

Financial Statements of
Brantford Power Inc.
December 31, 2010

Brantford Power Inc.

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December 31, 2010

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Brantford Power Inc.
Management Report
December 31, 2010

The accompanying financial statements are the responsibility of management of Brantford Power Inc. In management's opinion, these financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Management has selected accounting principles and methods that are appropriate to the Company's circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. The notes to the financial statements and any other supplementary information presented are consistent with that in the financial statements.

The Company maintains systems of internal accounting and administrative controls that are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, that transactions are properly authorized and that the Company's assets are properly accounted for and adequately safeguarded.

The financial statements have been examined by Deloitte & Touche LLP, the external auditors of the Company. The responsibility of the external auditors is to express their opinion on whether the financial statements are fairly presented, in all material respects, in accordance with Canadian generally accepted accounting principles.

The board of directors, through the finance committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The finance committee meets periodically with management, as well with the external auditors to satisfy itself that each party is properly discharging its responsibilities with respect to internal controls and financial reporting. The finance committee also reviews the financial statements and annual report and recommends their approval to the board of directors. Deloitte & Touche LLP has full and free access to the finance committee, with and without the presence of management.

George Mychailenko
Chief Executive Officer
April 18, 2011

Brian D'Amboise, CA
Chief Financial Officer
April 18, 2011

Deloitte and Touche to input auditor's report here - changed to 2 pages in 2010

2nd page of D&T report

Brantford Power Inc.
Balance Sheet
as at December 31, 2010

Assets	<u>2010</u>	<u>2009</u>
	\$	\$
Current Assets		
Cash and cash equivalents	11,180,750	7,113,473
Accounts receivable	8,483,553	7,153,783
Unbilled revenue	8,995,538	9,612,975
Inventories	819,450	868,303
Special deposits	1,056,193	609,227
Prepaid expenses	147,137	140,368
Payments in lieu of corporate income taxes	584,850	851,475
Future payments in lieu of corporate income taxes - note 20	171,760	176,390
	31,439,231	26,525,994
Property, plant and equipment - note 5	58,307,002	59,828,069
Other Assets		
Regulatory assets - note 8	5,046,561	3,599,807
Long-term special deposits	1,452,327	1,969,598
Long-term prepaid expenses	112,793	130,754
Future payments in lieu of corporate income taxes - note 20	3,224,769	3,776,613
Intangible assets - note 6	4,547,613	1,054,952
	14,384,063	10,531,724
	104,130,296	96,885,787

See accompanying notes

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Brantford Power Inc.

Balance Sheet

as at December 31, 2010

Liabilities and Shareholder's Equity	<u>2010</u>	<u>2009</u>
	\$	\$
Current Liabilities		
Accounts payable and accrued liabilities	10,822,994	9,948,753
Accounts payable to the City of Brantford - note 7	1,697,640	1,654,882
Interest payable to the City of Brantford - note 9	1,511,823	1,511,823
Due to Brantford Energy Corporation - note 7	47,533	26,880
Current portion of customer deposits	1,056,193	609,227
Current portion of long-term debt - note 9	1,250,304	499,546
	<u>16,386,487</u>	<u>14,251,111</u>
Long-term debt - note 9	40,280,376	35,818,427
Other Liabilities		
Regulatory liabilities - note 8	11,009,791	11,089,061
Long-term customer deposits	1,452,327	1,969,598
Employee future benefits - note 10	893,739	774,365
Derivative liabilities - note 19	525,435	492,360
	<u>13,881,292</u>	<u>14,325,384</u>
Contingencies and Commitments - note 11		
Shareholder's Equity		
Share capital - note 12	22,437,505	22,437,505
Retained Earnings	11,519,294	10,395,838
Accumulated Other Comprehensive Loss - note 13	(374,658)	(342,478)
	<u>33,582,141</u>	<u>32,490,865</u>
	<u>104,130,296</u>	<u>96,885,787</u>

Signed on behalf of the Board:

Director

Director

Brantford Power Inc.
Statement of Retained Earnings
for the year ended December 31, 2010

	<u>2010</u>	<u>2009</u>
	\$	\$
Retained Earnings, Beginning of Year	10,395,838	9,609,712
Change in accounting policy for the recognition of future income tax regulatory liabilities	-	(682,930)
	<u>10,395,838</u>	<u>8,926,782</u>
Net Income	1,873,456	2,219,056
Dividends	(750,000)	(750,000)
	<u>11,519,294</u>	<u>10,395,838</u>

See accompanying notes

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Brantford Power Inc.
Statement of Operations
for the year ended December 31, 2010

	<u>2010</u> \$	<u>2009</u> \$
Revenue		
Electricity distribution service charges - note 15	15,293,962	14,806,796
Ontario Power Authority conservation programs	1,130,495	2,128,577
Specific service charges	635,867	575,804
Interest income	129,666	128,823
Other income	285,497	333,732
	<u>17,475,487</u>	<u>17,973,732</u>
Expenses		
Distribution operations and maintenance	3,338,647	3,415,860
Billing and collecting	2,023,191	2,011,243
General administration	2,187,128	2,261,022
Ontario Power Authority conservation programs	926,976	1,785,379
Interest on long-term debt	2,030,478	1,976,824
Other financing expenses	89,606	98,782
Capital tax	24,236	151,200
Amortization - note 17	3,374,841	3,166,455
	<u>13,995,103</u>	<u>14,866,765</u>
Income before payments in lieu of corporate income taxes	<u>3,480,384</u>	<u>3,106,967</u>
Payments in lieu of corporate income taxes		
Current	1,120,928	1,930,422
Future	486,000	(1,042,511)
	<u>1,606,928</u>	<u>887,911</u>
Net income	<u>1,873,456</u>	<u>2,219,056</u>

See accompanying notes

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Brantford Power Inc.
Statement of Comprehensive Income
for the year ended December 31, 2010

	<u>2010</u> \$	<u>2009</u> \$
Net Income	1,873,456	2,219,056
Other comprehensive income (loss)		
Unrealized (losses) gains on derivative instruments designated as cash flow hedges - Note 19	(42,910)	523,506
Future recoveries (payments) in lieu of corporate income taxes	10,730	(169,910)
	<u>(32,180)</u>	<u>353,596</u>
Comprehensive Income	<u>1,841,276</u>	<u>2,572,652</u>

Brantford Power Inc.
Statement of Cash Flows
for the year ended December 31, 2010

	<u>2010</u>	<u>2009</u>
	\$	\$
Operating activities		
Net income	1,873,456	2,219,056
Items not affecting cash		
Amortization - note 17	3,641,081	3,442,012
Future payments in lieu of corporate income taxes	486,000	(1,042,511)
(Gain) loss on disposal of property, plant and equipment	(51,067)	22,969
Other items not affecting cash	220,957	(374,248)
	6,170,427	4,267,278
Changes in non-cash working capital components - note 16	534,028	(1,321,412)
	<u>6,704,455</u>	<u>2,945,866</u>
Investing activities		
Acquisition of property, plant and equipment	(5,847,684)	(5,760,418)
Increase in regulatory assets	(1,446,754)	(2,536,849)
(Decrease) increase in regulatory liabilities	(79,270)	2,549,654
Decrease (increase) in special deposits	70,305	(157,129)
Proceeds from disposal of property, plant and equipment	89,488	104,333
	<u>(7,213,915)</u>	<u>(5,800,409)</u>
Financing activities		
Proceeds of issuance of long-term debt	5,700,000	3,851,000
Capital contributions received	196,588	745,256
Repayment of long-term debt	(499,546)	(474,847)
(Decrease) increase in customer deposits	(70,305)	157,129
Dividends paid	(750,000)	(750,000)
	<u>4,576,737</u>	<u>3,528,538</u>
Increase in cash and cash equivalents	4,067,277	673,995
Cash and cash equivalents, beginning of year	7,113,473	6,439,478
Cash and cash equivalents, end of year	11,180,750	7,113,473
Supplemental Disclosure of Cash Flows		
Interest received	73,961	115,934
Interest paid	2,020,425	1,941,552
Payment for income taxes	1,632,950	3,176,710

See accompanying notes

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Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2010

1. Incorporation

On March 1, 2000, Brantford Power Inc. (the Company) was incorporated under the Business Corporations Act (Ontario) along with its affiliate companies, Brantford Hydro Inc. and Brantford Energy Corporation. Another affiliated company, Brantford Generation Inc., was incorporated in 2007. The incorporations were pursuant to the provisions of the Energy Competition Act, 1998. The Company is a wholly-owned subsidiary of Brantford Energy Corporation. The Company provides electricity distribution services to residents of the City of Brantford. The operations of the company are regulated by the Ontario Energy Board (OEB).

2. Accounting Policies

Basis of accounting

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and policies as set forth in the Accounting Procedures Manual issued by the OEB under the authority of the Ontario Energy Board Act, 1998. Significant accounting policies are summarized below:

Regulation

The Company is regulated by the OEB and requires OEB approval for any distribution service rate adjustments. The following accounting policies applicable to rate regulated operations differ from GAAP for companies operating in an unregulated environment:

Regulatory assets and liabilities

Regulatory assets primarily represent costs that have been deferred because they are expected to be recovered in future rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers under the regulated pricing mechanism and the corresponding wholesale market cost of power incurred by the utility.

