Financial Statements of

Brantford Power Inc.

December 31, 2014

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Management Report
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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 KPMG 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. KPMG LLP has full and free access to the finance committee, with and without the presence of management.

Paul Kwasnik
President and Chief Executive Officer
April 22, 2015

Brian D'Amboise, CPA, CA
Chief Financial Officer
April 22, 2015

KPMG LLP
Box 976
21 King Street West Suite 700
Hamilton ON L8N 3R1

Telephone (905) 523-8200
Telefax (905) 523-2222
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Brantford Power Inc.:

We have audited the accompanying financial statements of Brantford Power Inc., which comprise the balance sheet as at December 31, 2014, the statements of operations, retained earnings, comprehensive income and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Brantford Power Inc. as at December 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles**.**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 22, 2015

Hamilton, Canada

Brantford Power Inc.

Balance Sheet

as at December 31, 2014

Assets	**2014**	2013
	$	$
Current Assets		
Cash and cash equivalents	**9,875,967**	13,172,577
Accounts receivable	**10,357,405**	9,275,123
Unbilled revenue	**10,642,144**	11,018,050
Inventories	**853,548**	859,915
Special deposits	**818,050**	790,223
Prepaid expenses	**233,336**	174,548
Payments in lieu of corporate income taxes	**622,158**	324,099
Future payments in lieu of corporate income taxes - note 22	**238,500**	207,230
	33,641,108	35,821,765
Property, plant and equipment - note 6	**63,602,605**	60,143,968
Other Assets		
Regulatory assets - note 9	**6,336,310**	7,863,847
Long-term special deposits	**637,041**	679,929
Long-term prepaid expenses	**29,500**	69,543
Future payments in lieu of corporate income taxes - note 22	**418,495**	248,418
Intangible assets - note 7	**641,038**	3,432,578
	8,062,384	12,294,315
	105,306,097	108,260,048

Brantford Power Inc.
Balance Sheet
as at December 31, 2014

Liabilities and Shareholder's Equity	**2014**	2013
	$	$
Current Liabilities		
Accounts payable and accrued liabilities	**14,314,888**	13,692,859
Accounts payable to the City of Brantford - note 8	**639,065**	952,468
Interest payable to the City of Brantford - note 10	**1,419,904**	1,419,904
Due to affiliates - note 8	**75,349**	280,313
Current portion of customer deposits	**818,050**	790,223
Current portion of long-term debt - note 10	**1,088,567**	1,038,479
	18,355,823	18,174,246
Long-term debt - note 10	**42,057,704**	43,143,585
Other Liabilities		
Regulatory liabilities - note 9	**2,663,315**	6,479,604
Long-term customer deposits	**637,041**	679,929
Employee future benefits - note 12	**2,099,345**	2,114,875
Accumulated vested sick leave credits - note 11	**90,030**	92,262
Derivative liabilities - note 21	**333,600**	372,285
	5,823,331	9,738,955
Contingencies and Commitments - note 13		
Shareholder's Equity		
Share capital - note 14	**22,437,505**	22,437,505
Retained Earnings	**16,724,891**	14,885,261
Contributed surplus	**141,319**	141,319
Accumulated Other Comprehensive Loss - note 15	**(234,476)**	(260,823)
	39,069,239	37,203,262
	105,306,097	108,260,048

Signed on behalf of the Board:

_________________ Director

Ron Stewart
_________________ Director

See accompanying notes

Brantford Power Inc.

Statement of Retained Earnings
for the year ended December 31, 2014

	2014	2013
	$	$
Retained Earnings, Beginning of Year	**14,885,261**	12,955,971
Net Income	**2,589,630**	2,679,290
Dividends	**(750,000)**	(750,000)
Retained Earnings, End of Year	**16,724,891**	14,885,261

Brantford Power Inc.

