Financial Statements of

Brantford Power Inc.

December 31, 2018

Brantford Power Inc.
Table of Contents
December 31, 2018

Brantford Power Inc.
Management Report
December 31, 2018

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 International Financial Reporting Standards (IFRS). 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 IFRS.

The board of directors, through the audit committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The audit 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 audit committee also reviews the financial statements and recommends their approval to the board of directors. KPMG LLP has full and free access to the audit committee, with and without the presence of management.

Paul Kwasnik
President and Chief Executive Officer
April 24, 2019

Brian D'Amboise, CPA, CA
Chief Financial Officer
April 24, 2019

KPMG LLP
Commerce Place
21 King Street West, Suite 700
Hamilton Ontario L8P 4W7
Canada
Telephone (905) 523-8200
Fax (905) 523-2222

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Brantford Power Inc.:

Opinion

We have audited the financial statements of Brantford Power Inc. (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled are other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

April 24, 2019

Brantford Power Inc.
Statement of Financial Position
as at December 31, 2018

Assets	2018 $	2017 $
Current Assets		
Cash and cash equivalents - note 7	**16,946,199**	16,374,261
Accounts receivable - note 8	**10,721,509**	11,327,306
Due from affiliates - note 14	**7,570**	36,997
Unbilled revenue	**10,989,214**	10,541,037
Materials and supplies - note 9	**763,763**	911,407
Prepaid expenses	**347,773**	181,872
Total Current Assets	**39,776,028**	39,372,880
Non-Current Assets		
Property, plant and equipment - note 10	**70,221,198**	68,586,583
Intangible assets - note 11	**2,332,908**	1,386,416
Deferred tax assets - note 17	**649,705**	957,210
Total Non-Current Assets	**73,203,811**	70,930,209
Total Assets	**112,979,839**	110,303,089
Regulatory balances - note 12	**3,572,534**	3,420,314
Total Assets and Regulatory Balances	**116,552,373**	113,723,403

Signed on behalf of the Board:

Director

Director

Brantford Power Inc.
Statement of Financial Position
as at December 31, 2018

Liabilities and Equity	**2018**	2017
	$	$
Current Liabilities		
Accounts payable and accrued liabilities - note 13	**14,627,353**	14,786,962
Accounts payable to the City of Brantford - note 14	**352,335**	361,267
Interest payable to the City of Brantford - note 15	**1,015,945**	1,015,945
Customer deposits	**1,886,318**	2,195,671
Current portion of long-term debt - note 15	**1,132,993**	1,082,608
Payments in lieu of corporate income taxes	**292,639**	174,298
Total Current Liabilities	**19,307,583**	19,616,751
Non-Current Liabilities		
Long-term debt - note 15	**37,676,059**	38,805,697
Post-employment benefits - note 16	**1,224,800**	1,416,269
Accumulated vested sick leave credits	**61,883**	78,125
Deferred revenues - note 18	**3,037,769**	2,042,424
Derivative liabilities - note 27	**39,354**	85,993
Deferred tax liabilities - note 17	**2,720,751**	2,853,052
Total Non-Current Liabilities	**44,760,616**	45,281,560
Total Liabilities	**64,068,199**	64,898,311
Equity		
Share capital - note 19	**22,437,505**	22,437,505
Retained earnings	**23,238,982**	22,025,766
Accumulated other comprehensive income	**873,788**	686,753
Total Equity	**46,550,275**	45,150,024
Total Liabilities and Equity	**110,618,474**	110,048,335
Regulatory balances - note 12	**5,933,899**	3,675,068
Total Liabilities, Equity and Regulatory Balances	**116,552,373**	113,723,403

Contingencies and Commitments - note 22

Brantford Power Inc.

Statement of Comprehensive Income

for the year ended December 31, 2018, with comparative information for 2017

	2018	2017
	$	$
Revenue		
Distribution revenue	**17,437,596**	17,142,791
IESO conservation programs	**1,690,308**	1,376,804
Other income - note 20	**566,264**	761,179
	19,694,168	19,280,774
Sale of energy	**109,916,976**	110,222,544
Total revenue	**129,611,144**	129,503,318
Operating Expenses		
Distribution operations and maintenance - note 23	**3,812,993**	3,561,397
Billing and collecting - note 23	**3,303,909**	3,009,904
General administration - note 23	**4,269,183**	3,896,536
IESO conservation programs - note 23	**1,325,866**	1,320,510
Amortization - note 25	**3,164,977**	3,205,213
	15,876,928	14,993,560
Cost of power purchased	**107,788,878**	108,827,919
Total operating expenses	**123,665,806**	123,821,479
Income from operating activities	**5,945,338**	5,681,839
Finance income - note 21	**552,596**	445,158
Finance costs - note 21	**(1,745,054)**	(1,732,182)
Income before income taxes	**4,752,880**	4,394,815
Income tax expense - note 17	**683,053**	989,763
Net income for the year	**4,069,827**	3,405,052
Net movement in regulatory balances, net of tax		
Net movement in regulatory balances	**(2,281,930)**	(634,530)
Income tax on movement in regulatory balances	**175,319**	325,531
	(2,106,611)	(308,999)
Net income for the year and net movement in regulatory balances	**1,963,216**	3,096,053
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Remeasurements of post-employment benefits - note 16	**254,469**	(12,874)
Tax on remeasurements	**(67,434)**	3,412
Other comprehensive income (loss) for the year	**187,035**	(9,462)
Total comprehensive income for the year	**2,150,251**	3,086,591

Brantford Power Inc.

