

Financial Statements of

Brantford Power Inc.

December 31, 2017

Brantford Power Inc.

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Brantford Power Inc.
Management Report
December 31, 2017

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 25, 2018

Brian D'Amboise, CPA, CA
Chief Financial Officer
April 25, 2018



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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Brantford Power Inc.:

We have audited the accompanying financial statements of Brantford Power Inc., which comprise the statement of financial position as at December 31, 2017, the statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained 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, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

April 25, 2018

Brantford Power Inc.
Statement of Financial Position
as at December 31, 2017

Assets	<u>2017</u>	<u>2016</u>
	\$	\$
Current Assets		
Cash and cash equivalents - note 5	16,374,261	11,533,132
Accounts receivable - note 6	11,327,306	13,755,582
Due from affiliates - note 12	36,997	36,442
Unbilled revenue	10,541,037	12,170,485
Materials and supplies - note 7	911,407	884,390
Prepaid expenses	181,872	389,658
Total Current Assets	39,372,880	38,769,689
Non-Current Assets		
Property, plant and equipment - note 8	68,584,181	65,365,386
Intangible assets - note 9	1,388,818	1,582,147
Deferred tax assets - note 15	1,142,130	902,975
Total Non-Current Assets	71,115,129	67,850,508
Total Assets	110,488,009	106,620,197
Regulatory balances - note 10	3,420,314	3,951,867
Total Assets and Regulatory Balances	113,908,323	110,572,064

Signed on behalf of the Board:



Director



Director

Brantford Power Inc.
Statement of Financial Position
as at December 31, 2017

Liabilities and Equity	<u>2017</u>	<u>2016</u>
	\$	\$
Current Liabilities		
Accounts payable and accrued liabilities - note 11	14,786,962	14,310,675
Accounts payable to the City of Brantford - note 12	361,267	671,649
Interest payable to the City of Brantford - note 13	1,015,945	1,049,608
Customer deposits	2,195,671	1,703,721
Current portion of long-term debt - note 13	1,082,608	1,034,099
Payments in lieu of corporate income taxes - note 15	174,298	55,579
Total Current Liabilities	19,616,751	18,825,331
Non-Current Liabilities		
Long-term debt - note 13	38,805,697	39,887,507
Post-employment benefits - note 14	1,416,269	1,332,175
Accumulated vested sick leave credits	78,125	106,296
Deferred revenues - note 16	2,042,424	1,204,648
Derivative liabilities - note 25	85,993	184,071
Deferred payments in lieu of corporate income taxes - note 15	3,037,972	2,260,981
Total Non-Current Liabilities	45,466,480	44,975,678
Total Liabilities	65,083,231	63,801,009
Equity		
Share capital - note 17	22,437,505	22,437,505
Retained earnings	22,025,766	19,739,713
Accumulated other comprehensive income	686,753	696,215
Total Equity	45,150,024	42,873,433
Total Liabilities and Equity	110,233,255	106,674,442
Regulatory balances - note 10	3,675,068	3,897,622
Total Liabilities, Equity and Regulatory Balances	113,908,323	110,572,064

Contingencies and Commitments - note 20

Brantford Power Inc.

