Financial Statements of

Brantford Power Inc.

December 31, 2012

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Brantford Power Inc.

Management Report

December 31, 2012

The accompanying financial statements are the responsibility of management of Brantford Power Inc. (the Company). 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 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 recommends their approval to the board of directors. Deloitte LLP has full and free access to the finance committee, with and without the presence of management.

Paul Kwasnik
President and Chief Executive Officer
March 28, 2013

Brian D'Amboise, CPA, CA
Chief Financial Officer
March 28, 2013

Deloitte

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Independent Auditor's Report

To the Board of Directors of
Brantford Power Inc.

We have audited the accompanying financial statements of Brantford Power Inc. which comprise the balance sheet as at December 31, 2012 and the statements of operations, retained earnings, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Brantford Power Inc. as at December 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte LLP

Chartered Accountants
Licensed Public Accountants
March 28, 2013

Brantford Power Inc.
Balance Sheet
as at December 31, 2012

Assets	**2012**	2011
	$	$
Current Assets		
Cash and cash equivalents	**13,935,062**	9,200,282
Accounts receivable	**8,943,997**	7,373,814
Unbilled revenue	**8,557,480**	8,636,720
Inventories	**1,106,630**	718,936
Special deposits	**1,117,443**	1,155,522
Prepaid expenses	**97,411**	107,758
Payments in lieu of corporate income taxes	**569,406**	1,262,583
Future payments in lieu of corporate income taxes - note 22	**180,730**	178,500
	34,508,159	28,634,115
Property, plant and equipment - note 5	**59,942,622**	59,873,172
Other Assets		
Regulatory assets - note 9	**5,218,627**	4,147,328
Long-term special deposits	**742,782**	918,090
Long-term prepaid expenses	**79,030**	107,859
Future payments in lieu of corporate income taxes - note 22	**1,926,312**	2,279,696
Intangible assets - note 6	**3,562,397**	3,479,311
	11,529,148	10,932,284
	105,979,929	99,439,571

Brantford Power Inc.
Balance Sheet
as at December 31, 2012

Liabilities and Shareholder's Equity	2012	2011
	$	$
Current Liabilities		
Accounts payable and accrued liabilities	**12,074,178**	9,299,107
Accounts payable to the City of Brantford - note 8	**896,904**	1,489,970
Interest payable to the City of Brantford - note 10	**1,419,904**	1,427,564
Due to affiliates - note 8	**328,444**	332,663
Current portion of customer deposits	**1,117,443**	1,155,522
Current portion of long-term debt - note 10	**991,134**	598,986
Current portion of vested sick leave - note 11	**145,885**	-
	16,973,892	14,303,812
Long-term debt - note 10	**44,179,375**	40,919,451
Other Liabilities		
Regulatory liabilities - note 9	**6,180,082**	7,329,824
Long-term customer deposits	**742,782**	918,090
Employee future benefits - note 12	**2,119,216**	898,067
Accumulated vested sick leave credits - note 11	**88,093**	78,512
Derivative liabilities - note 21	**554,860**	713,683
	9,685,033	9,938,176
Contingencies and Commitments - note 13		
Shareholder's Equity		
Share capital - note 14	**22,437,505**	22,437,505
Retained Earnings	**12,955,971**	12,358,906
Contributed surplus - note 7	**141,319**	-
Accumulated Other Comprehensive Loss - note 15	**(393,166)**	(518,279)
	35,141,629	34,278,132
	105,979,929	99,439,571

Signed on behalf of the Board:

Director

Director

See accompanying notes

Brantford Power Inc.
Statement of Retained Earnings
for the year ended December 31, 2012

	2012	2011
	$	$
Retained Earnings, Beginning of Year	**12,358,906**	11,519,294
Net Income	**1,347,065**	2,289,612
Dividends	**(750,000)**	(1,450,000)
Retained Earnings, End of Year	**12,955,971**	12,358,906

Brantford Power Inc.
Statement of Operations
for the year ended December 31, 2012