Statement of Changes in Equity

for the year ended December 31, 2018, with comparative information for 2017

	Share capital	Retained earnings	Accumulated other comprehensive income	Total
	$	$	$	$
Balance at January 1, 2017	22,437,505	19,739,713	696,215	42,873,433
Net income and net movement in regulatory balances	-	3,096,053	-	3,096,053
Other comprehensive loss	-	-	(9,462)	(9,462)
Dividends	-	(810,000)	-	(810,000)
Balance at December 31, 2017	**22,437,505**	**22,025,766**	**686,753**	**45,150,024**
Balance at January 1, 2018	22,437,505	22,025,766	686,753	45,150,024
Net income and net movement in regulatory balances	-	1,963,216	-	1,963,216
Other comprehensive income	-	-	187,035	187,035
Dividends	-	(750,000)	-	(750,000)
Balance at December 31, 2018	**22,437,505**	**23,238,982**	**873,788**	**46,550,275**

Brantford Power Inc.

Statement of Cash Flows

for the year ended December 31, 2018, with comparative information for 2017

	2018	2017
	$	$
Operating activities		
Net income and net movement in regulatory balances	**1,963,216**	3,096,053
Items not affecting cash		
Amortization - note 25	**3,401,470**	3,404,714
Amortization of deferred revenue	**(48,824)**	(36,586)
Loss on disposal of property, plant and equipment	**213,961**	60,527
Income tax expense	**683,053**	989,763
Other items not affecting cash - note 24	**119**	(55,029)
	6,212,995	7,459,442
Changes in non-cash working capital components - note 24	**(305,742)**	4,862,928
Regulatory balances	**2,106,611**	308,999
Contributions received from customers	**813,883**	524,289
Income tax paid	**(469,811)**	(329,796)
Income tax received	**12,861**	-
Net cash from operating activities	**8,370,797**	12,825,862
Investing activities		
Acquisition of property, plant and equipment	**(5,066,619)**	(6,402,548)
Acquisition of intangible assets	**(1,138,919)**	(143,159)
Proceeds from disposal of property, plant and equipment	**9,000**	55,000
Net cash used by investing activities	**(6,196,538)**	(6,490,707)
Financing activities		
Repayment of long-term debt	**(1,082,608)**	(1,034,099)
Receipt of deferred revenues	**230,287**	350,073
Dividends paid	**(750,000)**	(810,000)
Net cash used by financing activities	**(1,602,321)**	(1,494,026)
Change in cash and cash equivalents	**571,938**	4,841,129
Cash and cash equivalents, beginning of year	**16,374,261**	11,533,132
Cash and cash equivalents, end of year	**16,946,199**	16,374,261

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. The incorporations were pursuant to the provisions of the Energy Competition Act, 1998. The Company is a wholly-owned subsidiary of Brantford Energy Corporation which is wholly owned by the City of Brantford. 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).

The Company's head office is located at 84 Market Street and it maintains operational offices at 220 Colborne Street and 400 Grand River Avenue. All of these offices are located in the City of Brantford.

2. Basis of Presentation

Statement of compliance

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

The financial statements were approved by the Board of Directors on April 24, 2019.

Basis of measurement

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

Functional and presentation currency

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

Use of estimates and judgments

Assumptions and estimation uncertainty

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

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

2. Basis of Presentation - continued

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment is included in the following notes:

(i) Note 3 - measurement of unbilled revenue

(ii) Notes 3, 10 and 11 - estimation of useful lives of its property, plant and equipment and intangible assets

(iii) Notes 3 and 12 - recognition and measurement of regulatory balances

(iv) Notes 3 and 16 - measurement of defined benefit obligations: key actuarial assumptions

(v) Note 22 - recognition and measurement of provisions and contingencies

Judgments

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

(i) Note 3 - determination of the performance obligation for contributions from customers and related amortization period

(ii) Note 22 - commitments and contingencies; whether a contingency is a liability

Rate regulation

The Company is regulated by the Ontario Energy Board (OEB), under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfil obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies (LDCs), such as the Company, which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

The Company is required to bill customers for the debt retirement charge set by the province for certain customer classes. The Company may file to recover uncollected debt retirement charges from the Ontario Electricity Financial Corporation (OEFC) once each year. The debt retirement charge program ended March 31, 2018.

2. Basis of Presentation - continued

Rate setting - Distribution revenue

For the distribution revenue, the Company files a Cost of Service (COS) rate application with the OEB every five years where rates are determined through a review of the forecasted annual amount of operating and capital expenditures, debt and shareholder's equity required to support the Company's business. The Company estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and interveners and rates are approved based upon this review, including any revisions resulting from that review.

In the intervening years, an Incentive Rate Mechanism (IRM) application is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year's rates are adjusted for a 2-factor Input Price Index which accounts for the average weekly earnings for Ontario workers and the Gross Domestic Product Implicit Price Inflator - Final Domestic Demand (GDP IPI-FDD) net of a productivity factor and a "stretch factor" determined by the relative efficiency of an electricity distributor.

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 the customers.

In 2017, the Company filed an IRM application for rates effective January 1, 2018 to December 31, 2018 for which a Decision and Rate Order was issued December 14, 2017.

The OEB issued a new distribution rate design for residential electricity customers which will be phased in over a four year period commencing January 2016. Under this new policy, electricity distributors will structure residential rates so that all the distribution charge will be collected through a fully fixed monthly charge instead of the current fixed and variable rate charge.

