Financial statements of

PowerStream Inc.

December 31, 2012 and December 31, 2011

PowerStream Inc.
December 31, 2012 and December 31, 2011

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Independent Auditor's Report

To the Shareholders of
PowerStream Inc.

We have audited the accompanying financial statements of PowerStream Inc., which comprise the balance sheet as at December 31, 2012, December 31, 2011 and January 1, 2011, and the statement of income and comprehensive income, statement of changes in equity and statement of cash flows for the years ended December 31, 2012 and December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained in our audits 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 PowerStream Inc. as at December 31, 2012, December 31, 2011 and January 1, 2011, and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011, in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
April 24, 2013

PowerStream Inc.

Balance sheets

as at December 31, 2012, December 31, 2011 and January 1, 2011

(In thousands of dollars)

	December 31 2012	December 31 2011 (Note 23)	January 1, 2011 (Note 23)
	$	$	$
Assets			
Current assets			
Cash	**19,963**	-	8,568
Accounts receivable	**82,423**	86,556	70,468
Unbilled revenue	**96,387**	90,369	92,207
Due from related parties (Note 10)	**3,014**	2,173	2,435
Inventories	**2,946**	3,267	3,050
Prepaids and other assets	**3,835**	3,035	2,718
	208,568	185,400	179,446
Property, plant and equipment (Note 7)	**820,923**	719,194	662,446
Intangible assets (Note 8)	**12,849**	8,990	4,073
Investment in a joint venture (Note 5)	**8,243**	-	-
Deferred tax assets (Note 20)	**34,082**	41,621	46,286
Goodwill (Note 3(h) and Note 8)	**42,543**	42,543	42,543
	1,127,208	997,748	934,794
Liabilities			
Current liabilities			
Bank indebtedness	**-**	8,039	-
Short-term debt (Note 11)	**25,000**	40,000	40,000
Bank term loan (Note 12)	**50,000**	-	-
Notes Payable (Note 12)	**16,328**	-	-
Infrastructure Ontario financing (Note 11)	**6,612**	3,206	827
Customer deposits	**13,064**	13,035	13,549
Accounts payable and accrued liabilities (Note 9)	**113,660**	116,113	105,339
Due to related parties (Note 10)	**13,950**	13,275	14,649
Income taxes payable	**2,230**	3,446	6,622
Liability for subdivision development	**4,251**	3,185	5,370
Finance lease obligation (Note 16)	**295**	277	259
	245,390	200,576	186,615
Long-term liabilities			
Notes payable (Note 12)	**166,102**	182,430	182,430
Debentures payable (Note 12)	**198,189**	124,489	123,765
Bank term loan (Note 12)	**-**	50,000	50,000
Infrastructure Ontario debentures (Note 12)	**1,911**	980	-
Finance lease obligation (Note 16)	**17,107**	17,402	17,679
Post-employment benefits (Note 13)	**18,048**	16,811	15,685
Deferred revenue	**82,759**	56,166	23,364
Deferred tax liabilities (Note 20)	**1,730**	505	61
Other liabilities	**-**	-	160
	485,846	448,783	413,144
Shareholders' equity			
Share capital (Note 14)	**280,301**	251,957	249,618
Accumulated other comprehensive income	**(739)**	(739)	-
Retained earnings	**116,410**	97,171	85,417
	395,972	348,389	335,035
	1,127,208	997,748	934,794

Approved on behalf of the Board on April 24, 2013

Director

Director

PowerStream Inc.

Statements of income and other comprehensive income
years ended December 31 2012 and December 31, 2011

(In thousands of dollars)

	2012	2011
		(Note 23)
	$	$
Revenue		
Sale of energy	**811,506**	760,285
Distribution revenue	**159,839**	154,305
Other revenue	**18,039**	14,482
Total revenue	**989,384**	929,072
Cost of power purchased	**800,958**	758,051
Operating expenses (Note 19)	**89,502**	76,668
Depreciation and amortization	**33,364**	34,426
	65,560	59,927
Share in profits from joint venture (Note 5)	**150**	-
Interest income	**1,293**	303
Interest expense	**24,392**	24,466
Income before income taxes	**42,611**	35,764
Income tax expense (Note 20)	**7,285**	10,153
Net income	**35,326**	25,611
Other comprehensive income		
Remeasurement of defined benefit obligation (Note 13)	**-**	(739)
Total income and other comprehensive income for the year	**35,326**	24,872

PowerStream Inc.

Statements of changes in equity
years ended December 31 2012 and December 31, 2011

(In thousands of dollars)

	Share Capital	Accumulated other comprehensive income	Retained earnings	Total
	$	$	$	$
As at January 1, 2011 (Note 23)	249,618	-	85,417	335,035
Net income	-	-	25,611	25,611
Other comprehensive income, (net of tax of $267)	-	(739)	-	(739)
Dividends paid	-	-	(13,857)	(13,857)
Issuance of Class A common shares (Note 14)	2,339	-	-	2,339
Balance at December 31, 2011 (Note 23)	**251,957**	**(739)**	**97,171**	**348,389**
Net income	-	-	35,326	35,326
Other comprehensive income, net of tax	-	-	-	-
Dividends paid	-	-	(16,087)	(16,087)
Issuance of Class A common shares (Note 14)	28,344	-	-	28,344
Balance at December 31, 2012	**280,301**	**(739)**	**116,410**	**395,972**

PowerStream Inc.

Statements of cash flows
years ended December 31 2012 and December 31, 2011
(In thousands of dollars)

	2012	2011
		(Note 23)
	$	$
Operating activities		
Net income for the year	**35,326**	24,872
Adjustments to determine cash provided by operating activities:		
Share of income of joint venture	**(150)**	-
Depreciation of property, plant and equipment	**32,354**	33,906
Amortization of intangible assets	**2,825**	2,166
Post-employment benefits	**1,237**	1,126
Amortization of deferred revenue	**(1,164)**	(291)
Finance costs	**23,099**	24,163
Income tax expense (net of $267 allocated to 2011 OCI)	**7,285**	9,886
Loss on disposal of property, plant and equipment	**1,530**	942
	102,342	96,770
Net change in non-cash operating working capital (Note 21)	**(2,950)**	(8,380)
Cash generated from operating activities	**99,392**	88,390
Interest paid	**(23,369)**	(23,344)
Income tax received	**1,578**	-
Income taxes paid	**(1,458)**	(7,649)
Net cash generated from operating activities	**76,143**	57,397
Financing activities		
Dividends paid	**(16,087)**	(13,857)
Proceeds from Infrastructure Ontario financing	**4,337**	3,359
Proceeds from the issuance of Class A common shares	**28,344**	2,339
Proceeds from issuance of debenture	**198,175**	-
Repayment of debenture	**(125,000)**	-
Repayment of short-term debt	**(15,000)**	-
Payment of finance lease obligation	**(277)**	(259)
Net cash generated (used) in financing activities	**74,492**	(8,418)
Investing activities		
Contributions received from customers	**27,757**	33,093
Purchase of property, plant and equipment	**(135,613)**	(91,596)
Purchase of intangible assets	**(6,684)**	(7,083)
Acqusition of interest in joint venture	**(8,093)**	-
Net cash used in investing activities	**(122,633)**	(65,586)
Increase (decrease) in cash during the year	**28,002**	(16,607)
(Bank indebtedness) cash, beginning of year	**(8,039)**	8,568
Cash (bank indebtedness), end of year	**19,963**	(8,039)

1. Description of the business

PowerStream Inc. (the “Corporation”) was amalgamated on January 1, 2009, under the Business Corporations Act (Ontario) and is owned by the Corporation of the City of Vaughan (the “City of Vaughan”), through its wholly owned subsidiary, Vaughan Holdings Inc.; the Corporation of the City of Markham (the “City of Markham”), through its wholly owned subsidiary, Markham Enterprises Corporation; and the Corporation of the City of Barrie (the “City of Barrie”), through its wholly owned subsidiary, Barrie Hydro Holdings Inc. The Corporation is jointly controlled by these three municipalities. The Corporation is incorporated and domiciled in Canada with its head and registered office located at 161 Cityview Boulevard, Vaughan, ON L4H 0A9.

The principal activity of the Corporation is distribution of electricity in the service area of Alliston, Aurora, Barrie, Beeton, Bradford West Gwillimbury, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham and Vaughan in the Province of Ontario, under a license issued by the Ontario Energy Board (“OEB”). The Corporation is regulated under the OEB and adjustments to the distribution rates require OEB approval. Collingwood PowerStream Utility Services (“Collus”) which 50% of the shares were purchased by the Corporation in 2012 distributes electricity in Collingwood, Thornbury, Stayner and Creemore.