Statement of Comprehensive Income

for the year ended December 31, 2017, with comparative information for 2016

	<u>2017</u>	<u>2016</u>
	\$	\$
Revenue		
Distribution revenue	17,142,791	17,468,409
IESO conservation programs	1,376,804	2,152,870
Other income - note 18	761,179	892,776
	19,280,774	20,514,055
Sale of energy	110,222,544	122,179,183
Total revenue	129,503,318	142,693,238
Operating Expenses		
Distribution operations and maintenance - note 21	3,561,397	3,770,009
Billing and collecting - note 21	3,009,904	3,181,279
General administration - note 21	3,896,536	3,828,321
IESO conservation programs - note 21	1,320,510	1,832,908
Impairment loss on due from affiliates	-	45,758
Amortization - note 23	3,205,213	3,171,502
	14,993,560	15,829,777
Cost of power purchased	108,827,919	120,083,640
Total operating expenses	123,821,479	135,913,417
Income from operating activities	5,681,839	6,779,821
Finance income - note 19	445,158	413,111
Finance costs - note 19	(1,732,182)	(1,790,392)
Income before income taxes	4,394,815	5,402,540
Income tax expense - note 15	989,763	931,941
Net income for the year	3,405,052	4,470,599
Net movement in regulatory balances, net of tax		
Net movement in regulatory balances	(634,530)	(2,657,244)
Income tax on movement in regulatory balances	325,531	96,762
	(308,999)	(2,560,482)
Net income for the year and net movement in regulatory balances	3,096,053	1,910,117
Other comprehensive loss		
Items that will not be reclassified to profit or loss		
Remeasurements of post-employment benefits - note 14	(12,874)	(32,232)
Tax on remeasurements	3,412	8,543
Other comprehensive loss for the year	(9,462)	(23,689)
Total comprehensive income for the year	3,086,591	1,886,428

Brantford Power Inc.

Statement of Changes in Equity

for the year ended December 31, 2017, with comparative information for 2016

	<u>Share capital</u>	<u>Contributed surplus</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive income</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Balance at January 1, 2016	22,437,505		18,639,596	719,904	41,797,005
Net income and net movement in regulatory balances	-	-	1,910,117	-	1,910,117
Other comprehensive loss	-	-	-	(23,689)	(23,689)
Dividends	-	-	(810,000)	-	(810,000)
Balance at December 31, 2016	22,437,505	-	19,739,713	696,215	42,873,433
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

See accompanying notes

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Brantford Power Inc.

Statement of Cash Flows

for the year ended December 31, 2017, with comparative information for 2016

	<u>2017</u>	<u>2016</u>
	\$	\$
Operating activities		
Net income and net movement in regulatory balances	3,096,053	1,910,117
Items not affecting cash		
Amortization - note 23	3,404,714	3,373,041
Amortization of deferred revenue	(36,586)	(17,705)
Loss on disposal of property, plant and equipment	60,527	111,424
Income tax expense	989,763	931,941
Other items not affecting cash - note 22	(55,029)	(48,731)
	7,459,442	6,260,087
Changes in non-cash working capital components - note 22	4,862,928	(4,204,876)
Regulatory balances	308,999	2,560,482
Contributions received from customers	524,289	494,077
Income tax paid	(329,796)	-
Income tax received	-	130,134
Net cash from operating activities	12,825,862	5,239,904
Investing activities		
Acquisition of property, plant and equipment	(6,402,548)	(3,579,049)
Acquisition of intangible assets	(143,159)	(993,100)
Proceeds from disposal of property, plant and equipment	55,000	29,248
Net cash used by investing activities	(6,490,707)	(4,542,901)
Financing activities		
Repayment of long-term debt	(1,034,099)	(1,141,430)
Receipt of (decrease in) deferred revenues	350,073	(103,520)
Dividends paid	(810,000)	(810,000)
Net cash used by financing activities	(1,494,026)	(2,054,950)
Change in cash and cash equivalents	4,841,129	(1,357,947)
Cash and cash equivalents, beginning of year	11,533,132	12,891,079
Cash and cash equivalents, end of year	16,374,261	11,533,132

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

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 25, 2018.

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.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

2. Basis of Presentation - continued

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.

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, 8 and 9 - estimation of useful lives of its property, plant and equipment and intangible assets.
- (iii) Notes 3 and 10 - recognition and measurement of regulatory balances
- (iv) Notes 3 and 14 - measurement of defined benefit obligations: key actuarial assumptions
- (v) Note 20 - 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 20 - 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.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

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 Inflation - 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 2016, the Company filed a COS application for rates effective January 1, 2017 to December 31, 2017 for which a Decision and Rate order was issued November 24, 2016.