	2012 $	2011 $
Revenue		
Electricity distribution service charges - note 17	**14,336,994**	15,158,434
Ontario Power Authority conservation programs	**4,020,508**	723,014
Specific service charges	**407,628**	469,500
Interest income	**273,775**	278,195
Other income	**297,897**	332,439
	19,336,802	16,961,582
Expenses		
Distribution operations and maintenance	**3,389,490**	2,954,060
Billing and collecting	**1,870,898**	1,941,884
General administration	**2,616,711**	2,095,391
Ontario Power Authority conservation programs	**3,683,840**	735,093
Interest on long-term debt	**2,163,585**	2,159,034
Other financing expenses	**172,775**	175,492
Capital tax	**-**	(1,318)
Amortization - note 19	**3,595,408**	3,842,300
	17,492,707	13,901,936
Income before payments in lieu of corporate income taxes	**1,844,095**	3,059,646
Payments in lieu of corporate income taxes - note 22	**497,030**	770,034
Net income	**1,347,065**	2,289,612

Brantford Power Inc.
Statement of Comprehensive Income
for the year ended December 31, 2012

	2012 $	2011 $
Net Income	**1,347,065**	2,289,612
Other comprehensive loss		
Unrealized gain (loss) on derivative instruments designated as cash flow hedges - Note 21	**156,203**	(191,491)
Future (payment) recovery in lieu of corporate income taxes	**(31,090)**	47,870
	125,113	(143,621)
Comprehensive Income	**1,472,178**	2,145,991

See accompanying notes

Brantford Power Inc.

Statement of Cash Flows
for the year ended December 31, 2012

	2012 $	2011 $
Operating activities		
Net income	**1,347,065**	2,289,612
Items not affecting cash		
Amortization - note 19	**3,813,949**	4,113,716
Future payments in lieu of corporate income taxes	**316,790**	1,028,630
Gain on disposal of property, plant and equipment	**(565)**	(19,025)
Other items not affecting cash	**1,579,990**	46,873
	7,057,229	7,459,806
Changes in non-cash working capital components - note 18	**995,013**	(599,971)
	8,052,242	6,859,835
Investing activities		
Acquisition of property, plant and equipment	**(4,572,036)**	(4,877,142)
(Increase) decrease in regulatory assets	**(1,071,299)**	899,233
Decrease in regulatory liabilities	**(1,149,742)**	(3,679,967)
Decrease in special deposits	**213,387**	434,908
Proceeds from disposal of property, plant and equipment	**565**	19,025
	(6,579,125)	(7,203,943)
Financing activities		
Proceeds of issuance of long-term debt	**4,230,000**	550,000
Capital contributions received	**605,551**	265,560
Repayment of long-term debt	**(610,501)**	(567,012)
Decrease in customer deposits	**(213,387)**	(434,908)
Dividends paid	**(750,000)**	(1,450,000)
	3,261,663	(1,636,360)
Increase (decrease) in cash and cash equivalents	**4,734,780**	(1,980,468)
Cash and cash equivalents, beginning of year	9,200,282	11,180,750
Cash and cash equivalents, end of year	13,935,062	9,200,282
Supplemental Disclosure of Cash Flows		
Interest received	**153,355**	158,760
Interest paid	**2,121,090**	2,202,707
Payment for income taxes	**512,940**	1,025,877

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 9.

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 $605,551 (2011 - $265,560) 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 $27,434 (2011 - $56,469).

Stranded meters

As a result of the OEB's smart meter initiative, the Company has removed conventional meters and replaced them with smart meters. The net book value of the conventional meters removed from service prior to the end of their useful life has been classified as stranded meters and reallocated from property, plant and equipment to intangible assets. The OEB will allow the Company to recover the costs of these stranded meters through a future rate application process.

Payment in lieu of income taxes

The Company is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act. 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), 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.

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 and 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. The Company classifies major construction related components of its electricity distribution system to property, plant and equipment.

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.

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
Vehicles	5-8 years
Office furniture	10 years
Computer hardware	4 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 represent 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.

Land rights	50 years
Stranded meters	25 years
Software	5 years

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 of 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, 2012 and 2011.

Customer deposits

Customer deposits are cash collections from customers 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).

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.

3. Future Changes in Accounting Framework

Changes in accounting policies

In July 2012, the OEB issued a letter to LDC's that provides direction on permitted accounting policies for depreciation expense and capitalization beginning in 2013. In this letter, the OEB states that it will require all LDC's to adopt IFRS-compliant depreciation and capitalization accounting policies effective January 1, 2013, regardless of whether the LDC has chosen to defer the adoption of IFRS as permitted by the AcSB. The OEB also approved the use of a new variance account to capture the financial differences arising as a result of adopting IFRS-compliant accounting policies in 2013. This variance account is to be disposed of as part of the LDC's next rate rebasing. Therefore, there will be no impact to net income as a result of these accounting policy changes.