As a condition of its distribution license, the Corporation is required to meet specified Conservation and Demand Management (“CDM”) targets for reductions in electricity consumption and peak electricity demand. As part of this initiative, the Corporation is delivering Ontario Power Authority (“OPA”) funded programs in order to meet its targets.

Under the Green Energy and Green Economy Act, 2009, the Corporation and other Ontario electricity distributors have new opportunities and responsibilities for enabling renewable generation.
The Corporation has commenced operations of a Solar Generation Business unit, in 2010, as permitted by these changes.

2. Basis of preparation

(a) *Statement of compliance*

These financial statements are the first annual financial statements of the Corporation prepared in accordance with International Financial Reporting Standards (“IFRS”) and IFRS 1 *First-time Adoption of International Financial Reporting Standards* (“IFRS 1”) has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in note 23.

(b) *Basis of measurement*

The financial statements have been prepared on a historical cost basis.

(c) *Presentation currency*

The financial statements are presented in Canadian dollars, which is also the Corporation’s functional currency. All financial information has been rounded to the nearest thousand, except when otherwise noted.

(d) *Use of estimates and judgments*

The preparation of financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the application of accounting policies and the amounts reported and disclosed in the financial statements. Estimates and underlying assumptions are continually reviewed and are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

2. Basis of preparation (continued)

(d) Use of estimates and judgments (continued)

Significant sources of estimation uncertainty include the following:

(i) Unbilled revenue

The measurement of unbilled revenue is based on an estimate of the amount of electricity delivered to customers between the date of the last bill and the end of the year.

(ii) Useful lives of depreciable assets.

Depreciation and amortization expense is based on estimates of the useful lives of property, plant and equipment and intangible assets. The Corporation estimates the useful lives of its property, plant and equipment and intangible assets based on management's judgment, historical experience and an asset study conducted by an independent consulting firm.

(iii) Cash Generating Units (CGU)

Determining whether a CGU is impaired requires an estimation of the value in use. The value in use calculation requires the Corporation to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

(iv) Valuation of financial instruments

As described in Note 17, the Corporation uses the discounted cash flow model to estimate the fair value of the financial instruments for disclosure purposes. Valuation of financial instruments uses the same estimation techniques as determining the value in use for CGUs as noted above.

(v) Other Areas

There are a number of other areas in which the Corporation makes estimates; these include accounts receivable, inventories, employee future benefits and income taxes. These amounts are reported based on the amounts expected to be recovered/refunded and an appropriate allowance has been provided based on the Corporation's best estimate of unrecoverable amounts.

3. Significant accounting policies

The Corporation's financial statements are the representations of management prepared in accordance with IFRS. The accounting policies set out below have been applied consistently to all years presented in these financial statements and in preparing the opening IFRS balance sheet at January 1, 2011 for the purposes of the transition to IFRS, unless otherwise indicated.

The financial statements reflect the following significant accounting policies:

(a) Rate regulation

The Ontario Energy Board Act, 1998 gave the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may prescribe license requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, and filing process requirements for rate-setting purposes.

The Corporation recognizes revenue when electricity is delivered to customers based on OEB approved rates. Operating costs and expenses are recorded when incurred, unless such costs qualify for recognition as part of an item of property, plant and equipment or as an intangible asset.

3. Significant accounting policies (continued)

(b) Revenue recognition

(i) Electricity distribution and sale

Revenue from the sale and distribution of electricity is recorded on the basis of cyclical billings based on electricity usage and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is generally comprised of the following:

- Electricity Price and Related Rebates. The electricity price and related rebates represent a pass through of the commodity cost of electricity.
- Distribution Rate. The distribution rate is designed to recover the costs incurred by the Corporation in delivering electricity to customers, as well as the ability to earn the OEB allowed rate of return. Distribution charges are regulated by the OEB and typically comprise a fixed charge and a usage-based (consumption) charge.
- Retail Transmission Rate. The retail transmission rate represents a pass through of costs charged to the Corporation for the transmission of electricity from generating stations to the Corporation's service area. Retail transmission rates are regulated by the OEB.
- Wholesale Market Service Charge. The wholesale market service charge represents a pass through of various wholesale market support costs charged by the Independent Electricity System Operator ("IESO").

(ii) Other revenue

Other revenue includes revenue from the sale of other services, contributions from customers and performance incentive payments.

Revenue related to the sale of other services is recognized as services are rendered.

Certain items of property, plant and equipment are acquired or constructed with financial assistance in the form of contributions from developers or customers ("customer contributions"). Such contributions, whether in cash or in-kind, are recognized as deferred revenue and amortized into income over the life of the related assets. Contributions in-kind are valued at their fair value at the date of their contribution.

Performance incentive payments under CDM programs are recognized by the Corporation when there is reasonable assurance that the program conditions have been satisfied and the incentive payment will be received.

Government grants under CDM programs are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(c) Finance costs

Finance costs comprise interest expense on borrowings.

Borrowing costs are calculated using the effective interest rate method and are recognized as an expense unless they are capitalized as part of the cost of a qualifying asset, which is an asset that takes a substantial period of time to get ready for its intended use.

3. Significant accounting policies (continued)

(d) Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as loans and receivables or as other liabilities. Transaction costs for financial assets classified as loans and receivables and financial liabilities classified as other liabilities are capitalized as part of the carrying value at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, such financial assets are carried at amortized cost using the effective interest rate method, less any impairment losses. Losses are recognized in net income when the loans and receivables are derecognized or impaired.

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and the loss event has had a negative effect on estimated future cash flows of the asset which are reliably measureable.

Loans and receivables are comprised of cash, accounts receivable, unbilled revenue and amounts due from related parties.

(ii) Other liabilities

All non-derivative financial liabilities are classified as other liabilities. Subsequent to initial recognition, other liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when either the Corporation is discharged from its obligation, the obligation expires, or the obligation is cancelled or replaced by a new financial liability with substantially modified terms.

Financial liabilities are further classified as current or non-current depending on whether they will fall due within twelve months after the balance sheet date or beyond.

Other liabilities are comprised of bank indebtedness, short-term debt, Infrastructure Ontario financing, customer deposits, accounts payable and accrued liabilities, amounts due to related parties, notes payable, debentures payable, bank term loan, Infrastructure Ontario debentures, and liability for subdivision development.

(e) Inventories

Inventories, which consist of parts and supplies acquired for internal construction or consumption, are valued at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis and includes expenditures incurred in acquiring the inventories and other costs to bring the inventories to their existing location and condition.

(f) Property, plant and equipment

Property, plant and equipment (“PP&E”) used in rate-regulated activities and acquired prior to January 1, 2011 is measured at deemed cost at date of transition (see Note 23(b)(ii)) less accumulated depreciation. All other PP&E is measured at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset and includes contracted services, cost of materials, direct labour, overhead costs and borrowing costs incurred in respect of qualifying assets constructed subsequent to January 1, 2011. When parts of an item of PP&E have different useful lives, they are accounted for as separate components of PP&E.

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

(In thousands of dollars)

3. Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

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 with the carrying amount of the item and is included in net income.

Depreciation of PP&E is recognized on a straight-line basis over the estimated useful life of each component of PP&E. The estimated useful lives for the current and comparative years are as follows:

Land	Indefinite
Buildings	10 to 60 years
Transformer stations	20 to 40 years
Transformers and meters	15 to 40 years
Plant and equipment	3 to 20 years
Other	3 to 37.5 years

Depreciation methods and useful lives are reviewed at each financial year-end and any changes are adjusted prospectively.

(g) Intangible assets

Intangible assets include land rights, computer software and capital contributions. Capital contributions relate to the contributions made to Hydro One for a transformer station that was built outside the City of Barrie.

Land rights held by the Corporation are effective in perpetuity and there is no foreseeable limit to the period over which the rights are expected to provide benefit to the Corporation. Land rights have therefore been assessed as having an indefinite useful life and are not amortized.

Land rights used in rate-regulated activities and acquired prior to January 1, 2011 are measured at deemed cost. All other land rights are measured at cost.

Computer software and capital contributions used in rate-regulated activities and acquired prior to January 1, 2011 are measured at deemed cost less accumulated amortization. All other ccomputer software and capital contributions are measured at cost less accumulated amortization.