Rate setting - Electricity rates

Under an established Regulated Price Plan, the OEB sets electricity prices for low-volume consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. Remaining consumers pay either the market price for electricity or the contracted price for electricity if they have enrolled with a retailer. The Company is billed for the cost of the electricity that its customers use and pass this cost on to the customer at a cost without a mark-up.

3. Significant Accounting Policies

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

Financial instruments

Financial assets and financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost with the exception of derivatives using the effective interest method less any impairment for the financial assets as described later in this note under ***Impairment of assets***. The Company has a derivative instrument related to its long-term debt facility with the Royal Bank of Canada. This is classified as a financial asset or liability at fair value through profit or loss.

Hedge accounting has not been used in the presentation of these financial statements.

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

Use of estimates and judgments

Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included later in this note under ***Revenue recognition - Capital contributions***.

3. Significant Accounting Policies - continued

Revenue recognition

Sale and distribution of electricity

The performance obligations for the sale and distribution of electricity are recognized over time using an output method to measure the satisfaction of the performance obligation. The value of the electricity services transferred to the customer is determined on the basis of cyclical meter readings plus estimated customer usage since the last meter reading date to the end of the year and represents the amount that the Company has the right to bill. Revenue includes the cost of electricity supplied, distribution, and any other regulatory charges. The related cost of power is recorded on the basis of power used.

For customer billings related to 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 has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Customer billings for debt retirement charges are recorded on a net basis as the Company is acting as an agent for this billing stream. The debt retirement charge program ended March 31, 2018.

Capital contributions

Developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. The developer is not a customer and therefore the contributions are scoped out of IFRS 15 *Revenue from Contracts with Customers*. Cash contributions, received from developers are recorded as deferred revenue. When an asset other than cash is received as a capital contribution, the asset is initially recognized at its fair value, with a corresponding amount recognized as deferred revenue. The deferred revenue, which represents the Company's obligation to continue to provide the customers access to the supply of electricity, is amortized to income on a straight-line basis over the useful life of the related asset.

Certain customers are also required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. These contributions fall within the scope of IFRS 15 *Revenue from Contracts with Customers*. The contributions are received to obtain a connection to the distribution system in order receive ongoing access to electricity. The Company has concluded that the performance obligation is the supply of electricity over the life of the relationship with the customer which is satisfied over time as the customer receives and consumes the electricity. Revenue is recognized on a straight-line basis over the useful life of the related asset.

3. Significant Accounting Policies - continued

Other revenue

Revenue earned from the provision of services is recognized as the service is rendered.

Amounts received in advance are presented as deferred revenue.

Government grants and the related performance incentive payments under Conservation and Demand Management (CDM) programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

Materials and supplies

Materials and supplies, the majority of which are consumed by the Company in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on a weighted average cost basis, and includes expenditures incurred in acquiring the materials and supplies and other costs incurred in bringing them to their existing location and condition.

Property, plant and equipment

Items of property, plant and equipment (PP&E) used in rate-regulated activities and acquired prior to January 1, 2014 were measured at deemed cost established on January 1, 2014 less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

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

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the weighted average cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take in excess of 12 months to construct. Borrowing costs that can be traced to specific assets are capitalized as part of the cost of those assets based on the actual cost of debt incurred on the Company's borrowings.

When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E.

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal, if any, with the carrying amount of the item and is included in profit or loss.

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

3. Significant Accounting Policies - continued

Property, plant and equipment - continued

The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. In this event, the replaced part of PP&E is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

The need to estimate the decommissioning costs at the end of the useful lives of certain assets is reviewed periodically. The Company has concluded it does not have any legal or constructive obligation to remove PP&E.

Depreciation is calculated to write off the cost of items of PP&E using the straight-line method over their estimated useful lives, and is recognized in profit or loss. Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate. Land is not depreciated. Construction-in-progress assets are not depreciated until the project is complete and the asset is available for use. The Company applies the half year rule for depreciation in the year of acquisition.

The estimated useful service life are 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
Other	5 years

3. Significant Accounting Policies - continued

Intangible assets

Intangible assets used in rate-regulated activities and acquired prior to January 1, 2014 were measured at deemed cost established on January 1, 2014, less accumulated amortization. All other intangible assets are measured at cost.

Payments to obtain rights to access land (land rights) are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Company does not hold title. Land rights acquired after January 1, 2014 are measured at cost less accumulated amortization.

Capital contributions relate to projects undertaken by the Company that required the alteration of a neighbouring utility's PP&E to accommodate the Company's joint use of those facilities for its PP&E. Capital contributions paid are measured at cost less accumulated amortization.

Computer software that is acquired or developed by the Company after January 1, 2014, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted prospectively if appropriate. The estimated useful lives are:

Land rights	50 years
Capital contribution paid	45 years
Software	2-10 years

Impairment of assets

Financial assets measured at amortized cost

A loss provision for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss provision is measured at an amount equal to the lifetime expected credit losses for the asset. Interest on impaired assets continues to be recognized through unwinding of the discount. Losses are recognized in profit or loss. An impairment loss is reversed through profit or loss if the impairment requirements are no longer met.

3. Significant Accounting Policies - continued

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than materials and supplies and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Customer deposits

Customer deposits represent cash deposits from electricity distribution customers to guarantee the payment of energy bills. Interest is paid on customer deposits.
Deposits are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

Provisions

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

3. Significant Accounting Policies - continued

Regulatory balances

Regulatory asset balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. Regulatory liability balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Company.

