprehensive income transferred to retained earnings (Note 17)		869	(869)	-
Dividends paid (Note 18)	-	-	(11,514)	(11,514)
Balance at December 31, 2013	$ 155,629	$ 860	$ 120,382	$ 276,871

Balance at January 1, 2012	$ 155,629	$ (577)	$ 116,361	$ 271,413
Profit for the year	-	-	10,002	10,002
Other comprehensive income	-	(292)	-	(292)
Dividends paid	-	-	(12,384)	(12,384)
Balance at December 31, 2012	$ 155,629	$ (869)	$ 113,979	$ 268,739

See accompanying notes to the financial statements

1. General Information

(a) Corporate Information:

Enersource Hydro Mississauga Inc. (the "Corporation") is a wholly owned subsidiary of Enersource Corporation which is incorporated under the Ontario Business Corporations Act, and is owned 90% by the City of Mississauga (the "City") and 10% by BPC Energy Corporation ("Borealis"), a wholly owned subsidiary of the Ontario Municipal Employees Retirement System ("OMERS"). The Corporation is the electricity distribution utility for the residents of the City.

The Corporation’s equity is not traded in a public market. The Corporation’s registered office is located at 2185 Derry Road West in Mississauga, Ontario, L5N 7A6.

The company’s financial statements are presented in thousands of Canadian dollars, which is the Corporation’s functional currency.

(b) Nature of operations:

The Corporation provides electricity distribution services to businesses and residences in the City of Mississauga, Ontario.

2. Basis of Preparation

(a) Statement of compliance

The accompanying annual finan:cial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee (“IFRIC”).

(b) Basis of measurement:

These financial statements have been prepared on the historical cost basis with the exception of certain financial instruments that are measured at fair value.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period, as set out in note 4. Accounts receivable is reported based on amounts expected to be recovered less an appropriate allowance for unrecoverable amounts based on prior experience. Unbilled revenue is reported based on amounts expected to be recovered. Inventory is recorded net of a provision for obsolescence.

2. Basis of Preparation (continued)

Amounts recorded for depreciation of property, plant and equipment and amortization of intangible assets are based on estimates of useful life.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the Ontario Energy Board ("OEB") or the Ministry of Energy.

(c) Rate setting:

The Corporation, as an electricity distributor, is both licensed and regulated by the OEB which has a legislative mandate to oversee various aspects of the electricity industry. The OEB exercises statutory authority through setting or approving all rates charged by the Corporation and establishing standards of service for its customers.

The Corporation is subject to a cost of service regulatory mechanism under which the OEB establishes the revenues required to (i) recover the forecasted operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) provide a fair and reasonable return on utility investment, or rate base. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The OEB has the power to establish electricity prices to be charged to low volume consumers and designated consumers who do not choose an electricity retailer. The OEB may adjust consumption thresholds and electricity commodity prices charged to these consumers every six months as required.

In November 2011, the Corporation submitted a formula based rate application to the OEB to change distribution rates effective May 1, 2012. The application was approved by the OEB on April 19, 2012. The corporation implemented this distribution rate decision, effective May 1, 2012.

On April 27, 2012, the Corporation submitted a cost of service rate application to the OEB to change distribution rates effective January 1, 2013. The application was approved by the OEB on December 19, 2012. The Corporation implemented this distribution rate decision, effective February 1, 2013.

3. Significant Accounting Policies

(a) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash and bank term deposits or equivalent financial instruments with maturities of 90 days or less from the date of purchase.

(b) Inventory:

Inventory consists primarily of parts and supplies acquired for internal construction, consumption or recoverable work. The Corporation accounts for major spare parts and standby equipment as property, plant and equipment.

Inventory costs are comprised of all costs of purchase, costs of conversion and other costs to bring the inventories to their present condition and location. The purchase price comprises of import duties, non-recoverable taxes, transportation, handling and other costs directly attributable to the acquisition of finished goods, materials or services.

Inventory is carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

(c) Deposits:

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

(d) Property, plant and equipment (“PP&E”):

The Corporation recognizes PP&E on the statement of financial position at cost less accumulated depreciation and impairment losses. Self-constructed asset costs are comprised of all directly attributable expenditures to bring the asset into operation including labour, employee benefits, materials and transportation costs, contracted services and capitalized borrowing costs (in accordance with IAS 23 Borrowing Costs), where applicable. Subsequent expenditures are included in an asset’s carrying amount or recognized as a separate asset, where appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be reliably measured. Under IFRS, an asset is derecognized at its carrying value when it is disposed of or when no future economic benefits are expected from its use. The gain or loss arising on the disposal or retirement of an item of PP&E is determined as the difference between the proceeds from sale and the carrying amount of the asset, and is recognized in the statement of comprehensive income.

3. Significant Accounting Policies (continued)

The need to estimate the cost of decommissioning or asset retirement obligations (“ARO”) at the end of the useful lives of certain assets is reviewed periodically. A provision is recorded, if required, for the estimated cost of the ARO. Currently, the Corporation does not have any ARO’s since the decision and the actual removal or replacement of PP&E is usually completed within 12 months of the decision. The Corporation also does not have a legal obligation to remove PP&E and the constructive obligation has been determined to be immaterial.

Major spare parts such as spare transformers and other items kept as standby/back up equipment are accounted for as PP&E since they support the Corporation’s distribution system reliability. All other subsequent expenditures, including the costs of day-to-day servicing, repairs and maintenance, are expensed as incurred.

Depreciation of PP&E is recorded in the statements of comprehensive income on a straight-line basis over the estimated useful life of the related asset. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated useful lives for the main categories of PP&E are shown in the table below:

Buildings and other fixtures	20 - 60 years
Distribution system and station equipment	15 - 40 years
Overhead and underground distribution system	15 - 55 years
Other PP&E	3 - 25 years

Assets under construction, which are not currently available for use, are not depreciated.

During the construction period of qualifying assets, borrowing costs have been capitalized as a component of cost of self-constructed assets. The capitalization rate is the Corporation’s weighted average cost of borrowings.

(e) Intangible assets:

Intangible assets are assets that lack physical substance, other than financial assets. Intangible assets, which consist mainly of computer software and easements, are recorded at cost less accumulated amortization and impairment losses, where applicable, and include expenditures associated with the initial acquisition or development, which are directly attributable to the acquisition, production and preparation of the asset for its intended use. Software that is an integral part of the cost of PP&E has been included in PP&E.

3. Significant Accounting Policies (continued)

Amortization of intangible assets with finite lives is recorded on a straight line basis over the estimated useful life of the related asset and recorded in the statement of comprehensive income. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Software in development is not amortized.

Estimated useful lives for intangible assets are shown in the table below:

Computer software	2 - 10 years

Indefinite life intangible assets, which consist of easements and other land rights, are held in perpetuity and are not amortized. The Corporation evaluates indefinite life intangible assets for impairment annually or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. For purposes of such an evaluation, the fair value estimate is compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

(f) Impairment of PP&E and intangible assets:

PP&E and intangible assets with finite lives are tested for recoverability whenever events or changes in circumstances indicate a possible impairment. Impairment is assessed and tested at the cash-generating unit ("CGU") level (or groups of CGUs), which is the smallest identifiable group of assets that generates independent cash inflows. An impairment of PP&E and intangible assets with finite lives is recognized in the statement of comprehensive income when the asset's carrying value exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Where fair value less costs to sell is not reliably available, value in use is used as the recoverable amount. Value in use is the present value of the future cash flows expected to be derived from an asset, CGU or group of CGUs.

An impairment charge may be reversed only if there is objective evidence that a change in the estimate used to determine the asset's recoverable amount since the last impairment was recognized is warranted. Where an impairment charge is subsequently reversed, the carrying amount of the asset (or CGU) is increased to the revised recoverable amount to the extent that it does not exceed the carrying amount that would have been determined had no impairment charge been recognized in previous periods. A reversal of an impairment charge is recognized immediately in the statement of comprehensive income. After such a reversal, the depreciation or amortization charge, where relevant, is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

3. Significant Accounting Policies (continued)

(g) Regulatory accounting:

In the absence of a rate regulated standard under IFRS, the Corporation does not recognize assets and liabilities arising from rate regulated activities. Instead, the Corporation records revenues in accordance with its revenue recognition policy and expenses as operating costs when incurred. Regulatory balances that have an effect on comprehensive income under IFRS are disclosed in Note 23.

(h) Revenue recognition:

The Corporation is licensed by the OEB to distribute electricity. As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers. The Corporation has determined that it is acting as a principal for the electricity distribution and therefore has presented the energy sales on a gross basis.

Distribution revenue attributable to the delivery of electricity is recognized based upon OEB-approved tariff of rates and charges and electricity consumed by customers since the date of each customer's last meter reading. Energy revenue is recognised based on OEB and IESO prevailing energy rates and electricity consumed by customers since the date of each customer’s last meter reading. Revenue is recognized as electricity is delivered and consumed by customers, where actual electricity usage could differ from estimates.

Customer billings for debt retirement charges are recorded on a net basis as the Corporation is acting as an agent for this revenue stream. The Corporation files to recover uncollected debt retirement charges from the Ontario Electricity Financial Corporation (“OEFC”) when accounts receivable are deemed uncollectible.

(i) Deferred debt issue costs:

Deferred debt issue costs represent the cost of the issuance of the debentures. The Corporation's deferred debt issuance costs, net of accumulated amortization, are included in the carrying value of debentures payable. The debentures are accreted back to their face amount using the effective interest rate method over the remaining period to maturity.

3. Significant Accounting Policies (continued)

(j) Employee post-employment benefits:

The Corporation's current pension plan is administered by OMERS and is a multi-employer public sector defined benefit pension plan funded by equal contributions from participating employers and employees as well as by investment earnings of the plan. Pension contributions received from all OMERS employers and members are combined and used jointly to purchase investments. Under OMERS' funding and investment structure, investment and actuarial evaluations are determined on a commingled basis across all employers and as a result, information for individual employers is unavailable.

As the Corporation does not have the information to account for its proportionate share of the defined benefit obligation and plan assets, the Corporation accounts for its participation in OMERS as a defined contribution plan, and all contributions to the plan are recognized as an expense.

The Corporation also provides post-employment life, health, and dental benefits to its employees. An actuary determines the cost of these benefits as well as measures the plan obligation. The actuary uses the projected unit credit method, prorated on service and based on management's best estimate and assumptions. Under this method, the projected post-employment benefit is deemed to be earned on a pro rata basis over the years of service in the attribution period, and ends at the earliest age the employee could retire and qualify for benefits.

The Corporation recognizes any remeasurements of the net defined benefit liability including actuarial gains and losses immediately in other comprehensive income. Current service costs are recognized in the statement of comprehensive income under employee salaries and benefits and net interest expense on accrued post-employment benefits are disclosed on the face of the statement of comprehensive income. The Corporation will accumulate remeasurements and transfer them to retained earnings when approved for recovery or refund by the OEB.

(k) Deferred contributions:

Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers when the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements.

Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as deferred contributions and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset.

3. Significant Accounting Policies (continued)

(l) Income taxes:

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes ("PILs") to the OEFC. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada), the Taxation Act, 2007 (Ontario), as modified by the Electricity Act, 1998, and related regulations. References in these financial statements to income taxes are with respect to PILs.

The Corporation recognizes deferred tax using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are probable. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment. Deferred income tax assets and liabilities are offset since they relate to income taxes levied by the same taxation authority.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Current taxes are based on taxable profit or loss for the year, which differ from profit or loss as reported in the statement of comprehensive income because it excludes items that are taxable or deductible in other years and items that are neither taxable nor deductible. The Corporation’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Both current and deferred taxes are included as part of income tax expense on the statement of comprehensive income.

3. Significant Accounting Policies (continued)

(m) Foreign currency translation:

The Corporation's financial statements are presented in Canadian dollars, the functional currency of the Corporation and the currency of the primary economic environment in which the Corporation operates. Transactions in foreign currencies are initially recorded in the functional currency at the prevailing rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing period-end rates. All differences are recorded in the statement of comprehensive income in the period in which they arise. Exchange gains or losses on financial assets at fair value through profit or loss is reported as part of other income in profit and loss. Realized and unrealized exchange gains and losses are included in income.

(n) Financial instruments:

All financial assets of the Corporation are classified into one of the following categories: financial assets at fair value through profit or loss, available for sale financial assets, held-to-maturity, and loans and receivables. All financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities at amortized cost.

The Corporation has classified its financial instruments as follows:

Cash and cash equivalents	Fair value through profit or loss
Accounts receivables	Loans and receivables at amortized cost
Unbilled revenues	Loans and receivables at amortized cost
Deposits	Loans and receivables at amortized cost
Accounts payable and accrued liabilities	Financial liabilities at amortized cost
Advance payments	Fair value through profit or loss
Debentures payable	Financial liabilities at amortized cost
Deposits payable	Financial liabilities at amortized cost

Cash equivalents include short-term investments that are readily convertible to cash without significant loss in value. These short term investments are comprised of bankers' acceptances and bankers' demand notes issued by Canadian banks.

Subsequent to initial recognition, all non-derivative financial instruments of the Corporation are carried on the statement of financial position at fair value, except for loans and receivables, held-to-maturity investments and financial liabilities at amortized cost, which are measured at amortized cost.

3. Significant Accounting Policies (continued)

The Corporation does not enter into derivative instruments. Hedge accounting has not been used in the preparation of these financial statements.

IFRS 13 Fair Value Measurement was issued in May 2011. It defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurement. It is effective for annual periods beginning on or after January 1, 2013. The prospective adoption of IFRS 13 did not have a material effect on the Corporation's financial statements or require a significant amount of additional disclosures.

When measuring fair value, an entity is required to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. IFRS 13 includes a fair value hierarchy, which prioritizes the inputs in a fair value measurement as described below:

Level 1 inputs – are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs – are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs - are unobservable inputs for the asset or liability

The Corporation's financial assets and liabilities are considered recurring, and are carried at fair value using level 1 inputs. The valuation technique used is the market approach, whereby the value is determined based on prices and other relevant information generated by market transactions involving identical or similar assets/liabilities.

(o) Capital disclosures:

The Corporation's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis, at reasonable rates, and to deliver the appropriate financial returns to its shareholders.

The Corporation was deemed by the OEB for rate setting purposes to have a capital structure that was funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure as a basis of how capital is funded for rate setting purposes only. The actual capital structure for the Corporation may differ from the OEB's deemed structure.

3. Significant Accounting Policies (continued)

(p) Provisions and contingencies:

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

The evaluation of the likelihood of the contingent events requires judgement by management as to the probability of exposure to potential loss. Actual results could differ from these estimates.

A contingent asset is not recognized in the financial statements. However, a contingent asset is disclosed where an inflow of economic benefits is probable.

(q) Short term employee benefits:

The cost of short term employee benefits, which includes salaries, employment insurance, short term compensated absences, health and dental care, are recognized as an expense in employee salaries and benefits as employees render service. When the services are rendered in the construction or development of an asset and they meet the recognition criteria as part of the cost of an asset, the cost of the short term employee benefits is included as part of the related PP&E or intangible asset.

(r) Government grants:

The Corporation includes in profit or loss government grants received from the Ontario Power Authority ("OPA"). The funding received from the OPA is to reimburse costs incurred by the Corporation to deliver electricity conservation and demand management programs ("CDM").

(s) Future accounting changes:

IAS 32, Financial Instruments: Presentation was amended in December 2011 to clarify the guidance for offsetting financial assets and liabilities. The amendments state that an entity has a legally enforceable right to offset if that right, is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. It also clarifies when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. It is effective for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The Corporation is currently in the process of evaluating the potential impact on the consolidated financial statements.

4. Key Accounting Judgements, Estimates and Assumptions

The preparation of these financial statements involves management's judgment and the use of estimates and assumptions to be made in applying accounting policies that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities, at the date of the financial statements, and the reported revenue and expenses during the reporting period.

Judgment is commonly used in determining whether a balance or transaction should be recognized in the financial statements and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated. As the basis for its judgments, management uses estimates and related assumptions which are based on previous experience and various commercial, economic and other factors that are considered reasonable under the circumstances. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised. Actual outcomes may differ from these estimates under different assumptions and conditions.

Key sources of estimation uncertainty and judgments, made by management in the application of IFRS that have a significant impact on the financial statements, relate to the following:

(a) Revenue recognition:

Measurement of usage not yet billed, which is included in revenues from the regulated distribution of electricity, is based on either the actual usage at the end of the period or an assessment of unbilled electricity distribution services supplied to customers between the date of the last meter reading and the period ending date. The Corporation applies judgement to the measurement of the estimated consumption and to the valuation of that consumption.

(b) Useful lives of depreciable assets:

The Corporation, in conjunction with four other utilities, engaged a third party to conduct an independent study of asset useful lives. The Corporation revised its componentization structure and revised the estimated useful lives of its distribution system assets and other assets as a result of that study. The useful life values from the study were completed from industrial statistics, research studies, reports and past utility experience. Actual lives of assets may vary from estimated useful lives.

(c) Employee post-employment benefits other than pensions:

The costs of post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, any expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

(In thousands of Canadian dollars)

4. Key Accounting Judgements, Estimates and Assumptions (continued)

(d) Accounts receivable impairment:

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

5. Cash and Cash Equivalents

Cash and cash equivalents include cash at the bank, cash on hand and short term investments with a maturity of 90 days or less from the date of purchase.

	December 31, 2013		December 31, 2012	
Cash	$	32,134	$	47,819
Short term investments		-		-
Total cash and cash equivalents	$	32,134	$	47,819

The carrying amounts disclosed above reasonably approximate fair value at the statement of financial position date. There are no restrictions, pledges or limitations to the use of the cash and cash equivalents.

6. Accounts Receivable

The components of accounts receivable, net are as follows:

	December 31, 2013		December 31, 2012	
Trade receivables	$	52,009	$	55,271
Less: allowance for doubtful accounts		(1,998)		(3,176)
Trade receivables, net	$	50,011	$	52,095
Receivables due from related parties (Note 20)		2,076		1,883
Other receivables		1,858		8,279
Total accounts receivable, net	$	53,945	$	62,257
Of which:				
Not yet due (less than 16 days)		34,618		51,096
Past due 1 day but not more than 14		13,757		6,122
Past due 15 days but not more than 44		4,297		4,137
Past due 45 days but not more than 74		1,420		1,287
Past due 75 days but not more than 104		752		722
Past due more than 104 days		1,099		2,069
Less: allowance for doubtful accounts		(1,998)		(3,176)
Total accounts receivable, net	$	53,945	$	62,257

(In thousands of Canadian dollars)

6. Accounts Receivable (continued)

The allowance for doubtful accounts as at December 31, 2013 was 3.6% (December 31, 2012 – 4.9%), of the total accounts receivable which includes accounts receivable, that are not yet due or past due, that the Corporation has deemed to be impaired.

7. Inventory

The amount of inventory consumed by the Corporation and recognized as an expense during 2013 was $1,341 (2012 - $1,124). The amount of inventory that was written down due to obsolescence in 2013 was $127 (2012 - $9).

8. Deposits

The following outlines the deposits and letters of credit/guarantees of the Corporation posted as security. The amounts are comprised of cash and cash equivalents in the form of deposits and letters of credit/letters of guarantee, under which the Corporation is contingently liable.

	December 31, 2013		December 31, 2012	
	Cash and cash equivalents	Letters of credit/ guarantees	Cash and cash equivalents	Letters of credit/ guarantees
Customer deposits (a)	$ 21,920	$ -	$ 19,732	$ -
Security with the IESO (b)	-	11,450	-	11,450
	$ 21,920	$ 11,450	$ 19,732	$ 11,450

(a) Customer Deposits:

The Corporation collec:ts cash and cash equivalents as deposits from certain customers to reduce credit risk.

(b) Security with the Independent Electricity System Operator:

Entities that purchase electricity in Ontario through the Independent Electricity System Operator ("IESO") are required to post security to mitigate the risk of their default on their expected activity in the market. The IESO could draw on this security if the Corporation failed to make payment required by a default notice issued by the IESO. The Corporation has posted a letter of credit as security in the amount of $11,450 as at December 31, 2013 (December 31, 2012 - $11,450).

(In thousands of Canadian dollars)

9. Property, Plant and Equipment ("PP&E")

PP&E consists of the following as at December 31, 2013

	December 31, 2012	Additions/ Depreciation	Disposals/ Retirements	December 31, 2013
Cost				
Distribution system	$ 378,722	$ 35,688	$ (1,739)	$ 412,671
Distribution station equipment	55,681	3,520	(231)	58,970
Other PP&E	64,358	6,519	(1,144)	69,733
Buildings and fixtures	32,378	1,663	-	34,041
Land	9,892	-	(13)	9,879
Construction in progress	5,459	(387)	-	5,072
Subtotal	$ 546,490	$ 47,003	$ (3,127)	$ 590,366
Accumulated depreciation				
Distribution system	$ (25,614)	$ (13,653)	$ 270	$ (38,997)
Distribution station equipment	(3,439)	(1,831)	32	(5,238)
Other PP&E	(11,570)	(6,791)	725	(17,636)
Buildings and fixtures	(1,384)	(1,141)	-	(2,525)
Land	-	-	-	-
Subtotal	$ (42,007)	$ (23,416)	$ 1,027	$ (64,396)
Carrying amount	$ 504,483	$ 23,587	$ (2,100)	$ 525,970

PP&E consists of the following as at December 31, 2012

	December 31, 2011	Additions/ Depreciation	Disposals/ Retirements	December 31, 2012
Cost				
Distribution system	$ 352,141	$ 28,395	$ (1,814)	$ 378,722
Distribution station equipment	54,071	1,775	(165)	55,681
Other PP&E	56,512	9,596	(1,750)	64,358
Buildings and fixtures	14,822	17,556	-	32,378
Land	4,069	5,823	-	9,892
Construction in progress	4,239	1,220	-	5,459
Subtotal	$ 485,854	$ 64,365	$ (3,729)	$ 546,490
Accumulated depreciation				
Distribution system	$ (12,590)	$ (13,127)	$ 103	$ (25,614)
Distribution station equipment	(1,684)	(1,762)	7	(3,439)
Other PP&E	(5,855)	(6,406)	691	(11,570)
Buildings and fixtures	(532)	(852)	-	(1,384)
Land	-	-	-	-
Subtotal	$ (20,661)	$ (22,147)	$ 801	$ (42,007)
Carrying amount	$ 465,193	$ 42,218	$ (2,928)	$ 504,483

(In thousands of Canadian dollars)

9. Property, Plant and Equipment (continued)

The carrying amount of PP&E that have been derecognized before the end of their estimated useful lives, and have been recorded as depreciation expense on the statement of comprehensive income was $1,671 in 2013 (2012 - $1,869).

The carrying amount of old conventional meters that were derecognized before the end of their useful lives due to the smart metering deployment program was $368 in 2013 (2012 - $952) of. These costs have been recorded as depreciation expense on the statement of comprehensive income.

Included in the additions to PP&E was $354 (2012 - $650) representing the borrowing cost attributable to the assets during construction, and allocated to the qualifying asset at the weighted average cost of borrowings of 5.091% (2012 – 5.091%).

For the year ended December 31, 2013, accrued liabilities relating to PP&E in the amount of $4,519 (December 31, 2012 - $6,004) have been included in additions to PP&E.

PP&E and intangible asset purchase commitments outstanding as at December 31, 2013 was $10,907 (December 31, 2012 - $11,730).

10. Intangible Assets

Intangible assets consist of the following as at December 31, 2013:

	December 31, 2012	Additions/ Amortization	Disposals/ Retirements	December 31, 2013
Cost				
Computer software	$ 22,089	$ 1,652	$ (24)	$ 23,717
Easements	524	28	13	565
Software in development	1,004	182	-	1,186
Subtotal	$ 23,617	$ 1,862	$ (11)	$ 25,468
Accumulated amortization				
Computer software	$ (4,964)	$ (3,198)	$ 24	$ (8,138)
Easements	-	-	-	-
Subtotal	$ (4,964)	$ (3,198)	$ 24	$ (8,138)
Carrying amount	$ 18,653	$ (1,336)	$ 13	$ 17,330

(In thousands of Canadian dollars)

10. Intangible Assets (continued)

Intangible assets consist of the following as at December 31, 2012:

		December 31, 2011		Additions/ Amortization		Disposals/ Retirements		December 31, 2012
Cost								
Computer software	$	19,717	$	2,447	$	(75)	$	22,089
Easements		333		191		-		524
Software in development		526		478		-		1,004
Subtotal	$	20,576	$	3,116	$	(75)	$	23,617
Accumulated amortization								
Computer software	$	(2,187)	$	(2,852)	$	75	$	4,964)
Easements		-		-		-		-
Subtotal	$	(2,187)	$	(2,852)	$	75	$	(4,964)
Carrying amount	$	18,389	$	264	$	-	$	18,653

During 2013, $25 (2012 - $33) has been included in the additions to intangible assets, representing the borrowing costs attributable to the assets during the development phase and allocated to the qualifying asset at weighted average cost of borrowings of 5.091% (2012 – 5.091%).

For the period ended December 31, 2013, accrued liabilities relating to intangible assets in the amount of $436 (December 31, 2012 - $876) have been included in additions to intangible assets.

11. Income Taxes

The components of income tax expense for the years ended December 31, 2013 and 2012 were as follows:

		December 31, 2013		December 31, 2012
Current income tax expense:				
Expense for the year	$	7,130	$	3,190
Utilization of future timing differences in the current period		54		(4,995)
Total current income tax expense (recovery)		7,184		(1,805)
Deferred income tax expense:				
Reversal of temporary differences	$	(192)	$	(681)
Increase in future tax rates on existing timing differences		-		(924)
Reduction of future timing differences		470		2,574
Total deferred income tax expense	$	278	$	969
Total income tax expense (recovery)	$	7,462	$	(836)

(In thousands of Canadian dollars)

11. Income Taxes (continued)

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

	December 31, 2013	December 31, 2012
Federal and Ontario statutory income tax rate	26.50%	26.50%
Income before provision for income taxes	$ 26,247	$ 9,166
Provision for income taxes at statutory rate	6,955	2,429
Increase (decrease) resulting from:		
Increase in future tax rates on existing timing differences	-	(924)
Other timing differences between accounting net income and net income for tax purposes	507	(2,341)
Provision for income taxes	$ 7,462	$ (836)
Effective income tax rate	28.43%	(9.12%)

12. Deferred Tax Assets

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The net deferred tax asset consists of the following:

	December 31, 2013	December 31, 2012
Property, plant and equipment and intangible assets	$ 14,701	$ 17,868
Energy variances	(3,332)	(9,299)
Employee post-employment benefits other than pensions	1,421	1,593
Deferred revenue	-	3,619
Other temporary differences	558	116
Net deferred income tax assets	$ 13,348	$ 13,897

(In thousands of Canadian dollars)

13. Accounts Payable and Accrued Liabilities

Major components of accounts payable and accrued liabilities consist of the following:

	December 31, 2013	December 31, 2012
Amounts due to the IESO for energy purchases	$ 70,245	$ 59,158
Trade payables due to related parties (Note 20)	26	69
Other trade payables	4,710	7,410
Accrued expenses	21,031	26,209
Other non-trade payables	10,253	10,834
Total accounts payable and accrued liabilities	$ 106,265	$ 103,680

14. Debentures Payable

	December 31, 2013	December 31, 2012
4.52 % Series A Debentures due April 29, 2021	$ 110,000	$ 110,000
Deferred debt issue cost (net of accumulated amortization of $178)(Dec. 31, 2012 - $109)	(613)	(682)
5.30 % Series B Debentures due April 29, 2041	210,000	210,000
Deferred debt issue cost (net of accumulated amortization of $56)(Dec. 31, 2012 - $34)	(1,345)	(1,367)
Net debentures payable	$ 318,042	$ 317,951

The Corporation has a private placement debt of $320,000 comprised of $110,000 of Series A, 10-year debenture with fixed coupon rate of 4.52%, and $210,000 of Series B 30-year debentures with fixed coupon rate of 5.30%.

Interest expense for the year ended December 31, 2013 included $16,053 (December 31, 2012 - $16,141) in respect of interest on the debt. The amortization of the debt issue cost for the year ended December 31, 2013 was $91 (December 31, 2012 - $87).

14. Debentures Payable (continued)

The Corporation has the following material covenants associated with its long-term debt:

(a) The Corporation will duly and punctually pay or cause to be paid payments of principal and interest to each holder of the debentures.

(b) The Corporation will, and will cause each designated subsidiary to maintain its corporate existence (unless all of its assets are or have been conveyed to the Corporation or another designated subsidiary), and will carry on and conduct its business in a proper and efficient manner.

(c) The Corporation will provide to the Trustee copies of (i) within 120 days of each fiscal year end of the Corporation, annual audited consolidated financial statements of the Corporation together with a report of the Corporation's auditors thereon; (ii) within 60 days of the end of the first, second and third quarters of the Corporation's fiscal year, interim consolidated financial statements. The corporation's first interim consolidated financial report prepared in accordance with IFRS for the first quarter in which such report is required to be prepared, which may be provided within 90 days of the end of such quarter.

(d) The Corporation will, and will cause each Designated Subsidiary to, from time to time pay or cause to be paid all taxes (including transfer taxes), rates, levies, payments in lieu of taxes, assessments (ordinary or extraordinary), government fees or dues lawfully levied, assessed or imposed upon or in respect of its respective property or any part thereof or upon its income and profits as and when the same become due and payable and to withhold and remit any amounts required to be withheld by it from payments due to others and remit the same to any government or agency thereof.

(e) The Corporation will not, and will not permit any Designated Subsidiary to, create, assume or suffer to exist any Security Interest, other than permitted encumbrances, on any of its assets to secure any obligation, unless at the same time it secures equally and rateably therewith all the debentures issued pursuant to the Trust Indenture then outstanding.

(f) The Corporation shall not issue, incur or become liable for obligations that exceed 75% of the total consolidated capitalization.

(g) The Corporation may not amalgamate or consolidate with or merge into any other Person, or permit any other Person to amalgamate or consolidate with or merge into with the Corporation, or directly or indirectly transfer, sell, lease or otherwise dispose of all or substantially all of its property or assets. Notwithstanding the foregoing, a Designated Subsidiary shall be permitted to merge with another entity provided that, after giving effect to such merger, it continues to be a Designated Subsidiary

(h) No default or event of default shall have occurred and be continuing, or shall occur.

The Corporation is in compliance with all credit agreement covenants and limitations associated with its debt.

(In thousands of Canadian dollars)

15. Deferred Contributions

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

	December 31, 2013	December 31, 2012
Deferred contributions, net, beginning of year	$ 5,584	$ 4,448
CIAC received	5,944	1,248
CIAC recognized as distribution revenue	(195)	(112)
Deferred contributions, net, ending of year	$ 11,333	$ 5,584

16. Employee Post-Employment Benefits

The Corporation's retirement plan is comprised of a defined contribution plan.

In addition, the Corporation provides other employee post-employment benefits, primarily life, health and dental coverage, on a shared basis.

(a) OMERS pension plan:

The defined contribution plan is mandatory for all full-time employees of the Corporation from day one of employment. Under the terms of the defined contribution plan, employees contribute a percentage of eligible employee earnings per year. The Corporation makes contributions for each contributing employee in amounts equal to the employee contribution. The defined contribution plan is fully vested from the first day of employment.

The most recently available OMERS annual report is for the year ended December 31, 2012, which reported that the plan was 86% funded, with an unfunded liability of $9,924,000. This unfunded liability is likely to result in future payments by participating employers and members. The Corporation's contributions could be increased if other entities withdraw from the plan.

The Corporation expensed contributions to OMERS of $3,113 (December 31, 2012 – $2,801) for the year ended December 31, 2013. These amounts are included under operating expenses on the statement of comprehensive income.

The Corporation expects $3,272 in contributions to be paid to its defined contribution plan in 2014.

(In thousands of Canadian dollars)

16. Employee Post-Employment Benefits (continued)

(b) Employee post-employment benefits other than pensions:

Employee post-employment benefits other than pensions are subject to annual actuarial valuations. The Corporation has a December 31 measurement date. A valuation of the employee post-employment benefits was performed as of December 31, 2013. The next valuation of the employee post-employment benefits will be performed as at December 31, 2014.

	December 31, 2013	December 31, 2012
Accrued benefit obligation, beginning of year	$ 5,503	$ 4,694
Current service costs	231	252
Interest on accrued employee post-employment benefits	211	211
Benefits paid	(72)	-
Remeasurements recognized in other comprehensive income	(1,021)	346
Accrued benefit obligation, end of year	$ 4,852	$ 5,503

Total expense recognized in profit or loss	December 31, 2013	December 31, 2012
Current service costs	$ 231	$ 252
Interest on obligation	211	211
Total Expense	$ 442	$ 463

Actuarial assumptions	December 31, 2013	December 31, 2012
Discount rate (beginning of year)	3.75%	4.25%
Discount rate (end of year)	4.75%	3.75%
Health care cost increases	9.00%	8.50%
Dental cost increases	4.00%	4.00%
Rate of compensation increase	3.00%	3.00%

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing to $4,194. A 1% decrease in the assumed discount rate would result in the defined benefit obligation increasing to $5,496.

17. Other Comprehensive Income

The Corporation recognizes any re-measurements of the net defined liability including actuarial gains and losses immediately in other comprehensive income. The Corporation reclassifies accumulated re-measurements as retained earnings when approved for recovery or refund by the OEB. On January 1, 2013, the Corporation reclassified $869 from accumulated other comprehensive income to retained earnings.

(In thousands of Canadian dollars)

18. Share Capital

	December 31, 2013	December 31, 2012
Authorized:		
Unlimited, Class A shares, voting		
1,000 Class B shares, non-voting		
Issued:		
180,555,562 Class A shares	$ 155,628	$ 155,628
1,000 Class B shares	1	1
	$ 155,629	$ 155,629

The holders of Class A shares are entitled to receive notice of, to attend, and to vote at all general and special meetings of the Corporation's shareholders. The holders of Class B shares are not entitled to vote at any meeting of the Corporation's shareholders (except as required by law) and are only entitled to receive notice of special meetings called to consider certain fundamental changes. Holders of Class A shares are entitled to one vote per share.

The holders of the Class A shares, in priority to the holders of the Class B shares, are entitled to receive, if, as and when declared by the Corporation's Board of Directors, concurrent cumulative preferential dividends at a rate per annum equal to the regulated rate of return on the rate base equity represented by each such class of shares. Once these preferential dividend entitlements have been satisfied, holders of each class of shares are entitled to receive, on a concurrent basis with each other class of shares, additional dividends if, as and when declared by the Corporation's Board of Directors and in such amounts and payable in such manner as may be determined from time to time by the Corporation's Board of Directors.

Dividends may be declared by the Board of Directors through a resolution. In 2013, a dividend of $11,514 (2012 - $12,384) was declared and paid to the Shareholders of the Corporation.

19. Change in Non-cash Working Capital

	December 31, 2013	December 31, 2012
Accounts receivable	$ 8,310	$ (4,899)
Unbilled revenue	(10,686)	376
Inventory	(64)	(944)
Prepaid and deposits	(680)	(104)
Amount due to/from related parties, net	(2,254)	1,497
Accounts payable	2,627	7,152
Environmental provision	2,455	210
Advance payments	1,539	(4)
Deferred revenue	(13,656)	6,838
Accrued PP&E and intangible assets	1,925	244
(Decrease) / Increase in non-cash operating working capital	$ (10,484)	$ 10,574

(In thousands of Canadian dollars)

20. Related Party Transactions

The Corporation's operations include the provision of electricity and services to its principal shareholder, the City. Electricity is billed to the City at the prices and terms as any other customer not with an electricity retailer. Street lighting maintenance and construction services are provided at an exchange amount, being that amount agreed to by the parties. A summary of amounts charged by the Corporation to the City is as follow :

	December 31, 2013	December 31, 2012
Electrical energy	$ 10,586	$ 10,031
Street lighting energy	6,716	6,242

At December 31, 2013, accounts payable and accrued liabilities include $26 (December 31, 2012 - $69,) due to the City. Accounts receivable include $2,076 (December 31, 2012 - $1,883) due from the City.

At December 31, 2013, the Corporation incurred property taxes which are paid to the City in the amount of $944 (December 31, 2012 - $948).

The Corporation charged Borealis $9 for the period ended December 31, 2013 (December 31, 2012 - $9) for an access agreement. These transactions were recorded at the exchange amount being the amount agreed to by the parties.

Amount due from related parties include $1,213 (December 31, 2012 - $189) from a company under common control.

Amount due to related parties include $82 (December 31, 2012 - $1,312) to the parent company.

No Director had, during or at the end of the period, any material interest in any contract of significance in relation to the Corporation’s business.

The following compensation has been provided to the key management personnel of the Corporation, who have the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

	December 31, 2013	December 31, 2012
Salaries and short term employee benefits	$ 476	$ 710
Retirement OMERS contributions	51	66
Other compensation	6	16
	$ 533	$ 792

21. Contingencies, Commitments and Guarantees

The Corporation is party to a number of disputes and lawsuits in the normal course of business. The Corporation believes that the ultimate liability arising from these matters will have no material impact on the financial statements. Accordingly, no provision for any liability has been made in these financial statements.

In the normal course of operations, the Corporation executes agreements that provide for indemnification to third parties in transactions such as service agreements, leases and purchases of goods. Under these agreements, the Corporation agrees to indemnify the counterparty against loss or liability arising from the acts or omissions of the Corporation in relation to the agreement.

(a) Insurance Claims:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Current liability coverage is provided to a level of $24,000 per occurrence. The Corporation has also obtained additional general liability insurance of $10,000 per occurrence through Alternative Risk Services.

The Corporation has been jointly named as a defendant in several actions. No provision has been made for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

(b) Environmental:

The Corporation is subject to Canadian federal, provincial and municipal environmental regulations. As part of the Corporation's risk mitigation strategy, environmental assessments and environmental remediation are underway at various sites. The Corporation records a liability for the estimated future expenditures associated with testing and remediation of contaminated lands at various municipal substations and neighbouring properties.

(In thousands of Canadian dollars)

21. Contingencies, Commitments and Guarantees (continued)

Actual future environmental expenditures may vary from these estimates. As at December 31, 2013, the Corporation provided $2,825 (December 31, 2012- $370) for testing and future site remediation.

	December 31, 2013	December 31, 2012
Environmental provision, beginning of the year	$ 370	$ 160
Addition	2,731	260
Utilized in the year	(276)	(50)
Environmental provision, ending of the year	$ 2,825	$ 370

(c) Operating Lease Commitments:

The Corporation has entered into a commercial lease arrangement on a premise which is recognized and reported as part of other costs in the statement of comprehensive income.

For the year ended December 31, 2013, the Corporation recognized minimum lease payments of $145 (December 31, 2012 - $139) in the statement of comprehensive income. The lease has a life of one year with yearly renewal options. There are no restrictions placed upon the Corporation by entering into this lease. As at December 31, 2013, the Corporation's committed future minimum annual lease payments under operating leases were $138 for 2014. The future minimum lease commitments would change depending on the decision to renew the agreement. The Corporation has numerous cancellable operating leases which are predominantly in the form of encroachment permits required to place distribution infrastructure assets on a rights-of-way or private property. The lease terms are between one and twenty years, and the amounts of these leases are immaterial and have been included in other costs in the statement of comprehensive income.

22. Risk Management and Financial Instruments

The private placement debt, having a principal amount of $320,000 as at December 31, 2013 (December 31, 2011 - $320,000), has a fair value of $350,758 (December 31, 2012 - $384,986) calculated using level 3 inputs. The valuation techniques used took into consideration accrued interest, Government of Canada benchmark yields and statistical data.

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

22. Risk Management and Financial Instruments

(a) Market Risk:

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Corporation does not have commodity risk due to the flow through nature of energy purchases and costs and its foreign exchange risk is not considered material since the Corporation's exposure is limited to U.S. dollar cash and cash equivalents holdings of $99 as at December 31, 2013 (December 31, 2012 - $96).

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference between actual interest income earned by the Corporation and the interest revenue reduction approved by the OEB may have a negative impact on the results of operations.

The Corporation minimizes interest rate risk by issuing long-term fixed rate debt.

(b) Credit Risk:

Financial assets create credit risk that counterparties will fail to discharge an obligation, causing a financial loss.

The Corporation manages counterparties credit risk through various techniques including, limiting total exposure levels with individual counterparties consistent with the Corporation's policies, and monitoring the financial condition of counterparties. Short-term investments held as at December 31, 2013, met the credit exposure limits specified under the Corporation's Investment Policy.

The Corporation's distribution revenue is earned on a broad base of customers principally located in Mississauga. As a result, the Corporation did not earn a significant amount of revenue from any individual customer. As at December 31, 2013, there were no significant balances of accounts receivable due from any single customer.

Management believes that the credit risk of accounts receivable is not significant due to the following reasons:

i. There is a broad base of customers with no single customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance in either year.

ii. Enersource Hydro, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or letter of credit from customers to mitigate risk of payment default.

(In thousands of Canadian dollars)

22. Risk Management and Financial Instruments

iii. The percentage of accounts receivable that is past due for more than 75 days is approximately 3.3% (2012 – 4.3%) of the total gross accounts receivable. (See note 6)

iv. The Corporation included an amount for accounts receivable write-offs within operating expense for rate setting purposes.

(c) Liquidity Risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, as well as an established $50,000 banking line of credit, if required. Short-term liquidity is expected to be sufficient to fund normal operating requirements.

The Corporation's private placement debts mature in 2021 and 2041 and is expected to be refinance at that time.

The Corporation has contractual obligations in the normal course of business; future minimum undiscounted contractual maturities are as follows:

Financial Liabilities	Due within 1 year	Due between 1 and 5 years	Due past 5 years
Accounts payable and accrued liabilities	$ 109,090	$ -	$ -
Debentures payable (interest and principal)	16,097	80,484	574,668
Total	$ 125,187	$ 80,484	$ 574,668

23. Regulatory assets and liabilities

Total regulatory balances that have been derecognized under IFRS that will be recovered or refunded through future distribution rates are as follows:

	December 31, 2012	2013 activity	December 31, 2013
Regulatory assets (ii)-(ix)	$ 9,967	$ (13,344)	$ (3,377)
Regulatory liabilities (i)	(33,954)	13,775	(20,179)
Net regulatory liabilities*	$ (23,987)	$ 431	$ (23,556)

** Income tax expenses on other comprehensive income of $310 have been excluded from net regulatory liability as at December 31, 2013.*

23. Regulatory Assets and Liabilities (continued)

In a rate regulated environment, there is normally a requirement from the regulator to the utility to either reduce or increase rates in a future period. Under regulatory accounting, utilities account for the impact of rate regulation through the recognition of regulatory assets and liabilities, which is the deferral of costs (revenues) to a future period to match with the higher (lower) rates recovered in that period, usually as a result of a decision approved by the regulator.

In the absence of a rate regulated standard under IFRS, the Corporation does not recognize assets and liabilities arising from rate regulated activities. Since the economics of rate regulation have not changed from the adoption of IFRS, the CODM will continue to assess operating performance principally on the basis of earnings adjusted for the following significant regulatory activities:

(i) Retail settlement variances are caused by the difference between the actual price of the electricity commodity throughput and the prices set by the OEB. Specifically, these amounts include variances between the amounts charged by Hydro One and the IESO for the operation of the electricity markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates. Under regulatory accounting, the Corporation would have adjusted energy purchases for these variances. Under IFRS, the Corporation recognizes these differences in future periods as an increase or decrease to distribution revenue.

(ii) The OEB approved deferral accounts to record transitional differences associated with the implementation of IFRS, any incremental costs needed to comply with Environment Canada’s new regulations associated with Polychlorinated biphenyls (“PCBs”), costs relating to stranded conventional meters, and unearned revenue and costs associated with Enersource Hydro’s smart meter program. On December 19, 2012 the OEB approved the recovery of these deferral accounts and the Corporation has recognized the related revenue.

(iii) The OEB approved a variance account to record lost revenues associated with the delivery of CDM programs between 2011 and 2014. The variance account tracks the difference between the results of actual, verified impacts of CDM activities and the level of CDM program activities included in the distributor’s load forecast. The Corporation may recover or refund this revenue through future distribution rates.

23. Regulatory Assets and Liabilities (continued)

(iv) The OEB requires the Corporation to track the difference between revenue and costs associated with providing retailers with customer settlement services as retail cost variance account deferrals. Under IFRS, the Corporation recognizes these differences as an increase or decrease to distribution revenue.

(v) The difference in income taxes or PILs resulting from legislative or regulatory changes to tax rates or rules as compared to rate-setting is recorded in an OEB approved variance account in regulatory accounting. Under IFRS, the Corporation recognizes these differences as an increase or decrease to distribution revenue.

(vi) The OEB requires the Corporation to accrue interest on regulatory assets and liabilities balances. Under IFRS, the Corporation recognizes the net interest on these balances in future periods as an increase or decrease to distribution revenue once approved for recovery or refund by the OEB.

(vii) The OEB approved four deferral accounts to record qualifying incremental capital investments, OM&A expenses and funding adders approved by the OEB related to the connection of renewable generation or the development of smart grid. Under IFRS, the Corporation capitalizes or expenses these items as incurred and recognizes revenue in accordance with the Corporation’s revenue recognition policy.

(viii)The OEB approved a deferral account to record any re-measurements of the post-employment net defined liability including actuarial gains or losses. Under IFRS, the Corporation recognizes any re-measurements of the post-employment net defined liability in other comprehensive income.

To the extent that the OEB's future actions are different from the Corporation’s expectations, the timing and amount of recovery or settlement of amounts included in the adjustment for regulatory activities could be significantly different from the amounts that are eventually recovered or settled through distribution rates in the future.

24. Other Revenue

(a) Government grants:

The Corporation recognized $14,278 ($13,703 – 2012) of OPA funding in other revenue for the year ended December 31, 2013. The Corporation recognized $14,274 ($12,298 – 2012) of OPA costs under operating expenses for the year ended December 31, 2013. The Corporation currently has no unfilled obligations relating to the government grants received by the OPA.

(b) Compensation from third parties for items of PP&E:

The Corporation recognized $578 ($290 – 2012) for damage claims received from third parties relating to emergency replacement of distribution equipment.

ATTACHMENT 14
ENERSOURCE 2014 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Financial Statements of

ENERSOURCE HYDRO MISSISSAUGA INC.

Years ended December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Enersource Hydro Mississauga Inc.

We have audited the accompanying financial statements of Enersource Hydro Mississauga Inc., which comprise the statement of financial position as at December 31, 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained in our audit 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 Enersource Hydro Mississauga as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 26, 2015
Toronto, Canada

ENERSOURCE HYDRO MISSISSAUGA INC.

Statement of Financial Position
(In thousands of Canadian dollars)
As at December 31, 2014 and 2013

	Note	December 31, 2014	December 31, 2013 Recast- Note 2(d)
Assets			
Current assets:			
Cash and cash equivalents	5	$ -	$ 32,134
Accounts receivable	6	55,648	53,945
Unbilled revenue		73,045	70,049
Income taxes receivable		346	-
Amounts due from related parties	19	724	1,213
Inventories	2,7	3,814	2,825
Prepaid expenses		1,527	2,214
Customer deposits	8	23,367	21,920
Total current assets		158,471	184,300
Non-current assets:			
Property, plant and equipment	2,9	556,024	531,349
Intangible assets	10	16,309	17,330
Deferred tax assets	12	16,432	13,348
Total non-current assets		588,765	562,027
Total assets		**$ 747,236**	**$ 746,327**
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank overdraft	22	$ 7,956	$ -
Accounts payable and accrued liabilities	13	103,368	106,265
Income taxes payable		-	527
Advance payments		4,822	3,578
Deferred revenue		32	32
Amounts due to related parties	19	-	82
Customer deposits	8	23,367	21,920
Current portion of environmental provision	20	1,600	2,825
Total current liabilities		141,145	135,229
Non-current liabilities:			
Debentures payable	14	318,137	318,042
Deferred contributions	15	15,153	11,333
Post-employment benefits	16	5,712	4,852
Environmental provision	20	1,267	-
Total non-current liabilities		340,269	334,227
Total liabilities		481,414	469,456
Shareholders' equity:			
Share capital	17	155,629	155,629
Accumulated other comprehensive income		420	860
Retained earnings		109,773	120,382
Total shareholders' equity		265,822	276,871
Total liabilities and shareholders' equity		**$ 747,236**	**$ 746,327**

The accompanying notes are an integral part of the financial statements.

ENERSOURCE HYDRO MISSISSAUGA INC.

Statement of Comprehensive Income
(In thousands of Canadian dollars)
Years ended December 31, 2014 and 2013

	Note	December 31, 2014	December 31, 2013
Revenue:			
Energy sales	23	$ 786,505	$ 765,984
Distribution	23	111,675	124,010
Other revenue	24	19,270	19,031
		917,450	909,025
Operating expenses:			
Energy purchases	23	801,795	770,026
Employee salaries and benefits		26,489	26,425
Materials and transportation		4,367	3,861
Contract labour		5,070	4,688
Other expenses		7,837	9,447
Corporate cost allocation		8,273	10,065
Conservation and demand management	24	14,546	14,274
Depreciation of property, plant and equipment	9	25,873	25,455
Amortization of intangible assets		3,556	3,198
		897,806	867,439
Results from operating activities		19,644	41,586
Non-operating revenue (expense):			
Interest income		488	887
Interest expense		(16,212)	(16,014)
Interest expense on accrued post-employment benefits		(234)	(211)
		(15,958)	(15,338)
Profit before income tax expense		3,686	26,248
Income tax expense	11	951	7,462
Profit for the year		2,735	18,786
Other comprehensive income (loss) net of income tax:			
Remeasurements of the defined benefit obligation		(579)	1,131
Income tax recovery (expense)		139	(271)
		(440)	860
Total comprehensive income for the year		**$ 2,295**	**$ 19,646**

The accompanying notes are an integral part of the financial statements.

ENERSOURCE HYDRO MISSISSAUGA INC.

Statement of Cash Flows

(In thousands of Canadian dollars)

Years ended December 31, 2014 and 2013

	Note	December 31, 2014	December 31, 2013 Recast-Note 2(d)
Cash flows from operating activities:			
Comprehensive income for the period		$ 2,295	$ 19,646
Adjustments for:			
Depreciation of property, plant and equipment		25,873	25,455
Amortization of intangible assets		3,556	3,198
Amortization of deferred contributions		(318)	(195)
Gain on disposal of property, plant and equipment		(56)	(198)
Post-employment benefits		860	(651)
Environmental provision	20	1,267	-
Income tax expense	11	812	7,733
Interest income		(488)	(887)
Interest expense		16,212	16,014
Income tax paid		(4,770)	(4,125)
		45,243	65,990
Change in non-cash working capital	18	(6,824)	(5,105)
Net cash from operating activities		38,419	60,885
Cash flows from investing activities:			
Customer deposits		(1,447)	(2,188)
Interest received		487	888
Capitalized interest		348	379
Additions to property, plant and equipment		(51,106)	(53,867)
Additions to intangible assets		(2,699)	(2,301)
Additions to deferred contributions		4,138	5,944
Proceeds from sale of property, plant and equipment		131	246
Cash used in investing activities		(50,148)	(50,899)
Cash flows from financing activities:			
Customer deposits		1,447	2,188
Dividend paid	17	(13,344)	(11,514)
Interest paid		(16,464)	(16,345)
Cash used in financing activities		(28,361)	(25,671)
Decrease in cash and cash equivalents, during the year		(40,090)	(15,685)
Cash and cash equivalents, beginning of year		32,134	47,819
Cash and cash equivalents, end of year		$ (7,956)	$ 32,134

The accompanying notes are an integral part of the financial statements.

ENERSOURCE HYDRO MISSISSAUGA INC.

Statement of Changes in Equity
(In thousands of Canadian dollars)
Years ended December 31, 2014 and 2013

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance at January 1, 2014	$ 155,629	$ 860	$ 120,382	$ 276,871
Profit for the period	-	-	2,735	2,735
Other comprehensive loss, net of tax	-	(440)	-	(440)
Dividends paid	-	-	(13,344)	(13,344)
Balance at December 31, 2014	$ 155,629	$ 420	$ 109,773	$ 265,822

Balance at January 1, 2013	$ 155,629	$ (869)	$ 113,979	$ 268,739
Profit for the period	-	-	18,786	18,786
Other comprehensive income, net of tax	-	860	-	860
Accumulated other comprehensive income transferred to retained earnings	-	869	(869)	-
Dividends paid	-	-	(11,514)	(11,514)
Balance at December 31, 2013	$ 155,629	$ 860	$ 120,382	$ 276,871

The accompanying notes are an integral part of the financial statements.

1. General Information

Corporate Information

Enersource Hydro Mississauga Inc. (the "Corporation"), is a wholly owned subsidiary of Enersource Corporation which is incorporated under the Ontario Business Corporations Act, and is owned 90% by the City of Mississauga (the "City") and 10% by BPC Energy Corporation ("Borealis"), a wholly owned subsidiary of the Ontario Municipal Employees Retirement System ("OMERS"). The corporation provides electricity distribution services to businesses and residences in the City of Mississauga.

The Corporation’s equity is not traded in a public market. The Corporation’s registered office is located at 2185 Derry Road West in Mississauga, Ontario, L5N 7A6.

2. Basis of Preparation

a) Statement of compliance

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

b) Basis of measurement

These financial statements have been prepared on a historical cost basis.

c) Rate setting

The Corporation, as an electricity distributor, is both licensed and regulated by the Ontario Energy Board (“OEB”) which has a legislative mandate to oversee various aspects of the electricity industry. The OEB exercises statutory authority through setting or approving all rates charged by the Corporation and establishing standards of service for its customers.

The Corporation is subject to a cost of service regulatory mechanism under which the OEB establishes the revenues required to: (i) recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) provide a fair and reasonable return on utility investment, or rate base. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

(In thousands of Canadian dollars)

2. Basis of Preparation (continued)

The OEB has the power to establish electricity prices to be charged to low volume consumers and designated consumers who do not choose an electricity retailer. The OEB may adjust electricity commodity prices charged to these consumers every six months as required.

On April 27, 2012, the Corporation submitted a cost of service rate application to the OEB to change distribution rates effective January 1, 2013. The application was approved by the OEB on December 19, 2012.

On August 16, 2013, the Corporation submitted an Incentive Regulation Mechanism Application to the OEB to change distribution rates effective January 1, 2014. The application was approved by the OEB on December 5, 2013.

d) Change in classification

During the current year, the Corporation modified the classification of major spare parts from inventories to property, plant and equipment to reflect more appropriately the way in which economic benefits are derived from the use of these items. Comparative amounts in the statement of financial position and the statement of cash flows were reclassified for consistency. These reclassifications did not have any impact on the statement of comprehensive income or the statement of changes in equity.

The following table summarizes the impact of the reclassification on the Corporation's previously reported results:

Statement of Financial Position	Property, plant and equipment	Inventories
As at December 31, 2013	$ 525,970	$ 8,204
Reclassification	5,379	(5,379)
As at December 31, 2013 recast	$ 531,349	$ 2,825

Statement of Cash Flows	Additions to property, plant and equipment	Non-cash working capital
As at December 31, 2013	$ (48,488)	$ (10,484)
Reclassification	(5,379)	5,379
As at December 31, 2013 recast	$ (53,867)	$ (5,105)

3. Key Accounting Judgements, Estimates and Assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and amounts reported and disclosed in the financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty and judgments at the end of the reporting period that could have a significant impact on the financial statements, relate to the following:

a) Useful lives of depreciable assets

The Corporation relies on a third party independent study to componentize and determine the estimated useful lives of its distribution system assets. The useful life values from the study were derived from industrial statistics, research studies, reports and past utility experience. Actual lives of assets may vary from estimated useful lives.

b) Post-employment benefits other than pensions

The costs of post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, any expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

c) Accounts receivable impairment

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

d) Unbilled revenue

Unbilled revenue is based on either the actual usage at the end of the period or an assessment of unbilled electricity distribution services supplied to customers between the date of the last meter reading and the period ending date. The Corporation applies judgement to the measurement of the estimated consumption and to the valuation of that consumption.

4. Significant Accounting Policies

a) Financial instruments

All financial assets of the Corporation are classified as loans and receivables and all financial liabilities are classified as other financial liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently they are accounted for based on their classification as following:

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Financial assets are assessed at each reporting period to determine whether there is any objective evidence that they are impaired. Impairment provisions are recognized when there is objective evidence that the Corporation will be unable to collect all of the amounts due under the terms receivable. The impairment loss is calculated as the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. All impairment losses are recognized in net income.

Loans and receivables are comprised of cash and cash equivalents, accounts receivable, promissory note, unbilled revenue and customer deposits.

(ii) Other financial liabilities

All non-derivative financial liabilities are classified as other liabilities. They are initially recognized at fair value plus transaction costs that are directly attributable to their issue, and are subsequently carried at amortised cost using the effective interest rate method.

Financial liabilities are derecognized from the statement of financial position when the Corporation is discharged from the obligation, or when the obligation is cancelled or expired.

Financial liabilities are further classified as current or non-current depending on whether they are due within twelve months of the reporting date.

Other financial liabilities are comprised of bank overdraft, accounts payable and accrued liabilities, advance payments, debentures payable and deposits payable.

The Corporation does not enter into derivative instruments.

4. Significant Accounting Policies (continued)

b) Inventories

Inventories consist of parts and supplies acquired for internal construction, consumption or recoverable work. The Corporation accounts for major spare parts and standby equipment as property, plant and equipment.

Inventory is carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence. Cost is comprised of the purchase price and other directly attributable expenditures to bring the inventories to their present condition and location.

c) Customer deposits

Customers may be required to post security to obtain electricity or other services, which are interest bearing and refundable on demand. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded as customer deposits and are reported separately from the Corporation's own cash and cash equivalents.

d) Property, plant and equipment (“PP&E”)

PP&E is measured at cost less accumulated depreciation and impairment losses. Cost includes all directly attributable expenditures to acquire and bring the asset into operation including labour, employee benefits, materials and transportation costs, contracted services and borrowing costs where applicable. Subsequent expenditures are included in an asset’s carrying amount or recognized as a separate asset, where appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be reliably measured. All other subsequent expenditures, including the costs of day-to-day servicing, repairs and maintenance, are expensed as incurred.

An asset is derecognized at its carrying value when it is disposed of or when no future economic benefits are expected from its use. The gain or loss arising on the disposal or retirement of an item of PP&E is determined as the difference between the proceeds from sale and the carrying amount of the asset, and is recognized in the statement of comprehensive income.

Major spare parts and standby equipment are accounted for as PP&E since they support the Corporation’s distribution system reliability. Depreciation of PP&E is recorded in the statement of comprehensive income on a straight-line basis over the estimated useful life of each component of PP&E. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

4. Significant Accounting Policies (continued)

Estimated useful lives for the main categories of PP&E are shown in the table below:

Buildings and other fixtures	20 - 60 years
Distribution system and station equipment	15 - 40 years
Overhead and underground distribution system	15 - 55 years
Other PP&E	3 - 25 years

Assets under construction and spare parts accounted as PP&E, which are not available for use, are not depreciated.

During the construction period of qualifying assets, borrowing costs are capitalized as a component of the cost of self-constructed assets. The capitalization rate is the Corporation's weighted average cost of borrowings.

e) Intangible assets

Intangible assets include easements and computer software.

Easements are measured at cost and are held in perpetuity. Since there is no foreseeable limit to the period over which these easements are expected to provide benefit to the Corporation, they have been assessed as having indefinite useful lives and are not amortized.

Computer software is measured at cost less accumulated amortization and impairment losses. Cost includes expenditures associated with the initial acquisition or development and other directly attributable expenditures to prepare the asset for its intended use.

Computer software is amortized on a straight line basis over the estimated useful life of the related asset from the date that they are available for use. The estimated useful lives and amortization methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Software in development is not amortized.

Estimated useful lives for intangible assets are shown in the table below:

Computer software	2 - 10 years
Easements	Indefinite

4. Significant Accounting Policies (continued)

f) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is tested and assessed.

PP&E and intangible assets with finite lives are tested for recoverability at the cash-generating unit ("CGU") level (or groups of CGUs), which is the smallest identifiable group of assets that generates independent cash inflows. An impairment of PP&E and intangible assets with finite lives is recognized in the statement of comprehensive income when the asset's carrying value exceeds its estimated recoverable amount. The recoverable amount is the higher of its value in use and fair value less costs of disposal. Where fair value less costs to sell is not reliably available, value in use is used as the recoverable amount. Value in use is calculated as the present value of the estimated future cash flows expected to be derived from an asset, CGU or group of CGUs.

The Corporation evaluates indefinite life intangible assets for impairment annually or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. For purposes of such an evaluation, the fair value estimate is compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

An impairment charge may be reversed only if there is objective evidence that a change in the estimate used to determine the asset's recoverable amount since the last impairment was recognized is warranted. A reversal of an impairment charge is recognized immediately in the statement of comprehensive income

g) Regulatory accounting

On January 30, 2014, the IASB issued interim standard *IFRS 14, Regulatory Deferral Accounts*. This standard allows first-time adopters of IFRS to apply previous Generally Accepted Accounting Principles to account for rate-regulated assets and liabilities. As the Corporation is not a first-time adopter, it does not recognize assets and liabilities arising from rate regulated activities. Instead, the Corporation records revenues in accordance with its revenue recognition policy and expenses as operating costs when incurred. Regulatory balances that have an effect on comprehensive income under IFRS are disclosed in Note 23.