As such, the Company will adopt IFRS-compliant accounting policies for depreciation and capitalization effective January 1, 2013. These policies will be selected in accordance with International Accounting Standard 16, "Property, Plant and Equipment" ("IAS 16"). IAS 16 provides more definitive guidance with respect to cost capitalization and componentization for depreciation purposes than that currently followed under Canadian GAAP.

Due to the absence of rate-regulated accounting guidance within Canadian GAAP, the Company follows regulatory accounting guidance found under US GAAP. In accordance with US GAAP Accounting Standards Codification Section 980, "Regulated Operations," the Company will adopt these changes prospectively with no retrospective restatement of prior periods.

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises would be required to adopt IFRS in place of Canadian GAAP effective January 1, 2011. Subsequently, the AcSB issued several optional deferrals in adoption of IFRS for rate-regulated entities. The Company qualifies for these deferrals and has elected to defer adoption for fiscal 2012 and will determine each year whether future deferrals are necessary as the details of future developments in IFRS rate regulated accounting are determined and evaluated.

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 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 incorporate, where applicable, OEB approved rate adders or riders that are necessary to dispose of regulatory assets and liabilities.

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 9.

In the absence of rate regulation, distribution revenue would have been lower by $4,144,991 (2011 - $3,367,713), cost of power would have been lower by $2,235,587 (2011 - $985,277), other income would have been lower by $7,091 (2011 - $14,601), distribution operations and maintenance would have been higher by $193,256 (2011 - $51,215), general administration would have been higher by $17,195 (2011 - $57,877), amortization would have been higher by $321,320 (2011 - $315,364), and interest income would have been higher by $5,824 (2011 - $48,936). The net effect, in the absence of rate regulation, is a pre-tax decrease in net income for 2012 of $2,442,442 (2011 - $2,772,557).

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.

4. Rate Setting - continued

On October 29, 2010 the Company filed an application for 2011 rates also on the basis of the OEB's third generation IRM policy. On March 28, 2011, the OEB released its decision. This decision included the repayment of $1,192,282 in regulatory liabilities. The revised rates were approved with an effective date of May 1, 2011.

On November 10, 2011 the Company filed an application for 2012 rates also on the basis of the OEB's third generation IRM policy. On April 19, 2012, the OEB released its decision. This decision included the repayment of $5,841,761 in regulatory liabilities. Included in this total is $2,021,450 in PILs that resulted from the OEB PILs proceeding concluded during 2011. The PILs amount was previously not reflected in the regulatory liabilities total and reduced 2012 distribution revenue in the amount of $1,217,320 as it is returned to the customers. The revised rates were approved with an effective date of May 1, 2012.

The Company is in the process of preparing a cost of service rate application for 2013 distribution rates.

5. Property, Plant and Equipment

	2012			2011
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
	$	$	**$**	$
Land	181,961	-	**181,961**	181,961
Buildings	1,163,732	194,532	**969,200**	992,474
Transformer station	4,507,912	893,531	**3,614,381**	3,727,079
Distribution stations	74,427	30,025	**44,402**	46,883
Distribution lines - overhead	29,840,112	10,814,369	**19,025,743**	18,891,807
Distribution lines - underground	34,084,914	10,386,668	**23,698,246**	22,983,145
Distribution transformers	17,824,165	6,365,512	**11,458,653**	11,682,006
Distribution meters	4,033,045	1,004,368	**3,028,677**	2,973,728
Vehicles	2,928,990	2,132,692	**796,298**	891,003
Office furniture	3,113	314	**2,799**	-
Computer hardware	103,440	25,860	**77,580**	-
Tools and other equipment	841,329	270,434	**570,895**	591,112
Capital contributions	(4,457,124)	(863,069)	**(3,594,055)**	(3,166,790)
Other utility plant	54,756	-	**54,756**	54,756
Work in progress	13,086	-	**13,086**	24,008
	91,197,858	31,255,236	**59,942,622**	59,873,172

6. Intangible Assets

	2012			2011
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
	$	$	**$**	$
Land rights and easements	94,991	7,748	**87,243**	5,968
Stranded meters	5,381,879	2,215,921	**3,165,958**	3,237,191
Software	635,467	326,271	**309,196**	236,152
	6,112,337	2,549,940	**3,562,397**	3,479,311

7. Restructuring

In December 2011, the City announced plans to restructure the Company to simplify its compliance with the OEB's Affiliate Relationships Code for Electricity Distributors and Transmitters. Effects of the restructuring are detailed below.