Regulatory assets and liabilities will be recognized for rate-setting and financial statement purposes only to the extent allowed by the regulator. 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 future rates, the appropriate carrying amount will be reflected in the results of operations in the period that the assessment is made. Asset and liability balances and current year activities are detailed in Note 8.

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

2. Accounting Policies - continued

Contributions in aid of construction

Contributions in aid of construction consist of third party contributions towards the cost of constructing company assets. Capital contributions for the year of \$196,588 (2009 - \$745,256) have been recorded as an offset to capital assets. Amortization of contributed capital is recorded at an equivalent rate to that used for amortization of the related assets.

Allowance for use of funds during construction

The company capitalizes an allowance for use of funds during construction representing the cost of funds during the construction period. The rate used is prescribed by the OEB and updated on a quarterly basis. The total allowance for use of funds during construction capitalized for the year amounted to \$63,402 (2009 - \$62,360).

Payment in lieu of income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate taxes (PILS) to the Ontario Electricity Financial Corporation (OEFC), for the period beginning on October 1, 2001. These payments are recorded in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) and modified by the *Electricity Act, 1998*, and related regulations.

The Company uses the asset and liability method of accounting for payments in lieu of corporate income taxes. Accordingly, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax rates. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. In addition, the effect of future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the enactment or substantive enactment date.

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

2. Accounting Policies - continued

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the year. During the years presented, management has made a number of estimates and valuation assumptions including allowance for doubtful accounts receivable, unbilled revenue, useful lives, certain accruals, valuation of financial instruments including derivatives and future income tax liabilities. Estimates are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from estimates, including changes as a result of future decisions made by the OEB or the Minister of Energy.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with maturities of three months or less from the date of acquisition.

Inventories

Inventories consist of repair parts, supplies and materials and are valued at the lower of cost or net realizable value determined using a weighted average method.

Unbilled revenue

Unbilled revenue is an estimate of customers' consumption of power from the last meter reading during the year to the balance sheet date.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2010

2. Accounting Policies - continued

Property, plant and equipment

Property, plant and equipment are stated at cost and removed from the accounts when disposed or retired. Costs of assets which are pooled are removed from the accounts at the end of their estimated average service lives. Gains or losses at retirement or disposition of such assets are credited or charged to other income. Amortization is calculated on a straight-line basis over the estimated useful service life as follows.

Buildings	50 years
Transformer station	40 years
Distribution stations	30 years
Distribution lines - overhead	25 years
Distribution lines - underground	25 years
Distribution transformers	25 years
Distribution meters	25 years
Load control units	10 years
Vehicles	5-8 years
Tools and other equipment	5-10 years
Capital contribution	25 years

Other electric plant and work in progress are amortized when put in service.

Intangible assets

Intangible assets are recorded at cost and amortized over their estimated useful lives on a straight-line basis. Stranded meters represents distribution meters that have been replaced with smart meters and reallocated from property, plant and equipment. The OEB has allowed these retired meters to remain in rate base for rate making purposes. Amortization is calculated on a straight-line basis over the estimated useful service life as follows.

Stranded meters	25 years
Software	5 years

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

2. Accounting Policies - continued

Long-term prepaid expenses and special deposits

Long-term prepaid expenses consist of service fees paid providing the Company with the right to use non-owned specified tangible assets for future periods. These charges are amortized on a straight-line basis over 10 years representing the expected benefit period.

Amounts are recorded as special deposits when cash is collected related to customer deposits and are expected to be held for a period exceeding one year.

Revenue recognition

Distribution revenue is recorded as revenue in the period to which it relates. Distribution revenue includes an estimated accrual for the variable component of the distribution rate based on the electricity delivered but not yet billed to customers from the last meter reading date to the year end.

Other revenue is recognized as services are rendered or contract milestones are achieved.

Impairment of long-lived assets

The Company reviews the valuation long-term assets when events or changes in circumstances indicate that the assets' carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. There was no impact on the financial statements as a result of asset impairments for the years ended December 31, 2010 and 2009.

Customer deposits

Customer deposits are cash collections from customers and retailers to guarantee the payment of electricity bills as prescribed by the OEB's Retail Settlement Code. Deposits expected to be refunded to customers within the next fiscal period are classified as a current liability.

Employee future benefits

The Company provides post-retirement medical and life insurance benefits to eligible employees. The cost of post-retirement medical and life insurance benefits is expensed using the projected benefit cost method prorated on services.

The Company has adopted the corridor method of accounting for the actuarially determined gains and losses. Cumulative gains and losses in excess of 10% of the beginning accrued benefit obligation are amortized into expense on a straight-line basis over the expected remaining lifetime of the inactive members receiving benefits under the plan (15 years)

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2010

2. Accounting Policies - continued

Asset retirement obligations

The Company recognizes the liability for an asset retirement that results from acquisition, construction, development or normal operations. The liability for an asset retirement is initially recorded at its fair value in the year in which it is incurred and when a reasonable estimate of fair value can be made. The corresponding cost is capitalized as part of the related asset and is amortized over the asset's useful life. In subsequent years, the liability is adjusted for changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of the undiscounted cash flows. Any adjustment to the liability of its fair value as a result of the passage of time is charged to earnings.

Comprehensive Income

CICA Handbook Section 1530 requires the presentation of comprehensive income and its components in a financial statement. Comprehensive income is composed of the Company's net income and other comprehensive income (OCI), which includes unrealized gains and losses on changes in the fair value of the effective portion of cash flow hedging instruments. The Company discloses comprehensive income in the financial statement "Statement of Comprehensive Income". The cumulative changes in OCI are included in Accumulated other comprehensive income net of tax (AOCI), which is presented as a category of Shareholder's equity on the Company's Balance Sheet.

Financial Instruments

The Corporation designates its financial instruments in one of the following five categories: (i) held for trading (HFT); (ii) available for sale (AFS); (iii) held to maturity (HTM); (iv) loans and receivables (LR); or (v) other liabilities (OL). All financial instruments are initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value, with any change in fair value recognized in earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The Company has elected to add transaction costs related to financial instruments classified as other than HFT to the carrying amount of the financial instrument.

The Company has elected to use settlement-date accounting for regular-way purchases and sales of financial assets.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2010

3. Future Changes in Accounting Policies

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP effective January 1, 2011. Subsequently, in September 2010, the AcSB issued an optional one year deferral in adoption of IFRS for rate-regulated entities. The Company qualifies for this deferral and has elected to defer adoption until January 1, 2012. The adoption date of January 1, 2012 will require the restatement, for comparative purposes, of amounts reported by the Company of its year ended December 31, 2011, and of the opening balance sheet as at January 1, 2011.

The Company is continuing to assess the financial reporting impacts of the adoption of IFRS on its financial statements. The Company does anticipate significant changes to those accounting policies which are unique to rate regulated entities under Canadian GAAP. In particular, the adoption of IFRS is expected to result in significant changes to the accounting of regulatory assets and liabilities and to the capitalization and other accounting policies applicable to self constructed property, plant and equipment. The Company also anticipates a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required. At this time, the impact on the Company's future financial position and results of operations is not reasonably determinable or estimable.

4. Rate Setting

The rates of the Company's electricity distribution business are subject to regulation by the OEB.

The Company purchases electricity from the Independent Electricity System Operator (the IESO) at spot market or prescribed rates and charges its customers unbundled rates. The unbundled rates include the actual cost or prescribed cost of the electricity, transmission, wholesale market service charges and an approved rate for electricity distribution. The cost of electricity transmission and connection charges and debt retirement charges are collected by Brantford Power Inc. and remitted to the IESO and the Ontario Electricity Financial Corporation (the OEFC) respectively. The Company retains the distribution charges reflected on the customer billings. The distribution charges also incorporates, where applicable, OEB approved rate adders or riders that are necessary to dispose of regulatory assets and liabilities.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2010

4. Rate Setting - continued

The OEB has the general power to include or exclude costs, revenues, losses or gains in the distribution 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 gives rise to the recognition of regulatory assets and liabilities. The Company's regulatory assets represent certain amounts receivable from customers in the future 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 which represent amounts of expenses incurred in different periods than would be the case had the company been unregulated.

Specific regulatory assets and liabilities are disclosed in note 8.

In the absence of rate regulation, distribution revenue would have been lower by \$1,707,866 (2009 - higher by \$71,177), cost of power would have been lower by \$3,753,601 (2009 - \$1,205,749), other income would have been lower by \$16,144 (2009 - \$32,301), distribution operations and maintenance would have been lower by \$46,971 (2009 higher by - \$29,756), general administration would have been higher by \$68,032 (2009 - \$73,097), amortization would have been higher by \$373,781 (2009 - \$NIL), and interest income would have been higher by \$43,600 (2009 - \$73,940). The net effect, in the absence of rate regulation, is a pre-tax increase in net income for 2010 of \$1,678,349 (2009 - \$1,215,712).

The Company administers several programs through the Ontario Power Authority (OPA) conservation project. The revenues and expenses related to these programs are not subject to the regulation of the OEB.

On October 21, 2009 the Company filed an application for 2010 rates on the basis of the OEB's third generation Incentive Regulation Mechanism (IRM) policy which incorporates an OEB-approved formula that considers inflation and efficiency targets. On April 12, 2010, the OEB released its decision. This decision included the repayment of \$7,650,132 in regulatory liabilities over a two year period. The revised rates were approved with an effective date of May 1, 2010.