Computer software and capital contributions are amortized on a straight-line basis over the estimated useful lives from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Computer software	4 years
Capital contributions	37.5 years

Amortization methods and useful lives are reviewed at each financial year-end and adjusted prospectively.

(h) Goodwill

Goodwill represents the excess of the purchase price over the fair value assigned to the Corporation's interest of the net identifiable assets acquired on the acquisition, by predecessor corporations, of the former Richmond Hill Hydro Inc., Penetanguishene Hydro, Essa Hydro, New Tecumseth Hydro and Bradford West Gwillimbury Hydro.

Goodwill is measured at cost and is not amortized. The company's policy on goodwill arising on acquisition of an associate is described in note 3(n) below.

3. Significant accounting policies (continued)

(i) Impairment of non-financial assets

The carrying amounts of the Corporation's non-financial 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. Goodwill and intangible assets with indefinite lives are tested annually for impairment and when circumstances indicate that the carrying value may be impaired. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Corporation has two CGU's, the rate regulated business and the Permitted Generation Business unit. Two CGU's were determined as Management views the Corporation as having two distinct lines of business.

The recoverable amount of an asset or CGU is the greater of its value in use and fair value less costs to sell. Value in use is calculated as the present value of the estimated future cash flows expected to be derived from an asset or CGU.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of those from other assets or CGUs. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in net income. Impairment losses relating to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of 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.

(j) Employee benefits

The Corporation provides both short-term employee benefits and post-employment benefits. The post-employment benefits are provided through a defined benefit plan.

A defined benefit plan is a post-retirement benefit plan that specifies either the benefits to be received by an employee, or the method of determining those benefits.

(i) Short-term employee benefits

Short-term employee benefit obligations are recognized as the related services are rendered to the Corporation. Short-term employee benefit obligations are measured on an undiscounted basis and recognized as an expense unless the amount qualifies for capitalization as part of the cost of an item of inventory, PP&E or an intangible asset.

(ii) Multi-employer defined benefit plan

The Corporation provides a pension plan to its full-time employees through the Ontario Municipal Employees Retirement System ("the OMERS plan"). The OMERS plan is a multi-employer defined benefit plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The OMERS plan is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund.

3. Significant accounting policies (continued)

(j) Employee benefits (continued)

(ii) <u>Multi-employer defined benefit plan (continued)</u>

It is not practicable to determine the present value of the Corporation's obligation or the related current service cost under the OMERS plan as OMERS computes its obligations in accordance with an actuarial valuation in which all the benefit plans are co-mingled and therefore information for individual plans cannot be determined. As a result, the Corporation accounts for the OMERS plan as a defined contribution plan where contributions to the OMERS plan are recognized as an employee benefit expense in the periods during which services are rendered by employees.

(iii) <u>Non-pension defined benefit plans</u>

The Corporation provides certain health, dental and life insurance benefits under unfunded defined benefit plans to its eligible retired employees (the "defined benefit plans").

The Corporation's net obligation in respect of the defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The calculated benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Corporation's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation of the defined benefit obligation is performed by an independent qualified actuary using the projected unit credit method.

Remeasurement of the net defined benefit liability, which is comprised of actuarial gains and losses, is recognized immediately in the balance sheet with a charge or credit to other comprehensive income in the year in which they occur.

Past service costs arising from plan amendments is recognized immediately in net income at the earlier of the date the plan amendment occurs or when any related restructuring costs or termination benefits are recognized.

(k) Customer deposits

Customer deposits are collections from customers to guarantee the payment of energy bills. Deposits that are refundable to customers on demand are classified as a current liability. Interest is paid on customer deposits.

(l) Leases

Leases in which the Corporation assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Payments under finance leases are apportioned between interest expense and a reduction of the outstanding liability.

Other leases are operating leases and are not recognized in the Corporation's balance sheet. Payments made under operating leases are recognized as an expense on a straight-line basis over the term of the lease.

3. Significant accounting policies (continued)

(m) Payment in lieu of corporate income taxes ("PILs")

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). The payments in lieu of taxes are calculated on a basis as if the Corporation was a taxable company under the Income Tax Act (Canada).

Income tax expense comprises current and deferred tax and is recognized in net income except to the extent that it relates to items recognized directly in other comprehensive income.

Current tax is 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, using the liability method, on temporary differences arising between the carrying amount of balance sheet items and their corresponding tax basis, using the substantively enacted income tax rates for the years in which the differences are expected to reverse.

In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognized for deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized.

(n) Investments in joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The Corporation owns 50% of Collus. This investment is accounted for using the equity method and is recognized initially at cost.

Any excess cost over the acquisition of the Corporations share of the net fair value of the identifiable assets and liabilities of Collus is recognized as goodwill and included in the carrying value of the investment.

If Collus is in a loss position, then when the Corporation's share of losses in Collus equals or exceeds its interest, the Corporation would discontinue recognizing its share of further losses.

The financial statements include the Corporation's share of the income of Collus, from the purchase date being July 31, 2012.

4. Changes in accounting policies

Future accounting changes

There are new standards, amendments to standards and interpretations which have not been applied in preparing these financial statements. In particular, this includes IFRS 9 *Financial Instruments* which is effective from periods beginning on or after January 1, 2015, IFRS 13 *Fair Value Measurement* which is effective for periods beginning on or after January 1, 2013, and amendments to IFRS 7 and IFRS 9 which are effective at the date of adoption of IFRS 9.

All of the above standards or amendments relate to the measurement and disclosure of financial assets and liabilities. The extent of the impact on adoption of these standards and amendments has not yet been determined.

(In thousands of dollars)

5. Investment in a joint venture

In 2012 the Corporation acquired a 50% interest in Collus, a joint venture of which the Corporation has joint control. The cost of the investment includes transaction costs and the share of Collus net income amounting to $8,243.

Collus is involved in the distribution of electricity in Collingwood, Thornbury, Stayner and Creemore as well as the provision of other utility services in the service area of Clearview and the Town of The Blue Mountains in the Province of Ontario. Collus' principal place of business is the Town of Collingwood.

The following judgments were used in determining that the investment was a joint venture:

- Joint control was established by assessing that both the Corporation and the City of Collingwood have unanimous consent over key transactions within Collus. This was done through the agreements that were signed.
- This classification of the investment in Collus as a joint venture was determined through analysis of the rights and obligations of the investment, specifically the legal structure.

Summarized financial information for Collus follows. There were no significant restrictions from borrowing arrangements or any commitments incurred on behalf of Collus in relation to the Corporation.

	2012
	$
Total Assets	**26,982**
Total Liabilities	**19,789**
Net Revenue	**7,323**
Total income and other comprehensive income	**300**
Share of income and other comprehensive income	**150**

6. Inventories

During fiscal 2012, an amount of $34 (2011 - $109) was recorded as an expense for the write-down of obsolete or damaged inventory to net realizable value.

(In thousands of dollars)

7. Property, plant and equipment

	Land and Buildings	Distribution and Other Assets	Construction Work -in-Progress		Total
	$	$	$		$
Cost or deemed cost					
Balance at January 1, 2011	56,410	579,564	26,472		662,446
Additions	1,050	94,630	(1,526)		94,154
Transfers to Intangibles	-	(1,795)	-		(1,795)
Disposals	-	(3,627)	-		(3,627)
Balance at December 31, 2011	57,460	668,772	24,946		751,178
Additions	7724	88,740	39,150		135,614
Adjustments		1,953	-		1,953
Disposals		(1,638)	-		(1,638)
Balance at December 31, 2012	**65,184**	**757,827**	**64,096**		**887,107**
Accumulated depreciation					
Balance at January 1, 2011	-	-	-		-
Depreciation expense	1,110	32,796	-		33,906
Adjustments	-	-	-		-
Disposals	-	(1,922)	-		(1,922)
Balance at December 31, 2011	1,110	30,874	-		31,984
Depreciation expense	1,124	31,230	-		32,354
Adjustments	-	1,953	-		1,953
Disposals	-	(107)	-		(107)
Balance at December 31, 2012	**2,234**	**63,950**	**-**		**66,184**
Carrying amounts					
At January 1, 2011	56,410	579,564	26,472	-	662,446
At December 31, 2011	56,350	637,898	24,946	-	719,194
At December 31, 2012	**62,950**	**693,877**	**64,096**	**-**	**820,923**

Included in PP&E costs is $13,639 (2011 - $12,235) of operating expenses and $778 (2011 - $303) of interest capitalized during the year. These costs have been capitalized at a rate of 5.2% (2011 – 5.63%).