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.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

3. Significant Accounting Policies

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

Financial instruments

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities with the exception of derivative liabilities. Loans and receivables and other liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described 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.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

3. Significant Accounting Policies - continued

Revenue recognition

Sale and distribution of electricity

Revenue from the sale and distribution of electricity is recognized as the electricity is delivered to customers on the basis of cyclical meter readings and estimated customer usage since the last meter reading date to the end of the year. Revenue includes electricity supplied, distribution, and any other regulatory charges or credits. The related cost of power is recorded on the basis of power used.

For customer billings related to the 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.

Other revenue

Revenue earned from the provision of services is recognized as the service is rendered or contract milestones are achieved. Amounts received in advance of these milestones are presented as deferred revenue.

Certain customers and developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. Cash contributions 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.

Government grants and the related performance incentive payments under the Independent Electricity System Operator (IESO) 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. Funding for IESO related performance incentive payments is recognized as revenue in the year when the Company receives confirmation by the applicable agency that the performance incentive payments will be received.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

3. Significant Accounting Policies - continued

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.

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.

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.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

3. Significant Accounting Policies - continued

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

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

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	2-5 years
Other	5 years

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

3. Significant Accounting Policies - continued

Impairment of assets

Financial assets measured at amortized cost

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

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount. Losses are recognized in profit or loss. An impairment loss is reversed through profit or loss if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

During 2016, the Company recorded an impairment loss of \$45,758 related to the receivable balance from their affiliate, Brantford Generation Inc. No impairment losses were incurred during 2017.

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.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

3. Significant Accounting Policies - continued

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.

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.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

3. Significant Accounting Policies - continued

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.

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.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

3. Significant Accounting Policies - continued

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.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

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.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

4. Future Changes in Accounting Policy and Disclosures

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

Revenue recognition

The International Accounting Standards Board (IASB) issued IFRS 15, *Revenue from Contracts with Customers (IFRS 15)*. IFRS 15 replaces IAS 11, *Construction Contracts*, IAS 18 Revenue and various interpretations and establishes principles regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The standard requires entities to recognize revenue for the transfer of goods or services to customers measured at the amounts an entity expects to be entitled to in exchange for those goods or services. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company will adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning January 1, 2018. The Company does not expect the standard to have a material impact on the financial statements.

Financial instruments

In July 2014, the IASB issued a new standard, IFRS 9 *Financial Instruments*, which will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. The Company will adopt IFRS 9 in its financial statements for the annual period beginning January 1, 2018. The Company does not expect the standard to have a material impact on the financial statements.

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 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.

5. Cash and Cash Equivalents

	<u>2017</u>	<u>2016</u>
	\$	\$
Bank balances	16,372,361	11,531,032
Cash balances	1,900	2,100
	<u>16,374,261</u>	<u>11,533,132</u>

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2017

6. Accounts Receivable

	<u>2017</u>	<u>2016</u>
	\$	\$
Trade receivables	11,777,768	14,269,160
Other trade receivables	83,258	84,853
Billable work	560,280	301,569
Allowance for doubtful accounts	(1,094,000)	(900,000)
	11,327,306	13,755,582

7. Material and Supplies

The amount of inventory consumed by the Company and recognized as an expense during 2017 was \$139,990 (2016 - \$284,378).

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2017

8. Property, Plant and Equipment

	<u>Land and buildings</u>	<u>Distribution equipment</u>	<u>Other fixed assets</u>	<u>Construction- in-progress</u>	<u>Total</u>
<i>Cost or deemed cost</i>	\$	\$	\$	\$	\$
Balance at January 1, 2017	1,127,545	70,267,269	3,049,074	20,438	74,464,326
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	3,571,213	510,341	80,718,852
Balance at January 1, 2016	1,127,545	67,397,774	2,441,561	79,199	71,046,079
Additions	-	3,019,062	618,748	21,277	3,659,087
Transfers	-	-	-	(80,038)	(80,038)
Disposals/retirements	-	(149,567)	(11,235)	-	(160,802)
Balance at December 31, 2016	1,127,545	70,267,269	3,049,074	20,438	74,464,326
<i>Accumulated depreciation</i>	\$	\$	\$	\$	\$
Balance at January 1, 2017	82,812	8,196,064	820,064	-	9,098,940
Depreciation	27,078	2,728,532	312,616	-	3,068,226
Disposals/retirements	-	(16,308)	(16,187)	-	(32,495)
Balance December 31, 2017	109,890	10,908,288	1,116,493	-	12,134,671
Balance at January 1, 2016	55,132	5,410,835	524,875	-	5,990,842
Depreciation	27,680	2,805,359	295,189	-	3,128,228
Disposals/retirements	-	(20,130)	-	-	(20,130)
Balance December 31, 2016	82,812	8,196,064	820,064	-	9,098,940