4. Significant Accounting Policies (continued)

h) Revenue recognition

The Corporation's principal sources of revenue are:

(i) Energy sales and distribution revenue

Energy sales and distribution revenue are recorded on the basis of cyclical billings based on electricity usage and include unbilled revenue for electricity consumed but not yet billed. The unbilled revenue accrual for the period is based on estimated energy consumption. Energy sales are recognized based on OEB and Independent Electricity System Operator ("IESO") prevailing energy rates and electricity consumed by customers. Distribution revenue attributable to the delivery of electricity is recognized based upon OEB-approved distribution rates and estimated electricity consumed by the customer.

(ii) Other revenue

Other revenue includes government grants under Conservation and Demand Management ("CDM") programs, amortization of customer contributions and other general revenue. Government grants under CDM programs are recognized when there is reasonable assurance that the grant will be received and all related conditions will be met. Grants are recognized as income on a systematic basis over the period to match to the costs they are intended to compensate.

The Corporation receives customer contributions to construct certain items of PP&E. These contributions are recorded as deferred contributions and amortized into income over the life of the related asset.

Other general revenues are recognized as the services are rendered.

i) Deferred debt issue costs

Deferred debt issue costs represent the cost of the issuance of the debentures. The Corporation's deferred debt issuance costs, net of accumulated amortization, are included in the carrying value of debentures payable. The debentures are accreted back to their face amount using the effective interest rate method over the remaining period to maturity.

j) Employee benefits

(i) Short-term employee benefits

The Corporation provides short-term employee benefits such as salaries, employment insurance, short-term compensated absences, health and dental care. Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as the related service is provided. Short-term employee benefits are recognized as an expense unless they qualify for capitalization as part of an item of PP&E or intangible asset.

4. Significant Accounting Policies (continued)

(ii) Defined benefit pension plan

The Corporation's current pension plan is administered by OMERS and is a multi-employer public sector defined benefit pension plan funded by equal contributions from participating employers and employees as well as by investment earnings of the plan. Pension contributions received from all OMERS employers and members are combined and used jointly to purchase investments. Under OMERS' funding and investment structure, investment and actuarial evaluations are determined on a commingled basis across all employers and as a result, information for individual employers is unavailable.

As the Corporation does not have the information to account for its proportionate share of the defined benefit obligation and plan assets, the Corporation accounts for its participation in OMERS as a defined contribution plan, and all contributions to the plan are recognized as an expense.

(iii) Post-employment benefits

The Corporation provides post-employment life, health, and dental benefits to its employees. An actuary determines the cost of these benefits as well as measures the plan obligation. The actuary uses the projected unit credit method, prorated on service and based on management's best estimate and assumptions. Under this method, the projected post-employment benefit is deemed to be earned on a pro rata basis over the years of service in the attribution period, and ends at the earliest age the employee could retire and qualify for benefits.

Remeasurements of the net defined benefit liability, which are comprised of actuarial gains and losses, are recognized immediately in the statement of financial position with a charge or credit to other comprehensive income. Current service costs are recognized in the statement of comprehensive income under employee salaries and benefits and net interest expense on accrued post-employment benefits are presented as a separate line in the statement of comprehensive income. The Corporation accumulates remeasurements of the defined benefit obligation and transfers them to retained earnings upon OEB's review and approval.

k) Deferred contributions

Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers when the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements.

Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as deferred contributions and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset.

4. Significant Accounting Policies (continued)

l) Income taxes

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes ("PILs") to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada), the Taxation Act, 2007 (Ontario), as modified by the Electricity Act, 1998, and related regulations. References in these financial statements to income taxes are with respect to PILs.

The Corporation recognizes deferred tax using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are probable. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment. Deferred income tax assets and liabilities are offset since they relate to income taxes levied by the same taxation authority.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Current taxes are based on taxable profit or loss for the year, which differ from profit or loss as reported in the statement of comprehensive income because it excludes items that are taxable or deductible in other years and items that are neither taxable nor deductible. The Corporation's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Both current and deferred taxes are included as part of income tax expense on the statement of comprehensive income.

m) Foreign currency translation

Transactions in foreign currencies are translated to Canadian dollars at the prevailing rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing period-end rates. Exchange gains or losses are recognized as income in the period in which they arise.

4. Significant Accounting Policies (continued)

n) Provisions and contingencies

The Corporation recognizes provisions if, as a result of a past event, there is a present legal or constructive obligation that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The evaluation of the likelihood of the contingent events requires judgement by management as to the probability of exposure to potential gain or loss. Actual results could differ from these estimates.

A contingent asset is not recognized in the financial statements. However, a contingent asset is disclosed where an inflow of economic benefits is probable.

o) New standards and interpretations adopted

The IASB has issued an amendment to *IAS 32 Financial Instruments: Presentation*, which provides further guidance on the requirement for offsetting financial instruments. The amendment is effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The adoption of this amendment did not have an impact on the Corporation's results of operations, financial position, and disclosures.

p) New standards and interpretations not yet adopted

Certain new or amended standards issued by the IASB do not have to be adopted in the current period. The standards that the Corporation anticipates might have an impact on its financial statements or note disclosures are described below.

In May 2014, the IASB issued *IFRS 15, Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. The standard is effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. IFRS 15 is available for early adoption. The purpose of this standard is to:

(i) remove inconsistencies and weaknesses in previous revenue requirements;

(ii) provide a more robust framework for addressing revenue issues;

(iii) improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets;

(iv) provide more useful information to users of financial statements through improved disclosure requirements; and

(v) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

4. Significant Accounting Policies (continued)

In July 2014, the IASB issued *IFRS 9 Financial Instruments* which will replace *IAS 39 Financial Instruments: Recognition and Measurement.* The new standard provides revised guidance on the classification and measurement of financial assets, including impairment, and supplements the new hedge accounting principles published in 2013 as part of IFRS 9. The standard is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. IFRS 9 is available for early adoption.

In August 2014, the IASB issued an amendment to *IAS 27 Separate Financial Statements*, which allows the use of the equity method and applies to the accounting for associates, joint ventures and subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2016 and must be applied retrospectively.

The Corporation will quantify the effect, if any, of the above mentioned standards, once a full analysis and assessment is completed.

5. Cash and Cash Equivalents

Cash and cash equivalents include cash at the bank, cash on hand and short term investments with a maturity of 90 days or less from the date of purchase.

(In thousands of Canadian dollars)

6. Accounts Receivable

The components of accounts receivable are as follows:

	December 31, 2014	December 31, 2013
Trade receivables	$ 51,920	$ 52,009
Less: allowance for doubtful accounts	(1,856)	(1,998)
Trade receivables, net	$ 50,064	$ 50,011
Receivables due from related parties (Note 19)	2,342	2,076
Other receivables	3,242	1,858
Total accounts receivable, net	$ 55,648	$ 53,945
Of which:		
Not yet due (less than 16 days)	$ 34,330	$ 34,618
Past due 1 day but not more than 14	15,819	13,757
Past due 15 days but not more than 44	4,475	4,297
Past due 45 days but not more than 74	1,343	1,420
Past due 75 days but not more than 104	636	752
Past due more than 104 days	901	1,099
Less: allowance for doubtful accounts	(1,856)	(1,998)
Total accounts receivable, net	$ 55,648	$ 53,945

The allowance for doubtful accounts as at December 31, 2014 was 3.2% (December 31, 2013 – 3.6%), of the total accounts receivable which includes accounts receivable that are not yet due or past due, that the Corporation has deemed to be impaired.

7. Inventories

The amount of inventory consumed by the Corporation and recognized as an expense during 2014 was $1,659 (2013 – $1,341). The amount of inventory that was written down due to obsolescence in 2014 was $nil (2013 - $127).

During 2014, the Corporation reclassified $4,581 (2013 – $5,379) from inventory to PP&E as described in Note 2 (d).

(In thousands of Canadian dollars)

8. Deposits and Guarantees

The following outlines the deposits and letters of credit/guarantees of the Corporation posted as security. The amounts are comprised of cash and cash equivalents in the form of deposits and letters of credit/letters of guarantee, under which the Corporation is contingently liable.

	December 31, 2014		December 31, 2013	
	Cash and cash equivalents	Letters of credit/ guarantees	Cash and cash equivalents	Letters of credit/ guarantees
Customer deposits (a)	$ 23,367	$ -	$ 21,920	$ -
Security with the IESO (b)	-	11,450	-	11,450
	$ 23,367	$ 11,450	$ 21,920	$ 11,450

(a) Customer deposits

The Corporation collects cash and cash equivalents as deposits from certain customers to reduce credit risk.

(b) Security with the IESO

Entities that purchase electricity in Ontario through the IESO are required to post security to mitigate the risk of their default on their expected activity in the market. The IESO could draw on this security if the Corporation fails to make the payment required by a default notice issued by the IESO. The Corporation has posted a letter of credit as security in the amount of $11,450 as at December 31, 2014 (December 31, 2013 - $11,450).

(In thousands of Canadian dollars)

9. PP&E

PP&E consists of the following as at December 31, 2014:

	December 31, 2013	Additions/ Depreciation	Disposals/ Retirements	December 31, 2014
Cost				
Distribution system	$ 417,267	$ 37,372	$ (1,315)	$ 453,324
Distribution station equipment	58,970	3,852	(246)	62,576
Other PP&E	70,644	4,652	(2,227)	73,069
Buildings and fixtures	34,041	4,187	-	38,228
Land	9,879	-	-	9,879
Construction in progress	4,944	560	-	5,504
Subtotal	$ 595,745	$ 50,623	$ (3,788)	$ 642,580
Accumulated depreciation				
Distribution system	$ (38,997)	$ (14,332)	$ 249	$ (53,080)
Distribution station equipment	(5,238)	(1,925)	33	(7,130)
Other PP&E	(17,636)	(6,914)	1,983	(22,567)
Buildings and fixtures	(2,525)	(1,254)	-	(3,779)
Land	-	-	-	-
Subtotal	$ (64,396)	$ (24,425)	$ 2,265	$ (86,556)
Carrying amount	$ 531,349	$ 26,198	$ (1,523)	$ 556,024

PP&E consists of the following as at December 31, 2013:

	December 31, 2012	Additions/ Depreciation	Disposals/ Retirements	2013 Adjustment Note 2(d)	December 31, 2013 Recast
Cost					
Distribution system	$ 378,722	$ 35,688	$ (1,739)	$ 4,596	$ 417,267
Distribution station equipment	55,681	3,520	(231)	-	58,970
Other PP&E	64,358	6,519	(1,144)	911	70,644
Buildings and fixtures	32,378	1,663	-	-	34,041
Land	9,892	-	(13)	-	9,879
Construction in progress	5,459	(387)	-	(128)	4,944
Subtotal	$ 546,490	$ 47,003	$ (3,127)	$ 5,379	$ 595,745
Accumulated depreciation					
Distribution system	$ (25,614)	$ (13,653)	$ 270	$ -	$ (38,997)
Distribution station equipment	(3,439)	(1,831)	32	-	(5,238)
Other PP&E	(11,570)	(6,791)	725	-	(17,636)
Buildings and fixtures	(1,384)	(1,141)	-	-	(2,525)
Land	-	-	-	-	-
Subtotal	$ (42,007)	$ (23,416)	$ 1,027	$ -	$ (64,396)
Carrying amount	$ 504,483	$ 23,587	$ (2,100)	$ 5,379	$ 531,349

(In thousands of Canadian dollars)

9. PP&E (continued)

During 2014, the Corporation reclassified $4,581 (2013 – $5,379) from inventory to PP&E as described in note 2(d).

The carrying amount of PP&E, that have been derecognized before the end of their estimated useful lives and have been recorded as depreciation expense on the statement of comprehensive income, was $1,448 in 2014 (2013 - $2,039).

During the year, borrowing costs of $304 (2013 - $354) were capitalized as part of the costs of PP&E. A capitalization rate of 5.091% (2013 – 5.091%) was used to determine the amount of borrowing costs to be capitalized. During the year, the Corporation has included $483 (2013 - $1,482) of accrued liabilities in the additions to PP&E.

PP&E and intangible asset purchase commitments outstanding as at December 31, 2014 total $10,076 (December 31, 2013 - $10,907).

10. Intangible Assets

Intangible assets consist of the following as at December 31, 2014:

	December 31, 2013	Additions/ Amortization	Disposals/ Retirements	December 31, 2014
Cost				
Computer software	$ 23,717	$ 2,087	$ (19)	$ 25,785
Easements	565	18	-	583
Software in development	1,186	430	-	1,616
Subtotal	$ 25,468	$ 2,535	$ (19)	$ 27,984
Accumulated amortization				
Computer software	$ (8,138)	$ (3,556)	$ 19	$ (11,675)
Easements	-	-	-	-
Subtotal	$ (8,138)	$ (3,556)	$ 19	$ (11,675)
Carrying amount	$ 17,330	$ (1,021)	$ -	$ 16,309

(In thousands of Canadian dollars)

10. Intangible Assets (continued)

Intangible assets consist of the following as at December 31, 2013:

	December 31, 2012	Additions/ Amortization	Disposals/ Retirements	December 31, 2013
Cost				
Computer software	$ 22,089	$ 1,652	$ (24)	$ 23,717
Easements	524	28	13	565
Software in development	1,004	182	-	1,186
Subtotal	$ 23,617	$ 1,862	$ (11)	$ 25,468
Accumulated amortization				
Computer software	$ (4,964)	$ (3,198)	$ 24	$ (8,138)
Easements	-	-	-	-
Subtotal	$ (4,964)	$ (3,198)	$ 24	$ (8,138)
Carrying amount	$ 18,653	$ (1,336)	$ 13	$ 17,330

During the year, borrowing costs of $44 (2013 - $25) were capitalized as part of the cost of intangible assets. A capitalization rate of 5.091% (2013 – 5.091%) was used to determine the amount of borrowing costs to be capitalized. During 2014, the Corporation has included $164 (2013 - $440) of accrued liabilities in the additions to intangible assets.

(In thousands of Canadian dollars)

11. Income Taxes

The components of income tax expense for the years ended December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Current income tax expense:		
Expense for the year	$ 4,454	$ 7,130
Utilization of future timing differences in the current period	(558)	54
Total current Income tax expense	3,896	7,184
Deferred income tax expense:		
Reversal of temporary differences	(3,494)	(192)
Reduction of future timing differences	549	470
Total deferred Income tax expense	(2,945)	278
Total income tax expense	$ 951	$ 7,462

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

	December 31, 2014	December 31, 2013
Federal and Ontario statutory income tax rate	26.50%	26.50%
Profit before provision for income taxes	$ 3,685	$ 26,247
Provision for income taxes at statutory rate:	977	6,955
Increase (decrease) resulting from:		
Other timing differences between accounting net income and net income for tax purpose	(26)	507
Provision for income taxes	$ 951	$ 7,462
Effective income tax rate	25.81%	28.43%

(In thousands of Canadian dollars)

12. Deferred Tax Assets

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The net deferred tax asset consists of the following:

	December 31, 2014	December 31, 2013
PP&E and intangible assets	$ 11,436	$ 14,701
Energy variances	2,907	(3,332)
Employee post-employment benefits other than pensions	1,649	1,421
Other temporary differences	440	558
Net deferred income tax assets	$ 16,432	$ 13,348

13. Accounts Payable and Accrued Liabilities

The components of accounts payable and accrued liabilities are as follows:

	December 31, 2014	December 31, 2013
Amounts due to the IESO for energy purchases	$ 72,601	$ 70,245
Trade payables due to related parties (Note 19)	75	26
Other trade payables	4,187	4,710
Accrued expenses	16,634	21,031
Other non-trade payables	9,871	10,253
Total accounts payable and accrued liabilities	$ 103,368	$ 106,265

(In thousands of Canadian dollars)

14. Debentures Payable

	December 31, 2014	December 31, 2013
4.52 % Series A Debentures due April 29, 2021	$ 110,000	$ 110,000
Deferred debt issue cost (net of accumulated amortization of $251) (December 31, 2013 $178)	(540)	(613)
5.30 % Series B Debentures due April 29, 2041	210,000	210,000
Deferred debt issue cost (net of accumulated amortization of $78) (December 31, 2013 $56)	(1,323)	(1,345)
Net debentures payable	$ 318,137	$ 318,042

The Corporation has a private placement debt of $320,000 comprised of $110,000 of Series A, 10-year debentures with fixed coupon rate of 4.52%, and $210,000 of Series B 30-year debentures with fixed coupon rate of 5.30%.

Interest expense for the year ended December 31, 2014 included $16,097 (December 31, 2013 - $16,053) in respect of interest on the debt. The amortization of the debt issue cost for the year ended December 31, 2014 was $95 (December 31, 2013 - $91).

The Corporation has the following material covenants associated with its long-term debt:

(i) The Corporation will duly and punctually pay or cause to be paid payments of principal and interest to each holder of the debentures.

(ii) The Corporation will, and will cause each designated subsidiary to maintain its corporate existence (unless all of its assets are or have been conveyed to the Corporation or another designated subsidiary), and will carry on and conduct its business in a proper and efficient manner.

(iii) The Corporation will provide to the Trustee copies of (i) within 120 days of each fiscal year end of the Corporation, annual audited consolidated financial statements of the Corporation together with a report of the Corporation’s auditors thereon; (ii) within 60 days of the end of the first, second and third quarters of the Corporation’s fiscal year, interim consolidated financial statements. The corporation’s first interim consolidated financial report prepared in accordance with IFRS for the first quarter in which such report is required to be prepared, which may be provided within 90 days of the end of such quarter.

(iv) The Corporation will, and will cause each Designated Subsidiary to, from time to time pay or cause to be paid all taxes (including transfer taxes), rates, levies, payments in lieu of taxes, assessments (ordinary or extraordinary), government fees or dues lawfully levied, assessed or imposed upon or in respect of its respective property or any part thereof or upon its income and profits as and when the same become due and payable and to withhold and remit any amounts required to be withheld by it from payments due to others and remit the same to any government or agency thereof.

(In thousands of Canadian dollars)

14. Debentures Payable (continued)

(v) The Corporation will not, and will not permit any Designated Subsidiary to, create, assume or suffer to exist any Security Interest, other than permitted encumbrances, on any of its assets to secure any obligation, unless at the same time it secures equally and rateably therewith all the debentures issued pursuant to the Trust Indenture then outstanding.

(vi) The Corporation shall not issue, incur or become liable for obligations that exceed 75% of the total consolidated capitalization.

(vii) The Corporation may not amalgamate or consolidate with or merge into any other Person, or permit any other Person to amalgamate or consolidate with or merge into with the Corporation, or directly or indirectly transfer, sell, lease or otherwise dispose of all or substantially all of its property or assets. Notwithstanding the foregoing, a Designated Subsidiary shall be permitted to merge with another entity provided that, after giving effect to such merger, it continues to be a Designated Subsidiary.

(viii) No default or event of default shall have occurred and be continuing, or shall occur.

The Corporation is in compliance with all credit agreement covenants and limitations associated with its debt.

15. Deferred Contributions

The continuity of deferred contributions is as follows:

	December 31, 2014	December 31, 2013
Deferred contributions, net, beginning of year	$ 11,333	$ 5,584
Additions to deferred contributions	4,138	5,944
Contributions recognized as revenue	(318)	(195)
Deferred contributions, net, end of year	$ 15,153	$ 11,333

(In thousands of Canadian dollars)

16. Post-employment Benefits

The Corporation's retirement plan is comprised of a defined contribution plan. In addition, the Corporation provides other post-employment benefits such as primarily life insurance, health and dental coverage, on a shared basis.

a) OMERS pension plan

The most recently available OMERS annual report is for the year ended December 31, 2013, which reported that the plan was 88% funded, with a fund deficit of $8,641,000. This fund deficit is likely to result in future payments by the participating employers. The Corporation shares in the actuarial risks of other participants in the plan and therefore its future contributions could increase due to their actuarial losses. In addition, the Corporation's contributions may also increase if other entities withdraw from the plan.

The Corporation expensed contributions to OMERS of $3,395 (December 31, 2013 – $3,113) for the year ended December 31, 2014. These amounts are included under employee salaries and benefit in the statement of comprehensive income.

b) Post-employment benefits other than pension

Post-employment benefits other than pension are subject to annual actuarial valuations. A valuation of the post-employment benefits was performed as of December 31, 2014.

A reconciliation of the defined benefit obligation is as following:

	December 31, 2014	December 31, 2013
Accrued benefit obligation, beginning of year	$ 4,852	$ 5,503
Current service cost	266	231
Interest on accrued benefit obligation	234	211
Benefits paid	(163)	(72)
Re-measurements recognized in other comprehensive income	523	(1,021)
Accrued benefit obligation, end of year	$ 5,712	$ 4,852

Total expense recognized in profit or loss	December 31, 2014	December 31, 2013
Current service costs	$ 266	$ 231
Interest on obligation	234	211
Total expense for the year	$ 500	$ 442

(In thousands of Canadian dollars)

16. Post-employment Benefits (continued)

The significant actuarial assumptions used to determine the present value of the obligation are as follows:

Actuarial assumptions	December 31, 2014	December 31, 2013
Discount rate (beginning of year)	4.75%	3.75%
Discount rate (end of year)	4.00%	4.75%
Health care cost increases	9.00%	9.00%
Dental cost increases	4.00%	4.00%
Rate of compensation increase	3.00%	3.00%

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing to $4,919. A 1% decrease in the assumed discount rate would result in the defined benefit obligation increasing to $6,312.

17. Share Capital

	December 31, 2014	December 31, 2013
Authorized:		
Unlimited, Class A shares, voting		
1,000 Class B shares, non-voting		
Issued:		
180,555,562 Class A shares	$ 155,628	$ 155,628
1,000 Class B shares	1	1
	$ 155,629	$ 155,629

The holders of Class A shares are entitled to receive notice of, to attend, and to vote at all general and special meetings of the Corporation’s shareholders. The holders of Class B shares are not entitled to vote at any meeting of the Corporation’s shareholders (except as required by law) and are only entitled to receive notice of special meetings called to consider certain fundamental changes. Holders of Class A shares are entitled to one vote per share.

The holders of the Class A shares , in priority to the holders of the Class B shares, are entitled to receive, if, as and when declared by the Corporation’s Board of Directors, concurrent preferential dividends at a rate per annum equal to the regulated rate of return on the rate base equity represented by each such class of shares. Once these preferential dividend entitlements have been satisfied, holders of each class of shares are entitled to receive, on a concurrent basis with each other class of shares, additional dividends if, as and when declared by the Corporation’s Board of Directors and in such amounts and payable in such manner as may be determined from time to time by the Corporation’s Board of Directors.

Dividends may be declared by the Board of Directors through a resolution. In 2014, a dividend of $13,344 (2013 - $11,514) was declared and paid to the Shareholders of the Corporation.

(In thousands of Canadian dollars)

18. Change in Non-cash Working Capital

	December 31, 2014	December 31, 2013 Recast-Note 2(d)
Accounts receivable	$ (1,330)	$ 8,310
Unbilled revenue	(2,996)	(10,686)
Inventory	(989)	5,315
Prepaid and deposits	687	(680)
Amount due to/from related parties, net	407	(2,254)
Accounts payable	(3,268)	2,627
Environmental provision	(1,225)	2,455
Advance payments	1,244	1,539
Deferred revenue	-	(13,656)
Accrued PP&E and intangible assets	647	1,925
Decrease in non-cash operating working capital	$ (6,823)	$ (5,105)

19. Related Party Transactions

The Corporation's operations include the provision of electricity and services to its principal shareholder, the City. Electricity is billed to the City at the prices and terms as any other Enersource Hydro customer not with an electricity retailer. Street lighting maintenance and construction services are provided at an exchange amount, being that amount agreed to by the parties. A summary of amounts charged by the Corporation to the City is as follows:

	December 31, 2014	December 31, 2013
Electrical energy	$ 10,912	$ 10,586
Street lighting energy	5,843	6,716
Distribution system project	455	612

As at December 31, 2014, accounts payable and accrued liabilities include $75 (December 31, 2013 - $26) due to the City. Accounts receivable include $2,342 (December 31, 2013 - $1,883) due from the City.

During 2014, the Corporation paid $1,179 (2013 - $944) in property taxes to the City.

The Corporation charged Borealis $9 in 2014 (2013 - $9) for an access agreement. These transactions were recorded at the exchange amount being the amount agreed to by the parties.

Amount due from related parties include $724 (December 31, 2013 - $1,213) from parent company and other subsidiary under common control.

In 2014, a dividend of $12,010 (2013 - $10,363) was declared and paid to the City and a dividend of $1,334 (2013 - $1,151) was declared and paid to Borealis.

Amount due to related parties include $nil (December 31, 2013 - $82) to the parent company.

(In thousands of Canadian dollars)

19. Related Party Transactions (continued)

No Director had, during or at the end of the period, any material interest in any contract of significance in relation to the Corporation's business.

The following compensation has been provided to the key management personnel of the Corporation and members of the Board of Directors (Directors Honorarium), which have the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

	December 31, 2014	December 31, 2013
Salaries and short term employee benefits	$ 979	$ 476
Retirement OMERS contributions	108	51
Other compensation	21	6
	$ 1,108	$ 533

20. Contingencies, Provisions, Commitments and Guarantees

a) Contingencies

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members. Insurance premiums charged to each member consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Current liability coverage is provided to a level of $24,000 per occurrence. The Corporation has also obtained additional general liability insurance of $10,000 per occurrence through Mearie Insurance Services Inc.

The Corporation has been jointly named as a defendant in several actions. No provision has been made for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

(i) The Corporation is party to a connection and cost recovery agreement with Hydro One Networks Inc. ("Hydro One") as regulated by the OEB under the Transmission System Code. Under this agreement, Hydro One is required to build a transmission station for the Corporation in order to accommodate anticipated electricity load growth. In return, the Corporation is required to provide a capital contribution to cover a portion of the cost of the connection facility. The capital contribution is determined using the economic evaluation methodology as prescribed by the OEB and represents the difference between the total capital cost of constructing and operating the transmission facility and the projection of revenue earned on the conveyance of electricity through such facility. Periodic true-up calculations are carried at the end of each of the fifth, tenth and possibly the fifteenth year of operation of the facility. Based on a preliminary review of the CCRA for the Churchill Meadows transmission facility constructed in 2010, a revenue shortfall to Hydro One may exist.

(In thousands of Canadian dollars)

20. Contingencies, Provisions, Commitments and Guarantees (continued)

The Corporation expects to be presented with a request for settlement in 2015 when the first periodic true-up is scheduled. At this time, the Corporation cannot reliably estimate the amount due to the uncertainty of future events impacting the settlement not wholly within its control; therefore no obligation amount has been recorded in these financial statements. Any amount recorded in the future relating to this true-up will result in the recognition of a corresponding intangible asset.

b) Environmental provision

The Corporation is subject to Canadian federal, provincial and municipal environmental regulations. As part of the Corporation's risk mitigation strategy, environmental assessments and environmental remediation are underway at various sites. The Corporation records a liability for the estimated future expenditures associated with testing and remediation of contaminated lands at various municipal substations and neighbouring properties. Actual environmental expenditures may vary from these estimates. These estimates are reviewed at the end of each reporting period and adjusted to reflect the current best estimate at that point of time. As at December 31, 2014, the Corporation provided $2,867 (December 31, 2013 - $2,825) for testing and future site remediation. Based on the latest estimates and the remediation work plan, $1,267 of the total provision is expected to be settled after twelve months after the reporting date.

	December 31, 2014	December 31, 2013
Environmental provision, beginning of year	$ 2,825	$ 370
Addition	1,000	2,731
Utilized in the year	(783)	(276)
Unwind of discount	(175)	-
Environmental provision, end of year	$ 2,867	$ 2,825
Environmental provision, current	$ 1,600	$ 2,825
Environmental provision, non-current	1,267	-
Environmental provision, end of year	$ 2,867	$ 2,825

c) Commitments

(i) The Corporation has entered into a commercial lease arrangement on a premise which is recognized and reported as part of other costs in the statement of comprehensive income. For the year ended December 31, 2014, the Corporation recognized minimum lease payments of $151 (December 31, 2013 - $145) in the statement of comprehensive income. The lease has a life of one year with yearly renewal options. There are no restrictions placed upon the Corporation by entering into this lease. As at December 31, 2014, the Corporation’s committed future minimum annual lease payments under operating leases were $143 for 2015. The future minimum lease commitments would change depending on the decision to renew the agreement.

20. Contingencies, Provisions, Commitments and Guarantees (continued)

(ii) The Corporation has numerous cancellable operating leases which are predominantly in the form of encroachment permits required to place distribution infrastructure assets on a rights-of-way or private property. The lease terms are between one and twenty years, and the amounts of these leases are immaterial and have been included in other costs in the statement of comprehensive income.

d) Guarantees

In the normal course of operations, the Corporation executes agreements that provide for indemnification to third parties in transactions such as service agreements, leases and purchases of goods. Under these agreements, the Corporation agrees to indemnify the counterparty against loss or liability arising from the acts or omissions of the Corporation in relation to the agreement.

21. Risk Management and Financial Instruments

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

Level 1 – inputs are unadjusted quoted prices for identical instruments in active markets,

Level 2 – inputs other than quoted market prices included within Level 1 that are observable for the instrument, either directly or indirectly, and

Level 3 – inputs that are not based on observable market data.

The Corporation’s debentures have a principal amount of $320,000 as at December 31, 2014 (December 31, 2013 - $320,000) and have a fair value of $382,629 (December 31, 2013 - $350,758). The fair value has been calculated using level 3 inputs. The valuation techniques used took into consideration accrued interest, Government of Canada benchmark yields and statistical data.

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

(a) Market Risk

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Corporation does not have commodity risk due to the flow through nature of energy purchases and costs and its foreign exchange risk is not considered material since the Corporation's exposure is limited to U.S. dollar cash and cash equivalents holdings of $138 as at December 31, 2014 (December 31, 2013 - $99).

22. Risk Management and Financial Instruments (continued)

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference between actual interest income earned by the Corporation and the interest revenue reduction approved by the OEB may have a negative impact on the results of operations.

The Corporation minimizes interest rate risk by issuing long-term fixed rate debt.

(b) Credit Risk

Financial assets create credit risk that counterparties will fail to discharge an obligation, causing a financial loss.

The Corporation manages counterparties credit risk through various techniques including, limiting total exposure levels with individual counterparties consistent with the Corporation's policies, and monitoring the financial condition of counterparties. Short-term investments held as at December 31, 2014, met the credit exposure limits specified under the Corporation's Investment Policy.

The Corporation's distribution revenue is earned on a broad base of customers principally located in Mississauga. As a result, the Corporation did not earn a significant amount of revenue from any individual customer. As at December 31, 2014, there were no significant balances of accounts receivable due from any single customer.

Management believes that the credit risk of accounts receivable is not significant due to the following reasons:

(i) There is a broad base of customers with no single customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance in either year.

(ii) The Corporation, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or letter of credit from customers to mitigate risk of payment default.

(iii) The percentage of accounts receivable that is past due for more than 75 days is approximately 2.7% (2013 – 3.3%) of the total gross accounts receivable (See note 6).

(iv) The Corporation included an amount for accounts receivable write-offs within operating expense for rate setting purposes.

(c) Liquidity Risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, as well as an established banking line of credit, if required. Short-term liquidity is expected to be sufficient to fund normal operating requirements.

(In thousands of Canadian dollars)

22. Risk Management and Financial Instruments (continued)

The Corporation has contractual obligations in the normal course of business; future minimum undiscounted contractual maturities are as follows:

Financial Liabilities	Due within 1 year	Due between 1 and 5 years	Due past 5 years
Bank Overdraft	$ 7,956	$ -	$ -
Accounts payable and accrued liabilities	103,368	-	-
Debentures payable (interest and principal)	16,097	80,484	558,571
Total	$ 127,421	$ 80,484	$ 558,571

The Corporation has an unsecured credit facility with a Canadian chartered bank. The credit facility agreement provides a $50,000 revolving demand facility bearing an interest rate of the bank's prime rate.

As at December 31, 2014, the Corporation utilized the credit facility by drawing $7,956 of the $50,000 available.

23. Regulatory assets and liabilities

IFRS 14 Regulatory Deferral Accounts was issued by the IASB on January 30, 2014 and permits first time adopters of IFRS to use previous Generally Accepted Accounting Principles to account for regulatory deferral account balances. As the Corporation is not a first time adopter, the Corporation does not recognize assets and liabilities arising from rate regulated activities.

Total regulatory balances that have been derecognized under IFRS that will be recovered or refunded through future distribution rates are as follows:

	December 31, 2013	2014 activity	December 31, 2014
Regulatory assets	$ (3,377)	$ 7,913	$ 4,536
Regulatory liabilities	(20,179)	20,179	-
Net regulatory assets (liabilities)*	$ (23,556)	$ 28,092	$ 4,536

**Income tax recovery on other comprehensive loss of $158 has been excluded from net regulatory assets as at December 31, 2014.*

Financial information that adjusts IFRS results to show the effect of rate regulation is used by the Corporation's Board of Directors, as well as members of key Management having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. This group is determined to be the Chief Operating Decision Maker ("CODM") and it assesses operating performance principally on the basis of earnings adjusted for regulatory items as shown below.

(In thousands of Canadian dollars)

23. Regulatory assets and liabilities (continued)

2014	Enersource Hydro Regulated	Regulatory Adjustments	Enersource Hydro IFRS
Energy sales	$ 786,505	$ -	$ 786,505
Distribution revenue	123,629	(11,954)	111,675
Other revenue	19,270	-	19,270
	929,404	(11,954)	917,450
Energy purchases	(786,505)	(15,290)	(801,795)
Operating expenses	(66,560)	(22)	(66,582)
Depreciation and amortization	(29,246)	(183)	(29,429)
Interest income	751	(263)	488
Interest expense	(16,664)	218	(16,446)
Profit (loss) before income tax expense	31,180	(27,494)	3,686
Income tax expense (recovery)	5,115	(4,164)	951
Other comprehensive loss, net of tax	-	(440)	(440)
Comprehensive income (loss) for year ended December 31, 2014	$ 26,065	$ (23,770)	$ 2,295

2013	Enersource Hydro Regulated	Regulatory Adjustments	Enersource Hydro IFRS
Energy sales	$ 765,984	$ -	$ 765,984
Distribution revenue	121,726	2,284	124,010
Other revenue	19,031	-	19,031
	906,741	2,284	909,025
Energy purchases	(765,984)	(4,042)	(770,026)
Operating expenses	(68,590)	(170)	(68,760)
Depreciation and amortization	(28,299)	(354)	(28,653)
Interest income	1,111	(224)	887
Interest expense	(17,130)	905	(16,225)
Profit (loss) before income tax expense	27,849	(1,601)	26,248
Income tax expense	5,609	1,853	7,462
Other comprehensive income, net of tax	-	860	860
Comprehensive income (loss) for year ended December 31, 2013	$ 22,240	$ (2,594)	$ 19,646

23. Regulatory assets and liabilities (continued)

The most significant regulatory activities included in the regulatory adjustments are:

(i) Retail settlement variances are caused by the difference between the actual price of the electricity commodity throughput and the prices set by the OEB. Specifically, these amounts include variances between the amounts charged by Hydro One and the IESO for the operation of the electricity markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates. Under regulatory accounting, the Corporation would have adjusted energy purchases for these variances. Under IFRS, the Corporation recognizes these differences in future periods as an increase or decrease to distribution revenue.

(ii) The OEB approved deferral accounts to record transitional differences associated with the implementation of IFRS, any incremental costs needed to comply with Environment Canada's new regulations associated with Polychlorinated biphenyls, costs relating to stranded conventional meters, and unearned revenue and costs associated with the Corporation's smart metering program. On December 19, 2012 the OEB approved the recovery of these deferral accounts and the Corporation has recognized the related revenue.

(iii) The OEB approved a variance account to record lost revenues associated with the delivery of CDM programs between 2011 and 2014. The variance account tracks the difference between the results of actual, verified impacts of CDM activities and the level of CDM program activities included in the distributor's load forecast. The Corporation may recover or refund this revenue through future distribution rates.

(iv) The OEB requires the Corporation to track the difference between revenue and costs associated with providing retailers with customer settlement services as retail cost variance account deferrals. Under IFRS, the Corporation recognizes these differences as an increase or decrease to distribution revenue when incurred and will recover or refund these differences through future distribution rates.

(v) The difference in income taxes or PILs resulting from legislative or regulatory changes to tax rates or rules as compared to rate-setting is recorded in an OEB approved variance account in regulatory accounting. Under IFRS, the Corporation recognizes these differences as an increase or decrease to distribution revenue.

(vi) The OEB requires the Corporation to accrue interest on regulatory assets and liabilities balances. Under IFRS, the Corporation recognizes the net interest on these balances in future periods as an increase or decrease to distribution revenue once approved for recovery or refund by the OEB.

(vii) The OEB approved four deferral accounts to record qualifying incremental capital investments, OM&A expenses and funding adders approved by the OEB related to the connection of renewable generation or the development of smart grid. Under IFRS, the Corporation capitalizes or expenses these items as incurred and recognizes revenue in accordance with the Corporation's revenue recognition policy.

23. Regulatory assets and liabilities (continued)

(viii) The OEB approved a deferral account to record any re-measurements of the post-employment net defined liability including actuarial gains or losses. Under IFRS, the Corporation recognizes any re-measurements of the post-employment net defined liability in other comprehensive income.

To the extent that the OEB's future actions are different from the Corporation's expectations, the timing and amount of recovery or settlement of amounts included in the adjustment for regulatory activities could be significantly different from the amounts that are eventually recovered or settled through distribution rates in the future.

24. CDM

The Corporation recognized $14,563 (2013- $14,278) of Ontario Power Authority ("OPA") funding in other revenue for the year ended December 31, 2014. The Corporation recognized $14,546 (2013- $14,274) of OPA costs under operating expenses for the year ended December 31, 2014. The Corporation currently has no unfilled obligations relating to the government grants received by the OPA.

ATTACHMENT 15
HORIZON HOLDINGS 2014 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Horizon Holdings Inc.

Auditors' Report to the Shareholders and Consolidated Financial Statements

Year Ended December 31, 2014 and December 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Horizon Holdings Inc.

We have audited the accompanying consolidated financial statements of Horizon Holdings Inc., which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained in our 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 consolidated financial position of Horizon Holdings Inc. as at December 31, 2014 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

February 26, 2015

Horizon Holdings Inc.
Table of Contents to Consolidated Financial Statements

As at and for the year ended December 31, 2014

Horizon Holdings Inc.
Consolidated Statement of Financial Position

As at December 31, 2014

(stated in thousands of Canadian dollars)

	Note	2014	2013
Assets			
Current assets			
Cash and cash equivalents	4	1,095	24,249
Accounts receivable		98,474	96,899
Accounts receivable from corporations under common control		149	110
Inventory	5	7,355	6,261
Other assets		3,202	6,105
		110,275	133,624
Non-current assets			
Property, plant and equipment	6	418,964	400,397
Deferred payments in lieu of income taxes	9	18,034	13,890
Goodwill	8	18,923	18,923
Intangible assets	7	17,675	15,367
		473,596	448,577
Total assets		583,871	582,201
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		71,238	64,974
Accounts payable to corporations under common control	20	13,538	12,004
Current portion of long term borrowings	11	294	255
Credit support for service delivery	10	18,145	20,967
Reimbursements from Ontario Power Authority	22	2,037	3,672
		105,252	101,872
Non-current liabilities			
Long term borrowings	11	189,093	189,252
Obligations under capital cost recovery agreements	12	10,000	10,000
Employee future benefits	13	29,430	22,550
Deferred revenue		25,401	19,920
		253,924	241,722
Total liabilities		359,176	343,594
Shareholders' equity			
Share capital	15	123,594	123,594
Contributed surplus		15,218	15,218
Accumulated other comprehensive loss		(6,712)	(2,030)
Retained earnings		92,595	101,825
Total shareholders' equity		224,695	238,607
Total liabilities and shareholders' equity		583,871	582,201

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

On behalf of the Board:

Director

Director

Horizon Holdings Inc.
Consolidated Statement of Income and Comprehensive Income

For the year ended December 31, 2014

(stated in thousands of Canadian dollars)

	Note	2014	2013
Sale of energy		519,225	491,204
Distribution revenue	16	97,381	102,269
Other income from operations	17	14,215	12,824
Total revenues		630,821	606,297
Expenses:			
Cost of power purchased		528,328	492,006
Operating expenses		66,605	61,534
Depreciation and amortization		21,257	20,231
		616,190	573,771
Income from operating activities		14,631	32,526
Loss on sale and disposal of plant, property and equipment		(1,498)	(1,707)
Finance income	18	165	428
Finance charges	18	(7,161)	(7,020)
Income before payments in lieu of income taxes		6,137	24,227
Provision for payments in lieu of income taxes	9	1,877	6,548
Net income		4,260	17,679
Items that will not be reclassified to net income, net of tax			
Remeasurements of the future employee net benefit liability		(4,682)	1,297
Other comprehensive (loss) income		(4,682)	1,297
Total comprehensive (loss) income, net of tax		(422)	18,976

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

Horizon Holdings Inc.
Consolidated Statement of Changes in Equity

For the year ended December 31, 2014

(stated in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive (loss) income	Total
Balance at January 1, 2014	123,594	15,218	101,825	(2,030)	238,607
Net income	—	—	4,260	—	4,260
Other comprehensive (loss)	—	—	—	(4,682)	(4,682)
Dividends	—	—	(13,490)	—	(13,490)
Balance at December 31, 2014	123,594	15,218	92,595	(6,712)	224,695
Balance at January 1, 2013	123,594	15,218	97,807	(3,327)	233,292
Net income	—	—	17,679	—	17,679
Other comprehensive income	—	—	—	1,297	1,297
Dividends	—	—	(13,661)	—	(13,661)
Balance at December 31, 2013	123,594	15,218	101,825	(2,030)	238,607

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

Horizon Holdings Inc.
Consolidated Statement of Cash Flows

For the year ended December 31, 2014

(stated in thousands of Canadian dollars)

	Note	2014	2013
OPERATING ACTIVITIES			
Net income		4,260	17,679
Adjustments to reconcile net income to cash provided by (used in) operations:			
Depreciation and amortization	6,7	21,257	20,231
Loss on sale and disposal of plant, property and equipment		1,498	1,707
Provision for payments in lieu of income taxes	9	4,334	4,686
Deferred payments in lieu of income taxes	9	(2,457)	1,862
Amortization of deferred revenue		(631)	(428)
Finance income		(165)	(428)
Finance charges		7,161	7,020
Change in employee future benefits		510	(13)
Change in other assets and liabilities	19	5,081	2,975
		40,848	55,291
Finance charges paid		(7,008)	(6,941)
Finance changes received		446	442
Payments in lieu of income taxes paid		(1,683)	(6,512)
Cash from operating activities		32,603	42,280
INVESTING ACTIVITIES			
Acquisitions of property, plant, equipment and intangible assets		(43,846)	(49,315)
Proceeds from sale of plant, property and equipment		216	519
Cash used in investing activities		(43,630)	(48,796)
FINANCING ACTIVITIES			
Reductions of credit support for service delivery		(2,822)	(1,297)
Reductions of reimbursements from Ontario Power Authority		(1,635)	(704)
Contributions received from customers		6,112	6,606
Finance lease payments		(292)	(278)
Dividends paid		(13,490)	(13,661)
Cash used in financing activities		(12,127)	(9,334)
Decrease in cash and cash equivalents		(23,154)	(15,850)
Cash and cash equivalents, beginning of year		24,249	40,099
Cash and cash equivalents, end of year		1,095	24,249

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

1. REPORTING ENTITY

On October 18, 2005, Horizon Holdings Inc. (the "Corporation") was incorporated under the Business Corporations Act (Ontario). The Corporation is an investment holding company with a 100% ownership interest in Horizon Utilities Corporation ("Horizon Utilities"), Horizon Energy Solutions Inc. ("Horizon Energy"), and Horizon Solar Corp. ("Horizon Solar"). The Corporation also indirectly owns a 100% ownership interest in Solar Sunbelt General Partnership ("Solar Sunbelt GP"), which is held through Horizon Utilities 99.9975% and Horizon Solar 0.0025%. The address of the Corporation's registered office is 55 John Street North, Hamilton, Ontario, Canada.

Horizon Utilities is one of Ontario's largest municipally owned electricity distribution companies, delivering electricity and related utility services to more than 242,000 residential and commercial customers in Hamilton and St. Catharines.

Horizon Energy was incorporated to provide non-regulated energy services; the scope of which presently comprises sales and marketing services, meter services, streetlight maintenance, and conservation and demand management services.

Horizon Solar Corp. is an investment holding company.

Solar Sunbelt GP is a partnership established to undertake a solar generation business.

The Corporation is 78.9% owned by Hamilton Utilities Corporation ("HUC") and 21.1% owned by St. Catharines Hydro Inc. ("SCHI").

2. BASIS OF PREPARATION

a. Statement of Compliance

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

b. Approval of the financial statements

The financial statements were approved by the Board of Directors on February 26, 2015.

c. Basis of measurement

The financial statements have been prepared on the historical cost basis, unless otherwise stated.

d. Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

2. BASIS OF PREPARATION (Continued)

e. Use of estimates and judgements

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

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

In particular, information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

(i) Note 6 - Property, plant and equipment: estimation of useful lives

(ii) Note 7 - Intangible assets: estimation of useful lives

(iii) Note 8 - Goodwill: key assumptions underlying recoverable amount for goodwill impairment testing

(iv) Note 13 - Employee future benefits: key actuarial assumptions

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

(i) Note 3 - Revenue: whether the Corporation is a principal or agent for sale of energy

(ii) Note 11 - Long term borrowings: lease classification

(iii) Note 22 - Commitments and Contingencies: whether a contingency is a liability

f. Regulation

The Corporation is regulated by the Ontario Energy Board (“OEB”). In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that differ from IFRS. The OEB’s regulatory accounting treatments require the recognition of regulatory assets and liabilities which do not meet the definition of an asset or liability under IFRS and as a result these regulatory assets and liabilities have not been recorded in these IFRS financial statements.

The Ontario Energy Board Act, 1998 (Ontario) (“OEBA”) conferred on the OEB powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include: approving or fixing rates for the transmission and distribution of electricity; providing continued rate protection for rural and remote residential electricity consumers; and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies (“LDCs”), such as the Corporation, which may include, among other things: record keeping; regulatory accounting principles; separation of accounts for distinct business; and filing and process requirements for rate setting purposes.

2. BASIS OF PREPARATION (Continued)

f. Regulation (Continued)

Rate setting

The electricity distribution rates and other regulated charges of the Corporation are determined in a manner that provides shareholders with opportunity to earn a regulated Maximum Allowable Return on Equity ('MARE") on the amount of shareholder's equity supporting the business of electricity distribution, which is also determined by regulation.

Rate Applications

The OEB regulates the electricity distribution rates charged by LDCs, such as Horizon Utilities through periodic rate applications to the OEB and its ongoing monitoring and reporting requirements. At present, LDCs may apply to the OEB for electricity distribution rates under options specified in its Report of the Board - A Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach ("RRFE"). The three rate-setting methods available to LDCs under the RRFE are: 4th Generation Incentive Rate-setting ("4GIRM"); Custom Incentive Rate-setting; or Annual Incentive Rate-setting Index.

On August 15, 2013, Horizon Utilities applied to the OEB for an IRM adjustment to rates effective January 1, 2014. Annual IRM adjustments to LDC rates are principally formulaic in nature and, under the former 3rd Generation Incentive Rate-setting mechanism of the OEB ("3GIRM"), were based on an inflationary factor determined with reference to the annual change in the Gross Domestic Product Inflationary Price Index for Final Domestic Demand ("GDP IPI-FDD") net of a productivity factor and a "Stretch Factor" determined by the relative efficiency of an LDC.

On November 21, 2013, the OEB issued its Report of the Board on Rate Setting Parameters and Benchmarking under the RRFE support of incentive rate setting in Ontario effective for 2014. Annual IRM adjustments under 4GIRM are comprised of an inflationary factor net of a productivity and stretch factor. The inflationary factor under 4GIRM is computed as 70% of a non-labour sub-index comprised of the GDP IPI-FDD and a labour sub-index of 30% of the average weekly earnings for workers in Ontario.

On December 5, 2013, the OEB approved an electricity distribution rate adjustment for the Corporation of 1.55%, effective January 1, 2014 to December 31, 2014. The OEB also approved the disposition of an aggregate net regulatory liabilities balance to customers of $10,400 over a one year period.

On April 16, 2014, Horizon Utilities submitted its 2015 Custom IR application to the OEB to adjust the electricity distribution rates charged to customers in each of the years 2015 to 2019 inclusive. As part of the application, Horizon Utilities submitted a Distribution System Plan providing for the modernization, expansion and maintenance of the distribution system.

2. BASIS OF PREPARATION (Continued)

f. Regulation (Continued)

Rate setting (Continued)

On December 11, 2014, the OEB issued its Decision and Order on this application. Based on the Decision and Order, the resulting change to the distribution portion of the bill for a typical residential customer consuming 800 kWh per month will be, approximately: 5.40% increase in 2015; 3.73% increase in 2016; 0.79% increase in 2017; (0.03%) decrease in 2018; and 2.35% increase in 2019. Management expects that the resulting increases to its revenues resulting from this Decision and Order will support sustainable investment and maintenance of the distribution system through the effective period of this application from 2015 to 2019.

Select Energy Policies and Regulation Affecting the Corporation

New 2015-2020 Conservation and Demand Management Framework

On March 26, 2014, the Minister of Energy issued a Directive to the OEB to amend the licences of electricity distributors with new requirements to: deliver Conservation and Demand Management ("CDM") programs available to customers that are designed to achieve energy reductions; meet CDM requirements through either OPA programs, LDC programs, or a combination of the two; and make the results of local programs available to other distributors on request. The coordination and integration of CDM and Demand Side Management ("DSM") activities is intended to achieve energy efficiencies and deliver convenient integrated programs for electricity and natural gas customers. The OEB issued the amendments to the licenses on December 18, 2014.

On March 31, 2014, the Minister of Energy issued a Directive to the OPA to coordinate, support and fund the delivery of CDM programs through electricity distributors to achieve a total of 7 Terawatt Hours ("TWh") of reductions in electricity consumption between January 1, 2015 and December 31, 2020. The OPA will allocate the 7 TWh of reductions in electricity consumption among distributors.

On October 23, 2014, the Minister of Energy issued an amended Directive to the OPA, providing further direction regarding performance incentives for distributors based on efficiency and effectiveness measures corresponding to their delivery of the CDM programs.

Prior 2011 to 2014 Conservation and Demand Management Framework

On November 12, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Corporation's CDM targets included a demand reduction target of 60.36 megawatts ("MW"), and a consumption reduction target of 281.42 gigawatt-hours ("GWh").

On December 17, 2014 the OEB issued a letter which clearly specifies that the OEB will not take compliance actions against (i) distributors who do not reach 100% of their energy targets if they reach at least 80% of the energy targets, or (ii) distributors who do not meet their peak demand targets for the previous CDM framework in effect from January 1, 2011 to December 31, 2014. Horizon Utilities expects to reach over 98% of its energy target and over 81% of its peak demand target.

Ontario Premier's Advisory Council on Government Assets

On November 13, 2014, the Ontario Premier's Advisory Council on Government Assets ("the Council") released Retain & Gain: Making Ontario's Assets Work Better for Taxpayers and Consumers, an initial report on key provincial assets, including the Liquor Control Board of Ontario, Hydro One Networks Inc. ("HONI"), and Ontario Power Generation. This report provides initial recommendations on ways to improve customer service and increase efficiencies at these government business enterprises, in order to maximize their value and generate better returns for the people of Ontario.

2. BASIS OF PREPARATION (Continued)

f. Regulation (Continued)

Select Energy Policies and Regulation Affecting the Corporation (Continued)

One of the key recommendations in this report was to use Hydro One Brampton Networks Inc. and the distribution business of HONI as catalysts for consolidation of the distribution sector. The Council will consider the various barriers and disincentives to the consolidation of the distribution sector and make further recommendations to remove those barriers in its final report in the spring of 2015.

Other Matters

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders, may affect future electricity distribution rates and other permitted regulatory recoveries of the Corporation.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of consolidation

These consolidated financial statements include the accounts of the Corporation and its 100% wholly owned subsidiaries.

Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it has power over, exposure or rights to investee variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. The financial statements of the subsidiaries are included in these consolidated financial statements from the date on which control commences until the date on which control ceases.

The principal operating companies are as follows:

Horizon Utilities

Horizon Energy

Horizon Solar

Solar Sunbelt GP

When the Corporation ceases to have control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any other components of equity. Any resulting gain or loss is recognized in income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Financial instruments

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities.

These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(g).

The Corporation does not enter into derivative instruments. Hedge accounting has not been used in the preparation of these financial statements.

c. Inventory

Inventory, comprising material and supplies, the majority of which is consumed by the Corporation in the provision of its services, is measured at the lower of cost and net realizable value. The cost of inventory is determined on a weighted average basis and includes expenditures incurred in acquiring the material and supplies and other costs incurred in bringing them to their existing location and condition.

d. Property, plant and equipment

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

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

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

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

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

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

Depreciation is recognized in net income on a straight-line basis over the estimated useful life of each part or component of an item of PP&E.

Land is not depreciated.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Property, plant and equipment (Continued)

Construction-work-in-progress assets are not amortized until the project is complete and available for use. The estimated useful lives for the current and comparative years are as follows:

Buildings	30 - 40 years
Distribution system equipment	15 - 70 years
Other PP&E	3 - 15 years
Leasehold improvements	Over lease term

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term.

Other PP&E includes vehicles, office, and computer equipment.

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

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

e. Intangible assets

Intangible assets include computer software and capital contributions paid under capital cost recovery agreements.

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

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

Computer software	2 - 5 years
Capital contributions under capital cost recovery agreements	16 - 25 years

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

f. Goodwill

Goodwill arising on the acquisition of subsidiaries or on amalgamation is measured at cost and is not amortized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Impairment

i. Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in net income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in net income.

ii. Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than inventory and deferred payments in lieu of income taxes assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, then the recoverable amount of the asset is estimated. The recoverable amount of goodwill is estimated as at December 31.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use and, further, that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash- generating units that are expected to benefit from the synergies of the combination.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

i. Employee future benefits

i. Pension plan

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (“the Fund”) and provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan as a defined benefit plan. Consequently, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income when they are due.

ii. Other than pension

The Corporation provides its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans. These benefits are provided through a group defined benefit plan. The Corporation is the legal sponsor of the Plan. There is a policy in place to allocate the net defined benefit cost to the entities participating in the group plan. The allocation is based on the obligation attributable to the plan participants. The Corporation has reflected its share of the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements.

The Corporation’s net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs are deducted. The discount rate is the yield at the reporting date on the interest rate on high quality debt instruments with duration similar to the duration of the plan.

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligation and the current service costs are actuarially determined by applying the projected unit credit method and incorporate management’s best estimate of certain underlying assumptions. Re-measurements arising from defined benefit plans are recognized immediately in other comprehensive income and reported in retained earnings. When the benefits of a plan are improved, these increases are recognized immediately in net income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Credit support for service delivery

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

Deposits from electricity distribution customers are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid account balances are refundable to individual customers upon termination of their electricity distribution service. Customer deposits are also refundable to residential electricity distribution customers demonstrating an acceptable level of credit risk, as determined by the Corporation.

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. Cash contributions are initially recorded as credit support for service delivery, a current liability. Once the distribution system asset is completed or modified as outlined in the terms of the contract, the contribution amount is transferred to deferred revenue.

k. Deferred revenue and assets transferred from customers

Assets received as capital contributions are initially recognized at fair value, with the corresponding value of capital contribution recognized as deferred revenue.

Deferred revenue represents the Corporation's obligation to continue to provide customers access to the supply of electricity, and is amortized to income on a straight-line basis, as a component of other income from operations, over the terms of the agreement with the customer or the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

l. Revenue

The Corporation is licensed by the OEB to distribute electricity. As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers. The Corporation has determined that it is acting as a principal for electricity distribution and therefore has presented the electricity revenues on a gross basis.

Revenue attributable to the delivery of electricity is based upon OEB-approved distribution tariff rates and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution charges, and any other regulatory charges. Revenue is recognized as electricity is delivered and consumed by customers. Electricity revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year. Revenue is measured at the fair value of the consideration received or receivable, net of sales tax.

Customer billings for Ontario debt retirement charges are recorded on a net basis as the Corporation is acting as an agent for this billing stream. The Corporation may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation (“OEFC”) once each year.

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

Water billing revenue is recorded net of the water revenue paid to the City of Hamilton and is recognized in the period the billing services are rendered.

All other revenues are recorded on a gross basis and are recognized when services are rendered.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. Leased assets

Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are classified as operating leases and the leased assets are not recognized on the Corporation's Statements of Financial Position. Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease.

n. Finance income and finance charges

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

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

o. Payments in lieu of income taxes

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

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

PILs comprises current and deferred payments in lieu of income tax. PILs is recognized in income and loss except to the extent that it relates to items recognized directly in either comprehensive income or in equity, in which case, it is recognized in either comprehensive income or in equity.

Current PILs is the expected amount of cash taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred PILs is recognized using the Statement of Financial Position method. Under this method, deferred PILS comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred PILs assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred PILs assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

A deferred PILs asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred PILs assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p. Set-off and reporting on a net basis

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

q. Adopted changes in accounting policies

The Corporation has adopted the following new and revised standards along with any consequential amendments effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

Financial Instruments - Asset and Liability Offsetting

The International Accounting Standards Board ("IASB") has issued an amendment to International Accounting Standards ("IAS") 32, *Financial Instruments: Presentation*, which provides further guidance on the requirements for offsetting financial instruments. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The Corporation determined that the adoption of this amendment had no impact on its results of operations, financial position, and disclosures.

r. New standards and interpretations not yet adopted

The Corporation is still evaluating the adoption of the following new and revised standards along with any subsequent amendments.

Revenue Recognition

In May 2014, IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”) was issued, which replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and various interpretations. IFRS 15 establishes principles regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The standard requires entities to recognize revenue for the transfer of goods or services to customers measured at the amounts an entity expects to be entitled to in exchange for those goods or services. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Corporation is assessing the impact of IFRS 15 on its results of operations, financial position, and disclosures.

Financial Instruments

In July 2014, the IASB issued a new standard, IFRS 9 *Financial Instruments*, which will replace IAS 39 Financial Instruments: Recognition and Measurement. The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is part of the first phase of this project. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. The Corporation is assessing the impact of IFRS 9 on its results of operations, financial position, and disclosures.

Property, Plant, and Equipment and Intangible Assets

In May 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* and IAS 38 *Intangible Assets,* which are effective for years beginning on or after January 1, 2016. The amendments clarify when revenue-based depreciation methods are permitted. The Corporation is assessing the impact of the amendments on its results of operations, financial position, and disclosures.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

r. New standards and interpretations not yet adopted (Continued)

Annual Improvements to IFRSs

The IASB published Annual Improvements to IFRSs. These are non-urgent amendments to IFRS standards and are effective for years beginning on or after July 1, 2014. The amendments correspond to IFRS 8 *Operating Segments*, IFRS 13 *Fair Value Measurement*, and IAS 24 *Related Party Disclosures*. The Corporation does not expect these amendments to have a significant impact on its financial reporting.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of overnight deposits in a Canadian chartered bank.

5. INVENTORY

During fiscal year 2014, an amount of $32 (2013 - $55) was recorded as an expense for the write-down of obsolete or damaged inventory to net realizable value.

The amount of inventory consumed by the Corporation and recognized as an expense during 2014 was $406 (2013 - $460).

(stated in thousands of Canadian dollars)

6. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Other distribution system equipment	Other PP&E	Construction work-in-progress	Total
Cost or deemed cost					
Balance at January 1, 2014	22,387	396,561	26,442	5,357	450,747
Additions	4,888	30,181	3,286	795	39,150
Disposals	—	(1,900)	(32)	—	(1,932)
Balance at December 31, 2014	27,275	424,842	29,696	6,152	487,965
Balance at January 1, 2013	16,089	365,390	23,417	4,060	408,956
Additions	6,400	33,641	3,025	1,297	44,363
Disposals	(102)	(2,470)	—	—	(2,572)
Balance at December 31, 2013	22,387	396,561	26,442	5,357	450,747
Accumulated amortization					
Balance at January 1, 2014	3,697	36,121	10,532	—	50,350
Additions	1,176	13,705	3,988	—	18,869
Disposals	—	(194)	(24)	—	(218)
Balance at December 31, 2014	4,873	49,632	14,496	—	69,001
Balance at January 1, 2013	2,458	23,662	6,788	—	32,908
Additions	1,251	12,793	3,744	—	17,788
Disposals	(12)	(334)	—	—	(346)
Balance at December 31, 2013	3,697	36,121	10,532	—	50,350
Carrying amounts					
December 31, 2014	22,402	375,210	15,200	6,152	418,964
December 31, 2013	18,690	360,440	15,910	5,357	400,397

During the year, borrowing costs of $111 (2013 - $74) were capitalized as part of the cost of property, plant and equipment. A capitalization rate of 3.42% (2013 - 3.42%) was used to determine the amount of borrowing costs to be capitalized.

The net carrying amount of leased equipment is $343 (2013 - $656).