The Corporation leases its operations centre under a finance lease agreement. The leased operations centre secures the lease obligation. At December 31, 2012 the net carrying amount of the operations centre was $16,086 (2011 - $16,818; January 1, 2011 - $17,549).

(In thousands of dollars)

8. Intangible assets and goodwill

(a) Intangible assets

	Land Rights	Computer Software	Capital Contributions	Total
	$	$	$	$
Cost or deemed cost				
Balance at January 1, 2011	730	2,731	612	4,073
Additions	35	5,256	(3)	5,288
Transfers from PP&E	-	1,795	-	1,795
Disposals	-	-	-	-
Balance at December 31, 2011	765	9,782	609	11,156
Additions	32	2,289	4,363	6,684
Transfers	-	-	-	-
Disposals	-	-	-	-
Balance at December 31, 2012	**797**	**12,071**	**4,972**	**17,840**
Accumulated amortization				
Balance at January 1, 2011	-	-	-	-
Amortization expense	-	2,137	29	2,166
Disposals	-	-	-	-
Balance at December 31, 2011	-	2,137	29	2,166
Amortization expense		2,537	288	2,825
Disposals	-	-	-	-
Balance at December 31, 2012	**-**	**4,674**	**317**	**4,991**
Carrying amounts				
At January 1, 2011	730	2,731	612	4,073
At December 31, 2011	765	7,645	580	8,990
At December 31, 2012	**797**	**7,397**	**4,655**	**12,849**

(b) Impairment testing of goodwill and indefinite life intangible assets

For the purpose of impairment testing, goodwill with a carrying amount of $42,543 (2011 - $42,543; January 1, 2011 – $42,543) and land rights with a carrying amount of $797 (2011 - $765; January 1, 2011 - $730) are allocated to the Corporation's rate-regulated CGU. The Corporation tested goodwill and land rights for impairment as at December 31, 2012, December 31, 2011 and at January 1, 2011 in accordance with its policy described in Note 3.

The recoverable amount of the rate-regulated CGU was determined based on its value-in-use. The Corporation has used discounted cash flow analysis to determine value in use. The value-in-use was determined in the same manner at December 31, 2012, December 31, 2011 and January 1, 2011.

(In thousands of dollars)

8. Intangibles assets and goodwill (continued)

(b) Impairment testing of goodwill and indefinite life intangible asset (continued)

The calculation of value in use for the rate regulated CGU was based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results using a 5 year forecast with growth rates of 2.5% (2011 - 2.5%, January 1, 2011 – 2.5%) built into the forecast. Growth rates were determined using the Bank of Canada inflation forecast.

- A pre-tax discount rate of 6.30% (2011- 6.77%, January 1, 2011 – 7.22%) and terminal value was used to discount the cash flows, this is derived from the Weighted Average Cost of Capital calculation. A discount rate increase of 1.6% would result in the carrying amount of the rate regulated CGU exceeding the recoverable amount by $3 million.

The calculation of value in use for the Permitted Generation Business unit CGU was based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results using a 5 year forecast with growth rates of 2.5% (2011 - 2.5%, January 1, 2011 – 2.5%) built into the forecast. Growth rates were determined using the Bank of Canada inflation forecast.

- A pre-tax discount rate of 9.18% (2011 - 8.58%, January 1, 2011 – 8.93%) and terminal value was used to discount the cash flows, this is derived from the Weighted Average Cost of Capital calculation. A discount rate increase of 4% would result in the carrying amount of the Permitted Generation Business unit CGU exceeding the recoverable amount by $5 million.

9. Accounts payable and accrued liabilities

	2012	2011	January 1, 2011
	$	$	$
Accounts payable - energy purchases	**58,480**	60,133	59,689
Debt retirement charge payable - OEFC	**4,319**	4,131	4,340
Payroll payable	**4,963**	5,125	5,120
Interest payable	**3,420**	3,089	3,089
Commodity taxes payable	**(1,395)**	2,757	1,967
Customer receivables in credit balances	**3,456**	4,415	8,263
Other accounts payable and accrued liabilities	**40,417**	36,463	22,871
	113,660	116,113	105,339

10. Related party balances and transactions

(a) Transactions with jointly controlling shareholders

The amount due to / (from) related parties is comprised of amounts payable to / (receivable from) the City of Vaughan, the City of Markham and the City of Barrie and their wholly-owned subsidiaries.

(In thousands of dollars)

10. Related party balances and transactions (continued)

(a) Transactions with jointly controlling shareholders (continued)

Components of the amounts due to / (from) related parties are as follows:

	2012	2011	January 1, 2011
	$	$	$
Due from:			
City of Vaughan	**673**	648	538
City of Markham	**1,483**	789	950
City of Barrie	**858**	736	947
	3,014	2,173	2,435
Due to:			
City of Vaughan	**6,523**	6,360	5,957
City of Markham	**7,145**	6,633	6,023
City of Barrie	**282**	282	2,669
	13,950	13,275	14,649

Other significant related party transactions with the jointly controlling shareholders not otherwise disclosed separately in the financial statements, are summarized below:

		2012			2011	
	City of Vaughan	**City of Markham**	**City of Barrie**	City of Vaughan	City of Markham	City of Barrie
	$	**$**	**$**	$	$	$
Revenue						
Energy and distribution	**5,527**	**7,741**	**6,746**	5,079	5,905	6,316
Shared services	**1,781**	**2,791**	**-**	1,725	2,323	652
Total Revenue	**7,308**	**10,532**	**6,746**	6,804	8,228	6,968
Expenses						
Realty taxes	**661**	**456**	**283**	748	410	290
Facilities rental and other	**29**	**19**	**12**	211	37	41
Total	**6,618**	**10,057**	**6,451**	5,845	7,781	6,637

These transactions are in the normal course of operations and are recorded at the exchange amount. The Corporation has certain operating leases with the City of Vaughan, City of Markham and City of Barrie to lease rooftops on a number of buildings for which feed-in tariff contracts have been obtained. The current year lease expense has been included in the 'Facilities rental and other' line on the table above, and the future operating lease commitments have been disclosed in Note16.

(In thousands of dollars)

10. Related party balances and transactions (continued)

(b) Key management personnel compensation

Key management personnel are comprised of the Corporation's senior management team. The compensation paid or payable to key management personnel is as follows:

	2012	2011
	$	$
Short-term employment benefits and salaries	**7,526**	6,646
Post-employment benefits	**2**	2
Termination benefits	**178**	185
	7,706	6,833

11. Short-term debt

(a) Credit facilities

On December 17, 2008 the Corporation executed an unsecured credit facility with a Canadian chartered bank. The credit facility is renewable annually. The credit facility agreement provides an extendible 364-day committed revolving credit facility of $75,000, an uncommitted demand facility of $25,000 for a specific purpose, and an uncommitted Letter of Guarantee facility of $15,000.

As at December 31, 2012, the Corporation had utilized $14,999 (2011 - $12,484, January 1, 2011 - $12,484) of the uncommitted Letter of Guarantee facility for a letter of credit that was provided to the IESO to mitigate the risk of default on energy payments. With the opening of Ontario's electricity market to wholesale and retail competition on May 1, 2002 ("Open Access"), the IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the letter of credit if the Corporation defaults on its payment. Further, as at December 31, 2012, an additional $450 (2011 - $555, January 1, 2011 - $444) of the uncommitted Letter of Guarantee facility was utilized as security for operation projects.

The 364-day committed revolving credit facility can be drawn upon by direct advances, bearing interest at the lower of prime plus 0.15% or Bankers' Acceptance of a stamping fee plus 110 basis points (1.10% per annum). The uncommitted demand facility bears an interest rate at the lower of prime minus 0.10% or Bankers' Acceptance of a stamping fee plus 85 basis points (0.85% per annum). The Letter of Guarantee facility bears a charge of 50 basis points (0.50%) per annum.

The amount of short-term debt drawn on the credit facilities consists of:

	2012	2011	January 1, 2011
	$	$	$
364-day committed revolving credit facility	**-**	15,000	15,000
Uncommitted demand facility	**25,000**	25,000	25,000
	25,000	40,000	40,000

(In thousands of dollars)

11. Short-term debt (continued)

(b) Ontario Infrastructure and Lands Corporation ("Infrastructure Ontario") financing

On October 15, 2010 the Corporation secured financing with Infrastructure Ontario for its Permitted Generation Business unit. The funding is available for up to 5 years from the date that the agreement was signed.