The City transferred a total of 55 positions, one effective January 1, 2012 and the remainder on April 1, 2012 impacting 52 permanent and 3 part-time or contract employees.

The transfer of employees resulted in $1,276,000 in post employment benefit obligation including vested sick leave obligation of $163,000 being assumed by the Company. The Company received $198,905 plus interest for the vested sick leave from the City during November 2012.

The Company also received $1,161,705 plus interest for IT Services Equipment and Customer Service Equipment that had been included in the City's reserves as at March 31, 2012.

The City transferred ownership of certain assets including computer hardware and office furniture effective December 31, 2012. The majority of the assets had a zero net book value with the exception of certain computer hardware related to the customer billing system. The net book value of this hardware was $92,614. The City transferred this over for no cash consideration.

Contributed surplus	
Employee future benefits	(1,113,000)
Equipment reserves	1,161,705
Computer hardware	92,614
Net contributed surplus	141,319

8. 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 and Brantford Energy Corporation. As a result of the restructuring, certain related party transactions ceased following the transfer of applicable City employees to the Company. The Company also provides services to the City, Brantford Generations 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 $4,538,547 (2011 - $8,063,255). As at December 31, 2012 the balance owing to the City for these services was $896,904 (2011 - $1,489,970).

For the year ended December 31, 2012, the Company provided electricity to the City in the amount of $5,899,740 (2011 - $5,471,768). The Company also provided other services to the City in the amount of $303,199 (2011 - $138,410).

For the year ended December 31, 2012, the Company paid property tax to the City in the amount of $16,176 (2011 - $16,868)

The Company obtains management services from Brantford Energy Corporation. Total charges for these services were $174,754 (2011 - $151,041). As at December 31, 2012 the balance owing to Brantford Energy Corporation for these services was $53,630 (2011 - $23,312).

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 $43,694 (2011 - $42,532). The Company also provides billing and collecting services to Brantford Hydro Inc. for its water heater rental and sentinel light rental divisions. As at December 31, 2012 the balance owing to Brantford Hydro Inc. for these customer billings was $61,376 (2011 - $58,526).

For the year ended December 31, 2012, the Company provided electricity to Brantford Generation Inc. in the amount of $120,100 (2011 - $104,059). A long term customer deposit of $6,955 (2011 - $6,955) has been paid to the Company from Brantford Generation Inc.

For the year ended December 31, 2012, the Company purchased electricity from Brantford Generation Inc. in the amount of $2,131,230 (2011 - $1,641,833). As of December 31, 2012 the balance owing to Brantford Generation was $213,439 (2011 - $192,299).

9. 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:

	2012 $	2011 $
Regulatory assets		
Retail Market Settlement		
Retail settlement variance account - Global Adjustment	**806,074**	-
Retailer cost variance accounts	**350,993**	339,637
Other		
Smart meters	**3,058,577**	3,048,342
Distribution revenue rate change	**667,068**	527,214
Special purpose charge	**-**	19,478
Lost Revenue Adjustment Mechanism (LRAM)	**95,503**	-
Other regulatory assets	**240,412**	212,657
Net regulatory assets	**5,218,627**	4,147,328

	2012 $	2011 $
Regulatory liabilities		
Retail Market Settlement		
Retail settlement variance accounts	**3,712,541**	4,265,592
Retail settlement variance account - Global Adjustment	**-**	205,504
Other		
Regulatory future income tax liability	**505,931**	509,205
Regulatory liabilities refundable through approved rate riders	**1,961,610**	2,349,523
Net regulatory liabilities	**6,180,082**	7,329,824

Retail settlement variance accounts

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.

Retail cost variance accounts

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.

9. Regulatory Assets and Liabilities - continued

Smart meters

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. Effective May 1, 2011, the OEB maintained the monthly adder at $2.07 per metered customer. Effective May 1, 2012, the OEB removed the monthly adder.

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.