On October 29, 2010 the Company filed an application for 2011 rates also on the basis of the OEB's third generation IRM policy. This application has proposed the repayment of \$1,192,282 in regulatory liabilities. These rates would be effective May 1, 2011. On March 28, 2011, the OEB release its decision approving the application.

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

5. Property, Plant and Equipment

	<u>2010</u>			<u>2009</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
	\$	\$	\$	\$
Land	181,961	-	181,961	181,961
Buildings	1,163,732	147,984	1,015,748	1,039,022
Transformer station	4,469,541	668,124	3,801,417	3,913,156
Distribution stations	74,427	25,063	49,364	51,845
Distribution lines - overhead	27,131,163	8,506,906	18,624,257	18,337,005
Distribution lines - underground	29,972,562	7,747,169	22,225,393	21,193,352
Distribution transformers	16,819,586	4,988,877	11,830,709	11,859,809
Distribution meters	2,528,139	543,299	1,984,840	4,753,694
Load control units	547,972	547,972	-	45,667
Vehicles	2,723,344	1,870,692	852,652	870,060
Tools and other equipment	847,106	207,065	640,041	478,901
Capital contributions	(3,586,013)	(530,710)	(3,055,303)	(3,002,144)
Other utility plant	51,816	-	51,816	37,327
Work in progress	104,107	-	104,107	68,414
	83,029,443	24,722,441	58,307,002	59,828,069

6. Intangible Assets

	<u>2010</u>			<u>2009</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
	\$	\$	\$	\$
Land rights and easements	5,968	-	5,968	5,968
Stranded meters	6,331,836	1,874,463	4,457,373	925,465
Software	196,386	112,114	84,272	123,519
	6,534,190	1,986,577	4,547,613	1,054,952

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2010

7. Related Party Transactions

The Company is a wholly owned subsidiary of Brantford Energy Corporation and Brantford Energy Corporation is wholly owned by The Corporation of the City of Brantford (the City). Brantford Energy Corporation also owns Brantford Hydro Inc. and Brantford Generation Inc.

The Company obtains certain administrative and management services from the City, Brantford Energy Corporation. The Company also provides services to the City, Brantford Generation Inc. and Brantford Hydro Inc. These services were made in the normal course of business and have been recorded at the exchange amounts.

The Company has entered into a shared services agreement with the City, whereby the City will provide administrative, customer care, maintenance and operational services for the Company. The exchange amount for these services has been set out in the agreement. Total charges from the City under this shared agreement were \$8,696,419 (2009 - \$8,678,167). As at December 31, 2010 the balance owing to the City for these services was \$1,697,640 (2009 - \$1,654,882).

For the year ended December 31, 2010, the Company provided electricity to the City in the amount of \$5,113,692 (2009 - \$4,796,370). The Company also provided other services to the City in the amount of \$273,143 (2009 - \$258,548).

For the year ended December 31, 2010, the Company paid property tax to the City in the amount of \$18,887 (2009 - \$22,352)

The Company obtains management services from Brantford Energy Corporation. Total charges for these services were \$124,125 (2009 - \$118,960). As at December 31, 2010 the balance owing to Brantford Energy Corporation for these services was \$47,533 (2009 - \$26,880).

The Company charges pole rental fees to Brantford Hydro Inc. These rental fees allow fibre optic cables to be attached to the Company's distribution assets. Total rental fees for this access were \$41,102 (2009 - \$40,856).

The Company provided services to Brantford Generation Inc. related to its facilities interconnection to Hydro One Networks Inc.'s transformer station. During 2009, the Company paid the estimated costs for such services of \$461,876. As the actual costs of such services were below the cost estimate, the Company received a refund of \$159,475 during 2010.

For the year ended December 31, 2010, the Company provided electricity to Brantford Generation Inc. in the amount of \$48,091 (2009 - \$Nil). A long term customer deposit of \$7,665 has been paid to the Company from Brantford Generation Inc.

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

8. Regulatory Assets and Liabilities

Based on existing regulatory orders or the expectation of future regulatory orders, the Company has recorded the following amounts, net of income tax and amortization where applicable, which are expected to be recovered from or refunded to customers:

	<u>2010</u> \$	<u>2009</u> \$
Regulatory assets		
Retail Market Settlement		
Retail settlement variance account - Global Adjustment	527,990	2,064,442
Retailer cost variance accounts	320,955	302,714
Other		
Smart meters	3,520,157	1,158,000
Distribution revenue rate change	388,432	-
Special purpose charge	136,836	-
Other regulatory assets	152,191	74,651
Net regulatory assets	5,046,561	3,599,807
 Regulatory liabilities		
Retail Market Settlement		
Retail settlement variance accounts	5,117,572	9,200,367
Other		
Low voltage variance	-	33,642
Regulatory future income tax liability	466,778	547,982
Regulatory liabilities refundable through approved rate riders	5,425,441	1,307,070
Net regulatory liabilities	11,009,791	11,089,061

The retail settlement variance accounts represent differences between charges billed to customers using the prescribed prices as outlined in the OEB's Retail Settlement Code and the actual costs billed to Brantford Power Inc. by the IESO.

The retailer cost variance accounts represent differences between charges billed to retailers using the prescribed prices as outlined in the OEB's Retail Settlement Code and the actual costs paid by Brantford Power Inc. to operate and maintain the systems related to the retail market.

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

8. Regulatory Assets and Liabilities - continued

On April 12, 2006, the OEB approved the establishment of regulatory deferral accounts for smart meter-related expenditures and approved a monthly rate adder charge of \$0.28 per metered customer for the Company. Effective May 1, 2009, the OEB increased the monthly adder to \$1.00 per metered customer. Effective May 1, 2010, the OEB increased the monthly adder to \$2.07 per metered customer. In its 2011 application to the OEB, the Company has applied for a monthly rate adder charge to remain at \$2.07 per metered customer.

The Company has recorded a regulatory asset consisting of the net balance of capital and operating expenditures for smart meters, less recoveries received from the rate adder. These expenditures and recoveries will continue to be reported as regulatory assets or liabilities until the Company applies to the OEB to redistribute the amounts to capital or operations.

The Company has recorded a regulatory liability account that relates to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of future tax assets.

9. Long-Term Debt

	<u>2010</u> \$	<u>2009</u> \$
Note payable, bearing interest at 6.25%, repayable to the City, interest only payable annually - due February, 2011, subsequently renewed and matures February, 2016	24,189,168	24,189,168
Royal Bank, non-revolving term facility with interest at prime repayable in quarterly instalments, due January, 2011, subsequently renewed and matures January, 2013	4,715,635	5,056,036
Royal Bank, non-revolving term facility with interest at prime repayable in quarterly instalments, due November, 2011	798,292	907,251
Ontario Infrastructure Projects Corporation non-revolving term facility with interest at 5.14% repayable in semi annual instalments due December, 2032	2,268,400	2,322,570
Ontario Infrastructure Projects Corporation non-revolving term facility with interest at 4.95% repayable in semi annual instalments due December, 2050	4,808,821	-
Ontario Infrastructure Projects Corporation construction advances with interest at 1.54% (2009 - 0.95%)	4,750,364	3,842,948
	<u>41,530,680</u>	<u>36,317,973</u>
Less current portion	1,250,304	499,546
	<u>40,280,376</u>	<u>35,818,427</u>

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

9. Long-Term Debt - continued

The City has an option to extend the maturity date of the promissory note for successive five year periods. The City also has the option to convert the principal sum outstanding into common shares of the Company at a conversion ratio of \$ 100 per common share. Interest payable to the City of \$1,511,823 (2009 - \$1,511,823) was outstanding as at December 31, 2010. On February 1, 2011, the City extended the maturity date of the promissory note for a five year period with interest only payable annually at 5.87%.

The Company entered into a swap agreement during 2006 with Royal Bank to hedge against exposure to interest rate fluctuations. The agreement represents a notional principal amount of \$ 5,900,000. Under the terms of the agreement, the company has contracted to pay interest at a fixed rate of 4.71% while receiving a variable rate equivalent to the one month Canadian Dollar Offered Rate to be repriced quarterly. On January 26, 2011, the Company renewed this agreement for a two year period.

The Company entered into a second swap agreement during 2006 with Royal Bank to hedge against exposure to interest rate fluctuations. The agreement represents a notional principal amount of \$ 1,200,000. Under the terms of the agreement, the company has contracted to pay interest at a fixed rate of 4.97% while receiving a variable rate equivalent to the one month Canadian Dollar Offered Rate to be repriced quarterly.

These credit facilities are secured by general security agreement over all assets of the Company and an assignment of related fire insurance.

Estimated principal repayment requirements are as follows:

	\$
2011	1,250,304
2012	479,694
2013	4,101,214
2014	112,710
2015	118,489

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2010

10. Employee Future Benefits

The Company acquired various life insurance, health care related and dental coverage plan liabilities for certain retired employees of the former Hydro-Electric Commission of the City of Brantford. Travel, dental, vision and semi-private health care coverage is continued until the retiree reaches 65 years of age. Life insurance and extended health care coverage is continued until the retiree's death. The Company is also obligated to provide post retirement benefits to an active employee.

The Company measures the accrued benefit obligation for accounting purposes as of December 31 of each year. The accrued benefit obligation as at December 31, 2010 and the expense for the period ended December 31, 2010 are based on an actuarial valuation done as at January 1, 2008.