(stated in thousands of Canadian dollars)

7. INTANGIBLE ASSETS

	Capital contributions under CCRA	Computer software	Total
Cost or deemed cost			
Balance at January 1, 2014	12,420	8,998	21,418
Other additions	—	4,696	4,696
Balance at December 31, 2014	12,420	13,694	26,114
Balance at January 1, 2013	10,000	6,466	16,466
Other additions	2,420	2,532	4,952
Balance at December 31, 2013	12,420	8,998	21,418
Accumulated amortization			
Balance at January 1, 2014	733	5,318	6,051
Other additions	722	1,666	2,388
Balance at December 31, 2014	1,455	6,984	8,439
Balance at January 1, 2013	—	3,608	3,608
Other additions	733	1,710	2,443
Balance at December 31, 2013	733	5,318	6,051
Carrying amounts			
December 31, 2014	10,965	6,710	17,675
December 31, 2013	11,687	3,680	15,367

8. GOODWILL

Management has determined that the Corporation's rate-regulated operations are one cash-generating unit. As the goodwill corresponds to the rate-regulated operations, the goodwill was allocated to that cash-generating unit. The Corporation performed an impairment test as at December 31, 2014 based on an estimate of the Corporation's fair value less selling costs. Fair value selling costs was determined using a multiple of regulated rate base approach and was based on the following key assumptions:

- The multiple of rate base approach is a valuation technique used in the industry for purchase and sale transactions. A multiple is applied to the rate base of regulated assets to determine the value of the utility;
- The multiple of rate base is a key assumption in the determination of fair value less selling costs. Management utilized a range of multiples in the analysis to determine the recoverable amount of goodwill;
- The multiple of rate base used ranged from 1.35 to 1.45;
- Management obtained information regarding multiples used for recent purchase and sale transactions within the industry;
- The fair value estimate is categorized as a Level 2 input.

The recoverable amount of goodwill determined in the analysis was greater than the carrying value and no impairment was recorded.

(stated in thousands of Canadian dollars)

9. PAYMENTS IN LIEU OF INCOME TAXES

The provision for payments in lieu of income taxes recognized in income is as follows:

	2014	2013
Current PILs:		
Current year	4,334	4,686
Deferred PILs		
Origination and reversal of temporary differences	(2,457)	1,862
Provision for payments in lieu of income taxes	1,877	6,548

Reconciliation of effective tax rate

PILs varies from amounts which would be computed by applying the Corporation's combined statutory income tax rate as follows:

	2014	2013
Basic rate applied to income before payments in lieu of income tax	26.5%	26.5%
Increase in PILs resulting from:		
Items not deductible for tax purposes and other	4.1%	0.5%
Effective rate applied to income before payments in lieu of income tax	30.6%	27.0%

Deferred payments in lieu of income taxes balances

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

	2014	2013
Deferred PILs assets:		
Property, plant and equipment and intangibles	3,740	6,696
Non-capital loss carry forwards	88	—
Employee benefits	8,989	7,129
Obligations under capital cost recovery agreement	2,650	2,650
Regulatory assets	2,771	—
Deferred PILs liabilities:		
Bond issuance costs	(204)	—
Regulatory liabilities	—	(2,585)
Net deferred PILs assets	18,034	13,890

(stated in thousands of Canadian dollars)

10. CREDIT SUPPORT FOR SERVICE DELIVERY

Credit support for service delivery represents cash deposits from electricity distribution customers and retailers, as well as construction deposits. These customer deposits bear interest at Canada's Prime Business rate less 2%, which is 1% per annum as of December 31, 2014.

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

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

	2014	**2013**
Customer deposits	11,698	13,376
Construction deposits	6,447	7,591
Total credit support for service delivery	18,145	20,967

11. LONG TERM BORROWINGS

Long term borrowings comprise debentures and finance lease liability.

	2014	**2013**
Senior unsecured debentures bearing interest at 4.77% and due July 21, 2020	40,000	40,000
Senior unsecured debentures bearing interest at 3.033% and due July 25, 2022	150,000	150,000
Finance lease liability	294	546
Transaction costs	(1,324)	(1,324)
Net long term borrowing	188,970	189,222
Accreted interest	417	285
Total long term borrowings	189,387	189,507
Current	294	255
Non-current	189,093	189,252

(stated in thousands of Canadian dollars)

11. LONG TERM BORROWINGS (Continued)

Long-term borrowings comprise two senior unsecured debentures:

i. $40,000 bearing interest at 4.77% per annum which is payable semi-annually on January 21 and July 21. This debenture is unsecured and matures on July 21, 2020.

ii. $150,000 bearing interest at 3.033% per annum which is payable semi-annually on January 25 and July 25. This debenture is unsecured and matures on July 25, 2022.

The Corporation paid interest in respect of the unsecured debentures of $6,458 (2013 - $6,458).

Finance lease liability is payable as follows:

	Future minimum payments	Interest	Present value of minimum payments
Less than one year	295	1	294
Total	295	1	294

12. OBLIGATION UNDER CAPITAL COST RECOVERY AGREEMENTS

The Corporation is party to connection and cost recovery agreements (“CCRA(s)”) with (“HONI”). Such agreements provide for the construction by HONI of transformer stations (“TS(s)”) to the distribution system for the purpose of serving the Corporation’s customers, including anticipated electricity load growth.

Under the CCRAs, the Corporation is required to provide HONI with an initial capital contribution (“Initial Capital Contribution”) based on the difference (the “Difference”) between the total capital cost of constructing the TS and a projection of transformation revenue (“HONI Revenue”) earned on the conveyance of electricity through such TS. The Difference represents a debt obligation of the Corporation based on the extent that historical actual and forecast HONI Revenue through the CCRA term is less than the amount of HONI revenue projected as a basis for the determination of the Initial Capital Contribution. Conversely, the Corporation is entitled to a rebate of the Initial Capital Contribution based on the extent that historical actual and forecast HONI Revenue through the CCRA term is greater than the amount of HONI revenue projected as a basis for the determination of the Initial Capital Contribution.

Based on a review of two CCRAs with HONI for TS facilities constructed in 2003, the Corporation estimates a shortfall to HONI for TS Revenue relative to that projected as bases for the determination of respective Initial Capital Contributions. As a result of such a shortfall and based on the terms of the CCRAs, the Corporation has recorded Obligations Under Capital Cost Recovery Agreements and a corresponding intangible asset of $10,000 as at December 31, 2012.

The Corporation expects to be presented with a request for settlement from HONI in 2015; with the final amount of such and related payment terms to be arranged at that time, as may be negotiated between HONI and the Corporation.

In general terms, investments in regulated electricity distribution assets are recoverable from ratepayers in future rate applications based on the rate-making policies of the OEB.

13. EMPLOYEE FUTURE BENEFITS

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. These benefits are provided through a group defined benefit plan. There is a policy in place to allocate the net defined benefit cost to the entities participating in the group plan. The allocation is based on the obligation attributable to the plan participants. The Corporation has reported its share of the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements. The accrued benefit liability and the expense for the year ended December 31, 2014 and December 31, 2013 were based on results and assumptions determined by actuarial valuation as at December 31, 2014 and December 31, 2011, respectively.

(stated in thousands of Canadian dollars)

13. EMPLOYEE FUTURE BENEFITS (Continued)

Information about the group unfunded defined benefit plan as a whole and changes in the present value of the unfunded defined benefit obligation and the accrued benefit liability are as follows:

Entire Plan

	2014	2013
Defined benefit obligation, beginning of year	22,622	23,945
Current service costs	1,626	1,534
Benefits paid during the year	(1,125)	(1,085)
Actuarial losses (gains) recognized in other comprehensive income (loss)	6,505	(1,772)
Defined benefit obligation, end of year	29,628	22,622

Corporation

	2014	2013
Defined benefit obligation, beginning of year	22,550	23,859
Current service costs	1,622	1,531
Benefits paid during the year	(1,111)	(1,076)
Actuarial losses (gains) recognized in other comprehensive income (loss)	6,369	(1,764)
Defined benefit obligation, end of year	29,430	22,550

The main actuarial assumptions underlying the valuation are as follows:

a. General inflation

The health care cost trend for prescription drugs is estimated to increase at a declining rate from 7% to 4% over four years. Other medical and dental expenses are assumed to increase at 4% per year.

The approximate effect on the accrued benefit obligation ("ABO") and the estimated net benefit expense if the health care trend rate assumption was increased or decreased by 1% is as follows:

	Period benefit cost	ABO
1% increase in health care trend rate	316	4,765
1% decrease in health care trend rate	(245)	(3,758)

b. Interest (discount) rate

The obligation at the period end and the present value of future liabilities were determined using a discount rate of 4.00% (2013 - 4.85%) representing an estimate of the yield on high quality corporate bonds as at the valuation date.

c. Salary levels

Future general salary and wage levels were assumed to increase at 2.5% (2013 - 3.0%) per year.

(stated in thousands of Canadian dollars)

14. PENSION PLAN

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined benefit pension plan with equal contributions by the employer and its employees. In 2014, the Corporation made employer contributions of $3,821 to OMERS (2013 - $3,736). The Corporation's net benefit expense has been allocated as follows:

i. $707 (2013 - $750) capitalized as part of PP&E; and

ii. $3,114 (2013 - $2,986) charged to net income.

The Corporation estimates a contribution of $4,109 to OMERS during the next fiscal year.

15. SHARE CAPITAL

	2014	2013
Authorized:		
Unlimited Class A Common shares		
Unlimited Class 1 Common shares		
Issued:		
7,890 Class 1 Common shares	91,134	91,134
2,110 Class A Common shares	32,460	32,460
	123,594	123,594

Dividends

The holders of the common shares are entitled to receive dividends as declared from time to time.The Corporation paid aggregate dividends in the year on common shares of $1.3490 per share (2013 - $1.3661), which amounts to total dividends paid in the year of $13,490 (2013 - $13,661).

16. DISTRIBUTION REVENUE

	2014	2013
Gross Customer billings	616,606	593,473
Less: pass through charges billed by the Corporation		
Electricity charges paid through to generators	(429,171)	(400,504)
Transmission and miscellaneous charges	(62,030)	(61,900)
Market service charges	(28,024)	(28,800)
	97,381	102,269

(stated in thousands of Canadian dollars)

17. OTHER INCOME FROM OPERATIONS

	2014	2013
Water and waste water billing and customer charges	4,733	4,454
Pole and other rental income	1,412	1,861
Collection and other service charges	1,305	1,450
CDM revenue and performance incentives	1,970	1,383
Solar PV revenue	1,352	967
Late payment charges	901	842
Miscellaneous	994	750
Meter services	727	606
Scrap sales	626	368
Management and other support services	195	143
Other income from operations	14,215	12,824

18. FINANCE INCOME AND CHARGES

	2014	2013
Interest income on bank deposits	165	428
Finance income	165	428
Interest expense on promissory notes	(7,075)	(6,900)
Interest expense	(86)	(120)
Finance charges	(7,161)	(7,020)
Net finance charges recognized in net income	(6,996)	(6,592)

19. CASH FLOW INFORMATION

The net change in other assets and liabilities comprises:

	2014	2013
Accounts receivable	(1,575)	(3,134)
Accounts receivable under common control	(39)	40
Inventory	(1,094)	(648)
Other assets	4,751	(2,725)
Accounts payable and accrued liabilities	1,504	7,725
Accounts payable to corporations under common control	1,534	1,717
	5,081	2,975

(stated in thousands of Canadian dollars)

20. RELATED PARTY TRANSACTIONS

a. Parent and ultimate controlling party

The parent of the Corporation is HUC with a direct 78.9% interest in the share capital of the Corporation. The ultimate controlling party (sole shareholder of the ultimate parent) is the City of Hamilton, which wholly owns HUC. The City of Hamilton produces financial statements that are available for public use.

b. Entity with significant influence

SCHI exercises significant influence over the Corporation through its direct 21.1% ownership of the common shares of the Corporation. The City of St. Catharines, which wholly owns the common share capital of SCHI, exercises significant influence over the Corporation through its indirect 21.1% ownership of the common shares of the Corporation.

c. Key management personnel

The key management personnel of the Corporation has been defined as members of its Executive Management team.

Key management compensation

	2014	2013
Salaries and other short-term benefits	2,102	1,905
Bonuses	491	462
Employee future benefits	25	22
Other long-term benefits	537	538
	3,155	2,927

The Corporation provides utility services to certain key management personnel. All energy charges of the Corporation to key management personnel were at prices and under terms approved by the OEB.

c. Transactions with parent

During the year the Corporation paid management, billing and administrative services to HUC and its subsidiary in the amount of $28 (2013 - $17).

d. Transactions with entity with significant influence

In the ordinary course of business, the Corporation delivers electricity to the City of St. Catharines. Electricity is billed to the City of St. Catharines at prices and under terms approved by the OEB. The Corporation's revenue also includes $50 (2013 - $50) fees from street light maintenance services that are provided to the City of St. Catharines.

e. Transactions with shareholder of ultimate parent

In the ordinary course of business, the Corporation delivers electricity to the City of Hamilton. Electricity is billed to the City of Hamilton at prices and under terms approved by the OEB.

The Corporation also provides certain water and waste water billing and customer care services to the City of Hamilton. Other revenue includes $4,354 (2013 - $4,130) earned with respect to these services. Accounts payable and accrued liabilities include $13,657 (2013 - $12,141) owing to the City of Hamilton for amounts collected on behalf of the City of Hamilton.

f. Transactions with corporations under common control of the ultimate parent

Corporations under common control include all entities controlled the City of Hamilton.

The Corporation provides certain management, billing and administrative services to HUC and a subsidiary of HUC. Other revenue includes $75 (2013 - $71) earned with respect to these agreements.

20. RELATED PARTY TRANSACTIONS (Continued)

g. Shareholder loans

Pursuant to a Credit Agreement dated June 30, 2013, the Corporation has made available a revolving line of credit up to $100,000 to finance general corporate requirements, capital investments, working capital requirements and prudential obligations to its subsidiaries. The Credit Agreement matures on June 30, 2016. Interest rates payable on the Credit Agreement are based on the Corporation's borrowing rate, as determined with reference to Corporation's debt rating and interest is payable monthly by the 15th day of the following month.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value disclosure

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate respective fair values because of the short maturity of these instruments. The carrying value of the credit support for service delivery approximates fair value because the amounts are payable on demand.

The fair value of the long term borrowing is $200,011. The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date.

Financial risks

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

i. Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Corporation, such as cash and cash equivalents and accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Hamilton and the City of St. Catharines. One customer, the City of Hamilton, accounts for 3.10% (2013 - 2.88%) of revenue. No other single customer in either year would account for revenue in excess of 1% of the respective reported balances.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in net income. Subsequent recoveries of receivables previously recorded as impaired are credited to net income. The balance of the allowance for impairment as at December 31, 2014 is $1,750 (2013 - $1,750). An impairment loss of $2,857 was recognized during the year (2013 - $872).

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Financial risks (Continued)

i. Credit risk (Continued)

The Corporation's credit risk associated with accounts receivable primarily corresponds to payments from distribution customers. At December 31, 2014, approximately $848 is considered 60 days past due. Horizon Utilities has approximately 242,000 customers; the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2014, Horizon Utilities holds security deposits from electricity distribution customers in the amount of $11,698 (2013 - $13,376).

ii. Market risk

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

iii. Liquidity risk

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to $100,000 line of credit and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The majority of accounts payable, as reported on the Statements of Financial Position, are due within 60 days.

iv. Capital disclosures

The main objectives of the Corporation when managing financial capital include:

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

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Financial risks (Continued)

iv. Capital disclosures (Continued)

The Corporation's definition of capital includes: shareholder's equity; indebtedness under existing credit facilities; and long-term borrowings, which includes the current portion of long term borrowings.

The OEB regulates the amount of interest on debt and MARE that may be recovered by the Corporation, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure for the Corporation may differ from the OEB deemed structure.

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

22. COMMITMENTS AND CONTINGENCIES

Commitments

On June 30, 2013, the Corporation entered into a Credit Facility Agreement ("Credit Facility") with a Canadian chartered bank. The Corporation may borrow up to $100,000 to finance general corporate requirements, capital investment, and working capital requirements. Borrowings may be in the form of Bankers' Acceptances ("BAs"), prime rate loans, letters of credit, and/or current account overdrafts. The Credit Facility matures on June 30, 2016. Interest rates payable on the Credit Facility are based on a margin relative to the prime or the BA rate, as the case may be, determined by reference to the Corporation's debt rating. A standby fee is paid on any unutilized portion of the Credit Facility.

The Corporation has issued a $9,100 letter of credit in favour of the Independent Electricity System Operator ("IESO") as security for Horizon Utilities' purchase of electricity through the IESO. At year end, no amounts were withdrawn on the letter of credit.

Contractual Obligations

Master Customer Demand Management ("CDM") Agreement

On February 1, 2011, the Corporation entered into a Master CDM Agreement ("CDM Agreement") with the Ontario Power Authority ("OPA") for the period January 1, 2011 to December 31, 2014. The CDM Agreement provides terms under which the Corporation may engage the OPA to design and pay for Province-wide CDM programs in support of the Corporation meeting its CDM targets (Note 2).

Subject to the terms of the CDM Agreement, all OPA CDM program costs are paid by the OPA. The Corporation effectively acts as a delivery agent for those programs that it participates in under the CDM Agreement.

22. COMMITMENTS AND CONTINGENCIES (Continued)

Contractual Obligations (Continued)

Master Customer Demand Management ("CDM") Agreement (Continued)

The total cost of OPA CDM program participation over the four year period was approximately $37,700, of which approximately $10,200 represents administration costs of the Corporation for program delivery. The Corporation was entitled to receive, in semi-annual installments each January and July, reimbursements of its estimated administration costs associated with each program. Any administration costs incurred by the Corporation in excess of the pre-approved estimate would not be recoverable. All other program costs incurred by the Corporation, (such as customer incentives and goods and services delivered under the programs) are recoverable from the OPA on an invoiced basis in accordance with the CDM Agreement.

On December 16, 2014, the Corporation entered into an extension of the CDM Agreement with the OPA for the period January 1, 2015 to December 31, 2015 to provide funding for the transition period until its CDM Plan is approved by the IESO (Note 2). The Corporation estimates that the total cost of OPA CDM program participation over a six month transition period ended June 30, 2015 will be approximately $3,100. The Corporation is entitled to receive reimbursements of its estimated administration costs associated with each program. Any administration costs incurred by the Corporation in excess of the pre-approved estimate would not be recoverable. All other program costs incurred by the Corporation, (such as customer incentives and goods and services delivered under the programs) are recoverable from the OPA on an invoiced basis in accordance with the CDM Agreement.

Contingencies

General

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

General Liability Insurance

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool, for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to 5 years. As at December 31, 2014, no assessments have been made.

ATTACHMENT 16
HORIZON UTILITIES 2013 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Horizon Utilities Corporation
Auditors' Report to the Shareholders
and Consolidated Financial Statements
Year Ended December 31, 2013 and
December 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Horizon Utilities Corporation

We have audited the accompanying consolidated financial statements of Horizon Utilities Corporation, which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained in our 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 consolidated financial position of Horizon Utilities Corporation as at December 31, 2013 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

February 27, 2014

Horizon Utilities Corporation
Table of Contents to Consolidated Financial Statements

As at and for the year ended December 31, 2013

Horizon Utilities Corporation
Consolidated Statement of Financial Position

As at December 31, 2013

(stated in thousands of Canadian dollars)

	Note	2013	2012
Assets			
Current assets			
Cash and cash equivalents	4	23,424	39,937
Accounts receivable		96,492	93,493
Accounts receivable from corporations under common control		282	346
Inventory	5	6,261	5,613
Other assets		5,991	2,795
		132,450	142,184
Non-current assets			
Property, plant and equipment	6	400,361	376,005
Intangible assets	7	15,367	12,858
Goodwill	8	18,923	18,923
Deferred payments in lieu of income taxes	9	13,946	16,276
		448,597	424,062
Total assets		581,047	566,246
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		61,632	56,238
Accounts payable to corporations under common control		14,931	13,365
Current portion of long term borrowings	11	255	255
Credit support for service delivery	10	20,967	22,264
Reimbursements from Ontario Power Authority		3,672	4,376
		101,457	96,498
Non-current liabilities			
Long term borrowings	11	189,558	189,764
Obligation under capital cost recovery agreements	12	10,000	10,000
Employee future benefits	13	22,550	23,859
Deferred revenue		19,920	13,742
		242,028	237,365
Total liabilities		343,485	333,863
Shareholder's equity			
Share capital	15	123,593	123,593
Contributed surplus		15,218	15,218
Accumulated other comprehensive loss		(2,030)	(3,327)
Retained earnings		100,781	96,899
Total shareholder’s equity		237,562	232,383
Total liabilities and shareholder’s equity		581,047	566,246

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

On behalf of the Board:

Director

Director

Horizon Utilities Corporation
Consolidated Statement of Income and Comprehensive Income

For the year ended December 31, 2013

(stated in thousands of Canadian dollars)

	Note	2013	2012
Sale of energy		491,204	462,593
Distribution revenue	16	102,269	97,185
Other income from operations	17	11,168	10,800
Total revenues		604,641	570,578
Expenses:			
Cost of power purchased		492,006	452,389
Operating expenses		60,225	56,351
Depreciation and amortization		20,221	18,545
		572,452	527,285
Income from operating activities		32,189	43,293
Loss on disposal of property, plant and equipment		(1,707)	(1,442)
Finance income	18	374	279
Finance charges	18	(6,959)	(8,959)
Income before payments in lieu of income taxes		23,897	33,171
Provision for payments in lieu of income taxes	9	6,459	7,169
Net income		17,438	26,002
Items that will not be reclassified to net income, net of tax			
Actuarial gain (loss) on employee future benefits	13	1,297	(1,371)
Other comprehensive income (loss), net of tax		1,297	(1,371)
Total comprehensive income		18,735	24,631

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

Horizon Utilities Corporation
Consolidated Statement of Changes in Equity

For the year ended December 31, 2013

(stated in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total
Balance at January 1, 2013	123,593	15,218	96,899	(3,327)	232,383
Net income	-	-	17,438	-	17,438
Other comprehensive income	-	-	-	1,297	1,297
Dividends	-	-	(13,556)	-	(13,556)
Balance at December 31, 2013	123,593	15,218	100,781	(2,030)	237,562
Balance at January 1, 2012	123,593	15,218	80,815	(1,956)	217,670
Net income	-	-	26,002	-	26,002
Other comprehensive loss	-	-	-	(1,371)	(1,371)
Dividends	-	-	(9,918)	-	(9,918)
Balance at December 31, 2012	123,593	15,218	96,899	(3,327)	232,383

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

Horizon Utilities Corporation
Consolidated Statement of Cash Flows

For the year ended December 31, 2013

(stated in thousands of Canadian dollars)

	Note	2013	2012
OPERATING ACTIVITIES			
Net income		17,438	26,002
Adjustments to reconcile net income to cash provided by (used in) operations:			
Depreciation and amortization	6,7	20,221	18,545
Loss on disposal of property, plant and equipment		1,707	1,442
Provisions for payments in lieu of income taxes expense		4,596	6,830
Finance income		(374)	(279)
Finance charges		6,959	8,959
Deferred payment in lieu of income taxes expense	9	1,863	339
Amortization of deferred revenue		(428)	(234)
Change in employee future benefits		(12)	822
Change in other assets and liabilities	19	3,108	(1,763)
		55,078	60,663
Finance charges paid		(7,023)	(9,063)
Finance charges received		350	321
Payments in lieu of income taxes paid		(6,896)	(9,283)
Cash from operating activities		41,509	42,638
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(49,312)	(56,973)
Proceeds from sale of property, plant and equipment		519	434
Cash used in investing activities		(48,793)	(56,539)
FINANCING ACTIVITIES			
(Reductions of) proceeds from credit support for service delivery		(1,297)	1,381
(Reductions of) reimbursements from Ontario Power Authority		(704)	990
Proceeds from deferred revenue		6,606	9,462
Proceeds from long term borrowings		-	149,764
Finance lease payments		(278)	-
Repayment of long term borrowings		-	(116,000)
Obligations under capital cost recovery agreements		-	10,000
Dividends paid		(13,556)	(9,918)
Cash (used in) from financing activities		(9,229)	45,679
(Decrease) increase in cash and cash equivalents		(16,513)	31,778
Cash and cash equivalents, beginning of year		39,937	8,159
Cash and cash equivalents, end of year		23,424	39,937

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

Horizon Utilities Corporation
Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

(stated in thousands of Canadian dollars)

1. REPORTING ENTITY

Horizon Utilities Corporation (the "Corporation") is one of Ontario's largest municipally owned electricity distribution companies, delivering electricity and related utility services to more than 240,000 residential and commercial customers in Hamilton and St. Catharines. The address of the Corporation's registered office is 55 John Street North, Hamilton, Ontario, Canada.

The Corporation also has a 99.99% ownership interest in Solar Sunbelt General Partnership ("Solar Sunbelt GP"), which has been established to undertake a solar generation business. The Corporation is also the managing partner of Solar Sunbelt GP.

The Corporation is 100% owned by Horizon Holdings Inc. ("HHI"). HHI is 78.9% owned by Hamilton Utilities Corporation ("HUC") and 21.1% owned by St. Catharines Hydro Inc. ("SCHI").

2. BASIS OF PREPARATION

a) Statement of compliance

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

b) Approval of the financial statements

The financial statements were approved by the Board of Directors on February 27, 2014.

c) Basis of measurement

The financial statements have been prepared on the historical cost basis.

d) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

e) Use of estimates and judgements

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

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

In particular, information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

i) Note 6 – Property, plant and equipment

ii) Note 8 – Goodwill: impairment testing

iii) Note 13 – Employee future benefits: measurement of the defined benefit obligation

iv) Note 22 – Commitments and Contingencies

2. BASIS OF PREPARATION (Continued)

f) Regulation

The Corporation is regulated by the Ontario Energy Board ("OEB"). In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that differ from IFRS. The OEB's regulatory accounting treatments require the recognition of regulatory assets and liabilities which do not meet the definition of an asset or liability under IFRS and as a result these regulatory assets and liabilities have not been recorded in these IFRS financial statements.

The *Ontario Energy Board Act, 1998 (Ontario)* ("OEBA") conferred on the OEB powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote residential electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs"), such as the Corporation, which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct business, and filing and process requirements for rate setting purposes.

Rate setting

The electricity distribution rates and other regulated charges of the Corporation are determined in a manner that provides shareholders with opportunity to earn a regulated Maximum Allowable Return on Equity ('MARE") on the amount of shareholder's equity supporting the business of electricity distribution, which is also determined by regulation.

Rate Applications

The OEB regulates the electricity distribution rates charged by LDCs, such as Horizon Utilities, using a combination of annual incentive regulation mechanism ("IRM") adjustments and periodic cost of service reviews. Both such adjustments and reviews are based on applications made by LDCs to the OEB. Previously, the ratemaking policy of the OEB required a cost of service review every four years, which would then be followed by three successive years of IRM adjustments. On October 18, 2012, the OEB issued its Report of the Board – A Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach ("RRFE") which set out, among other things, a renewed regulatory framework. LDCs will be permitted to choose from three rate-setting methods: 4th Generation Incentive Rate-setting ("4GIRM"), Custom Incentive Rate-setting, or Annual Incentive Rate-setting Index. The report is further elaborated below.

Annual IRM adjustments to LDC rates are principally formulaic in nature and, under the 3rd Generation Incentive Rate-setting mechanism of the OEB ("3GIRM"), were based on an inflationary factor determined with reference to the annual change in the Gross Domestic Product Inflationary Price Index for Final Domestic Demand ("GDP IPI-FDD") net of a productivity factor and a "Stretch Factor" determined by the relative efficiency of an LDC.

On November 21, 2013, the OEB issued its Report of the Board on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework in support of incentive rate setting in Ontario effective for 2014. Annual IRM adjustments under 4GIRM are similar in structure to 3GIRM comprising an inflationary factor net of a productivity and stretch factor. However, the inflationary factor under 4GIRM is computed as 70% of a non-labour sub-index comprised of the GDP IPI-FDD and a labour sub-index of 30% of the average weekly earnings for workers in Ontario.

2. BASIS OF PREPARATION (Continued)

f) Regulation (Continued)

Rate Applications (Continued)

The rate adjustment resulting from a cost of service review is normally based on forecast test year data, including the amount of operating and capital expenditures, debt and shareholder's equity required to support an LDC's business. The aggregate amount of debt and equity upon which an LDC may recover interest charges and MARE is equal to the "rate base" of an LDC, which is determined as the aggregate of its Property, Plant and Equipment in support of regulated electricity distribution activities and a working capital allowance. The proportion of debt and equity upon which an LDC may recover interest and MARE is generally 60% and 40%, respectively.

On December 22, 2011, the OEB approved an electricity distribution IRM rate adjustment for the Corporation of 0.58%, effective January 1, 2012 to December 31, 2012. As part of its decision, the OEB also approved the recovery of $1,609 of lost revenue related to the Corporation's Conservation and Demand Management ("CDM") programs. Such recoveries proceed through the regulated Lost Revenue Adjustment Mechanism ("LRAM") and relate to activities for the years 2009 and 2010. The LRAM was recovered through a rate rider for the period commencing January 1, 2012 through December 31, 2012.

On December 18, 2012, the OEB approved an electricity distribution IRM rate adjustment for the Corporation of 1.08%, effective January 1, 2013 to December 31, 2013. The OEB also approved the disposition of an aggregate net regulatory liabilities balance to customers of $4,970 over a one year period.

On December 5, 2013, the OEB approved an electricity distribution rate adjustment for the Corporation of 1.55%, effective January 1, 2014 to December 31, 2014. The OEB also approved the disposition of an aggregate net regulatory liabilities balance to customers of $10,400 over a one year period.

2. BASIS OF PREPARATION (Continued)

f) Regulation (Continued)

Select Energy Policies and Regulation Affecting the Corporation

Smart Meter Initiative and Time of Use Electricity Distribution Rates

The Province of Ontario committed to have "Smart Meter" electricity meters installed in all homes and small businesses throughout Ontario by the end of 2010. Smart Meters permit consumption to be recorded within specific time intervals and specific tariffs to be levied within such intervals (Time of Use or "TOU" rates). The OEB required that TOU rates be implemented for all residential and small commercial electricity distribution customers of the Corporation by June 2011.

In support of this initiative, the Corporation has substantially completed its deployment of Smart Meters to all residential and small commercial customers with 233,700 Smart Meter installations as at December 31, 2013, or approximately 99% of its residential and small commercial customers.

The Corporation's Smart Meter capital expenditures and related operating expenses have previously been recovered through a Utility-Specific Smart Meter Funding Adder ("SMFA") in accordance with the Smart Meter Funding and Cost Recovery Guideline of the OEB.

In December 2011, the OEB issued its "Guideline for Smart Meter Funding and Cost Recovery Final Disposition," which set out the OEB's filing requirements in relation to the financing and recovery of costs associated with smart meter activities undertaken by LDCs.

On December 13, 2011, Horizon Utilities submitted its Smart Meter Prudence Application ("SMPA") to the OEB seeking a review for prudency of the Smart Meter related capital and operating costs for the period 2006 to 2011. The prudency review included an examination of the scope of Smart Meter expenditures incurred as well as the procurement, installation, and management of Smart Meters relative to the OEB's guidelines for such.

Horizon Utilities sought two rate riders within its SMPA, as follows:

a) a Smart Meter Disposition Rider ("SMDR") to recover the variance between i) the unrecovered portion of Smart Meter revenue that Horizon Utilities should have recovered for the years 2006 through April 30, 2012 for Smart Meter installations through to December 31, 2011, and ii) SMFA forecasted to be recovered to April 30, 2012; and

b) a Smart Meter Incremental Revenue Requirement Rider ("SMIRR"), which is calculated as a proxy for the incremental change in the distribution rates had Smart Meters been incorporated into the revenue requirement calculation at the time of Horizon Utilities' last Cost of Service application.

The application was approved substantially as filed. In its decision on Horizon Utilities' SMPA, the OEB accepted that Horizon Utilities had not yet fully completed its smart meter deployment. The OEB has authorized Horizon Utilities to continue to record capital costs for the installation of its remaining smart meters for the period from January 1, 2012 to December 31, 2014. Horizon Utilities will seek disposition of smart meter related balances at the time of its next Cost of Service application, expected to be filed in April 2014, for new electricity distribution rates effective January 1, 2015.

2. BASIS OF PREPARATION (Continued)

f) Regulation (Continued)

Select Energy Policies and Regulation Affecting the Corporation (Continued)

Green Energy Act

In 2009, the government enacted the *Green Energy Act ("GEA").* This legislation made fundamental changes to the roles and responsibilities of LDCs in the areas of renewable power generation, the delivery of CDM, and the development of smart distribution grids.

The GEA provides LDCs with the freedom to own and operate a portfolio of renewable power generation and will permit them to provide district heating services in their communities through co-generation. LDCs will also bear added responsibilities to assist and enable consumers to reduce their peak demand and conserve energy in an effort to meet provincial conservation targets. LDCs will also gain new responsibilities in transforming their local distribution networks into smart grids harnessing advanced technologies to facilitate the connection of small-scale generators and the two-way flow of information.

New LDC License Requirements – Conservation and Demand Management Targets

On November 12, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four-year period commencing January 1, 2011. The Corporation's CDM targets include a demand reduction target of 60.36 megawatts ("MW") and a consumption reduction target of 281.42 gigawatt-hours ("GWh"). LDCs must also comply with a CDM Code of the OEB, which provides LDC requirements for the development and delivery of CDM Strategy to the OEB for the achievement of LDC-specific CDM targets, annual accounting and reporting to the OEB and eligibility criteria for performance incentive payments. The Corporation filed its CDM Strategy with the OEB in September 2011 and has since filed CDM Annual Reports on an annual basis.

RRFE

As identified above, on October 18, 2012, the OEB issued its RRFE report.

The RRFE provides a longer term view for electricity distribution based on an objective of alignment between a sustainable, financially viable sector and the expectations of customers for reliable service. The RRFE Report provides a comprehensive performance–based approach to regulation that is based on the achievement of outcomes.

The RRFE Report identifies three main policies within the RRFE: rate-setting; planning; and measuring performance.

The RRFE report asserts that the three alternative rate-setting methods available to LDCs, as identified above, will enhance the predictability necessary to facilitate planning and decision-making by customers and distributors; better align rate-setting with distributor planning horizons; facilitate the cost-effective and efficient implementation of distributor multi-year plans that have been developed to achieve the outcomes for customer service and cost performance; and help to manage the pace of the rate of investments. It is the intention of the OEB that all three rate setting methods and related policies from the RRFE Report will be available for those distributors filing for a cost of service review effective on or after May 1, 2014.

2. BASIS OF PREPARATION (Continued)

f) Regulation (Continued)

Select Energy Policies and Regulation Affecting the Corporation (Continued)

4th Generation Incentive Rate-setting

This method is similar to the current IRM rate-setting process. The most significant difference is that the term of annual incentive rate ("IR") adjustments between cost of service reviews is four years; representing an additional year relative to 3GIRM.

Custom IR-setting

Custom IR-setting permits LDCs to base their rates on a five-year forecast of revenue requirement and forecast electricity load, with expected inflationary and productivity-based estimates included as components of resulting rate adjustments. The process for approving LDC costs and determination of rate recovery will be examined by the OEB on a case-by-case basis. The OEB also indicates that it expects that a distributor applying under this method would not seek early termination from the Custom IR (with the exception of a circumstance where the return on equity of an LDC in a given year is either higher or lower than its approved MARE by 300 basis points). This method of rate setting will be suitable for distributors with large multi-year or highly variable capital investment.

LDCs operating under Custom IR will not be able to use certain traditional elements of IRM; such as the Incremental Capital Module ("ICM") which, under IRM, permits an LDC to seek recovery of material incremental capital expenditures not reasonably foreseen at its most recent cost of service review. The OEB expects LDCs operating under Custom IR-setting to manage within their Board-determined multi-year rates. Planned capital expenditures will be a central element of the Custom IR application and subjected to thorough review during the rate setting process.

LDCs will be required to report annually on actual expenditures relative to plans articulated in the Custom IR application. The OEB may terminate an LDC's rate-setting method if actual expenditures vary significantly from the level approved by the OEB. A threshold variance has not been established in the RRFE Report. The LDC rate base will be adjusted when it commences its new rate-setting cycle.

Annual IR-setting Index

The Annual IR-setting Index will adjust rates by a price cap index formula and there will be no fixed term. This model allows LDCs to avoid cost of service reviews. The OEB believes the Annual IR-setting Index will be appropriate for LDCs operating with relatively stable investment levels. However, the productivity factor will be the same as the highest set for 4^{th} Generation IR. There will be no ICM in the Annual IR Index.

Smart Meter Entity Charge

On March 28, 2013, the OEB issued its decision in the application made by the Independent Electricity System Operator ("IESO") for the recovery of costs related to the establishment of the Smart Meter Entity ("SME") which supports the exchange, measurement and verification of Smart Meter data in Ontario. The OEB approved a SME charge of $0.79 per month for the Residential and General Service < 50 kW customers effective May 1, 2013 to October 31, 2018.

2. BASIS OF PREPARATION (Continued)

f) Regulation (Continued)

Other Matters

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders, may affect future electricity distribution rates and other permitted regulatory recoveries of the Corporation.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of consolidation

These consolidated financial statements include the accounts of Horizon Utilities Corporation and its 99.99% investment in Solar Sunbelt GP.

Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it has power over, exposure or rights to, investee variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. The financial statements of the subsidiaries are included in these consolidated financial statements from the date on which control commences until the date of which control ceases.

When the Corporation ceases to have control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any other components of equity. Any resulting gain or loss is recognized in income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

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

b) Financial instruments

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities.

These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(g).

The Corporation does not enter into derivative instruments. Hedge accounting has not been used in the preparation of these financial statements.

c) Inventory

Inventory, comprising material and supplies, the majority of which is consumed by the Corporation in the provision of its services, is measured at the lower of cost and net realizable value. The cost of inventory is determined on a weighted average basis and includes expenditures incurred in acquiring the material and supplies and other costs incurred in bringing them to their existing location and condition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Property, plant and equipment

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

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

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

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

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

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

Depreciation is recognized in net income on a straight-line basis over the estimated useful life of each part or component of an item of PP&E.

Land is not depreciated.

Construction in progress assets are not amortized until the project is complete and available for use.

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

Buildings	30 - 40 years
Distribution System Equipment	15 - 70 years
Other PP&E	5 - 25 years
Leasehold Improvements	5 years

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term.

Other PP&E includes vehicles and office and computer equipment.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Intangible assets

Intangible assets include computer software and capital contributions paid under capital cost recovery agreements.

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

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

Computer software	3 years
Capital contributions under capital cost recovery agreements	40 years

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

f) Goodwill

Goodwill is measured at cost and is not amortized.

g) Impairment

i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in net income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in net income.

ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than inventory and deferred payments in lieu of income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, then the recoverable amount of the asset is estimated. The recoverable amount of goodwill is estimated as at December 31.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Impairment (Continued)

ii) Non-financial assets (Continued)

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use and, further, that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

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

h) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

i) Employee future benefits

i) Pension plan

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System (OMERS). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (“the Fund”) and provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income when they are due.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Employee future benefits (Continued)

ii) Other than pension

The Corporation provides its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans. These benefits are provided through a group defined benefit plan. The Corporation is the legal sponsor of the Plan. There is a policy in place to allocate the net defined benefit cost to the entities participating in the group plan. The allocation is based on the obligation attributable to the plan participants. The Corporation has reflected its share of the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements.

The Corporation's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligations and the current service costs are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Actuarial gains and losses arising from defined benefit plans are recognised immediately in other comprehensive income and reported in retained earnings. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in net income on a straight-line basis over the average period until the benefits become vested. In circumstances where the benefits vest immediately, the expense is recognized immediately in net income.

j) Credit support for service delivery

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

Deposits from electricity distribution customers are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid account balances are refundable to individual customers upon termination of their electricity distribution service. Customer deposits are also refundable to residential electricity distribution customers demonstrating an acceptable level of credit risk, as determined by the Corporation.

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. Cash contributions are initially recorded as credit support for service delivery; a current liability. Once the distribution system asset is completed or modified as outlined in the terms of the contract, the contribution amount is transferred to deferred revenue.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Deferred revenue and assets transferred from customers

Assets received as a capital contributions are initially recognized at fair value, with the corresponding value of capital contribution recognized as deferred revenue.

Deferred revenue represents the Corporation's obligation to continue to provide customers access to the supply of electricity, and is amortized to income on a straight-line basis over the terms of the agreement with the customer or the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

l) Revenue

The Corporation is licensed by the OEB to distribute electricity. As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers. The Corporation has determined that it is acting as a principal for electricity distribution and therefore has presented the electricity revenues on a gross basis.

Revenue attributable to the delivery of electricity is based upon OEB-approved distribution tariff rates and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution charges, and any other regulatory charges. Revenue is recognized as electricity is delivered and consumed by customers. Electricity revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year. Revenue is measured at the fair value of the consideration received or receivable, net of sales tax.

Customer billings for debt retirement charges are recorded on a net basis as the Corporation is acting as an agent for this billing stream. The Corporation may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation (“OEFC”) once each year.

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

Water billing revenue is recorded net of the water revenue paid to the City of Hamilton and is recognized in the period the billing services are rendered.

All other revenues are recorded on a gross basis and are recognized when services are rendered.

m) Leased assets

Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are classified as operating leases and the leased assets are not recognized on the Corporation’s balance sheet. Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Finance income and finance charges

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

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

o) Payments in lieu of income taxes

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

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

PILs comprises current and deferred payments in lieu of income tax. PILs is recognized in income or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

Current PILs is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred PILs is recognized using the balance sheet method. Under this method, deferred PILs comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred PILs assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred PILs assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

A deferred PILs asset is recognised to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred PILs assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

p) Set-off and reporting on a net basis

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Adopted changes in accounting policies

The Corporation has adopted the following new and revised standards along with any consequential amendments effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

Presentation of Financial Statements – Other Comprehensive Income

The International Accounting Standards Board ("IASB") issued an amendment to IAS 1, *Presentation of Financial Statements*, to improve the consistency and clarity of the presentation of items of other comprehensive income. A requirement has been added to present items in other comprehensive income in an aggregated manner on the basis of whether they will or will not be subsequently reclassified to earnings in order to more clearly show the effects the items of other comprehensive income may have on future earnings. The IAS 1 amendment is effective for annual periods beginning on or after July 1, 2012 and must be applied retrospectively. As a result of the adoption of the IAS 1 amendment, the Corporation has modified its presentation of other comprehensive income in the accompanying consolidated financial statements.

Consolidated Financial Statements

The IASB issued a new standard, IFRS 10, *Consolidated Financial Statements*, which establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 establishes control as a basis for consolidation and defines the principle of control. An investor controls an investee if the investor has power over, exposure or rights to, investee variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The adoption of IFRS 10 did not have an impact on the Corporation's results of operations, financial position, and disclosures.

Joint Arrangements

The IASB issued a new standard, IFRS 11, *Joint Arrangements*, which establishes the principles for financial reporting by parties to a joint arrangement. The standard defines a joint arrangement as an arrangement where two or more parties have joint control; with joint control being defined as the contractually agreed sharing of control where decisions about relevant activities require unanimous consent of the parties sharing control. The standard classifies joint arrangements as joint operations or joint investments and the classification determines the accounting treatment. IFRS 11 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The adoption of IFRS 11 did not have an impact on the Corporation's results of operations, financial position, and disclosures.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Adopted changes in accounting policies (Continued)

Disclosures of Interests in Other Entities

The IASB issued a new standard, IFRS 12, *Disclosure of Interests in Other Entities*, which integrates and provides consistent disclosure requirements for all interests in other entities such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The adoption of IFRS 12 did not have an impact on the Corporation's results of operations, financial position, and disclosures.

Fair Value Measurement

The IASB issued a new standard, IFRS 13, *Fair Value Measurement*, which provides a standard definition of fair value, sets out a framework for measuring fair value, and provides for specific disclosures about fair value measurements. IFRS 13 applies to all International Reporting Standards that require or permit fair value measurement or disclosures. IFRS 13 defines fair value as the price what would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and is to be applied prospectively. The Corporation determined that the adoption of IFRS 13 had no impact on its results of operations and financial position.

r) New standards and interpretations not yet adopted

The Corporation is still evaluating the adoption of the following new and revised standards along with any subsequent amendments.

Financial Instruments

The IASB issued a new standard, IFRS 9, *Financial Instruments*, which will replace IAS 39, *Financial Instruments: Recognition and Measurement*. The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase of this project. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods of IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 and must be applied retrospectively. The Corporation is assessing the impact of IFRS 9 on its results of operations, financial position, and disclosures.

(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) New standards and interpretations not yet adopted (Continued)

Financial Instruments – Asset and Liability Offsetting

The IASB has issued an amendment to IAS 32, *Financial Instruments: Presentation*, which provides further guidance on the requirements for offsetting financial instruments. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The Corporation is assessing the impact of the amendments to IAS 32 on its results of operations, financial position, and disclosures.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of overnight deposits in a Canadian chartered bank.

5. INVENTORY

During the fiscal year 2013, an amount of $55 (2012 - $97) was recorded as an expense for the write-down of obsolete or damaged inventory to net realizable value.

The amount of inventory consumed by the Corporation and recognized as an expense during 2013 was $460 (2012 - $507).

6. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Other distribution system equipment	Other PP&E	Construction work-in-progress	Total
Cost or deemed cost					
Balance at January 1, 2013	14,872	365,589	24,371	4,060	408,892
Additions	6,400	33,735	2,928	1,297	44,360
Disposals	-	(2,470)	(102)	-	(2,572)
Balance at December 31, 2013	21,272	396,854	27,197	5,357	450,680
Balance at January 1, 2012	12,068	323,683	20,500	8,537	364,788
Additions	2,804	43,625	4,179	(4,477)	46,131
Disposals	-	(1,719)	(308)	-	(2,027)
Balance at December 31, 2012	14,872	365,589	24,371	4,060	408,892

(stated in thousands of Canadian dollars)

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land and buildings	Other distribution system equipment	Other PP&E	Construction work-in-progress	Total
Accumulated depreciation					
Balance at January 1, 2013	2,348	23,713	6,826	-	32,887
Depreciation charge	1,198	12,819	3,761	-	17,778
Disposals	-	(334)	(12)	-	(346)
Balance at December 31, 2013	3,546	36,198	10,575	-	50,319
Balance at January 1, 2012	1,302	11,733	3,141	-	16,176
Depreciation charge	1,046	12,058	3,757	-	16,861
Disposals	-	(78)	(72)	-	(150)
Balance at December 31, 2012	2,348	23,713	6,826	-	32,887
Carrying amount					
December 31, 2013	17,726	360,656	16,622	5,357	400,361
December 31, 2012	12,524	341,876	17,545	4,060	376,005

During the year, borrowing costs of $74 (2012 - $201) were capitalized as part of the cost of property, plant and equipment. A capitalization rate of 3.42% (2012 – 5.90%) was used to determine the amount of borrowing costs to be capitalized.

The net carrying amount of leased equipment is $656 (2012 - $820).

(stated in thousands of Canadian dollars)

7. INTANGIBLE ASSETS

	Capital contributions under CCRA	Computer software	Total
Cost or deemed cost			
Balance at January 1, 2013	10,000	6,466	16,466
Other additions	2,420	2,532	4,952
Balance at December 31, 2013	12,420	8,998	21,418
Balance at January 1, 2012	-	5,624	5,624
Other additions	10,000	842	10,842
Balance at December 31, 2012	10,000	6,466	16,466
Accumulated amortization			
Balance at January 1, 2013	-	3,608	3,608
Amortization charge	733	1,710	2,443
Balance at December 31, 2013	733	5,318	6,051
Balance at January 1, 2012	-	1,925	1,925
Amortization charge	-	1,683	1,683
Balance at December 31, 2012	-	3,608	3,608
Carrying amounts			
At December 31, 2013	11,687	3,680	15,367
At December 31, 2012	10,000	2,858	12,858

8. GOODWILL

Management has determined that the Corporation's rate-regulated operations are one cash-generating unit. As the goodwill relates to the rate-regulated operations, the goodwill was allocated to that cash-generating unit. The Corporation performed an impairment test on December 31, 2013 based on the Corporation's fair value less costs to sell. Fair value less to costs to sell was determined using a multiple of rate base approach and was based on the following key assumptions:

- The multiple of rate base approach is a valuation technique used in the industry for purchase and sale transactions. A multiple is applied to rate base to determine the value of the utility.
- The multiple of rate base is a key assumption in the determination of fair value less costs to sell. Management utilized a range of multiples in the analysis to determine the recoverable amount of goodwill.
- The multiple of rate base used ranged from 1.35 to 1.45.
- Management obtained information regarding multiples used for recent purchase and sale transactions within the industry.
- The fair value estimate is categorized as a Level 2 input.

The recoverable amount of goodwill determined in the analysis was greater than the carrying value and no impairment was recorded.

(stated in thousands of Canadian dollars)

9. PAYMENTS IN LIEU OF INCOME TAXES

The provision for payments in lieu of income taxes recognized in income is as follows:

	2013	2012
Current PILs:		
Current year	4,596	6,830
Deferred PILs:		
Origination and reversal of temporary differences	1,863	339
Provision for payments in lieu of income taxes	6,459	7,169

Reconciliation of effective tax rate

PILs varies from amounts which would be computed by applying the Corporation's combined statutory income tax rate as follows:

	2013	2012
Basic rate applied to income before payments in lieu of income tax	26.50%	26.50%
Increase (decrease) in PILs resulting from:		
Change in tax rates	-	(2.71%)
Items not deductible for tax purposes and other	0.52%	(2.18%)
Effective rate applied to income before payments in lieu of income tax	27.02%	21.61%

Deferred payments in lieu of income tax balances

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

	2013	2012
Deferred PILs assets:		
Property, plant and equipment, and intangibles	6,810	9,933
Employee benefits	7,129	7,559
Obligation under capital cost recovery agreement	2,650	2,650
Deferred PILs liabilities:		
Bond issuance costs	(58)	-
Regulatory assets and liabilities	(2,585)	(3,866)
Net deferred PILs assets	13,946	16,276

(stated in thousands of Canadian dollars)

10. CREDIT SUPPORT FOR SERVICE DELIVERY

Credit support for service delivery represents cash deposits from electricity distribution customers and retailers, as well as construction deposits. These customer deposits bear interest at Canada's Prime Business rate less 2%, which is 1% per annum as of December 31, 2013.

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

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

	2013	**2012**
Customer deposits	13,376	13,740
Construction deposits	7,591	8,524
Total credit support for service delivery	20,967	22,264

11. LONG TERM BORROWINGS

Long term borrowings comprise notes payable and finance lease liability.

	2013	**2012**
Promissory note payable to Horizon Holdings bearing interest at 4.89% and due July 21, 2020	40,000	40,000
Promissory note payable to Horizon Holdings bearing interest at 3.033% and due July 25, 2022	150,000	150,000
Finance lease liability	546	823
Transaction costs on promissory note payable to Horizon Holdings bearing interest at 3.033% and due July 25, 2022	(857)	(857)
Net long-term borrowings	189,689	189,966
Accreted interest	124	53
Total long-term borrowings	189,813	190,019
Current	255	255
Non-current	189,558	189,764
	189,813	190,019

(stated in thousands of Canadian dollars)

11. LONG TERM BORROWINGS (Continued)

Long-term borrowings comprise two promissory notes payable to Horizon Holdings Inc:

i. $40,000 (2012 - $40,000) bearing interest at 4.89% per annum which is payable semi-annually on January 21 and July 21. The promissory note is unsecured and matures on July 21, 2020.

ii. $150,000 (2012 - $150,000) bearing interest at 3.033% per annum which is payable semi-annually on January 25 and July 25. The promissory note is unsecured and matures on July 25, 2022.

The Corporation paid interest in respect of the promissory notes payable to Horizon Holdings of $6,506 (2012 - $9,965) during the year.

Finance lease liability is payable as follows:

	Future minimum payments	Interest	Present value of minimum payments
Less than one year	255	1	254
Greater than one year	292	1	291
Total	547	2	545

12. OBLIGATION UNDER CAPITAL COST RECOVERY AGREEMENTS

The Corporation is party to connection and cost recovery agreements ("CCRA(s)") with Hydro One Networks Inc. ("HONI"). Such agreements provide for the construction by HONI of transformer stations ("TS(s)") to the distribution system for the purpose of serving the Corporation's customers, including anticipated electricity load growth.

Under the CCRAs, the Corporation is required to provide HONI with an initial capital contribution ("Initial Capital Contribution") based on the difference (the "Difference") between the total capital cost of constructing the TS and a projection of transformation revenue ("HONI Revenue") earned on the conveyance of electricity through such TS. The Difference represents a contingent debt obligation of the Corporation based on the extent that historical actual and forecast HONI Revenue through the CCRA term is less than the amount of HONI revenue projected as a basis for the determination of the Initial Capital Contribution. Conversely, the Corporation is entitled to a rebate of the Initial Capital Contribution based on the extent that historical actual and forecast HONI Revenue through the CCRA term is greater than the amount of HONI revenue projected as a basis for the determination of the Initial Capital Contribution.

Based on a review of two CCRAs with HONI for TS facilities constructed in 2003, the Corporation estimates a shortfall to HONI for TS Revenue relative to that projected as bases for the determination of respective Initial Capital Contributions. As a result of such a shortfall and based on the terms of the CCRAs, the Corporation recorded Obligations Under Capital Cost Recovery Agreements and a corresponding intangible asset of $10,000 as at December 31, 2012. The Corporation expects to be presented with a request for settlement from HONI in 2014; with the final amount of such and related payment terms to be arranged at that time, as may be negotiated between HONI and the Corporation.

In general terms, investments in regulated electricity distribution assets are recoverable from ratepayers in future rate applications based on the rate-making policies of the OEB.

(stated in thousands of Canadian dollars)

13. EMPLOYEE FUTURE BENEFITS

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. These benefits are provided through a group defined benefit plan. There is a policy in place to allocate the net defined benefit cost to the entities participating in the group plan. The allocation is based on the obligation attributable to the plan participants. The Corporation has reported its share of the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements. The accrued benefit liability and the expense for the years ended December 31, 2013 and 2012 were based on results and assumptions determined by actuarial valuation as at December 31, 2011.

Information about the group unfunded defined benefit plan as a whole and changes in the present value of the unfunded defined benefit obligation and the accrued benefit liability are as follows:

Entire Plan

	2013	2012
Defined benefit obligation, beginning of year	23,945	21,745
Current service cost	1,534	1,459
Benefits paid during the year	(1,085)	(1,128)
Actuarial (gains) losses recognized in other comprehensive income	(1,772)	1,869
Defined benefit obligation, end of year	22,622	23,945

Corporation

	2013	2012
Defined benefit obligation, beginning of year	23,859	21,666
Current service cost	1,531	1,456
Benefits paid during the year	(1,076)	(1,128)
Actuarial (gains) losses recognized in other comprehensive income	(1,764)	1,865
Defined benefit obligation, end of year	22,550	23,859

(stated in thousands of Canadian dollars)

13. EMPLOYEE FUTURE BENEFITS (Continued)

The main actuarial assumptions underlying the valuation are as follows:

a) General inflation

The health care cost trend for prescription drugs is estimated to increase at a declining rate from 6% to 4% over four years. Other medical and dental expenses are assumed to increase at 4% per year.

The approximate effect on the accrued benefit obligation ("ABO") and the estimated net benefit expense if the health care trend rate assumption was increased or decreased by 1% is as follows:

	Period	Benefit Cost ABO
1% increase in health care trend rate	285	3,527
1% decrease in health care trend rate	(218)	(2,786)

b) Interest (discount) rate

The obligations at the period end and the present value of future liabilities were determined using a discount rate of 4.85% (2012 – 4.0%) representing an estimate of the yield on high quality corporate bonds as at the valuation date.

c) Salary levels

Future general salary and wage levels were assumed to increase at 3% (2012 – 3%) per year.

Historical information

Amounts for the current and previous year, for the entire plan, are as follows:

	2013	2012
Defined benefit obligation	22,622	23,945
Experience adjustments	(1,772)	1,869

14. PENSION PLAN

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined benefit pension plan with equal contributions by the employer and its employees. In 2013, the Corporation made employer contributions of $3,660 to OMERS (2012 - $3,153). The Corporation's net benefit expense has been allocated as follows:

i. $750 (2012 - $556) capitalized as part of PP&E; and

ii. $2,910 (2012 - $2,597 charged to net income.

The Corporation estimates a contribution of $4,046 to OMERS during the next fiscal year.

(stated in thousands of Canadian dollars)

15. SHARE CAPITAL

	2013	2012
Authorized:		
Unlimited Class 1 Common shares		
Unlimited Class A Common shares		
Issued:		
7,890 Class 1 Common shares	91,133	91,133
2,110 Class A Common shares	32,460	32,460
	123,593	123,593

Dividends

The holders of the common shares are entitled to receive dividends as declared from time to time.

The Corporation paid aggregate dividends in the year on common shares of $1.356 per share (2012 – $0.9918), which amount to total dividends paid in the year of $13,556 (2012 - $9,918).

16. DISTRIBUTION REVENUE

	2013	2012
Gross customer billings	593,473	559,778
Less pass through charges billed by the Corporation:		
Electricity charges paid through to generators	(400,504)	(366,181)
Transmission and miscellaneous charges	(61,900)	(64,634)
Market service charges	(28,800)	(31,778)
Distribution revenue	102,269	97,185

17. OTHER INCOME FROM OPERATIONS

	2013	2012
Water and waste water billing and customer charges	4,454	4,192
Pole and other rental income	1,800	1,223
Collection and other service charges	1,450	1,651
Solar PV revenue	967	35
Late payment charges	842	876
Miscellaneous	751	444
Scrap sales	368	545
CDM revenue and performance incentives	312	1,595
Management and other support services	224	239
Other income from operations	11,168	10,800

(stated in thousands of Canadian dollars)

18. FINANCE INCOME AND CHARGES

	2013	2012
Interest income on bank deposits	374	279
Finance income	374	279
Interest expense – Intercompany	(6,505)	(8,555)
Interest expense	(454)	(404)
Finance charges	(6,959)	(8,959)
Net finance charges recognized in net income and comprehensive income	(6,585)	(8,680)

19. CASH FLOW INFORMATION

The net change in other assets and liabilities comprises:

	2013	2012
Accounts receivable	(2,975)	(942)
Accounts receivable under common control	64	-
Inventory	(648)	643
Other assets	(3,196)	(331)
Accounts payable and accrued liabilities	8,297	1,009
Accounts payable to corporations under common control	1,566	(2,142)
	3,108	(1,763)

20. RELATED PARTY TRANSACTIONS

a) Parent and ultimate controlling party

The parent of the Corporation is HHI. The ultimate parent of the Corporation is HUC; with an effective and indirect 78.9% interest in the share capital of the Corporation. The ultimate controlling party (sole shareholder of the ultimate parent) is the City of Hamilton, which wholly owns HUC. The City of Hamilton produces financial statements that are available for public use.

b) Entity with significant influence

The City of St. Catharines exercises significant influence over the Corporation through its indirect 21.1% ownership interest in the Corporation's parent HHI.

(stated in thousands of Canadian dollars)

20. RELATED PARTY TRANSACTIONS (Continued)

c) Key management personnel

The key management personnel of the Corporation has been defined as members of its executive management team.

Key management compensation:

	2013	2012
Salaries and other short-term benefits	1,495	1,693
Bonuses	389	426
Employee future benefits	22	19
Other long-term benefits	476	239
	2,382	2,377

The Corporation provides utility services to certain key management personnel. All energy charges of the Corporation to key management personnel were at prices and under terms approved by the OEB.

d) Transactions with parent

During the year the Corporation paid management and business development services to HHI in the amount of $1,137 (2012 - $1,073).

e) Transactions with entity with significant influence

In the ordinary course of business, the Corporation delivers electricity to the City of St. Catharines. Electricity is billed to the City of St. Catharines at prices and under terms approved by the OEB.

f) Transactions with shareholder of ultimate parent

In the ordinary course of business, the Corporation delivers electricity to the City of Hamilton. Electricity is billed to the City of Hamilton at prices and under terms approved by the OEB.

The Corporation also provides certain water and waste water billing and customer care services to the City of Hamilton. Other revenue includes $4,130 (2012 - $3,891) earned with respect to these services. Accounts payable and accrued liabilities includes $12,141 (2012 - $10,085) owing to the City of Hamilton for amounts collected on behalf of the City of Hamilton.

g) Transactions with corporations under common control of the ultimate parent

Corporations under common control include all entities controlled by HUC.

The Corporation provides certain management, billing and administrative services to HUC, Hamilton Hydro Services Inc., and Horizon Energy Solutions Inc.; all corporations under common control. Other revenue includes $152 (2012 - $167) earned with respect to these agreements.

20. RELATED PARTY TRANSACTIONS (Continued)

h) Shareholder loans

Pursuant to a Credit Agreement dated June 30, 2013, HHI has made available a revolving line of credit up to $95,000 to finance general corporate requirements, capital investments, working capital requirements, and prudential obligations. The Credit Agreement matures on June 30, 2016. Interest rates payable on the Credit Agreement are based on Horizon Holdings' borrowing rate, as determined with reference to Horizon Holdings' debt rating and interest is payable monthly by the 15th day of the following month.