Statement of Operations
for the year ended December 31, 2014

	2014	2013
	$	$
Revenue		
Electricity distribution service charges - note 17	**16,065,685**	15,046,982
Ontario Power Authority conservation programs	**3,407,271**	2,985,434
Specific service charges	**539,109**	441,756
Management fees	**85,811**	-
Interest income	**456,332**	506,758
Other income	**190,443**	182,167
	20,744,651	19,163,097
Expenses		
Distribution operations and maintenance	**3,698,044**	3,714,745
Billing and collecting	**2,879,988**	2,431,812
General administration	**2,710,718**	3,115,708
Ontario Power Authority conservation programs	**3,407,271**	2,984,012
Interest on long-term debt	**2,296,798**	2,345,466
Other financing expenses	**122,543**	205,558
Amortization - note 19	**3,015,739**	2,781,996
	18,131,101	17,579,297
Income before payments in lieu of corporate income taxes	**2,613,550**	1,583,800
Payments in lieu of corporate income taxes - note 22	**23,920**	(1,095,490)
Net income	**2,589,630**	2,679,290

Brantford Power Inc.

Statement of Comprehensive Income
for the year ended December 31, 2014

	2014	2013
	$	$
Net Income	**2,589,630**	2,679,290
Other comprehensive loss		
Unrealized gain on derivative instruments designated as cash flow hedges - Note 21	**35,847**	180,063
Future payment in lieu of corporate income taxes	**(9,500)**	(47,720)
	26,347	132,343
Comprehensive Income	**2,615,977**	2,811,633

Brantford Power Inc.

Statement of Cash Flows
for the year ended December 31, 2014

	2014	2013
	$	$
Operating activities		
Net income	**2,589,630**	2,679,290
Items not affecting cash		
Amortization - note 19	**3,150,377**	2,893,196
Future payments in lieu of corporate income taxes	**172,728**	336,403
Gain on disposal of property, plant and equipment	**(17,252)**	(12,687)
Other items not affecting cash	**(369,586)**	1,130,879
	5,525,897	7,027,081
Changes in non-cash working capital components - note 18	**(953,195)**	(750,697)
	4,572,702	6,276,384
Investing activities		
Acquisition of property, plant and equipment	**(2,782,311)**	(3,476,719)
Acquisition of intangible assets	**(305,304)**	(201,081)
Decrease (increase) in regulatory assets	**473,883**	(2,645,220)
Increase (decrease) in regulatory liabilities	**(3,816,289)**	299,522
Decrease in special deposits	**15,061**	390,073
Proceeds from disposal of property, plant and equipment	**17,252**	12,687
	(6,397,708)	(5,620,738)
Financing activities		
Capital contributions received	**331,936**	713,076
Repayment of long-term debt	**(1,038,479)**	(991,134)
Decrease in customer deposits	**(15,061)**	(390,073)
Dividends paid	**(750,000)**	(750,000)
	(1,471,604)	(1,418,131)
Decrease in cash and cash equivalents	**(3,296,610)**	(762,485)
Cash and cash equivalents, beginning of year	**13,172,577**	13,935,062
Cash and cash equivalents, end of year	**9,875,967**	13,172,577
Supplemental Disclosure of Cash Flows		
Interest received	**178,318**	198,939
Interest paid	**2,296,950**	2,374,751
Payment for income taxes	**149,251**	136,909

1. Description of Business

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 $331,936 (2013 - $713,076) 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.

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. Following the OEB's rate decision on March 1, 2014 approving the recovery of stranded meters, recoverable stranded meters have been transferred from intangible assets to regulatory assets. The OEB has allowed the Company to recover the costs of these stranded meters through the 2013 cost of service rate application process. The recovery of these costs began on March 1, 2014 and is expected to be completed by December 31, 2017.

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 *Ontario Corporations Tax Act* 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 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 employee future benefits, 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	20-50 years
Transformer station	20-50 years
Distribution stations	30 years
Distribution lines - overhead	3-60 years
Distribution lines - underground	3-60 years
Distribution transformers	3-40 years
Distribution meters	15-35 years
Vehicles	8-20 years
Office furniture	10 years
Computer hardware	2-4 years
Tools and other equipment	5-15 years
Capital contribution	25 years

Other utility 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. Amortization is calculated on a straight-line basis over the estimated useful service life as follows.

Land rights	50 years
Leasehold improvements	5 years
Capital contribution paid	45 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 as the work is completed.

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, 2014 and 2013.

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 average remaining service period of active employees (14 years).

2. Accounting Policies - continued

Contributed Surplus

During 2012, the City restructured the Company to simplify its compliance with the OEB's Affiliate Relationship Code for Electricity Distributors and Transmitters. The effects of the restructuring included the transfer of 55 employees and their related post employment benefit obligations. The City also transferred reserves related to Brantford Power IT Services and Customer Service Equipment and ownership of certain assets including computer hardware and office furniture. The net effect of these transfers resulted in a contributed surplus in the Company.