As at December 31, 2012, the Corporation has utilized $8,523 (2011 - $4,186, January 1, 2011 - $827) of the $90,000 financing facility, of which $1,911 (2011 – $980, January 1, 2011 – Nil) was transferred to a long-term debenture. Each advance bears interest at a floating rate per annum as determined by Infrastructure Ontario. The advance interest rate at December 31, 2012 was 1.74% and interest expense for the year was $13.

The Corporation will pay Infrastructure Ontario a stand-by fee calculated at a rate of 25 basis points (0.25%) on the unadvanced balance of the committed amount should the Corporation fail to draw any funds pursuant to the agreement from Infrastructure Ontario during any period of 12 consecutive months commencing initially from October 15, 2010 and subsequently from the date of the draw of any such funds until the earlier of the facility termination date October 15, 2015 or the full advance of the committed amount. Infrastructure Ontario financing is secured by the assets of the Permitted Generation Business unit. The financial covenants require a debt service coverage ratio of 1:1 or higher, a debt to capital ratio of 70% or lower, and a current ratio of 1:1 or higher. See Note 18 on the compliance of the covenant.

12. Long-term debt

(a) Bank term loan

The bank term loan of $50,000 (2011 - $50,000, January 1, 2011 - $50,000) is a 5 year fixed rate term loan with a Canadian Chartered Bank which bears interest at an annual rate of 5.08%. It is a non-amortizing loan with repayment at the end of the contracted term, February 26, 2013. The financial covenants require a total debt to capitalization ratio of no greater than 0.60:1, and to maintain an interest coverage ratio of no less than 1.25:1. See Note 18 on the compliance of the covenant.

(b) Debentures payable

	2012	2011	January 1, 2011
	$	$	$
6.45% unsecured debentures due August 15, 2012, interest payable in arrears semi-annually on August 15 and February 15	**-**	124,489	123,765
3.958% unsecured debentures due July 30, 2042, interest payable in arrears semi-annually on January 30 and July 30	**198,189**	-	-
	198,189	124,489	123,765

In August 2012 the Corporation repaid the Electricity Distributors Finance Corporation ("EDFIN") debenture upon its maturity in the amount of $125,000.

In July 2012 the Corporation raised gross proceeds of $200,000 (net of transaction costs of $1,811) through a private placement offering. The debentures rank *pari passu* with all of the Corporation's other senior unsubordinated and unsecured obligations.

(In thousands of dollars)

12. Long-term debt (continued)

(b) Debentures payable (continued)

The debentures are subject to a financial covenant. This covenant requires that neither the Corporation nor any designated subsidiary may incur any funded obligation (other than non-recourse debt, capital lease obligations, intercompany indebtedness and purchase money obligations) unless the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. As at December 31, 2012 the Corporation is in compliance with this covenant.

(c) Notes payable

	2012	2011	January 1, 2011
	$	$	$
Promissory note issued to the City of Vaughan	**78,236**	78,236	78,236
Deferred interest on promissory note issued to the City of Vaughan	**-**	8,743	8,743
Promissory note issued to the City of Markham	**67,866**	67,866	67,866
Deferred interest on promissory note issued to the City of Markham	**-**	7,585	7,585
Promissory note issued to the City of Barrie	**20,000**	20,000	20,000
Total long term notes payable	**166,102**	182,430	182,430
Less current portion:			
Deferred interest on promissory note issued to the City of Vaughan	**8,743**	-	-
Deferred interest on promissory note issued to the City of Markham	**7,585**	-	-
Total current notes payable	**16,328**	-	-
Total notes payable	**182,430**	-	-

On June 1, 2004 an unsecured 20 year term promissory note was issued to the City of Vaughan in the amount of $78,236. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On June 1, 2004 an unsecured 20 year term promissory note was issued to the City of Markham in the amount of $67,866. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On December 31, 2008, an unsecured 16 year term promissory note was issued to the City of Barrie in the amount of $20,000. Interest thereon commenced on January 1, 2009 is at an annual rate of 5.58%.

The three promissory notes are repayable 90 days following demand by the City of Vaughan, the City of Markham, and the City of Barrie, with subordination and conditions. These notes have been classified as long-term as it is not the intent of the City of Vaughan, the City of Markham, or the City of Barrie to demand repayment before January 1, 2014.

At the request of the City of Vaughan and the City of Markham, eight quarters of interest have been deferred commencing October 1, 2006. This deferred interest will be repayable in full on October 31, 2013 and is subject to the same interest rate and conditions as the original note.

12. Long-term debt (continued)

(d) *Infrastructure Ontario debentures*

As at December 31, 2012, the Corporation had transferred $1,911 (2011 - $980; January 1, 2011 - $Nil) of the construction financing it has accessed from Infrastructure Ontario into long-term debt.

A note in the amount of $980 bears interest at a rate of 4.09% per annum payable on May 15 and November 15 each year and matures on November 17, 2031.

A note in the amount of $931 bears interest at a rate of 3.54% per annum payable on February 15 and August 15 each and matures on August 1, 2032.

13. Post-employment benefits

(a) *Multi-employer defined benefit plan*

During fiscal 2012, the expense recognized in conjunction with the OMERS plan, which is equal to contributions due for the year was $4,591 (2011 - $3,714). At December 31, 2012, $698 (2011 - $633; January 1, 2011 - $532) of contributions were payable to the OMERS plan and were included in accounts payable and accrued liabilities on the balance sheet.

As at December 31, 2012, OMERS had approximately 420,000 members, of whom approximately 533 are current employees of the Corporation. The accrued benefit obligation of the OMERS plan as shown in OMERS financial statements as at December 31, 2012 is $69,122 million, with a funding deficit of $9,924 million. The funding deficit will result in future payments by the participating employers.

The Corporation shares in the actuarial risks of the other participating entities in the OMERS plan and its future contributions may therefore be increased due to actuarial losses relating to the other participating entities. In addition, the withdrawal of other participating entities from the OMERS plan may also result in an increase to the Corporation’s future contribution requirements.

(In thousands of dollars)

13. Post-employment benefits (continued)

(b) Non-pension defined benefit plans

A reconciliation of the obligation for the defined benefit plans is as follows:

	2012	2011
	$	$
Defined benefit obligation, beginning of the year	**16,811**	15,685
Amounts recognized in net income:		
Current service cost	**1,051**	992
Interest expense	**744**	745
Past service cost and gains/losses arising from settlements	**-**	(1,298)
	1,795	439
Amounts recognized in other comprehensive income:		
Remeasurement of defined benefit obligation:		
Actuarial gains/losses arising from changes in demographic assumptions	**-**	-
Actuarial gains/losses arising from changes in financial assumptions	**-**	1,006
	-	1,006
Payments from the plan	**(558)**	(319)
Defined benefit obligation, end of the year	**18,048**	16,811

Actuarial gains and losses recognized in other comprehensive income for 2012 nil (2011 - $1,006) include a tax amount of 2012 nil (2011 - $267) and thus are presented on a net basis in other comprehensive income as 2012 nil (2011 - $739).

The obligation for the defined benefit plans is presented in the balance sheet as post-employment benefits.

The significant actuarial assumptions used to determine the present value of the obligation for the defined benefit plans are as follows:

	2012	2011
	%	%
Discount rate	**4.50**	4.50
Rate of compensation increase	**3.50**	3.50
Medical benefits costs escalation	**5.00 - 7.63**	5.00 - 8.00
Dental benefits costs escalation	**5.00**	5.00

(In thousands of dollars)

14. Share capital

The Corporation's authorized share capital is made up of an unlimited number of common shares, and an unlimited number of Class A non-voting common shares, all of which are without nominal or par value.

The share capital issued and outstanding during the period is as follows:

	Common shares		Class A common shares		Total
	Shares	$	Shares	$	$
Balance at January 1, 2011	100,000	247,183	4,056	2,435	249,618
Issued for cash	-	-	3,899	2,339	2,339
Balance at December 31, 2011	100,000	247,183	7,955	4,774	251,957
Issued for cash	-	-	47,240	28,344	28,344
Balance at December 31, 2012	**100,000**	**247,183**	**55,195**	**33,118**	**280,301**

Of the total 100,000 common shares issued, 45,315 common shares are registered under Vaughan Holdings Inc., 34,185 common shares are registered under Markham Enterprises Corporation and 20,500 common shares are registered under Barrie Hydro Holdings Inc.