Regulatory asset balances are recognized if it is probable that future billings in an amount at least equal to the deferred cost will be approved by the OEB for recovery through rates. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. When the customer is billed at rates approved by the OEB for the recovery of the deferred costs, the customer billings are recognized in revenue. The regulatory asset balance is reduced by the amount of these customer billings with the offset to net movement in regulatory balances in profit or loss or OCI.

The probability of recovery of the regulatory asset balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover the balance. The assessment of likelihood of recovery is based upon previous decisions made by the OEB for similar circumstances, policies or guidelines issued by the OEB, etc. Any resulting impairment loss is recognized in profit or loss in the year incurred.

When the Company is required to refund amounts to ratepayers in the future, the Company recognizes a regulatory liability balance. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. The amounts returned to the customers are recognized as a reduction of revenue. The credit balance is reduced by the amount of these customer repayments with the offset to net movement in regulatory balances in profit or loss or OCI.

Post employment benefits

Pension plan

The Company provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System (OMERS). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the Fund), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

3. Significant Accounting Policies - continued

Pension plan - continued

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Company to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. The Company is not responsible for any other contractual obligations other than the contributions. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss when they are due.

Post-employment benefits, other than pension

The Company provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans.

The obligations for these post-employment benefit plans are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Remeasurements of the net defined benefit obligations, including actuarial gains and losses and the return on plan assets (excluding interest), are recognized immediately in other comprehensive income. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

Accumulated vested sick leave credits

Certain employees have accumulated sick leave credits and are entitled to receive special payments upon separation or retirement. Payments are charged to the liability when made. The annual change in accumulated vested sick leave entitlements are expensed in the year earned. An estimate of sick time utilized in excess of the annual entitlement has been made and a related accrual has been recorded under IFRS.

Finance income and finance costs

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest earned on cash and cash equivalents and late payments on customer electricity accounts receivable balances.
Finance costs comprise interest expense on borrowings, interest on customer deposits and the gain or loss on derivative liabilities. Finance costs are recognized in profit or loss unless they are capitalized as part of the cost of qualifying assets.

3. Significant Accounting Policies - continued

Payments in lieu of corporate income taxes

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

The Company is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts"). Under the *Electricity Act*, 1998, the Corporation makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Tax Acts as modified by the *Electricity Act*, 1998, and related regulations. Prior to October 1, 2001, the Company was not subject to income or capital taxes.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted, at the reporting date.

4. Changes in Accounting Policies

IFRS 15 - Revenue from Contracts with Customers and IFRS 9 Financial Instruments

The Company has initially applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from January 1, 2018 on a retrospective basis. The following practical expedients have been used in the initial application of these new standards:

For completed contracts, the Company did not restate contracts that:

a) Began and ended within the same annual reporting period; or

b) Were completed at the beginning of January 1, 2018.

Adoption of these standards did not have a material impact on comparative information.

5. Future Changes in Accounting Policy and Disclosures

Leases

In January 2016, IASB issued IFRS 16 to establish principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 replaces IAS 17 and it is effective for annual periods beginning on or after January 1, 2019. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by the lessor. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company will adopt IFRS 16 in its financial statements for the annual period beginning January 1, 2019. The Company does not expect the standard to have a material impact on the financial statements.

6. Subsequent Event

Subsequent to year end, the Company waived all conditions on its offer to purchase the land and building at 150 Savannah Oaks Drive, Brantford Ontario. The Company will take possession of this property on April 26, 2019 and will be consolidating its three locations into the new facility at a date still to be determined.

On February 11, 2019, the Company executed a committed term sheet with Royal Bank to borrow up to $25,000,000 towards the purchase and repurposing of the facilities. The funds will be drawn, as needed, through multiple transactions to fund the purchase of 150 Savannah Oaks Drive and refurbishments to the property. The loan is secured through a general security agreement over all property, assets and undertakings of the Company.

7. Cash and Cash Equivalents

	2018	2017
	$	$
Bank balances	**16,944,299**	16,372,361
Cash balances	**1,900**	1,900
	16,946,199	16,374,261

8. Accounts Receivable

	2018	2017
	$	$
Trade receivables	**10,950,034**	11,777,768
Other trade receivables	**59,357**	83,258
Billable work	**566,118**	560,280
Allowance for doubtful accounts	**(854,000)**	(1,094,000)
	10,721,509	11,327,306

9. Material and Supplies

The amount of inventory consumed by the Company and recognized as an expense during 2018 was $123,379 (2017 - $139,990).

10. Property, Plant and Equipment

	Land and buildings	Distribution equipment	Other fixed assets	Construction-in-progress	Total
Cost or deemed cost	$	$	$	$	$
Balance at January 1, 2018	2,805,337	73,831,961	3,620,651	510,341	80,768,290
Additions	-	3,847,451	466,615	752,553	5,066,619
Transfers	-	281,388	-	(281,388)	-
Disposals/retirements	-	(275,388)	(1,208)	-	(276,596)
Balance at December 31, 2018	2,805,337	77,685,412	4,086,058	981,506	85,558,313
Balance at January 1, 2017	1,127,545	70,267,269	3,098,512	20,438	74,513,764
Additions	1,677,792	3,676,089	538,326	510,341	6,402,548
Transfers	-	20,438	-	(20,438)	-
Disposals/retirements	-	(131,835)	(16,187)	-	(148,022)
Balance at December 31, 2017	2,805,337	73,831,961	3,620,651	510,341	80,768,290
Accumulated depreciation	$	$	$	$	$
Balance at January 1, 2018	109,890	10,908,288	1,163,529	-	12,181,707
Depreciation	27,079	2,821,605	360,359	-	3,209,043
Disposals/retirements	-	(52,427)	(1,208)	-	(53,635)
Balance December 31, 2018	136,969	13,677,466	1,522,680	-	15,337,115
Balance at January 1, 2017	82,812	8,196,064	860,540	-	9,139,416
Depreciation	27,078	2,728,532	319,176	-	3,074,786
Disposals/retirements	-	(16,308)	(16,187)	-	(32,495)
Balance December 31,2017	109,890	10,908,288	1,163,529	-	12,181,707