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.

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

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 2014. The Company will adopt IFRS effective January 1, 2015 with comparative results for 2014.

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 the presentation of deferral and variance accounts allowed by the regulator. In addition, the adoption of IFRS is expected to result in changes to certain 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) and generators within Brantford 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 the company 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 $2,529,541 (2013 - 1,443,181), cost of power would have been higher (2013 - lower) by $803,782 (2013 - $584,980), other income would have been lower by $28,153 (2013 - $15,867), distribution operations and maintenance would have been higher by $NIL (2013 - $174,074), general administration would have been higher by $3,494 (2013 - $NIL), amortization would have been higher by $NIL (2013 - $361,961), and interest income would have been lower by $31,019 (2013 - $19,333). The net effect, in the absence of rate regulation, is a pre-tax decrease in net income for 2014 of $3,395,989 (2013 - $1,429,436).

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

4. Rate Setting - continued

The distribution rates of the Company are based on a revenue requirement that provides a regulated Maximum Allowable Return on Equity on the amount of the deemed equity component supporting the rate base. The Company files a rate application with the OEB annually. Once every five years, the Company files a Cost of Service (COS) application where rates are rebased through a costs-of-service review. In the intervening years an Incentive Regulation Mechanism (IRM) is filed. A COS application is based upon a forecast of the annual amount of operating and capital expenses, debt and shareholder's equity required to support the Company's business. An IRM application results in a formulaic adjustment to distribution rates for the annual changes in Gross Domestic Product Implicit price inflator for Final Domestic Demand net of a productivity factor and a Stretch Factor determined by the relative efficiency of a local distribution company.

On August 15, 2013 the Company filed a COS application for 2013 rates. On February 27, 2014, the OEB released its decision. This decision included the repayment of $3,049,000 in regulatory liabilities. The revised rates were approved with an effective date of March 1, 2014.

On August 15, 2014, the Company filed an application for 2015 rates on the basis of the OEB's third generation IRM policy. On December 4, 2014, the OEB released its decision. This decision included the repayment of $470,709 in regulatory liabilities. The revised rates were approved with an effective date of January 1, 2015.

5. Inventory

The amount of inventory consumed by the Company and recognized as an expense during 2014 was $258,275 (2013 - $170,082).

6. Property, Plant and Equipment

	2014			2013
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
	$	$	**$**	$
Land	181,961	-	**181,961**	181,961
Buildings	1,167,587	249,529	**918,058**	941,730
Transformer station	3,956,009	973,464	**2,982,545**	3,050,940
Distribution stations	80,683	74,736	**5,947**	47,956
Distribution lines - overhead	32,167,145	12,152,901	**20,014,244**	19,561,826
Distribution lines - underground	36,682,874	12,382,422	**24,300,452**	24,375,473
Distribution transformers	18,734,086	7,261,915	**11,472,171**	11,601,454
Distribution meters	9,914,340	3,404,945	**6,509,395**	3,038,267
Vehicles	2,966,473	2,120,782	**845,691**	861,947
Office furniture	19,923	2,268	**17,655**	6,513
Computer hardware	157,638	109,708	**47,930**	82,806
Tools and other equipment	949,247	328,881	**620,366**	493,491
Capital contributions	(5,502,135)	(1,096,833)	**(4,405,302)**	(4,196,565)
Other utility plant	54,756	-	**54,756**	54,756
Work in progress	36,736	-	**36,736**	41,413
	101,567,323	37,964,718	**63,602,605**	60,143,968

7. Intangible Assets

	2014			2013
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
	$	$	**$**	$
Land rights and easements	99,241	11,393	**87,848**	85,463
Leasehold improvements	39,134	12,486	**26,648**	23,005
Capital contributions paid	168,856	1,876	**166,980**	-
Stranded meters	-	-	**-**	2,950,474
Software	929,613	570,051	**359,562**	373,636
	1,236,844	595,806	**641,038**	3,432,578

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. 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, are non-interest bearing, have terms of net thirty days 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, 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 $2,169,080 (2013 - $2,328,428). As at December 31, 2014 the balance owing to the City for these services was $639,065 (2013 - $952,468).