Pursuant to a Credit Agreement dated June 30, 2013, the Corporation has made available a revolving line of credit up to $5,000 to Solar Sunbelt GP to finance general corporate requirements, working capital requirements, and capital investments. The Credit Agreement matures on June 30, 2016. Interest rates receivable on the Credit Agreement are based on the Corporation's borrowing rate and interest is payable monthly by the 15th day of the following month.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value disclosure

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate respective fair values because of the short maturity of these instruments. The carrying value of the credit support for service delivery approximates fair value because the amounts are payable on demand.

The fair value of the promissory note from the parent company is $187,122. The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date.

Financial risks

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

i) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Corporation, such as cash and cash equivalents and accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Hamilton and the City of St. Catharines. One customer, the City of Hamilton, accounts for 2.88% (2012 – 2.89%) of revenue. No other single customer in either year would account for revenue in excess of 1% of the respective reported balances.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Financial risks (Continued)

i) Credit risk (Continued)

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in net income. Subsequent recoveries of receivables previously recorded as impaired are credited to net income. The balance of the allowance for impairment as at December 31, 2013 is $1,750 (2012 - $1,900). An impairment loss of $872 was recognized during the year (2012 - $1,569).

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2013, approximately $442 is considered 60 days past due. Horizon Utilities has approximately 240,000 customers; the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2013, Horizon Utilities holds security deposits from electricity distribution customers in the amount of $13,376 (2012 - $13,740).

ii) Market risk

Market risk primarily refers to the risk of loss that results from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have commodity or foreign exchange risk. The Corporation is exposed to fluctuations in interest rates as the regulated rate of return for the Corporation's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates during the cost of service rate application process. A decrease in the forecasted long-term Government of Canada bond yield used in determining the Corporation's rate of return would reduce the Distribution business results of operations at the next cost of service rate filing if the bond yield reduction continued to that time. A current reduction in bond yields would not have an impact on the Distribution business results of operations in the current or intervening years between cost of service rate applications.

iii) Liquidity risk

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to $95,000 line of credit and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The majority of accounts payable, as reported on the balance sheet, are due within 60 days.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Financial risks (Continued)

iv) Capital disclosures

The main objectives of the Corporation when managing financial capital include:

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

The Corporation's definition of capital includes: shareholder's equity; indebtedness under existing credit facilities; and long-term borrowings, which includes the current portion of long-term borrowings.

The OEB regulates the amount of interest on debt and MARE that may be recovered by the Corporation, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure for the Corporation may differ from the OEB deemed structure.

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

22. COMMITMENTS AND CONTINGENCIES

Commitments

Contractual Obligations

Master Customer Demand Management ("CDM") Agreement

On February 1, 2011, the Corporation entered into a Master CDM Agreement ("CDM Agreement") with the Ontario Power Authority ("OPA") for the period January 1, 2011 to December 31, 2014. The CDM Agreement provides terms under which the Corporation may engage the OPA to design and pay for Province-wide CDM programs in support of the Corporation meeting its CDM targets (Note 2).

Subject to the terms of the CDM Agreement, all OPA CDM program costs are paid by the OPA. The Corporation effectively acts as a delivery agent for those programs that it participates in under the CDM Agreement.

The Corporation estimates that its total cost of OPA CDM program participation over the four year period will be approximately $57,000, of which approximately $11,700 represents administration costs of the Corporation for program delivery. The Corporation will be entitled to receive, in semi-annual installments each January and July, reimbursements of its estimated administration costs associated with each program. Any administration costs incurred by the Corporation in excess of the pre-approved estimate would not be recoverable. All other program costs incurred by the Corporation, (such as customer incentives and goods and services delivered under the programs) are recoverable from the OPA on an invoiced basis in accordance with the CDM Agreement.

22. COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies

General

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

General Liability Insurance

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool, for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to 5 years. As at December 31, 2013, no assessments have been made.

ATTACHMENT 17
HORIZON UTILITIES 2014 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Horizon Utilities Corporation
Auditors' Report to the Shareholder and Consolidated Financial Statements
Year Ended December 31, 2014 and December 31, 2013

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Horizon Utilities Corporation

We have audited the accompanying consolidated financial statements of Horizon Utilities Corporation, which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained in our 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 consolidated financial position of Horizon Utilities Corporation as at December 31, 2014 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

February 26, 2015

Horizon Utilities Corporation
Table of Contents to Consolidated Financial Statements

As at and for the year ended December 31, 2014

Horizon Utilities Corporation
Consolidated Statement of Financial Position

As at December 31, 2014

(stated in thousands of Canadian dollars)

	Note	2014	2013
Assets			
Current assets			
Cash and cash equivalents	4	126	23,424
Accounts receivable		98,223	96,492
Accounts receivable from corporations under common control		188	282
Inventory	5	7,355	6,261
Other assets		3,127	5,991
		109,019	132,450
Non-current assets			
Property, plant and equipment	6	418,937	400,361
Intangible assets	7	17,675	15,367
Goodwill	8	18,923	18,923
Deferred payments in lieu of income taxes	9	18,077	13,946
		473,612	448,597
Total assets		582,631	581,047
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		67,968	61,632
Accounts payable to corporations under common control	20	16,330	14,931
Current portion of long term borrowings	11	294	255
Credit support for service delivery	10	18,145	20,967
Reimbursements from Ontario Power Authority	22	2,037	3,672
		104,774	101,457
Non-current liabilities			
Long term borrowings	11	189,352	189,558
Obligations under capital cost recovery agreements	12	10,000	10,000
Employee future benefits	13	29,430	22,550
Deferred revenue		25,401	19,920
		254,183	242,028
Total liabilities		358,957	343,485
Shareholders' equity			
Share capital	15	123,593	123,593
Contributed surplus		15,218	15,218
Accumulated other comprehensive loss		(6,712)	(2,030)
Retained earnings		91,575	100,781
Total shareholders' equity		223,674	237,562
Total liabilities and shareholders' equity		582,631	581,047

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

On behalf of the Board:

Director

Director

Horizon Utilities Corporation
Consolidated Statement of Income and Comprehensive Income

For the year ended December 31, 2014
(stated in thousands of Canadian dollars)

	Note	2014	2013
Sale of energy		519,225	491,204
Distribution revenue	16	97,381	102,269
Other income from operations	17	12,300	11,168
Total revenues		628,906	604,641
Expenses:			
Cost of power purchased		528,328	492,006
Operating expenses		64,871	60,225
Depreciation and amortization		21,246	20,221
		614,445	572,452
Income from operating activities		14,461	32,189
Loss on sale and disposal of plant, property and equipment		(1,498)	(1,707)
Finance income	18	112	374
Finance charges	18	(7,097)	(6,959)
Income before payments in lieu of income taxes		5,978	23,897
Provision for payments in lieu of income taxes	9	1,838	6,459
Net income		4,140	17,438
Items that will not be reclassified to net income, net of tax			
Remeasurements of the future employee net benefit liability		(4,682)	1,297
Other comprehensive (loss) income		(4,682)	1,297
Total comprehensive (loss) income, net of tax		(542)	18,735

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

Horizon Utilities Corporation
Consolidated Statement of Changes in Equity

For the year ended December 31, 2014
(stated in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive (loss) income	Total
Balance at January 1, 2014	123,593	15,218	100,781	(2,030)	237,562
Net income	—	—	4,140	—	4,140
Other comprehensive (loss)	—	—	—	(4,682)	(4,682)
Dividends	—	—	(13,346)	—	(13,346)
Balance at December 31, 2014	123,593	15,218	91,575	(6,712)	223,674
Balance at January 1, 2013	123,593	15,218	96,899	(3,327)	232,383
Net income	—	—	17,438	—	17,438
Other comprehensive income	—	—	—	1,297	1,297
Dividends	—	—	(13,556)	—	(13,556)
Balance at December 31, 2013	123,593	15,218	100,781	(2,030)	237,562

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

Horizon Utilities Corporation
Consolidated Statement of Cash Flows

For the year ended December 31, 2014
(stated in thousands of Canadian dollars)

	Note	2014	2013
OPERATING ACTIVITIES			
Net income		4,140	17,438
Adjustments to reconcile net income to cash provided by (used in) operations:			
Depreciation and amortization	6,7	21,246	20,221
Loss on sale and disposal of plant, property and equipment		1,498	1,707
Provisions for payments in lieu of income taxes	9	4,282	4,596
Deferred payments in lieu of income taxes	9	(2,444)	1,863
Amortization of deferred revenue		(631)	(428)
Finance income		(112)	(374)
Finance charges		7,097	6,959
Change in employee future benefits		510	(12)
Change in other assets and liabilities	19	5,687	3,108
		41,273	55,078
Finance charges paid		(7,228)	(7,023)
Finance charges received		90	350
Payments in lieu of income taxes paid		(1,822)	(6,896)
Cash from operating activities		32,313	41,509
INVESTING ACTIVITIES			
Acquisitions of property, plant, equipment and intangible assets		(43,849)	(49,312)
Proceeds from sale of plant, property and equipment		221	519
Cash used in investing activities		(43,628)	(48,793)
FINANCING ACTIVITIES			
Reductions of credit support for service delivery		(2,822)	(1,297)
Reductions of reimbursements from Ontario Power Authority		(1,635)	(704)
Contributions received from customers		6,112	6,606
Finance lease payments		(292)	(278)
Dividends paid		(13,346)	(13,556)
Cash used in financing activities		(11,983)	(9,229)
Decrease in cash and cash equivalents		(23,298)	(16,513)
Cash and cash equivalents, beginning of year		23,424	39,937
Cash and cash equivalents, end of year		126	23,424

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

Horizon Utilities Corporation
Table of Contents to the Consolidated Financial Statement Notes

For the year ended December 31, 2014
(stated in thousands of Canadian dollars)

1. REPORTING ENTITY

Horizon Utilities Corporation (the "Corporation") is one of Ontario's largest municipally owned electricity distribution companies, delivering electricity and related utility services to more than 242,000 residential and commercial customers in Hamilton and St. Catharines. The address of the Corporation's registered office is 55 John Street North, Hamilton, Ontario, Canada.

The Corporation also has a 99.99% ownership interest in Solar Sunbelt General Partnership ("Solar Sunbelt GP"), which has been established to undertake a solar generation business. The Corporation is also the managing partner of Solar Sunbelt GP.

The Corporation is 100% owned by Horizon Holdings Inc. ("HHI"). HHI is 78.9% owned by Hamilton Utilities Corporation ("HUC") and 21.1% owned by St. Catharines Hydro Inc. ("SCHI").

2. BASIS OF PREPARATION

a. Statement of Compliance

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

b. Approval of the financial statements

The financial statements were approved by the Board of Directors on February 26, 2015.

c. Basis of measurement

The financial statements have been prepared on the historical cost basis, unless otherwise stated.

d. Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

e. Use of estimates and judgements

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

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

In particular, information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

(i) Note 6 - Property, plant and equipment: estimation of useful lives

(ii) Note 7 - Intangible assets: estimation of useful lives

(iii) Note 8 - Goodwill: key assumptions underlying recoverable amount for goodwill impairment testing

(iv) Note 13 - Employee future benefits: key actuarial assumptions

2. BASIS OF PREPARATION (Continued)

e. Use of estimates and judgements (Continued)

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

(i) Note 3 - Revenue: whether the Corporation is a principal or agent for sale of energy

(ii) Note 11 - Long term borrowings: lease classification

(iii) Note 22 - Commitments and Contingencies: whether a contingency is a liability

f. Regulation

The Corporation is regulated by the Ontario Energy Board ("OEB"). In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that differ from IFRS. The OEB's regulatory accounting treatments require the recognition of regulatory assets and liabilities which do not meet the definition of an asset or liability under IFRS and, as a result, these regulatory assets and liabilities have not been recorded in these IFRS financial statements.

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the OEB powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include: approving or fixing rates for the transmission and distribution of electricity; providing continued rate protection for rural and remote residential electricity consumers; and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs"), such as the Corporation, which may include, among other things: record keeping; regulatory accounting principles; separation of accounts for distinct business; and filing and process requirements for rate setting purposes.

Rate setting

The electricity distribution rates and other regulated charges of the Corporation are determined in a manner that provides shareholders with opportunity to earn a regulated Maximum Allowable Return on Equity ('MARE") on the amount of shareholder's equity supporting the business of electricity distribution, which is also determined by regulation.

Rate Applications

The OEB regulates the electricity distribution rates charged by LDCs, such as Horizon Utilities through periodic rate applications to the OEB and its ongoing monitoring and reporting requirements. At present, LDCs may apply to the OEB for electricity distribution rates under options specified in its Report of the Board - A Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach ("RRFE"). The three rate-setting methods available to LDCs under the RRFE are: 4th Generation Incentive Rate-setting ("4GIRM"); Custom Incentive Rate-setting; or Annual Incentive Rate-setting Index.

On August 15, 2013, Horizon Utilities applied to the OEB for an IRM adjustment to rates effective January 1, 2014. Annual IRM adjustments to LDC rates are principally formulaic in nature and, under the former 3rd Generation Incentive Rate-setting mechanism of the OEB ("3GIRM"), were based on an inflationary factor determined with reference to the annual change in the Gross Domestic Product Inflationary Price Index for Final Domestic Demand ("GDP IPI-FDD") net of a productivity factor and a "Stretch Factor" determined by the relative efficiency of an LDC.

On November 21, 2013, the OEB issued its Report of the Board on Rate Setting Parameters and Benchmarking under the RRFE support of incentive rate setting in Ontario effective for 2014. Annual IRM adjustments under 4GIRM are comprised of an inflationary factor net of a productivity and stretch factor. The inflationary factor under 4GIRM is computed as 70% of a non-labour sub-index comprised of the GDP IPI-FDD and a labour sub-index of 30% of the average weekly earnings for workers in Ontario.

2. BASIS OF PREPARATION (Continued)

f. Regulation (Continued)

Rate setting (Continued)

On December 5, 2013, the OEB approved an electricity distribution rate adjustment for the Corporation of 1.55%, effective January 1, 2014 to December 31, 2014. The OEB also approved the disposition of an aggregate net regulatory liabilities balance to customers of $10,400 over a one year period.

On April 16, 2014, Horizon Utilities submitted its 2015 Custom IR application to the OEB to adjust the electricity distribution rates charged to customers in each of the years 2015 to 2019 inclusive. As part of the application, Horizon Utilities submitted a Distribution System Plan providing for the modernization, expansion and maintenance of the distribution system.

On December 11, 2014, the OEB issued its Decision and Order on this application. Based on the Decision and Order, the resulting change to the distribution portion of the bill for a typical residential customer consuming 800 kWh per month will be, approximately: 5.40% increase in 2015; 3.73% increase in 2016; 0.79% increase in 2017; (0.03%) decrease in 2018; and 2.35% increase in 2019. Management expects that the resulting increases to its revenues resulting from this Decision and Order will support sustainable investment and maintenance of the distribution system through the effective period of this application from 2015 to 2019.

Select Energy Policies and Regulation Affecting the Corporation

New 2015-2020 Conservation and Demand Management Framework

On March 26, 2014, the Minister of Energy issued a Directive to the OEB to amend the licences of electricity distributors with new requirements to: deliver Conservation and Demand Management (“CDM”) programs available to customers that are designed to achieve energy reductions; meet CDM requirements through either OPA programs, LDC programs, or a combination of the two; and make the results of local programs available to other distributors on request. The coordination and integration of CDM and Demand Side Management (“DSM”) activities is intended to achieve energy efficiencies and deliver convenient integrated programs for electricity and natural gas customers. The OEB issued the amendments to the licenses on December 18, 2014.

On March 31, 2014, the Minister of Energy issued a Directive to the OPA to coordinate, support and fund the delivery of CDM programs through electricity distributors to achieve a total of 7 Terawatt Hours ("TWh") of reductions in electricity consumption between January 1, 2015 and December 31, 2020. The OPA will allocate the 7 TWh of reductions in electricity consumption among distributors.

On October 23, 2014, the Minister of Energy issued an amended Directive to the OPA, providing further direction regarding performance incentives for distributors based on efficiency and effectiveness measures corresponding to their delivery of the CDM programs.

Prior 2011 to 2014 Conservation and Demand Management Framework

On November 12, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Corporation’s CDM targets included a demand reduction target of 60.36 megawatts (“MW”), and a consumption reduction target of 281.42 gigawatt-hours (“GWh”).

On December 17, 2014 the OEB issued a letter which clearly specifies that the OEB will not take compliance actions against (i) distributors who do not reach 100% of their energy targets if they reach at least 80% of the energy targets, or (ii) distributors who do not meet their peak demand targets for the previous CDM framework in effect from January 1, 2011 to December 31, 2014. Horizon Utilities expects to reach over 98% of its energy target and over 81% of its peak demand target.

2. BASIS OF PREPARATION (Continued)

f. Regulation (Continued)

Select Energy Policies and Regulation Affecting the Corporation (Continued)

Ontario Premier's Advisory Council on Government Assets

On November 13, 2014, the Ontario Premier's Advisory Council on Government Assets ("the Council") released Retain & Gain: Making Ontario's Assets Work Better for Taxpayers and Consumers, an initial report on key provincial assets, including the Liquor Control Board of Ontario, Hydro One Networks Inc. ("HONI"), and Ontario Power Generation. This report provides initial recommendations on ways to improve customer service and increase efficiencies at these government business enterprises, in order to maximize their value and generate better returns for the people of Ontario.

One of the key recommendations in this report was to use Hydro One Brampton Networks Inc. and the distribution business of HONI as catalysts for consolidation of the distribution sector. The Council will consider the various barriers and disincentives to the consolidation of the distribution sector and make further recommendations to remove those barriers in its final report in the spring of 2015.

Other Matters

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders, may affect future electricity distribution rates and other permitted regulatory recoveries of the Corporation.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of consolidation

These consolidated financial statements include the accounts of Horizon Utilities Corporation and its 99.99% investment in Solar Sunbelt GP.

Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it has power over, exposure or rights to investee variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. The financial statements of the subsidiaries are included in these consolidated financial statements from the date on which control commences until the date of which control ceases.

When the Corporation ceases to have control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any other components of equity. Any resulting gain or loss is recognized in income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

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

b. Financial instruments

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities.

These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in Note 3(g).

The Corporation does not enter into derivative instruments. Hedge accounting has not been used in the preparation of these financial statements.

c. Inventory

Inventory, comprising material and supplies, the majority of which is consumed by the Corporation in the provision of its services, is measured at the lower of cost and net realizable value. The cost of inventory is determined on a weighted average basis and includes expenditures incurred in acquiring the material and supplies and other costs incurred in bringing them to their existing location and condition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Property, plant and equipment

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

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

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

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

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

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

Depreciation is recognized in net income on a straight-line basis over the estimated useful life of each part or component of an item of PP&E.

Land is not depreciated.

Construction-work-in-progress assets are not amortized until the project is complete and available for use. The estimated useful lives for the current and comparative years are as follows:

Buildings	30 - 40 years
Distribution system equipment	15 - 70 years
Other PP&E	3 - 15 years
Leasehold improvements	Over lease term

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term.

Other PP&E includes vehicles, office, and computer equipment.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Intangible assets

Intangible assets include computer software and capital contributions paid under capital cost recovery agreements.

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

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

Computer software	2 - 5 years
Capital contributions under capital cost recovery agreements	16 - 25 years

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

f. Goodwill

Goodwill arising on the acquisition of subsidiaries or on amalgamation is measured at cost and is not amortized.

g. Impairment

i. Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in net income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in net income.

ii. Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than inventory and deferred payments in lieu of income taxes assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, then the recoverable amount of the asset is estimated. The recoverable amount of goodwill is estimated as at December 31.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Impairment (Continued)

ii. Non-financial assets (Continued)

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use and, further, that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate, net of tax, that reflects current market assessments of the time value of money and the risks specific to the asset. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

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

h. Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate, net of tax, that reflects current market assessments of the time value of money and the risks specific to the liability.

i. Employee future benefits

i. Pension Plan

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (“the Fund”) and provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan as a defined benefit plan. Consequently, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income when they are due.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Employee future benefits (Continued)

ii. Other than pension

The Corporation provides its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans. These benefits are provided through a group defined benefit plan. The Corporation is the legal sponsor of the Plan. There is a policy in place to allocate the net defined benefit cost to the entities participating in the group plan. The allocation is based on the obligation attributable to the plan participants. The Corporation has reflected its share of the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements.

The Corporation’s net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs are deducted. The discount rate is the yield at the reporting date on the interest rate on high quality debt instruments with duration similar to the duration of the plan.

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligation and the current service costs are actuarially determined by applying the projected unit credit method and incorporate management’s best estimate of certain underlying assumptions. Remeasurements arising from defined benefit plans are recognized immediately in other comprehensive income and reported in retained earnings. When the benefits of a plan are improved, these increases are recognized immediately in net income.

j. Credit support for service delivery

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

Deposits from electricity distribution customers are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid account balances are refundable to individual customers upon termination of their electricity distribution service. Customer deposits are also refundable to residential electricity distribution customers demonstrating an acceptable level of credit risk, as determined by the Corporation.

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. Cash contributions are initially recorded as credit support for service delivery, a current liability. Once the distribution system asset is completed or modified as outlined in the terms of the contract, the contribution amount is transferred to deferred revenue.

k. Deferred revenue and assets transferred from customers

Assets received as capital contributions are initially recognized at fair value, with the corresponding value of capital contribution recognized as deferred revenue.

Deferred revenue represents the Corporation's obligation to continue to provide customers access to the supply of electricity, and is amortized to income on a straight-line basis, as a component of other income from operations, over the terms of the agreement with the customer or the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

l. Revenue

The Corporation is licensed by the OEB to distribute electricity. As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers. The Corporation has determined that it is acting as a principal for electricity distribution and therefore has presented the electricity revenues on a gross basis.

Revenue attributable to the delivery of electricity is based upon OEB-approved distribution tariff rates and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution charges, and any other regulatory charges. Revenue is recognized as electricity is delivered and consumed by customers. Electricity revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year. Revenue is measured at the fair value of the consideration received or receivable, net of sales tax.

Customer billings for Ontario debt retirement charges are recorded on a net basis as the Corporation is acting as an agent for this billing stream. The Corporation may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation ("OEFC") once each year.

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

Water billing revenue is recorded net of the water revenue paid to the City of Hamilton and is recognized in the period the billing services are rendered.

All other revenues are recorded on a gross basis and are recognized when services are rendered.

m. Leased assets

Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are classified as operating leases and the leased assets are not recognized on the Corporation's Statement of Financial Position. Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease.

n. Finance income and finance charges

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o. Payments in lieu of income taxes

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

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

PILs comprises current and deferred payments in lieu of income tax. PILs is recognized in income and loss except to the extent that it relates to items recognized directly in either comprehensive income or in equity, in which case, it is recognized in comprehensive income or in equity.

Current PILs is the expected amount of cash taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred PILS comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred PILs assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred PILs assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

A deferred PILs asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred PILs assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

p. Set-off and reporting on a net basis

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

q. Adopted changes in accounting policies

The Corporation has adopted the following new and revised standards along with any consequential amendments effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

Financial Instruments - Asset and Liability Offsetting

The International Accounting Standards Board ("IASB") has issued an amendment to International Accounting Standards ("IAS") 32, *Financial Instruments: Presentation*, which provides further guidance on the requirements for offsetting financial instruments. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The Corporation determined that the adoption of this amendment had no impact on its results of operations, financial positions, and disclosures.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

r. New standards and interpretations not yet adopted

The Corporation is still evaluating the adoption of the following new and revised standards along with any subsequent amendments.

Revenue Recognition

In May 2014, IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") was issued, which replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and various interpretations. IFRS 15 establishes principles regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The standard requires entities to recognize revenue for the transfer of goods or services to customers measured at the amounts an entity expects to be entitled to in exchange for those goods or services. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Corporation is assessing the impact of IFRS 15 on its results of operations, financial position, and disclosures.

Financial Instruments

In July 2014, the IASB issued a new standard, IFRS 9 *Financial Instruments*, which will replace IAS 39 Financial Instruments: Recognition and Measurement. The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is part of the first phase of this project. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. The Corporation is assessing the impact of IFRS 9 on its results of operations, financial position, and disclosures.

Property, Plant, and Equipment and Intangible Assets

In May 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* and IAS 38 *Intangible Assets,* which are effective for years beginning on or after January 1, 2016. The amendments clarify when revenue-based depreciation methods are permitted. The Corporation is assessing the impact of the amendments on its results of operations, financial positions, and disclosures.

Annual Improvements to IFRSs

The IASB published Annual Improvements to IFRSs. These are non-urgent amendments to IFRS standards and are effective for years beginning on or after July 1, 2014. The amendments correspond to IFRS 8 *Operating Segments*, IFRS 13 *Fair Value Measurement*, and IAS 24 *Related Party Disclosures*. The Corporation does not expect these amendments to have a significant impact on its financial reporting.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of overnight deposits in a Canadian chartered bank.

5. INVENTORY

During fiscal year 2014, an amount of $32 (2013 - $55) was recorded as an expense for the write-down of obsolete or damaged inventory to net realizable value.

The amount of inventory consumed by the Corporation and recognized as an expense during 2014 was $406 (2013 - $460).

(stated in thousands of Canadian dollars)

6. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Other distribution system equipment	Other PP&E	Construction work-in-progress	Total
Cost or deemed cost					
Balance at January 1, 2014	22,386	396,561	26,376	5,357	450,680
Additions	4,888	30,181	3,289	795	39,153
Disposals	—	(1,900)	(32)	—	(1,932)
Balance at December 31, 2014	27,274	424,842	29,633	6,152	487,901
Balance at January 1, 2013	16,088	365,390	23,354	4,060	408,892
Additions	6,400	33,641	3,022	1,297	44,360
Disposals	(102)	(2,470)	—	—	(2,572)
Balance at December 31, 2013	22,386	396,561	26,376	5,357	450,680
Accumulated amortization					
Balance at January 1, 2014	3,698	36,120	10,501	—	50,319
Additions	1,175	13,703	3,980	—	18,858
Disposals	—	(189)	(24)	—	(213)
Balance at December 31, 2014	4,873	49,634	14,457	—	68,964
Balance at January 1, 2013	2,458	23,661	6,768	—	32,887
Additions	1,252	12,793	3,733	—	17,778
Disposals	(12)	(334)	—	—	(346)
Balance at December 31, 2013	3,698	36,120	10,501	—	50,319
Carrying amounts					
December 31, 2014	22,401	375,208	15,176	6,152	418,937
December 31, 2013	18,688	360,441	15,875	5,357	400,361

During the year, borrowing costs of $111 (2013 - $74) were capitalized as part of the cost of property, plant and equipment. A capitalization rate of 3.42% (2013 - 3.42%) was used to determine the amount of borrowing costs to be capitalized.

The net carrying amount of leased equipment is $343 (2013 - $656).

(stated in thousands of Canadian dollars)

7. INTANGIBLE ASSETS

	Capital contributions under CCRA	Computer software	Total
Cost or deemed cost			
Balance at January 1, 2014	12,420	8,998	21,418
Other additions	—	4,696	4,696
Balance at December 31, 2014	12,420	13,694	26,114
Balance at January 2, 2013	10,000	6,466	16,466
Other additions	2,420	2,532	4,952
Balance at December 31, 2013	12,420	8,998	21,418
Accumulated amortization			
Balance at January 1, 2014	733	5,318	6,051
Other additions	722	1,666	2,388
Balance at December 31, 2014	1,455	6,984	8,439
Balance at January 1, 2013	—	3,608	3,608
Other additions	733	1,710	2,443
Balance at December 31, 2013	733	5,318	6,051
Carrying amounts			
December 31, 2014	10,965	6,710	17,675
December 31, 2013	11,687	3,680	15,367

8. GOODWILL

Management has determined that the Corporation's rate-regulated operations are one cash-generating unit. As the goodwill corresponds to the rate-regulated operations, the goodwill was allocated to that cash-generating unit. The Corporation performed an impairment test as at December 31, 2014 based on an estimate of the Corporation's fair value less selling costs. Fair value selling costs was determined using a multiple of regulated rate base approach and was based on the following key assumptions:

- The multiple of rate base approach is a valuation technique used in the industry for purchase and sale transactions. A multiple is applied to the rate base of regulated assets to determine the value of the utility;
- The multiple of rate base is a key assumption in the determination of fair value less selling costs. Management utilized a range of multiples in the analysis to determine the recoverable amount of goodwill;
- The multiple of rate base used ranged from 1.35 to 1.45;
- Management obtained information regarding multiples used for recent purchase and sale transactions within the industry;
- The fair value estimate is categorized as a Level 2 input.

The recoverable amount of goodwill determined in the analysis was greater than the carrying value and no impairment was recorded.

(stated in thousands of Canadian dollars)

9. PAYMENTS IN LIEU OF INCOME TAXES

The provision for payments in lieu of income taxes recognized in income is as follows:

	2014	2013
Current PILs:		
Current year	4,282	4,596
Deferred PILs		
Origination and reversal of temporary differences	(2,444)	1,863
Provision for payments in lieu of income taxes	1,838	6,459

Reconciliation of effective tax rate

PILs varies from amounts which would be computed by applying the Corporation's combined statutory income tax rate as follows:

	2014	2013
Basic rate applied to income before payments in lieu of income tax	26.5%	26.5%
Increase in PILs resulting from:		
Items not deductible for tax purposes and other	4.3%	0.5%
Effective rate applied to income before payments in lieu of income tax	30.8%	27.0%

Deferred payments in lieu of income taxes balances

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

	2014	2013
Deferred PILs assets:		
Property, plant and equipment and intangibles	3,747	6,810
Employee benefits	8,989	7,129
Obligations under capital cost recovery agreement	2,650	2,650
Regulatory assets	2,771	—
Deferred PILs liabilities:		
Bond issuance costs	(80)	(58)
Regulatory liabilities	—	(2,585)
Net deferred PILs assets	18,077	13,946

(stated in thousands of Canadian dollars)

10. CREDIT SUPPORT FOR SERVICE DELIVERY

Credit support for service delivery represents cash deposits from electricity distribution customers and retailers, as well as construction deposits. These customer deposits bear interest at Canada's Prime Business rate less 2%, which is 1% per annum as of December 31, 2014.

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

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

	2014	2013
Customer deposits	11,698	13,376
Construction deposits	6,447	7,591
Total credit support for service delivery	18,145	20,967

11. LONG TERM BORROWINGS

Long term borrowings comprise promissory notes and finance lease liability.

	2014	2013
Promissory note payable to Horizon Holdings bearing interest at 4.89% and due July 21, 2020	40,000	40,000
Promissory note payable to Horizon Holdings bearing interest at 3.033% and due July 25, 2022	150,000	150,000
Finance lease liability	294	546
Transaction costs on promissory note payable to Horizon Holdings bearing interest at 3.033% and due July 25, 2022	(857)	(857)
Net long term borrowing	189,437	189,689
Accreted interest	209	124
Total long term borrowings	189,646	189,813
Current	294	255
Non-current	189,352	189,558
	189,646	189,813

(stated in thousands of Canadian dollars)

11. LONG TERM BORROWINGS (Continued)

Long-term borrowings comprise two promissory notes payable to Horizon Holdings Inc.:

i. $40,000 (2013 - $40,000) bearing interest at 4.89% per annum which is payable semi-annually on January 21 and July 21. This promissory note is unsecured and matures on July 21, 2020.

ii. $150,000 (2013 - $150,000) bearing interest at 3.033% per annum which is payable semi-annually on January 25 and July 25. This promissory note is unsecured and matures on July 25, 2022.

The Corporation paid interest in respect of the promissory notes payable of $6,506 (2013 - $6,506).

Finance lease liability is payable as follows:

	Future minimum payments	Interest	Present value of minimum payments
Less than one year	295	1	294
Total	295	1	294

12. OBLIGATION UNDER CAPITAL COST RECOVERY AGREEMENTS

The Corporation is party to connection and cost recovery agreements ("CCRA(s)") with HONI. Such agreements provide for the construction by HONI of transformer stations ("TS(s)") to the distribution system for the purpose of serving the Corporation's customers, including anticipated electricity load growth.

Under the CCRAs, the Corporation is required to provide HONI with an initial capital contribution ("Initial Capital Contribution") based on the difference (the "Difference") between the total capital cost of constructing the TS and a projection of transformation revenue ("HONI Revenue") earned on the conveyance of electricity through such TS. The Difference represents a debt obligation of the Corporation based on the extent that historical actual and forecast HONI Revenue through the CCRA term is less than the amount of HONI revenue projected as a basis for the determination of the Initial Capital Contribution. Conversely, the Corporation is entitled to a rebate of the Initial Capital Contribution based on the extent that historical actual and forecast HONI Revenue through the CCRA term is greater than the amount of HONI revenue projected as a basis for the determination of the Initial Capital Contribution.

Based on a review of two CCRAs with HONI for TS facilities constructed in 2003, the Corporation estimates a shortfall to HONI for TS Revenue relative to that projected as bases for the determination of respective Initial Capital Contributions. As a result of such a shortfall and based on the terms of the CCRAs, the Corporation has recorded Obligations Under Capital Cost Recovery Agreements and a corresponding intangible asset of $10,000 as at December 31, 2012.

The Corporation expects to be presented with a request for settlement from HONI in 2015; with the final amount of such and related payment terms to be arranged at that time, as may be negotiated between HONI and the Corporation.

In general terms, investments in regulated electricity distribution assets are recoverable from ratepayers in future rate applications based on the rate-making policies of the OEB.

(stated in thousands of Canadian dollars)

13. EMPLOYEE FUTURE BENEFITS

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. These benefits are provided through a group defined benefit plan. There is a policy in place to allocate the net defined benefit cost to the entities participating in the group plan. The allocation is based on the obligation attributable to the plan participants. The Corporation has reported its share of the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements. The accrued benefit liability and the expense for the year ended December 31, 2014 and December 31, 2013 were based on results and assumptions determined by actuarial valuation as at December 31, 2014 and December 31, 2011, respectively.

Information about the group unfunded defined benefit plan as a whole and changes in the present value of the unfunded defined benefit obligation and the accrued benefit liability are as follows:

Entire Plan

	2014	**2013**
Defined benefit obligation, beginning of year	22,622	23,945
Current service costs	1,626	1,534
Benefits paid during the year	(1,125)	(1,085)
Actuarial losses (gains) recognized in other comprehensive income (loss)	6,505	(1,772)
Defined benefit obligation, end of year	29,628	22,622

Corporation

	2014	**2013**
Defined benefit obligation, beginning of year	22,550	23,859
Current service costs	1,622	1,531
Benefits paid during the year	(1,111)	(1,076)
Actuarial losses (gains) recognized in other comprehensive income (loss)	6,369	(1,764)
Defined benefit obligation, end of year	29,430	22,550

The main actuarial assumptions underlying the valuation are as follows:

a. General inflation

The health care cost trend for prescription drugs is estimated to increase at a declining rate from 7% to 4% over four years. Other medical and dental expenses are assumed to increase at 4% per year.

The approximate effect on the accrued benefit obligation ("ABO") and the estimated net benefit expense if the health care trend rate assumption was increased or decreased by 1% is as follows:

	Period benefit cost	**ABO**
1% increase in health care trend rate	316	4,765
1% decrease in health care trend rate	(245)	(3,758)

(stated in thousands of Canadian dollars)

13. EMPLOYEE FUTURE BENEFITS (Continued)

b. Interest (discount) rate

The obligation at the period end and the present value of future liabilities were determined using a discount rate of 4.00% (2013 - 4.85%) representing an estimate of the yield on high quality corporate bonds as at the valuation date.

c. Salary levels

Future general salary and wage levels were assumed to increase at 2.5% (2013 - 3.0%) per year.

14. PENSION PLAN

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined benefit pension plan with equal contributions by the employer and its employees. In 2014, the Corporation made employer contributions of $3,750 to OMERS (2013 - $3,660). The Corporation's net benefit expense has been allocated as follows:

i. $707 (2013 - $750) capitalized as part of PP&E; and

ii. $3,043 (2013 - $2,910) charged to net income.

The Corporation estimates a contribution of $4,028 to OMERS during the next fiscal year.

15. SHARE CAPITAL

	2014	2013
Authorized:		
Unlimited Class A Common shares		
Unlimited Class 1 Common shares		
Issued:		
7,890 Class 1 Common shares	91,133	91,133
2,110 Class A Common shares	32,460	32,460
	123,593	123,593

Dividends

The holders of the common shares are entitled to receive dividends as declared from time to time.

The Corporation paid aggregate dividends in the year on common shares of $1.3346 per share (2013 - $1.3556), which amount to total dividends paid in the year of $13,346 (2013 - $13,556).

(stated in thousands of Canadian dollars)

16. DISTRIBUTION REVENUE

	2014	2013
Gross customer billings	616,606	593,473
Less: pass through charges billed by the Corporation		
Electricity charges paid through to generators	(429,171)	(400,504)
Transmission and miscellaneous charges	(62,030)	(61,900)
Market service charges	(28,024)	(28,800)
Distribution revenue	97,381	102,269

17. OTHER INCOME FROM OPERATIONS

	2014	2013
Water and waste water billing and customer charges	4,733	4,454
Pole and other rental income	1,423	1,800
Collection and other service charges	1,305	1,450
Solar PV revenue	1,352	967
Late payment charges	901	842
Miscellaneous	984	751
Scrap Sales	626	368
CDM revenue and performance incentives	706	312
Management and other support services	270	224
Other income from operations	12,300	11,168

18. FINANCE INCOME AND CHARGES

	2014	2013
Interest income on bank deposits	112	374
Finance income	112	374
Interest expense - intercompany	(6,505)	(6,505)
Interest expense	(592)	(454)
Finance charges	(7,097)	(6,959)
Net finance charges recognized in net income and comprehensive income	(6,985)	(6,585)

(stated in thousands of Canadian dollars)

19. CASH FLOW INFORMATION

The net change in other assets and liabilities comprises:

	2014	2013
Accounts receivable	(1,731)	(2,975)
Accounts receivable under common control	94	64
Inventory	(1,094)	(648)
Other assets	683	(3,196)
Accounts payable and accrued liabilities	6,336	8,297
Accounts payable to corporations under common control	1,399	1,566
	5,687	3,108

20. RELATED PARTY TRANSACTIONS

a. Parent and ultimate controlling party

The parent of the Corporation is HHI. The ultimate parent of the Corporation is HUC; with an effective and indirect 78.9% interest in the share capital of the Corporation. The ultimate controlling party (sole shareholder of the ultimate parent) is the City of Hamilton, which wholly owns HUC. The City of Hamilton produces financial statements that are available for public use.

b. Entity with significant influence

The City of St. Catharines exercises significant influence over the Corporation through its indirect 21.1% ownership interest in the Corporation's parent HHI.

c. Key management personnel

The key management personnel of the Corporation has been defined as members of its Executive Management team.

Key management compensation

	2014	2013
Salaries and other short-term benefits	1,691	1,495
Bonuses	429	389
Employee future benefits	25	22
Other long-term benefits	475	476
	2,620	2,382

The Corporation provides utility services to certain key management personnel. All energy charges of the Corporation to key management personnel were at prices and under terms approved by the OEB.

d. Transactions with parent

During the year the Corporation paid management, and business development services to HHI in the amount of $732 (2013 - $1,137).

20. RELATED PARTY TRANSACTIONS (Continued)

e. Transactions with entity with significant influence

In the ordinary course of business, the Corporation delivers electricity to the City of St. Catharines. Electricity is billed to the City of St. Catharines at prices and under terms approved by the OEB.

f. Transactions with shareholder of ultimate parent

In the ordinary course of business, the Corporation delivers electricity to the City of Hamilton. Electricity is billed to the City of Hamilton at prices and under terms approved by the OEB.

The Corporation also provides certain water and waste water billing and customer care services to the City of Hamilton. Other revenue includes $4,354 (2013 - $4,130) earned with respect to these services. Accounts payable and accrued liabilities include $13,657 (2013 - $12,141), owing to the City of Hamilton for amounts collected on behalf of the City of Hamilton.

g. Transactions with corporations under common control of the ultimate parent

Corporations under common control include all entities controlled by HUC.

The Corporation provides certain management, billing and administrative services to HUC, HCE Energy Inc., and Horizon Energy Solutions Inc.; all corporations under common control. Other revenue includes $149 (2013 - $152) earned with respect to these agreements.

h. Shareholder loans

Pursuant to a Credit Agreement dated June 30, 2013, the Corporation has made available a revolving line of credit up to $95,000 to finance general corporate requirements, capital investments, working capital requirements and prudential obligations to its subsidiaries. The Credit Agreement matures on June 30, 2016. Interest rates payable on the Credit Agreement are based on the Corporation's borrowing rate, as determined with reference to Corporation's debt rating and interest is payable monthly by the 15th day of the following month.

Pursuant to a Credit Agreement dated June 30, 2013, the Corporation has made available a revolving line of credit up to $5,000 to Solar Sunbelt GP to finance general corporate requirements, working capital requirements, and capital investments. The Credit Agreement matures on June 30, 2016. Interest rates receivable on the Credit Agreement are based on the Corporation's borrowing rate and interest is payable monthly by the 15th day of the following month.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value disclosure

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate respective fair values because of the short maturity of these instruments. The carrying value of the credit support for service delivery approximates fair value because the amounts are payable on demand.

The fair value of the long term borrowing is $200,011. The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date.

Financial risks

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

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Financial risks (Continued)

i. Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Corporation, such as cash and cash equivalents and accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Hamilton and the City of St. Catharines. One customer, the City of Hamilton, accounts for 3.10% (2013 - 2.88%) of revenue. No other single customer in either year would account for revenue in excess of 1% of the respective reported balances.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in net income. Subsequent recoveries of receivables previously recorded as impaired are credited to net income. The balance of the allowance for impairment as at December 31, 2014 is $1,750 (2013 - $1,750). An impairment loss of $2,857 was recognized during the year (2013 - $872).

The Corporation's credit risk associated with accounts receivable primarily corresponds to payments from distribution customers. At December 31, 2014, approximately $848 is considered 60 days past due. Horizon Utilities has approximately 242,000 customers; the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2014, Horizon Utilities holds security deposits from electricity distribution customers in the amount of $11,698 (2013 - $13,376).

ii. Market risk

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

iii. Liquidity risk

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to $95,000 line of credit and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The majority of accounts payable, as reported on the Statement of Financial Position, are due within 60 days.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Financial risks (Continued)

iv. Capital disclosures

The main objectives of the Corporation when managing financial capital include:

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

The Corporation's definition of capital includes: shareholder's equity; indebtedness under existing credit facilities; and long-term borrowings, which includes the current portion of long term borrowings.

The OEB regulates the amount of interest on debt and MARE that may be recovered by the Corporation, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure for the Corporation may differ from the OEB deemed structure.

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

22. COMMITMENTS AND CONTINGENCIES

Commitments

Contractual Obligations

Master Customer Demand Management ("CDM") Agreement

On February 1, 2011, the Corporation entered into a Master CDM Agreement ("CDM Agreement") with the Ontario Power Authority ("OPA") for the period January 1, 2011 to December 31, 2014. The CDM Agreement provides terms under which the Corporation may engage the OPA to design and pay for Province-wide CDM programs in support of the Corporation meeting its CDM targets (Note 2).

Subject to the terms of the CDM Agreement, all OPA CDM program costs are paid by the OPA. The Corporation effectively acts as a delivery agent for those programs that it participates in under the CDM Agreement.

The total cost of OPA CDM program participation over the four year period was approximately $37,700, of which approximately $10,200 represents administration costs of the Corporation for program delivery. The Corporation was entitled to receive, in semi-annual installments each January and July, reimbursements of its estimated administration costs associated with each program. Any administration costs incurred by the Corporation in excess of the pre-approved estimate would not be recoverable. All other program costs incurred by the Corporation, (such as customer incentives and goods and services delivered under the programs) are recoverable from the OPA on an invoiced basis in accordance with the CDM Agreement.

22. COMMITMENTS AND CONTINGENCIES (Continued)

Commitments (Continued)

Contractual Obligations (Continued)

Master Customer Demand Management ("CDM") Agreement (Continued)

On December 16, 2014, the Corporation entered into an extension of the CDM Agreement with the OPA for the period January 1, 2015 to December 31, 2015 to provide funding for the transition period until its CDM Plan is approved by the IESO (Note 2). The Corporation estimates that the total cost of OPA CDM program participation over a six month transition period ended June 30, 2015 will be approximately $3,100. The Corporation is entitled to receive reimbursements of its estimated administration costs associated with each program. Any administration costs incurred by the Corporation in excess of the pre-approved estimate would not be recoverable. All other program costs incurred by the Corporation, (such as customer incentives and goods and services delivered under the programs) are recoverable from the OPA on an invoiced basis in accordance with the CDM Agreement.

Contingencies

General

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

General Liability Insurance

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool, for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to 5 years. As at December 31, 2014, no assessments have been made.

ATTACHMENT 18
POWERSTREAM HOLDINGS INC. 2014 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements of

PowerStream Holdings Inc.

December 31, 2014

PowerStream Holdings Inc.
December 31, 2014

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Deloitte.

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Independent Auditor's Report

To the Shareholders of
PowerStream Holdings Inc.

We have audited the accompanying consolidated financial statements of PowerStream Holdings Inc., which comprise the consolidated balance sheet as at December 31, 2014, the consolidated statements of income and comprehensive income, changes in equity and of cash flows for the year ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PowerStream Holdings Inc. as at December 31, 2014, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
April 8, 2015

PowerStream Holdings Inc.

Consolidated balance sheet
as at December 31, 2014
(In thousands of dollars)

	2014	2013
	$	$
Assets		
Current assets		
Cash	23,723	-
Accounts receivable (Note 18(c))	96,959	90,629
Unbilled revenue	113,159	115,840
Due from related parties (Note 11)	2,893	2,533
Inventories (Note 7)	3,085	2,956
Income tax receivable	6,208	58
Prepaids and other assets	11,232	3,896
	257,259	215,912
Long-term assets		
Property, plant and equipment (Note 8)	1,035,498	910,792
Intangible assets (Note 9)	44,038	28,833
Long-term deposits	3,009	-
Investment in a joint venture (Note 6)	7,536	7,256
Deferred tax assets (Note 21)	14,645	22,537
Goodwill (Note 9(b))	42,543	42,543
	1,404,528	1,227,873
Liabilities		
Current liabilities		
Bank indebtedness (Note 12 (a))	-	7,368
Short-term debt (Note 12(a))	25,000	70,000
Infrastructure Ontario financing (Note 12(b))	67,656	48,315
Customer deposits	14,629	13,357
Accounts payable and accrued liabilities (Note 10)	136,311	136,715
Due to related parties (Note 11)	16,929	15,775
Income taxes payable	-	1,351
Liability for subdivision development	5,268	5,600
Current portion of finance lease obligation (Note 17)	337	315
	266,130	298,796
Long-term liabilities		
Notes payable (Note 13)	182,430	182,430
Debentures payable (Note 13)	347,288	198,221
Finance lease obligation (Note 17)	16,455	16,792
Post-employment benefits (Note 14)	17,362	19,317
Deferred revenue	120,651	101,342
Other long-term liabilities	394	-
	684,580	518,102
Shareholders' equity		
Share capital (Note 15)	339,183	288,718
Accumulated other comprehensive income	1,819	(739)
Retained earnings	112,816	122,996
	453,818	410,975
	1,404,528	1,227,873

Approved on behalf of the Board on April 8, 2015

_______________ Director _______________ Director

PowerStream Holdings Inc.

Consolidated statement of income and other comprehensive income
year ended December 31, 2014
(In thousands of dollars)

	2014	2013
	$	$
Revenue (Note 11(a))		
Sale of energy	**927,323**	888,218
Distribution revenue	**157,584**	156,993
Other revenue	**26,748**	20,965
Total revenue	**1,111,655**	1,066,176
Cost of power purchased	**941,261**	883,876
Operating expenses (Note 20)	**92,477**	85,800
Depreciation and amortization	**42,496**	36,940
	35,421	59,560
Loss on derecognition of property, plant and equipment	**(2,078)**	(1,462)
Share in (loss)/income from joint venture (Note 6)	**463**	(987)
Interest income	**1,851**	1,452
Interest expense	**(23,636)**	(21,809)
Income before income taxes	**12,022**	36,754
Income tax (recovery) expense (Note 21)	**(532)**	8,775
Net income	**12,554**	27,979
Other comprehensive income		
Remeasurement of defined benefit obligation, net of tax of $922 (Note 14(b))	**2,558**	-
Total income and other comprehensive income for the year	**15,112**	27,979

PowerStream Holdings Inc.
Consolidated statement of changes in equity
year ended December 31, 2014
(In thousands of dollars)

	Share capital	Accumulated other comprehensive income	Retained earnings	Total
	$	$	$	$
As at January 1, 2013	280,301	(739)	109,933	389,495
Dividends paid	-	-	(14,916)	(14,916)
Issuance of Class A common shares (Note 15)	8,417	-	-	8,417
Transactions with owners	288,718	(739)	95,017	382,996
Net income	-	-	27,979	27,979
Other comprehensive income, (net of tax)	-	-	-	-
Total income and other comprehensive income for the year	-	-	27,979	27,979
Balance at December 31, 2013	**288,718**	**(739)**	**122,996**	**410,975**
Dividends paid	-	-	(22,734)	(22,734)
Issuance of common shares	32,000	-	-	32,000
Issuance of Class A common shares (Note 15)	18,465	-	-	18,465
Transactions with owners	339,183	(739)	100,262	438,706
Net income	-	-	12,554	12,554
Other comprehensive income, (net of tax of $922)	-	2,558	-	2,558
Total income and other comprehensive income for the year	-	2,558	12,554	15,112
Balance at December 31, 2014	**339,183**	**1,819**	**112,816**	**453,818**

PowerStream Holdings Inc.
Consolidated statement of cash flows
year ended December 31, 2014
(In thousands of dollars)

	2014	2013
	$	$
Operating activities		
Total income and other comprehensive income for the year	**15,112**	27,979
Adjustments to determine cash provided by operating activities		
Share of loss/(income) from joint venture (net of 2014 dividend of $183)	**(280)**	987
Depreciation of property, plant and equipment	**41,344**	35,999
Amortization of intangible assets	**3,357**	2,940
Post-employment benefits	**(1,955)**	1,269
Loss on disposal of property, plant and equipment	**2,032**	1,386
Amortization of deferred revenue	**(2,454)**	(1,888)
Finance costs	**21,784**	20,357
Capital tax expense	**-**	129
Income tax expense	**390**	8,775
	79,330	97,933
Net change in non-cash operating working capital (Note 22)	**(857)**	(4,575)
Cash generated from operating activities	**78,473**	93,358
Interest paid	**(22,661)**	(21,418)
	55,812	71,940
Financing activities		
Repayment of bank term loan	**-**	(50,000)
Dividends paid	**(22,734)**	(14,916)
Proceeds from Infrastructure Ontario financing	**19,341**	39,792
Proceeds from the issuance of common shares	**50,465**	8,417
Proceeds from issuance of debenture (net)	**149,032**	-
(Repayment)/ proceeds of short-term debt	**(45,000)**	45,000
Payment of finance lease obligation	**(315)**	(295)
	150,789	27,998
Investing activities		
Advance on asset purchase	**(10,112)**	-
Contributions received from customers	**21,763**	20,471
Purchase of intangible assets	**(18,562)**	(12,979)
Purchase of property, plant and equipment	**(168,599)**	(134,761)
	(175,510)	(127,269)
Increase/(decrease) in cash during the year	**31,091**	(27,331)
(Bank indebtedness)/cash, beginning of year	**(7,368)**	19,963
Cash/(bank indebtedness), end of year (Note 12(a))	**23,723**	(7,368)

1. Description of the business

PowerStream Holdings Inc. (the "Corporation") was incorporated on July 24, 2013, under the Business Corporations Act (Ontario) as the parent company of the wholly owned subsidiary of PowerStream Inc. and PowerStream Energy Services Inc. PowerStream Holdings Inc. is owned by the Corporation of the City of Vaughan (the "City of Vaughan"), through its wholly owned subsidiary, Vaughan Holdings Inc.; the Corporation of the City of Markham (the "City of Markham"), through its wholly owned subsidiary, Markham Enterprises Corporation; and the Corporation of the City of Barrie (the "City of Barrie"), through its wholly owned subsidiary, Barrie Hydro Holdings Inc. PowerStream Holdings Inc., is incorporated and domiciled in Canada with its head and registered office located at 161 Cityview Boulevard, Vaughan, ON L4H 0A9.

The principal activities of the Corporation and its subsidiaries (the "Group") are described in Note 5.

The accompanying consolidated Group financial statements include the accounts of the Corporation and its subsidiaries: PowerStream Inc. and PowerStream Energy Services Inc.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements incorporate the financial statements of the Corporation and the subsidiaries controlled by the Corporation.

(c) Basis of consolidation

The Corporation controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the investees. All subsidiaries have a reporting period date of December 31. Consolidation of the Group financial statements is for the period beginning January 1, 2013 when effective control of the parent company took place due to common shareholding, as a result of the reorganization of PowerStream Inc. under IAS 27 *Consolidated and Separate Financial Statements*

The Corporation accounts for its investment in PowerStream Inc., its subsidiary, at cost, in its separate financial statements. The Corporation, shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original entity, PowerStream Inc., at the date of the reorganization.

(d) Consolidation

Consolidation of a subsidiary begins when the Corporation obtains control over the subsidiary and ceases when the Corporation loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income or loss and other comprehensive income from the date the Corporation gains control until the date when the Corporation ceases to control the subsidiary.

Income or loss and each component of other comprehensive income are attributed to the owners of the Corporation.

The Group prepares consolidated Group financial statements. All intercompany balances and transactions are eliminated on consolidation, including unrealized gains and losses on transactions between Group companies. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective.

2. Basis of preparation (continued)

(e) Presentation currency

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

(f) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the application of accounting policies and the amounts reported and disclosed in the consolidated financial statements. Estimates and underlying assumptions are continually reviewed and are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Significant sources of estimation uncertainty, assumptions and judgments include the following:

(i) *Unbilled revenue*

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

(ii) *Useful lives of depreciable assets*

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

(iii) *Cash Generating Units ("CGU")*

Determining CGU's for impairment testing is based on Management's judgment. This requires an estimation of the value in use. The value in use calculation requires an estimate of the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

(iv) *Valuation of financial instruments*

As described in Note 18, the discounted cash flow model is used to estimate the fair value of the financial instruments for disclosure purposes.

(v) *Other areas*

There are a number of other areas in which estimates are made; these include accounts receivable, inventories, post-employment benefits and income taxes. These amounts are reported based on the amounts expected to be recovered/refunded and an appropriate allowance has been provided based on the best estimate of unrecoverable amounts.

3. Significant accounting policies

The Group's financial statements are the representations of management prepared in accordance with IFRS. The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, unless otherwise indicated.

The consolidated financial statements reflect the following significant accounting policies:

(a) Rate regulation

The Ontario Energy Board Act, 1998 gave the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may prescribe license requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, and filing process requirements for rate-setting purposes.

The Group recognizes revenue when electricity is delivered to customers based on OEB approved rates. Operating costs and expenses are recorded when incurred, unless such costs qualify for recognition as part of an item of property, plant and equipment or as an intangible asset.

(b) Revenue recognition

(i) Electricity distribution and sale

Revenue from the sale and distribution of electricity is recorded on the basis of cyclical billings based on electricity usage and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is generally comprised of the following:

- Electricity Price and Related Rebates. The electricity price and related rebates represent a pass through of the commodity cost of electricity.
- Distribution Rate. The distribution rate is designed to recover the costs incurred by the Group in delivering electricity to customers, as well as the ability to earn the OEB allowed rate of return. Distribution charges are regulated by the OEB and typically comprise a fixed charge and a usage-based (consumption) charge.
- Retail Transmission Rate. The retail transmission rate represents a pass through of costs charged to the Group for the transmission of electricity from generating stations to the Group's service area. Retail transmission rates are regulated by the OEB.
- Wholesale Market Service Charge. The wholesale market service charge represents a pass through of various wholesale market support costs charged by the Independent Electricity System Operator ("IESO").

(ii) Other revenue

Other revenue includes revenue from the sale of other services, contributions from customers, performance incentive payments, service order fees, sub-metering management fees and other miscellaneous revenues.

Revenue related to the sale of other services is recognized as the services are rendered.

Revenue from sub-metering management fees is recognized as the services are rendered.

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

3. Significant accounting policies (continued)

(b) Revenue recognition (continued)

(ii) Other revenue (continued)

Performance incentive payments under Conservation and Demand Management ("CDM") programs are recognized by the Group when there is reasonable assurance that the program conditions have been satisfied and the incentive payment will be received.

Government grants under CDM programs are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(c) Finance and borrowing costs

Finance costs comprise interest expense on borrowings and are recognized on an accrual basis using the effective interest rate method.

Borrowing costs are calculated using the effective interest rate method and are recognized as finance costs, unless they are capitalized as part of the cost of a qualifying asset, which is an asset that takes a substantial period of time to get ready for its intended use.

(d) Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as loans and receivables or as other liabilities. Transaction costs for financial assets classified as loans and receivables and financial liabilities classified as other liabilities are capitalized as part of the carrying value at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, such financial assets are carried at amortized cost using the effective interest rate method, less any impairment losses. Losses are recognized in net income when the loans and receivables are derecognized or impaired.

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and the loss event has had a negative effect on estimated future cash flows of the asset which are reliably measureable.

Loans and receivables are comprised of cash, accounts receivable, unbilled revenue and amounts due from related parties.

(ii) Other liabilities

All non-derivative financial liabilities are classified as other liabilities. Subsequent to initial recognition, other liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when either the Group is discharged from its obligation, the obligation expires, or the obligation is cancelled or replaced by a new financial liability with substantially modified terms.

Financial liabilities are further classified as current or non-current depending on whether they will fall due within twelve months after the balance sheet date or beyond.

Other liabilities are comprised of bank indebtedness, short-term debt, Infrastructure Ontario financing, customer deposits, accounts payable and accrued liabilities, amounts due to related parties, notes payable, debentures payable, bank term loan, Infrastructure Ontario debentures, and liability for subdivision development.

(In thousands of dollars)

3. **Significant accounting policies (continued)**

(e) *Inventories*

Inventories, which consist of parts and supplies acquired for internal construction or consumption, are valued at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis and includes expenditures incurred in acquiring the inventories and other costs to bring the inventories to their existing location and condition.

(f) *Property, plant and equipment*

Property, plant and equipment ("PP&E") is measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and includes contracted services, cost of materials, direct labour and borrowing costs incurred in respect of qualifying assets. When parts of an item of PP&E have different useful lives, they are accounted for as separate components of PP&E.

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

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal with the carrying amount of the item and is included in net income.

Depreciation of PP&E is recognized on a straight-line basis over the estimated useful life of each component of PP&E. The estimated useful lives for the current and comparative years are as follows:

Land and buildings	
Land	Indefinite
Buildings	10 to 60 years
Distribution and other assets	
Scan transponder	20 years
Transformer stations	20 to 40 years
Transformers and meters	6 to 50 years
Plant and equipment	3 to 20 years
Other	3 to 37.5 years

Depreciation methods and useful lives are reviewed at each financial year-end and any changes are adjusted prospectively.

(g) *Intangible assets*

Intangible assets include land rights, computer software, customer lists and capital contributions. Capital contributions relate to the contributions made to Hydro One for a transformer station that was built outside the City of Barrie.

Land rights held by the Group are effective in perpetuity and there is no foreseeable limit to the period over which the rights are expected to provide benefit to the Group. Land rights have therefore been assessed as having an indefinite useful life and are not amortized. Land rights are measured at cost.

Computer software, customer lists and capital contributions are measured at cost less accumulated amortization and impairment losses.

Computer software, customer lists and capital contributions are amortized on a straight-line basis over the estimated useful lives from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Computer software	4 years
Customer lists	21 years
Capital contributions	17 years

3. **Significant accounting policies (continued)**

(g) *Intangible assets (continued)*

Amortization methods and useful lives are reviewed at each financial year-end and adjusted prospectively.

(h) *Goodwill*

Goodwill represents the excess of the purchase price over the fair value assigned to the Group's interest of the net identifiable assets acquired on the acquisition, by predecessor corporations, of the former Richmond Hill Hydro Inc., Penetanguishene Hydro, Essa Hydro, New Tecumseth Hydro and Bradford West Gwillimbury Hydro.

Goodwill is measured at cost and is not amortized. The Group's policy on goodwill arising on acquisition of an associate is described in note 3(n) below.

(i) *Impairment of non-financial assets*

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets with indefinite lives are tested annually for impairment and when circumstances indicate that the carrying value may be impaired. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group has three CGU's, the rate regulated business, the Permitted Generation Business unit, and the energy services business. CGU's were determined as Management views the Group as having three distinct lines of business.

The recoverable amount of an asset or CGU is the greater of its value in use and fair value less costs of disposal. Value in use is calculated as the present value of the estimated future cash flows expected to be derived from an asset or CGU.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of those from other assets or CGUs. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in net income. Impairment losses relating to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(j) *Employee benefits*

The Group provides both short-term employee benefits and post-employment benefits. The post-employment benefits are provided through a defined benefit plan.

A defined benefit plan is a post-retirement benefit plan that specifies either the benefits to be received by an employee, or the method of determining those benefits.