10. Property, Plant and Equipment - continued

	Land and buildings	Distribution equipment	Other fixed assets	Construction-in-progress	Total
	$	$	$	$	$
Carrying amounts					
At December 31, 2018	2,668,368	64,007,946	2,563,378	981,506	70,221,198
At December 31, 2017	2,695,447	62,923,673	2,457,122	510,341	68,586,583

During the year, no borrowing costs were capitalized as part of the cost of property, plant and equipment.

At December 31, 2018, property, plant and equipment with a carrying amount of $70,221,198 (2017 -$68,586,583) are subject to general security agreements.

11. Intangible Assets

	Land rights	Capital contributions paid	Software	Work in progress	Total
Cost or deemed cost	$	$	$	$	$
Balance at January 1, 2018	98,187	414,608	1,739,597	-	2,252,392
Additions	-	-	8,581	1,130,338	1,138,919
Balance at December 31, 2018	98,187	414,608	1,748,178	1,130,338	3,391,311
Balance at January 1, 2017	98,187	414,608	1,596,438	-	2,109,233
Additions	-	-	143,159	-	143,159
Balance at December 31, 2017	98,187	414,608	1,739,597	-	2,252,392
Accumulated depreciation	$	$	$	$	$
Balance at January 1, 2018	7,869	26,781	831,326	-	865,976
Depreciation	2,017	9,208	181,202	-	192,427
Balance December 31, 2018	9,886	35,989	1,012,528	-	1,058,403
Balance at January 1, 2017	5,852	17,573	512,623	-	536,048
Depreciation	2,017	9,208	318,703	-	329,928
Balance December 31, 2017	7,869	26,781	831,326	-	865,976
Carrying amounts					
At December 31, 2018	88,301	378,619	735,650	1,130,338	2,332,908
At December 31, 2017	90,318	387,827	908,271	-	1,386,416

At December 31, 2018, intangible assets with a carrying amount of $2,332,908 (2017 -$1,386,416) are subject to general security agreements.

12. Regulatory Balances

Reconciliation of the carrying amount for each class of regulatory balances

	January 1, 2018 $	Additions $	Recovery/ reversal $	December 31, 2018 $	Remaining years
Regulatory deferral account debit balances					
Group 1 deferred accounts					
Retail Settlement Variance Accounts	630,766	358,988	-	989,754	1
Retailer cost variance accounts	48,134	(2,684)	-	45,450	4
Deferred meter costs	132,853	913	-	133,766	4
Other regulatory accounts	811,939	(102,880)	(220,873)	488,186	4
Regulatory settlement account	102,104	(56,563)	-	45,541	-
Future income tax	1,694,518	175,319	-	1,869,837	*
	3,420,314	373,093	(220,873)	3,572,534	

	January 1, 2017 $	Additions $	Recovery/ reversal $	December 31, 2017 $	Remaining years
Regulatory deferral account debit balances					
Group 1 deferred accounts					
Retail Settlement Variance Accounts	702,077	(292,757)	221,446	630,766	2
Retailer cost variance accounts	125,152	90	(77,108)	48,134	5
Deferred meter costs	916,733	(783,880)	-	132,853	1
Other regulatory accounts	838,918	811,939	(838,918)	811,939	5
Regulatory settlement account	-	102,104	-	102,104	-
Future income tax	1,368,987	325,531	-	1,694,518	*
	3,951,867	163,027	(694,580)	3,420,314	

* These balances will reverse as the related deferred tax balance reverses.

12. Regulatory Balances - continued

	January 1, 2018 $	Additions $	Recovery/ reversal $	December 31,2018 $	Remaining years $
Regulatory deferral account credit balances					
Group 1 deferred accounts					
Retail Settlement Variance Accounts	3,675,068	2,258,831	-	5,933,899	1
	3,675,068	2,258,831	-	5,933,899	

	January 1, 2017 $	Additions $	Recovery/ reversal $	December 31, 2017 $	Remaining years
Regulatory deferral account credit balances					
Group 1 deferred accounts					
Retail Settlement Variance Accounts	3,846,881	1,581,547	(1,753,360)	3,675,068	2
Regulatory settlement account	50,741	(1,131,391)	1,080,650	-	2
	3,897,622	450,156	(672,710)	3,675,068	

12. Regulatory Balances - continued

The regulatory balances are recovered or settled through rates approved by the OEB which are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Company has received approval from the OEB to establish its regulatory balances.

Settlement of the Group 1 and certain other deferral accounts can be done on an annual basis through application to the OEB. Group 2 and the remaining other deferral accounts can be settled during a cost of service application to the OEB. An application was made to the OEB to collect $220,873 of the other deferral accounts. Approval was received December 14, 2017. Effective January 1, 2018, the approved account balances were moved to the regulatory settlement account.