Distribution revenue rate change

On February 25, 2009, Brant County Power Inc. (BCPI) filed a motion with the OEB to review and vary the Company's 2008 Electricity Distribution Rates. BCPI disputed the rates they were being charged as well as the date that the Company could bill retroactively. The OEB released it decision and order related to this motion on August 10, 2010. The decision allowed the Company to record a regulatory asset consisting of the revenue deficiency between the rates that were approved during the 2008 cost of service application for the Company's embedded distributor and the rates that were approved as a result of the BCPI motion.

9. Regulatory Assets and Liabilities - continued

Special purpose charge

On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge (SPC) assessment under Section 26.1 of the OEB Act, for the Ministry of Energy and Infrastructure conservation and renewable energy program costs. The OEB assessed the Company the amount of $376,534 for its apportioned share of the total provincial amount of the SPC of $53,695,000 in accordance with the rules set out in Ontario Regulation 66/10 (the SPC Regulation). In accordance with Section 9 of the SPC Regulation, the Company was allowed to recover this balance. The initial recovery was completed as at April 30, 2011. The Company is recovering the residual balance in this account through rate riders effective May 1, 2012 to April 30, 2013.

Lost Revenue Adjustment Mechanism

On April 26, 2012, the OEB issued *The Guidelines for Electricity Distributor Conservation and Demand Management* (EB-2012-003) approving the creation of an LRAM variance account. The purpose of this account is to track the distribution revenues that are lost as a result of Ontario Power Authority (OPA) conservation programs.

Regulatory future income tax liability

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.

Regulatory liabilities refundable through approved rate riders

The regulatory liabilities refundable through approved rate riders consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through rate riders. The amount is subject to carrying charges following the OEB prescribed methodology and related rates.

10. Long-Term Debt

	2012 $	2011 $
Note payable, bearing interest at 5.87%, repayable to the City, interest only payable annually - due February, 2016	**24,189,168**	24,189,168
Royal Bank, non-revolving term facility with interest at prime repayable in quarterly instalments, due January, 2018	**3,986,899**	4,361,278
Royal Bank, non-revolving term facility with interest at prime repayable in quarterly instalments, due November, 2016	**562,093**	683,657
Ontario Infrastructure and Lands Corporation non-revolving term facility with interest at 5.14% repayable in semi annual instalments due December, 2032	**2,151,048**	2,212,664
Ontario Infrastructure and Lands Corporation non-revolving term facility with interest at 4.95% repayable in semi annual instalments due December, 2050	**4,728,626**	4,769,966
Ontario Infrastructure and Lands Corporation non-revolving term facility with interest at 3.46% repayable in semi annual instalments due October, 2027	**5,564,189**	5,301,704
Ontario Infrastructure and Lands Corporation non-revolving term facility with interest at 3.90% repayable in semi annual instalments due December, 2042	**3,988,486**	-
	45,170,509	41,518,437
Less current portion	**991,134**	598,986
	44,179,375	40,919,451

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 $1,419,904 (2011 - $1,427,564) was outstanding as at December 31, 2012.

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.

10. Long-Term Debt - continued

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:

	$
2013	991,134
2014	1,038,479
2015	1,088,567
2016	25,330,598
2017	1,034,099
Thereafter	15,687,632

11. Vested Sick Leave

The Company is obligated to pay certain employees their sick leave banks that were frozen on December 31, 1998 by the former Hydro-Electric Commission of the City of Brantford. The sick leave banks will be paid out at retirement at the employee's pay rate at time of retirement.

12. 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 active employees.

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, 2012 and the expense for the period ended December 31, 2012 are based on actuarial valuations done as at January 1, 2012 and April 1, 2012.

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:

	2012	2011
	$	$
To determine benefit obligation at end of year		
Discount rate	**3.50%**	3.25%
Assumed long-term rate of return on assets	**N/A**	N/A
To determine benefit expense (income) for the year		
Discount rate	**3.25%**	4.5%
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	**9.00%**	6.45%
Ultimate rate	**5.00%**	4.75%
Year ultimate rate reached	**2019**	2013

Sensitivity Analysis	**Change in Obligation**	**Change in Expense**
	$	$
Impact of 1% increase in assumed health care trend rate	127,178	20,341
Impact of 1% decrease in assumed health care trend rate	(107,822)	(16,815)