On November 23, 2010 a Subscription Agreement was signed between the Corporation and its Shareholders for new Class A common shares for the purposes of the Shareholders providing equity for the Corporation's Permitted Generation Business unit. The articles of incorporation and shareholders agreement were amended in order to proceed with the subscription agreement. This Subscription Agreement expired on December 31, 2011 and as such, a revised Subscription Agreement was signed between the Corporation and its Shareholders on January 1, 2012 to extend the equity financing in respect of the Corporation's Permitted Generation Business unit.

The maximum amount of Class A common shares that are available under the subscription agreement is 100,000. During the year, an additional 47,240 (2011 – 3,899) of the Class A common shares were issued under the subscription agreement for an amount of $28,344 (2011 - $2,339).

Of the total 55,195 (2011 – 7,955) Class A common shares issued, 25,011 (2011 – 3,604) Class A common shares are registered under Vaughan Holdings Inc., 18,869 (2011 – 2,720) Class A common shares are registered under Markham Enterprises Corporation and 11,315 (2011 – 1,631) Class A common shares are registered under Barrie Hydro Holdings Inc.

Dividends

The Corporation has established a dividend policy to pay a minimum of 50% of Modified IFRS ("MIFRS", framework used for reporting to the OEB) net income, excluding the Permitted Generation Business unit income, with consideration given to the following:

- Cash position at the beginning of the current year;
- Working capital requirements for the current year; and
- Net capital expenditures required for the current year.

The Corporation paid a dividend of $160.87 per share (2011 – $138.57) on the common shares during the year, amounting to a total dividend of of $16,087 (2011 - $13,857). The Corporation is proposing to continue to follow the practice of proposing a dividend to be paid on common shares in 2013 that represents 50% of the MIFRS net income in the amount of $149.16 per share amount to $14,916. There is no tax affect as the dividends are paid out on an after tax basis.

14. Share capital (continued)

The Corporation has also established a dividend policy for its Permitted Generation Business unit to distribute a dividend on the Class A common shares determined as follows:

- The Corporation will target an IRR of 10.5% on the Permitted Generation Business Unit. As each project is completed by the Permitted Generation Business Unit, the Corporation expects to make distributions calculated with reference to the Class A Common Shares equity injections made by the Shareholders from time to time, provided that the amount of each dividend will be at the discretion of the Board of Directors ("Board") and may be greater or lesser than the below having regard to the financial and operating results of the Corporation as a whole;
  - For purposes of the dividend declaration that follows receipt of the unaudited IFRS financial statements for the Permitted Generation Business unit at mid-year, such amounts shall be the greater of:
    - the amounts reported in the most recent unaudited year-end IFRS financial statements for the Permitted Generation Business unit, or
    - the sum of fifty percent (50%) of the amounts reported in the most recent unaudited year-end IFRS financial statements for the Permitted Generation Business unit plus 100% of the amounts reported in the most recent unaudited mid-year IFRS financial statements for the Permitted Generation Business unit (i.e. for a six-month period).
- In the Post-Construction Period or earlier as determined by the Board, the net free cash flow will be paid to the holders of the Class A Common Shares subject to the criteria listed below:
  - Dividends will be declared by the Corporation's Board of Directors after due consideration is given to the following:
    - All financial covenants on any debt issued by the Corporation.
    - Qualifications to meet external bond rating criteria and ensure no adverse impact on the current credit rating of the Corporation. The Corporation will advise the Shareholders of its credit rating from time to time (and at least on an annual basis).
    - Cash flow requirements of the Permitted Generation Business Unit of the Corporation to meet working capital requirements and short-term (2 year) plans of capital expenditures.
    - The maintenance of the planned 60/40 debt to equity ratio.

There have been no dividends on Class A common shares paid during the year (2011 - $Nil).

15. Insurance

The Corporation maintains appropriate types and levels of insurance with major insurers. With respect to liability insurance, the Corporation is a member of the Municipal Electricity Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousands of dollars of service revenue subject to a credit or surcharge based on each member's claims experience. The maximum coverage is $24,000 for liability insurance, $411,460 for property insurance and $15,000 for vehicle insurance.

(In thousands of dollars)

16. Leases

(a) Finance leases

The Corporation leases its operations centre under a 25 year lease agreement. The lease agreement includes both land and building elements. Upon entering into this lease arrangement, the Corporation classified the building element of the lease as a finance lease since it was determined that substantially all of the benefits and risks incidental to ownership of the operation centre were transferred to the Corporation (the lessee). The component of the annual basic rent related to the land is classified and recorded as an operating lease and the component related to the building is classified as a finance lease.

			2012
	Future minimum lease payments (including interest)	**Interest**	**Present value of minimum lease payments**
	$	**$**	**$**
Less than one year	**1,430**	**1,135**	**295**
Between one and five years	**7,150**	**5,344**	**1,806**
More than five years	**24,996**	**9,695**	**15,301**
	33,576	**16,174**	**17,402**

			2011			January 1, 2011
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	$	$	$	$	$	$
Less than one year	$ 1,430	$ 1,153	277	1,430	1,171	259
Between one and five years	7,150	5,459	1,691	7,149	5,566	1,583
More than five years	26,425	10,714	15,711	27,856	11,760	16,096
	35,005	17,326	17,679	36,435	18,497	17,938

Interest on the lease obligation during fiscal 2012 amounted to $1,153 (2011 - $1,171) based on the rate of 6.57% per annum (2011 – 6.57%). Amortization of the corresponding PP&E during fiscal 2012 amounted to $733 (2011 - $731) based on the straight-line method with a useful life equal to the term of the lease (25 years).

(In thousands of dollars)

16. Leases (continued)

(b) Operating leases

The Corporation is also committed to lease agreements for various vehicles, equipment,rooftops and the land portion of the finance lease for solar projects that have been classified as operating leases. The leases typically run for a period of 5 to 20 years.

The future minimum non-cancellable annual lease payments (including the land portion of the operating centre lease referred to in (a) above) are as follows:

	2012	2011	January 1, 2011
	$	$	$
Less than one year	**1,612**	1,348	1,128
Between one and five years	**7,793**	7,360	5,796
More than five years	**24,599**	25,063	21,125
	34,004	33,771	28,049

During the year ended December 31, 2012 an expense of $1656 (2011 - $990) was recognized in net income in respect of operating leases.

17. Financial instruments and risk management

(a) Fair value of financial instruments

The Corporation's accounting policies relating to the recognition and measurement of financial instruments are disclosed in Note 3(d).

The carrying amount of cash, accounts receivable, unbilled revenue, amounts due from related parties, bank indebtedness, liability for subdivision development, short-term debt, short- term Infrastructure Ontario financing, customer deposits, accounts payable and accrued liabilities and amounts due to related parties approximates fair value because of the short maturity of these instruments.

The carrying value and fair value of the Corporation's other financial instruments are as follows:

		2012		2011		January 1, 2011
Description	**Carrying value**	**Fair value**	Carrying value	Fair value	Carrying value	Fair value
	$	**$**	$	$	$	$
Liabilities						
Notes payable	**182,430**	**225,972**	182,430	226,432	182,430	207,468
Debentures payable	**198,189**	**222,172**	124,489	130,509	123,765	131,326
Infrastructure Ontario	**1,911**	**2,066**	980	1,063	-	-
Bank term loan	**50,000**	**50,244**	50,000	51,829	50,000	52,529
	432,530	**500,454**	357,899	409,833	356,195	391,323

(In thousands of dollars)

17. Financial instruments and risk management (continued)

(a) Fair value of financial instruments (continued)

The carrying amounts shown in the table are included in the balance sheets under the indicated captions.

The fair value of notes payable, debentures payable and bank term loan, which is determined for disclosure purposes, is calculated using the discounted cash flow model based on the contractual terms of the instrument discounted using an appropriate market rate of interest.

(b) Risk factors

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk and liquidity risk as well as related mitigation strategies have been discussed below. However, the risks described below are not exhaustive of all the risks nor will the mitigation strategies eliminate the Corporation's exposure to all risks listed.

(c) Credit risk

The Corporation's primary source of credit risk to its accounts receivable result from customer's failing to discharge their dues for electricity consumed and billed.