For the year ended December 31, 2014, the Company provided electricity to the City in the amount of $7,181,702 (2013 - $6,658,031). The Company also provided other services to the City in the amount of $194,763 (2013 - $172,298).

For the year ended December 31, 2014, the Company paid property tax to the City in the amount of $17,835 (2013 - $17,477).

The Company obtains management services from Brantford Energy Corporation. Total charges for these services were $125,308 (2013 - $118,500). As at December 31, 2014 the balance owing to Brantford Energy Corporation was $48,624 (2013 - $10,322).

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 $45,773 (2013 - $45,125). The Company also provides water heater tank disposal handling, sentinel light rental unit maintenance and fibre optic maintenance services to Brantford Hydro Inc. Total fees for these services were $34,451 (2013 - $20,180). As at December 31, 2014 the balance owing from Brantford Hydro Inc. was $57,454 (2013 - $2,960).

For the year ended December 31, 2014, the Company provided electricity to Brantford Generation Inc. in the amount of $143,626 (2013 - $143,228). A long term customer deposit of $6,955 (2013 - $6,955) has been paid to the Company from Brantford Generation Inc.

For the year ended December 31, 2014, the Company purchased electricity from Brantford Generation Inc. in the amount of $1,278,882 (2013 - $1,755,752). As of December 31, 2014 the balance owing to Brantford Generation was $84,179 (2013 - $272,951).

8. Related Party Transactions - continued

Brantford Energy Corporation and its subsidiaries restructured some of its services during 2014. As a result, the Company is now providing administrative support to their affiliates. Total charges for these services were $15,185 to Brantford Energy Corporation, $36,041 to Brantford Hydro Inc. and $34,584 to Brantford Generation Inc.

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 amortization where applicable, which are expected to be recovered from or refunded to customers:

	2014	2013
	$	$
Regulatory assets		
Retail Market Settlement		
Retail settlement variance account - Global Adjustment	**3,034,422**	2,261,858
Retailer cost variance accounts	**48,103**	371,268
Other		
Smart meters	**-**	3,277,387
Stranded meter costs to be recovered	**2,332,050**	-
Regulatory future income tax asset	**377,765**	761,340
Distribution revenue rate change	**171,716**	814,389
Lost Revenue Adjustment Mechanism (LRAM)	**95,936**	94,579
Other regulatory assets	**276,318**	283,026
Net regulatory assets	**6,336,310**	7,863,847

Regulatory liabilities		
Retail Market Settlement		
Retail settlement variance accounts	**2,572,452**	5,799,448
Regulatory liabilities refundable through approved rate riders	**90,863**	680,156
Net regulatory liabilities	**2,663,315**	6,479,604

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.

9. Regulatory Assets and Liabilities - continued

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.

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 had recorded a regulatory asset consisting of the net balance of capital and operating expenditures for smart meters, less recoveries received from the rate adders. The company applied for disposition of these balances in their 2013 cost of service rate application. Approval for disposition was received on February 27, 2014. Effective March 1, 2014, these balances were redistributed to capital or operations, as directed by the OEB.

Regulatory future income tax asset or liability

The Company has recorded a regulatory asset or 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.

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

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 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

	2014	2013
	$	$
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	**3,175,574**	3,591,652
Royal Bank, non-revolving term facility with interest at prime repayable in quarterly instalments, due November, 2016	**296,999**	433,539
Ontario Infrastructure and Lands Corporation non-revolving term facility with interest at 5.14% repayable in semi annual instalments due December, 2032	**2,021,441**	2,087,911
Ontario Infrastructure and Lands Corporation non-revolving term facility with interest at 4.95% repayable in semi annual instalments due December, 2050	**4,640,181**	4,685,503
Ontario Infrastructure and Lands Corporation non-revolving term facility with interest at 3.46% repayable in semi annual instalments due October, 2027	**4,979,381**	5,276,866
Ontario Infrastructure and Lands Corporation non-revolving term facility with interest at 3.90% repayable in semi annual instalments due December, 2042	**3,843,527**	3,917,425
	43,146,271	44,182,064
Less current portion	**1,088,567**	1,038,479
	42,057,704	43,143,585

10. 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 $1,419,904 (2013 - $1,419,904) was outstanding as at December 31, 2014.