12. Employee Future Benefits - continued

	2012 $	2011 $
Change in benefit obligation		
Benefit obligation at beginning of year	**1,684,720**	1,734,220
Opening benefit obligation adjustment to reflect full valuation versus extrapolation	**(758,258)**	-
Obligation assumed on transferred employees	**1,113,000**	-
Accrual for service	**73,635**	-
Interest cost on benefit obligation	**59,043**	77,863
Benefits paid	**(25,100)**	(58,616)
Actuarial (gain) loss on accrued benefit obligation	**(422,878)**	(68,747)
Benefit obligation at end of year	**1,724,162**	1,684,720
Change in fair value of assets		
Fair value of assets at beginning of year	**-**	-
Employer contributions	**25,100**	58,616
Benefits paid	**(25,100)**	(58,616)
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	**1,724,162**	1,684,720
Unamortized actuarial gain (loss)	**395,054**	(786,653)
Accrued benefit liability at end of year	**2,119,216**	898,067
Reconciliation of accrued benefit liability		
Accrued benefit liability at beginning of year	**898,067**	817,515
Liability assumed on transferred employees	**1,113,000**	-
Benefit expense recognized	**132,678**	139,168
Benefits paid	**(25,100)**	(58,616)
Other	**571**	-
Accrued benefit liability at end of year	**2,119,216**	898,067
Annual benefit expense		
Interest cost on benefit obligation	**59,043**	77,863
Accrual for services	**73,635**	-
Actuarial loss	**-**	61,305
Benefit expense recognized	**132,678**	139,168

12. Employee Future Benefits - continued

Cash payments		
Benefit premiums paid	**109,454**	91,633

13. 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, 2014. 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, 2012, 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, 2016.

Smart Meter Initiative

The OEB had mandated that the Company bill Time of Use Prices using "Smart Meter" electricity meters and the Provincial Meter Data Management/Repository effective July 2011. The Company was granted an extension of the effective date and proceeded with billing Time of Use Pricing during December 2011.

The Company has installed approximately 37,185 (2011 - 37,134) Smart Meters as of the end of 2012 and anticipates having installed a total of 37,240 Smart Meters upon completion of its mass deployment.

14. Share Capital

Authorized
Unlimited number of common shares

	2012	2011
	$	$
Issued		
1,001 common shares	**22,437,505**	22,437,505

15. Accumulated Other Comprehensive Loss

	2012	2011
	$	$
Balance at beginning of year	**(518,279)**	(374,658)
Other comprehensive gain (loss), net of tax	**125,113**	(143,621)
Balance at end of year, net of tax	**(393,166)**	(518,279)

16. Pension Plan

The Company participates in the Ontario Municipal Employees Retirement System (OMERS), a multi-employer plan, on behalf of its employees. The plan is a contributory defined benefit pension plan. Contributions are 8.3% for employee earnings below the year's maximum pensionable earnings and 12.8% thereafter. The contribution rates changed to 9.0% for employee earnings below the year's maximum pensionable earnings and 14.6% thereafter for 2013. During 2012, the Company expensed contributions totaling $255,438 (2011 - $nil) made to OMERS in respect of the employer's required contributions to the plan.

17. 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:

	2012	2011
	$	$
Gross customer billings	**111,713,232**	105,109,712
Less pass through charges billed by the Company		
Electricity charges paid through to generators	**(73,268,847)**	(66,724,020)
Transmission and miscellaneous charges	**(11,354,826)**	(10,618,115)
Market service charges	**(6,200,632)**	(6,186,857)
Debt retirement charges	**(6,551,933)**	(6,422,286)
Total electricity distribution service charges	**14,336,994**	15,158,434

18. Statement of Cash Flows

	2012	2011
	$	$
Changes in non-cash working capital		
Accounts receivable	**(1,570,183)**	1,109,739
Unbilled revenue	**79,240**	358,818
Inventories	**(387,694)**	100,514
Prepaid expenses	**10,347**	39,379
Accounts payable and accrued liabilities	**2,775,071**	(1,523,889)
Accounts payable to the City of Brantford	**(593,066)**	(207,670)
Interest payable to the City of Brantford	**(7,660)**	(84,259)
Due to affiliates	**(4,219)**	285,130
Payments in lieu of corporate income taxes	**693,177**	(677,733)
	995,013	(599,971)

19. Amortization

	2012	2011
	$	$
Amortization of capital assets	**3,595,408**	3,842,300
Amortization of capital assets charged to distribution operations and maintenance	**218,541**	271,416
	3,813,949	4,113,716

20. 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
- closely align its capital structure with the debt to equity structure deemed by the OEB.