The Corporation has approximately 355,000 (2011 - 335,000) residential and commercial customers. In order to mitigate such potential credit risks, the Corporation has taken various measures in respect of its Energy customers such as collecting security deposits and/or letters of credit amounting to $15,216 (2011 - $15,436, January 1, 2011 - $17,043) in accordance with OEB guidelines, reviewing Dun & Bradstreet ("D&B") reports for the top 3000 commercial customers with an outstanding balance of $5 or more, in-house collection department as well as external collection agencies and a bad debt insurance policy for $4,500 (2011 - $4,500, January 1, 2011 - $4,500) related to energy receivables. Thus, the Corporation monitors and limits its exposure to such credit risks on an ongoing basis.

Pursuant to their respective terms, accounts receivable are aged as follows at December 31:

	2012		2011		January 1, 2011	
	Total		Total		Total	
	$	**%**	$	%	$	%
Less than 30 days	**70,205**	**84**	72,592	83	56,537	78
30 - 60 days	**9,151**	**11**	7,992	9	8,493	12
61 - 90 days	**2,218**	**3**	4,426	5	3,434	5
Greater than 91 days	**2,336**	**3**	3,017	3	4,082	5
Total outstanding	**83,910**	**100**	88,027	100	72,546	100
Less: allowance for doubtful accounts	**(1,487)**	**(2)**	(1,471)	(2)	(2,078)	(3)
	82,423	**99**	86,556	98	70,468	97

As at December 31, 2012, there was no significant concentration of credit risk with respect to any financial assets.

(In thousands of dollars)

17. Financial instruments and risk management (continued)

(d) Interest rate risk

The Corporation manages its exposure to interest rate risk by issuing long term fixed rate debt in the form of debentures, promissory notes and bank loans. It also ensures that all payment obligations are met by adopting proper capital planning.

As part of the Corporations' revolving demand operating credit facility, the Corporation may utilize the line of credit for working capital and/or capital expenditure purposes. Such short-term borrowing may expose the Corporation to short-term interest rate fluctuations as follows:

	2012	2011	January 1, 2011
364 day revolving facility			
Prime based loans	**PR*+0.15% p.a.**	PR*+0.15% p.a.	PR*+0.15% p.a.
Bankers Acceptances	**SF*+1.10% p.a.**	SF*+1.10% p.a.	SF*+1.10% p.a.
Demand facility			
Prime based loans	**PR*–0.15% p.a.**	PR*–0.10% p.a.	PR*–0.10% p.a.
Bankers acceptances	**SF*+0.85% p.a.**	SF*+0.90% p.a.	SF*+0.90% p.a.
Letter of guarantee facility	**0.50% p.a.**	0.50% p.a.	0.50% p.a.
Infrastructure Ontario financing	**Floating rate p.a.**	Floating rate p.a.	Floating rate p.a.

Note: PR - Prime Rate, SF* - Stamping Fee*

A sensitivity analysis was conducted to examine the impact of a change in the prime rate or stamping fee on the short-term debt. A variation of 1% (100 basis points), with all other variables held constant, would increase or decrease the annual interest expense by approximately $420.

Cash balances that are not required for day to day obligations earn an interest of Prime minus 1.7% per annum. Fluctuations in this interest rate could impact the level of interest income earned by the Corporation.

(e) Liquidity risk

Liquidity risks are those risks associated with the Corporation's inability to meet obligations associated with financial liabilities such as repayment of principal or interest payments on debts.

The Corporation monitors its liquidity risks on a regular basis to ensure there is sufficient cash flow to meet the obligations as they fall due as well as minimize the interest expense. Cash flow forecasts are prepared to monitor liquidity risks. Liquidity risks associated with its short-term and long-term debt are as follows:

			2012			2011
Maturity period	**Principal ***	**Interest**	**Total**	Principal *	Interest	Total
	$	**$**	**$**	$	$	$
Less than 1 year	**238,685**	**19,098**	**257,783**	273,541	8,068	281,609
1-5 years	**365**	**85,753**	**86,118**	106,511	10,801	117,312
6-10 years	**441**	**85,822**	**86,263**	224	136	360
Over 10 years	**365,395**	**149,857**	**515,252**	166,641	115,195	281,836
	604,886	**340,530**	**945,416**	546,917	134,200	681,117

* The principal includes $1,811 (2011 - $511) of deferred issuing cost amortization

(In thousands of dollars)

17. Financial instruments and risk management (continued)

(f) Hedging/Derivative risk

The Corporation has a swap and derivative transaction policy to enable the Corporation to enter into agreements such as interest rate swaps where 100% of the floating rate risk is hedged into a fixed rate. This is done for prudent risk management purposes and not speculative purposes.
The Corporation has not entered into any such transactions during the year current or prior years.

18. Capital structure

The Corporation's main objectives in the management of capital are to:

(i) Ensure that there is access to various funding options at the lowest possible rates for the various capital initiatives and working capital requirements necessary for the rate-regulated business;

(ii) Ensure compliance with various covenants related to its short-term debt, Infrastructure Ontario financing, bank term loan, debentures payable and Infrastructure Ontario debentures;

(iii) Consistently maintain a high credit rating for the Corporation;

(iv) Maintain a split of approximately 60% debt, 40% equity as recommended by the OEB;

(v) Ensure interest rate fluctuations are mitigated primarily by long term borrowings as well as capital planning; and

(vi) Deliver appropriate financial returns to shareholders.

The Corporation considers shareholders' equity, long-term debt and certain short-term debt as its capital. The capital structure as at December 31, 2012 is as follows:

	2012	2011	January 1, 2011
	$	$	$
Shareholders' equity			
Share capital (Note 14)	**280,301**	251,957	249,618
Accumulated other comprehensive income	**(739)**	(739)	-
Retained earnings	**116,410**	97,171	85,417
Total equity	**395,972**	348,389	335,035
Short-term debt			
Short-term debt (Note 11)	**25,000**	40,000	40,000
Infrastructure Ontario financing (Note 11)	**6,612**	3,206	827
Bank term loan (Note 12)	**50,000**	-	-
Notes payable (Note 12)	**16,328**	-	-
Long-term debt			
Bank term loan (Note 12)	-	50,000	50,000
Debentures payable (Note 12)	**198,189**	124,489	123,765
Notes payable (Note 12)	**166,102**	182,430	182,430
Infrastructure Ontario debentures (Note 12)	**1,911**	980	-
Total debt	**464,142**	401,105	397,022
Total capital	**860,114**	749,494	732,057

(In thousands of dollars)

18. Capital structure (continued)

As at December 31, 2012, the Corporation was in compliance with covenants related to its short-term debt, bank term loan and debentures payable. The Corporation received a waiver with respect to the current ratio covenant calculation as at December 31, 2012 on its Infrastructure Ontario financing covenants. Details relating to covenants are disclosed in Note 11 and Note 12.

The Corporation is within the debt and equity requirements of the OEB. The Corporation's dividend policy is disclosed in Note 14.

19. Operating expenses

Operating expenses comprise:

	2012	2011
	$	$
Labour	**43,775**	33,592
Contract / Consulting	**14,052**	11,755
Materials	**1,124**	1,116
Vehicle	**1,392**	1,691
Other	**29,159**	28,514
Total	**89,502**	76,668

20. Income taxes

(a) Income tax expense

PILs recognized in net income comprise the following:

	2012	2011
	$	$
Current tax expense		
Current year	**(1,479)**	4,778
Deferred tax expense		
Origination and reversal of temporary differences	**11,161**	5,108
Change in deferred tax rate	**(2,397)**	-
	8,764	5,108
Income tax expense (2011 net of $267 allocated to OCI)	**7,285**	9,886

(In thousands of dollars)

20. Income taxes (continued)

(b) Reconciliation of effective tax rate

The PILs income tax expense differs from the amount that would have been recorded using the combined Canadian federal and provincial statutory income tax rates. The reconciliation between the statutory and effective tax rates is as follows:

	2012	2011
	$	$
Income before taxes	**42,611**	35,764
Statutory Canadian federal and provincial income tax rates	**26.50%**	28.25%
Expected tax provision on income at statutory rates	**11,292**	10,103
Increase (decrease) in income taxes resulting from:		
Permanent differences	**484**	262
Changes and differences in deferred tax rate	**(2,397)**	689
Scientific Research & Experimental Development tax credits	**(762)**	(668)
Other	**(1,332)**	(500)
Income tax expense (2011 net of $267 allocated to OCI)	**7,285**	9,886

Statutory Canadian federal and provincial income tax rates for the current year comprise 15% (2011: 16.5%) for federal corporate tax and 11.5% (2011: 11.75%) for corporate tax in Ontario. On January 1, 2012 federal corporate tax decreased from 16.5% to 15% (2011: 18% to 16.5%). There was no change in the provincial corporate tax rate in 2012 (2011: 12% to 11.5%).