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2017

8. **Property, Plant and Equipment** - continued

	<u>Land and buildings</u>	<u>Distribution equipment</u>	<u>Other fixed assets</u>	<u>Construction- in-progress</u>	<u>Total</u>
	\$	\$	\$	\$	\$
<i>Carrying amounts</i>					
At December 31, 2017	2,695,447	62,923,673	2,454,720	510,341	68,584,181
At December 31, 2016	1,044,733	62,071,205	2,229,010	20,438	65,365,386

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

At December 31, 2017, property, plant and equipment with a carrying amount of \$68,584,181 (2016 - \$65,365,386) are subject to general security agreements.

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2017

9. Intangible Assets

	<u>Land rights</u>	<u>Capital contributions paid</u>	<u>Software</u>	<u>Other</u>	<u>Total</u>
<i>Cost or deemed cost</i>	\$	\$	\$	\$	\$
Balance at January 1, 2017	98,187	414,608	1,596,438	49,438	2,158,671
Additions	-	-	143,159	-	143,159
Balance at December 31, 2017	98,187	414,608	1,739,597	49,438	2,301,830
Balance at January 1, 2016	98,187	414,608	604,148	48,628	1,165,571
Additions	-	-	992,290	810	993,100
Balance at December 31, 2016	98,187	414,608	1,596,438	49,438	2,158,671
<i>Accumulated depreciation</i>	\$	\$	\$	\$	\$
Balance at January 1, 2017	5,852	17,573	512,623	40,476	576,524
Depreciation	2,017	9,208	318,703	6,560	336,488
Balance December 31, 2017	7,869	26,781	831,326	47,036	913,012
Balance at January 1, 2016	3,813	8,359	289,249	24,131	325,552
Depreciation	2,039	9,214	223,374	16,345	250,972
Balance December 31, 2016	5,852	17,573	512,623	40,476	576,524
<i>Carrying amounts</i>					
At December 31, 2017	90,318	387,827	908,271	2,402	1,388,818
At December 31, 2016	92,335	397,035	1,083,815	8,962	1,582,147

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2017

10. Regulatory Balances

Reconciliation of the carrying amount for each class of regulatory balances

	January 1, 2017 \$	Additions \$	Recovery/ reversal \$	December 31, 2017 \$	Remaining recovery/ reversal 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	N/A
	<u>3,951,867</u>	<u>163,027</u>	<u>(694,580)</u>	<u>3,420,314</u>	

	January 1, 2016 \$	Additions \$	Recovery/ reversal \$	December 31, 2016 \$	Remaining years
Regulatory deferral account debit balances					
Group 1 deferred accounts					
Retail Settlement Variance Accounts	3,191,590	919,138	(3,408,651)	702,077	2
Retailer cost variance accounts	76,321	48,831	-	125,152	6
Deferred meter costs	1,636,146	-	(719,413)	916,733	2
Other regulatory accounts	721,499	6,070	111,349	838,918	6
Future income tax	1,272,225	96,762	-	1,368,987	N/A
	<u>6,897,781</u>	<u>1,070,801</u>	<u>(4,016,715)</u>	<u>3,951,867</u>	