(i) *Short-term employee benefits*

Short-term employee benefit obligations are recognized as the related services are rendered to the Group. Short-term employee benefit obligations are measured on an undiscounted basis and recognized as an expense unless the amount qualifies for capitalization as part of the cost of an item of inventory, PP&E or an intangible asset.

3. **Significant accounting policies (continued)**

(j) Employee benefits (continued)

(ii) Multi-employer defined benefit plan

The Group provides a pension plan to its full-time employees through the Ontario Municipal Employees Retirement System ("the OMERS plan"). The OMERS plan is a multi-employer defined benefit plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The OMERS plan is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund.

It is not practicable to determine the present value of the Group's obligation or the related current service cost under the OMERS plan as OMERS computes its obligations in accordance with an actuarial valuation in which all the benefit plans are co-mingled and therefore information for individual plans cannot be determined. As a result, the Group accounts for the OMERS plan as a defined contribution plan where contributions to the OMERS plan are recognized as an employee benefit expense in the periods during which services are rendered by employees.

(iii) Non-pension defined benefit plans

The Group provides certain health, dental and life insurance benefits under unfunded defined benefit plans to its eligible retired employees (the "defined benefit plans").

The Group's net obligation in respect of the defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The calculated benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation of the defined benefit obligation is performed by an independent qualified actuary using the projected unit credit method.

Remeasurement of the net defined benefit liability, which is comprised of actuarial gains and losses, is recognized immediately in the balance sheet with a charge or credit to other comprehensive income in the year in which they occur.

Past service costs arising from plan amendments is recognized immediately in net income at the earlier of the date the plan amendment occurs or when any related restructuring costs or termination benefits are recognized.

(k) Customer deposits

Customer deposits are collections from customers to guarantee the payment of energy bills. Deposits that are refundable to customers on demand are classified as a current liability. Interest is paid on customer deposits.

(l) Leases

Leases in which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Payments under finance leases are apportioned between interest expense and a reduction of the outstanding liability.

Other leases are operating leases and are not recognized in the Group's balance sheet. Payments made under operating leases are recognized as an expense on a straight-line basis over the term of the lease.

3. Significant accounting policies (continued)

(m) Corporate income taxes and payment in lieu of corporate income taxes ("PILs")

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

PowerStream Energy Services Inc. is required to make corporate tax payments to Canada Revenue Agency as it is a taxable company under the Income Tax Act (Canada).

Income tax expense comprises current and deferred tax and is recognized in net income except to the extent that it relates to items recognized directly in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized, using the liability method, on temporary differences arising between the carrying amount of balance sheet items and their corresponding tax basis, using the substantively enacted income tax rates for the years in which the differences are expected to reverse.

In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognized for deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized.

(n) Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group owns 50% of Collingwood PowerStream Utility Services Corp. ("Collus PowerStream"). This investment is accounted for using the equity method and is recognized initially at cost.

Any excess cost over the acquisition of the Group's share of the net fair value of the identifiable assets and liabilities of Collus PowerStream is recognized as goodwill and included in the carrying value of the investment.

If Collus PowerStream is in a loss position, then when the Group's share of losses in Collus PowerStream equals or exceeds its interest, the Group would discontinue recognizing its share of further losses.

The consolidated financial statements include the Group's share of the (loss) / income and other comprehensive (loss)/income of Collus PowerStream for the year ended December 31, 2014.

4. Changes in accounting policies

Future accounting changes

There are new standards, amendments to standards and interpretations which have not been applied in preparing these consolidated financial statements. In particular, this includes IFRS 9 *Financial Instruments* which is tentatively effective from periods beginning on or after January 1, 2018 and amendments to IFRS 7 and IFRS 9 which are effective at the date of adoption of IFRS 9.

IFRS 15, Revenue from Contracts with Customers is a new standard on revenue recognition, superseding IAS 18, Revenue, IAS II, Construction Contracts, and related interpretations. IFRS 15 specifies how and when an entity will recognize revenue and additional disclosure requirements. This new standard is effective on January 1, 2017. The Corporation has not yet assessed the impact of this new standard.

(In thousands of dollars)

4. Changes in accounting policies (continued)

All of the above standards or amendments relate to the measurement and disclosure of financial assets and liabilities. The extent of the impact on adoption of these standards and amendments has not yet been determined.

5. Interests in subsidiaries

The principal activity of the Group through its wholly owned subsidiary PowerStream Inc., is distribution of electricity in the service areas of Alliston, Aurora, Barrie, Beeton, Bradford West Gwillimbury, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham and Vaughan in the Province of Ontario, under a license issued by the Ontario Energy Board ("OEB"). The Group is regulated under the OEB and adjustments to the distribution rates require OEB approval.

As a condition of its distribution license, the Group is required to meet specified Conservation and Demand Management ("CDM") targets for reductions in electricity consumption and peak electricity demand. As part of this initiative, the Group is delivering Ontario Power Authority ("OPA") funded programs in order to meet its targets.

Under the Green Energy and Green Economy Act, 2009, the Group and other Ontario electricity distributors have new opportunities and responsibilities for enabling renewable generation. The Group has commenced operations of a Permitted Generation Business unit, in 2010, as permitted by these changes.

PowerStream Energy Services Inc., a subsidiary of the Group, was incorporated on July 25, 2013, under the Business Corporations Act (Ontario) as a subsidiary of the Group.

PowerStream Energy Trust owns non-cumulative preference shares of PowerStream Energy Services Inc. These shares have been reclassified as part of financial liabilities as they have no voting rights attached to them, no participation upon liquidation, dissolution or winding down of subsidiary and are not entitled to receive dividends.

The principal activity of PowerStream Energy Services Inc. is unit sub-metering to condominium owners within the Province of Ontario. The OEB issued their trading license on October 10, 2013.

(a) *Composition of the group:*

Set out below are the details of the subsidiaries held directly by the Group:

Name of the Subsidiary	Principal activity	2014	Proportion of ownership interests held by the Group as at December 31, 2013
PowerStream Inc.	Distribution of electricity	100%	100%
PowerStream Energy Services Inc.	Retail unit sub-metering	100%	100%

There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group. There are no significant restrictions from the Group's borrowing arrangements, nor any significant commitments. There has been no change in the Group's ownership interest in its subsidiaries during the year.

(In thousands of dollars)

6. Investment in a joint venture

The Group owns a 50% interest in Collus PowerStream, a joint venture of which the Group has joint control. The cost of the investment includes transaction costs and the share of Collus PowerStream's income/(loss) and other comprehensive income/(loss) since the acquisition. Collus PowerStream is involved in the distribution of electricity in Collingwood, Thornbury, Stayner and Creemore, as well as the provision of other utility services in the service area of Clearview and the Town of The Blue Mountains in the Province of Ontario. Collus PowerStream's principal place of business is the Town of Collingwood.

The following judgments were used in determining that the investment was a joint venture:

- Joint control was established by assessing that both the Group and the City of Collingwood have unanimous consent over relevant activities within Collus. This was done through the agreements that were signed.
- This classification of the investment in Collus PowerStream as a joint venture was determined through analysis of the rights and obligations of the investment, specifically the legal structure.

Summarized financial information for Collus PowerStream follows. There were no significant restrictions from borrowing arrangements or any commitments incurred on behalf of Collus PowerStream in relation to the Group.

	2014	2013
	$	$
Total assets	**27,709**	26,126
Total liabilities	**20,876**	19,429
Net revenue	**7,452**	5,156
Total income/(loss) and other comprehensive income/(loss)	**925**	(1,974)
Share of income/(loss) and other comprehensive income/(loss)	**463**	(987)

7. Inventories

During fiscal 2014, an amount of $59 (2013 - $12) was recorded as an expense for the write-down of obsolete or damaged inventory to net realizable value.

(In thousands of dollars)

8. Property, plant and equipment

	Land and buildings	Distribution and other assets	Construction work-in-progress	Total (Note 24)
	$	$	$	$
Cost				
Balance at January 1, 2013	65,004	750,880	58,773	874,657
Additions and transfers, net	1,259	144,234	(5,663)	139,830
Disposals	-	(1,715)	-	(1,715)
Balance at December 31, 2013	66,263	893,399	53,110	1,012,772
Additions and transfers, net	6,202	136,522	27,085	169,809
Disposals	(19)	(4,219)	-	(4,238)
Balance at December 31, 2014	**72,446**	**1,025,702**	**80,195**	**1,178,343**
Accumulated depreciation				
Balance at January 1, 2013	2,234	63,950	-	66,184
Depreciation expense	1,148	34,851	-	35,999
Disposals	-	(203)	-	(203)
Balance at December 31, 2013	3,382	98,598	-	101,980
Depreciation expense	1,190	40,154	-	41,344
Disposals	-	(479)	-	(479)
Balance at December 31, 2014	**4,572**	**138,273**	**-**	**142,845**
Carrying amounts				
At December 31, 2013	62,881	794,801	53,110	910,792
At December 31, 2014	**67,874**	**887,429**	**80,195**	**1,035,498**

Included in PP&E costs is $16,910 (2013 - $15,415) of capitalized expenses and $654 (2013 - $683) of interest capitalized during the year. Interest costs have been capitalized at a rate of 5.81% (2013 - 5.87%) for rate-regulated business, at a rate of 1.82% for Permitted Generation Business and at a 90 day BA rate plus 1% for energy services business.

The Group leases its operations centre under a finance lease agreement. The leased operations centre is secured as collateral against the lease obligation. At December 31, 2014, the net carrying amount of the operations centre was $14,624 (2013 - $15,355).

(In thousands of dollars)

9. Intangible assets and goodwill

(a) Intangible assets

	Land rights	Other intangibles	Work-in-progress	Capital contributions	Total (Note 24)
	$	$	$	$	$
Cost					
Balance at January 1, 2013	797	12,071	5,973	4,972	23,813
Additions	30	3,236	9,713	-	12,979
Balance at December 31, 2013	827	15,307	15,686	4,972	36,792
Additions	46	2,939	15,577	-	18,562
Balance at December 31, 2014	**873**	**18,246**	**31,263**	**4,972**	**55,354**
Accumulated amortization					
Balance at January 1, 2013	-	4,674	-	317	4,991
Amortization expense	-	2,679	-	289	2,968
Disposals	-	-		-	-
Balance at December 31, 2013	-	7,353	-	606	7,959
Amortization expense	-	3,068	-	289	3,357
Disposals	-	-	-	-	-
Balance at December 31, 2014	**-**	**10,421**	**-**	**895**	**11,316**
Carrying amounts					
At December 31, 2013	827	7,954	15,686	4,366	28,833
At December 31, 2014	**873**	**7,825**	**31,263**	**4,077**	**44,038**

Included in intangible assets is $797 (2013 - $422) of interest capitalized during the year.

(b) Impairment testing of goodwill and indefinite life intangible assets

For the purpose of impairment testing, goodwill with a carrying amount of $42,543 (2013 - $42,543) and land rights with a carrying amount of $873 (2013 - $827) are allocated to the Group's rate-regulated CGU. The Group tested goodwill and land rights for impairment as at December 31, 2014, and annually since January 1, 2011, in accordance with its policy described in Note 3.

The total recoverable amount of $1,278,300, being $1,129,000, $143,000 and $6,300 for the rate regulated, Permitted Generation Business and energy services business CGUs respectively, was determined based on its value-in-use. The Group has used discounted cash flow analysis to determine value-in-use. The value-in-use was determined in the same manner at December 31, 2014 and December 31, 2013.

The calculation of value in use for the rate regulated CGU was based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results using a 5 year forecast with growth rates of 2.50% (2013 - 2.50%) built into the forecast. Growth rates were determined using the Bank of Canada inflation forecast.
- A pre-tax discount rate of 5.66% (2013 - 5.87%) and terminal value was used to discount the cash flows; this is derived from the Weighted Average Cost of Capital calculation. A discount rate increase of 0.4% would result in the carrying amount of the regulated CGU exceeding the recoverable amount by $4 million.

(In thousands of dollars)

9. Intangible assets and goodwill (continued)

(b) Impairment testing of goodwill and indefinite life intangible assets (continued)

The calculation of value in use for the Permitted Generation Business unit CGU was based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results using a 5 year forecast with growth rates of 2.50% (2013 - 2.50%) built into the forecast. Growth rates were determined using the Bank of Canada inflation forecast.
- A pre-tax discount rate of 5.50% (2013 - 8.93%) and terminal value was used to discount the cash flows; this is derived from the Weighted Average Cost of Capital calculation. A discount rate increase of 2.5% would result in the carrying amount of the Permitted Generation Business unit CGU exceeding the recoverable amount by $1 million.

The calculation of value in use for the energy services business unit CGU was based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results using a 5 year forecast with growth rates of 2.50% (2013 - 2.50%) built into the forecast. Growth rates were determined using the Bank of Canada inflation forecast.
- A pre-tax discount rate of 8.10% (2013 - 8.93%) and terminal value was used to discount the cash flows; this is derived from the Weighted Average Cost of Capital calculation. A discount rate increase of 1.95% would result in the carrying amount of the Permitted Generation Business unit CGU exceeding the recoverable amount by $35.

Guidance was applied by IAS 36 Impairment of Assets Appendix A, in determining the Weighted Average Cost of Capital ("WACC") which is not asset specific.

10. Accounts payable and accrued liabilities

	2014	2013
	$	$
Accounts payable - energy purchases	**82,881**	73,982
Debt retirement charge payable - OEFC	**4,600**	4,494
Payroll payable	**6,165**	5,956
Interest payable	**3,844**	3,298
Commodity taxes payable	**(44)**	(871)
Customer receivables in credit balances	**4,279**	3,810
Other accounts payable and accrued liabilities	**34,586**	46,061
	136,311	136,730

(In thousands of dollars)

11. Related party balances and transactions

(a) Balances and transactions with jointly controlling shareholders

The amount due to/(from) related parties is comprised of amounts payable to / (receivable from) the City of Vaughan, the City of Markham and the City of Barrie and their wholly-owned subsidiaries.

Components of the amounts due to / (from) related parties are as follows:

	2014	2013
	$	$
Due from:		
City of Vaughan	**778**	824
City of Markham	**1,083**	1,000
City of Barrie	**1,032**	709
	2,893	2,533
Due to:		
City of Vaughan	**(8,266)**	(7,241)
City of Markham	**(8,381)**	(8,252)
City of Barrie	**(282)**	(282)
	(16,929)	(15,775)

Significant related party transactions with the jointly controlling shareholders not otherwise disclosed separately in the consolidated financial statements, are summarized below:

			2014			2013
	City of Vaughan	**City of Markham**	**City of Barrie**	City of Vaughan	City of Markham	City of Barrie
	$	**$**	**$**	$	$	$
Revenue						
Energy and distribution	**6,233**	**6,189**	**7,256**	5,985	9,544	6,921
Shared services	**1,727**	**2,029**	**-**	1,676	1,939	-
Total revenue	**7,960**	**8,218**	**7,256**	7,661	11,483	6,921
Expenses						
Realty taxes	**640**	**502**	**268**	713	554	269
Facilities rental and other	**5**	**66**	**42**	19	59	53
Total	**7,315**	**7,650**	**6,946**	6,929	10,870	6,599

These transactions are in the normal course of operations and are recorded at the exchange amount. The Group has certain operating leases with the City of Vaughan, City of Markham and City of Barrie to lease rooftops on a number of buildings for which feed-in tariff contracts have been obtained. The current year lease expense has been included in the 'Facilities rental and other' line on the table above, and the future operating lease commitments have been disclosed in Note17(b).

(In thousands of dollars)

11. Related party balances and transactions (continued)

(b) *Key management personnel compensation*

Key management personnel are comprised of the Group's senior management team. The compensation paid or payable to key management personnel is as follows:

	2014	2013
	$	$
Short-term employment benefits and salaries	**8,225**	7,946
Post-employment benefits	**1,006**	954
Termination benefits	**-**	21
	9,231	8,921

12. Short-term debt

(a) *Credit facilities*

On December 17, 2008, the Group executed an unsecured credit facility with a Canadian chartered bank. The credit facility is renewable annually. The credit facility agreement provides an extendible 364-day committed revolving credit facility of $75,000, an uncommitted demand facility of $25,000, and uncommitted Letter of Guarantee facilities of $20,000 and $364 respectively. As at December 31, 2014, the Group utilized $Nil (2013 - $7,368) of the 364-day committed revolving credit facility.

In addition to the above, the Group entered into a second unsecured credit facility agreement that provided for a committed line of credit of up to $150,000. This committed facility matures on February 12, 2017. As at December 31, 2014, the Group utilized $25,000 (2013 - $70,000) of this facility.

As at December 31, 2014, the Group had utilized $14,999 (2013 - $14,999) of the uncommitted Letter of Guarantee facility for a letter of credit that was provided to the IESO to mitigate the risk of default on energy payments. With the opening of Ontario's electricity market to wholesale and retail competition on May 1, 2002 ("Open Access"), the IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the letter of credit if the Group defaults on its payment. Further, as at December 31, 2014, an additional $364 (2013 - $336) of the uncommitted Letter of Guarantee facility was utilized as security for operating projects.

The 364-day committed revolving credit facility can be drawn upon by direct advances, bearing interest at the lower of prime plus 0% or Bankers' Acceptance of a stamping fee plus 95 basis points (0.95% per annum). The uncommitted demand facility bears an interest rate at the lower of prime minus 0.30% or Bankers' Acceptance of a stamping fee plus 68 basis points (0.68% per annum). The Letter of Guarantee facility bears a charge of 50 basis points (0.50%) per annum.

The second committed credit facility bears an interest rate at Bankers' Acceptance stamping fee plus 70 basis points (0.70% per annum), with commitment fee of 10.5 basis points applied to the unutilized balance.

The amount of short-term debt drawn on the available credit facilities consists of:

	2014	2013
	$	$
Committed credit facility	**25,000**	70,000

(In thousands of dollars)

12. Short-term debt (continued)

(b) Ontario Infrastructure and Lands Corporation ("Infrastructure Ontario") financing

On October 15, 2010, the Group secured financing with Infrastructure Ontario for its Permitted Generation Business unit. The funding is available for up to 5 years from the date that the agreement was signed.

As at December 31, 2014, the Group has utilized $68,015 (2013 - $48,315) of the $90,000 financing facility, of which $4,293 (2013 - $4,457) has been transferred to a long-term debenture and $359 in principal repayments have been made to date. Each advance bears interest at a floating rate per annum as determined by Infrastructure Ontario. The advance interest rate at December 31, 2014 was 1.86% (2013 - 1.79%) and interest expense on short-term debt for the year was $654 (2013 - $277).

A note in the amount of $980 bears interest at a rate of 4.09% per annum, payable on May 15 and November 15 each year, and matures on November 17, 2031.

A note in the amount of $964 bears interest at a rate of 3.54% per annum, payable on February 15 and August 15 each year, and matures on August 1, 2032.

A note in the amount of $2,709 bears interest at a rate of 3.85% per annum, payable on March 1 and September 1 each year, and matures on March 1, 2033.

The Group will pay Infrastructure Ontario a stand-by fee calculated at a rate of 25 basis points (0.25%) on the advanced balance of the committed amount should the Group fail to draw any funds pursuant to the agreement from Infrastructure Ontario during any period of 12 consecutive months commencing initially from October 15, 2010, and subsequently from the date of the draw of any such funds until the earlier of the facility termination date October 15, 2015, or the full advance of the committed amount. Infrastructure Ontario financing is secured by the assets of the Permitted Generation Business unit. The financial covenants require a debt service coverage ratio of 1:1 or higher, a debt to capital ratio of 70% or lower, and a current ratio of 1:1 or higher. See Note 18 on the compliance of the covenant.

The long-term debenture portion in the amount of $4,293 (2013 - $4,457) is presented as a current liability as a waiver related to non-compliance with the current ratio of 1:1 or higher covenant was not received.

13. Long-term debt

(a) Debentures payable

	2014	2013
	$	$
3.958% unsecured Series A debentures due July 30, 2042, interest payable in arrears semi-annually on January 30 and July 30	**198,256**	198,221
3.239% unsecured Series B debentures due November 21, 2024, interest payable in arrears semi-annually on May 21 and November 21	**149,032**	-
	347,288	198,221

On November 21, 2014, PowerStream, under the existing trust indenture, issued 3.239% unsecured Series B debentures for $150,000,000, which are due November 21, 2024, with interest payable in arrears semi-annually on May 21st and November 21st. The debentures rank *pari passu* with all of the Group's other senior unsubordinated and unsecured obligations.

(In thousands of dollars)

13. Long-term debt (continued)

(a) *Debentures payable (continued)*

The debentures are subject to a financial covenant. This covenant requires that neither the Group nor any designated subsidiary may incur any funded obligation (other than non-recourse debt, capital lease obligations, intercompany indebtedness and purchase money obligations) unless the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. As at December 31, 2014, the Group is in compliance with this covenant.

(b) *Notes payable*

	2014	2013
	$	$
Promissory note issued to the City of Vaughan	**78,236**	78,236
Deferred interest on promissory note issued to the City of Vaughan	**8,743**	8,743
Promissory note issued to the City of Markham	**67,866**	67,866
Deferred interest on promissory note issued to the City of Markham	**7,585**	7,585
Promissory note issued to the City of Barrie	**20,000**	20,000
	182,430	182,430

On June 1, 2004 an unsecured 20 year term promissory note was issued to the City of Vaughan in the amount of $78,236. Interest thereon commenced on June 1, 2004, at an annual rate of 5.58%.

On June 1, 2004 an unsecured 20 year term promissory note was issued to the City of Markham in the amount of $67,866. Interest thereon commenced on June 1, 2004, at an annual rate of 5.58%.

On December 31, 2008, an unsecured 16 year term promissory note was issued to the City of Barrie in the amount of $20,000. Interest thereon commenced on January 1, 2009, at an annual rate of 5.58%.

The three promissory notes are repayable 90 days following demand by the City of Vaughan, the City of Markham, and the City of Barrie, with subordination and conditions. These notes have been classified as long-term, as the City of Vaughan, the City of Markham, or the City of Barrie, will not demand repayment before January 1, 2017.

At the request of the City of Vaughan and the City of Markham, eight quarters of interest were deferred commencing October 1, 2006, and initially payable October 31, 2013. In 2013, it was agreed that this deferred interest will be repayable in full on October 31, 2018, and is subject to 4.03% interest rate.

14. Post-employment benefits

(a) *Multi-employer defined benefit plan*

During fiscal 2014, the expense recognized in conjunction with the OMERS plan, which is equal to contributions due for the year was $5,782 (2013 - $5,466). At December 31, 2014, $853 (2013 - $812) of contributions were payable to the OMERS plan and were included in accounts payable and accrued liabilities on the balance sheet.

As at December 31, 2014, OMERS had approximately 450,000 members, of whom approximately 550 are current employees of the Group. The accrued benefit obligation of the OMERS plan as shown in OMERS financial statements as at December 31, 2014, is $76,924 million, with a funding deficit of $7,078 million. The funding deficit will result in future payments by the participating employers.

(In thousands of dollars)

14. Post-employment benefits (continued)

(a) Multi-employer defined benefit plan (continued)

The Group shares in the actuarial risks of the other participating entities in the OMERS plan and its future contributions may therefore be increased due to actuarial losses relating to the other participating entities. In addition, the withdrawal of other participating entities from the OMERS plan may also result in an increase to the Group's future contribution requirements.

(b) Non-pension defined benefit plans

A reconciliation of the obligation for the defined benefit plans is as follows:

	2014	2013
	$	$
Defined benefit obligation, beginning of the year	**19,317**	18,048
Amounts recognized in net income:		
Current service cost	**915**	1,099
Interest expense	**909**	798
	1,824	1,897
Amounts recognized in other comprehensive income:		
Actuarial(gains)/losses arising from changes in demographic assumptions	**(1,364)**	-
Actuarial(gains)/losses arising from changes in financial assumptions	**(2,116)**	-
	(3,480)	-
Payments from the plan	**(299)**	(628)
Defined benefit obligation, end of the year	**17,362**	19,317

The obligation for the defined benefit plans is presented in the balance sheet as post-employment benefits.
The significant actuarial assumptions used to determine the present value of the obligation for the defined benefit plans are as follows:

	2014	2013
	%	%
Discount rate	**4.00**	4.50
Rate of compensation increase	**3.50**	3.50
Medical benefits costs escalation	**4.60 - 7.00**	5 - 7.25
Dental benefits costs escalation	**4.60**	5.00

(In thousands of dollars)

15. Share capital

The Group's authorized share capital is made up of an unlimited number of common shares, and an unlimited number of Class A non-voting common shares, all of which are without nominal or par value.

The share capital issued during the period is as follows:

	Common shares		Class A common shares		Total
	Shares issued	$	Shares issued	$	$
Balance at January 1, 2013	100,000	247,183	55,195	33,118	280,301
Issued for cash	-	-	14,028	8,417	8,417
Balance at December 31, 2013	100,000	247,183	69,223	41,535	288,718
Issued for cash	12,945	32,000	30,774	18,465	50,465
Balance at December 31, 2014	**112,945**	**279,183**	**99,997**	**60,000**	**339,183**

Of the total 112,945 common shares issued by PowerStream Holdings Inc., 51,181 common shares are registered under Vaughan Holdings Inc., 38,610 common shares are registered under Markham Enterprises Corporation and 23,154 common shares are registered under Barrie Hydro Holdings Inc.

Of the total 99,997 (2013 - 69,233) Class A common shares issued by PowerStream Holdings Inc., including an issue of 3,918 and 26,856 Class A common shares in January 2014 and November 2014 respectively; 45,313 (2013 - 29,225) Class A common shares are registered under Vaughan Holdings Inc., 34,184 (2013 - 25,003) Class A common shares are registered under Markham Enterprises Corporation and 20,500 (2013 - 14,995) Class A common shares are registered under Barrie Hydro Holdings Inc.

Dividends

The Group has established a dividend policy to pay a minimum of 50% of Modified IFRS ("MIFRS", framework used for reporting to the OEB) net income to PowerStream Holdings Inc., excluding the Permitted Generation Business unit income, with consideration given to the following:

- Cash position at the beginning of the current year;
- Working capital requirements for the current year; and
- Net capital expenditures required for the current year.

The Group paid a dividend of $165.75 per share (2013 - $149.16) on the common shares during the year, amounting to a total dividend of $16,575 (2013 - $14,916). The Group is proposing to continue to follow the practice of paying a dividend on common shares, representing 50% of the MIFRS net income. The proposed 2015 dividend would amount to $157.59 per share, resulting in a total dividend of $17,034. In addition, there is a proposed special dividend of $0.68 per share, resulting in a total special dividend of $74 for 2015. There is no tax effect as the dividends are paid out on an after tax basis.

15. Share capital (continued)

Dividends (continued)

The Group has also established a dividend policy for its Permitted Generation Business unit to distribute a dividend on the Class A common shares to PowerStream Holdings Inc., determined as follows:

- The Group will target an IRR of 10.5% on the Permitted Generation Business Unit. As each project is completed by the Permitted Generation Business Unit, the Group expects to make distributions calculated with reference to the Class A common shares equity injections made by the Shareholders from time to time, provided that the amount of each dividend will be at the discretion of the Board of Directors ("Board") and may be greater or lesser than the below having regard to the financial and operating results of the Group as a whole;
  - For purposes of the dividend declaration that follows receipt of the unaudited IFRS financial statements for the Permitted Generation Business unit at mid-year, such amounts shall be the greater of:
    - the amounts reported in the most recent unaudited year-end IFRS financial statements for the Permitted Generation Business unit, or
    - the sum of fifty percent (50%) of the amounts reported in the most recent unaudited year-end IFRS financial statements for the Permitted Generation Business unit plus 100% of the amounts reported in the most recent unaudited mid-year IFRS financial statements for the Permitted Generation Business unit (i.e. for a six-month period).
- In the post-construction period or earlier as determined by the Board, the net free cash flow will be paid to the holders of the Class A common shares subject to the criteria listed below:
  - Dividends will be declared by the Group's Board of Directors after due consideration is given to the following:
    - All financial covenants on any debt issued by the Group.
    - Qualifications to meet external bond rating criteria and ensure no adverse impact on the current credit rating of the Group. The Group will advise the Shareholders of its credit rating from time to time (and at least on an annual basis).
    - Cash flow requirements of the Permitted Generation Business Unit of the Corporation to meet working capital requirements and short-term (2 year) plans of capital expenditures.
    - The maintenance of the planned 60/40 debt to equity ratio.

In 2014, the Group paid a dividend of $88.97 per share (2013 - $Nil) on the Class A common shares during the year, amounting to a total dividend of $6,159 (2013 - $Nil). The Corporation is proposing to continue to follow the established practice of paying a dividend on common class A shares in 2015, based on the net free cash flow, in accordance with the dividend policy. The proposed 2015 dividend would amount to $48.08 per share, resulting in a dividend of $4,808. There is no tax effect as the dividends are paid out on an after tax basis.

16. Insurance

The Group maintains appropriate types and levels of insurance with major insurers. With respect to liability insurance, the Group is a member of the Municipal Electricity Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousands of dollars of service revenue subject to a credit or surcharge based on each member's claims experience. The maximum coverage is $24,000 for liability insurance, $464,309 for property insurance, $15,000 for vehicle insurance, and $4,500 for credit insurance; plus $10,000 excess coverage on top of the regular liability and vehicle coverage.

(In thousands of dollars)

17. Leases

(a) *Finance leases*

The Group leases its operations centre under a 25 year lease agreement. The lease agreement includes both land and building elements. Upon entering into this lease arrangement, the Group classified the building element of the lease as a finance lease since it was determined that substantially all of the benefits and risks incidental to ownership of the operation centre were transferred to the Group (the lessee). The component of the annual basic rent related to the land is classified and recorded as an operating lease and the component related to the building is classified as a finance lease.

			2014
	Future minimum lease payments (including interest)	**Interest**	**Present value of minimum lease payments**
	$	**$**	**$**
Less than one year	**1,430**	**1,093**	**337**
Between one and five years	**7,257**	**5,088**	**2,168**
More than five years	**22,029**	**7,743**	**14,287**
	30,716	**13,924**	**16,792**

			2013
	Future minimum lease payments (including interest)	Interest	Present value of minimum lease payments
	$	$	$
Less than one year	1,430	1,115	315
Between one and five years	7,150	5,222	1,928
More than five years	23,566	8,702	14,864
	32,146	15,039	17,107

Interest on the lease obligation during fiscal 2014 amounted to $1,115 (2013 - $1,135) based on the rate of 6.57% per annum (2013 - 6.57%). Amortization of the corresponding PP&E during fiscal 2014 amounted to $731 (2013 - $731) based on the straight-line method with a useful life equal to the term of the lease (25 years). The Group has the option to purchase within twelve months before the expiry of the original lease in 2034, or an option of three five year lease extensions.

(In thousands of dollars)

17. Leases (continued)

(b) Operating leases

The Group is also committed to lease agreements for various vehicles, equipment, rooftops and the land portion of the finance lease for solar projects that have been classified as operating leases. The leases typically run for a period of 5 to 20 years.

The future, minimum non-cancellable annual lease payments (including the land portion of the operating centre lease referred to in (a) above) are as follows:

	2014	2013
	$	$
Less than one year	**3,141**	3,097
Between one and five years	**15,548**	15,351
More than five years	**34,363**	37,473
	53,052	55,921

During the year ended December 31, 2014, an expense of $3,126 (2013 - $3,105) was recognized in net income in respect of operating leases.

18. Financial instruments and risk management

(a) Fair value of financial instruments

The Group's accounting policies relating to the recognition and measurement of financial instruments are disclosed in Note 3(d).

The carrying amount of cash, accounts receivable, unbilled revenue, amounts due from related parties, bank indebtedness, liability for subdivision development, short-term debt, short- term Infrastructure Ontario financing, customer deposits, accounts payable and accrued liabilities and amounts due to related parties approximates fair value because of the short maturity of these instruments. The carrying value and fair value of the Group's other financial instruments are as follows:

		2014		2013
Description	**Carrying value**	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Liabilities				
Notes payable	**182,430**	**219,338**	182,430	206,990
Debentures payable	**347,288**	**353,756**	198,221	176,865
	529,718	**573,094**	380,651	383,855

The carrying amounts shown in the table are included in the balance sheet under the indicated captions. In addition, the fair value of the Infrastructure Ontario debentures which have been reclassified as a current liability (see Note 11) is as at December 31, 2014, in the amount of $4,324.

(In thousands of dollars)

18. Financial instruments and risk management (continued)

(a) *Fair value of financial instruments (continued)*

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

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

The Group's fair value hierarchy is classified as Level 2 for notes and debentures payable. The classification for disclosure purposes has been determined in accordance with generally accepted pricing models, based on discounted cash flow analysis, with the most significant inputs being the contractual terms of the instrument discounted, and the market discount rates that reflects the credit risk of counterparties.

(b) *Risk factors*

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

(c) *Credit risk*

The Group's primary source of credit risk to its accounts receivable result from customers failing to discharge their dues for electricity consumed and billed.

The Group has approximately 370,000 (2013 - 365,000) residential and commercial customers. In order to mitigate such potential credit risks, the Group has taken various measures in respect of its Energy customers such as collecting security deposits amounting to $16,158 (2012 - $14,830) in accordance with OEB guidelines, reviewing Dun & Bradstreet ("D&B") reports for the top 3000 commercial customers with an outstanding balance of $5 or more, in-house collection department as well as external collection agencies and a bad debt insurance policy for $4,500 (2013 - $4,500) related to energy receivables. Thus, the Group monitors and limits its exposure to such credit risks on an ongoing basis.

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

	2014		2013	
	Total		Total	
	$	**%**	$	%
Less than 30 days	**78,893**	**80**	78,987	86
30 - 60 days	**12,936**	**13**	8,129	9
61 - 90 days	**3,504**	**4**	1,955	2
Greater than 91 days	**3,268**	**3**	2,902	3
Total outstanding	**98,601**	**100**	91,973	100
Less: allowance for doubtful accounts	**(1,642)**	**(2)**	(1,344)	(1)
	96,959	**98**	90,629	99

(In thousands of dollars)

18. Financial instruments and risk management (continued)

(c) Credit risk (continued)

As at December 31, 2014, there was no significant concentration of credit risk with respect to any financial assets.

(d) Interest rate risk

The Group manages its exposure to interest rate risk by issuing long term fixed rate debt in the form of debentures, promissory notes and bank loans. It also ensures that all payment obligations are met by adopting proper capital planning.

As part of the Group's revolving demand operating credit facility, the Group may utilize the line of credit for working capital and/or capital expenditure purposes. Such short-term borrowing may expose the Group to short-term interest rate fluctuations as follows:

	2014	2013
364 day revolving facility		
Prime based loans	**PR*+0.0% p.a.**	PR*+0.0% p.a.
Bankers Acceptances	**SF*+0.95% p.a.**	SF*+0.95% p.a.
Demand facility		
Prime based loans	**PR*–0.30% p.a.**	PR*–0.30% p.a.
Bankers acceptances	**SF*+0.68% p.a.**	SF*+0.68% p.a.
Bankers acceptances (Secondary)	**SF*+0.70% p.a.**	SF*+0.70% p.a.
Letter of guarantee facility	**0.50% p.a.**	0.50% p.a.
Infrastructure Ontario financing	**Floating rate p.a.**	Floating rate p.a.

Note: PR - Prime Rate, SF* - Stamping Fee*

A sensitivity analysis was conducted to examine the impact of a change in the prime rate or stamping fee on the short-term debt. A variation of 1% (100 basis points), with all other variables held constant, would increase or decrease the annual interest expense by approximately $1,500.

Cash balances that are not required for day to day obligations earn an interest of Prime minus 1.7% per annum. Fluctuations in this interest rate could impact the level of interest income earned by the Group.

(In thousands of dollars)

18. Financial instruments and risk management (continued)

(e) Liquidity risk

Liquidity risks are those risks associated with the Group's inability to meet obligations associated with financial liabilities such as repayment of principal or interest payments on debts.

The Group monitors its liquidity risks on a regular basis to ensure there is sufficient cash flow to meet the obligations as they fall due, as well as minimize the interest expense. Cash flow forecasts are prepared to monitor liquidity risks. Liquidity risks associated with financial liabilities are as follows:

			2014			2013
Maturity period	**Principal ***	**Interest**	**Total**	Principal *	Interest	Total
	$	$	$	$	$	$
Less than 1 year	**256,396**	**24,533**	**280,929**	296,146	20,789	316,935
1-5 years	**17,283**	**112,299**	**129,582**	920	86,320	87,240
6-10 years	**316,291**	**90,242**	**406,533**	1,113	80,721	81,834
Over 10 years	**200,315**	**130,442**	**330,757**	366,600	138,328	504,928
	790,285	**357,516**	**1,147,801**	664,779	326,158	990,937

* The principal includes $ 2,712 (2013 - $1,778) of unamortized deferred issuing cost.

(f) Hedging/Derivative risk

The Group has a swap and derivative transaction policy to enable the Group to enter into agreements such as interest rate swaps where 100% of the floating rate risk is hedged into a fixed rate. This is done for prudent risk management purposes and not speculative purposes.

The Group has not entered into any such transactions during the year current or prior years.

19. Capital structure

The Group's main objectives in the management of capital are to:

(i) Ensure that there is access to various funding options at the lowest possible rates for the various capital initiatives and working capital requirements necessary for the rate-regulated business;

(ii) Ensure compliance with various covenants related to its short-term debt, Infrastructure Ontario financing, bank term loan, debentures payable and Infrastructure Ontario debentures;

(iii) Consistently maintain a high credit rating for the Group;

(iv) Maintain a split of approximately 60% debt, 40% equity as recommended by the OEB;

(v) Ensure interest rate fluctuations are mitigated primarily by long term borrowings as well as capital planning; and

(vi) Deliver appropriate financial returns to shareholders.

(In thousands of dollars)

19. Capital structure (continued)

The Group considers shareholders' equity, long-term debt and certain short-term debt as its capital. The capital structure as at December 31, is as follows:

	2014	2013
	$	$
Short-term debt		
Short-term debt (Note 12)	**25,000**	70,000
Infrastructure Ontario financing (Note 12)	**67,656**	48,315
Long-term debt		
Debentures payable (Note 13)	**347,288**	198,221
Notes payable (Note 13)	**182,430**	182,430
Total debt	**622,374**	498,966
Shareholders' equity		
Share capital (Note 15)	**339,183**	288,718
Accumulated other comprehensive income	**1,819**	(739)
Retained earnings	**112,816**	122,996
Total equity	**453,818**	410,975
Total	**1,076,192**	909,941

As at December 31, 2014, the Group was in compliance with covenants related to its short-term debt, bank term loan and debentures payable. Details relating to covenants are disclosed in Note 12 and Note 13.

The Group is within the debt and equity requirements of the OEB. The Group's dividend policy is disclosed in Note 15.

20. Operating expenses

Operating expenses comprise:

	2014	2013
	$	$
Labour	**50,359**	44,218
Contract/consulting	**16,696**	14,006
Materials	**1,660**	1,183
Vehicle	**1,579**	1,264
Other	**22,183**	25,129
Total	**92,477**	85,800

(In thousands of dollars)

21. Income taxes

(a) *Income tax expense*

PILs recognized in net income comprise the following:

	2014	2013
	$	$
Current tax (recovery)	**(7,501)**	(1,053)
Deferred tax expense	**6,969**	9,828
Income tax (recovery) expense	**(532)**	8,775

(b) *Reconciliation of effective tax rate*

The PILs income tax expense differs from the amount that would have been recorded using the combined Canadian federal and provincial statutory income tax rates. The reconciliation between the statutory and effective tax rates is as follows:

	2014	2013
	$	$
Income before taxes	**12,022**	36,754
Statutory Canadian federal and provincial income tax rates	**26.50%**	26.50%
Expected tax provision on income at statutory rates	**3,186**	9,741
Increase (decrease) in income taxes resulting from:		
Permanent differences	**(5)**	60
Adjustments in respect of prior years	**(1,929)**	-
Scientific Research & Experimental Development tax credit	**(1,374)**	(1,202)
Other	**(410)**	176
Income tax expense	**(532)**	8,775

Statutory Canadian federal and provincial income tax rates for the current year comprise 15% (2013: 15%) for federal corporate tax and a rate of 11.5% (2013: 11.5%) for corporate tax in Ontario. There was no change in the federal and provincial corporate tax rates in 2014.

(In thousands of dollars)

21. Income taxes (continued)

(c) Deferred tax balances

Deferred tax assets / (liabilities) are attributable to the following:

	2014	2013
	$	$
Employee future benefits	**4,601**	5,119
Property, plant and equipment	**3,102**	18,611
Intangible assets	**1,098**	1,367
Non-capital loss	**1,877**	-
Tax credit carry-overs	**2,482**	1,486
Other deductible temporary differences	**1,485**	(4,046)
	14,645	22,537

* Prior year comparatives have been changed to conform with current year presentation.

Movement in deferred tax balances during the year were as follows:

	2014	2013
	$	$
Balance at January 1	**22,537**	32,364
Recognized in net income	**(6,970)**	(9,827)
Recognized in OCI related to employee future benefits	**(922)**	-
Balance at December 31	**14,645**	22,537

* Prior year comparatives have been changed to conform to current year presentation.

22. Net change in non-cash operating working capital

	2014	2013
	$	$
Accounts receivable	**(6,330)**	(8,206)
Unbilled revenue	**2,681**	(19,453)
Due from related parties	**(360)**	481
Inventories	**(129)**	(10)
Prepaids and other assets	**(233)**	(61)
Customer deposits	**1,272**	293
Accounts payable and accrued liabilities	**507**	24,249
Due to related parties	**1,154**	1,825
Liability for subdivision development	**(332)**	1,349
Other long-term liabilities	**394**	-
Capital accruals in the prior year	**10,122**	5,080
Capital accruals in the current year	**(9,603)**	(10,122)
	(857)	(4,575)

23. Contingencies, commitments and guarantees

(a) Contingencies - legal claims

The Group has been named as a defendant in several actions. No provision has been recorded in the consolidated financial statements for these possible obligations as the Group expects that these claims are adequately covered by its insurance.

(b) Commitments

As at December 31, 2014, the Group has entered into agreements for capital projects and is committed to making payments of $41,429 in 2015 (2013 - $81,701).

(c) Guarantees

In the normal course of business, the Group enters into agreements that meet the definition of a guarantee as follows:

(i) The Group has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Group agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(ii) Indemnity has been provided to all directors and/or officers of the Group for various items including, but not limited to, all costs to settle suits or actions due to association with the Group, subject to certain restrictions. The Group has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Group. The maximum amount of any potential future payment cannot be reasonably estimated.

(iii) In the normal course of business, the Group has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Group to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Group from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Group has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

24. Comparative figures

The prior year's comparative figures for property, plant and equipment and intangibles have been reclassified by an amount of $15,686 related to work-in-progress for computer software which should have been reflected as an intangible in the prior year. In addition an amount of $1,462 which was previously netted in other revenue has been shown separately on the statement of income and other comprehensive income.

ATTACHMENT 19
POWERSTREAM INC. 2013 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Financial statements of

PowerStream Inc.

December 31, 2013

PowerStream Inc.
December 31, 2013

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Deloitte

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Independent Auditor's Report

To the Shareholder of
PowerStream Inc.

We have audited the accompanying financial statements of PowerStream Inc., which comprise the balance sheet as at December 31, 2013, the statements of income and other comprehensive income, changes in equity and of cash flows for the year ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 PowerStream Inc. as at December 31, 2013, and its financial performance and its cash flows for the year ended December 31, 2013, in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
April 22, 2014

PowerStream Inc.

Balance sheet

as at December 31, 2013

(In thousands of dollars)

	2013	2012 (Restated - Note 23)
	$	$
Assets		
Current assets		
Cash	-	19,963
Accounts receivable (Note 17(c))	**90,629**	82,423
Unbilled revenue	**115,840**	96,387
Due from related parties (Note 10)	**2,739**	3,014
Inventories (Note 6)	**2,956**	2,946
Prepaids and other assets	**3,896**	3,835
	216,060	208,568
Long-term assets		
Property, plant and equipment (Note 7)	**926,470**	814,446
Intangible assets (Note 8)	**13,147**	12,849
Investment in a joint venture (Note 5)	**7,256**	8,243
Deferred tax assets (Note 20)	**22,537**	32,352
Goodwill (Note 3(h) and Note 8(b))	**42,543**	42,543
	1,228,013	1,119,001
Liabilities		
Current liabilities		
Bank indebtedness (Note 11)	**7,368**	-
Short-term debt (Note 11)	**70,000**	25,000
Bank term loan (Note 12)	-	50,000
Current portion of notes payable (Note 12)	-	16,328
Infrastructure Ontario financing (Note 11)	**48,315**	6,612
Customer deposits	**13,357**	13,064
Accounts payable and accrued liabilities (Note 9)	**136,694**	113,660
Due to related parties (Note 10)	**15,775**	13,950
Income taxes payable	**1,351**	2,230
Liability for subdivision development	**5,600**	4,251
Current portion of finance lease obligation (Note 16)	**315**	295
	298,775	245,390
Long-term liabilities		
Notes payable (Note 12)	**182,430**	166,102
Debentures payable (Note 12)	**198,221**	198,189
Infrastructure Ontario debentures (Note 12)	-	1,911
Finance lease obligation (Note 16)	**16,792**	17,107
Post-employment benefits (Note 13)	**19,317**	18,048
Deferred revenue	**101,342**	82,759
	518,102	484,116
Shareholders' equity		
Share capital (Note 14)	**288,718**	280,301
Accumulated other comprehensive income	**(739)**	(739)
Retained earnings	**123,157**	109,933
	411,136	389,495
	1,228,013	1,119,001

Approved on behalf of the Board on April 22, 2014

Director

Director

The accompanying notes to the financial statements are an integral part of this financial statement.

PowerStream Inc.

Statement of income and other comprehensive income year ended December 31, 2013

(In thousands of dollars)

	2013	2012
	$	$
Revenue (Note 10(a))		
Sale of energy	**888,218**	811,506
Distribution revenue	**156,993**	159,839
Other revenue	**19,503**	18,039
Total revenue	**1,064,714**	989,384
Cost of power purchased	**883,876**	800,958
Operating expenses (Note 19)	**85,583**	89,502
Depreciation and amortization	**36,939**	33,364
	58,316	65,560
Share in (loss)/income from joint venture (Note 5)	**(987)**	150
Interest income	**1,452**	1,293
Interest expense	**21,809**	24,392
Income before income taxes	**36,972**	42,611
Income tax expense (Note 20)	**8,832**	7,285
Net income	**28,140**	35,326
Other comprehensive income		
Remeasurement of defined benefit obligation	**-**	-
Total income and other comprehensive income for the year	**28,140**	35,326

The accompanying notes to the financial statements are an integral part of this financial statement.

PowerStream Inc.

Statement of changes in equity
year ended December 31, 2013

(In thousands of dollars)

	Share capital	Accumulated other comprehensive income	Retained earnings (Restated - Note 23)	Total (Restated - Note 23)
	$	$	$	$
As at January 1, 2012, as previously reported	251,957	(739)	97,171	348,389
Correction of error (Note 23)	-	-	(6,477)	(6,477)
Restated as at January 1, 2012	251,957	(739)	90,694	341,912
Net income	-	-	35,326	35,326
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	35,326	35,326
Dividends paid	-	-	(16,087)	(16,087)
Issuance of Class A common shares (Note 14)	28,344	-	-	28,344
Balance at December 31, 2012	**280,301**	**(739)**	**109,933**	**389,495**
Net income	-	-	28,140	28,140
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	28,140	28,140
Dividends paid	-	-	(14,916)	(14,916)
Issuance of Class A common shares (Note 14)	8,417	-	-	8,417
Balance at December 31, 2013	**288,718**	**(739)**	**123,157**	**411,136**

The accompanying notes to the financial statements are an integral part of this financial statement.

PowerStream Inc.

Statement of cash flows
year ended December 31, 2013

(In thousands of dollars)

	2013	2012 (Restated - Note 23)
	$	$
Operating activities		
Net income for the year	**28,140**	35,326
Adjustments to determine cash provided by operating activities:		
Share of loss/(income) from joint venture	**987**	(150)
Depreciation of property, plant and equipment	**35,999**	32,354
Amortization of intangible assets	**2,940**	2,825
Post-employment benefits	**1,269**	1,237
Loss on disposal of property, plant and equipment	**1,386**	1,530
Amortization of deferred revenue	**(1,888)**	(1,164)
Finance costs	**20,357**	23,099
Capital tax expense	**129**	-
Income tax expense	**8,832**	7,285
	98,151	102,342
Net change in non-cash operating working capital (Note 21)	**(4,802)**	(8,030)
Cash generated from operating activities	**93,349**	94,312
Interest paid	**(21,418)**	(23,369)
Income tax received	**-**	1,578
Income taxes paid	**-**	(1,458)
	71,931	71,063
Financing activities		
Repayment of bank term loan	**(50,000)**	-
Dividends paid	**(14,916)**	(16,087)
Proceeds from Infrastructure Ontario financing	**39,792**	4,337
Proceeds from the issuance of Class A common shares	**8,417**	28,344
Proceeds from issuance of debenture	**-**	198,175
Repayment of debenture	**-**	(125,000)
Repayment of short-term debt	**45,000**	(15,000)
Payment of finance lease obligation	**(295)**	(277)
	27,998	74,492
Investing activities		
Contributions received from customers	**20,471**	27,757
Purchase of intangible assets	**(3,238)**	(6,684)
Investment in a joint venture	**-**	(8,093)
Purchase of property, plant and equipment	**(144,493)**	(130,533)
	(127,260)	(117,553)
(Decrease)/increase in cash during the year	**(27,331)**	28,002
Cash/(bank indebtedness), beginning of year	**19,963**	(8,039)
(Bank indebtedness)/cash, end of year (Note 11(a))	**(7,368)**	19,963

The accompanying notes to the financial statements are an integral part of this financial statement.

1. Description of the business

PowerStream Inc. (the "Corporation") was amalgamated on January 1, 2009, under the Business Corporations Act (Ontario) and is wholly owned by PowerStream Holdings Inc., which in turn is owned by the Corporation of the City of Vaughan (the "City of Vaughan"), through its wholly owned subsidiary, Vaughan Holdings Inc.; the Corporation of the City of Markham (the "City of Markham"), through its wholly owned subsidiary, Markham Enterprises Corporation; and the Corporation of the City of Barrie (the "City of Barrie"), through its wholly owned subsidiary, Barrie Hydro Holdings Inc. PowerStream Holdings Inc. is jointly controlled by these three municipalities. The Corporation is incorporated and domiciled in Canada with its head and registered office located at 161 Cityview Boulevard, Vaughan, ON L4H 0A9.

The principal activity of the Corporation is distribution of electricity in the service areas of Alliston, Aurora, Barrie, Beeton, Bradford West Gwillimbury, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham and Vaughan in the Province of Ontario, under a license issued by the Ontario Energy Board ("OEB"). The Corporation is regulated under the OEB and adjustments to the distribution rates require OEB approval. Collingwood PowerStream Utility Services Corp. ("Collus PowerStream") is a joint venture between the Corporation and the City of Collingwood. It distributes electricity in Collingwood, Thornbury, Stayner and Creemore.

As a condition of its distribution license, the Corporation is required to meet specified Conservation and Demand Management ("CDM") targets for reductions in electricity consumption and peak electricity demand. As part of this initiative, the Corporation is delivering Ontario Power Authority ("OPA") funded programs in order to meet its targets.

Under the Green Energy and Green Economy Act, 2009, the Corporation and other Ontario electricity distributors have new opportunities and responsibilities for enabling renewable generation.
The Corporation has commenced operations of a Solar Generation Business unit, in 2010, as permitted by these changes.

2. Basis of preparation

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis.

(c) Presentation currency

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the application of accounting policies and the amounts reported and disclosed in the financial statements. Estimates and underlying assumptions are continually reviewed and are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

2. Basis of preparation (continued)

(d) Use of estimates and judgments (continued)

Significant sources of estimation uncertainty, assumptions and judgments include the following:

(i) *Unbilled revenue*

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

(ii) *Useful lives of depreciable assets*

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

(iii) *Cash Generating Units ("CGU")*

Determining CGU's for impairment testing is based on Management's judgment. This requires an estimation of the value in use. The value in use calculation requires an estimate of the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

(iv) *Valuation of financial instruments*

As described in Note 17, the Corporation uses the discounted cash flow model to estimate the fair value of the financial instruments for disclosure purposes.

(v) *Other areas*

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

3. Significant accounting policies

The Corporation's financial statements are the representations of management, prepared in accordance with IFRS. The accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise indicated.

The financial statements reflect the following significant accounting policies:

(a) Rate regulation

The Ontario Energy Board Act, 1998 gave the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may prescribe license requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, and filing process requirements for rate-setting purposes.

The Corporation recognizes revenue when electricity is delivered to customers based on OEB approved rates. Operating costs and expenses are recorded when incurred, unless such costs qualify for recognition as part of an item of property, plant and equipment or as an intangible asset.

3. Significant accounting policies (continued)

(b) Revenue recognition

(i) Electricity distribution and sale

Revenue from the sale and distribution of electricity is recorded on the basis of cyclical billings based on electricity usage and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is generally comprised of the following:

- Electricity Price and Related Rebates. The electricity price and related rebates represent a pass through of the commodity cost of electricity.
- Distribution Rate. The distribution rate is designed to recover the costs incurred by the Corporation in delivering electricity to customers, as well as the ability to earn the OEB allowed rate of return. Distribution charges are regulated by the OEB and typically comprise a fixed charge and a usage-based (consumption) charge.
- Retail Transmission Rate. The retail transmission rate represents a pass through of costs charged to the Corporation for the transmission of electricity from generating stations to the Corporation's service area. Retail transmission rates are regulated by the OEB.
- Wholesale Market Service Charge. The wholesale market service charge represents a pass through of various wholesale market support costs charged by the Independent Electricity System Operator (IESO).

(ii) Other revenue

Other revenue includes revenue from the sale of other services, contributions from customers and performance incentive payments.

Revenue related to the sale of other services is recognized as services are rendered.

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

Performance incentive payments under Conservation and Demand Management ("CDM") programs are recognized by the Corporation when there is reasonable assurance that the program conditions have been satisfied and the incentive payment will be received.

Government grants under CDM programs are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(c) Finance and borrowing costs

Finance costs comprise interest expense on borrowings and are recognized on an accrual basis using the effective interest rate method.

Borrowing costs are calculated using the effective interest rate method and are recognized as finance costs, unless they are capitalized as part of the cost of a qualifying asset, which is an asset that takes a substantial period of time to get ready for its intended use.

3. Significant accounting policies (continued)

(d) Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as loans and receivables or as other liabilities. Transaction costs for financial assets classified as loans and receivables and financial liabilities classified as other liabilities are capitalized as part of the carrying value at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, such financial assets are carried at amortized cost using the effective interest rate method, less any impairment losses. Losses are recognized in net income when the loans and receivables are derecognized or impaired.

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and the loss event has had a negative effect on estimated future cash flows of the asset which are reliably measureable.

Loans and receivables are comprised of cash, accounts receivable, unbilled revenue and amounts due from related parties.

(ii) Other liabilities

All non-derivative financial liabilities are classified as other liabilities. Subsequent to initial recognition, other liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when either the Corporation is discharged from its obligation, the obligation expires, or the obligation is cancelled or replaced by a new financial liability with substantially modified terms.

Financial liabilities are further classified as current or non-current depending on whether they will fall due within twelve months after the balance sheet date or beyond.

Other liabilities are comprised of bank indebtedness, short-term debt, Infrastructure Ontario financing, customer deposits, accounts payable and accrued liabilities, amounts due to related parties, notes payable, debentures payable, bank term loan, Infrastructure Ontario debentures, and liability for subdivision development.

(e) Inventories

Inventories, which consist of parts and supplies acquired for internal construction or consumption, are valued at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis and includes expenditures incurred in acquiring the inventories and other costs to bring the inventories to their existing location and condition.

(f) Property, plant and equipment

Property, plant and equipment ("PP&E") is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and includes contracted services, cost of materials, direct labour and borrowing costs incurred in respect of qualifying assets constructed subsequent to January 1, 2011. When parts of an item of PP&E have different useful lives, they are accounted for as separate components of PP&E.

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

3. **Significant accounting policies (continued)**

(f) *Property, plant and equipment (continued)*

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal with the carrying amount of the item and is included in net income.

Depreciation of PP&E is recognized on a straight-line basis over the estimated useful life of each component of PP&E. The estimated useful lives for the current and comparative years are as follows:

Land and buildings	
Land	Indefinite
Buildings	10 to 60 years
Distribution and other assets	
Transformer stations	20 to 40 years
Transformers and meters	15 to 40 years
Plant and equipment	3 to 20 years
Other	3 to 37.5 years

Depreciation methods and useful lives are reviewed at each financial year-end and any changes are adjusted prospectively.

(g) *Intangible assets*

Intangible assets include land rights, computer software and capital contributions. Capital contributions relate to the contributions made to Hydro One for a transformer station that was built outside the City of Barrie.

Land rights held by the Corporation are effective in perpetuity and there is no foreseeable limit to the period over which the rights are expected to provide benefit to the Corporation. Land rights have therefore been assessed as having an indefinite useful life and are not amortized. Land rights are measured at cost.

Computer software and capital contributions are measured at cost less accumulated amortization and accumulated impairment losses.

Computer software and capital contributions are amortized on a straight-line basis over the estimated useful lives from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Computer software	4 years
Capital contributions	17 years

Amortization methods and useful lives are reviewed at each financial year-end and adjusted prospectively.

(h) *Goodwill*

Goodwill represents the excess of the purchase price over the fair value assigned to the Corporation's interest of the net identifiable assets acquired on the acquisition, by predecessor corporations, of the former Richmond Hill Hydro Inc., Penetanguishene Hydro, Essa Hydro, New Tecumseth Hydro and Bradford West Gwillimbury Hydro.

Goodwill is measured at cost and is not amortized. The company's policy on goodwill arising on acquisition of an associate is described in note 3(n).

3. Significant accounting policies (continued)

(i) Impairment of non-financial assets

The carrying amounts of the Corporation's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets with indefinite lives are tested annually for impairment and when circumstances indicate that the carrying value may be impaired. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Corporation has two CGU's, the rate regulated business and the Permitted Generation Business unit. Two CGU's were determined, as Management views the Corporation as having two distinct lines of business.

The recoverable amount of an asset or CGU is the greater of its value in use and fair value less costs of disposal. Value in use is calculated as the present value of the estimated future cash flows expected to be derived from an asset or CGU.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of those from other assets or CGUs. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in net income. Impairment losses relating to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(j) Employee benefits

The Corporation provides both short-term employee benefits and post-employment benefits. The post-employment benefits are provided through a defined benefit plan.

A defined benefit plan is a post-retirement benefit plan that specifies either the benefits to be received by an employee, or the method of determining those benefits.

(i) Short-term employee benefits

Short-term employee benefit obligations are recognized as the related services are rendered to the Corporation. Short-term employee benefit obligations are measured on an undiscounted basis and recognized as an expense unless the amount qualifies for capitalization as part of the cost of an item of inventory, PP&E or an intangible asset.

(ii) Multi-employer defined benefit pension plan

The Corporation provides a pension plan to its full-time employees through the Ontario Municipal Employees Retirement System ("the OMERS plan"). The OMERS plan is a multi-employer defined benefit plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The OMERS plan is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund.

3. **Significant accounting policies (continued)**

(j) *Employee benefits (continued)*

(ii) *Multi-employer defined benefit pension plan (continued)*

It is not practicable to determine the present value of the Corporation's obligation or the related current service cost under the OMERS plan as OMERS computes its obligations in accordance with an actuarial valuation in which all the benefit plans are co-mingled and therefore information for individual plans cannot be determined. As a result, the Corporation accounts for the OMERS plan as a defined contribution plan where contributions to the OMERS plan are recognized as an employee benefit expense in the periods during which services are rendered by employees.

(iii) *Non-pension defined benefit plans*

The Corporation provides certain health, dental and life insurance benefits under unfunded defined benefit plans to its eligible retired employees (the "defined benefit plans").

The Corporation's net obligation in respect of the defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The calculated benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Corporation's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation of the defined benefit obligation is performed by an independent qualified actuary using the projected unit credit method.

Remeasurement of the net defined benefit liability, which is comprised of actuarial gains and losses, is recognized immediately in the balance sheet with a charge or credit to other comprehensive income in the year in which they occur.

Past service costs arising from plan amendments is recognized immediately in net income at the earlier of the date the plan amendment occurs or when any related restructuring costs or termination benefits are recognized.

(k) *Customer deposits*

Customer deposits are collections from customers to guarantee the payment of energy bills. Deposits that are refundable to customers on demand are classified as a current liability. Interest is paid on customer deposits.

(l) *Leases*

Leases in which the Corporation assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Payments under finance leases are apportioned between interest expense and a reduction of the outstanding liability.

Other leases are operating leases and are not recognized in the Corporation's balance sheet. Payments made under operating leases are recognized as an expense on a straight-line basis over the term of the lease.

3. Significant accounting policies (continued)

(m) Payment in lieu of corporate income taxes ("PILs")

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). The payments in lieu of taxes are calculated on a basis as if the Corporation was a taxable company under the Income Tax Act (Canada) and the Taxation Act, 2007 (Ontario).