The obligation is unfunded since no assets have been segregated and restricted to provide the post-retirement benefits.

Significant Assumptions

The key weighted-average assumptions used by the Company for the measurement of the benefit obligation and benefit expense are summarized as follows:

	<u>2010</u>	<u>2009</u>
	\$	\$
To determine benefit obligation at end of year		
Discount rate	4.5%	5.0%
Assumed long-term rate of return on assets	N/A	N/A
To determine benefit expense (income) for the year		
Discount rate	5.0%	6.0%
Assumed long-term rate of return on assets	N/A	N/A
Rate of increase in future compensation	N/A	N/A
Health care cost trend rates at end of year		
Initial rate	7.30%	8.15%
Ultimate rate	4.75%	4.75%
Year ultimate rate reached	2013	2013

Sensitivity Analysis

	<u>Change in</u>	<u>Change in</u>
	<u>Obligation</u>	<u>Expense</u>
	\$	\$
Impact of 1% increase in assumed health care trend rate	108,000	12,000
Impact of 1% decrease in assumed health care trend rate	(95,000)	(10,000)

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

10. Employee Future Benefits - continued

	<u>2010</u>	<u>2009</u>
	\$	\$
Change in benefit obligation		
Benefit obligation at beginning of year	1,713,447	1,528,597
Interest cost on benefit obligation	85,054	90,974
Benefits paid	(24,737)	(24,739)
Actuarial loss	36,680	118,615
Benefit obligation at end of year	1,810,444	1,713,447
Change in fair value of assets		
Fair value of assets at beginning of year	-	-
Employer contributions	24,737	24,739
Benefits paid	(24,737)	(24,739)
Fair value of assets at end of year	-	-
Reconciliation of funded status to accrued benefit liability		
Deficit of fair value of assets over benefit obligation at end of year	1,810,444	1,713,447
Unamortized actuarial loss	(916,705)	(939,082)
Accrued benefit liability at end of year	893,739	774,365
Reconciliation of accrued benefit liability		
Accrued benefit liability at beginning of year	774,365	656,776
Benefit expense recognized	144,111	142,328
Benefits paid	(24,737)	(24,739)
Accrued benefit liability at end of year	893,739	774,365
Annual benefit expense		
Interest cost on benefit obligation	85,054	90,974
Actuarial gain or loss	59,057	51,354
Benefit expense recognized	144,111	142,328
Cash payments		
Benefit premiums paid	86,464	85,533

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2010

11. Contingencies and Commitments

General Liability Insurance

The Company has obtained general liability and enhanced directors and officers insurance coverage from the Municipal Electric Association Reciprocal Insurance Exchange (The Mearie Group) expiring January 1, 2012. The Mearie Group is an insurance reciprocal whereby all members through the unincorporated group share risks with each other. Members of the Mearie Group are assessed a premium deposit at policy execution. Should the group experience losses that are in excess of the accumulated premium deposits of its members combined with reserves and supplementary insurance, members would be assessed a supplementary or retro assessment on a pro-rata basis for the years in which the Company was a member.

As at December 31, 2010, the Company has not been made aware of any additional assessments. Participation in The Mearie Group covers a three year underwriting period which expires on January 1, 2013.

Class Action

This action had been brought under *Class Proceedings Act, 1992*. The plaintiff class sought restitution for amounts paid to Toronto Hydro and to other Ontario municipal electric utilities (LDC's) who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to section 347 of the *Criminal Code*.

On July 22, 2010, the Ontario Superior Court of Justice approved a settlement of the Class Action, the principal terms of which are the following:

- LDC's collectively pay \$17 million in damages;
- Payment is not due until June 30, 2011; and
- Amounts paid, after deduction for class action counsel fee, will be paid to the Winter Warmth Fund or similar charities.

The Company will make a payment of \$126,682 by June 30, 2011.

Smart Meter Initiative

The OEB has mandated that the Company is to bill Time of Use Prices using "Smart Meter" electricity meters and the Provincial Meter Data Management/Repository effective July 2011. The Company has requested an extension of the effective date to December 2011. At this time, the OEB has not issued its decision on this proceeding.

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

11. Contingencies and Commitments - continued

The Company has installed approximately 35,255 (2009 - 6,667) Smart Meters as of the end of 2010 and anticipates having installed a total of 37,240 Smart Meters upon completion of its mass deployment.

OEB PILs Proceeding

The OEB is conducting a review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for all LDCs. The current proceeding is expected to provide direction regarding the interpretation of the rules issued by the OEB. It is not possible at this time to determine what impacts the outcome of this proceeding will have on the financial position of the Company.

12. Share Capital

Authorized

Unlimited number of common shares

	<u>2010</u>	<u>2009</u>
	\$	\$
Issued		
1,001 common shares	<u>22,437,505</u>	<u>22,437,505</u>

13. Accumulated Other Comprehensive Loss

	<u>2010</u>	<u>2009</u>
	\$	\$
Balance at beginning of year	(342,478)	(696,074)
Other comprehensive (loss) income, net of tax	(32,180)	353,596
<u>Balance at end of year, net of tax</u>	<u>(374,658)</u>	<u>(342,478)</u>

14. Pension Plan

The Company participates in the Ontario Municipal Employees Retirement System (OMERS), a multi-employer plan, on behalf of its employee. The plan is a contributory defined benefit pension plan. Contributions are 6.4% for employee earnings below the year's maximum pensionable earnings and 9.7% thereafter. The contribution rates are expected to change to 7.4% for employee earnings below the year's maximum pensionable earnings and 10.7% thereafter for 2010. During 2010, the Company expensed contributions totaling \$11,554 (2009 - \$13,304) made to OMERS in respect of the employer's required contributions to the plan.

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

15. Electricity Distribution Service Charges

The company is licensed by the OEB to distribute electricity. As a licensed distributor, the Company 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 Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers. The Company may file to recover uncollected debt retirement charges from OEFC once each year. Otherwise, the Company is unable to recover uncollected amounts formerly remitted to these third parties. The Company retains only its electricity distribution service charge that is regulated by the OEB.

Electricity distribution service charges comprise:

	<u>2010</u>	<u>2009</u>
	\$	\$
Gross customer billings	102,691,543	94,755,101
Less pass through charges billed by the Company		
Electricity charges paid through to generators	(62,528,186)	(57,566,593)
Transmission and miscellaneous charges	(12,192,434)	(9,884,731)
Market service charges	(6,234,467)	(6,087,707)
Debt retirement charges	(6,442,494)	(6,409,274)
Total electricity distribution service charges	15,293,962	14,806,796

16. Statement of Cash Flows

	<u>2010</u>	<u>2009</u>
	\$	\$
Changes in non-cash working capital		
Accounts receivable	(1,329,770)	(945,169)
Unbilled revenue	617,437	(1,263,432)
Inventories	48,853	47,775
Prepaid expenses	(6,769)	(16,749)
Accounts payable and accrued liabilities	874,241	535,103
Accounts payable to the City of Brantford	42,758	264,535
Due to Brantford Energy Corporation	20,653	(50,164)
Payments in lieu of corporate income taxes	266,625	106,689
	534,028	(1,321,412)

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

17. Amortization

	<u>2010</u>	<u>2009</u>
	\$	\$
Amortization of capital assets	3,374,841	3,166,455
Amortization of capital assets charged to distribution operations and maintenance	266,240	275,557
	<u>3,641,081</u>	<u>3,442,012</u>

18. Capital Disclosures

The Company's main objectives when managing capital are to:

- ensure ongoing access to funding to maintain and improve the electricity distribution system;
- ensure compliance with covenants related to its credit facilities; and
- align its capital structure with the debt to equity structure deemed by the OEB.

As at December 31, 2010, the Company's definition of capital includes shareholder's equity and long-term debt. This definition remains unchanged from prior years. As at December 31, 2010, shareholder's equity amounts to \$33,582,141 (2009 - \$32,490,865) and long-term debt, amounts to \$41,530,680 (2009 - \$36,317,973). The Company's capital structure as at December 31, 2010 is 55% debt and 45% equity (2009 - 53% debt and 47% equity). There have been no changes in the Company's approach to capital management during the year.

The Company's long-term debt agreements include both financial and non-financial covenants. As at December 31, 2010 and as at December 31, 2009, the Company was in compliance with all covenants.

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

19. Financial Instruments

All financial instruments are initially recorded on the balance sheet at fair value except for certain related party transactions. They are subsequently valued either at fair value or amortized cost depending on the classification selected by the Company for the financial instrument. All financial instruments are classified into one of the five categories: held-for-trading, loans and receivables, other liabilities, held-to-maturity investments or available-for-sale financial assets

Held-for-trading (HFT) financial instruments are financial assets and financial liabilities typically acquired with the objective of resale or short-term buyback. The carrying amount is recorded at fair value determined using market prices. Interest earned and gains and losses incurred are recognized in net income. Cash and cash equivalents and special deposits are designated as financial assets held-for-trading and are measured at fair value with changes being recorded in net income at each period end. Derivative liabilities are designated as financial liabilities held-for-trading and are measured at fair value with changes being recorded in other comprehensive income at each period end.

Loans and receivables (LR) are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date, or on demand, usually with interest. Loans and receivables are measured at amortized cost. Accounts receivable and unbilled revenue are classified as loans and receivables and are measured at fair value at inception, which due to their short-term nature, approximates amortized cost.