The OEB requires the Company to estimate its income taxes when it files a COS application to set its rates. As a result, the Corporation has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be recovered from/paid back to its customers. This balance will fluctuate as the Corporation's deferred tax balance fluctuates.

Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. The rates were as follows:

Quarter	2018	2017
January 1 to March 31	1.50%	1.10%
April 1 to June 30	1.89%	1.10%
July 1 to September 30	1.89%	1.10%
October 1 to December 31	2.17%	1.50%

13. Accounts Payable and Accrued Liabilities

	2018	2017
	$	$
Accounts payable and accruals - energy purchases	**8,429,616**	9,204,719
Debt retirement charge payable to OEFC	**-**	335,690
Payroll payable	**460,846**	666,784
IESO conservation program funding	**875,946**	820,012
Other	**4,860,945**	3,759,757
	14,627,353	14,786,962

14. 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.

14. Related Party Transactions - continued

The Company obtains certain administrative and management services from the City and Brantford Energy Corporation. The Company also provides services to the City, Brantford Energy Corporation 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 to the Company. The exchange amount for these services has been set out in the agreement. As at December 31, 2018 the balance owing to the City for these services was $352,335 (2017 - $361,267).

Details of the transactions between the Company and the City are detailed below:

	2018	2017
City of Brantford	**$**	$
Revenues		
Sale of electricity	**7,157,637**	8,446,448
Other services	**479,871**	240,289
	7,637,508	8,686,737
Operating expenses		
Shared services agreement	**1,771,376**	1,777,497
Property taxes	**24,205**	20,912
	1,795,581	1,798,409

The Company has entered into a shared services agreement with Brantford Energy Corporation and Brantford Hydro Inc., whereby the Company will provide administrative support to its affiliates. The exchange amount for these services has been set out in the agreement.

The Company obtains management services from Brantford Energy Corporation.

Details of the transactions between the Company and Brantford Energy Corporation are presented below:

	2018	2017
Brantford Energy Corporation	**$**	$
Revenues		
Administrative support	**56,299**	64,491
	56,299	64,491
Operating expenses		
Management fees	**93,422**	97,910
	93,422	97,910

14. Related Party Transactions - continued

The Company purchases dark fibre optics services from Brantford Hydro Inc.

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. The Company also provides other services such as, water heater tank disposal handling and assistance when fibre optic maintenance is done in proximity of electrical plant.

Details of the transactions between the Company and Brantford Hydro Inc. are presented below:

	2018	2017
Brantford Hydro Inc.	**$**	$
Revenues		
Administrative support	**137,388**	190,182
Pole rental fees	**53,178**	47,963
Other services	**12,664**	6,640
	203,230	244,785
Operating expenses		
Dark fibre optic services	**3,600**	3,600
Other services	**4,995**	-
	8,595	3,600

Balances owing (to)/from affiliates are as follows:

	2018	2017
	$	$
Brantford Energy Corporation	**(10,297)**	1,269
Brantford Hydro Inc.	**17,867**	35,728
Total due from affiliates	**7,570**	36,997

Key management personnel

The key management personnel of the Company have been defined as members of its board of directors and executive management team members. The compensation paid or payable is as follows:

	2018	2017
	$	$
Directors' fees	**24,990**	25,335
Salaries and other short-term benefits	**853,150**	921,487
Post-employment benefits	**219**	636
	878,359	947,458

15. Long-Term Debt

	2018	2017
	$	$
Note payable, bearing interest at 4.20%, repayable to the City, interest only payable annually due February, 2021	**24,189,168**	24,189,168
Royal Bank, non-revolving term facility with interest at prime repayable in quarterly instalments, due January, 2021	**1,265,770**	1,782,643
Ontario Infrastructure and Lands Corporation non-revolving term facility with interest at 5.14% repayable in semi annual instalments of $86,523 due December, 2032	**1,718,774**	1,800,332
Ontario Infrastructure and Lands Corporation non-revolving term facility with interest at 4.95% repayable in semi annual instalments of $138,371 due December, 2050	**4,434,822**	4,490,000
Ontario Infrastructure and Lands Corporation non-revolving term facility with interest at 3.46% repayable in semi annual instalments of $237,885 due October, 2027	**3,683,194**	4,022,428
Ontario Infrastructure and Lands Corporation non-revolving term facility with interest at 3.90% repayable in semi annual instalments of $113,683 due December, 2042	**3,517,324**	3,603,734
	38,809,052	39,888,305
Less current portion	**1,132,993**	1,082,608
	37,676,059	38,805,697

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 $1,015,945 (2017 - $1,015,945) was outstanding as at December 31, 2018.

The Company entered into a swap agreement during 2006 with Royal Bank to fix the interest rate. 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.

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

15. Long-Term Debt - continued

Estimated principal repayment requirements are as follows:

	$
2019	1,132,993
2020	1,186,290
2021	24,970,476
2022	660,776
2023	687,048
Thereafter	10,171,469
	38,809,052

16. Post-Employment Benefits

Ontario Municipal Employees Retirement System (OMERS) Pension Plan

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

The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2018, the Company made employer contributions of $525,027 to OMERS (2017 - $496,550), of which $25,006 (2017 - $6,319) has been capitalized as part of PP&E and the remaining amount of $500,021 (2017 - $490,231) has been recognized in profit or loss. The Company estimates that a contribution of $539,000 to OMERS will be made during the next fiscal year.