As at December 31, 2012, 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, 2012, shareholder's equity amounts to $35,141,629 (2011 - $34,278,132) and long-term debt, amounts to $45,170,509 (2011 - $41,518,437). The Company's capital structure as at December 31, 2012 is 56% debt and 44% equity (2011 - 55% debt and 45% 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, 2012 and as at December 31, 2011, the Company was in compliance with all covenants.

21. 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.

21. 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 $3,994,000 term facility loan at 4.71% and the second $564,000 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 $554,860 (2011 - $713,683), which was in the favour of Royal Bank. Net unrealized gain in fair value of $156,203 (2011 - loss of $191,491) is presented in current year Other Comprehensive Loss. 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 $1,860,225 (2011 - $2,073,612) which is reflected on the Balance Sheet. Customer deposits are limited to those allowed under the OEB's Retail Settlement Code. Allowances of $682,000 (2011 - $680,000) 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, 2012, the outstanding amounts receivable from the largest ten customers represented $2,284,332 or 31% (2011 - $1,923,019 or 27%) 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.

21. 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, 2012, the Company provided prudential support in the form of a bank letter of credit of $13,057,140 (2011 - $9,375,721).

Revolving Term Facility

As at December 31, 2012, 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 affiliates 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 the Ontario Infrastructure and Lands Corporation (OILC) has an estimated fair value of $2,448,900 (carrying value - $2,151,048). The fair value was determined using the present value of the cash flows using the quoted OILC market rate for the debt at December 31, 2012, of 3.80% per annum, (actual rate – 5.14% per annum). The loan is classified as an Other Liability (OL) with no resulting adjustment to carrying value.

21. Financial Instruments - continued

The fixed rate long-term debt facility, maturing December 2050, funded by the OILC has an estimated fair value of $5,382,500 (carrying value - $4,728,626). The fair value was determined using the present value of the cash flows using the quoted OILC market rate for the debt at December 31, 2012, of 4.00% 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 fixed rate long-term debt facility, maturing October 2027, funded by the OILC has an estimated fair value of $5,581,600 (carrying value - $5,564,189). The fair value was determined using the present value of the cash flows using the quoted OILC market rate for the debt at December 31, 2012, of 3.33% per annum, (actual rate – 3.46% per annum). The loan is classified as an Other Liability (OL) with no resulting adjustment to carrying value.

The fixed rate long-term debt facility, maturing December 2042, funded by the OILC has an estimated fair value of $4,000,000 (carrying value - $3,988,486). The fair value was determined using the present value of the cash flows using the quoted OILC market rate for the debt at December 31, 2012, of 3.90% per annum, (actual rate – 3.90% 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 OILC, 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);

21. **Financial Instruments** - continued

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.

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

	Level 1	Level 2	Level 3	Total financial assets and liabilities at fair value
	$	$	$	$
Financial Assets				
Cash and cash equivalents	13,935,062	-	-	13,935,062
Special deposits	1,860,225	-	-	1,860,225
Total financial assets	**15,795,287**	-	-	**15,795,287**
Financial liabilities				
Customer deposits	1,860,225	-	-	1,860,225
Total financial liabilities	**1,860,225**	-	-	**1,860,225**

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.

22. Payments in Lieu of Corporate Income Taxes

The Company's income tax expense for the year ended December 31, 2012 consists of the following:

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

	2012	2011
	$	$
Regulatory assets	**322,953**	643,641
Cumulative eligible capital	**170,390**	156,910
Allowance for doubtful accounts	**180,730**	178,500
Property, plant and equipment	**697,499**	1,063,135
Employee future benefits	**594,940**	244,390
Unrealized losses on derivative liabilities	**140,530**	171,620
Future income tax assets	**2,107,042**	2,458,196

Distributed as such:		
Future payments in lieu of corporate income tax asset		
Current	**180,730**	178,500
Non-current	**1,926,312**	2,279,696
	2,107,042	2,458,196

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:

	2012	2011
	$	$
Income tax expense at the combined basis federal and provincial statutory tax rate	**488,685**	930,126
Impact of change in rates	**26,803**	97,276
Capital cost allowance in excess of amortization	**(423,286)**	(140,633)
Net change in tax reserves	**280,126**	(95,268)
Provision relating to prior periods	**121,889**	(21,890)
Other	**2,813**	423
	497,030	770,034

23. Comparative Figures

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