Other liabilities (OL) are promises to repay on specified dates or on demand usually with interest. Accounts payable and accrued liabilities and accounts payable to the City of Brantford, interest payable to the City of Brantford and due to affiliates are classified as other liabilities and are measured at fair value at inception, which due to their short-term nature, approximates amortized cost. Long-term debt and customer deposits are also classified as other liabilities. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

Held-to-maturity (HTM) financial assets have fixed or determinable payments and maturity, and management's intention and ability are to hold to maturity. These financial assets are measured at amortized cost. The Company does not hold any financial assets under this classification.

Available-for-sale (AFS) instruments are non-derivative financial assets that are designated as available-for-sale or that are not classified as loans and receivables, held-to-maturity investments or held-for-trading financial assets. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in OCI. The Company does not hold any financial assets under this classification.

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

19. Financial Instruments - continued

Interest Rate Risk

Interest is paid on customer deposits at a market rate reset quarterly as directed by the Ontario Energy Board.

Two term facility loans bear interest at floating rates and thus, the carrying values approximate fair values. However, the Company has entered into two interest rate swap transactions, derivative instruments designated as a cash flow hedges, the effect of which is to fix the interest rate on the first \$4,724,000 term facility loan at 4.71% and the second \$801,000 term facility loan at 4.97%. The potential replacement cost to Brantford Power Inc. of the interest rate swaps, representing estimated fair value as presented on the balance sheet, was \$525,435 (2009 - \$492,360), which was in the favour of Royal Bank. Net unrealized loss in fair value of \$42,910 (2009 - gain of \$523,506) is presented in current year Other Comprehensive (Loss) Income. The Company entered into these interest rate swap transactions to fix the interest rates over the long term and intends to hold these to maturity at which time there should be no replacement cost.

Credit Risk

The Company grants credit to its customers in the normal course of business and monitors their financial condition and reviews the credit history of new customers. The Company is currently holding customer deposits on hand in the amount of \$2,508,520 (2009 - \$2,578,825) which is reflected on the Balance Sheet. Allowances of \$608,000 (2009 - \$569,000) are also maintained for potential credit losses. The Company's accounts receivable do not reflect the concentrated risk of default from exposure to large customers. At December 31, 2010, the outstanding amounts receivable from the largest ten customers represented \$2,426,830 or 29% (2009 - \$1,599,241 or 22%) of the total outstanding accounts receivable. Management believes that it has adequately provided for any exposure to normal customer and retailer credit risk.

Liquidity Risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cashflows generated from operations to meet its requirements.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2010

19. Financial Instruments - continued

Prudential Support

Brantford Power Inc. is required, through the Independent Electricity System Operator (IESO), to provide security to mitigate the company's risk of default based on its expected activity in the electricity market. The IESO could draw on this guarantee if 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 bank letter of credit. As at December 31, 2010, the Company provided prudential support in the form of a bank letter of credit of \$9,375,721 (2009 - \$9,375,721).

Revolving Term Facility

As at December 31, 2010, the Company has been authorized for a revolving term facility of \$7,000,000 of which NIL had been drawn upon. The facility bears interest at prime and is secured by a general security agreement over all assets of the Company and assignment of related fire insurance.

Fair Value of Other Financial Instruments

a) Establishing fair value

The carrying values of cash and cash equivalents, accounts receivable, special deposits, accounts payable and accrued liabilities, accounts payable to the City of Brantford, interest payable to the City of Brantford, and due to Brantford Energy Corporation approximate their fair values due to the immediate or short-term maturity of these financial instruments.

Fair values for other financial instruments, detailed below, have been estimated with reference to quoted market prices for actual or similar instruments where available, except for certain related party transactions.

Customer deposits fair value equals carrying value. Interest is paid on deposits on a monthly basis at a market rate, reset quarterly, as directed by the Ontario Energy Board.

The fixed rate long-term debt facility, maturing December 2032, funded by Ontario Infrastructure Projects Corporation (OIPC) has an estimated fair value of \$2,352,500 (carrying value - \$2,268,400). The fair value was determined using the present value of the cash flows using the quoted OIPC market rate for the debt at December 31, 2010, of 4.72% per annum, (actual rate - 5.14% per annum). The loan is classified as an Other Liability (OL) with no resulting adjustment to carrying value.

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

19. Financial Instruments - continued

The fixed rate long-term debt facility, maturing December 2050, funded by Ontario Infrastructure Projects Corporation (OIPC) has an estimated fair value of \$4,819,900 (carrying value - \$4,808,821). The fair value was determined using the present value of the cash flows using the quoted OIPC market rate for the debt at December 31, 2010, of 4.92% per annum, (actual rate - 4.95% per annum). The loan is classified as an Other Liability (OL) with no resulting adjustment to carrying value.

The promissory note payable to the Corporation of the City of Brantford, classified as an OL, is valued at face value. It is not practicable within constraints of timeliness or cost to measure reliably the fair value of this financial liability that originated in a related party transaction.

Construction advances funded by the OIPC, classified as OL, are valued at face value. Upon completion of construction the term of the loan will be 15 years.

The fair value of derivative instruments is calculated using pricing models that incorporate current market prices and the contractual prices of the underlying instruments, the time value of money and yield curves.

b) Fair value hierarchy

Financial instruments recorded at fair value on the Balance Sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

19. Financial Instruments - continued

The following table presents the financial instruments recorded at fair value in the Balance Sheet, classified using the fair value hierarchy described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total financial assets and liabilities at fair value</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Financial Assets				
Cash and cash equivalents	11,180,750	-	-	11,180,750
Special deposits	2,508,520	-	-	2,508,520
Total financial assets	13,689,270	-	-	13,689,270
Financial liabilities				
Customer deposits	2,508,520	-	-	2,508,520
Total financial liabilities	2,508,520	-	-	2,508,520

During the year, there has been no transfer of amounts between Level 1 and Level 2 and no financial assets or liabilities have been identified as Level 3.

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

20. Payments in Lieu of Corporate Income Taxes

The Company's income tax expense for the year ended December 31, 2010 consists of the following:

Temporary differences which give rise to future income tax assets and liabilities are as follows:

	<u>2010</u>	<u>2009</u>
	\$	\$
Regulatory assets and liabilities	1,658,807	2,868,201
Cumulative eligible capital	170,190	185,860
Allowance for doubtful accounts	171,760	176,390
Property, plant and equipment	1,047,872	414,362
Employee future benefits	224,150	195,170
Unrealized losses on derivative liabilities	123,750	113,020
Future income tax assets (liabilities)	<u>3,396,529</u>	<u>3,953,003</u>

Distributed as such:

Future payments in lieu of corporate income tax asset		
Current	171,760	176,390
Non-current	3,224,769	3,776,613
	<u>3,396,529</u>	<u>3,953,003</u>

The impact of differences between the Company's reported payments in lieu of corporate income taxes and the expense that would otherwise result from the application of statutory rates is as follows:

	<u>2010</u>	<u>2009</u>
	\$	\$
Income tax expense at the combined basis federal and provincial statutory tax rate	1,192,799	984,707
Net change in regulatory assets	33,135	997,117
Capital cost allowance in excess of amortization	(161,533)	(127,950)
Net change in tax reserves	71,604	67,924
Tax effect of (gain) loss on sale of fixed assets	(15,831)	7,580
Tax effect of expenses that are not deductible for income tax purposes	754	1,044
	<u>1,120,928</u>	<u>1,930,422</u>

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2010

20. Payments in Lieu of Corporate Income Taxes - continued

The provision for PILs differs from the amount that would be recorded using the Canadian federal and Ontario statutory income tax rates. Reconciliation between the statutory and effective tax rates is set out below:

	<u>2010</u>	<u>2009</u>
	<u>\$</u>	<u>\$</u>
Rate reconciliation		
Income before PILs	3,480,384	3,106,967
Consolidated Statutory Canadian federal and provincial income tax rate	31.0 %	33.0 %
Expected provision for PILs	1,078,919	1,025,299
Temporary differences	108,184	(233,339)
Net change in future tax rates	354,324	279,004
Permanent adjustments and other	65,501	(183,053)
Provision for PILs	1,606,928	887,911
Effective tax rate	46.2 %	28.6 %
Components of provision for PILs		
Current tax provision	1,120,928	1,930,422
Future income tax provision	486,000	(1,042,511)
	1,606,928	887,911

21. Comparative Figures

Certain prior year figures have been reclassified to conform with the current year's presentation.

Deloitte.

Year-end communication
Brantford Energy
Corporation



For the year ended December 31, 2010
Presented to the Finance Committee
April 6, 2011



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April 6, 2011

The Chair and Members of the Finance Committee
Brantford Energy Corporation

Dear Members:

Report on audited annual financial statements

We have performed audits of the consolidated financial statements of Brantford Energy Corporation, the non-consolidated financial statements of Brantford Energy Corporation, and of the financial statements of its subsidiaries Brantford Power Inc., Brantford Hydro Inc., and Brantford Generation Inc. ("BEC" or "the Company") for the year ended December 31, 2010, in accordance with Canadian generally accepted auditing standards ("GAAS") and expect to issue our audit reports thereon dated April 21, 2011.

This report summarizes our findings during the audit. Our audit has been conducted in accordance with the audit plan that was presented to the Finance Committee members at the meeting on December 2, 2010.