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2017

10. Regulatory Balances - continued

	January 1, 2017 \$	Additions \$	Recovery/ reversal \$	December 31,2017 \$	Remaining recovery/ reversal 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
	<u>3,897,622</u>	<u>450,156</u>	<u>(672,710)</u>	<u>3,675,068</u>	

	January 1, 2016 \$	Additions \$	Recovery/ reversal \$	December 31, 2016 \$	Remaining years
Regulatory deferral account credit balances					
Group 1 deferred accounts					
Retail Settlement Variance Accounts	4,029,337	(2,062,797)	1,880,341	3,846,881	2
Regulatory settlement account	253,717	601,865	(804,841)	50,741	2
	<u>4,283,054</u>	<u>(1,460,932)</u>	<u>1,075,500</u>	<u>3,897,622</u>	

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

10. 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 deferral accounts can be done on an annual basis through application to the OEB. Group 2 and other deferral accounts can be settled during a cost of service application to the OEB. An application was made to the OEB to repay \$2,008,933 of the Group 1 deferral accounts and collect \$894,157 of the Group 2 and other deferral accounts. Approval was received November 24, 2016. Effective January 1, 2017, 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	2017	2016
January 1 to March 31	1.10%	1.10%
April 1 to June 30	1.10%	1.10%
July 1 to September 30	1.10%	1.10%
October 31 to December 31	1.50%	1.10%

11. Accounts Payable and Accrued Liabilities

	<u>2017</u>	<u>2016</u>
	\$	\$
Accounts payable and accruals - energy purchases	9,204,719	10,686,591
Debt retirement charge payable to OEFC	335,690	311,372
Payroll payable	666,784	489,890
IESO conservation program funding	820,012	647,591
Other	3,759,757	2,175,231
	<u>14,786,962</u>	<u>14,310,675</u>

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

12. 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 to the Company. The exchange amount for these services has been set out in the agreement. As at December 31, 2017 the balance owing to the City for these services was \$361,267 (2016 - \$671,649).

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

	<u>2017</u>	<u>2016</u>
	\$	\$
City of Brantford		
Revenues		
Sale of electricity	8,446,448	7,427,151
Other services	240,289	247,813
	<u>8,686,737</u>	<u>7,674,964</u>
Operating expenses		
Shared services agreement	1,777,497	2,222,506
Property taxes	20,912	18,671
	<u>1,798,409</u>	<u>2,241,177</u>

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

12. Related Party Transactions - continued

The Company provides administrative support to their affiliates. Details of these charges are presented by affiliate in the following charts.

The Company obtains management services from Brantford Energy Corporation.

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

	<u>2017</u>	<u>2016</u>
	\$	\$
Brantford Energy Corporation		
Revenues		
Administrative support	64,491	72,804
	<u>64,491</u>	<u>72,804</u>
Operating expenses		
Management fees	97,910	127,832
	<u>97,910</u>	<u>127,832</u>

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:

	<u>2017</u>	<u>2016</u>
	\$	\$
Brantford Hydro Inc.		
Revenue		
Administrative support	190,182	167,209
Pole rental fees	47,963	46,779
Other services	6,640	8,146
	<u>244,785</u>	<u>222,134</u>
Operating expenses		
Dark fibre optic services	3,600	3,600
	<u>3,600</u>	<u>3,600</u>

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

12. Related Party Transactions - continued

Brantford Generation Inc. ceased commercial operations during 2016. Details of the transactions between the Company and Brantford Generation Inc. are presented below:

	<u>2017</u>	<u>2016</u>
	\$	\$
Brantford Generation Inc.		
Revenue		
Administrative support	-	52,401
Sale of energy	-	73,963
	-	126,364
Operating expenses		
Cost of power purchased	-	802,551
	-	802,551

Balances owing from affiliates are as follows:

	<u>2017</u>	<u>2016</u>
	\$	\$
Brantford Energy Corporation	1,269	(31,664)
Brantford Hydro Inc.	35,728	68,106
Total due from affiliates	36,997	36,442