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% plus a stamping fee rate of 0.80% while receiving a variable rate equivalent to the one month Canadian Dollar Offered Rate to be repriced quarterly.

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% plus a stamping fee rate of 0.80% 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:

	$
2015	1,088,567
2016	25,321,598
2017	1,034,099
2018	2,360,608
2019	587,993
Thereafter	12,753,406

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, 2014 and the expense for the period ended December 31, 2014 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:

	2014	2013
	$	$
To determine benefit obligation at end of year		
Discount rate	**3.5%**	3.5%
Assumed long-term rate of return on assets	**N/A**	N/A
To determine benefit expense (income) for the year		
Discount rate	**4.25%**	4.25%
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	**8.50%**	8.75%
Ultimate rate	**5.00%**	5.00%
Year ultimate rate reached	**2019**	2019

Sensitivity Analysis	**Change in Obligation**	**Change in Expense**
	$	$
Impact of 1% increase in assumed health care trend rate	143,963	113,023
Impact of 1% decrease in assumed health care trend rate	(120,867)	(96,273)

12. Employee Future Benefits - continued

	2014	2013
	$	$
Change in benefit obligation		
Benefit obligation at beginning of year	**1,227,742**	1,724,162
Accrual for service	**55,996**	60,762
Interest cost on benefit obligation	**53,071**	60,552
Benefits paid	**(70,000)**	(109,752)
Actuarial loss (gain) on accrued benefit obligation	**100,074**	(507,982)
Benefit obligation at end of year	**1,366,883**	1,227,742
Change in fair value of assets		
Fair value of assets at beginning of year	**-**	-
Employer contributions	**70,000**	109,752
Benefits paid	**(70,000)**	(109,752)
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	**1,366,883**	1,227,742
Unamortized actuarial gain	**732,462**	887,133
Accrued benefit liability at end of year	**2,099,345**	2,114,875
Reconciliation of accrued benefit liability		
Accrued benefit liability at beginning of year	**2,114,875**	2,119,216
Benefit expense recognized	**54,470**	105,411
Benefits paid	**(70,000)**	(109,752)
Accrued benefit liability at end of year	**2,099,345**	2,114,875
Annual benefit expense		
Interest cost on benefit obligation	**53,071**	60,552
Accrual for services	**55,996**	60,762
Amortization of actuarial gain	**(54,597)**	(15,903)
Benefit expense recognized	**54,470**	105,411
Cash payments		
Benefit premiums paid	**70,000**	109,752

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, 2016. 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, 2014, 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.

14. Share Capital

Authorized
Unlimited number of common shares

	2014	2013
	$	$
Issued		
1,001 common shares	**22,437,505**	22,437,505

15. Accumulated Other Comprehensive Loss

	2014	2013
	$	$
Balance at beginning of year	**(260,823)**	(393,166)
Other comprehensive gain, net of tax	**26,347**	132,343
Balance at end of year, net of tax	**(234,476)**	(260,823)

16. Pension Plan

All full-time, permanent and certain contract employees of the Company are eligible to participate in the Ontario Municipal Employees Retirement System (OMERS) defined pension plan (the Plan).

OMERS is a multi-employer defined benefit pension plan set up under the Ontario Municipal Employees Retirement System Act (OMERS Act). The system provides pensions for various groups including but not limited to employees of Ontario municipalities, local boards, public utilities and school boards. The Plan is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency. The Plan is registered under the Pensions Benefits Act of Ontario, Registration #0345983.

The most recent valuation for the Plan at December 31, 2012 showed a significant funding deficit. The Company adopts defined contribution plan accounting and expenses its contributions made to the Plan. Participating in the Plan exposes the employer to actuarial risks associated with the current and former employees, and there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual participating employers.

Employees of the Company contribute a prescribed percentage of their earnings to the Plan as defined by OMERS which are matched by the Company. Employees are required to make contributions of 9.0% (2013 - 9.0%) on earnings up to their Year's Maximum Pensionable Earnings (YMPE) and 14.6% (2013 - 14.6%) on earnings over YMPE.