Income tax expense comprises current and deferred tax and is recognized in net income except to the extent that it relates to items recognized directly in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized, using the liability method, on temporary differences arising between the carrying amount of balance sheet items and their corresponding tax basis, using the substantively enacted income tax rates for the years in which the differences are expected to reverse.

In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognized for deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized.

(n) Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group owns 50% of Collingwood PowerStream Utility Services Corp. ("Collus PowerStream"). This investment is accounted for using the equity method and is recognized initially at cost.

Any excess cost over the acquisition of the Group's share of the net fair value of the identifiable assets and liabilities of Collus PowerStream is recognized as goodwill and included in the carrying value of the investment.

If Collus PowerStream is in a loss position, then when the Group's share of losses in Collus PowerStream equals or exceeds its interest, the Group would discontinue recognizing its share of further losses.

The financial statements include the Corporations's share of the (loss)/income and other comprehensive (loss)/income of Collus PowerStream for the year ended December 31, 2013.

4. Changes in accounting policies

Future accounting changes

There are new standards, amendments to standards and interpretations which have not been applied in preparing these financial statements. In particular, this includes IFRS 9 *Financial Instruments* which is tentatively effective from periods beginning on or after January 1, 2018 and amendments to IFRS 7 and IFRS 9 which are effective at the date of adoption of IFRS 9.

All of the above standards or amendments relate to the measurement and disclosure of financial assets and liabilities. The extent of the impact on adoption of these standards and amendments has not yet been determined.

4. Changes in accounting policies (continued)

Future accounting changes (continued)

New and revised standards

There is only one new and revised standard that is effective for annual periods beginning on or after January 1, 2013. Information on this new standard is presented below:

IFRS 13 Fair Value Measurement

The Corporation has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures, except for share-based payment transactions that are within in the scope of IFRS 2 *Share-based Payments,* leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principle (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from January 1, 2013. In addition, specific transitional provisions were given to entities such that they need to apply the disclosure requirements set out in the standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period (please see note 17(a) for the 2013 disclosures). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in the financial statements.

5. Investment in a joint venture

The Corporation owns a 50% interest in Collus PowerStream, a joint venture of which the Corporation has joint control. The cost of the investment includes transaction costs and the share of Collus PowerStream's (loss)/income and other comprehensive (loss)/income since the acquisition. Collus PowerStream is involved in the distribution of electricity in Collingwood, Thornbury, Stayner and Creemore as well as the provision of other utility services in the service area of Clearview and the Town of The Blue Mountains in the Province of Ontario. Collus PowerStream's principal place of business is the Town of Collingwood.

The following judgments were used in determining that the investment was a joint venture:

- Joint control was established by assessing that both the Corporation and the City of Collingwood have unanimous consent over relevant activities within Collus PowerStream. This was done through the agreements that were signed.
- This classification of the investment in Collus PowerStream as a joint venture was determined through analysis of the rights and obligations of the investment, specifically the legal structure.

(In thousands of dollars)

5. Investment in a joint venture (continued)

Summarized financial information for Collus PowerStream follows. There were no significant restrictions from borrowing arrangements or any commitments incurred on behalf of Collus PowerStream in relation to the Corporation.

	2013	2012
	$	$
Total assets	**26,126**	26,982
Total liabilities	**19,429**	19,789
Net revenue	**5,156**	7,323
Total (loss)/income and other comprehensive (loss)/income	**(1,974)**	300
Share of (loss)/income and other comprehensive (loss)/income	**(987)**	150

6. Inventories

During fiscal 2013, an amount of $12 (2012 - $34) was recorded as an expense for the write-down of obsolete or damaged inventory to net realizable value.

7. Property, plant and equipment

	Land and buildings	Distribution and other assets (Restated - Note 23)	Work-in-progress	Total (Restated - Note 23)
	$	$	$	$
Cost				
Balance at January 1, 2012	57,460	662,295	24,946	744,701
Additions	7,724	88,740	39,150	135,614
Adjustments	-	1,953	-	1,953
Disposals	-	(1,638)	-	(1,638)
Balance at December 31, 2012	65,184	751,350	64,096	880,630
Additions	1,570	144,226	3,739	149,535
Disposals	-	(1,715)	-	(1,715)
Balance at December 31, 2013	**66,754**	**893,861**	**67,835**	**1,028,450**
Accumulated depreciation				
Balance at January 1, 2012	1,110	30,874	-	31,984
Depreciation expense	1,124	31,230	-	32,354
Adjustments	-	1,953	-	1,953
Disposals	-	(107)	-	(107)
Balance at December 31, 2012	2,234	63,950	-	66,184
Depreciation expense	1,148	34,851	-	35,999
Disposals	-	(203)	-	(203)
Balance at December 31, 2013	**3,382**	**98,598**	**-**	**101,980**
Carrying amounts				
At December 31, 2012	62,950	687,400	64,096	814,446
At December 31, 2013	**63,372**	**795,263**	**67,835**	**926,470**

(In thousands of dollars)

7. Property, plant and equipment (continued)

Included in PP&E costs is $15,415 (2012 - $13,639) of operating expenses and $659 (2012 - $778) of interest capitalized during the year. These costs have been capitalized at a rate of 5.87% (2012 - 5.2%).

Included in work-in-progress is $16,174 (2012 - $6,288) relating to costs incurred for a customer information system (CIS) project. At the completion of the project the costs will be assessed and those costs relating to computer software will be transferred and recorded as part of intangible assets on the balance sheet.

The Corporation leases its operations centre under a finance lease agreement. The leased operations centre is secured as collateral against the lease obligation. At December 31, 2013 the net carrying amount of the operations centre was $15,355 (2012 - $16,086).

8. Intangible assets and goodwill

(a) Intangible assets

	Land rights	Computer software	Capital contributions	Total
	$	$	$	$
Cost				
Balance at January 1, 2012	765	9,782	609	11,156
Additions	32	2,289	4,363	6,684
Transfers from PP&E	-	-	-	-
Disposals	-	-	-	-
Balance at December 31, 2012	797	12,071	4,972	17,840
Additions	30	3,236	-	3,266
Transfers	-	-	-	-
Disposals	-	-	-	-
Balance at December 31, 2013	**827**	**15,307**	**4,972**	**21,106**
Accumulated amortization				
Balance at January 1, 2012	-	2,137	29	2,166
Amortization expense	-	2,537	288	2,825
Disposals	-	-	-	-
Balance at December 31, 2012	-	4,674	317	4,991
Amortization expense	-	2,679	289	2,968
Disposals	-	-	-	-
Balance at December 31, 2013	**-**	**7,353**	**606**	**7,959**
Carrying amounts				
At December 31, 2012	797	7,397	4,655	12,849
At December 31, 2013	**827**	**7,954**	**4,366**	**13,147**

(In thousands of dollars)

8. Intangibles assets and goodwill (continued)

(b) Impairment testing of goodwill and indefinite life intangible asset

For the purpose of impairment testing, goodwill with a carrying amount of $42,543 (2012 - $42,543) and land rights with a carrying amount of $826 (2012 - $797) are allocated to the Corporation's rate regulated and Permitted Generation Business unit CGUs. The Corporation tested goodwill and land rights for impairment as at December 31, 2013 in accordance with its policy described in Note 3.

The total recoverable amount of $1,095 million, being $941,000 and $154,000 for the rate regulated and Permitted Generation Business unit CGUs respectively, was determined based on its value-in-use. The Corporation has used discounted cash flow analysis to determine value-in-use. The value-in-use was determined in the same manner at December 31, 2013 and December 31, 2012.

The calculation of value in use for the rate regulated CGU was based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results using a 5 year forecast with growth rates of 2.50% (2012 - 2.50%) built into the forecast. Growth rates were determined using the Bank of Canada inflation forecast.
- A pre-tax discount rate of 5.87% (2012- 6.30%) and terminal value was used to discount the cash flows, this is derived from the Weighted Average Cost of Capital calculation. A discount rate increase of 0.25% would result in the carrying amount of the regulated CGU exceeding the recoverable amount by $5 million.

The calculation of value in use for the Permitted Generation Business unit CGU was based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results using a 5 year forecast with growth rates of 2.50% (2012 - 2.50%) built into the forecast. Growth rates were determined using the Bank of Canada inflation forecast.
- A pre-tax discount rate of 8.93% (2012 - 9.18%) and terminal value was used to discount the cash flows, this is derived from the Weighted Average Cost of Capital calculation. A discount rate increase of 4% would result in the carrying amount of the Permitted Generation Business unit CGU exceeding the recoverable amount by $5 million.

Guidance was applied by IAS 36 *Impairment of Assets* Appendix A, in determining the Weighted Average Cost of Capital ("WACC") which is not asset specific.

9. Accounts payable and accrued liabilities

	2013	2012
	$	$
Accounts payable - energy purchases	**73,982**	58,480
Debt retirement charge payable - OEFC	**4,494**	4,319
Payroll payable	**5,956**	4,963
Interest payable	**3,298**	3,420
Commodity taxes payable	**(871)**	(1,395)
Customer receivables in credit balances	**3,809**	3,456
Other accounts payable and accrued liabilities	**46,026**	40,417
	136,694	113,660

(In thousands of dollars)

10. Related party balances and transactions

(a) *Transactions with jointly controlling shareholders*

The amount due to/(from) related parties is comprised of amounts payable to/(receivable from) the City of Vaughan, the City of Markham, the City of Barrie and their wholly-owned subsidiaries.

Components of the amounts due to/(from) related parties are as follows:

	2013	2012
	$	$
Due from:		
City of Vaughan	**(824)**	(673)
City of Markham	**(1,000)**	(1,483)
City of Barrie	**(709)**	(858)
	(2,533)	(3,014)
Due to:		
City of Vaughan	**7,241**	6,523
City of Markham	**8,252**	7,145
City of Barrie	**282**	282
	15,775	13,950

Other significant related party transactions with the jointly controlling shareholders not otherwise disclosed separately in the financial statements, are summarized below:

	2013			2012		
	City of Vaughan	**City of Markham**	**City of Barrie**	City of Vaughan	City of Markham	City of Barrie
	$	**$**	**$**	$	$	$
Revenue						
Energy and distribution	**5,985**	**9,544**	**6,921**	5,527	7,741	6,746
Shared services	**1,676**	**1,939**	**-**	1,781	2,791	-
Total revenue	**7,661**	**11,483**	**6,921**	7,308	10,532	6,746
Expenses						
Realty taxes	**713**	**554**	**269**	661	456	283
Facilities rental and other	**19**	**59**	**53**	29	19	12
Total	**6,929**	**10,870**	**6,599**	6,618	10,057	6,451

These transactions are in the normal course of operations and are recorded at the exchange amount. The Corporation has certain operating leases with the City of Vaughan, City of Markham and City of Barrie to lease rooftops on a number of buildings for which feed-in tariff contracts have been obtained. The current year lease expense has been included in the 'Facilities rental and other' line on the table above, and the future operating lease commitments have been disclosed in Note16(b).

(In thousands of dollars)

10. Related party balances and transactions (continued)

(a) *Inter-company balances*

The amount due from inter-company related parties is comprised of a receivable from PowerStream Energy Services Inc., a subsidiary of PowerStream Holdings Inc., is as follows:

	2013	2012
	$	$
Due from:		
PowerStream Energy Services Inc.	**204**	-

(b) *Key management personnel compensation*

Key management personnel are comprised of the Corporation's senior management team. The compensation paid or payable to key management personnel is as follows:

	2013	2012
	$	$
Short-term employment benefits and salaries	**7,946**	7,526
Post-employment benefits	**954**	749
Termination benefits	**21**	178
	8,921	8,453

11. Short-term debt

(a) *Credit facilities*

On December 17, 2008 the Corporation executed an unsecured credit facility with a Canadian chartered bank. The credit facility is renewable annually. The credit facility agreement provides an extendible 364-day committed revolving credit facility of $75,000, an uncommitted demand facility of $25,000, and uncommitted Letter of Guarantee facilities of $15,000 and $336 respectively. As at December 31, 2013, the Corporation utilized the 364-day committed revolving credit facility by drawing $7,368 of the $75,000 available.

In addition to the above, the Corporation entered into a second unsecured credit facility agreement that provided for a committed line of credit of up to $150,000. This committed facility matures on February 12, 2015.

As at December 31, 2013, the Corporation had utilized $14,999 (2012 - $14,999) of the uncommitted Letter of Guarantee facility for a letter of credit that was provided to the IESO to mitigate the risk of default on energy payments. With the opening of Ontario's electricity market to wholesale and retail competition on May 1, 2002 ("Open Access"), the IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the letter of credit if the Corporation defaults on its payment. Further, as at December 31, 2013, an additional $336 (2012 - $450) of the uncommitted Letter of Guarantee facility was utilized as security for operating projects.

(In thousands of dollars)

11. Short-term debt (continued)

(a) Credit facilities (continued)

The 364-day committed revolving credit facility can be drawn upon by direct advances, bearing interest at the lower of prime plus 0% or Bankers' Acceptance of a stamping fee plus 110 basis points (1.10% per annum). The uncommitted demand facility bears an interest rate at the lower of prime minus 0.30% or Bankers' Acceptance of a stamping fee plus 68 basis points (0.68% per annum). The Letter of Guarantee facility bears a charge of 50 basis points (0.50%) per annum.

The committed demand facility bears an interest rate at Bankers' Acceptance stamping fee plus 70 basis points (0.70% per annum), with commitment fee of 14 basis points applied to the unutilized balance.

The amount of short-term debt drawn on the available credit facilities consists of:

	2013	2012
	$	$
Uncommitted demand facility	-	25,000
Committed demand facility	**70,000**	-
	70,000	25,000

(b) Ontario Infrastructure and Lands Corporation ("Infrastructure Ontario") financing

On October 15, 2010 the Corporation secured financing with Infrastructure Ontario for its Permitted Generation Business unit. The funding is available for up to 5 years from the date that the agreement was signed.

As at December 31, 2013, the Corporation has utilized $48,315 (2012 - $8,523) of the $90,000 financing facility, of which $4,457 (2012 - $1,911) was transferred to a long-term debenture. Each advance bears interest at a floating rate per annum as determined by Infrastructure Ontario. The advance interest rate at December 31, 2013 was 1.79% (2012 - 1.74%) and interest expense on short-term debt for the year was $277 (2012 - $13).

A note in the amount of $980 bears interest at a rate of 4.09% per annum payable on May 15 and November 15 each year and matures on November 17, 2031.

A note in the amount of $964 bears interest at a rate of 3.54% per annum payable on February 15 and August 15 each year and matures on August 1, 2032.

A note in the amount of $2,709 bears interest at a rate of 3.85% per annum payable on March 1 and September 1 each year and matures on March 1, 2033.

The Corporation will pay Infrastructure Ontario a stand-by fee calculated at a rate of 25 basis points (0.25%) on the advanced balance of the committed amount should the Corporation fail to draw any funds pursuant to the agreement from Infrastructure Ontario during any period of 12 consecutive months commencing initially from October 15, 2010 and subsequently from the date of the draw of any such funds until the earlier of the facility termination date October 15, 2015 or the full advance of the committed amount. Infrastructure Ontario financing is secured by the assets of the Permitted Generation Business unit. The financial covenants require a debt service coverage ratio of 1:1 or higher, a debt to capital ratio of 70% or lower, and a current ratio of 1:1 or higher. See Note 18 on the compliance of the covenant.

(In thousands of dollars)

12. Long-term debt

(a) Bank term loan

The 5 year fixed rate term loan of $0 (2012 - $50,000) with a Canadian Chartered Bank had matured with repayment at the end of the contracted term, February 26, 2013.

(b) Debentures payable

	2013	2012
	$	$
3.958% unsecured debentures due July 30, 2042, interest payable in arrears semi-annually on January 30 and July 30	**198,221**	198,189

The debentures rank *pari passu* with all of the Corporation's other senior unsubordinated and unsecured obligations.

The debentures are subject to a financial covenant. This covenant requires that neither the Corporation nor any designated subsidiary may incur any funded obligation (other than non-recourse debt, capital lease obligations, intercompany indebtedness and purchase money obligations) unless the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. As at December 31, 2013 the Corporation is in compliance with this covenant.

(c) Notes payable

	2013	2012
	$	$
Promissory note issued to the City of Vaughan	**78,236**	78,236
Deferred interest on promissory note issued to the City of Vaughan	**8,743**	-
Promissory note issued to the City of Markham	**67,866**	67,866
Deferred interest on promissory note issued to the City of Markham	**7,585**	-
Promissory note issued to the City of Barrie	**20,000**	20,000
Total long term notes payable	**182,430**	166,102
Less current portion:		
Deferred interest on promissory note issued to the City of Vaughan	-	8,743
Deferred interest on promissory note issued to the City of Markham	-	7,585
Total current notes payable	-	16,328
Total notes payable	**182,430**	182,430

On June 1, 2004 an unsecured 20 year term promissory note was issued to the City of Vaughan in the amount of $78,236. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On June 1, 2004 an unsecured 20 year term promissory note was issued to the City of Markham in the amount of $67,866. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

(In thousands of dollars)

12. Long-term debt (continued)

(c) Notes payable (continued)

On December 31, 2008, an unsecured 16 year term promissory note was issued to the City of Barrie in the amount of $20,000. Interest thereon commenced on January 1, 2009 is at an annual rate of 5.58%.

The three promissory notes are repayable 90 days following demand by the City of Vaughan, the City of Markham, and the City of Barrie, with subordination and conditions. These notes have been classified as long-term, as the City of Vaughan, the City of Markham, or the City of Barrie, have indicated they will not demand repayment before January 1, 2015.

At the request of the City of Vaughan and the City of Markham, eight quarters of interest have been deferred commencing October 1, 2006 until October 31, 2013. In 2013, it has been further deferred so that the deferred interest will be repayable in full on October 31, 2018 and is subject to 4.03% interest rate.

13. Post-employment benefits

(a) Multi-employer defined benefit pension plan

During fiscal 2013, the expense recognized in conjunction with the OMERS plan, which is equal to contributions due for the year was $5,466 (2012 - $4,591). At December 31, 2013, $812 (2012 - $698) of contributions were payable to the OMERS plan and were included in accounts payable and accrued liabilities on the balance sheet.

As at December 31, 2013, OMERS had approximately 429,000 members, of whom approximately 550 are current employees of the Corporation. The accrued benefit obligation of the OMERS plan as shown in OMERS financial statements as at December 31, 2013 is $73,044 million, with a funding deficit of $8,641 million. The funding deficit will result in future payments by the participating employers.

The Corporation shares in the actuarial risks of the other participating entities in the OMERS plan and its future contributions may therefore be increased due to actuarial losses relating to the other participating entities. In addition, the withdrawal of other participating entities from the OMERS plan may also result in an increase to the Corporation's future contribution requirements.

(b) Non-pension defined benefit pension plans

A reconciliation of the obligation for the defined benefit plans is as follows:

	2013	2012
	$	$
Defined benefit obligation, beginning of the year	**18,048**	16,811
Amounts recognized in net income:		
Current service cost	**1,099**	1,051
Interest expense	**798**	744
Past service cost and gains/losses arising from settlements	**-**	-
	1,897	1,795
Payments from the plan	**(628)**	(558)
Defined benefit obligation, end of the year	**19,317**	18,048

(In thousands of dollars)

13. Post-employment benefits (continued)

The obligation for the defined benefit plans is presented in the balance sheet as post-employment benefits.

The significant actuarial assumptions used to determine the present value of the obligation for the defined benefit plans are as follows:

	2013	2012
	%	%
Discount rate	**4.50**	4.50
Rate of compensation increase	**3.50**	3.50
Medical benefits costs escalation	**5.00 - 7.25**	5.00 - 7.63
Dental benefits costs escalation	**5.00**	5.00

14. Share capital

The Corporation's authorized share capital is made up of an unlimited number of common shares, and an unlimited number of Class A non-voting common shares, all of which are without nominal or par value.

The share capital issued during the period is as follows:

	Common shares		Class A common shares		Total
	Shares issued	$	Shares issued	$	$
Balance at January 1, 2012	100,000	247,183	7,955	4,774	251,957
Issued for cash	-	-	47,240	28,344	28,344
Balance at December 31, 2012	100,000	247,183	55,195	33,118	280,301
Issued for cash	-	-	14,028	8,417	8,417
Balance at December 31, 2013	**100,000**	**247,183**	**69,223**	**41,535**	**288,718**

On November 23, 2010 a Subscription Agreement was signed between the Corporation and its Shareholders for new Class A common shares for the purposes of the Shareholders providing equity for the Corporation's Permitted Generation business unit. The articles of incorporation and shareholders agreement were amended in order to proceed with the subscription agreement. This Subscription Agreement expired on December 31, 2011 and as such, a revised Subscription Agreement was signed between the Corporation and its Shareholders on January 1, 2012 to extend the equity financing in respect of the Corporation's Permitted Generation Business unit.

The maximum amount of Class A common shares that are available under the subscription agreement is 100,000. During 2013, an additional 14,028 (2012 - 47,240) of the Class A common shares were issued for an amount of $8,417 (2012 - $28,344).

On November 1, 2013, a Unanimous Shareholders Agreement was signed between the Corporation and its Shareholders, superseding the existing revised Subscription Agreement. This ensured a reorganization of the Corporation becoming a wholly owned subsidiary of the newly established Group, PowerStream Holdings Inc. In effect, the total 100,000 common shares and 69,223 Class A common shares of the Corporation are wholly owned by PowerStream Holdings Inc.

14. Share capital (continued)

Dividends

The Corporation has established a dividend policy to pay a minimum of 50% of Modified IFRS ("MIFRS", framework used for reporting to the OEB) net income to PowerStream Holdings Inc., excluding the Permitted Generation Business unit income, with consideration given to the following:

- Cash position at the beginning of the current year;
- Working capital requirements for the current year; and
- Net capital expenditures required for the current year.

The Corporation paid a dividend of $149.16 per share (2012 - $160.87) on the common shares during the year, amounting to a total dividend of of $14,916 (2012 - $16,087). The Corporation is proposing to continue to follow the practice of proposing a dividend to be paid on common shares in 2014, representing 50% of the MIFRS net income. The proposed dividend would amount to $165.75 per share, resulting in a total dividend of $16,575. There is no tax affect as the dividends are paid out on an after tax basis.

The Corporation has also established a dividend policy for its Permitted Generation Business unit to distribute a dividend on the Class A common shares to PowerStream Holdings Inc. determined as follows:

- The Corporation will target an IRR of 10.5% on the Permitted Generation Business Unit. As each project is completed by the Permitted Generation Business Unit, the Corporation expects to make distributions calculated with reference to the Class A Common Shares equity injections made by the Shareholders from time to time, provided that the amount of each dividend will be at the discretion of the Board of Directors ("Board") and may be greater or lesser than the below having regard to the financial and operating results of the Corporation as a whole;
  - For purposes of the dividend declaration that follows receipt of the unaudited IFRS financial statements for the Permitted Generation Business unit at mid-year, such amounts shall be the greater of:
    - the amounts reported in the most recent unaudited year-end IFRS financial statements for the Permitted Generation Business unit, or
    - the sum of fifty percent (50%) of the amounts reported in the most recent unaudited year-end IFRS financial statements for the Permitted Generation Business unit plus 100% of the amounts reported in the most recent unaudited mid-year IFRS financial statements for the Permitted Generation Business unit (i.e. for a six-month period).
- In the Post-Construction Period or earlier as determined by the Board, the net free cash flow will be paid to the holders of the Class A Common Shares subject to the criteria listed below:
  - Dividends will be declared by the Corporation's Board of Directors after due consideration is given to the following:
    - All financial covenants on any debt issued by the Corporation.
    - Qualifications to meet external bond rating criteria and ensure no adverse impact on the current credit rating of the Corporation. The Corporation will advise the Shareholders of its credit rating from time to time (and at least on an annual basis).
    - Cash flow requirements of the Permitted Generation Business Unit of the Corporation to meet working capital requirements and short-term (2 year) plans of capital expenditures.
    - The maintenance of the planned 60/40 debt to equity ratio.

There have been no dividends on Class A common shares paid during the year (2012 - $Nil).

(In thousands of dollars)

15. Insurance

The Corporation maintains appropriate types and levels of insurance with major insurers. With respect to liability insurance, the Corporation is a member of the Municipal Electricity Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousands of dollars of service revenue subject to a credit or surcharge based on each member's claims experience. The maximum coverage is $24,000 for liability insurance, $405,510 for property insurance, $15,000 for vehicle insurance, and $4,500 for credit insurance; plus $10,000 excess coverage on top of the regular liability and vehicle coverage.

16. Leases

(a) Finance leases

The Corporation leases its operations centre under a 25 year lease agreement. The lease agreement includes both land and building elements. Upon entering into this lease arrangement, the Corporation classified the building element of the lease as a finance lease since it was determined that substantially all of the benefits and risks incidental to ownership of the operation centre were transferred to the Corporation (the lessee). The component of the annual basic rent related to the land is classified and recorded as an operating lease and the component related to the building is classified as a finance lease.

			2013
	Future minimum lease payments (including interest)	**Interest**	**Present value of minimum lease payments**
	$	**$**	**$**
Less than one year	**1,430**	**1,115**	**315**
Between one and five years	**7,150**	**5,222**	**1,928**
More than five years	**23,566**	**8,702**	**14,864**
	32,146	**15,039**	**17,107**

			2012
	Future minimum lease payments (including interest)	Interest	Present value of minimum lease payments
	$	$	$
Less than one year	1,430	1,135	295
Between one and five years	7,150	5,344	1,806
More than five years	24,996	9,695	15,301
	33,576	16,174	17,402

(In thousands of dollars)

16. Leases (continued)

(a) Finance leases (continued)

Interest on the lease obligation during fiscal 2013 amounted to $1,135 (2012 - $1,153) based on the rate of 6.57% per annum (2012 - 6.57%). Amortization of the corresponding PP&E during fiscal 2013 amounted to $731 (2012 - $733) based on the straight-line method with a useful life equal to the term of the lease (25 years). The Corporation has the option to purchase within twelve months before the expiry of the original lease in 2034, or an option of three five year lease extensions.

(b) Operating leases

The Corporation is also committed to lease agreements for various vehicles, equipment, rooftops and the land portion of the finance lease for solar projects that have been classified as operating leases. The leases typically run for a period of 5 to 20 years.

The future minimum non-cancellable annual lease payments (including the land portion of the operating centre lease referred to in (a) above) are as follows:

	2013	2012
	$	$
Less than one year	**3,097**	1,612
Between one and five years	**15,351**	7,793
More than five years	**37,473**	24,599
	55,921	34,004

During the year ended December 31, 2013 an expense of $3,105 (2012 - $1,656) was recognized in net income in respect of operating leases.

17. Financial instruments and risk management

(a) Fair value of financial instruments

The Corporation's accounting policies relating to the recognition and measurement of financial instruments are disclosed in Note 3(d).

The carrying amount of cash, accounts receivable, unbilled revenue, amounts due from related parties, bank indebtedness, liability for subdivision development, short-term debt, short- term Infrastructure Ontario financing, customer deposits, accounts payable and accrued liabilities and amounts due to related parties approximates fair value because of the short maturity of these instruments. The carrying value and fair value of the Corporation's other financial instruments are as follows:

		2013		2012
Description	**Carrying value**	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Liabilities				
Notes payable	**182,430**	**206,990**	182,430	225,972
Debentures payable	**198,221**	**176,865**	198,189	199,000
Infrastructure Ontario	**-**	**-**	1,911	2,066
	380,651	**383,855**	382,530	427,038

The carrying amounts shown in the table are included in the balance sheet under the indicated captions. The fair value of the $4,457 long-term Infrastructure Ontario debenture which has been reclassified as a current liability (see Note 18) is $3,997 as at December 31, 2013.

(In thousands of dollars)

17. Financial instruments and risk management

(a) Fair value of financial instruments (continued)

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

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

The Corporation's fair value hierarchy is classified as Level 2 for notes and debentures payable. The classification for disclosure purposes has been determined in accordance with generally accepted pricing models, based on discounted cash flow analysis, with the most significant inputs being the contractual terms of the instrument discounted, and the market discount rates that reflects the credit risk of counterparties.

(b) Risk factors

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

(c) Credit risk

The Corporation's primary source of credit risk to its accounts receivable result from customer's failing to discharge their dues for electricity consumed and billed.

The Corporation has approximately 365,000 (2012 - 355,000) residential and commercial customers. In order to mitigate such potential credit risks, the Corporation has taken various measures in respect of its Energy customers such as collecting security deposits amounting to $14,830 (2012 - $15,216) in accordance with OEB guidelines, reviewing Dun & Bradstreet ("D&B") reports for the top 3000 commercial customers with an outstanding balance of $5 or more, in-house collection department as well as external collection agencies and a bad debt insurance policy for $4,500 (2012 - $4,500) related to energy receivables. Thus, the Corporation monitors and limits its exposure to such credit risks on an ongoing basis.

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

	2013		2012	
	Total		Total	
	$	**%**	$	%
Less than 30 days	**78,987**	**86**	70,205	84
30 - 60 days	**8,129**	**9**	9,151	11
61 - 90 days	**1,955**	**2**	2,218	3
Greater than 91 days	**2,902**	**3**	2,336	2
Total outstanding	**91,973**	**100**	83,910	100
Less: allowance for doubtful accounts	**(1,344)**	**(1)**	(1,487)	(2)
	90,629	**99**	82,423	98

As at December 31, 2013, there was no significant concentration of credit risk with respect to any financial assets.

(In thousands of dollars)

17. Financial instruments and risk management (continued)

(d) Interest rate risk

The Corporation manages its exposure to interest rate risk by issuing long term fixed rate debt in the form of debentures, promissory notes and bank loans. It also ensures that all payment obligations are met by adopting proper capital planning.

As part of the Corporations' revolving demand operating credit facility, the Corporation may utilize the line of credit for working capital and/or capital expenditure purposes. Such short-term borrowing may expose the Corporation to short-term interest rate fluctuations as follows:

	2013	2012
364 day revolving facility		
Prime based loans	**PR*+0.0% p.a.**	PR*+0.15% p.a.
Bankers Acceptances	**SF*+0.95% p.a.**	SF*+1.10% p.a.
Demand facility		
Prime based loans	**PR*–0.30% p.a.**	PR*–0.15% p.a.
Bankers acceptances	**SF*+0.68% p.a.**	SF*+0.85% p.a.
Bankers acceptances (Secondary)	**SF*+0.70% p.a.**	
Letter of guarantee facility	**0.50% p.a.**	0.50% p.a.
Infrastructure Ontario financing	**Floating rate p.a.**	Floating rate p.a.

Note: PR - Prime Rate, SF* - Stamping Fee*

A sensitivity analysis was conducted to examine the impact of a change in the prime rate or stamping fee on the short-term debt. A variation of 1% (100 basis points), with all other variables held constant, would increase or decrease the annual interest expense by approximately $700.

Cash balances that are not required for day to day obligations earn an interest of Prime minus 1.7% per annum. Fluctuations in this interest rate could impact the level of interest income earned by the Corporation.

(e) Liquidity risk

Liquidity risks are those risks associated with the Corporation's inability to meet obligations associated with financial liabilities such as repayment of principal or interest payments on debts.

The Corporation monitors its liquidity risks on a regular basis to ensure there is sufficient cash flow to meet the obligations as they fall due as well as minimize the interest expense. Cash flow forecasts are prepared to monitor liquidity risks. Liquidity risks associated with financial liabilities are as follows:

			2013			2012
Maturity period	**Principal***	**Interest**	**Total**	Principal*	Interest	Total
	$	**$**	**$**	$	$	$
Less than 1 year	**296,126**	**20,789**	**316,915**	238,685	19,098	257,783
1-5 years	**920**	**86,320**	**87,240**	365	85,753	86,118
6-10 years	**1,113**	**80,721**	**81,834**	441	85,822	86,263
Over 10 years	**366,600**	**138,328**	**504,928**	365,395	149,857	515,252
	664,759	**326,158**	**990,917**	604,886	340,530	945,416

*The principal includes $1,778 (2012 - $1,811) of deferred issuing cost amortization.

(In thousands of dollars)

17. Financial instruments and risk management (continued)

(f) Hedging/derivative risk

The Corporation has a swap and derivative transaction policy to enable the Corporation to enter into agreements such as interest rate swaps where 100% of the floating rate risk is hedged into a fixed rate. This is done for prudent risk management purposes and not speculative purposes.

The Corporation has not entered into any such transactions during the year current or prior years.

18. Capital structure

The Corporation's main objectives in the management of capital are to:

(i) Ensure that there is access to various funding options at the lowest possible rates for the various capital initiatives and working capital requirements necessary for the rate-regulated business;

(ii) Ensure compliance with various covenants related to its short-term debt, Infrastructure Ontario financing, bank term loan, debentures payable and Infrastructure Ontario debentures;

(iii) Consistently maintain a high credit rating for the Corporation;

(iv) Maintain a split of approximately 60% debt, 40% equity as recommended by the OEB;

(v) Ensure interest rate fluctuations are mitigated primarily by long term borrowings as well as capital planning; and

(vi) Deliver appropriate financial returns to shareholders.

The Corporation considers shareholders' equity, long-term debt and certain short-term debt as its capital. The capital structure as at December 31, 2013 is as follows:

	2013	2012 (Restated - Note 23)
	$	$
Short-term debt		
Short-term debt (Note 11)	**70,000**	25,000
Infrastructure Ontario financing (Note 11)	**48,315**	6,612
Bank term loan (Note 12)	**-**	50,000
Notes payable (Note 12)	**-**	16,328
Long-term debt		
Debentures payable (Note 12)	**198,221**	198,189
Notes payable (Note 12)	**182,430**	166,102
Infrastructure Ontario debentures (Note 11)	**-**	1,911
Total debt	**498,966**	464,142
Shareholders' equity		
Share capital (Note 14)	**288,718**	280,301
Accumulated other comprehensive income	**(739)**	(739)
Retained earnings	**123,157**	109,933
Total equity	**411,136**	389,495
Total	**910,102**	853,637

(In thousands of dollars)

18. Capital structure (continued)

As at December 31, 2013, the Corporation was in compliance with covenants related to its short-term debt, bank term loan and debentures payable. Subsequent to year-end, the Corporation received a waiver with respect to the current ratio covenant calculation as at December 31, 2013 on its Infrastructure Ontario financing covenants. As the waiver was received subsequent to year-end, the long-term Infrastructure Ontario debenture of $4,457 has been presented as a current liability. Details relating to covenants are disclosed in Note 11 and Note 12.

The Corporation is within the debt and equity requirements of the OEB. The Corporation's dividend policy is disclosed in Note 14.

19. Operating expenses

Operating expenses comprise:

	2013	2012
	$	$
Labour	**44,121**	43,775
Contract/consulting	**13,931**	14,052
Materials	**1,183**	1,124
Vehicle	**1,264**	1,392
Other	**25,084**	29,159
	85,583	89,502

20. Income taxes

(a) Income tax expense

PILs recognized in net income comprise the following:

	2013	2012
	$	$
Current tax expense		
Current year	**(995)**	(1,479)
Deferred tax expense		
Origination and reversal of temporary differences	**9,827**	11,161
Change in deferred tax rate	**-**	(2,397)
	9,827	8,764
Income tax expense	**8,832**	7,285

(In thousands of dollars)

20. Income taxes (continued)

(b) Reconciliation of effective tax rate

The PILs income tax expense differs from the amount that would have been recorded using the combined Canadian federal and provincial statutory income tax rates. The reconciliation between the statutory and effective tax rates is as follows:

	2013	2012
	$	$
Income before taxes	**36,972**	42,611
Statutory Canadian federal and provincial income tax rates	**26.50%**	26.50%
Expected tax provision on income at statutory rates	**9,798**	11,292
Increase (decrease) in income taxes resulting from:		
Permanent differences	**60**	484
Changes and differences in deferred tax rate	**-**	(2,397)
Scientific Research and Experimental Development tax credit	**(1,202)**	(762)
Other	**176**	(1,332)
Income tax expense	**8,832**	7,285

Statutory Canadian federal and provincial income tax rates for the current year comprise 15% (2012 - 15%) for federal corporate tax and a rate of 11.5% (2012 - 11.5%) for corporate tax in Ontario. There was no change in the federal corporate tax rate in 2013 (2012 - 16.5% to 15%) and no change in the provincial corporate tax rate in 2013 (no change in 2012).

(c) Deferred tax assets

Deferred tax assets are attributable to the following:

	2013	2012
	$	$
Employee future benefits	**5,509**	4,783
Property, plant and equipment	**18,316**	30,265
Intangible assets	**1,367**	1,484
Other deductible temporary differences	**559**	(2,450)
Balance at December 31	**25,751**	34,082

Movements in deferred tax balances during the year were as follows:

	2013	2012
	$	$
Balance at January 1	**34,082**	41,621
Recognized in net income	**(8,331)**	(7,539)
Balance at December 31	**25,751**	34,082

(In thousands of dollars)

20. Income taxes (continued)

(d) Deferred tax liabilities

Deferred tax liability of $3,214 at December 31, 2013 (2012 - $1,730) represents differences between book and tax values of property, plant and equipment from the Permitted Generation Business unit.

21. Net change in non-cash operating working capital

	2013	2012
	$	$
Accounts receivable	**(8,206)**	4,133
Unbilled revenue	**(19,453)**	(6,018)
Due from a related party	**275**	(841)
Inventories	**(10)**	321
Prepaids and other assets	**(61)**	(800)
Customer deposits	**293**	29
Accounts payable and accrued liabilities	**24,228**	(1,515)
Due to related parties	**1,825**	675
Liability for subdivision development	**1,349**	1,066
Capital accruals in prior year	**5,080**	-
Capital accrual in current year	**(10,122)**	(5,080)
	(4,802)	(8,030)

22. Contingencies, commitments and guarantees

(a) Contingencies- legal claims

The Corporation has been named as a defendant in several actions. No provision has been recorded in the financial statements for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

(b) Commitments

As at December 31, 2013, the Corporation has entered into agreements for capital projects and is committed to making payments of $80,619 in 2014.

(c) Guarantees

In the normal course of business, the Corporation enters into agreements that meet the definition of a guarantee as follows:

(i) The Corporation has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Corporation agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(ii) Indemnity has been provided to all directors and/or officers of the Corporation for various items including, but not limited to, all costs to settle suits or actions due to association with the Corporation, subject to certain restrictions. The Corporation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Corporation. The maximum amount of any potential future payment cannot be reasonably estimated.

(In thousands of dollars)

22. Contingencies, commitments and guarantees (continued)

(c) Guarantees (continued)

(iii) In the normal course of business, the Corporation has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Corporation to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Corporation has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

23. Correction of error

In the preparation of the Corporation's financial statements for the current year, management identified an error in PP&E (distribution assets category) for the year ended December 31, 2011. As a result, the Corporation has restated its financial statements from January 1, 2012.

The following table summarizes the impact of the restatement on the Corporation's previously reported amounts:

	Property, plant and equipment	Retained earnings
	$	$
As at December 31, 2012	820,923	116,410
Correction	(6,477)	(6,477)
As restated	814,446	109,933

ATTACHMENT 20
POWERSTREAM INC 2014 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Financial statements of

PowerStream Inc.

December 31, 2014

PowerStream Inc.
December 31, 2014

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Deloitte.

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Canada

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Independent Auditor's Report

To the Shareholder of
PowerStream Inc.

We have audited the accompanying financial statements of PowerStream Inc., which comprise the balance sheet as at December 31, 2014, the statements of income and other comprehensive income, changes in equity and of cash flows for the year ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 PowerStream Inc. as at December 31, 2014, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
April 8, 2015

PowerStream Inc.

Balance sheet

as at December 31, 2014

(In thousands of dollars)

	2014	2013
	$	$
Assets		
Current assets		
Cash	**23,110**	-
Accounts receivable (Note 17(c))	**95,963**	90,629
Unbilled revenue	**112,582**	115,840
Due from related parties (Note 10)	**6,737**	2,739
Inventories (Note 6)	**3,085**	2,956
Income taxes receivable	**6,208**	-
Prepaids and other assets	**4,129**	3,896
	251,814	216,060
Long-term assets		
Property, plant and equipment (Note 7)	**1,032,551**	910,784
Intangible assets (Note 8)	**42,621**	28,833
Investment in a joint venture (Note 5)	**7,536**	7,256
Deferred tax assets (Note 20)	**14,239**	22,537
Goodwill (Note 8(b))	**42,543**	42,543
	1,391,304	1,228,013
Liabilities		
Current liabilities		
Bank indebtedness (Note 11(a))	-	7,368
Short-term debt (Note 11(a))	**25,000**	70,000
Infrastructure Ontario financing (Note 11(b))	**67,656**	48,315
Customer deposits	**14,436**	13,357
Accounts payable and accrued liabilities (Note 9)	**134,179**	136,694
Due to related parties (Note 10)	**16,942**	15,775
Income taxes payable	-	1,351
Liability for subdivision development	**5,268**	5,600
Current portion of finance lease obligation (Note 16)	**337**	315
	263,818	298,775
Long-term liabilities		
Notes payable (Note 12)	**182,430**	182,430
Debentures payable (Note 12)	**347,288**	198,221
Finance lease obligation (Note 16)	**16,455**	16,792
Post-employment benefits (Note 13)	**17,362**	19,317
Deferred revenue	**120,651**	101,342
	684,186	518,102
Shareholders' equity		
Share capital (Note 14)	**327,184**	288,718
Accumulated other comprehensive income	**1,819**	(739)
Retained earnings	**114,297**	123,157
	443,300	411,136
	1,391,304	1,228,013

Approved on behalf of the Board on April 8, 2015.

Director

Director

PowerStream Inc.

Statement of income and other comprehensive income
year ended December 31, 2014

(In thousands of dollars)

	2014	2013
	$	$
Revenue (Note 10(a))		
Sale of energy	**927,323**	888,218
Distribution revenue	**157,584**	156,993
Other revenue	**26,053**	20,965
Total revenue	**1,110,960**	1,066,176
Cost of power purchased	**941,260**	883,876
Operating expenses (Note 19)	**90,355**	85,583
Depreciation and amortization	**42,416**	36,939
	36,929	59,778
Loss on derecognition of property, plant and equipment	**(2,078)**	(1,462)
Share in income/(loss) from joint venture (Note 5)	**463**	(987)
Interest income	**1,851**	1,452
Interest expense	**(23,474)**	(21,809)
Income before income taxes	**13,691**	36,972
Income tax (recovery) expense (Note 20)	**(183)**	8,832
Net income	**13,874**	28,140
Other comprehensive income		
Remeasurement of defined benefit obligation, net of tax of $922 (Note 13(b))	**2,558**	-
Total income and other comprehensive income for the year	**16,432**	28,140

PowerStream Inc.

Statement of changes in equity
year ended December 31, 2014
(In thousands of dollars)

	Share capital	Accumulated other comprehensive income	Retained earnings	Total
	$	$	$	$
As at January 1, 2013	280,301	(739)	109,933	389,495
Net income	-	-	28,140	28,140
Total income and other comprehensive income for the year	280,301	(739)	138,073	417,635
Dividends paid	-	-	(14,916)	(14,916)
Issuance of Class A common shares (Note 14)	8,417	-	-	8,417
Balance at December 31, 2013	**288,718**	**(739)**	**123,157**	**411,136**
Net income	-	-	13,874	13,874
Other comprehensive income, (net of tax of $922)	-	2,558	-	2,558
Total income and other comprehensive income for the year	-	2,558	13,874	16,432
Dividends paid	-	-	(22,734)	(22,734)
Issuance of common shares (Note 14)	20,001	-	-	20,001
Issuance of Class A common shares (Note 14)	18,465	-	-	18,465
Balance at December 31, 2014	**327,184**	**1,819**	**114,297**	**443,300**

PowerStream Inc.
Statement of cash flows
year ended December 31, 2014
(In thousands of dollars)

	2014	2013
	$	$
Operating activities		
Total income and other comprehensive income for the year	**16,432**	28,140
Adjustments to determine cash provided by operating activities		
Share of loss/(income) from joint venture (net of 2014 dividend of $183)	**(280)**	987
Depreciation of property, plant and equipment	**41,298**	35,999
Amortization of intangible assets	**3,323**	2,940
Post-employment benefits	**(1,955)**	1,269
Loss on disposal of property, plant and equipment	**3,759**	1,386
Amortization of deferred revenue	**(2,454)**	(1,888)
Finance costs	**21,622**	20,357
Capital tax expense	**-**	129
Income tax expense	**739**	8,832
	82,484	98,151
Net change in non-cash operating working capital (Note 21)	**(5,445)**	(4,802)
Cash generated from operating activities	**77,039**	93,349
Interest paid	**(22,661)**	(21,418)
	54,378	71,931
Financing activities		
Repayment of bank term loan	**-**	(50,000)
Dividends paid	**(22,734)**	(14,916)
Proceeds from Infrastructure Ontario financing	**19,341**	39,792
Proceeds from the issuance of common shares	**38,465**	8,417
Proceeds from issuance of debenture (net)	**149,034**	-
(Repayment)/proceeds of short-term debt	**(45,000)**	45,000
Payment of finance lease obligation	**(315)**	(295)
	138,791	27,998
Investing activities		
Contributions received from customers	**21,763**	20,471
Purchase of intangible assets	**(17,111)**	(12,951)
Purchase of property, plant and equipment	**(167,343)**	(134,780)
	(162,691)	(127,260)
Increase/(decrease) in cash during the year	**30,478**	(27,331)
(Bank indebtedness)/cash, beginning of year	**(7,368)**	19,963
Cash/(bank indebtedness), end of year (Note 11(a))	**23,110**	(7,368)

1. Description of the business

PowerStream Inc. (the "Corporation") was amalgamated on January 1, 2009, under the Business Corporations Act (Ontario) and is wholly owned by PowerStream Holdings Inc., which in turn is owned by the Corporation of the City of Vaughan (the "City of Vaughan"), through its wholly owned subsidiary, Vaughan Holdings Inc.; the Corporation of the City of Markham (the "City of Markham"), through its wholly owned subsidiary, Markham Enterprises Corporation; and the Corporation of the City of Barrie (the "City of Barrie"), through its wholly owned subsidiary, Barrie Hydro Holdings Inc. PowerStream Holdings Inc. is jointly controlled by these three municipalities. The Corporation is incorporated and domiciled in Canada with its head and registered office located at 161 Cityview Boulevard, Vaughan, ON L4H 0A9.

The principal activity of the Corporation is distribution of electricity in the service areas of Alliston, Aurora, Barrie, Beeton, Bradford West Gwillimbury, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham and Vaughan in the Province of Ontario, under a license issued by the Ontario Energy Board ("OEB"). The Corporation is regulated under the OEB and adjustments to the distribution rates require OEB approval. Collingwood PowerStream Utility Services Corp. ("Collus PowerStream") is a joint venture between the Corporation and the Town of Collingwood. It distributes electricity in Collingwood, Thornbury, Stayner and Creemore.

As a condition of its distribution license, the Corporation is required to meet specified Conservation and Demand Management ("CDM") targets for reductions in electricity consumption and peak electricity demand. As part of this initiative, the Corporation is delivering Ontario Power Authority ("OPA") funded programs in order to meet its targets.

Under the Green Energy and Green Economy Act, 2009, the Corporation and other Ontario electricity distributors have new opportunities and responsibilities for enabling renewable generation.
The Corporation has commenced operations of a Solar Generation Business unit, in 2010, as permitted by these changes.

2. Basis of preparation

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis.

(c) Presentation currency

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the application of accounting policies and the amounts reported and disclosed in the financial statements. Estimates and underlying assumptions are continually reviewed and are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

2. **Basis of preparation (continued)**

(d) *Use of estimates and judgments (continued)*

Significant sources of estimation uncertainty, assumptions and judgments include the following:

(i) *Unbilled revenue*

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

(ii) *Useful lives of depreciable assets*

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

(iii) *Cash Generating Units ("CGU")*

Determining CGU's for impairment testing is based on Management's judgment. This requires an estimation of the value in use. The value in use calculation requires an estimate of the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

(iv) *Valuation of financial instruments*

As described in Note 17, the Corporation uses the discounted cash flow model to estimate the fair value of the financial instruments for disclosure purposes.

(v) *Other areas*

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

3. **Significant accounting policies**

The Corporation's financial statements are the representations of management, prepared in accordance with IFRS. The accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise indicated.

The financial statements reflect the following significant accounting policies:

(a) *Rate regulation*

The Ontario Energy Board Act, 1998 gave the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may prescribe license requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, and filing process requirements for rate-setting purposes.

The Corporation recognizes revenue when electricity is delivered to customers based on OEB approved rates. Operating costs and expenses are recorded when incurred, unless such costs qualify for recognition as part of an item of property, plant and equipment or as an intangible asset.

3. Significant accounting policies (continued)

(b) Revenue recognition

(i) Electricity distribution and sale

Revenue from the sale and distribution of electricity is recorded on the basis of cyclical billings based on electricity usage and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is generally comprised of the following:

- Electricity Price and Related Rebates. The electricity price and related rebates represent a pass through of the commodity cost of electricity.
- Distribution Rate. The distribution rate is designed to recover the costs incurred by the Corporation in delivering electricity to customers, as well as the ability to earn the OEB allowed rate of return. Distribution charges are regulated by the OEB and typically comprise a fixed charge and a usage-based (consumption) charge.
- Retail Transmission Rate. The retail transmission rate represents a pass through of costs charged to the Corporation for the transmission of electricity from generating stations to the Corporation's service area. Retail transmission rates are regulated by the OEB.
- Wholesale Market Service Charge. The wholesale market service charge represents a pass through of various wholesale market support costs charged by the Independent Electricity System Operator (IESO).

(ii) Other revenue

Other revenue includes revenue from the sale of other services, contributions from customers and performance incentive payments.

Revenue related to the sale of other services is recognized as services are rendered.

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

Performance incentive payments under Conservation and Demand Management ("CDM") programs are recognized by the Corporation when there is reasonable assurance that the program conditions have been satisfied and the incentive payment will be received.

Government grants under CDM programs are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(c) Finance and borrowing costs

Finance costs comprise interest expense on borrowings and are recognized on an accrual basis using the effective interest rate method.

Borrowing costs are calculated using the effective interest rate method and are recognized as finance costs, unless they are capitalized as part of the cost of a qualifying asset, which is an asset that takes a substantial period of time to get ready for its intended use.

3. Significant accounting policies (continued)

(d) Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as loans and receivables or as other liabilities. Transaction costs for financial assets classified as loans and receivables and financial liabilities classified as other liabilities are capitalized as part of the carrying value at initial recognition.

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, such financial assets are carried at amortized cost using the effective interest rate method, less any impairment losses. Losses are recognized in net income when the loans and receivables are derecognized or impaired.

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and the loss event has had a negative effect on estimated future cash flows of the asset which are reliably measureable.

Loans and receivables are comprised of cash, accounts receivable, unbilled revenue and amounts due from related parties.

(ii) *Other liabilities*

All non-derivative financial liabilities are classified as other liabilities. Subsequent to initial recognition, other liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when either the Corporation is discharged from its obligation, the obligation expires, or the obligation is cancelled or replaced by a new financial liability with substantially modified terms.

Financial liabilities are further classified as current or non-current depending on whether they will fall due within twelve months after the balance sheet date or beyond.

Other liabilities are comprised of bank indebtedness, short-term debt, Infrastructure Ontario financing, customer deposits, accounts payable and accrued liabilities, amounts due to related parties, notes payable, debentures payable, bank term loan, Infrastructure Ontario debentures, and liability for subdivision development.

(e) Inventories

Inventories, which consist of parts and supplies acquired for internal construction or consumption, are valued at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis and includes expenditures incurred in acquiring the inventories and other costs to bring the inventories to their existing location and condition.

(f) Property, plant and equipment

Property, plant and equipment ("PP&E") is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and includes contracted services, cost of materials, direct labour and borrowing costs incurred in respect of qualifying assets constructed subsequent to January 1, 2011. When parts of an item of PP&E have different useful lives, they are accounted for as separate components of PP&E.

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

3. Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal with the carrying amount of the item and is included in net income.

Depreciation of PP&E is recognized on a straight-line basis over the estimated useful life of each component of PP&E. The estimated useful lives for the current and comparative years are as follows:

Land and buildings	
Land	Indefinite
Buildings	10 to 60 years
Distribution and other assets	
Transformer stations	20 to 40 years
Transformers and meters	15 to 40 years
Plant and equipment	3 to 20 years
Other	3 to 37.5 years

Depreciation methods and useful lives are reviewed at each financial year-end and any changes are adjusted prospectively.

(g) Intangible assets

Intangible assets include land rights, computer software and capital contributions. Capital contributions relate to the contributions made to Hydro One for a transformer station that was built outside the City of Barrie.

Land rights held by the Corporation are effective in perpetuity and there is no foreseeable limit to the period over which the rights are expected to provide benefit to the Corporation. Land rights have therefore been assessed as having an indefinite useful life and are not amortized. Land rights are measured at cost.

Computer software and capital contributions are measured at cost less accumulated amortization and accumulated impairment losses.

Computer software and capital contributions are amortized on a straight-line basis over the estimated useful lives from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Computer software	4 years
Capital contributions	17 years

Amortization methods and useful lives are reviewed at each financial year-end and adjusted prospectively.

(h) Goodwill

Goodwill represents the excess of the purchase price over the fair value assigned to the Corporation's interest of the net identifiable assets acquired on the acquisition, by predecessor corporations, of the former Richmond Hill Hydro Inc., Penetanguishene Hydro, Essa Hydro, New Tecumseth Hydro and Bradford West Gwillimbury Hydro.

Goodwill is measured at cost and is not amortized. The Corporation's policy on goodwill arising on acquisition of an associate is described in note 3(n).

3. **Significant accounting policies (continued)**

(i) *Impairment of non-financial assets*

The carrying amounts of the Corporation's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets with indefinite lives are tested annually for impairment and when circumstances indicate that the carrying value may be impaired. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Corporation has two CGU's, the rate regulated business and the Permitted Generation Business unit. Two CGU's were determined, as Management views the Corporation as having two distinct lines of business.

The recoverable amount of an asset or CGU is the greater of its value in use and fair value less costs of disposal. Value in use is calculated as the present value of the estimated future cash flows expected to be derived from an asset or CGU.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of those from other assets or CGUs. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in net income. Impairment losses relating to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(j) *Employee benefits*

The Corporation provides both short-term employee benefits and post-employment benefits. The post-employment benefits are provided through a defined benefit plan.

A defined benefit plan is a post-retirement benefit plan that specifies either the benefits to be received by an employee, or the method of determining those benefits.

(i) *Short-term employee benefits*

Short-term employee benefit obligations are recognized as the related services are rendered to the Corporation. Short-term employee benefit obligations are measured on an undiscounted basis and recognized as an expense unless the amount qualifies for capitalization as part of the cost of an item of inventory, PP&E or an intangible asset.

(ii) *Multi-employer defined benefit pension plan*

The Corporation provides a pension plan to its full-time employees through the Ontario Municipal Employees Retirement System ("the OMERS plan"). The OMERS plan is a multi-employer defined benefit plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The OMERS plan is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund.

3. Significant accounting policies (continued)

(j) Employee benefits (continued)

(ii) Multi-employer defined benefit pension plan (continued)

It is not practicable to determine the present value of the Corporation's obligation or the related current service cost under the OMERS plan as OMERS computes its obligations in accordance with an actuarial valuation in which all the benefit plans are co-mingled and therefore information for individual plans cannot be determined. As a result, the Corporation accounts for the OMERS plan as a defined contribution plan where contributions to the OMERS plan are recognized as an employee benefit expense in the periods during which services are rendered by employees.

(iii) Non-pension defined benefit plans

The Corporation provides certain health, dental and life insurance benefits under unfunded defined benefit plans to its eligible retired employees (the "defined benefit plans").

The Corporation's net obligation in respect of the defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The calculated benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Corporation's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation of the defined benefit obligation is performed by an independent qualified actuary using the projected unit credit method.

Remeasurement of the net defined benefit liability, which is comprised of actuarial gains and losses, is recognized immediately in the balance sheet with a charge or credit to other comprehensive income in the year in which they occur.

Past service costs arising from plan amendments is recognized immediately in net income at the earlier of the date the plan amendment occurs or when any related restructuring costs or termination benefits are recognized.

(k) Customer deposits

Customer deposits are collections from customers to guarantee the payment of energy bills. Deposits that are refundable to customers on demand are classified as a current liability. Interest is paid on customer deposits.

(l) Leases

Leases in which the Corporation assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Payments under finance leases are apportioned between interest expense and a reduction of the outstanding liability.

Other leases are operating leases and are not recognized in the Corporation's balance sheet. Payments made under operating leases are recognized as an expense on a straight-line basis over the term of the lease.

3. Significant accounting policies (continued)

(m) Payment in lieu of corporate income taxes ("PILs")

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). The payments in lieu of taxes are calculated on a basis as if the Corporation was a taxable company under the Income Tax Act (Canada) and the Taxation Act, 2007 (Ontario).

Income tax expense comprises current and deferred tax and is recognized in net income except to the extent that it relates to items recognized directly in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized, using the liability method, on temporary differences arising between the carrying amount of balance sheet items and their corresponding tax basis, using the substantively enacted income tax rates for the years in which the differences are expected to reverse.

In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognized for deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized.

(n) Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group owns 50% of Collingwood PowerStream Utility Services Corp. ("Collus PowerStream"). This investment is accounted for using the equity method and is recognized initially at cost.

Any excess cost over the acquisition of the Group's share of the net fair value of the identifiable assets and liabilities of Collus PowerStream is recognized as goodwill and included in the carrying value of the investment.

If Collus PowerStream is in a loss position, then when the Group's share of losses in Collus PowerStream equals or exceeds its interest, the Group would discontinue recognizing its share of further losses.

The financial statements include the Corporations's share of the (loss)/income and other comprehensive (loss)/income of Collus PowerStream for the year ended December 31, 2014.

4. Changes in accounting policies

Future accounting changes

There are new standards, amendments to standards and interpretations which have not been applied in preparing these financial statements. In particular, this includes IFRS 9 *Financial Instruments* which is tentatively effective from periods beginning on or after January 1, 2018 and amendments to IFRS 7 and IFRS 9 which are effective at the date of adoption of IFRS 9.

IFRS 15, Revenue from Contracts with customers is a new standard on revenue recognition, superseding IAS 18, Revenue, IAS II, Construction Contracts, and related interpretations. IFRS 15 specifies how and when an entity will recognize revenue and additional disclosure requirements. This new standard is effective on January 1, 2017. The Corporation has not yet assessed the impact of this new standard.

All of the above standards or amendments relate to the measurement and disclosure of financial assets and liabilities. The extent of the impact on adoption of these standards and amendments has not yet been determined.

(In thousands of dollars)

5. Investment in a joint venture

The Corporation owns a 50% interest in Collus PowerStream, a joint venture of which the Corporation has joint control. The cost of the investment includes transaction costs and the share of Collus PowerStream's (loss)/income and other comprehensive (loss)/income since the acquisition. Collus PowerStream is involved in the distribution of electricity in Collingwood, Thornbury, Stayner and Creemore, as well as the provision of other utility services in the service area of Clearview and the Town of The Blue Mountains in the Province of Ontario. Collus PowerStream's principal place of business is the Town of Collingwood.

The following judgments were used in determining that the investment was a joint venture:

- Joint control was established by assessing that both the Corporation and the City of Collingwood have unanimous consent over relevant activities within Collus PowerStream. This was done through the agreements that were signed.
- This classification of the investment in Collus PowerStream as a joint venture was determined through analysis of the rights and obligations of the investment, specifically the legal structure.

Summarized financial information for Collus PowerStream follows. There were no significant restrictions from borrowing arrangements or any commitments incurred on behalf of Collus PowerStream in relation to the Corporation.

	2014	2013
	$	$
Total assets	**27,709**	26,126
Total liabilities	**20,876**	19,429
Net revenue	**7,452**	5,156
Total income/(loss) and other comprehensive income/(loss)	**925**	(1,974)
Share of income/(loss) and other comprehensive income/(loss)	**463**	(987)

6. Inventories

During fiscal 2014, an amount of ($59) (2013 - $12) was recorded as an expense for the write-down of obsolete or damaged inventory to net realizable value.

(In thousands of dollars)

7. Property, plant and equipment

	Land and buildings	Distribution and other assets	Work-in-progress	Total (Note 23)
	$	$	$	$
Cost				
Balance at January 1, 2013	65,004	750,880	58,773	874,657
Additions	1,259	144,226	-	145,485
Disposals	-	(1,715)	(5,663)	(7,378)
Balance at December 31, 2013	66,263	893,391	53,110	1,012,764
Additions	6,202	134,477	26,146	166,825
Disposals	(19)	(4,219)	-	(4,238)
Balance at December 31, 2014	**72,446**	**1,023,649**	**79,256**	**1,175,351**
Accumulated depreciation				
Balance at January 1, 2013	2,234	63,950	-	66,184
Depreciation expense	1,148	34,851	-	35,999
Disposals	-	(203)	-	(203)
Balance at December 31, 2013	3,382	98,598	-	101,980
Depreciation expense	1,191	40,107	-	41,298
Disposals	-	(478)	-	(478)
Balance at December 31, 2014	**4,573**	**138,227**	-	**142,800**
Carrying amounts				
At December 31, 2013	62,881	794,793	53,110	910,784
At December 31, 2014	**67,873**	**885,422**	**79,256**	**1,032,551**

Included in PP&E costs is $16,910 (2013 - $15,415) of capitalized expenses and $654 (2013 - $683) of interest capitalized during the year. Interest costs have been capitalized at a rate of 5.81% (2013 - 5.87%) for rate-regulated business and at a rate of 1.82% for Permitted Generation Business.