Subject to clearing certain outstanding matters identified in this report, we expect to be in a position to sign our unqualified audit opinion on the financial statements, following review by the Finance Committee and approval by the Board of Directors.

Use of our report

This report is intended solely for the information and use of the Finance Committee, management and others within BEC and is not intended to be, and should not be, used by anyone other than these specified parties. Accordingly, we disclaim any responsibility to any other party who may rely on it.

We would like to express our appreciation for the cooperation we received from the officers and employees of BEC with whom we worked to discharge our responsibilities.

We look forward to discussing this report summarizing the outcome of our audit with you and answering any questions you may have.

Yours very truly,

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

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Audit scope and findings

We have prepared the following comments to assist you in fulfilling your oversight responsibilities of the financial reporting and disclosure process for which management of BEC is responsible.

This report summarizes the main findings arising from our audit.

Audit findings

Audit results

Our audits of the financial statements are designed to obtain reasonable, rather than absolute, assurance as to whether the financial statements are free of material misstatement.

There were no significant departures from the audit planning and risk assessment described in the audit plan, which we presented on December 2, 2010.

Status of our audit

We expect to be in a position to render our audit opinions dated April 21, 2011 on the financial statements of BEC following approval of the financial statements by the Board of Directors and the completion of the following outstanding procedures:

- Receipt of signed management's representations letters
- Receipt of legal inquiry letter
- Completion of the final Partner and Engagement Quality Control reviews
- Review of any subsequent events

Audit risks

In accordance with our audit plan, our procedures focused on the following areas that we identified as significant areas of audit risk in the current year:

- Property, plant and equipment
- Unbilled revenue/revenue recognition
- Regulatory assets
- Consolidation process
- Financial instruments
- Related party transactions
- Payments in lieu of taxes (PILs)
- Financial statement disclosures

There were no significant changes in the risks identified in our audit plan.

We have summarized the results of our audit procedures for each of these risk areas on pages 5 and 6 of this report.

Audit findings

Fraud and illegal acts	Based on the procedures we performed as recommended by CAS 240, <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i> , we are not aware of any illegal acts or fraudulent events with respect to BEC during the year.										
Significant events	As part of our audit process, we identify items that we believe are significant in nature and should be brought to your attention. Management has identified the significant events that could have an impact on the financial statements and these items were subjected to our audit procedures. There were no other significant events identified during the audit engagement that are required to be brought to the attention of the finance committee.										
Significant accounting policies	<p>The Company's significant accounting policies are set forth in Note 2 to the December 31, 2010 financial statements.</p> <p>We believe management's selection of accounting policies to be appropriate under Canadian generally accepted accounting principles ("GAAP") and the policies set forth in the accounting procedures manual issued by the Ontario Energy Board. Our views on the significant quantitative and qualitative aspects of these accounting policies are presented on page 7 of this report.</p>										
Management judgment and accounting estimates	<p>Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. These judgments are normally based on knowledge and experience about past and current events, assumptions about future events and interpretations of the financial reporting standards.</p> <p>During the year ended December 31, 2010, management advised us that there were no significant changes in accounting estimates or in judgments relating to such estimates.</p> <p>Our views on the significant quantitative and qualitative aspects of the judgments and estimates made by BEC's management are presented on page 7 of this report.</p>										
Audit adjustments and uncorrected misstatements	<p>In accordance with CAS 450, we request that misstatements be corrected. We have aggregated all uncorrected misstatements greater than the respective thresholds:</p> <table border="1"> <tbody> <tr> <td>Brantford Energy Corporation Consolidated</td><td>\$ 110,400</td></tr> <tr> <td>Brantford Energy Corporation Non-consolidated</td><td>\$ 85,000</td></tr> <tr> <td>Brantford Power Inc.</td><td>\$ 3,500</td></tr> <tr> <td>Brantford Hydro Inc.</td><td>\$ 1,900</td></tr> <tr> <td>Brantford Generation Inc.</td><td>\$ 20,000</td></tr> </tbody> </table> <p>All proposed uncorrected audit adjustments were reviewed with management and were determined by management to be immaterial, individually and in the aggregate, to the financial statements taken as a whole. These misstatements are detailed in the appendices attached to the management's representation letter in Appendix D.</p>	Brantford Energy Corporation Consolidated	\$ 110,400	Brantford Energy Corporation Non-consolidated	\$ 85,000	Brantford Power Inc.	\$ 3,500	Brantford Hydro Inc.	\$ 1,900	Brantford Generation Inc.	\$ 20,000
Brantford Energy Corporation Consolidated	\$ 110,400										
Brantford Energy Corporation Non-consolidated	\$ 85,000										
Brantford Power Inc.	\$ 3,500										
Brantford Hydro Inc.	\$ 1,900										
Brantford Generation Inc.	\$ 20,000										
Adjusted and unadjusted disclosure deficiencies	There were no disclosure items passed by us during the current engagement and pertaining to the latest period presented, as all disclosure items detected in our audit have been corrected by management.										

Audit findings

Independence	<p>We have developed appropriate safeguards and procedures to eliminate threats to our independence or to reduce them to an acceptable level.</p> <p>As required under GAAS, we have reported all relationships and other relevant matters that, in our professional judgment, may reasonably be thought to bear on our independence and confirmed our independence to the Finance Committee for the year ended December 31, 2010 in Appendix B.</p>
Management's Representations letter	<p>A draft version of the management's representations letter to be signed by management is included in Appendix C.</p>
Management recommendations	<p>No significant items arose during the course of our audit that would require a recommendation point.</p>
Conclusion	<p>We intend to issue unmodified audit reports on the financial statements of BEC for the year ended December 31, 2010 once the outstanding items referred to above are satisfactorily completed and the financial statements are approved by the Board of Directors.</p> <p>A draft version of our Auditor's report is included in Appendix A.</p>

Use of the work of experts

As planned, Deloitte and outside experts assisted in the audits to the extent we considered necessary:

Tax experts	<p>Helped assess the adequacy of the tax provision, regulatory tax accounts and other related balance sheet accounts</p>
Actuarial experts	<p>Helped assess the adequacy of the defined benefit obligation</p>

Disagreements with management

In the course of our audits, we did not encounter any disagreements with management about matters that individually or in the aggregate could be significant to the financial statements.

Consultation with other accountants

Management has informed us that BEC has not consulted with other accountants about auditing or accounting matters.

Related party transactions

Related party transactions are disclosed in the respective financial statements.

We have not identified any related party transactions that are not in the normal course of operations and that involve significant judgments by management concerning measurement or disclosure.

Legal and regulatory compliance

Management is responsible for ensuring that BEC's operations are conducted in accordance with laws and regulations. The responsibility for preventing and detecting non-compliance rests with management.

The auditor is not and cannot be held responsible for preventing non-compliance with laws and regulations.

Our procedures did not identify any areas of material non-compliance with laws and regulations by BEC.

Post-balance sheet events

Management is responsible for assessing subsequent events up to the date of the release of the financial statements.

At the date of finalizing this report, we are not aware of any significant post-balance sheet events.

Management cooperation

We received complete cooperation from corporate officers, management and staff and had access to all corporate documents and information necessary to carry out our audit.

Significant transactions inconsistent with business

We have not identified any significant transactions inconsistent with the ordinary course of business.

Audit risks

Our audit plan identified certain areas, which we refer to as significant audit risks. There have been no changes to these risks nor have any additional risks been identified since our previous communication. The results of our audit work on these risks are set out below:

Significant risks

Areas of risk	Our audit response	Our conclusion
Property, plant and equipment Ensure the appropriateness of the capitalization of costs related to property, plant and equipment.	We examined the nature of costs capitalized to ensure that they are appropriate and corroborate the status of projects with operational personnel.	The results of our audit procedures were satisfactory.
Property, plant and equipment Ensure the appropriateness of the value of the generating plant.	We reviewed the recoverability of the capital cost of the generating plant.	The results of our audit procedures were satisfactory.
Unbilled revenue/ revenue recognition Ensure appropriate treatment under Canadian GAAP and that estimates and judgments used are reasonable and consistent.	We examined the December 31, 2010 unbilled revenue estimate prepared by management to ensure it was appropriate under GAAP. The accounting treatment for each major billing component was tested for reasonableness.	The results of our audit procedures were satisfactory.
Regulatory assets Ensure management has properly recorded regulatory assets.	We examined the components of the regulatory assets and ensured that the accounting treatment was appropriate under Canadian GAAP and that the balances are recoverable.	The results of our audit procedures were satisfactory.
Consolidation process Intercompany transactions are properly identified and eliminated for reporting purposes. Address risks inherent in manual processes.	We examined on a sample basis the validity, completeness and accuracy of the consolidation entries and significant inter-company transactions. We verified the mechanical accuracy of the consolidation schedules.	The results of our audit procedures were satisfactory.

Areas of risk	Our audit response	Our conclusion
Financial instruments Valuation of the interest rate swaps are recorded in accordance with Canadian GAAP.	We reviewed the mark-to-market adjustments for appropriateness in accordance with Canadian GAAP and confirmed the values with the financial institution.	The results of our audit procedures were satisfactory.
Related party transactions Recorded in accordance with CICA Handbook Section 3840.	We reviewed the Service Level Agreement with the City and assessed management's allocation of expenses.	The results of our audit procedures were satisfactory.
Payments in lieu of taxes (PILs) Recorded in accordance with CICA Handbook Section 3465.	Income tax specialists examined the accounting and disclosures for current, deferred, and capital taxes in accordance with CICA Handbook Section 3465.	The results of our audit procedures were satisfactory.
Financial statement disclosures Financial statements are prepared and presented in accordance with Canadian GAAP. This includes the appropriate adoption of new CICA Handbook Standards.	We have reviewed and evaluated significant accounting policies and practices, determined their qualitative and quantitative impact, and reviewed these with management where necessary. There were no new standards adopted in the current year.	The results of our audit procedures were satisfactory.