Key management personnel

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

	<u>2017</u>	<u>2016</u>
	\$	\$
Directors' fees	25,335	25,455
Salaries and other short-term benefits	921,487	859,589
Post-employment benefits	636	3,817
	947,458	888,861

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2017

13. Long-Term Debt

	<u>2017</u>	<u>2016</u>
	\$	\$
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 varying quarterly instalments, due January, 2020	1,782,643	2,272,716
Ontario Infrastructure and Lands Corporation non-revolving term facility with interest at 5.14% repayable in semi annual instalments of \$86,522 due December, 2032	1,800,332	1,877,837
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	4,490,000	4,542,543
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	4,022,428	4,352,535
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	3,603,734	3,686,807
	39,888,305	40,921,606
Less current portion	1,082,608	1,034,099
	38,805,697	39,887,507

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 (2016 - \$1,049,608) was outstanding as at December 31, 2017.

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.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

13. Long-Term Debt - continued

Estimated principal repayment requirements are as follows:

	\$
2018	1,082,608
2019	1,132,993
2020	1,186,290
2021	24,824,706
2022	660,776
Thereafter	11,000,932

14. 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 2017, the Company made employer contributions of \$496,550 to OMERS (2016 - \$476,802), of which \$6,319 (2016 - \$60,490) has been capitalized as part of PP&E and the remaining amount of \$490,231 (2016 - \$416,312) has been recognized in profit or loss. The Company estimates that a contribution of \$547,415 to OMERS will be made during the next fiscal year.

As at December 31, 2017, OMERS had approximately 482,000 members. The most recently available OMERS annual report is for the year ended December 31, 2017, which reported that the plan was 94% funded, with an unfunded liability of \$5.4 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, 2017 and the expense for the period ended December 31, 2017 are based on actuarial valuations done as at January 1, 2015.

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2017

14. Post-Employment Benefits - continued

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

Significant assumptions

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

	<u>2017</u>	<u>2016</u>
	\$	\$
To determine benefit obligation at end of year		
Discount rate	3.50%	3.75%
To determine benefit expense (income) for the year		
Discount rate	3.40%	3.50%
Rate of increase in future compensation	N/A	N/A
Health care cost trend rates at end of year		
Initial rate	7.00%	7.00%
Ultimate rate	4.75%	4.75%
Year ultimate rate reached	2023	2023

Sensitivity analysis

	<u>Change in</u>	<u>Change in</u>
	<u>Obligation</u>	<u>Expense</u>
	\$	\$
Impact of 1% increase in assumed health care trend rate	155,700	18,000
Impact of 1% decrease in assumed health care trend rate	(131,700)	(14,900)

	<u>2017</u>	<u>2016</u>
	\$	\$
Reconciliation of the obligation		
Defined benefit obligation, beginning of year	1,332,175	1,236,004
Included in profit or loss		
Current service cost	76,196	71,100
Interest cost	48,360	47,982
Included in OCI		
Actuarial losses	12,874	32,236
Benefits paid	(53,336)	(55,147)
Defined benefit obligation, end of year	1,416,269	1,332,175

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2017

15. Income Tax Expense

	<u>2017</u>	<u>2016</u>
	\$	\$
Current tax expense		
Current year	256,970	55,579
Adjustment for prior years	191,545	(30,630)
	<u>448,515</u>	<u>24,949</u>
Deferred tax expense		
Change in recognized deductible temporary differences	541,248	906,992
	<u>541,248</u>	<u>906,992</u>
Total income tax expense	<u>989,763</u>	<u>931,941</u>
Reconciliation of effective tax rate		
Income before taxes	4,394,815	5,402,540
Canada and Ontario statutory income tax rates	26.5 %	26.5 %
Expected tax provision on income at statutory rates	1,164,626	1,431,673
Increase (decrease) in income taxes resulting from:		
Permanent differences	2,039	2,039
Prior periods and other	(171,107)	(501,771)
Income tax expense	<u>995,558</u>	<u>931,941</u>

Significant components of the Company's deferred tax balances:

	<u>2017</u>	<u>2016</u>
	\$	\$
Deferred tax assets (liabilities)		
Property, plant and equipment	(2,594,078)	(2,260,981)
Cumulative eligible capital	184,920	182,740
Post-employment benefits	396,010	378,630
Allowance for doubtful accounts	289,910	238,500
Regulatory balances	(443,894)	10,981
Corporate minimum tax credits available for carry forward	242,570	-
Other	28,720	92,124
	<u>(1,895,842)</u>	<u>(1,358,006)</u>

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2017

16. Deferred Revenue

	<u>2017</u>	<u>2016</u>
	\$	\$
Contributions received from customers	1,692,351	1,204,648
Other	350,073	-
	<u>2,042,424</u>	<u>1,204,648</u>

17. Share Capital

	<u>2017</u>	<u>2016</u>
	\$	\$
Authorized		
Unlimited number of common shares		
Issued		
1,001 common shares	22,437,505	22,437,505
	<u>22,437,505</u>	<u>22,437,505</u>

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 \$809 per share (2016 - \$809), which amount to total dividends paid in the year of \$810,000 (2016 -\$810,000).

18. Other Revenue

	<u>2017</u>	<u>2016</u>
	\$	\$
Specific services charges	356,655	554,231
Management fees	254,673	292,414
Property rental	113,253	110,161
Retailer revenue	23,841	27,853
Loss on disposal of assets	(60,527)	(111,424)
Customer contributions	36,586	17,705
Other revenue	36,698	1,836
	<u>761,179</u>	<u>892,776</u>

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2017

19. Finance Income and Finance Costs

	<u>2017</u>	<u>2016</u>
	\$	\$
Finance Income		
Interest income on bank deposits	163,612	128,536
Late payment charges	281,546	284,575
	<u>445,158</u>	<u>413,111</u>
Finance Costs		
Interest on long-term debt	1,736,378	1,822,902
Interest expense on customer deposits	30,418	12,708
Gain on derivative liabilities	(93,421)	(104,187)
Other	58,807	58,969
	<u>1,732,182</u>	<u>1,790,392</u>
Net finance costs recognized in profit or loss	<u>1,287,024</u>	<u>1,377,281</u>

20. 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, 2019. 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, 2017, 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, 2019.

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.

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2017

21. Operating Expenses

	<u>2017</u>	<u>2016</u>
	\$	\$
Distribution operations and maintenance		
Salaries and benefits	1,673,587	1,531,933
Other staff costs	78,668	90,062
City of Brantford shared services	928,280	919,657
Contracted services	296,267	356,415
Building utilities and maintenance	40,614	44,782
Materials and supplies	240,759	359,793
Equipment repairs and maintenance	35,385	30,460
Vehicle	181,486	169,807
Other	86,351	267,100
	<u>3,561,397</u>	<u>3,770,009</u>

	<u>2017</u>	<u>2016</u>
	\$	\$
Billing and Collecting		
Salaries and benefits	1,175,035	1,152,991
Other staff costs	10,489	20,524
City of Brantford shared services	341,401	436,863
Contracted services	384,763	401,363
Allowance for doubtful accounts	515,553	528,913
Materials and supplies	4,735	8,625
Equipment repairs and maintenance and vehicle	4,476	38,730
Postage	358,908	357,234
Other	214,544	236,036
	<u>3,009,904</u>	<u>3,181,279</u>

	<u>2017</u>	<u>2016</u>
	\$	\$
General administration		
Salaries and benefits	2,235,247	1,988,625
Other staff costs	82,260	85,891
City of Brantford shared services	664,852	731,214
Contracted services	468,287	539,026
Materials and supplies	15,237	31,407
Equipment repairs and maintenance	3,383	-
Vehicle	182	-
Other	427,088	452,158
	<u>3,896,536</u>	<u>3,828,321</u>