The Corporation leases its operations centre under a finance lease agreement. The leased operations centre is secured as collateral against the lease obligation. At December 31, 2014, the net carrying amount of the operations centre was $14,624 (2013 - $15,355).

(In thousands of dollars)

8. Intangible assets and goodwill

(a) Intangible assets

	Land rights	Computer software	Capital contributions	Work in progress	Total (Note 23)
	$	$	$	$	$
Cost					
Balance at January 1, 2013	797	12,071	4,972	5,973	23,813
Additions	30	3,236	-	9,713	12,979
Disposals	-	-	-	-	-
Balance at December 31, 2013	827	15,307	4,972	15,686	36,792
Additions	46	1,488	-	15,577	17,111
Disposals					-
Balance at December 31, 2014	**873**	**16,795**	**4,972**	**31,263**	**53,903**
Accumulated amortization					
Balance at January 1, 2013	-	4,674	317	-	4,991
Amortization expense	-	2,679	289	-	2,968
Disposals	-	-	-	-	-
Balance at December 31, 2013	-	7,353	606	-	7,959
Amortization expense	-	3,035	288	-	3,323
Disposals	-	-	-	-	-
Balance at December 31, 2014	**-**	**10,388**	**894**	**-**	**11,282**
Carrying amounts					
At December 31, 2013	827	7,954	4,366	15,686	28,833
At December 31, 2014	**873**	**6,407**	**4,078**	**31,263**	**42,621**

Included in intangible assets is $797 (2013 - $422) of interest capitalized during the year.

(b) Impairment testing of goodwill and indefinite life intangible assets

For the purpose of impairment testing, goodwill with a carrying amount of $42,543 (2013 - $42,543) and land rights with a carrying amount of $873 (2013 - $827) are allocated to the Corporation's rate regulated and Permitted Generation Business unit CGUs. The Corporation tested goodwill and land rights for impairment as at December 31, 2014, in accordance with its policy described in Note 3.

The total recoverable amount of $1,272,000, being $1,129,000 and $143,000 for the rate regulated and Permitted Generation Business unit CGUs respectively, was determined based on its value-in-use.

The Corporation has used discounted cash flow analysis to determine value-in-use. The value-in-use was determined in the same manner at December 31, 2014, and December 31, 2013.

(In thousands of dollars)

8. Intangible assets and goodwill (continued)

(b) Impairment testing of goodwill and indefinite life intangible assets (continued)

The calculation of value in use for the rate regulated CGU was based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results using a 5 year forecast with growth rates of 2.50% (2013 - 2.50%) built into the forecast. Growth rates were determined using the Bank of Canada inflation forecast.
- A pre-tax discount rate of 5.66% (2013 - 5.87%) and terminal value was used to discount the cash flows; this is derived from the Weighted Average Cost of Capital calculation. A discount rate increase of 0.4% would result in the carrying amount of the regulated CGU exceeding the recoverable amount by $4 million.

The calculation of value in use for the Permitted Generation Business unit CGU was based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results using a 5 year forecast with growth rates of 2.5% (2013 - 2.50%) built into the forecast. Growth rates were determined using the Bank of Canada inflation forecast.
- A pre-tax discount rate of 5.50% (2013 - 8.93%) and terminal value was used to discount the cash flows; this is derived from the Weighted Average Cost of Capital calculation. A discount rate increase of 2.5% would result in the carrying amount of the Permitted Generation Business unit CGU exceeding the recoverable amount by $1 million.

Guidance was applied by IAS 36 Impairment of Assets Appendix A, in determining the Weighted Average Cost of Capital ("WACC") which is not asset specific.

9. Accounts payable and accrued liabilities

	2014	2013
	$	$
Accounts payable - energy purchases	**82,881**	73,982
Debt retirement charge payable - OEFC	**4,600**	4,494
Payroll payable	**6,131**	5,956
Interest payable	**3,844**	3,298
Commodity taxes payable	**(41)**	(871)
Customer receivables in credit balances	**4,279**	3,809
Other accounts payable and accrued liabilities	**32,485**	46,026
	134,179	136,694

(In thousands of dollars)

10. Related party balances and transactions

(a) Balances and transactions with jointly controlling shareholders

The amount due to/(from) related parties is comprised of amounts payable to/(receivable from) the City of Vaughan, the City of Markham, the City of Barrie and their wholly-owned subsidiaries.

Components of the amounts due to/(from) related parties are as follows:

	2014	2013
	$	$
Due from:		
City of Vaughan	**778**	824
City of Markham	**1,083**	1,000
City of Barrie	**1,032**	709
	2,893	2,533
Due to:		
City of Vaughan	**(8,266)**	(7,241)
City of Markham	**(8,381)**	(8,252)
City of Barrie	**(282)**	(282)
	(16,929)	(15,775)

Significant related party transactions with the jointly controlling shareholders not otherwise disclosed separately in the financial statements, are summarized below:

	2014			2013		
	City of Vaughan	**City of Markham**	**City of Barrie**	City of Vaughan	City of Markham	City of Barrie
	$	**$**	**$**	$	$	$
Revenue						
Energy and distribution	**6,233**	**6,189**	**7,256**	5,985	9,544	6,921
Shared services	**1,727**	**2,029**	**-**	1,676	1,939	-
Total revenue	**7,960**	**8,218**	**7,256**	7,661	11,483	6,921
Expenses						
Realty taxes	**640**	**502**	**268**	713	554	269
Facilities rental and other	**5**	**66**	**42**	19	59	53
Total	**7,315**	**7,650**	**6,946**	6,929	10,870	6,599

These transactions are in the normal course of operations and are recorded at the exchange amount. The Corporation has certain operating leases with the City of Vaughan, City of Markham and City of Barrie to lease rooftops on a number of buildings for which feed-in tariff contracts have been obtained. The current year lease expense has been included in the 'Facilities rental and other' line on the table above, and the future operating lease commitments have been disclosed in Note16(b).

(In thousands of dollars)

10. Related party balances and transactions (continued)

(b) Inter-company balances

The amount due from inter-company related parties, which is comprised of a receivable from PowerStream Energy Services Inc., a subsidiary of PowerStream Holdings Inc., and a payable to PowerStream Holdings Inc., is as follows:

	2014	2013
	$	$
Due from:		
PowerStream Energy Services Inc.	**3,844**	206
Due to:		
PowerStream Holdings Inc.	**(13)**	-

(c) Key management personnel compensation

Key management personnel are comprised of the Corporation's senior management team. The compensation paid or payable to key management personnel is as follows:

	2014	2013
	$	$
Short-term employment benefits and salaries	**8,225**	7,946
Post-employment benefits	**1,006**	954
Termination benefits	**-**	21
	9,231	8,921

11. Short-term debt

(a) Credit facilities

On December 17, 2008, the Corporation executed an unsecured credit facility with a Canadian chartered bank. The credit facility is renewable annually. The credit facility agreement provides an extendible 364-day committed revolving credit facility of $75,000, an uncommitted demand facility of $25,000, and uncommitted Letter of Guarantee facilities of $20,000 and $364 respectively. As at December31, 2014, the Corporation utilized $Nil (2013 - $7,368) of the 364-day committed revolving credit facilities.

In addition to the above, the Corporation entered into a second unsecured credit facility agreement that provided for a committed line of credit of up to $150,000. This committed facility matures on February 12, 2015. As at December 31, 2014, the Corporation utilized $25,000 (2013 - $70,000) of this facility.

(In thousands of dollars)

11 Short-term debt (continued)

(a) *Credit facilities (continued)*

As at December 31, 2014, the Corporation had utilized $14,999 (2013 - $14,999) of the uncommitted Letter of Guarantee facility for a letter of credit that was provided to the IESO to mitigate the risk of default on energy payments. With the opening of Ontario's electricity market to wholesale and retail competition on May 1, 2002 ("Open Access"), the IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the letter of credit if the Corporation defaults on its payment. Further, as at December 31, 2014, an additional $364 (2013 - $336) of the uncommitted Letter of Guarantee facility was utilized as security for operating projects.

The 364-day committed revolving credit facility can be drawn upon by direct advances, bearing interest at the lower of prime plus 0% or Bankers' Acceptance of a stamping fee plus 95 basis points (0.95% per annum). The uncommitted demand facility bears an interest rate at the lower of prime minus 0.30% or Bankers' Acceptance of a stamping fee plus 68 basis points (0.68% per annum). The Letter of Guarantee facility bears a charge of 50 basis points (0.50%) per annum.

The second committed credit facility bears an interest rate at Bankers' Acceptance stamping fee plus 70 basis points (0.70% per annum), with commitment fee of 10.5 basis points applied to the unutilized balance.

The amount of short-term debt drawn on the available credit facilities consists of:

	2014	2013
	$	$
Committed credit facility	**25,000**	70,000

(b) *Ontario Infrastructure and Lands Corporation ("Infrastructure Ontario") financing*

On October 15, 2010 the Corporation secured financing with Infrastructure Ontario for its Permitted Generation Business unit. The funding is available for up to 5 years from the date that the agreement was signed.

As at December 31, 2014, the Corporation has utilized $68,015 (2013 - $48,315) of the $90,000 financing facility, of which $4,293 (2013 - $4,457) has been transferred to a long-term debenture and $359 in principal repayments have been made to date. Each advance bears interest at a floating rate per annum as determined by Infrastructure Ontario. The advance interest rate at December 31, 2014 was 1.86% (2013 - 1.79%) and interest expense for the year was $654 (2013 - $277).

A note in the amount of $980 bears interest at a rate of 4.09% per annum, payable on May 15 and November 15 each year, and matures on November 17, 2031.

A note in the amount of $964 bears interest at a rate of 3.54% per annum, payable on February 15 and August 15 each year, and matures on August 1, 2032.

A note in the amount of $2,709 bears interest at a rate of 3.85% per annum, payable on March 1 and September 1 each year, and matures on March 1, 2033.

(In thousands of dollars)

11 Short-term debt (continued)

(b) Ontario Infrastructure and Lands Corporation ("Infrastructure Ontario") financing (continued)

The Corporation will pay Infrastructure Ontario a stand-by fee calculated at a rate of 25 basis points (0.25%) on the advanced balance of the committed amount should the Corporation fail to draw any funds pursuant to the agreement from Infrastructure Ontario during any period of 12 consecutive months commencing initially from October 15, 2010, and subsequently from the date of the draw of any such funds until the earlier of the facility termination date October 15, 2015, or the full advance of the committed amount. Infrastructure Ontario financing is secured by the assets of the Permitted Generation Business unit. The financial covenants require a debt service coverage ratio of 1:1 or higher, a debt to capital ratio of 70% or lower, and a current ratio of 1:1 or higher.

The long-term debenture portion in the amount of $4,293 (2013 - $4,457) is presented as a current liability as a waiver related to non-compliance with the current ratio of 1:1 or higher covenant was not received.

12. Long-term debt

(a) Debentures payable

	2014	2013
	$	$
3.958% unsecured Series A debentures due July 30, 2042, interest payable in arrears semi-annually on January 30 and July 30	**198,256**	198,221
3.239% unsecured Series B debentures due November 21, 2024, interest payable in arrears semi-annually on May 21 and November 21	**149,032**	-
	347,288	198,221

On November 21, 2014, PowerStream, under the existing trust indenture, issued 3.239% unsecured Series B debentures for $150,000,000, which are due November 21, 2024, with interest payable in arrears semi-annually on May 21st and November 21st. The debentures rank *pari passu* with all of the Corporation's other senior unsubordinated and unsecured obligations.

The debentures are subject to a financial covenant. This covenant requires that neither the Corporation nor any designated subsidiary may incur any funded obligation (other than non-recourse debt, capital lease obligations, intercompany indebtedness and purchase money obligations) unless the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. As at December 31, 2014, the Corporation is in compliance with this covenant.

(b) Notes payable

	2014	2013
	$	$
Promissory note issued to the City of Vaughan	**78,236**	78,236
Deferred interest on promissory note issued to the City of Vaughan	**8,743**	8,743
Promissory note issued to the City of Markham	**67,866**	67,866
Deferred interest on promissory note issued to the City of Markham	**7,585**	7,585
Promissory note issued to the City of Barrie	**20,000**	20,000
	182,430	182,430

12. Long-term debt (continued)

(b) Notes payable (continued)

On June 1, 2004, an unsecured 20 year term promissory note was issued to the City of Vaughan in the amount of $78,236. Interest thereon commenced on June 1, 2004, at an annual rate of 5.58%.

On June 1, 2004, an unsecured 20 year term promissory note was issued to the City of Markham in the amount of $67,866. Interest thereon commenced on June 1, 2004, at an annual rate of 5.58%.

On December 31, 2008, an unsecured 16 year term promissory note was issued to the City of Barrie in the amount of $20,000. Interest thereon commenced on January 1, 2009, is at an annual rate of 5.58%.

The three promissory notes are repayable 90 days following demand by the City of Vaughan, the City of Markham, and the City of Barrie, with subordination and conditions. These notes have been classified as long-term, as the City of Vaughan, the City of Markham, or the City of Barrie, will not demand repayment before January 1, 2017.

At the request of the City of Vaughan and the City of Markham, eight quarters of interest were deferred commencing October 1, 2006, and initially payable October 31, 2013. In 2013, it was agreed that this deferred interest will be repayable in full on October 31, 2018, and is subject to 4.03% interest rate.

13. Post-employment benefits

(a) Multi-employer defined benefit pension plan

During fiscal 2014, the expense recognized in conjunction with the OMERS plan, which is equal to contributions due for the year was $5,782 (2013 - $5,466). At December 31, 2014, $853 (2013 - $812) of contributions were payable to the OMERS plan and were included in accounts payable and accrued liabilities on the balance sheet.

As at December 31, 2014, OMERS had approximately 450,000 members, of whom approximately 550 are current employees of the Corporation. The accrued benefit obligation of the OMERS plan as shown in OMERS financial statements as at December 31, 2014, is $76,924 million, with a funding deficit of $7,078 million. The funding deficit will result in future payments by the participating employers.

The Corporation shares in the actuarial risks of the other participating entities in the OMERS plan and its future contributions may therefore be increased due to actuarial losses relating to the other participating entities. In addition, the withdrawal of other participating entities from the OMERS plan may also result in an increase to the Corporation's future contribution requirements.

(In thousands of dollars)

13. Post-employment benefits (continued)

(b) Non-pension defined benefit pension plans

A reconciliation of the obligation for the defined benefit plans is as follows:

	2014	2013
	$	$
Defined benefit obligation, beginning of the year	**19,317**	18,048
Amounts recognized in net income:		
Current service cost	**915**	1,099
Interest expense	**909**	798
	1,824	1,897
Amounts recognized in other comprehensive income:		
Actuarial (gains)/losses arising from changes in demographic assumptions	**(1,364)**	-
Actuarial (gains)/losses arising from changes in financial assumptions	**(2,116)**	-
	(3,480)	-
Payments from the plan	**(299)**	(628)
Defined benefit obligation, end of the year	**17,362**	19,317

The obligation for the defined benefit plans is presented in the balance sheet as post-employment benefits.

The significant actuarial assumptions used to determine the present value of the obligation for the defined benefit plans are as follows:

	2014	2013
	%	%
Discount rate	**4.00**	4.50
Rate of compensation increase	**3.50**	3.50
Medical benefits costs escalation	**4.60 - 7. 00**	5.00 - 7.25
Dental benefits costs escalation	**4.60**	5.00

(In thousands of dollars)

14. Share capital

The Corporation's authorized share capital is made up of an unlimited number of common shares, and an unlimited number of Class A non-voting common shares, all of which are without nominal or par value.

The share capital issued during the period is as follows:

	Common shares		Class A common shares		Total
	Shares issued	$	Shares issued	$	$
Balance at January 1, 2013	100,000	247,183	55,195	33,118	280,301
Issued for cash	-	-	14,028	8,417	8,417
Balance at December 31, 2013	100,000	247,183	69,223	41,535	288,718
Issued for cash	8,091	20,001	30,774	18,465	38,466
Balance at December 31, 2014	**108,091**	**267,184**	**99,997**	**60,000**	**327,184**

On November 23, 2010, a Subscription Agreement was signed between the Corporation and its Shareholders for new Class A common shares for the purposes of the Shareholders providing equity for the Corporation's Permitted Generation business unit. The articles of incorporation and shareholders agreement were amended in order to proceed with the subscription agreement. This Subscription Agreement expired on December 31, 2011 and as such, a revised Subscription Agreement was signed between the Corporation and its Shareholders on January 1, 2012 to extend the equity financing in respect of the Corporation's Permitted Generation Business unit. The maximum amount of Class A common shares that are available under the subscription agreement is 100,000.

On November 1, 2013, a Unanimous Shareholders Agreement was signed between the Corporation and its Shareholders, superseding the existing revised Subscription Agreement. This ensured a reorganization of the Corporation becoming a wholly owned subsidiary of the newly established Group, PowerStream Holdings Inc. In effect, the total 108,091 common shares and 99,997 Class A common shares of the Corporation are wholly owned by PowerStream Holdings Inc.

During 2014, an additional 30,774 (2013 - 14,028) of the Class A common shares were issued for an amount of $18,465 (2013 - $8,417).

Also, during 2014, an additional 8,091 (2013 - Nil) of the common shares were issued for an amount of $20,001 (2013 - $Nil).

Dividends

The Corporation has established a dividend policy to pay a minimum of 50% of Modified IFRS ("MIFRS", framework used for reporting to the OEB) net income to PowerStream Holdings Inc., excluding the Permitted Generation Business unit income, with consideration given to the following:

- Cash position at the beginning of the current year;
- Working capital requirements for the current year; and
- Net capital expenditures required for the current year.

The Corporation paid a dividend of $165.75 per share (2013 - $149.16) on the common shares during the year, amounting to a total dividend of $16,575 (2013 - $14,916). The Corporation is proposing to continue to follow the practice of paying a dividend on common shares, representing 50% of the MIFRS net income. The proposed 2015 dividend would amount to $157.59 per share, resulting in a total dividend of $17,034. In addition, there is a proposed special dividend of $0.68 per share, resulting in a total special dividend of $74 for 2015. There is no tax effect as the dividends are paid out on an after tax basis.

14. Share capital (continued)

Dividends (continued)

The Corporation has also established a dividend policy for its Permitted Generation Business unit to distribute a dividend on the Class A common shares to PowerStream Holdings Inc. determined as follows:

- The Corporation will target an IRR of 10.5% on the Permitted Generation Business Unit. As each project is completed by the Permitted Generation Business Unit, the Corporation expects to make distributions calculated with reference to the Class A common shares equity injections made by the Shareholders from time to time, provided that the amount of each dividend will be at the discretion of the Board of Directors ("Board") and may be greater or lesser than the below having regard to the financial and operating results of the Corporation as a whole;
  - For purposes of the dividend declaration that follows receipt of the unaudited IFRS financial statements for the Permitted Generation Business unit at mid-year, such amounts shall be the greater of:
    - the amounts reported in the most recent unaudited year-end IFRS financial statements for the Permitted Generation Business unit, or
    - the sum of fifty percent (50%) of the amounts reported in the most recent unaudited year-end IFRS financial statements for the Permitted Generation Business unit plus 100% of the amounts reported in the most recent unaudited mid-year IFRS financial statements for the Permitted Generation Business unit (i.e. for a six-month period).
- In the post-construction period or earlier as determined by the Board, the net free cash flow will be paid to the holders of the Class A common shares subject to the criteria listed below:
  - Dividends will be declared by the Corporation's Board of Directors after due consideration is given to the following:
    - All financial covenants on any debt issued by the Corporation.
    - Qualifications to meet external bond rating criteria and ensure no adverse impact on the current credit rating of the Corporation. The Corporation will advise the Shareholders of its credit rating from time to time (and at least on an annual basis).
    - Cash flow requirements of the Permitted Generation Business Unit of the Corporation to meet working capital requirements and short-term (2 year) plans of capital expenditures.
    - The maintenance of the planned 60/40 debt to equity ratio.

In 2014, The Corporation paid a dividend of $88.97 per share (2013 - $Nil) on the Class A common shares during the year, amounting to a total dividend of $6,159 (2013 - $Nil). The Corporation is proposing to continue to follow the established practice of paying a dividend on Class A common shares in 2015, based on the net free cash flow, in accordance with the dividend policy. The proposed 2015 dividend would amount to $48.08 per share, resulting in a dividend of $4,808. There is no tax effect as the dividends are paid out on an after tax basis.

15. Insurance

The Corporation maintains appropriate types and levels of insurance with major insurers. With respect to liability insurance, the Corporation is a member of the Municipal Electricity Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

(In thousands of dollars)

15. Insurance (continued)

Insurance premiums charged to each member consist of a levy per thousands of dollars of service revenue subject to a credit or surcharge based on each member's claims experience. The maximum coverage is $24,000 for liability insurance, $464,309 for property insurance, $15,000 for vehicle insurance, and $4,500 for credit insurance; plus $10,000 excess coverage on top of the regular liability and vehicle coverage.

16. Leases

(a) Finance leases

The Corporation leases its operations centre under a 25 year lease agreement. The lease agreement includes both land and building elements. Upon entering into this lease arrangement, the Corporation classified the building element of the lease as a finance lease since it was determined that substantially all of the benefits and risks incidental to ownership of the operation centre were transferred to the Corporation (the lessee). The component of the annual basic rent related to the land is classified and recorded as an operating lease and the component related to the building is classified as a finance lease.

			2014
	Future minimum lease payments (including interest)	**Interest**	**Present value of minimum lease payments**
	$	**$**	**$**
Less than one year	**1,430**	**1,093**	**337**
Between one and five years	**7,257**	**5,088**	**2,168**
More than five years	**22,029**	**7,743**	**14,287**
	30,716	**13,924**	**16,792**

			2013
	Future minimum lease payments (including interest)	Interest	Present value of minimum lease payments
	$	$	$
Less than one year	1,430	1,115	315
Between one and five years	7,150	5,222	1,928
More than five years	23,566	8,702	14,864
	32,146	15,039	17,107

Interest on the lease obligation during fiscal 2014 amounted to $1,115 (2013 - $1,135) based on the rate of 6.57% per annum (2013 - 6.57%). Amortization of the corresponding PP&E during fiscal 2014 amounted to $731 (2013 - $731) based on the straight-line method with a useful life equal to the term of the lease (25 years). The Corporation has the option to purchase within twelve months before the expiry of the original lease in 2034, or an option of three five year lease extensions.

(In thousands of dollars)

16. Leases (continued)

(b) Operating leases

The Corporation is also committed to lease agreements for various vehicles, equipment, rooftops and the land portion of the finance lease for solar projects that have been classified as operating leases. The leases typically run for a period of 5 to 20 years.

The future minimum, non-cancellable annual lease payments (including the land portion of the operating centre lease referred to in (a) above) are as follows:

	2014	2013
	$	$
Less than one year	**3,141**	3,097
Between one and five years	**15,548**	15,351
More than five years	**34,363**	37,473
	53,052	55,921

During the year ended December 31, 2014, an expense of $3,126 (2013 - $3,105) was recognized in net income in respect of operating leases.

17. Financial instruments and risk management

(a) Fair value of financial instruments

The Corporation's accounting policies relating to the recognition and measurement of financial instruments are disclosed in Note 3(d).

The carrying amount of cash, accounts receivable, unbilled revenue, amounts due from related parties, bank indebtedness, liability for subdivision development, short-term debt, short- term Infrastructure Ontario financing, customer deposits, accounts payable and accrued liabilities and amounts due to related parties approximates fair value because of the short maturity of these instruments. The carrying value and fair value of the Corporation's other financial instruments are as follows:

	2014		2013	
Description	**Carrying value**	**Fair value**	Carrying value	Fair value
	$	$	$	$
Liabilities				
Notes payable	**182,430**	**219,338**	182,430	206,990
Debentures payable	**347,288**	**353,756**	198,221	176,865
	529,718	**573,094**	380,651	383,855

The carrying amounts shown in the table are included in the balance sheet under the indicated captions. In addition, the fair value of the $4,293 (2013 - $4,457) Infrastructure Ontario debentures which have been reclassified as a current liability (see Note 11) is $4,324 (2013 - $3,997) as at December 31, 2014.

(In thousands of dollars)

17. Financial instruments and risk management (continued)

(a) Fair value of financial instruments (continued)

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

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

The Corporation's fair value hierarchy is classified as Level 2 for notes and debentures payable. The classification for disclosure purposes has been determined in accordance with generally accepted pricing models, based on discounted cash flow analysis, with the most significant inputs being the contractual terms of the instrument discounted, and the market discount rates that reflects the credit risk of counterparties.

(b) Risk factors

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

(c) Credit risk

The Corporation's primary source of credit risk to its accounts receivable result from customers failing to discharge their dues for electricity consumed and billed.

The Corporation has approximately 370,000 (2013 - 365,000) residential and commercial customers. In order to mitigate such potential credit risks, the Corporation has taken various measures in respect of its Energy customers such as collecting security deposits amounting to $15,964 (2013 - $14,830) in accordance with OEB guidelines, reviewing Dun & Bradstreet ("D&B") reports for the top 3000 commercial customers with an outstanding balance of $5 or more, in-house collection department as well as external collection agencies and a bad debt insurance policy for $4,500 (2013 - $4,500) related to energy receivables. Thus, the Corporation monitors and limits its exposure to such credit risks on an ongoing basis.

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

	2014		2013	
	Total		Total	
	$	%	$	%
Less than 30 days	**78,146**	**80**	78,987	86
30 - 60 days	**12,803**	**13**	8,129	9
61 - 90 days	**3,469**	**4**	1,955	2
Greater than 91 days	**3,186**	**3**	2,902	3
Total outstanding	**97,604**	**100**	91,973	100
Less: allowance for doubtful accounts	**(1,641)**	**(2)**	(1,344)	(1)
	95,963	**98**	90,629	99

As at December 31, 2014, there was no significant concentration of credit risk with respect to any financial assets.

(In thousands of dollars)

17. Financial instruments and risk management (continued)

(d) Interest rate risk

The Corporation manages its exposure to interest rate risk by issuing long term fixed rate debt in the form of debentures, promissory notes and bank loans. It also ensures that all payment obligations are met by adopting proper capital planning.

As part of the Corporations' revolving demand operating credit facility, the Corporation may utilize the line of credit for working capital and/or capital expenditure purposes. Such short-term borrowing may expose the Corporation to short-term interest rate fluctuations as follows:

	2014	2013
364 day revolving facility		
Prime based loans	**PR*+0.0% p.a.**	PR*+0.0% p.a.
Bankers Acceptances	**SF*+0.95% p.a.**	SF*+0.95% p.a.
Demand facility		
Prime based loans	**PR*–0.30% p.a.**	PR*–0.30% p.a.
Bankers acceptances	**SF*+0.68% p.a.**	SF*+0.68% p.a.
Bankers acceptances (Secondary)	**SF*+0.70% p.a.**	SF*+0.70% p.a.
Letter of guarantee facility	**0.50% p.a.**	0.50% p.a.
Infrastructure Ontario financing	**Floating rate p.a.**	Floating rate p.a.

Note: PR - Prime Rate, SF* - Stamping Fee*

A sensitivity analysis was conducted to examine the impact of a change in the prime rate or stamping fee on the short-term debt. A variation of 1% (100 basis points), with all other variables held constant, would increase or decrease the annual interest expense by approximately $1,500.

Cash balances that are not required for day to day obligations earn an interest of Prime minus 1.7% per annum. Fluctuations in this interest rate could impact the level of interest income earned by the Corporation.

(e) Liquidity risk

Liquidity risks are those risks associated with the Corporation's inability to meet obligations associated with financial liabilities such as repayment of principal or interest payments on debts.

The Corporation monitors its liquidity risks on a regular basis to ensure there is sufficient cash flow to meet the obligations as they fall due as well as minimize the interest expense. Cash flow forecasts are prepared to monitor liquidity risks. Liquidity risks associated with financial liabilities are as follows:

			2014			2013
Maturity period	**Principal***	**Interest**	**Total**	Principal*	Interest	Total
	$	**$**	**$**	$	$	$
Less than 1 year	**254,072**	**24,533**	**278,605**	296,126	20,789	316,915
1-5 years	**17,283**	**112,299**	**129,582**	920	86,320	87,240
6-10 years	**316,291**	**90,242**	**406,533**	1,113	80,721	81,834
Over 10 years	**200,315**	**130,442**	**330,757**	366,600	138,328	504,928
	787,961	**357,516**	**1,145,477**	664,759	326,158	990,917

* The principal includes $2,712 (2013 - $1,778) of unamortized deferred issuing cost.

(In thousands of dollars)

17. Financial instruments and risk management (continued)

(f) Hedging/derivative risk

The Corporation has a swap and derivative transaction policy to enable the Corporation to enter into agreements such as interest rate swaps where 100% of the floating rate risk is hedged into a fixed rate. This is done for prudent risk management purposes and not speculative purposes.

The Corporation has not entered into any such transactions during the current year or prior years.

18. Capital structure

The Corporation's main objectives in the management of capital are to:

(i) Ensure that there is access to various funding options at the lowest possible rates for the various capital initiatives and working capital requirements necessary for the rate-regulated business;

(ii) Ensure compliance with various covenants related to its short-term debt, Infrastructure Ontario financing, bank term loan, debentures payable and Infrastructure Ontario debentures;

(iii) Consistently maintain a high credit rating for the Corporation;

(iv) Maintain a split of approximately 60% debt, 40% equity as recommended by the OEB;

(v) Ensure interest rate fluctuations are mitigated primarily by long term borrowings as well as capital planning; and

(vi) Deliver appropriate financial returns to shareholders.

The Corporation considers shareholders' equity, long-term debt and certain short-term debt as its capital. The capital structure as at December 31, 2014 is as follows:

	2014	2013
	$	$
Short-term debt		
Short-term debt (Note 11)	**25,000**	70,000
Infrastructure Ontario financing (Note 11)	**67,656**	48,315
Long-term debt		
Debentures payable (Note 12)	**347,288**	198,221
Notes payable (Note 12)	**182,430**	182,430
Total debt	**622,374**	498,966
Shareholders' equity		
Share capital (Note 14)	**327,184**	288,718
Accumulated other comprehensive income	**1,819**	(739)
Retained earnings	**114,297**	123,157
Total equity	**443,300**	411,136
Total	**1,065,674**	910,102

As at December 31, 2014, the Corporation was in compliance with covenants related to its short-term debt, Infrastructure Ontario financing, bank term loan and debentures payable. Details relating to covenants are disclosed in Note 11 and Note 12.

The Corporation is within the debt and equity requirements of the OEB. The Corporation's dividend policy is disclosed in Note 14.

(In thousands of dollars)

19. Operating expenses

Operating expenses comprise:

	2014	2013
	$	$
Labour	**49,747**	44,121
Contract/consulting	**15,710**	13,931
Materials	**1,651**	1,183
Vehicle	**1,579**	1,264
Other	**21,667**	25,084
	90,355	85,583

20. Income taxes

(a) Income tax expense

PILs recognized in net income comprise the following:

	2014	2013
	$	$
Current tax (recovery)	**(7,559)**	(995)
Deferred tax expense	**7,376**	9,827
Income tax (recovery) expense	**(183)**	8,832

(b) Reconciliation of effective tax rate

The PILs income tax expense differs from the amount that would have been recorded using the combined Canadian federal and provincial statutory income tax rates. The reconciliation between the statutory and effective tax rates is as follows:

	2014	2013
	$	$
Income before taxes	**13,691**	36,972
Statutory Canadian federal and provincial income tax rates	**26.50%**	26.50%
Expected tax provision on income at statutory rates	**3,628**	9,798
Increase (decrease) in income taxes resulting from:		
Permanent differences	**(5)**	60
Adjustments in respect of prior years	**(1,929)**	-
Scientific Research & Experimental Development tax credit	**(1,374)**	(1,202)
Other	**(503)**	176
Total income tax expense	**(183)**	8,832

Statutory Canadian federal and provincial income tax rates for the current year comprise 15% (2013: 15%) for federal corporate tax and a rate of 11.5% (2013: 11.5%) for corporate tax in Ontario. There was no change in the federal and provincial corporate tax rates in 2014 (no change in 2013).

(In thousands of dollars)

20. Income taxes (continued)

(c) Deferred tax balances

Deferred tax assets/(liabilities) are attributable to the following:

	2014	2013*
	$	$
Employee future benefits	4,601	5,119
Property, plant and equipment	3,154	18,611
Intangible assets	1,203	1,367
Non-capital loss	1,314	-
Tax credit carryovers	2,482	1,486
Other deductible temporary differences	1,485	(4,046)
	14,239	22,537

* Prior year comparatives have been changed to conform to current year presentation

Movement in deferred tax balances during the year were as follows:

	2014	2013
	$	$
Balance at January 1	22,537	32,364
Recognized in net income	(7,376)	(9,827)
Recognized in OCI related to employee future benefits	(922)	-
Balance at December 31	14,239	22,537

* Prior year comparatives have been changed to conform to current year presentation

21. Net change in non-cash operating working capital

	2014	2013
	$	$
Accounts receivable	(5,334)	(8,206)
Unbilled revenue	3,258	(19,453)
Due from related parties	(3,998)	275
Inventories	(129)	(10)
Prepaids and other assets	(233)	(61)
Customer deposits	1,079	293
Accounts payable and accrued liabilities	(1,442)	24,228
Due to related parties	1,167	1,825
Liability for subdivision development	(332)	1,349
Capital accruals in prior year	10,122	5,080
Capital accruals in current year	(9,603)	(10,122)
	(5,445)	(4,802)

22. Contingencies, commitments and guarantees

(a) Contingencies- legal claims

The Corporation has been named as a defendant in several actions. No provision has been recorded in the financial statements for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

(b) Commitments

As at December 31, 2014, the Corporation has entered into agreements for capital projects and is committed to making payments of $38,520 in 2015.

(c) Guarantees

In the normal course of business, the Corporation enters into agreements that meet the definition of a guarantee as follows:

(i) The Corporation has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Corporation agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(ii) Indemnity has been provided to all directors and/or officers of the Corporation for various items including, but not limited to, all costs to settle suits or actions due to association with the Corporation, subject to certain restrictions. The Corporation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Corporation. The maximum amount of any potential future payment cannot be reasonably estimated.

(iii) In the normal course of business, the Corporation has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Corporation to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Corporation has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

23. Comparative figures

The prior year's comparative figures for property, plant and equipment and intangibles have been reclassified by an amount of $15,686 related to work-in-progress for computer software which should have been reflected as an intangible in the prior year. In addition an amount of $1,462 which was previously netted in other revenue has been shown separately on the statement of income and other comprehensive income.

ATTACHMENT 21
HOBNI 2013 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Hydro One Brampton Networks Inc.

Financial Statements

December 31, 2013

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
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Toronto ON M2P 2H3

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of **Hydro One Brampton Networks Inc.**

We have audited the accompanying financial statements of Hydro One Brampton Networks Inc., which comprise the balance sheets as at December 31, 2013 and December 31, 2012, the statements of operations and comprehensive income, retained earnings, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hydro One Brampton Networks Inc. as at December 31, 2013 and December 31, 2012, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
March 5, 2014

HYDRO ONE BRAMPTON NETWORKS INC.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Year ended December 31 (thousands of dollars)	**2013**	**2012**
Revenues		
Distribution	461,783	421,901
Other *(Note 15)*	6,897	4,131
	468,680	426,032
Costs		
Purchased power *(Note 15)*	399,575	360,625
Operation, maintenance and administration *(Note 15)*	23,479	20,503
Depreciation and amortization *(Note 8)*	14,917	14,417
	437,971	395,545
Income before financing charges and provision for payments in lieu of corporate income taxes	30,709	30,487
Financing charges *(Notes 4, 15)*	10,688	10,445
Income before provision for payments in lieu of corporate income taxes	20,021	20,042
Provision for payments in lieu of corporate income taxes *(Notes 5, 15)*	3,600	2,787
Net Income	16,421	17,255

STATEMENTS OF RETAINED EARNINGS

Year ended December 31 (thousands of dollars)	**2013**	**2012**
Retained earnings, January 1	69,593	65,238
Net income	16,421	17,255
Dividends *(Notes 14, 15)*	(14,300)	(12,900)
Retained earnings, December 31	71,714	69,593

See accompanying notes to Financial Statements.

HYDRO ONE BRAMPTON NETWORKS INC.
BALANCE SHEETS

December 31 (thousands of dollars)	**2013**	**2012**
Assets		
Current assets:		
Cash	-	6,558
Accounts receivable (net of allowance for doubtful accounts - $906; 2012 - $930 *(Note 15)*)	68,418	59,746
Regulatory assets *(Note 9)*	1,158	1,207
Materials and supplies	1,195	1,124
Future income taxes *(Note 5)*	73	68
	70,844	68,703
Fixed assets *(Notes 6, 8)*:		
Fixed assets in service	575,354	547,308
Less: accumulated depreciation	278,717	267,820
	296,637	279,488
Construction in progress	6,071	7,501
Future use components and spares	3,834	3,579
	306,542	290,568
Other long-term assets:		
Regulatory assets *(Note 9)*	5,023	2,146
Intangible assets (net of accumulated amortization) *(Note 7)*	15,151	15,800
Future income tax assets *(Note 5)*	5,669	9,196
	25,843	27,142
Total assets	403,229	386,413

See accompanying notes to Financial Statements.

HYDRO ONE BRAMPTON NETWORKS INC.
BALANCE SHEETS

December 31 (thousands of dollars)	**2013**	**2012**
Liabilities		
Current liabilities:		
Bank indebtedness	8,114	-
Accounts payable and accrued charges *(Notes 5,15)*	67,957	58,217
Regulatory liabilities (*Note 9*)	4,266	246
Accrued interest	1,382	1,382
Employee future benefits other than pension *(Note 13)*	195	155
	81,914	60,000
Long-term debt *(Notes 10, 11, 12, 15)*	182,243	182,217
Other long-term liabilities:		
Regulatory liabilities *(Note 9)*	4,526	10,970
Deferred revenue	988	946
Employee future benefits other than pension *(Note 13)*	7,068	6,747
Long-term accounts payable and other liabilities	3,275	4,439
	15,857	23,102
Total liabilities	280,014	265,319
Contingencies and commitments *(Notes 17, 18)*		
Shareholder's equity		
Common shares (authorized: unlimited; issued: 2,000) *(Note 14)*	51,501	51,501
Retained earnings	71,714	69,593
Total shareholder's equity	123,215	121,094
Total liabilities and shareholder's equity	403,229	386,413

See accompanying notes to Financial Statements.

On behalf of the Board of Directors:

Carmine Marcello
Chair

Paul Tremblay
Director

HYDRO ONE BRAMPTON NETWORKS INC.
STATEMENTS OF CASH FLOWS

Year ended December 31 (thousands of dollars)	**2013**	**2012**
Operating activities		
Net income	16,421	17,255
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	14,676	13,092
Regulatory asset and liability accounts	(2,850)	4,874
Future income taxes	1,102	(1,168)
Amortization of deferred debt costs and debt discounts	26	23
	29,375	34,076
Changes in non-cash balances related to operations *(Note 16)*	236	418
Net cash from operating activities	29,611	34,494
Financing Activities		
Long-term debt issued	-	20,000
Dividends paid	(14,300)	(12,900)
Other	-	(98)
Net cash from (used in) financing activities	(14,300)	7,002
Investing activities		
Capital expenditures		
Fixed assets	(29,425)	(27,130)
Intangible assets	(393)	(1,558)
	(29,818)	(28,688)
Other	(165)	148
Net cash used in investing activities	(29,983)	(28,540)
Net change in cash (bank indebtedness)	(14,672)	12,956
Cash (bank indebtedness), beginning of year	6,558	(6,398)
Cash (bank indebtedness), end of year	(8,114)	6,558

See accompanying notes to Financial Statements.

HYDRO ONE BRAMPTON NETWORKS INC.
NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Hydro One Brampton Networks Inc. (Hydro One Brampton or the Company) was incorporated on April 25, 2000 under the *Business Corporations Act* (Ontario), and is a wholly owned subsidiary of Hydro One Inc. (Hydro One). The principal business of Hydro One Brampton is the ownership, operation and management of electricity distribution systems and facilities within the City of Brampton, Ontario. The Company's business is regulated by the Ontario Energy Board (OEB).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These financial statements are prepared and presented in accordance with accounting principles generally accepted in Canada (Canadian GAAP).

The Company will adopt International Financial Reporting Standards (IFRS) on January 1, 2015 in accordance with the Company's election to defer implementation for three additional years. This option was approved for use by rate-regulated enterprises by the Canadian Accounting Standards Board (AcSB) in February 2013.

Use of Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management evaluates these estimates on an on-going basis based upon: historical experience; current conditions; and assumptions believed to be reasonable at the time the assumption is made with any adjustments being recognized in results of operations in the period they arise. Significant estimates relate to regulatory assets and regulatory liabilities, environmental liabilities, employee future benefits other than pension, asset retirement obligations (AROs), asset impairment, contingencies, unbilled revenue, allowance for doubtful accounts and future income tax assets and liabilities. Actual results may differ significantly from these estimates, which may be impacted by future decisions made by the OEB or the Province.

Rate-setting

The electricity distribution rates of the Company are subject to regulation by the OEB and these rates are based on a revenue requirement that includes a rate of return of 9.66%. On December 22, 2011, the OEB approved Hydro One Brampton's 2012 rates on the basis of the OEB's third-generation incentive rate mechanism (IRM) policies. The revised rates were implemented January 1, 2012. On December 6, 2012, the OEB approved Hydro One Brampton's 2013 rates on the basis of the OEB's third-generation IRM policies. The revised rates were implemented on January 1, 2013. On December 5, 2013, the OEB approved Hydro One Brampton's 2014 rates effective January 1, 2014 on the basis of the OEB's third-generation IRM policies. The Company anticipates it will be filing a cost of service application in 2014 for rates effective January 1, 2015.

Regulatory Accounting

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

Bank Indebtedness

The Company's bank indebtedness is primarily composed of an inter-company demand facility with Hydro One which is used to settle amounts due to and from Hydro One and its other subsidiaries.

Hydro One maintains pooled bank accounts for its use and for the use of its subsidiaries, including the Company. The Company earns interest on positive inter-company balances based on the average of the bankers' acceptance rate at the beginning and end of the month, less 0.02%. The Company is charged interest on overdraft inter-company balances based on the same bankers' acceptance rate, plus 0.15%.

Revenue Recognition

Distribution revenues are recognized on an accrual basis and include billed and unbilled revenues. Distribution revenues attributable to delivery of electricity are based on OEB-approved distribution rates and are recognized as electricity is delivered to customers. The Company estimates monthly revenue for a period based on wholesale electricity purchases because customer meters are not generally read at the end of each month. At the end of each month, the electricity delivered to customers, but not billed, is estimated and revenue is recognized. The unbilled revenue estimate is affected by energy demand, weather, line losses and changes in the composition of customer classes.

Corporate Income Taxes and Capital Taxes

Under the *Electricity Act, 1998*, Hydro One Brampton is required to make payments in lieu of corporate taxes (PILs) to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing income and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario) as modified by the *Electricity Act, 1998*, and related regulations.

For transactions and events that cause temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, the Company records future income tax assets and liabilities, and corresponding regulatory liabilities and assets.

Current Income Taxes

The provision for current taxes and the assets and liabilities recorded for the current and prior periods are measured at the amounts receivable from, or payable to, the OEFC.

Future Income Taxes

Future income taxes are provided for using the liability method and are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

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

Future income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Future income taxes are charged or credited to the Statement of Operations and Comprehensive Income.

The carrying amount of future income tax assets is reviewed at each balance sheet date and reduced to the extent that all or part of the future income tax assets have not met the "more likely than not" criterion. Previously unrecognized future income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more likely than not of being recovered from future taxable profits.

The Company has recognized regulatory assets and liabilities that correspond to future income taxes that flow through the rate-making process.

Materials and Supplies

Materials and supplies represent consumables, spare parts and construction materials held for internal construction and maintenance of fixed assets. These assets are carried at the lower of average cost or net realizable value.

Fixed Assets

Fixed assets are recorded at original cost, net of customer contributions received in aid of construction and any accumulated impairment losses. The cost of additions, including betterments and replacements of asset components, is included on the Balance Sheet as fixed assets.

The original cost of property, plant and equipment includes direct materials, direct labour (including employee benefits),contracted services, attributable capitalized financing costs, and direct and indirect overheads that are related to the capital project or program. Overheads that are disallowed under the new capitalization policy are charged to operations and reflected in a regulatory asset account until the next cost of service decision for 2015 rates.

Fixed assets in service consist of land and land rights, buildings, distribution equipment, transformers and meters, trucks and equipment, and office and computer equipment. Fixed assets also include future use assets such as major components and spare parts.

Intangible Assets

Intangible assets separately acquired or internally developed are measured on initial recognition at cost which comprises purchased software, direct labour including employee benefits and consulting, engineering, overheads and attributable financing charges. Following initial recognition, intangible assets are carried at cost net of any accumulated amortization and accumulated impairment losses. The Company's intangible assets primarily represent major administrative computer applications assets, as well as capital contributions by the Company to Hydro One Networks Inc. (Hydro One Networks) for the construction of transmission connection facilities.

Capitalized Financing Costs

Capitalized financing costs represent interest costs attributable to the construction of fixed assets or development of intangible assets. The cost of attributable borrowed funds is capitalized as part of the acquisition cost of such assets. The capitalized portion of financing costs is a reduction to financing charges recognized in the Consolidated Statements of Operations and Comprehensive Income. Capitalized financing costs are calculated using the Company's weighted average effective cost of debt financing. Prior to 2012, financing costs were capitalized using and OEB mandated rate. Hydro One Brampton is no longer required to use the OEB rate.

Construction and Development in Progress

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

Depreciation and Amortization

The cost of fixed assets and intangible assets is depreciated or amortized on a straight-line basis based on the estimated remaining service life of each asset category. A summary of average service lives and depreciation and amortization rates for the various classes of assets is included below:

	Depreciation Rate
Land rights	2.00%
Buildings	3.33%
Distribution equipment	2.00% - 10.00%
Transformers and meters	2.50% - 6.67%
Trucks and equipment	10.00% - 20.00%
Office and computer equipment	10.00% - 20.00%

The costs of intangible assets are included within the office and computer equipment and distribution equipment classifications above. The amortization rate for computer applications software is 20% per year and the amortization rate for intangible assets included within distribution equipment is 2.50% per year.

On July 17, 2012, the OEB issued a letter "*Regulatory accounting policy direction regarding changes to depreciation expense and capitalization policies in 2012 and 2013*" addressed to all electricity distributors in the Province. The letter mandates that distributors that have deferred the changeover to IFRS in 2012, based on the AcSB's exemption, implement changes to their depreciation and capitalization policies effective January 1, 2013. These accounting changes are implemented consistent with the OEB's regulatory accounting policies as set out for modified IFRS as contained in the OEB's report, "*Transition to International Financial Reporting Standards (EB-2008-0408)*", the "*Depreciation Study for Use by Electricity Distributors (EB-2010-0178)*" and the "*Revised 2012 Accounting Procedures Handbook for Electricity Distributors*". The Company adopted these requirements in the 2013 fiscal year. The differences arising as a result of implementation of modified IFRS capitalization policy are recorded in a related regulatory account set up exclusively to track the accounting differences. On implementation of modified IFRS, the Company revised its capitalization policy to recognize losses on early retirement of assets, a decrease in the overhead burden rate applicable to additions to capital additions after January 1, 2013 and to record depreciation of assets at the component versus group level.

The change in capitalization policy is considered a change in accounting estimate as it results in an adjustment to the carrying amount of the fixed assets based on reassessment of the expected future benefits associated with that asset. The change in estimate is recognized prospectively in the period in which it occurs.

Where a disposition of property, plant and equipment occurs through sale, a gain or loss is calculated based on proceeds and is included in depreciation expense. Depreciation expense also includes the costs incurred to remove property, plant and equipment where no asset retirement obligation has been recorded.

The estimated service lives of fixed or intangible assets are subject to periodic review. Any changes arising from such a review are implemented on a remaining service life basis consistent with their inclusion in rates. The OEB approved new depreciation rates as part of the Company's 2011 cost of service rate decision. The new rates were based on rates developed by the Company in preparation for its adoption of IFRS. Prior to 2011, the Company's depreciation and amortization rates were based on mandatory OEB rates applied to all local distribution companies in Ontario.

Long-Lived Asset Impairment

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

Being a regulated business, the carrying costs of most of the Company's long-lived assets are included in rate base where they earn an OEB-approved rate of return. Asset carrying values and the related return are recovered through approved rates.

As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is judged to be probable.

Deferred Revenue

Certain amounts are received pursuant to agreements with developers for the estimated future costs for the remediation of damages caused to Hydro One Brampton assets during the completion of residential subdivisions for which funds have been received but the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year the related expenditures are incurred or services are performed.

Financial Assets and Liabilities

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

The Company has classified its financial instruments as follows:

Bank indebtedness	Other liabilities
Accounts receivable	Loans and receivables
Accounts payable and accrued charges	Other liabilities
Long-term debt	Other liabilities

Deferred debt costs are amortized over the contractual life of the related debt on an effective-interest basis and the amortization is included within financing charges in the Statements of Operations and Comprehensive Income.

All financial instrument transactions are recorded at trade date.

Multiemployer Pension Plan

Employees of Hydro One Brampton participate in the Ontario Municipal Employees Retirement System Fund (OMERS), a multi-employer, contributory, defined benefit public sector pension fund. OMERS provides retirement pension payments based on member’s length of service and salary. Both participating employers and members are required to make plan contributions. The OMERS plan assets are pooled together to provide benefits to all plan participants and the plan assets are not segregated in separate accounts for each member entity.

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

Employee Future Benefits other than Pension

Employee future benefits other than pension include group life insurance and health care and are recorded on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. Past service costs from plan amendments and actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered. Employee future benefits other than pension costs are attributed to labour and are charged to operations, maintenance and administration or capitalized as part of the cost of fixed assets.

Asset Retirement Obligations

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

3. EMERGING ACCOUNTING CHANGES

On February 13, 2008, the AcSB confirmed that publicly accountable enterprises will be required to adopt IFRS in place of existing Canadian GAAP for interim and annual reporting periods for fiscal years beginning on or after January 1, 2011. On September 10, 2010, the AcSB decided to permit rate regulated entities to defer their IFRS implementation date to January 1, 2012 at their option.

In May 2012, the International Accounting Standards Board (IASB) unanimously supported giving priority to developing a standards-level proposal for rate-regulated activities as a short-term Board project. Given the IASB's intention to prioritize rate-regulated activities when setting its future agenda, the AcSB decided to extend the deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities until January 1, 2014.

In December 2012, the IASB decided to develop an interim Standard, to provide temporary guidance on accounting for rate-regulated activities for first-time adopters of IFRS. Given the IASB's intention to issue an interim standard by the end of 2013, the AcSB decided to extend the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities by an additional year to January 1, 2015.

The Company has opted to take this deferral and will therefore plan to apply IFRS to its financial statements for the year ending December 31, 2015. Adoption in 2015 will include restatement of the amounts recorded on the opening IFRS balance sheet as at January 1, 2014, for comparative purposes. On April 25, 2013 the IASB published for public comment the Exposure Draft Regulatory Deferral Accounts as part of its reactivated Rate-Regulated Activities Research Project. The IASB proposed an interim standard that will provide temporary guidance until their comprehensive project on accounting for rate-regulated activities is complete. The proposed interim standard is intended to allow entities that will soon transition to IFRS, and that currently recognize impact of rate-regulation in accordance with their local GAAP to continue to do so. The IASB accepted comment letters until September 4, 2013 on this exposure draft and issued discussion papers in October and November.

On October 30, 2013, the IASB tentatively voted in favour of proceeding with an interim standard and in their November meeting the AcSB decided against further extending the deferral of the mandatory date for first time adoption of IFRS by rate-regulated entities, subject to the IASB issuing the expected interim standard in early 2014.

On January 30, 2014 the IASB published IFRS 14 - *Regulatory Deferral Accounts* allowing an entity with rate-regulated activities to recognize amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP. Upon implementation of IFRS, Hydro One Brampton will continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral balances. The interim standard requires regulatory deferral account balances and movements therein to be presented as separate line items on the face of the financial statements, distinguished from assets, liabilities, income and expenses that are recognised in accordance with other IFRSs. Under the interim standard, an entity that recognises regulatory deferral account balances in its financial statements is required to provide extensive disclosures to enable users of the financial statements to understand the features and nature of, and risks associated with, rate regulation; and the effect of rate regulation on the entity's financial position, performance and cash flows.

4. FINANCING CHARGES

Year ended December 31 (thousands of dollars)	**2013**	**2012**
Interest on long-term debt *(Note 10, 15)*	11,465	11,446
Amortization of deferred debt costs and debt discounts	26	23
Other interest income	(91)	(197)
Interest accreted on regulatory accounts	138	53
Interest capitalized on construction and development in progress	(850)	(880)
	10,688	10,445

5. PROVISION FOR PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

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

Year ended December 31 (thousands of dollars)	**2013**	**2012**
Income before provision for PILs	20,021	20,042
Federal and Ontario statutory income tax rate	26.5%	26.5%
Provision for PILs at statutory rate	5,306	5,311
Decrease resulting from:		
Net temporary differences included in amounts charged to customers:		
Employee future benefits other than pension expense in excess of cash payments	24	5
Depreciation and amortization (lower) higher than capital cost allowance	(1,540)	(2,037)
Rate Change	-	(335)
Interest capitalized for accounting purposes, but deducted for tax	(225)	(233)
Other	35	76
Net temporary differences	(1,706)	(2,524)
Total income tax provision for PILs	3,600	2,787
Current income tax provision for PILs	2,499	3,955
Future income tax provision for PILs	1,101	(1,168)
Total income tax provision for PILs	3,600	2,787
Effective income tax rate	17.98%	13.91%

The provision for payments in lieu of current income taxes of $2,499 thousand (2012 - $3,955 thousand) represents amounts payable to OEFC with respect to current year earnings. In 2013, there is an outstanding balance due from the OEFC of $1,679 thousand (2012 - $1,496 thousand due to OEFC).

The provision for payments in lieu of future income taxes of $1,101 thousand (2012 future tax recovery of $1,168 thousand) reflects amounts that are not expected to be recovered from the Company's customers through future rates. The decrease in the future tax asset for payments in lieu of future income taxes that is expected to be recovered from the Company's customers through future rates has resulted in a decrease in regulatory liabilities of $2,381 thousand (2012 – $2,679 thousand).

Future Income Tax Assets and Liabilities

Payments in lieu of future income tax assets and liabilities arise from differences between the carrying amounts and tax bases of the Company's assets and liabilities. The tax effects of these differences are as follows:

December 31 (thousands of dollars)	**2013**	**2012**
Future Income Tax Assets		
Regulatory accounts	715	1,454
Employee future benefits other than pension expense in excess of cash payments	2,619	2,488
Depreciation and amortization in excess of (lower than) capital cost allowance	(2,389)	159
Goodwill	4,756	5,114
Other	41	49
Total future income tax assets	5,742	9,264
Less: current portion	73	68
	5,669	9,196

6. FIXED ASSETS

December 31 (thousands of dollars)	Fixed Assets in Service	Accumulated Depreciation	Construction in Progress	Future Use Components and Spares	Total
2013					
Land and land rights	9,777	222	170	-	9,725
Buildings	33,390	11,496	107	-	22,001
Distribution equipment	344,945	179,042	3,924	3,834	173,661
Transformers and meters	160,501	71,790	873	-	89,584
Trucks and equipment	18,088	10,469	997	-	8,616
Office and computer equipment	8,653	5,698	-	-	2,955
	575,354	278,717	6,071	3,834	306,542
2012					
Land and land rights	9,772	222	152	-	9,702
Buildings	32,589	10,722	35	-	21,902
Distribution equipment	329,017	173,551	5,767	3,579	164,812
Transformers and meters	151,475	68,273	1,211	-	84,413
Trucks and equipment	16,884	9,581	336	-	7,639
Office and computer equipment	7,571	5,471	-	-	2,100
	547,308	267,820	7,501	3,579	290,568

Financing charges capitalized on fixed assets under construction were $850 thousand in 2013 (2012 - $880 thousand).

7. INTANGIBLE ASSETS

December 31 (thousands of dollars)	Intangible Assets	Accumulated Amortization	Total
2013			
Contributed capital	14,880	1,375	13,505
Computer applications software	5,121	3,475	1,646
	20,001	4,850	15,151
2012			
Contributed capital	14,881	1,006	13,875
Computer applications software	4,728	2,803	1,925
	19,609	3,809	15,800

Financing charges capitalized on intangible assets under development were nil in 2013 (2012 - nil).

8. DEPRECIATION AND AMORTIZATION

Year ended December 31 (thousands of dollars)	**2013**	**2012**
Depreciation of fixed assets in service	11,386	10,981
Amortization of intangible assets	1,042	1,046
Amortization of regulatory assets	55	1,360
Fixed asset removal costs	1,356	1,030
Loss on early retirement of fixed assets	1,078	-
	14,917	14,417

9. REGULATORY ASSETS AND LIABILITIES

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

December 31 (thousands of dollars)	**2013**	**2012**
Regulatory assets:		
Accounting changes under GAAP	2,684	-
Smart meters	1,158	1,208
IFRS transition costs	961	947
Stranded meters	522	588
LRAM variance account	307	230
Retail settlement variance accounts	194	-
LV variance account	160	199
Other regulatory assets	195	181
Total regulatory assets	6,181	3,353
Less: current portion	1,158	1,207
Long-term regulatory assets	5,023	2,146
Regulatory liabilities:		
Regulatory balances approved for disposal	8,399	44
Renewable generation funding adder	313	219
Regulatory future income tax liability	3	2,424
Retail settlement variance accounts	-	8,351
Other regulatory liabilities	77	178
Total regulatory liabilities	8,792	11,216
Less: current portion	4,266	246
Long-term regulatory liabilities	4,526	10,970

In the absence of rate-regulated accounting, interest would not have been accreted on these regulatory assets and liabilities, and financing charges would have been lower in 2013 by $138 thousand (2012 – $53 thousand).

Regulatory assets

Accounting Changes Under GAAP

On July 17, 2012 the OEB issued a letter which requires electricity distributors to implement changes to their capitalization and depreciation expense policies effective January 1, 2013. The OEB requires these accounting changes to be implemented consistent with their regulatory accounting policies as set out for modified IFRS as contained in the *Report of the Board, Transition to International Financial Reporting Standards,* EB-2008-0408, the Kinectrics Report, and the Revised 2012 *Accounting Procedures Handbook for Electricity Distributors* ("APH"). Based on the OEB's letter, these fixed assets adjustments, including losses on early retirement, are to be recorded in a variance account and will be recovered from or refunded to ratepayers in the year of the Company's next cost of service application through an adjustment to depreciation expense over the approved amortization period. The Company will continue to record the fixed asset adjustments in the variance account, at end of each fiscal year, until the rates are reset using the modified IFRS accounting policies in the next cost of service decision for 2015 rates. For the year ended December 31, 2013, the Company recorded an adjustment of $2,684 thousand (2012 – nil). In the absence of regulatory accounting, fixed assets would have been higher by $2,858 thousand (2012 – nil), operations and depreciation expense would have been lower by $1,789 thousand and $895 thousand respectively (2012 – nil).

Smart Meters

In 2006, the OEB approved the establishment of regulatory deferral accounts for smart meter-related expenditures. Consistent with the OEB's direction and pending further guidance, the Company recognizes a regulatory asset or liability consisting of the net balance of calculated revenues related to smart meters less recoveries received from customers through specific rate adder amounts. In the absence of rate-regulated accounting, revenues would have been higher by $50 thousand (2012 – $1,361 thousand).

On April 25, 2013 the OEB approved two types of rate riders related to the Company's deployment of smart meters. The first rider is for a final disposition amount of $1,890 thousand to be recovered over a period of 20 months, effective May 1, 2013. The second rider is for the recovery of the incremental revenue requirement related to smart meter costs. This rider is effective May 1, 2013 and will remain in place until the Company rebases its rates through a cost of service application, expected to be for rates effective January 1, 2015.

IFRS Transition Costs

In preparation for its transition to IFRS, the Company has incurred costs relating to the IFRS conversion project. These costs have been recorded to regulatory assets as the Company expects to obtain recovery of these costs in the future. In the absence of rate-regulated accounting, operation, maintenance and administration expenses would have been unchanged (2012 - $13 thousand higher) and financing charges would have been higher by $14 thousand (2012 - $13 thousand).

Stranded Meters

In 2007, the OEB approved the use of a deferral account to record the unrecovered costs of conventional or accumulation meters removed at the time of installation of smart meters. The remaining net book value of conventional meters that had been removed from service was reclassified from fixed assets to regulatory assets.

In 2011, the OEB approved a 20 month rate rider effective May 1, 2011, for the recovery of the estimated stranded meter costs as of December 31, 2011. The approved stranded meter costs are part of the Regulatory Balances Approved for Recovery balance. The remaining Stranded Meter balance represents additional stranded meter costs that will be subject to review during the Company's next cost of service application. In the absence of rate-regulated accounting, depreciation expense would have been lower by $66 thousand in 2013 (2012 - $1,360 thousand).