As at December 31, 2018, OMERS had approximately 482,000 members. The most recently available OMERS annual report is for the year ended December 31, 2018, which reported that the plan was 96% funded, with an unfunded liability of $4.2 billion. This unfunded liability is likely to result in future payments by participating employers and members.

Post-employment benefits other than pension

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 eligible 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, 2018 and the expense for the period ended December 31, 2018 are based on actuarial valuations done as at December 31, 2018.

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

16. Post-Employment Benefits - continued

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:

	2018	2017
	$	$
To determine benefit obligation at end of year		
Discount rate	**3.40%**	3.50%
To determine benefit expense (income) for the year		
Discount rate	**4.00%**	3.40%
Rate of increase in future compensation	**N/A**	N/A
Health care cost trend rates at end of year		
Initial rate	**6.00%**	7.00%
Ultimate rate	**4.75%**	4.75%
Year ultimate rate reached	**2024**	2023

Sensitivity analysis	**Change in Obligation**	**Change in Expense**
	$	$
Impact of 1% increase in assumed health care trend rate	83,200	18,500
Impact of 1% decrease in assumed health care trend rate	(70,400)	(14,700)

	2018	2017
	$	$
Reconciliation of the obligation		
Defined benefit obligation, beginning of year	**1,416,269**	1,332,175
Included in profit or loss		
Current service cost	**79,800**	76,196
Interest cost	**49,700**	48,360
Included in OCI		
Actuarial (gains) losses	**(254,469)**	12,874
Benefits paid	**(66,500)**	(53,336)
Defined benefit obligation, end of year	**1,224,800**	1,416,269

17. Income Tax Expense

	2018	2017
	$	$
Current tax expense		
Current year	**562,442**	256,970
Adjustment for prior years	**12,841**	191,545
	575,283	448,515
Deferred tax expense		
Change in recognized deductible temporary differences	**107,770**	541,248
	107,770	541,248
Total income tax expense	**683,053**	989,763
Reconciliation of effective tax rate		
Income before taxes	**4,752,880**	4,394,815
Canada and Ontario statutory income tax rates	**26.5 %**	26.5 %
Expected tax provision on income at statutory rates	**1,259,513**	1,164,626
Increase (decrease) in income taxes resulting from:		
Permanent differences	**2,775**	2,039
Prior periods	**12,841**	191,545
Other	**(592,076)**	(368,447)
Income tax expense	**683,053**	989,763

Significant components of the Company's deferred tax balances:

	2018	2017
	$	$
Deferred tax assets (liabilities)		
Property, plant and equipment	**(2,519,542)**	(2,409,158)
Post-employment benefits	**340,970**	396,010
Allowance for doubtful accounts	**226,310**	289,910
Regulatory balances	**(201,209)**	(443,894)
Corporate minimum tax credits available for carry forward	**-**	242,570
Other	**82,425**	28,720
	(2,071,046)	(1,895,842)

18. Deferred Revenue

	2018	2017
	$	$
Contributions received from customers	**2,457,409**	1,692,351
Other	**580,360**	350,073
	3,037,769	2,042,424

19. Share Capital

	2018	2017
	$	$
Authorized		
Unlimited number of common shares		
Issued		
1,001 common shares	**22,437,505**	22,437,505

Dividends

The Company has established a dividend policy to pay a pure residual non-cumulative approach to dividends whereby no specified targeted dividend payout ratios or dollar amounts will be prescribed in advance.
The Company paid aggregate dividends in the year on common shares of $749 per share (2017 - $809), which amount to total dividends paid in the year of $750,000 (2017 -$810,000).

20. Other Revenue

	2018	2017
	$	$
Specific services charges	**335,683**	356,655
Management fees	**193,688**	254,673
Property rental	**132,520**	113,253
Retailer revenue	**20,543**	23,841
Loss on disposal of assets	**(213,961)**	(60,527)
Customer contributions	**48,824**	36,586
Other revenue	**48,967**	36,698
	566,264	761,179

21. Finance Income and Finance Costs

	2018	2017
	$	$
Finance Income		
Interest income on bank deposits	**316,999**	163,612
Late payment charges	**235,597**	281,546
	552,596	445,158
Finance Costs		
Interest on long-term debt	**1,689,423**	1,736,378
Interest expense on customer deposits	**38,949**	30,418
Gain on derivative liabilities	**(42,125)**	(93,421)
Other	**58,807**	58,807
	1,745,054	1,732,182
Net finance costs recognized in profit (loss)	**1,192,458**	1,287,024

22. 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, 2021. 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, 2018, 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 December 31, 2021.

General

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Company's financial position, results of operations or its ability to carry on any of its business activities.

23. Operating Expenses

Distribution operations and maintenance	**2018** **$**	2017 $
Salaries and benefits	**1,705,532**	1,673,587
Other staff costs	**169,255**	78,668
City of Brantford shared services	**976,458**	928,280
Contracted services	**347,625**	296,267
Building utilities and maintenance	**54,153**	40,614
Materials and supplies	**404,683**	240,759
Equipment repairs and maintenance	**20,653**	35,385
Vehicle	**293,744**	181,486
Other	**(159,110)**	86,351
	3,812,993	3,561,397

Billing and Collecting	**2018** **$**	2017 $
Salaries and benefits	**1,247,930**	1,175,035
Other staff costs	**16,171**	10,489
City of Brantford shared services	**319,153**	341,401
Contracted services	**513,137**	384,763
Bad debt expense	**642,842**	515,553
Materials and supplies	**8,214**	4,735
Equipment repairs and maintenance and vehicle	**2,163**	4,476
Postage	**371,556**	358,908
Other	**182,743**	214,544
	3,303,909	3,009,904