During 2014, the Company expensed contributions totaling $399,742 (2013 - $415,714) 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:

	2014	2013
	$	$
Gross customer billings	**121,117,123**	119,283,449
Less pass through charges billed by the Company		
Electricity charges paid through to generators	**(82,501,935)**	(80,355,353)
Transmission and miscellaneous charges	**(11,063,711)**	(11,739,251)
Market service charges	**(5,242,003)**	(5,659,444)
Debt retirement charges	**(6,243,789)**	(6,482,419)
Total electricity distribution service charges	**16,065,685**	15,046,982

18. Statement of Cash Flows

	2014	2013
	$	$
Changes in non-cash working capital		
Accounts receivable	**(1,082,282)**	(331,126)
Unbilled revenue	**375,906**	(2,460,570)
Inventories	**6,367**	246,715
Prepaid expenses	**(58,788)**	(77,137)
Accounts payable and accrued liabilities	**622,028**	1,618,681
Accounts payable to the City of Brantford	**(313,403)**	55,564
Due to affiliates	**(204,964)**	(48,131)
Payments in lieu of corporate income taxes	**(298,059)**	245,307
	(953,195)	(750,697)

19. Amortization

	2014 $	2013 $
Amortization of capital assets	**3,015,739**	2,781,996
Amortization of capital assets charged to distribution operations and maintenance	**134,638**	111,200
	3,150,377	2,893,196

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, 2014, 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, 2014, shareholder's equity amounts to $39,069,239 (2013 - $37,203,262) and long-term debt, amounts to $43,146,271 (2013 - $44,182,064). The Company's capital structure as at December 31, 2014 is 52% debt and 48% equity (2013 - 54% debt and 46% 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, 2014 and as at December 30, 2013, 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 cash flow hedges, the effect of which is to fix the interest rate on the first $3,181,000 term facility loan at 4.71% and the second $298,000 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 $333,600 (2013 - $372,285), which was in the favour of Royal Bank. Net unrealized gain in fair value of $35,847 (2013 - $180,063) 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 $1,455,091 (2013 - $1,470,152) which is reflected on the Balance Sheet. Customer deposits are limited to those allowed under the OEB's Retail Settlement Code. Allowances of $900,000 (2013 - $782,000) 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, 2014, the outstanding amounts receivable from the largest ten customers represented $1,978,309 or 20% (2013 - $2,236,687 or 28%) 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 the Company fails to make a payment required by a default notice issued by the IESO. The maximum potential payment is the face value of the bank letter of credit. As at December 31, 2014, the Company provided prudential support in the form of a bank letter of credit of $13,057,140 (2013 - $13,057,140).

Revolving Term Facility

As at December 31, 2014, 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 $2,294,700 (carrying value - $2,021,441). 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, 2014, of 3.51% 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 $5,551,600 (carrying value - $4,640,181). 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, 2014, of 3.61% 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 $5,065,100 (carrying value - $4,979,381). 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, 2014, of 3.08% 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 $3,985,400 (carrying value - $3,843,527). 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, 2014, of 3.61% 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.

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 (i.e. as prices) or indirectly (i.e. derived from prices);

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

21. Financial Instruments - continued

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	9,875,967	-	-	9,875,967
Special deposits	1,455,091	-	-	1,455,091
Total financial assets	**11,331,058**	**-**	**-**	**11,331,058**
Financial liabilities				
Customer deposits	1,455,091	-	-	1,455,091
Total financial liabilities	**1,455,091**	**-**	**-**	**1,455,091**

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, 2014 consists of the following:

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

	2014	2013
	$	$
Regulatory assets	**286,450**	77,561
Cumulative eligible capital	**181,780**	158,460
Allowance for doubtful accounts	**238,500**	207,230
Property, plant and equipment	**(1,378,225)**	(665,303)
Employee future benefits	**580,180**	584,890
Unrealized losses on derivative liabilities	**83,310**	92,810
Tax losses carried forward	**665,000**	-
Future income tax assets	**656,995**	455,648

Distributed as such:		
Future payments in lieu of corporate income tax asset		
Current	**238,500**	207,230
Non-current	**418,495**	248,418
	656,995	455,648

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:

	2014	2013
	$	$
Income tax expense at the combined basis federal and provincial statutory tax rate	**692,591**	429,022
Capital cost allowance in excess of amortization	**(242,305)**	(266,595)
Net change in tax reserves	**(439,913)**	(12,205)
Provision relating to prior periods	**-**	90,669
Provision relating to refiling prior period tax returns	**-**	(1,335,603)
Other	**13,547**	(778)
	23,920	(1,095,490)

23. Comparative Figures

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