Significant accounting policies

Significant accounting policies are those that are most important to the portrayal of BEC's financial condition and the results of operations.

In the course of our audit of the financial statements, we considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability and understandability of the information included in the financial statements.

Changes in accounting policies

During the year ended December 31, 2010, there were no significant changes in previously adopted accounting policies or their application.

Significant accounting policies

In our judgment, the significant accounting practices, selected and applied by management are, in all material respects, acceptable under GAAP and are appropriate to the particular circumstances of BEC.

Management judgment and accounting estimates

In our judgment, the significant accounting estimates made by management are in all material respects, free of possible management bias and of material misstatement. The disclosures in the financial statements around estimation uncertainty are in accordance with GAAP and are appropriate to the particular circumstances of BEC.

Appendix A – Draft version of our consolidated Auditor's Report



Deloitte & Touche LLP
1005 Skyview Drive
Suite 202
Burlington ON L7P 5B1
Canada

Independent Auditor's Report

Tel: 905-315-6770
Fax: 905-315-6700
www.deloitte.ca

To the Board of Directors of
Brantford Energy Corporation

We have audited the accompanying consolidated financial statements of Brantford Energy Corporation, which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of retained earnings, operations, comprehensive income and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

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.

Member of Deloitte Touche Tohmatsu

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Brantford Energy Corporation as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
April 21, 2011

Appendix B – Independence letter



Deloitte & Touche LLP
1005 Skyview Drive
Suite 202
Burlington ON L7P 5B1
Canada

Tel: 905-315-6770
Fax: 905-315-6700
www.deloitte.ca

April 6, 2011

The Finance Committee
Brantford Energy Corporation
84 Market St
Brantford ON N3T 5N8

Dear Board of Directors Members and Finance Committee Members:

We have been engaged to audit the consolidated financial statements of Brantford Energy Corporation, the non-consolidated financial statements of Brantford Energy Corporation, and of the financial statements of its subsidiaries Brantford Power Inc., Brantford Hydro Inc., and Brantford Generation Inc. (the "Companies") for the year ended December 31, 2010.

Canadian generally accepted auditing standards (GAAS) require that we communicate in writing with you regarding our compliance with relevant ethical requirements regarding independence as well as all relationships and other matters between the Companies, our Firm and network firms that, in our professional judgment, may reasonably be thought to bear on our independence. We are also required to communicate the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute / ordre and applicable legislation, covering such matters as:

- (a) holding a financial interest, either directly or indirectly, in a client;
- (b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- (c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- (d) economic dependence on a client; and
- (e) provision of services in addition to the audit engagement.

We confirm to you that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since March 26, 2010, the date of our last letter.

Member of Deloitte Touche Tohmatsu

Brantford Energy Corporation
April 6, 2011
Page 2

We are not aware of any relationships between the Companies and our Firm, including any network firms that, in our professional judgment, may reasonably be thought to bear on independence, that have occurred from March 26, 2010 to April 6, 2011.

GAAS requires that we confirm our independence to those charged with governance in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that we are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of April 6, 2011.

This report is intended solely for the use of the Finance Committee, the board of directors, management, and others within the Companies and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter at our upcoming meeting on April 12, 2011.

Yours very truly,

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Appendix C – Draft management's representations letter

April 21, 2011

Deloitte & Touche LLP
1005 Skyview Dr
Burlington ON L7P 5B1

Dear Sirs:

Subject: Consolidated financial statements for the year ended December 31, 2010

This representation letter is provided in connection with the audit by Deloitte & Touche LLP ("Deloitte" or "you") of the consolidated financial statements of Brantford Energy Corporation and its subsidiaries ("BEC" or "the Company") for the year ended December 31, 2010 (the "Financial Statements") for the purpose of expressing an opinion as to whether the Financial Statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Company in accordance with Part V Canadian generally accepted accounting principles ("GAAP").

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the Financial Statements would influence the decision of a reasonable person relying on the Financial Statements.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial statements

1. We have fulfilled our responsibilities as set out in the terms of the engagement letter between the Company and Deloitte dated November 12, 2010 for the preparation of the Financial Statements in accordance with GAAP. In particular, the Financial Statements are fairly presented, in all material respects, and present the financial position of the Company as at December 31, 2010 and the results of its operations and cash flows for the year then ended in accordance with GAAP.
2. In preparing the Financial Statements in accordance with GAAP, management makes judgments and assumptions about the future and uses estimates. The completeness and adequacy of the disclosures related to estimates are in accordance with GAAP. The Company has appropriately disclosed in the Financial Statements the nature of measurement uncertainties that are material, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the Financial Statements.

Significant assumptions used in making estimates are reasonable and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity. The measurement methods, including the related assumptions and models, used in determining the estimates were appropriate, reasonable and consistently applied in accordance with GAAP and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity.

There are no changes in management's method of determining significant estimates in the current year.

3. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, we believe that:
 - a. The measurement methods, including the related assumptions and models, used in determining fair value were appropriate, reasonable and consistently applied in accordance with GAAP.
 - b. The completeness and adequacy of the disclosures related to fair values are in accordance with GAAP.
 - c. No events have occurred subsequent to December 31, 2010 that require adjustment to the fair value measurements and disclosures included in the Financial Statements.
 - d. They appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Company when relevant to the use of fair value measurements or disclosures.
4. All related party relationships and transactions (including associated amounts receivable and payable) have been appropriately accounted for and disclosed in the Financial Statements in accordance with the requirements of GAAP.
5. We have completed our review of events after December 31, 2010 and up to the date when the Financial Statements were authorized for issue, April 21, 2011. All events subsequent to the date of the Financial Statements and for which GAAP requires adjustment or disclosure have been adjusted or disclosed. Accounting estimates and disclosures included in the financial statements that are impacted by subsequent events have been appropriately adjusted.
6. The Financial Statements are free of material errors and omissions.

We believe that the effects of any uncorrected Financial Statement misstatements pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the Financial Statements taken as a whole. A list of the uncorrected misstatements aggregated by you is attached in Appendix D.

7. Management has completed its assessment of the ability of the Company to continue as a going concern and in making its assessment did not identify any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, which would require disclosure in the Financial Statements. In assessing whether the going concern assumption is appropriate, management took into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date, their plans for future action and the feasibility of these plans.

8. We have disclosed to you all known, actual or possible litigation and claims, whether or not they have been discussed with our lawyers, whose effects should be considered when preparing the Financial Statements. As appropriate, these items have been disclosed and accounted for in the Financial Statements in accordance with GAAP.

Information provided

9. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation of the Financial Statements, such as records, documentation and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and,
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
10. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
11. We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud.
12. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the Financial Statements.
13. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's Financial Statements and all knowledge of concerns or allegations of potential errors in the selection of accounting policies or the recording of transactions affecting the Company that have been communicated by employees, former employees, analysts, regulators, or others, whether written or oral.
14. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations including the Corruption of Foreign Public Officials Act or similar Acts whose effects should be considered when preparing the Financial Statements.

We have disclosed to you management's current assessment of Brantford Power Inc.'s Affiliate Relationship Code compliance risk related to certain terms of the Service Level Agreement between the City of Brantford and Brantford Power Inc and the fact that the Company is currently performing additional due diligence in this regard in order to establish what organizational changes may be necessary to reduce any existing compliance risk. Based on this assessment, management is unaware of any additional adjustment or disclosures required to the financial statements relating to this risk. Management acknowledges that Deloitte was not engaged to confirm regulatory compliance and as such, the audit opinion attests the fair presentation of the financial statements and is not intended to confirm compliance with regulatory matters.

15. We have disclosed to you all communications from:

- a. taxation authorities concerning assessments or reassessments that could have a material effect on the Financial Statements; and
- b. regulatory agencies concerning noncompliance with or potential deficiencies in, financial reporting requirements. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements.

16. We have disclosed to you any change in the Company's internal control over financial reporting that occurred during the current year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

17. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware, including guarantees, non-monetary transactions, transactions for no consideration and participation in a defined benefit plan that shares risks between group entities.

Independence matters

For purposes of paragraph 18, "Deloitte" shall mean Deloitte & Touche LLP and Deloitte Touche Tohmatsu Limited, its member firms and the affiliates of Deloitte & Touche LLP, Deloitte Touche Tohmatsu Limited and its member firms.

18. Prior to the Company having any substantive employment conversations with a former or current Deloitte engagement team member the Company has held discussions with Deloitte and obtained approval from the Finance Committee.

Selection of accounting policies and recording of transactions

19. The Company's accounting policies and their method of application have been applied on a basis consistent with that of the audited consolidated financial statements as of and for the year ended December 31, 2009.