General administration	**2018** **$**	2017 $
Salaries and benefits	**2,183,773**	2,235,247
Other staff costs	**77,177**	82,260
City of Brantford shared services	**651,480**	664,852
Contracted services	**566,261**	468,287
Building project costs	**262,918**	-
Materials and supplies	**44,635**	15,237
Equipment repairs and maintenance	**-**	3,383
Vehicle	**1,176**	182
Other	**481,763**	427,088
	4,269,183	3,896,536

23. Operating Expenses - continued

	2018	2017
IESO conservation programs	**$**	$
Incentives paid to customers	**816,352**	798,576
Salaries and benefits	**215,318**	265,543
Other staff costs	**15,813**	17,888
City of Brantford shared services	**26,466**	28,981
Contracted services	**163,465**	149,507
Materials and supplies	**9,072**	4,601
Other	**79,380**	55,414
	1,325,866	1,320,510

24. Statement of Cash Flows

	2018	2017
	$	$
Changes in non-cash working capital		
Accounts receivable	**605,797**	2,428,276
Unbilled revenue	**(448,177)**	1,629,448
Materials and supplies	**147,644**	(27,017)
Prepaid expenses	**(165,901)**	207,786
Accounts payable and accrued liabilities	**(159,609)**	476,287
Accounts payable to the City of Brantford	**(8,932)**	(310,382)
Finance costs	**1,689,423**	1,736,378
Interest paid on long term debt	**(1,686,061)**	(1,769,243)
Due from affiliates	**29,427**	(555)
Customer deposits	**(309,353)**	491,950
	(305,742)	4,862,928
Other items not affecting cash		
Post-employment benefits	**63,000**	71,220
Vested sick leave	**(16,242)**	(28,171)
Derivative liabilities	**(46,639)**	(98,078)
	119	(55,029)

25. Amortization

	2018 $	2017 $
Amortization of capital assets	**3,164,977**	3,205,213
Amortization of capital assets charged to distribution operations and maintenance	**236,493**	199,501
	3,401,470	3,404,714

26. 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 deemed capital structure established by the OEB.

As at December 31, 2018, 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, 2018, shareholder's equity amounts to $46,550,275 (2017 - $45,150,024) and long-term debt, amounts to $37,676,059 (2017 - $38,805,697). The Company's capital structure as at December 31, 2018 is 45% debt and 55% equity (2017 - 46% debt and 54% 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, 2018 the Company was in compliance with all covenants.

27. Financial Instruments

All financial instruments are initially recorded on the statement of financial position 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.

Interest Rate Risk

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

A term facility loan bears interest at a floating rate and thus, the carrying value approximates fair value. However, the Company has entered into an interest rate swap transaction, derivative instrument, the effect of which is to fix the interest rate on the $1,269,000 term facility loan at 4.71%. The potential replacement cost to the Company of the interest rate swaps, representing estimated fair value as presented on the balance sheet, was $39,354 (2017 - $85,993), which was in the favour of Royal Bank. The Company entered into this interest rate swap transaction to fix the interest rate over the long-term and intends to hold this 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 $1,886,318 (2017 - $2,195,671) which is reflected on the Statement of Financial Position. Customer deposits are limited to those allowed under the OEB's Retail Settlement Code. Allowances of $854,000 (2017 - $1,094,000) 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, 2018, the outstanding amounts receivable from the largest ten customers represented $2,657,618 or 26% (2017 - $2,538,747 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.

27. Financial Instruments - continued

Prudential Support

The Company 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, 2018, the Company provided prudential support in the form of a bank letter of credit of $13,057,140 (2017 - $13,057,140).

Revolving Term Facility

As at December 31, 2018, 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, accounts payable and accrued liabilities, accounts payable to the City, interest payable to the City, and due to/from 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 OEB.

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 $1,863,000 (carrying value - $1,718,774). 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, 2018, of 3.82% per annum, (actual rate – 5.14% per annum).

The fixed rate long-term debt facility, maturing December 2050, funded by the OILC has an estimated fair value of $5,060,100 (carrying value - $4,434,822). 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, 2018, of 3.86% per annum, (actual rate – 4.95% per annum).

27. Financial Instruments - continued

The fixed rate long-term debt facility, maturing October 2027, funded by the OILC has an estimated fair value of $3,631,500 (carrying value - $3,683,194). 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, 2018, of 3.59% per annum, (actual rate – 3.46% per annum).

The fixed rate long-term debt facility, maturing December 2042, funded by the OILC has an estimated fair value of $3,537,200 (carrying value - $3,517,324). 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, 2018, of 3.86% per annum, (actual rate – 3.90% per annum).

The promissory note payable to the City has an estimated fair value of $25,203,700 (carrying value - $24,189,168). 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, 2018, of 3.86% per annum, (actual rate – 4.20% per annum).

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 Statement of Financial Position 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).

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.

27. Financial Instruments - continued

The following table presents the financial instruments recorded at fair value in the Statement of Financial Position 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	16,946,199	-	-	16,946,199
Total financial assets	**16,946,199**	**-**	**-**	**16,946,199**
Financial capital liabilities				
Customer deposits	1,886,318	-	-	1,886,318
Derivative liabilities	39,354	-	-	39,354
Total financial liabilities	**1,925,672**	**-**	**-**	**1,925,672**

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.

28. Comparative Figures

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