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2017

21. Operating Expenses - continued

	<u>2017</u>	<u>2016</u>
	\$	\$
IESO conservation programs		
Incentives paid to customers	798,576	1,140,609
Salaries and benefits	265,543	246,789
Other staff costs	17,888	16,659
City of Brantford shared services	28,981	29,241
Contracted services	149,507	295,503
Materials and supplies	4,601	58,851
Other	55,414	45,256
	<u>1,320,510</u>	<u>1,832,908</u>

22. Statement of Cash Flows

	<u>2017</u>	<u>2016</u>
	\$	\$
Changes in non-cash working capital		
Accounts receivable	2,428,276	(3,663,016)
Unbilled revenue	1,629,448	(20,607)
Materials and supplies	(27,017)	246,205
Prepaid expenses	207,786	(58,027)
Accounts payable and accrued liabilities	476,287	(564,807)
Accounts payable to the City of Brantford	(310,382)	221,924
Finance costs	1,736,378	1,822,902
Interest paid on long term debt	(1,769,243)	(2,191,309)
Due from affiliates	(555)	(95,793)
Customer deposits	491,950	97,652
	<u>4,862,928</u>	<u>(4,204,876)</u>
Other items not affecting cash		
Post-employment benefits	71,220	63,939
Vested sick leave	(28,171)	(4,741)
Derivative liabilities	(98,078)	(107,983)
Other	-	54
	<u>(55,029)</u>	<u>(48,731)</u>

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

23. Amortization

	<u>2017</u>	<u>2016</u>
	\$	\$
Amortization of capital assets	3,205,213	3,171,502
Amortization of capital assets charged to distribution operations and maintenance	199,501	201,539
	<u>3,404,714</u>	<u>3,373,041</u>

24. 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, 2017, 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, 2017, shareholder's equity amounts to \$45,150,024 (2016 - \$42,873,433) and long-term debt, amounts to \$38,805,697 (2016 - \$39,887,507). The Company's capital structure as at December 31, 2017 is 46% debt and 54% equity (2016 - 48% debt and 52% 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, 2017 the Company was in compliance with all covenants.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

25. 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 \$1,786,000 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 \$85,993 (2016 - \$184,071), 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 \$2,195,671 (2016 - \$1,703,721) 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 \$1,094,000 (2016 - \$900,000) 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, 2017, the outstanding amounts receivable from the largest ten customers represented \$2,538,747 or 27% (2016 - \$3,057,900 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.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

25. 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, 2017, the Company provided prudential support in the form of a bank letter of credit of \$13,057,140 (2016 - \$13,057,140).

Revolving Term Facility

As at December 31, 2017, 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 \$2,006,100 (carrying value - \$1,800,332). 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, 2017, of 3.50% per annum, (actual rate – 5.14% per annum). The loan is classified as an Other Liability (OL) with no resulting adjustment to carrying value.

Brantford Power Inc.

Notes to the Financial Statements

for the year ended December 31, 2017

25. Financial Instruments - continued

The fixed rate long-term debt facility, maturing December 2050, funded by the OILC has an estimated fair value of \$5,354,700 (carrying value - \$4,490,000). 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, 2017, of 3.55% 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 \$4,028,300 (carrying value - \$4,022,428). 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, 2017, of 3.28% 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 \$3,700,200 (carrying value - \$3,603,734). 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, 2017, of 3.55% 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 City has an estimated fair value of \$26,185,200 (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, 2017, of 3.55% per annum, (actual rate – 4.20% per annum). The loan is classified as an Other Liability (OL) with no resulting adjustment to carrying value.

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).

Brantford Power Inc.
Notes to the Financial Statements
for the year ended December 31, 2017

25. 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 Statement of Financial Position Sheet, classified using the fair value hierarchy described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total financial assets and liabilities at fair value</u>
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	16,374,261	-	-	16,374,261
Total financial assets	16,374,261	-	-	16,374,261
Financial capital liabilities				
Customer deposits	2,195,671	-	-	2,195,671
Derivative liabilities	85,993	-	-	85,993
Total financial liabilities	2,281,664	-	-	2,281,664

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.

26. Comparative Figures

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