Compliance with contractual agreements

20. We have disclosed to you, and the Company has complied with all aspects of contractual agreements that could have a material effect on the Financial Statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Title to assets

21. The Company has satisfactory title to and control over all assets, and there are no liens or encumbrances on such assets. We have disclosed to you and in the Financial Statements all assets that have been pledged as collateral.

Liabilities and contingencies

22. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, whether written or oral, and they are appropriately reflected in the Financial Statements.

Loans and receivables

23. The Company is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, and accounts receivable, as well as estimates used to determine such amounts. Management believes the allowance is adequate to absorb currently estimated bad debts in the account balance.

Inventories

24. Provision has been made to reduce inventories to estimated net realizable value when that amount is lower than cost. All reversals of write-down of inventories, arising from an increase in net realizable value, have been recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurred. All inventories are the property of the Company and do not include any items consigned to it, any items billed to customers, or any items for which the liability has not been recorded.

Investments

25. With regard to the Company's investments, we have disclosed to you any events that have occurred and facts that have been discovered with respect to such investment that would indicate any other than temporary impairment of the investment's value.

Environmental liabilities/contingencies

26. We have considered the effect of environmental matters on the Company and have disclosed to you all liabilities, provisions or contingencies arising from environmental matters. All liabilities, provisions, contingencies and commitments arising from environmental matters, and the effect of environmental matters on the carrying values of the relevant assets are recognized, measured and disclosed, as appropriate, in the Financial Statements.

Employee future benefits

27. Employee future benefit costs, assets, and obligations have been properly recorded and adequately disclosed in the Financial Statements including those arising under defined benefit and defined contribution plans. We believe that the actuarial assumptions and methods used to measure defined benefit plan assets, liabilities and costs for financial accounting purposes are appropriate in the circumstances.
28. We have no intention of terminating any of our pension plans or withdrawing from the multi-employer plan, or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of any of our pension or multi-employer plans to which we contribute.
29. We do not plan to make frequent amendments to our pension or other postretirement benefit plans.

Long-lived assets

30. With respect to the Company's long-lived assets, we have recognized and recorded the fair value of all legal obligations associated with the retirement of those related assets.

Revenues

31. We have fully disclosed to you all sales terms, including all rights of return or price adjustments and all warranty provisions.
32. All documentation related to sales transactions is contained in files which are used for accounting purposes. We also confirm that:
- a. We are not aware of any "side agreements" with any companies that are inconsistent with the applicable sales agreement, the customer's purchase order, sales invoice, or any other documentation contained in the files which are used for accounting purposes. For the purposes of this letter, a "side agreement" is any agreement, understanding, promise, or commitment whether written (e.g., in the form of a letter or formal agreement or in the form of any exchange of physical or electronic communications) or oral by or on behalf of the Company (or any subsidiary, director, employee, or agent of the Company) with a customer from whom revenue has been recognized that is not contained in the written purchase order from the customer or sales order confirmation and sales invoice of the Company delivered to or generated by the Company's Accounting and Finance Department. The definition of a side agreement is not limited by any particular subject matter. For purposes of example only, any agreement not contained in the written purchase order from the customer or sales order and sales invoice of the Company that relates to return rights, acceptance rights, future pricing, payment terms, free consulting, free maintenance, or exchange rights would be a side agreement.
 - b. We are not aware of any commitments or concessions to a customer regarding pricing or payment terms outside of the terms documented in the files which are used for accounting purposes.

Various matters

33. The following have been properly recorded and, when appropriate, adequately disclosed and presented in the Financial Statements:
- a. economic dependence on another party;
 - b. losses arising from sale and purchase commitments;
 - c. agreements to buy back assets previously sold;
 - d. provisions for future removal and site restoration costs;
 - e. financial instruments with significant individual or group concentration of credit risk, and related maximum credit risk exposure;
 - f. sales with recourse provisions;
 - g. sales incentives, including cash consideration provided to customers and vendor rebates;
 - h. arrangements with financial institutions involving compensating balances or other arrangements involving restriction on cash balances and line-of-credit or similar arrangements;

- i. all impaired loans receivable;
- j. loans that have been restructured to provide a reduction or deferral of interest or principal payments because of borrower financial difficulties.

Financial instruments, including derivatives

34. The following have been properly recorded and, when appropriate, adequately disclosed and presented in the Financial Statements:

- a. the fair value of financial instruments;
- b. the other than temporary impairment of financial assets classified as available-for-sale;
- c. the reversal of any previously recorded other than temporary impairment losses on financial assets classified as available-for-sale; and,
- d. provisions for loans receivable and held-to-maturity assets.

35. The Company has properly classified all financial instruments in accordance with CICA Handbook Part V Section 3855, *Financial Instruments—Recognition and Measurement* (“Section 3855”). Specifically, all financial assets are classified as either “loans and receivables”, “held-for-trading”, “held-to-maturity” or “available-for-sale”. In addition, there have been no reclassifications of instruments into or out of the held-for-trading classification after the adoption of Section 3855 or, if later, after the instrument was first recognized.

36. The Company has properly identified all financial and non-financial contracts that meet the definition of a derivative in Section 3855. The Company has also properly identified all embedded derivatives included in other non-derivative contracts and determined whether these embedded derivatives need to be separately accounted for as described in Section 3855. Where a contract or group of contracts is considered to be held for the purpose of receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements, the Company has documented the basis for reaching this conclusion.

Variable interest entities

37. We have reviewed all financial interests and contractual arrangements to identify variable interests we hold in VIEs as defined in Accounting Guideline 15, *Consolidation of Variable Interest Entities* (revised April 2007) (“AcG-15”).

38. We have considered both implicit and explicit variable interests in (a) determining whether a potential VIE should be considered a VIE, (b) calculating the VIE's expected losses and residual returns (based on the best information available and including all reasonably possible outcomes), and (c) determining which party, if any, is the VIE's primary beneficiary.

39. We have identified all information about events and changes in circumstances that could potentially cause a reconsideration about whether an entity is a VIE or whether the Company is the primary beneficiary or has a significant variable interest in a VIE.

40. We have provided you with all relevant information in support of our conclusions.

Yours very truly,

Brantford Energy Corporation

Ted Salisbury
Chief Executive Officer

Brian D'Amboise, CA
Chief Financial Officer

Glenda Maldonado, CMA
Senior Financial Analyst - Utilities

Appendix D – Summary of adjustments and uncorrected financial statement misstatements

Audit adjustments

Correcting Entries				
(In 000's)	Asset Dr(Cr)	Liabilities Dr(Cr)	Opening Retained Earnings Dr(Cr)	Income Statement Dr(Cr)
Reclassification of debt - \$683k due in November 2011 that was not classified as current (BEC Consolidated and BPI)	-	-	-	-
Reduce current income tax provision (BPI)	90,000	-	-	(90,000)
Adjust future income taxes (BPI)	(624,243)	437,614	-	186,629
Adjust future income taxes (BGI)	64,300	-	-	(64,300)
Adjust future income taxes (BHI)	5,085	(5,611)	-	526
Impact of misstatements identified during the 2010 audit	<u>(464,858)</u>	<u>432,003</u>	<u>-</u>	<u>32,855</u>
Tax effect on above items	-	-	-	-
Impact of misstatements identified during the 2010 audit, net of tax	<u>(464,858)</u>	<u>432,003</u>	<u>-</u>	<u>32,855</u>

Unadjusted differences

None

Appendix E – Communication requirements

In our audit plan presented, we committed to communicate certain items to the Finance Committee as specified events occur. These items are summarized below.

Required communication	Comments
1. Our responsibilities under GAAS.	Engagement letter dated November 12, 2010
2. Our audit strategy and scope, including approach to auditing financial information of components of the group audit and our planned involvement in work performed by component auditors.	Audit plan presented on December 2, 2010 was not changed
3. Management judgment and accounting estimates.	Management judgment and accounting estimates on page 7
4. Financial statement adjustments.	Audit adjustments and uncorrected misstatements - Appendix D
5. Uncorrected misstatements.	Audit adjustments and uncorrected misstatements - Appendix D
6. Significant accounting policies.	Significant accounting policies on page 7
7. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period.	Significant accounting policies on page 7
8. Our views about significant qualitative aspects of BEC's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.	Significant accounting policies on page 7 Management judgment and accounting estimates on page 7
9. Disagreements with management.	None
10. Our views about significant matters that were the subject of consultation with other accountants.	None
11. Major issues discussed with management prior to our retention.	None
12. Significant difficulties, if any, encountered during the audit.	None
13. All deficiencies in Internal Control over Financial Reporting ("ICFR") that existed as of the date of management's assessment and were concluded to be material weaknesses or significant deficiencies in ICFR.	None

Required communication	Comments
14. Material written communications between management and us.	Engagement letter dated November 12, 2010
15. All relationships between BEC and us that, in our professional judgment, may reasonably be thought to bear on independence.	Independence letter – Appendix B
16. A statement that, in our judgment, the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.	Independence letter - Appendix B
17. Illegal or possibly illegal acts.	None noted
18. Fraud or possible fraud identified through the audit process.	None noted
19. Significant transactions inconsistent with ordinary business, including related party transactions.	None noted
20. Non-compliance with laws and regulations that come to the auditor's attention.	None noted
21. Limitations placed on our scope.	None noted
22. Written representations the auditor is requesting.	Draft management's representations letter – Appendix C
23. A discussion of BEC's annual audited financial statements with the Finance Committee.	To be discussed at our meeting on April 12, 2011

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