Lost Revenue Adjustment Mechanism (LRAM) Variance Account

The LRAM Variance account represents the difference between the results of actual verified impacts of authorized Conservation and Demand Management (CDM) activities related to the CDM programs which started in 2011 and the level of CDM program activities included in the load forecast. In the absence of rate-regulated accounting, revenue would have been lower by $77 thousand in 2013 (2012- $228 thousand lower).

Retail Settlement Variance Accounts (RSVA)

Hydro One Brampton has deferred certain RSVA's under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. The Company disposed of all balances in these accounts to the end of December 2012. These balances were reclassified as a liability in the *Regulatory Balances Approved for Disposition* Account. In the absence of rate-regulated accounting, distribution revenues would have been lower by $194 thousand (2012 - nil).

Low Voltage (LV) Variance Account

The Company records the variance arising from low voltage transactions which are not part of the electricity wholesale market. The Company disposed of the balance in this account to the end of December 31, 2012 in the Regulatory *Balances Approved for Disposition* Account. In the absence of rate-regulated accounting, cost of power would have been lower by $39 thousand in 2013 (2012 -$132 thousand higher).

Regulatory liabilities

Regulatory Balances Approved for Disposition

In 2013, the OEB approved the Company's request to refund regulatory balances of $8,312 thousand over a two year period commencing January 1, 2014. The balances consisted primarily of RSVA amounts and refundable (over)/under recoveries of previous rate riders.

Renewable Generation Funding Adder

In 2011, the OEB approved a funding adder to recover the expenditures related to the Green Energy Plan that was submitted by the Company as part of their 2011 cost of service application. The Green Energy Act (GEA) funding adder is collected from all metered customers as a fixed charge. In the absence of rate regulated accounting revenue would have been lower by $313 thousand (2012- $219 thousand).

Regulatory Future Income Tax Liability

Future income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. The Company has recognized regulatory assets and liabilities which correspond to future income taxes that flow through the rate-making process. In the absence of rate-regulated accounting, the Company's provision for PILs would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be recovered through future rates. As a result, the 2013 provision for PILs would have been higher by $1,750 thousand (2012 - $1,975 thousand) including the impact of a change in substantively enacted tax rates.

10. LONG-TERM DEBT

The long-term debt, net of deferred transaction costs, of $182,243 thousand (2012 - $182,217 thousand) consists of three promissory notes payable to Hydro One. The notes are subject to redemption or repurchase in whole or in part, by the Company before maturity.

The first promissory note, issued on June 3, 2001, has a carrying value of $143,000 thousand and bears interest at a rate of 6.95% per annum until maturity on June 1, 2032. On issuance of this promissory note, $777 thousand of transaction costs incurred by Hydro One were transferred to the Company. These transaction costs are presented net with the long-term debt and are being amortized using the effective interest method over the 30-year term of the note. At December 31, 2013, the unamortized balance of these transaction costs was $559 thousand (2012- $574 thousand).

The second promissory note, issued on September 26, 2011, has a carrying value of $20,000 thousand and bears interest at a rate of 4.41% per annum until maturity on September 26, 2041. On issuance of this promissory note, $102 thousand of transaction costs incurred by Hydro One were transferred to the Company. These transaction costs are presented net with the long-term debt and are being amortized using the effective interest method over the 30-year term of the note. At December 31, 2013, the unamortized balance of these transaction costs was $98 thousand (2012 - $99 thousand).

The third promissory note, issued on January 13, 2012, has a carrying value of $20,000 thousand and bears interest at a rate of 3.22% per annum until maturity on January 13, 2022. On issuance of this promissory note, $82 thousand of transaction costs incurred by Hydro One were transferred to the Company. These transaction costs are presented net with the long-term debt and are being amortized using the effective interest method over the 10-year term of the note. At December 31, 2013, the unamortized balance of these transaction costs was $68 thousand (2012 - $76 thousand).

11. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying values of all financial instruments, except long-term debt, approximate fair value. The fair value of long-term debt, provided in the table below, is based on unadjusted year-end market prices for the same or similar debt of the same remaining maturities. The fair value measurement of long-term debt is categorized as level 2 as the inputs used reflect other than quoted market prices that are observable in an active market.

At December 31, 2013 and 2012, the fair values and carrying values of the Company's long-term debt are as follows:

December 31 (thousands of dollars)	2013 Carrying Value[1]	2013 Fair Value[2]	2012 Carrying Value[1]	2012 Fair Value[2]
Long-term debt				
Note issued in 2001	143,000	185,228	143,000	203,789
Note issued in 2011	20,000	19,370	20,000	22,058
Note issued in 2012	20,000	19,706	20,000	20,692
	183,000	224,304	183,000	246,539

[1] The carrying value of long-term debt represents the par value of the promissory notes.

[2] The fair value of long-term debt is based on unadjusted year-end market prices for the same or similar debt of the same remaining maturities. The fair value measurement of long-term debt is categorized as Level 2.

Risk Management

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

Market Risk

Market risk refers primarily to the risk of losses that result from changes in commodity prices, foreign exchange rates and interest rates. The Company does not have commodity risk and its foreign exchange risk is currently insignificant. Hydro One Brampton is exposed to fluctuations in interest rates as the regulated rate of return for the Company's distribution business is derived using a formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields and the spread in 30 year "A" rated Canadian utility bonds over the 30 year benchmark Government of Canada bond yield. The Company estimates that a 1% decrease in the forecast long-term Government of Canada bond yield used in the current OEB formula for determining the Company's rate of return on equity would have reduced its results of operations by approximately $1,300 thousand based on 2011 COS application. In 2012 and 2013, Hydro One Brampton's distribution rates were updated based on the OEB's third generation IRM policies and as a result the allowable regulated rate of return is notional until it is reset as part of the Company's next cost of service application. The Company's distribution rates will be updated based on the OEB's IRM policies in 2014.

Credit Risk

Financial assets create credit risk that counterparty will fail to discharge an obligation, causing a financial loss. The Company's revenue is earned from a broad base of customers. As a result, Hydro One Brampton did not earn a significant amount of revenue from any individual customer. As at December 31, 2013, there were no significant balances of accounts receivable due from any single customer.

At December 31, 2013, the Company's provision for bad debts was $906 thousand (2012 - $930 thousand). Adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. At December 31, 2013, approximately 2% (2012 - 2%) of the Company's accounts receivable were aged more than 60 days. The Company's credit risk for accounts receivable is limited to the carrying amount on the Balance Sheet.

Liquidity Risk

Liquidity risk refers to the Company’s ability to meet its financial obligations as they come due. Short-term liquidity is provided through cash on hand, funds from operations, and the inter-company demand facility arrangement with Hydro One. The short-term liquidity available to the Company should be sufficient to fund normal operating requirements.

At December 31, 2013, accounts payable and accrued charges in the amount of $67,957 thousand (2012 - $58,217 thousand) are expected to be settled in cash at their carrying amounts within the next year.

At December 31, 2013, the Company has long-term debt outstanding in the amount of $183,000 thousand (2012 - $183,000 thousand). There is no portion of long-term debt that is maturing during the next year. Interest payments for the next 12 months on the Company’s outstanding long-term debt amount to $11,465 thousand (2012 - $11,465 thousand).

12. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of shareholder’s equity, long-term debt, and cash and cash equivalents. At December 31, 2013 and 2012, the Company’s capital structure was as follows:

December 31 (thousands of dollars)	**2013**	**2012**
Bank indebtedness (cash)	8,114	(6,558)
Long-term debt	182,243	182,217
Common shares	51,501	51,501
Retained earnings	71,714	69,593
	123,215	121,094
Total capital	313,572	296,753

13. EMPLOYEE FUTURE BENEFITS

The Pension Plan

Hydro One Brampton’s contributions to the OMERS plan for the year ended December 31, 2013 were $1,820 thousand (2012 - $1,577 thousand). Company contributions payable at December 31, 2013 and included in accounts payable and accrued charges on the Balance Sheet were $168 thousand (2012 - $156 thousand).

Employee Future Benefits other than Pension

The Company provides certain medical and life insurance benefits to its retired employees and their dependents. The Company recognizes these post-retirement costs in the period in which the employees render services. The measurement date used to determine the accrued benefit obligation is December 31.

Net periodic post-retirement benefit costs of $440 thousand (2012 - $312 thousand) were attributed to labour. In 2013, $157 thousand (2012 - $118 thousand) was charged to results of operations and $283 thousand (2012 - $194 thousand) was capitalized as part of the cost of fixed and intangible assets.

Information about the Company's post-retirement benefit plan is as follows:

December 31 (thousands of dollars)	**2013**	**2012**
Accrued benefit liability, beginning of year	6,902	6,690
Net periodic post-retirement benefit cost	440	312
Benefits paid	(79)	(100)
Accrued benefit liability, end of year	7,263	6,902
Less: current portion	195	155
Long-term accrued benefit liability	7,068	6,747

During 2013, the Company had an actuarial loss of $65 thousand (2012 - $648 thousand) as a result of updating year-end assumptions. At December 31, 2013, the net accumulated unamortized actuarial gain was $1,125 thousand (2012 - $1,253 thousand).

The components of net periodic post-retirement benefit cost for the years ended December 31, 2013 and 2012 are as follows:

Year ended December 31 (thousands of dollars)	**2013**	**2012**
Current service cost	269	216
Interest cost	234	240
Actuarial loss (gain) on benefit obligation	65	648
Costs arising in the period	568	1,104
Differences between costs arising in the period and costs recognized in the period in respect of actual (gain) loss	(128)	(792)
Net periodic post-retirement benefit cost	440	312

The significant actuarial assumptions used to determine the benefit obligation and benefit expense at December 31, 2013 and 2012 are as follows:

	2013	**2012**
Expected annual remaining service life of employees	11 years	11 years
Discount rate for the expense for the year ended December 31	4.00%	5.00%
Discount rate for the accrued benefit obligation at December 31	4.50%	4.00%
Rate of compensation scale escalation (without merit)	3.00%	3.00%
Rate of increase of long-term supplementary medical costs[1]	8.26%	8.48%
Rate of increase of prescription drug costs[1]	8.26%	8.48%
Rate of increase of dental costs	4.50%	4.50%

[1] 8.26% per annum in 2013, grading down to 4.50% per annum in and after 2031 (2012 – 8.48% per annum in 2012, grading down to 4.50% per annum in and after 2031)

The effect of 1% change in health care cost trends on the post-retirement benefits is as follows:

Year ended December 31 (thousands of dollars)	**2013**	**2012**
Effect of 1% increase in health care cost trends on:		
Accrued benefit obligation, December 31	377	347
Service cost and interest cost	44	39
Effect of 1% decrease in health care cost trends on:		
Accrued benefit obligation, December 31	(331)	(305)
Service cost and interest cost	(37)	(33)

14. SHARE CAPITAL

Common Shares

The Company has 2,000 issued and outstanding common shares. The Company is authorized to issue an unlimited number of common shares.

Dividends

Common share dividends are declared at the sole discretion of the Company's Board of Directors, and are recommended by management based on results of operations, maintenance of the deemed regulatory capital structure, financial conditions, cash requirements, and other relevant factors, such as industry practice and shareholder expectations.

In 2013, common share dividends in the amount of $14,300 thousand (2012 - $12,900 thousand) were declared and paid.

15. RELATED PARTY TRANSACTIONS

Hydro One Brampton is a subsidiary of Hydro One, and Hydro One is owned by the Province. The OEFC, Independent Electricity System Operator (IESO), Ontario Power Authority (OPA), Ontario Power Generation Inc. (OPG) and the OEB are related parties to Hydro One Brampton because they are controlled or significantly influenced by the Province. Transactions between these parties and Hydro One Brampton were as follows:

In 2013, the Company purchased power in the amount of $373,563 thousand (2012- $335,415 thousand) from the IESO-administered electricity market.

Under the *Ontario Energy Board Act, 1998,* the OEB is required to recover all of its annual operating costs from gas and electricity distributors and electricity transmitters. In 2013, the Company incurred $375 thousand (2012 - $426 thousand) in OEB fees.

The OPA funds some of the Company's Conservation and Demand Management (CDM) programs. The funding includes program costs, incentives, and management fees. In 2013, the Company received $6,837 thousand (2012 – $6,191 thousand) from the OPA related to the CDM programs.

The provision for PILs was paid or payable to the OEFC.

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

December 31 (thousands of dollars)	**2013**	**2012**
Accounts receivable	2,580	1,639
Accounts payable and accrued charges[1]	(32,871)	(30,519)

[1] Included in accounts payable and accrued charges at December 31, 2013 are amounts owing to the IESO in respect of power purchases of $32,299 thousand (2012 - $26,803 thousand).

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

Hydro One and Subsidiaries

The Company provides services to, and receives services from, Hydro One and its other subsidiaries. The Company's cash and bank indebtedness is primarily composed of an inter-company demand facility with Hydro One which is used to settle amounts due to and from Hydro One and its other subsidiaries.

In 2013, the Company purchased certain transmission, connection, and administrative services from Hydro One Networks and Hydro One totaling $2,786 thousand (2012 - $1,952 thousand). The Company provided certain transmission and connection services to Hydro One Networks totaling $2,036 thousand (2012 - $1,517 thousand). The Company recorded other rental revenues from Hydro One Networks of $73 thousand (2012 - $350 thousand).

The Company made capital contributions and purchases for the construction of transmission connection facilities from Hydro One Networks and Hydro One totaling $114 thousand (2012 - $2,372 thousand).

During 2013, the Company paid for certain telecommunication services in the amount of $15 thousand (2012 - $15 thousand) and leased a portion of its facilities and equipment to Hydro One Telecom Inc. in the amount of $147 thousand (2012 - $135 thousand).

In 2013, Hydro One provided prudential support to the IESO on behalf of the Company in the form of a parental guarantee of $75,000 thousand (2012 - $75,000 thousand).

The Company's long-term debt of $183,000 thousand is due to Hydro One. Financing charges for the year ended December 31, 2013 include interest expense on the long-term debt in the amount of $11,465 thousand (2012 - $11,446 thousand), and interest expense on the inter-company demand facility in the amount of $25 thousand (2012 - $3 thousand). At December 31, 2013, the Company had accrued interest payable to Hydro One totaling $1,382 thousand (2012 - $1,382 thousand).

In 2013, common dividends of $14,300 thousand (2012 - $12,900 thousand) were declared and paid to Hydro One.

16. STATEMENTS OF CASH FLOWS

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

Year ended December 31 (thousands of dollars)	**2013**	**2012**
Accounts receivable	(8,672)	349
Materials and supplies	(71)	20
Accounts payable and accrued charges	9,740	(4,759)
Employee future benefits other than pension	361	212
Long-term accounts payable and other liabilities	(1,164)	4,289
Accrued interest	-	303
Deferred revenue	42	4
	236	418

Supplementary information:		
Net interest paid	11,555	11,515
Payments in lieu of corporate income taxes	2,250	1,155

17. CONTINGENCIES

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

18. COMMITMENTS

Prudential support

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. As at December 31, 2013, Hydro One provided prudential support to the IESO on behalf of Hydro One Brampton using a parental guarantee of $75,000 thousand (2012 - $75,000 thousand). On April 27, 2012, Hydro One's highest credit rating declined from the "Aa" category to the "A" category. Based on the new credit rating category, Hydro One provided a letter of credit in the amount of $1,200 thousand (2012 - $1,200 thousand) to the IESO on behalf of Hydro One Brampton. The IESO could draw on the parental guarantee and/or letter of credit if the Company fails to make a payment required by a default notice issued by the IESO. The maximum potential payment is the face value of the letter of credit plus the amount of the parental guarantee.

19. COMPARATIVE FIGURES

The comparative Financial Statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2013 Financial Statements.

ATTACHMENT 22
HOBNI 2014 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Hydro One Brampton Networks Inc.

Financial Statements

December 31, 2014

KPMG

KPMG LLP
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Toronto ON M2P 2H3
Canada

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro One Brampton Networks Inc.

We have audited the accompanying financial statements of Hydro One Brampton Networks Inc., which comprise the balance sheets as at December 31, 2014 and December 31, 2013, the statements of operations and comprehensive income, retained earnings and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained in our audits 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 Hydro One Brampton Networks Inc. as at December 31, 2014 and December 31, 2013, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 26, 2015
Toronto, Canada

HYDRO ONE BRAMPTON NETWORKS INC.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31, 2014 and 2013

Year ended December 31 (thousands of Canadian dollars)	2014	2013
Revenues		
Distribution	489,959	461,783
Other *(Note 15)*	5,839	6,897
	495,798	468,680
Costs		
Purchased power *(Note 15)*	425,874	399,575
Operation, maintenance and administration *(Note 15)*	26,754	23,479
Depreciation and amortization *(Note 8)*	15,461	14,917
	468,089	437,971
Income before financing charges and provision for payments in lieu of corporate income taxes	27,709	30,709
Financing charges *(Notes 4, 15)*	11,070	10,688
Income before provision for payments in lieu of corporate income taxes	16,639	20,021
Provision for payments in lieu of corporate income taxes *(Notes 5, 15)*	2,757	3,600
Net income and comprehensive income	13,882	16,421

STATEMENTS OF RETAINED EARNINGS
For the years ended December 31, 2014 and 2013

Year ended December 31 (thousands of Canadian dollars)	2014	2013
Retained earnings, January 1	71,714	69,593
Net income	13,882	16,421
Dividends *(Notes 14, 15)*	(8,300)	(14,300)
Retained earnings, December 31	77,296	71,714

See accompanying notes to Financial Statements.

HYDRO ONE BRAMPTON NETWORKS INC.
BALANCE SHEETS
At December 31, 2014 and 2013

December 31 (thousands of Canadian dollars)	**2014**	**2013**
Assets		
Current assets:		
Accounts receivable (net of allowance for doubtful accounts – $1,015; 2013 – $906) *(Note 15)*	67,448	68,418
Regulatory assets *(Note 9)*	6,330	1,158
Materials and supplies	1,195	1,195
Future income taxes *(Note 5)*	53	73
	75,026	70,844
Fixed assets *(Notes 6, 8)*:		
Fixed assets in service	600,562	575,354
Less: accumulated depreciation	290,391	278,717
	310,171	296,637
Construction in progress	4,461	6,071
Future use components and spares	3,639	3,834
	318,271	306,542
Other long-term assets:		
Regulatory assets *(Note 9)*	9,213	5,023
Intangible assets (net of accumulated amortization) *(Note 7)*	14,333	15,151
Future income tax assets *(Note 5)*	875	5,669
	24,421	25,843
Total assets	417,718	403,229

See accompanying notes to Financial Statements.

HYDRO ONE BRAMPTON NETWORKS INC.
BALANCE SHEETS
At December 31, 2014 and 2013

December 31 (thousands of Canadian dollars)	**2014**	**2013**
Liabilities		
Current liabilities:		
Bank indebtedness	2,705	8,114
Accounts payable and accrued charges *(Notes 5,15)*	76,646	67,957
Regulatory liabilities (*Note 9*)	7,046	4,266
Accrued interest	1,412	1,382
Employee future benefits other than pension *(Note 13)*	126	195
	87,935	81,914
Long-term debt *(Notes 10, 11, 12, 15)*	192,209	182,243
Other long-term liabilities:		
Regulatory liabilities *(Note 9)*	66	4,526
Deferred revenue	1,032	988
Employee future benefits other than pension *(Note 13)*	7,565	7,068
Long-term accounts payable and other liabilities	114	3,275
	8,777	15,857
Total liabilities	288,921	280,014
Contingencies and commitments (Notes 17, 18)		
Shareholder's equity		
Common shares (authorized: unlimited; issued: 2,000) *(Note 14)*	51,501	51,501
Retained earnings	77,296	71,714
Total shareholder's equity	128,797	123,215
Total liabilities and shareholder's equity	417,718	403,229

See accompanying notes to Financial Statements.

On behalf of the Board of Directors:

Carmine Marcello
Chair

Paul Tremblay
Director

HYDRO ONE BRAMPTON NETWORKS INC.
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2014 and 2013

Year ended December 31 (thousands of Canadian dollars)	2014	2013
Operating activities		
Net income	13,882	16,421
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs) *(Note 8)*	15,674	14,751
Regulatory asset and liability *(Note 9)*	(8,910)	(2,851)
Future income taxes *(Note 5)*	2,682	1,102
Amortization of deferred debt costs and debt discounts	27	26
	23,355	29,449
Changes in non-cash balances related to operations *(Note 16)*	7,001	236
Net cash from operating activities	30,356	29,685
Financing Activities		
Long-term debt issued	10,000	–
Dividends paid *(Note 14, 15)*	(8,300)	(14,300)
Other	(61)	–
Net cash from (used in) financing activities	1,639	(14,300)
Investing activities		
Capital expenditures		
Fixed assets	(26,599)	(29,426)
Intangible assets	(231)	(393)
	(26,830)	(29,819)
Other	244	(238)
Net cash used in investing activities	(26,586)	(30,057)
Net change in cash (bank indebtedness)	5,409	(14,672)
Cash (bank indebtedness), beginning of year	(8,114)	6,558
Cash (bank indebtedness), end of year	(2,705)	(8,114)

See accompanying notes to Financial Statements.

HYDRO ONE BRAMPTON NETWORKS INC.
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2014 and 2013

1. DESCRIPTION OF BUSINESS

Hydro One Brampton Networks Inc. (Hydro One Brampton or the Company) was incorporated on April 25, 2000 under the *Business Corporations Act* (Ontario), and is a wholly owned subsidiary of Hydro One Inc. (Hydro One). The principal business of Hydro One Brampton is the ownership, operation and management of electricity distribution systems and facilities within the City of Brampton, Ontario. The Company's business is regulated by the Ontario Energy Board (OEB).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These financial statements are prepared and presented in accordance with accounting principles generally accepted in Canada (Canadian GAAP).

In 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of existing Canadian GAAP for interim and annual reporting periods for fiscal years beginning on or after January 1, 2011. The AcSB subsequently provided an option for rate-regulated entities to defer their IFRS implementation date to January 1, 2015.

The Company has opted to take this deferral and will apply IFRS to its financial statements beginning with the year ending December 31, 2015. IFRS adoption in 2015 will include the restatement of the amounts recorded on the opening IFRS balance sheet as at January 1, 2014 and December 31, 2014 for comparative purposes.

Use of Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management evaluates these estimates on an on-going basis based upon: historical experience; current conditions; and assumptions believed to be reasonable at the time the assumption is made with any adjustments being recognized in results of operations in the period they arise. Significant estimates relate to regulatory assets and regulatory liabilities, environmental liabilities, employee future benefits other than pension, asset retirement obligations (AROs), asset impairment, contingencies, unbilled revenue, allowance for doubtful accounts and future income tax assets and liabilities. Actual results may differ significantly from these estimates, which may be impacted by future decisions made by the OEB or the Province of Ontario (Province).

Rate-setting

The electricity distribution rates of the Company are subject to regulation by the OEB and these rates are based on a revenue requirement that includes a rate of return of 9.66%.

In August 2012, Hydro One Brampton filed an Incentive Rate Mechanism (IRM) application with the OEB for 2013 distribution rates, to be effective January 1, 2013. In December 2012, the OEB released a Decision that resulted in an increase in distribution rates of approximately 0.3% for 2013, or less than 0.1% on the average customer's total bill, for a typical residential customer consuming 800 kWh per month.

In August 2013, Hydro One Brampton filed an IRM application with the OEB for 2014 distribution rates, to be effective January 1, 2014. On December 5, 2013, the OEB released a Decision that resulted in a reduction in distribution rates of approximately 2.3% for 2014, or a 0.5% reduction on the average customer's total bill, for a typical residential customer consuming 800 kWh per month.

Regulatory Accounting

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

Bank Indebtedness

The Company's bank indebtedness is primarily composed of an inter-company demand facility with Hydro One which is used to settle amounts due to and from Hydro One and its other subsidiaries.

Hydro One maintains pooled bank accounts for its use and for the use of its subsidiaries, including Hydro One Brampton. The balance in the inter-company demand facility represents the cumulative net effect of all deposits and withdrawals made by the Company to and from the pooled bank accounts. Interest is earned on positive inter-company balances based on the average of the bankers' acceptance rate at the beginning and end of the month, less 0.02%. Interest is charged on overdraft inter-company balances based on the same bankers' acceptance rate, plus 0.15%.

Revenue Recognition

Distribution revenues are recognized on an accrual basis and include billed and unbilled revenues. Distribution revenues attributable to delivery of electricity are based on OEB-approved distribution rates and are recognized as electricity is delivered to customers. At the end of each month, the electricity delivered to customers, but not billed, is estimated and revenue is recognized. Historically the Company estimated unbilled revenues based on wholesale electricity purchases. However, as a result of the implementation of smart meters, more accurate and reasonable unbilled revenue data has become available and will be used going forward to estimate unbilled revenues. Unbilled revenues recognized at December 31, 2014 are based on smart meter data. The unbilled revenue estimate is affected by energy demand, weather, line losses and changes in the composition of customer classes.

Corporate Income Taxes and Capital Taxes

Under the *Electricity Act, 1998*, Hydro One Brampton is required to make payments in lieu of corporate taxes (PILs) to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing income and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario) as modified by the *Electricity Act, 1998*, and related regulations.

For transactions and events that cause temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, the Company records future income tax assets and liabilities, and corresponding regulatory liabilities and assets.

Current Income Taxes

The provision for current taxes and the assets and liabilities recorded for the current and prior periods are measured at the amounts receivable from, or payable to the OEFC.

Future Income Taxes

Future income taxes are provided for using the liability method and are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

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

Future income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Future income taxes are charged or credited to the Statement of Operations and Comprehensive Income.

The carrying amount of future income tax assets is reviewed at each balance sheet date and reduced to the extent that all or part of the future income tax assets have not met the "more likely than not" criterion. Previously unrecognized future income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more likely than not of being recovered from future taxable profits.

The Company has recognized regulatory assets and liabilities that correspond to future income taxes that flow through the rate-making process.

Materials and Supplies

Materials and supplies represent consumables, spare parts and construction materials held for internal construction and maintenance of fixed assets. These assets are carried at the lower of average cost or net realizable value.

Fixed Assets

Fixed assets are recorded at original cost, net of customer contributions received in aid of construction and any accumulated impairment losses. The cost of additions, including betterments and replacements of asset components, is included on the Balance Sheet as fixed assets.

The original cost of fixed assets includes direct materials, direct labour (including employee benefits), contracted services, attributable capitalized financing costs, and direct and indirect overheads that are related to the capital project or program. Overheads that are disallowed under the new capitalization policy are charged to operations and reflected in a regulatory asset account until the cost of service decision for 2015 rates.

Fixed assets in service consist of land and land rights, buildings, distribution equipment, transformers and meters, trucks and equipment, and office and computer equipment. Fixed assets also include future use assets such as major components and spare parts.

Intangible Assets

Intangible assets separately acquired or internally developed are measured on initial recognition at cost which comprises purchased software, direct labour including employee benefits and consulting, engineering, overheads and attributable capitalized financing charges. Following initial recognition, intangible assets are carried at cost net of any accumulated amortization and accumulated impairment losses. The Company's intangible assets primarily represent major administrative computer applications assets, as well as capital contributions by the Company to Hydro One Networks Inc. (Hydro One Networks) for the construction of transmission connection facilities.

Capitalized Financing Costs

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

Construction and Development in Progress

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

Depreciation and Amortization

The cost of fixed assets and intangible assets is depreciated or amortized on a straight-line basis based on the estimated remaining service life of each asset category.

The Company periodically reviews its fixed and intangible asset depreciation and amortization rates, as required by the OEB. Any changes arising from such a review are implemented on a remaining service life basis, consistent with their inclusion in electricity rates. The OEB approved new depreciation rates as part of the Company's 2011 cost-of-service rate decision. The new rates were based on rates developed by the Company in preparation for its adoption of IFRS. A summary of depreciation and amortization rates for the various classes of assets is included below:

	Depreciation Rate
Land rights	2.00%
Buildings	3.33%
Distribution equipment	2.00% – 10.00%
Transformers and meters	2.50% – 6.67%
Trucks and equipment	10.00% – 20.00%
Office and computer equipment	10.00% – 20.00%

The costs of intangible assets are included within computer equipment and distribution equipment classifications above. The amortization rate for computer applications software is 20% per year and the amortization rate for intangible assets included within distribution equipment is 2.50% per year.

On July 17, 2012, the OEB issued a letter "*Regulatory accounting policy direction regarding changes to depreciation expense and capitalization policies in 2012 and 2013*" addressed to all electricity distributors in the Province. The letter mandates that distributors that have deferred the transition to IFRS in 2012, based on the AcSB's exemption, implement changes to their depreciation and capitalization policies effective January 1, 2013. These accounting changes were implemented consistent with the OEB's regulatory accounting policies as set out for modified IFRS as contained in the OEB's report, "*Transition to International Financial Reporting Standards (EB-2008-0408)*", the "*Depreciation Study for Use by Electricity Distributors (EB-2010-0178)*" and the "*Revised 2012 Accounting Procedures Handbook for Electricity Distributors*". The Company adopted these requirements in 2013. The differences arising as a result of implementation of the modified IFRS capitalization policy are recorded in a related regulatory account set up exclusively to track the accounting differences. On implementation of modified IFRS to its depreciation and capitalization policies, the Company revised its capitalization policy to recognize losses on early retirement of assets, a decrease in the overhead burden rate applicable to additions to capital additions after January 1, 2013 and to record depreciation of assets at the component versus group level.

The change in capitalization policy is considered a change in accounting estimate as it results in an adjustment to the carrying amount of the fixed assets based on reassessment of the expected future benefits associated with that asset. The change in estimate was recognized prospectively in the period in which it occurred.

Where a disposition of fixed assets occurs through sale, a gain or loss is calculated based on proceeds and is included in depreciation expense. Depreciation expense also includes the costs incurred to remove fixed assets where no asset retirement obligation has been recorded.

At December 31, 2014, as a result of new information, the Company reassessed the useful life of certain of its metering assets. These metering assets are to be replaced within the next 12 months. As a result, the useful life of these assets has been reduced from 15 years to eight months. This had the effect of increasing the depreciation expense for the year ended December 31, 2014 by $415 thousand. Depreciation expense for 2015 is expected to increase by $1,324 thousand as a result of this change in accounting estimate.

Long-Lived Asset Impairment

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

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

Deferred Revenue

Certain amounts are received pursuant to agreements with developers for the estimated future costs for the remediation of damages caused to Hydro One Brampton assets during the completion of residential subdivisions for which funds have been received but the related services have yet to be performed. These amounts are recognized as revenue in the year the related expenditures are incurred or services are performed.

Financial Assets and Liabilities

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

The Company has classified its financial instruments as follows:

Bank indebtedness	Other liabilities
Accounts receivable	Loans and receivables
Accounts payable and accrued charges	Other liabilities
Long-term debt	Other liabilities

Deferred debt costs are amortized over the contractual life of the related debt on an effective-interest basis and the amortization is included within financing charges in the Statements of Operations and Comprehensive Income.

All financial instrument transactions are recorded at trade date.

Multiemployer Pension Plan

Employees of Hydro One Brampton participate in the Ontario Municipal Employees Retirement System Fund (OMERS), a multiemployer, contributory, defined benefit public sector pension fund. OMERS provides retirement pension payments based on member's length of service and salary. Both participating employers and members are required to make plan contributions. The OMERS plan assets are pooled together to provide benefits to all plan participants and the plan assets are not segregated in separate accounts for each member entity.

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

Employee Future Benefits other than Pension

Employee future benefits other than pension include group life insurance and health care and are recorded on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. Past service costs from plan amendments and actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered. Employee future benefits other than pension costs are attributed to labour and are charged to operations, maintenance and administration or capitalized as part of the cost of fixed assets.

Asset Retirement Obligations

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

3. EMERGING ACCOUNTING CHANGES

On January 30, 2014, the International Accounting Standards Board (IASB) published an interim standard, IFRS 14 – *Regulatory Deferral Accounts*, allowing an entity with rate-regulated activities to recognize amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP. IFRS 14 is only applicable for entities upon first time adoption of IFRS. IFRS 14 requires regulatory deferral account balances and movements therein to be presented as separate line items on the face of the financial statements, distinguished from assets, liabilities, income and expenses that are recognised in accordance with other IFRSs. In addition, under IFRS 14, an entity that recognises regulatory deferral account balances in its financial statements is required to provide extensive disclosures to enable users of the financial statements to understand the features and nature of, and risks associated with, rate regulation, and the effect of rate regulation on the entity's financial position, performance and cash flows.

Upon its first time adoption of IFRS for the year ending December 31, 2015, Hydro One Brampton will implement the IFRS 14 interim standard, and will therefore continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. In addition, the Company will implement the regulatory presentation and disclosure requirements as mandated by IFRS 14.

4. FINANCING CHARGES

Year ended December 31 (thousands of Canadian dollars)	2014	2013
Interest on long-term debt *(Note 10, 15)*	11,704	11,465
Interest accreted on regulatory accounts	49	138
Amortization of deferred debt costs and debt discounts	27	26
Other interest expense (income)	15	(91)
Less: Interest capitalized on construction and development in progress	(725)	(850)
	11,070	10,688

5. PROVISION FOR PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

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

Year ended December 31 (thousands of Canadian dollars)	2014	2013
Income before provision for PILs	16,639	20,021
Federal and Ontario statutory income tax rate	26.50%	26.50%
Provision for PILs at statutory rate	4,409	5,306
Increase (decrease) resulting from:		
Net temporary differences included in amounts charged to customers:		
Employee future benefits other than pension expense in excess of cash payments	61	24
Capital cost allowance in excess of depreciation	(1,434)	(1,540)
Interest capitalized for accounting but deducted for tax purposes	(192)	(225)
Other	(87)	35
Net temporary differences	(1,652)	(1,706)
Total provision for PILs	2,757	3,600

The major components of income tax expense are as follows:

Year ended December 31 (thousands of Canadian dollars)	2014	2013
Current provision for PILs	75	2,499
Future provision for PILs	2,682	1,101
Total provision for PILs	2,757	3,600
Effective income tax rate	16.56%	17.98%

The current provision for PILs is remitted to, or received from, the OEFC. At December 31, 2014, $2,313 thousand due from the OEFC was included in accounts receivable on the Balance Sheet (2013 – $1,679 thousand).

The total provision for PILs includes future PILs of $2,682 thousand (2013 – $1,101 thousand) that is not included in the rate-setting process, using the liability method of accounting. Future PILs balances expected to be included in the rate-setting process are offset by regulatory assets and liabilities to reflect the anticipated recovery or disposition of these balances within future electricity rates. The decrease in the future tax asset for PILs that is expected to be recovered from the Company's customers through future rates has resulted in a decrease in regulatory liabilities of $2,130 thousand (2013 – $2,381 thousand).

Future Income Tax Assets and Liabilities

Future income tax assets and liabilities arise from differences between the carrying amounts and tax bases of the Company's assets and liabilities. At December 31, 2014 and 2013, future income tax assets consisted of the following:

December 31 (thousands of Canadian dollars)	2014	2013
Future income tax assets		
Goodwill	4,423	4,756
Post-retirement and post-employment benefits expense in excess of cash payments	2,773	2,619
Capital cost allowance in excess of depreciation and	(4,665)	(2,389)
Regulatory Accounts	(1,655)	715
Other	52	41
Total future income tax assets	928	5,742
Less: current portion	53	73
	875	5,669

6. FIXED ASSETS

December 31 2014 (thousands of Canadian dollars)	Fixed Assets in Service	Accumulated Depreciation	Construction in Progress	Future Use Components and Spares	Total
Land and land rights	9,791	222	174	–	9,743
Buildings	33,869	12,303	49	–	21,615
Distribution equipment	360,785	185,007	2,263	3,639	181,680
Transformers and meters	168,154	75,845	915	–	93,224
Trucks and equipment	18,415	10,857	1,060	–	8,618
Office and computer equipment	9,548	6,157	–	–	3,391
	600,562	290,391	4,461	3,639	318,271

December 31 2013 (thousands of Canadian dollars)	Fixed Assets in Service	Accumulated Depreciation	Construction in Progress	Future Use Components and Spares	Total
Land and land rights	9,777	222	170	–	9,725
Buildings	33,390	11,496	107	–	22,001
Distribution equipment	344,945	179,042	3,924	3,834	173,661
Transformers and meters	160,501	71,790	873	–	89,584
Trucks and equipment	18,088	10,469	997	–	8,616
Office and computer equipment	8,653	5,698	–	–	2,955
	575,354	278,717	6,071	3,834	306,542

Financing charges capitalized on fixed assets under construction were $725 thousand in 2014 (2013 – $850 thousand).

HYDRO ONE BRAMPTON NETWORKS INC.
NOTES TO FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2014 and 2013

7. INTANGIBLE ASSETS

December 31 2014 (thousands of Canadian dollars)	Intangible Assets	Accumulated Depreciation	Total
Contributed capital	14,880	1,746	13,134
Computer applications software	5,353	4,154	1,199
	20,233	5,900	14,333

December 31 2013 (thousands of Canadian dollars)	Intangible Assets	Accumulated Depreciation	Total
Contributed capital	14,880	1,375	13,505
Computer applications software	5,121	3,475	1,646
	20,001	4,850	15,151

No financing charges were capitalized on intangible assets under development in 2014 or 2013.

8. DEPRECIATION AND AMORTIZATION

Year ended December 31 (thousands of Canadian dollars)	2014	2013
Depreciation of fixed assets in service	12,493	11,386
Fixed asset removal costs	1,103	1,356
Amortization of intangible assets	1,049	1,042
Loss on early retirement of fixed assets	816	1,078
Amortization of regulatory assets	-	55
	15,461	14,917

9. REGULATORY ASSETS AND LIABILITIES

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

Year ended December 31 (thousands of Canadian dollars)	2014	2013
Regulatory assets:		
Accounting changes under GAAP	4,836	2,684
Regulatory balances approved for disposition	4,756	-
Retail settlement variance accounts	3,456	194
Regulatory future income tax asset	2,130	-
LV variance account	155	160
LRAM variance account	141	307
Smart meters	-	1,158
IFRS transition costs	-	961
Stranded meters	-	522
Other regulatory assets	69	195
Total regulatory assets	15,543	6,181
Less: current portion	6,330	1,158
	9,213	5,023

Year ended December 31 (thousands of Canadian dollars)	2014	2013
Regulatory liabilities:		
Regulatory balances approved for disposition	7,046	8,399
Renewable generation funding adder	-	313
Future income tax regulatory liability	-	3
Other regulatory liabilities	66	77
Total regulatory liabilities	7,112	8,792
Less: current portion	7,046	4,266
	66	4,526

In the absence of rate-regulated accounting, interest would not have been accreted on these regulatory assets and liabilities, and financing charges would have been lower in 2014 by $49 thousand (2013 – $138 thousand).

Accounting Changes Under GAAP

On July 17, 2012, the OEB issued a letter which required electricity distributors to implement changes to their capitalization and depreciation expense policies effective January 1, 2013. The OEB required these accounting changes to be implemented consistent with their regulatory accounting policies as set out for modified IFRS contained in the *Report of the Board, Transition to International Financial Reporting Standards,* EB-2008-0408, the Kinectrics Report, and the Revised 2012 *Accounting Procedures Handbook for Electricity Distributors* (APH). Based on the OEB's letter, these fixed assets adjustments, including losses on early retirement, are to be recorded in a variance account and will be recovered from or refunded to ratepayers in the year of the Company's next cost-of-service application through an adjustment to depreciation expense over the approved amortization period. The Company recorded the fixed asset adjustments in the variance account, in 2013 and 2014.

For the year ended December 31, 2014, the Company recorded an adjustment of $2,445 thousand (2013 – $2,684 thousand). In the absence of regulatory accounting, fixed assets at December 31, 2014 would have been higher by $2,445 thousand (2013 – $2,684 thousand), 2014 operation, maintenance and administration expenses would have been lower by $1,962 thousand (2013 – $1,789 thousand), and 2014 depreciation expense would have been lower by $1,551 thousand (2013 – $895 thousand).

On April 23, 2014, Hydro One Brampton filed its 2015 Cost of Service rate application and requested approval to dispose of the 2013 actual and 2014 projected balance in this account. On December 18, 2014 the OEB issued their Decision on the application and approved disposition of $4,836 thousand over 36 months as a charge to ratepayers starting in January 2015.

Regulatory Balances Approved for Disposition

In 2013, the OEB approved the Company's request to refund regulatory balances of $8,312 thousand over a two year period commencing January 1, 2014. The balances consisted primarily of RSVA amounts and refundable (over)/under recoveries of previous rate riders.

In December 2014, the OEB approved the Company's request to collect regulatory balances of $2,064 thousand (regulatory assets of $6,794 thousand and regulatory liabilities of $4,730) over a 12-month period commencing January 1, 2015. The balances consisted of regulatory assets in the RSVA amounts and refundable (over)/under recoveries of previous rate riders and regulatory asset and liability balances accumulate since the Company's Cost of Service application in 2011.

Retail Settlement Variance Accounts (RSVA)

Hydro One Brampton has deferred certain RSVAs under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. In December 2013, the OEB approved the disposition of all balances in these accounts accumulated to the end of December 2012, including accrued interest, to be disposed of over a 24-month period from January 2014 to December 2015.

In December 2014, the OEB approved the disposition of the total RSVA balance accumulated from January 1 to December 31, 2013, including accrued interest, to be disposed over a 12-month period from January 1 to December 31, 2015.

In the absence of rate-regulated accounting, 2014 revenues would have been lower by $3,653 thousand (2013 – $194 thousand).

Regulatory Future Income Tax Asset

Future income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. The Company has recognized regulatory assets and liabilities which correspond to future income taxes that flow through the rate-making process. Future tax assets are lower than prior year due to the movement in regulatory balances. At December 31, 2014, the Company had a regulatory future income tax asset as compared to a regulatory income tax liability at December 31, 2013, resulting in additional deductions for regulatory accounts in 2014 being taken into tax. As a result, the 2014 provision for PILs would have been higher by $1,567 thousand (2013 – $1,750 thousand).

Low Voltage (LV) Variance Account

The Company records the variance arising from low voltage transactions which are not part of the electricity wholesale market. In December 2014, the OEB approved the disposition of the amounts accumulated in this account from January 1 to December 31, 2013, including accrued interest, to be disposed over a 12-month period from January 1 to December 31, 2015. In the absence of rate-regulated accounting, 2014 cost of purchased power would have been lower by $154 thousand (2013 – $159 thousand).

Lost Revenue Adjustment Mechanism (LRAM) Variance Account

The LRAM Variance account represents the difference between the results of actual verified impacts of authorized Conservation and Demand Management (CDM) activities related to the CDM programs which started in 2011, and the level of CDM program activities included in the load forecast. In December 2014, the OEB approved the disposition of the amounts accumulated in this account from January 1, 2012 to December 31, 2013, including accrued interest, to be disposed over a 12-month period from January 1 to December 31, 2015.

In the absence of rate-regulated accounting, 2014 revenue would have been lower by $361 thousand (2013 – $77 thousand).

Smart Meters

In 2006, the OEB approved the establishment of regulatory deferral accounts for smart meter-related expenditures. Consistent with the OEB's direction and pending further guidance, the Company recognizes a regulatory asset or liability consisting of the net balance of calculated revenues related to smart meters less recoveries received from customers through specific rate adder amounts. In the absence of rate-regulated accounting, 2014 revenues would have been lower by $1,491 thousand (2013 – $985 thousand).

On April 25, 2013, the OEB approved two types of rate riders related to the Company's deployment of smart meters. The first rider is for a final disposition amount of $1,890 thousand to be recovered over a period of 20 months, effective May 1, 2013. The second rider is for the recovery of the incremental revenue requirement related to smart meter costs. This rider is effective May 1, 2013 and will remain in place until the Company rebases its rates through a cost-of-service application, for rates effective January 1, 2015.

IFRS Transition Costs

In preparation for its transition to IFRS, the Company has incurred costs relating to the IFRS conversion project. In December 2014, the OEB approved the disposition of all amounts accumulated in this account including accrued interest, to be disposed over a 12-month period from January 1 to December 31, 2015. In the absence of rate-regulated accounting, the 2014 financing charges would have been higher by $14 thousand (2013 – $14 thousand).

Stranded Meters

In 2007, the OEB approved the use of a deferral account to record the unrecovered costs of conventional or accumulation meters removed at the time of installation of smart meters. The remaining net book value of conventional meters that had been removed from service was reclassified from fixed assets to regulatory assets.

In 2011, the OEB approved a 20 month rate rider effective May 1, 2011, for the recovery of the estimated stranded meter costs as of December 31, 2011. In December 2014 the OEB approved the disposition the remaining balance in this account including accrued interest, to be disposed over a 12-month period from January 1 to December 31, 2015. In the absence of rate-regulated accounting, there would be no impact on 2014 depreciation (2013 – depreciation expense would be lower by $66 thousand).

Renewable Generation Funding Adder

In 2011, the OEB approved a funding adder to recover the expenditures related to the Green Energy Plan that was submitted by the Company as part of its 2011 cost-of-service application. The Green Energy Act (GEA) funding adder is collected from all metered customers as a fixed charge. In December 2014 the OEB approved the disposition of the balance in this account accumulated from January 2011 to December 2013, including accrued interest, to be disposed over a 12-month period from January 1 to December 31, 2015.

In the absence of rate regulated accounting, 2014 revenue would have been higher by $279 thousand (2013 – $35 thousand).

10. LONG-TERM DEBT

The long-term debt, net of deferred transaction costs, of $192,209 thousand (2013 – $182,243 thousand) is payable to Hydro One. The long-term debt consists of four promissory notes, subject to redemption or repurchase in whole or in part, by the Company before maturity, as follows:

- A $143,000 thousand note issued on June 3, 2001, with an interest rate of 6.95% per annum and a maturity date of June 1, 2032. On issuance of this note, $777 thousand of transaction costs incurred by Hydro One were allocated to the Company, based on its proportionate share of Hydro One's related debt issue. These transaction costs are presented net with the long-term debt and are being amortized using the effective interest method over the 30-year term of the note. At December 31, 2014, the unamortized balance of these transaction costs was $543 thousand (2013 – $559 thousand).

- A $20,000 thousand note issued on September 26, 2011, with an interest rate of 4.41% per annum and a maturity date of September 26, 2041. On issuance of this note, $102 thousand of transaction costs incurred by Hydro One were allocated to the Company, based on its proportionate share of Hydro One's related debt issue. These transaction costs are presented net with the long-term debt and are being amortized using the effective interest method over the 30-year term of the note. At December 31, 2014, the unamortized balance of these transaction costs was $96 thousand (2013 – $98 thousand).

- A $20,000 thousand note issued on January 13, 2012, with an interest rate of 3.22% per annum and a maturity date of January 13, 2022. On issuance of this note, $82 thousand of transaction costs incurred by Hydro One were allocated to the Company, based on its proportionate share of Hydro One's related debt issue. These transaction costs are presented net with the long-term debt and are being amortized using the effective interest method over the 10-year term of the note. At December 31, 2014, the unamortized balance of these transaction costs was $61 thousand (2013 – $68 thousand).

- A $10,000 thousand note issued on June 6, 2014, with an interest rate of 4.19% per annum and a maturity date of June 6, 2044. On issuance of this note, $51 thousand of transaction costs incurred by Hydro One were allocated to the Company, based on its proportionate share of Hydro One's related debt issue. These transaction costs are presented net with the long-term debt and are being amortized using the effective interest method over the 30-year term of the note. At December 31, 2014, the unamortized balance of these transaction costs was $51 thousand (2013 – nil).

11. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying values of all financial instruments, except long-term debt, are representative of fair value because of their short-term nature.

At December 31, 2014 and 2013, the fair values and carrying values of the Company's long-term debt are as follows:

December 31 (thousands of Canadian dollars)	2014 Carrying Value[1]	2014 Fair Value[2]	2013 Carrying Value[1]	2013 Fair Value[2]
Long-term debt				
Note issued in 2001	143,000	203,489	143,000	185,228
Note issued in 2011	20,000	22,046	20,000	19,370
Note issued in 2012	20,000	21,068	20,000	19,706
Note issued in 2014	10,000	10,619	–	–
	193,000	257,222	183,000	224,304

[1] The carrying value of long-term debt represents the par value of the promissory notes.

[2] The fair value of long-term debt is based on unadjusted year-end market prices for the same or similar debt of the same remaining maturities. The fair value measurement of long-term debt is categorized as Level 2.

Risk Management

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

Market Risk

Market risk refers primarily to the risk of losses that result from changes in commodity prices, foreign exchange rates and interest rates. The Company does not have commodity risk and its foreign exchange risk is currently insignificant. Hydro One Brampton is exposed to fluctuations in interest rates as the regulated rate of return for the Company's distribution business is derived using a formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields and the spread in 30 year "A" rated Canadian utility bonds over the 30 year benchmark Government of Canada bond yield. The Company estimates that a 1% decrease in the forecast long-term Government of Canada bond yield used in the current OEB formula for determining the Company's rate of return on equity would have reduced its results of operations by approximately $1,300 thousand based on 2011 cost-of-service application. In 2012, 2013 and 2014, Hydro One Brampton's distribution rates were updated based on the OEB's third generation IRM policies and as a result the allowable regulated rate of return is notional until it is reset as part of the Company's 2015 cost of service application.

Credit Risk

Financial assets create credit risk that counterparty will fail to discharge an obligation, causing a financial loss. The Company's revenue is earned from a broad base of customers. As a result, Hydro One Brampton did not earn a significant amount of revenue from any individual customer. As at December 31, 2014 and 2013, there were no significant balances of accounts receivable due from any single customer.

At December 31, 2014, the Company's provision for bad debts was $1,015 thousand (2013 – $906 thousand). Adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. At December 31, 2014, approximately 1% (2013 – 1%) of the Company's accounts receivable were aged more than 60 days. The Company's credit risk for accounts receivable is limited to the carrying amount on the Balance Sheet.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Short-term liquidity is provided through cash on hand, funds from operations, and the inter-company demand facility arrangement with Hydro One. The short-term liquidity available to the Company should be sufficient to fund normal operating requirements.

At December 31, 2014, accounts payable and accrued charges in the amount of $76,646 thousand (2013 – $67,957 thousand) are expected to be settled in cash at their carrying amounts within the next year.

At December 31, 2014, the Company has long-term debt outstanding in the par value amount of $193,000 thousand (2013 – $183,000 thousand). No long-term debt will mature during the next year. Interest payments for the next 12 months on the Company's outstanding long-term debt amount to $11,884 thousand (2013 – $11,465 thousand).

12. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of shareholder's equity, long-term debt, cash and bank indebtedness. At December 31, 2014 and 2013, the Company's capital structure was as follows:

December 31 (thousands of Canadian dollars)	2014	2013
Bank indebtedness	2,705	8,114
Long-term debt	192,209	182,243
Common shares	51,501	51,501
Retained earnings	77,296	71,714
	128,797	123,215
Total capital	323,711	313,572

13. EMPLOYEE FUTURE BENEFITS

Pension Plan

Hydro One Brampton's contributions to the OMERS plan for the year ended December 31, 2014 were $1,848 thousand (2013 – $1,820 thousand). Company contributions payable at December 31, 2014 and included in accounts payable and accrued charges on the Balance Sheet were $213 thousand (2013 – $168 thousand).

Employee Future Benefits other than Pension

The Company provides certain medical and life insurance benefits to its retired employees and their dependents. The Company recognizes these post-retirement costs in the period in which the employees render services. The measurement date used to determine the accrued benefit obligation is December 31.

Net periodic post-retirement benefit costs of $500 thousand (2013 – $440 thousand) were attributed to labour. In 2014, $200 thousand (2013 – $157 thousand) was charged to results of operations and $300 thousand (2013 – $283 thousand) was capitalized as part of the cost of fixed and intangible assets.

Information about the Company's post-retirement benefit plan is as follows:

December 31 (thousands of Canadian dollars)	**2014**	**2013**
Accrued benefit liability, beginning of year	7,263	6,902
Net periodic post-retirement benefit cost	500	440
Benefits paid	(72)	(79)
Accrued benefit liability, end of year	7,691	7,263
Less: current portion	126	195
Long-term accrued benefit liability	7,565	7,068

During 2014, the Company had an actuarial gain of $1,947 thousand (2013 – loss of $65 thousand) as a result of updating year-end assumptions. At December 31, 2014, the net accumulated unamortized actuarial gain was $3,026 thousand (2013 – $1,125 thousand).

The components of net periodic post-retirement benefit cost for the years ended December 31, 2014 and 2013 are as follows:

Year ended December 31 (thousands of Canadian dollars)	**2014**	**2013**
Current service cost	262	269
Interest cost	284	234
Actuarial loss (gain) on benefit obligation	(1,947)	65
Plan amendments	(259)	-
Costs arising in the period	(1,660)	568
Differences between costs arising in the period and costs recognized in the period in respect of		
Amortization of past service costs	259	-
Amortization of actuarial(gain) /loss	1,901	(128)
Net periodic post-retirement benefit cost	500	440

The significant actuarial assumptions used to determine the benefit obligation and benefit expense at December 31, 2014 and 2013 are as follows:

	2014	**2013**
Expected annual remaining service life of employees	11 years	11 years
Discount rate for the expense for the year ended December 31	4.50%	4.00%
Discount rate for the accrued benefit obligation at December 31	4.00%	4.50%
Rate of compensation scale escalation (without merit)	3.00%	3.00%
Rate of increase of long-term supplementary medical costs[1]	8.05%	8.26%
Rate of increase of prescription drug costs[1]	8.05%	8.26%
Rate of increase of dental costs	4.50%	4.50%

[1] 8.05% per annum in 2014, grading down to 4.50% per annum in and after 2031 (2013 – 8.26% per annum in 2013, grading down to 4.50% per annum in and after 2031)

The effect of 1% change in health care cost trends on the projected benefit obligation for the post-retirement and post-employment benefits at December 31, 2014 and 2013 is as follows:

Year ended December 31 (thousands of Canadian dollars)	**2014**	**2013**
Projected benefit obligation:		
Effect of a 1% increase in health care cost trends	225	377
Effect of a 1% decrease in health care cost trends	(200)	(331)

The effect of 1% change in health care cost trends on the service cost and interest cost for the post-retirement and post-employment benefits for the years ended December 31, 2014 and 2013 is as follows:

Year ended December 31 (thousands of Canadian dollars)	2014	2013
Service cost and interest cost:		
Effect of a 1% increase in health care cost trends	46	44
Effect of a 1% decrease in health care cost trends	(40)	(37)

14. SHARE CAPITAL

Common Shares

The Company has 2,000 issued and outstanding common shares. The Company is authorized to issue an unlimited number of common shares.

Dividends

Common share dividends are declared at the sole discretion of the Company's Board of Directors, and are recommended by management based on results of operations, maintenance of the deemed regulatory capital structure, financial conditions, cash requirements, and other relevant factors, such as industry practice and shareholder expectations.

In 2014, common share dividends in the amount of $8,300 thousand (2013 – $14,300 thousand) were declared and paid.

15. RELATED PARTY TRANSACTIONS

Hydro One Brampton is a subsidiary of Hydro One, and Hydro One is owned by the Province. The OEFC, IESO, Ontario Power Authority (OPA), Ontario Power Generation Inc. (OPG) and the OEB are related parties to Hydro One Brampton because they are controlled or significantly influenced by the Province. Transactions between these parties and Hydro One Brampton are described below.

In 2014, the Company purchased power in the amount of $397,740 thousand (2013 – $373,563 thousand) from the IESO-administered electricity market.

Under the *Ontario Energy Board Act, 1998*, the OEB is required to recover all of its annual operating costs from gas and electricity distributors and electricity transmitters. In 2014, the Company incurred $397 thousand (2013 – $375 thousand) in OEB fees.

The OPA funds some of the Company's CDM programs. The funding includes program costs, incentives, and management fees. In 2014, the Company received $4,523 thousand (2013 – $6,837 thousand) from the OPA related to the CDM programs.

The provision for PILs was paid or payable to the OEFC.

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

December 31 (thousands of Canadian dollars)	2014	2013
Due from related parties (included in accounts receivable)	3,636	2,580
Due to related parties (included in accounts payable and accrued liabilities)	(37,537)	(32,871)

[1] Included in due to related parties at December 31, 2014 are amounts owing to the IESO in respect of power purchases of $36,348 thousand (2013 – $32,299 thousand).

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

Hydro One and Subsidiaries

The Company provides services to, and receives services from, Hydro One and its other subsidiaries. The Company's cash and bank indebtedness is primarily composed of an inter-company demand facility with Hydro One which is used to settle amounts due to and from Hydro One and its other subsidiaries.

In 2014, the Company purchased certain transmission, connection, and administrative services from Hydro One Networks and Hydro One totaling $3,591 thousand (2013 – $2,786 thousand). The Company provided certain transmission and connection services to Hydro One Networks totaling $856 thousand (2013 – $2,036 thousand). The Company recorded other rental revenues from Hydro One Networks of $59 thousand (2013 – $73 thousand).

The Company made capital contributions and purchases for computer software from Hydro One Networks and Hydro One totalling $84 thousand (2013 – $114 thousand).

During 2014, the Company paid for certain telecommunication services in the amount of $20 thousand (2013 – $15 thousand) and leased a portion of its facilities and equipment to Hydro One Telecom Inc. in the amount of $150 thousand (2013 – $147 thousand).

At December 31, 2014, Hydro One provided prudential support to the IESO on behalf of the Company in the form of a parental guarantee of $78,000 thousand (2013 – $75,000 thousand).

The Company's long-term debt of $193,000 thousand is due to Hydro One. Financing charges for the year ended December 31, 2014 include interest expense on the long-term debt in the amount of $11,704 thousand (2013 – $11,465 thousand), and interest expense on the inter-company demand facility in the amount of $86 thousand (2013 – $25 thousand). At December 31, 2014, the Company had accrued interest payable to Hydro One totaling $1,412 thousand (2013 – $1,382 thousand).

In 2014, common dividends of $8,300 thousand (2013 – $14,300 thousand) were declared and paid to Hydro One.

16. STATEMENTS OF CASH FLOWS

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

Year ended December 31 (thousands of Canadian dollars)	**2014**	**2013**
Accounts receivable	970	(8,672)
Materials and supplies	-	(71)
Accounts payable and accrued charges	8,689	9,740
Employee future benefits other than pension	428	361
Long-term accounts payable and other liabilities	(3,160)	(1,164)
Accrued interest	30	–
Deferred revenue	44	42
	7,001	236

Supplementary information:		
Net interest paid	11,835	11,555
PILs	525	5,500

17. CONTINGENCIES

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

18. COMMITMENT

Prudential support

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. As at December 31, 2014, Hydro One provided prudential support to the IESO on behalf of Hydro One Brampton using a parental guarantee of $78,000 thousand (2013 – $75,000 thousand), and a letter of credit of $nil (2013 – $1,200 thousand). The IESO could draw on the parental guarantee if the Company fails to make a payment required by a default notice issued by the IESO. The maximum potential payment is the amount of the parental guarantee.

19. SUBSEQUENT EVENT

On January 15, 2015, the OEB approved Hydro One Brampton's 2015 rate order following the Company's cost-of-service application in 2014. The revised rates have an implementation date of January 1, 2015.

20. COMPARATIVE FIGURES

The comparative Financial Statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2014 Financial Statements.

ATTACHMENT 23
LDC CO PRO FORMA FINANCIAL STATEMENTS

LDC Co
Pro Forma Summarized Balance Sheet
First Full Year Following Completion of Transaction

($000s)	
ASSETS	
Current assets	
Cash and equivalents	46,603
Accounts receivable - trade	429,465
Inventory and work in process	16,049
Prepaid expenses	9,375
Current payments in lieu of taxes	1,755
	503,247
Non-current assets	
Property, plant, and equipment	2,435,990
Goodwill	293,460
Future payments in lieu of taxes	57,612
Investments	8,682
	2,795,744
Total Assets	3,298,991
LIABILITIES	
Current liabilities	
Accounts payable - trade	315,437
Accounts payable - affiliates	29,455
Credit support for service delivery	59,716
	404,608
Long-term liabilities	
Long-term borrowings	1,723,118
Employee future benefits	54,947
	1,778,065
Total Liabilities	2,182,673
SHAREHOLDER'S EQUITY	
Share Capital	743,506
Contributed surplus	15,218
Retained earnings	357,594
Total Shareholder's Equity	1,116,318
Total Liabilities and Shareholder's Equity	3,298,991

LDC Co
Pro Forma Summarized Income Statement
First Full Year Following Completion of Transaction

($000s)	
Revenue	
Energy Revenue	2,898,023
Distribution revenue	511,898
Other income from operations	27,579
	3,437,500
Expenses	
Cost of Power	2,898,023
Operating expenses	247,618
Depreciation and amortization	123,001
	3,268,642
Income from operations	168,858
Interest expense	66,358
Income before payments in lieu of taxes	102,500
Payments in lieu of taxes	18,450
Net Income	84,050

LDC Co
Pro Forma Summarized Statement of Cash Flow
First Full Year Following Completion of Transaction

($000s)	
Operating activities	
Net income	84,050
Add (deduct) non-cash items	
Depreciation and amortization	123,001
Net change in employee future benefits	1,235
Net change in other assets and liabilities	(1,498)
	206,788
Investing activities	
Capital expenditures	(284,670)
	(284,670)
Financing activities	
Long-term borrowing	128,312
Dividends	(50,430)
	77,882
Net change in cash	-
Cash at the beginning of the year	46,603
Cash at the end of the year	46,603