(c) Deferred tax assets

Deferred tax assets are attributable to the following:

	2012	2011	January 1, 2011
	$	$	$
Employee future benefits	**4,783**	4,203	3,921
Property, plant and equipment	**30,265**	34,943	40,141
Intangible assets	**1,484**	1,517	1,643
Smart meter costs deferred	**-**	467	-
Other deductible temporary differences	**(2,450)**	491	581
	34,082	41,621	46,286

Movements in deferred tax balances during the year were as follows:

	2012	2011
	$	$
Balance at January 1	**41,621**	46,286
Recognized in net income	**(7,539)**	(4,398)
Recognized in OCI related to employee future benefits	**-**	(267)
Balance at December 31	**34,082**	41,621

(In thousands of dollars)

20. Income taxes (continued)

(d) Deferred tax liabilities

Deferred tax liability of $1,730 at December 31, 2012 (2011 - $505, January 1, 2011 - $61) represents differences between book and tax values of property, plant and equipment.

21. Net change in non-cash operating working capital

	2012	2011
	$	$
Accounts receivable	**4,133**	(16,088)
Unbilled revenue	**(6,018)**	1,838
Inventories	**321**	(217)
Prepaids and other assets	**(800)**	(317)
Due from a related party	**(841)**	262
Accounts payable and accrued liabilities	**(1,515)**	10,375
Customer deposits	**29**	(514)
Due to related parties	**675**	(1,374)
Liability for subdivision development	**1,066**	(2,185)
Other liabilities	**-**	(160)
	(2,950)	(8,380)

22. Contingencies, commitments and guarantees

(a) Contingencies

(i) Legal claims

The Corporation has been named as a defendant in several actions. No provision has been recorded in the financial statements for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

(b) Commitments

As at December 31, 2012, the Corporation has entered into agreements for capital projects and is committed to making payments of $48,700 in 2013.

(c) Guarantees

In the normal course of business, the Corporation enters into agreements that meet the definition of a guarantee as follows:

(i) The Corporation has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Corporation agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

22. Contingencies, commitments and guarantees (continued)

(c) Guarantees (continued)

(ii) Indemnity has been provided to all directors and/or officers of the Corporation for various items including, but not limited to, all costs to settle suits or actions due to association with the Corporation, subject to certain restrictions. The Corporation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Corporation. The maximum amount of any potential future payment cannot be reasonably estimated.

(iii) In the normal course of business, the Corporation has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Corporation to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Corporation has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

23. First-time adoption of IFRS

As stated in note 1, these are the first annual financial statements of the Corporation prepared in accordance with IFRS. The Corporation's financial statements were previously prepared in accordance with Generally Accepted Accounting Principles in Canada (Canadian GAAP).

The accounting policies described in note 3 have been applied in preparing the financial statements for the year end December 31, 2012, the comparative information provided for the year ended December 31, 2011 and in the preparation of the opening IFRS balance sheet as at January 1, 2011 (the date of transition).

(a) Mandatory exceptions

IFRS 1 states that estimates made in accordance with IFRS at the date of transition should be consistent with estimates made under Canadian GAAP (after adjustments to reflect any differences in accounting policies). Accordingly, estimates previously made under Canadian GAAP were not revised at the date of transition except where necessary to reflect changes in accounting policies.

(b) Elected exemptions

In preparing these financial statements in accordance with IFRS 1, the Corporation has elected a few of the optional exemptions that are available to a first-time adopter of IFRS. The optional exemptions elected by the Corporation are described below.

23. First-time adoption of IFRS (continued)

(b) Elected exemptions (continued)

(i) Business combinations

IFRS 1 provides an optional exemption whereby a first-time adopter may elect not to apply IFRS retrospectively to business combinations that occurred prior to the date of transition. This exemption applies equally to acquisitions of investments in associates and interests in joint ventures that occurred prior to the date of transition. The Corporation elected this exemption and did not restate business combinations that occurred prior to the date of transition.

(ii) Deemed cost

A first-time adopter with rate-regulated activities may hold items of PP&E or intangible assets for which the carrying amount of such items includes amounts that were determined in accordance with previous GAAP but do not qualify for capitalization under IFRS. In such cases the first-time adopter may elect to use the previous GAAP carrying amount of such an item at the date of transition as deemed cost.

Under Canadian GAAP, the carrying amount of the Corporation's PP&E and intangible assets used in rate-regulated activities was based on historical cost but included certain amounts that would not qualify for capitalization under IFRS. The Corporation elected to use the carrying amount of these items as determined under Canadian GAAP as deemed cost on the date of transition.

The items for which the deemed cost exemption was elected are part of the Corporation's rate-regulated CGU. As described in note 8, the rate-regulated CGU was tested for impairment at the date of transition and it was determined that the CGU was not impaired.

(iii) Leases

The Corporation has elected under IFRS 1 not to reassess whether an arrangement contains a lease under IFRIC 4 for contracts that were assessed under Canadian CGAAP. Arrangements entered into before the effective date of EIC 150 that have not subsequently been assessed under EIC 150, were assessed under IFRIC 4 and no additional leases were identified.

(iv) Transfers of assets from customers

The Corporation has elected to apply the transitional provisions in IFRIC 18 *Transfers of Assets from Customers.* This provision states that the effective date of this standard should be July 1, 2009 or the date of transition to IFRS whichever is later.

(v) Employee benefits

The Corporation has elected the IFRS 1 exemption which recognizes all unamortized cumulative actuarial gains and losses at the date of transition to retained earnings.

(c) Impact of transition

In preparing its opening IFRS consolidated balance sheet, the Corporation has adjusted amounts reported previously in its financial statements prepared in accordance with Canadian GAAP. IFRS 1 requires an entity to explain how the transition from its previous GAAP to IFRS affected its reported financial position, financial performance and cash flows by providing reconciliations of shareholders' equity, comprehensive income and cash flows for prior periods.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's financial position and performance is set out in the following tables and accompanying notes.

(In thousands of dollars)

23. First-time adoption of IFRS (continued)

Reconciliation of the balance sheet as at January 1, 2011:

	References	Canadian GAAP January 1, 2011	IFRS Adjustments	IFRS January 1, 2011
		$	$	$
Assets				
Current assets				
Cash		8,568	-	8,568
Accounts receivable	A	69,366	1,102	70,468
Unbilled revenue		92,207	-	92,207
Due from Related parties	G	-	2,435	2,435
Inventories		3,050	-	3,050
Prepaids and other assets		2,718	-	2,718
		175,909	3,537	179,446
Property, plant and equipment	C	642,059	20,387	662,446
Regulatory assets	A	31,961	(31,961)	-
Intangible assets	A	4,792	(719)	4,073
Deferred tax assets	D	54,539	(8,253)	46,286
Goodwill		42,543	-	42,543
		951,803	(17,009)	934,794
Liabilities				
Current liabilities				
Short-term debt		40,000	-	40,000
Infrastructure Ontario financing		827	-	827
Customer deposits	E	1,478	12,071	13,549
Accounts payable and accrued liabilities		105,339	-	105,339
Due to related parties	G	12,214	2,435	14,649
Income taxes payable		6,622	-	6,622
Liability for subdivision development	E	4,138	1,232	5,370
Finance lease obligation		259	-	259
		170,877	15,738	186,615
Long-term liabilities				
Notes payable		182,430	-	182,430
Debentures payable		123,765	-	123,765
Bank term loan		50,000	-	50,000
Finance lease obligation		17,679	-	17,679
Deferred revenue	C	-	23,364	23,364
Post-employment benefits	B	14,007	1,678	15,685
Deferred tax liabilities		61	-	61
Regulatory liabilities	A	69,540	(69,540)	-
Construction deposits	C	23,364	(23,364)	-
Customer deposits	E	12,071	(12,071)	-
Liability for subdivision development	E	1,232	(1,232)	-
Other liabilities		160	-	160
		494,309	(81,165)	413,144
Shareholders' equity				
Share capital		249,618	-	249,618
Retained earnings	A,B,D	36,999	48,418	85,417
		286,617	48,418	335,035
		951,803	-	934,794

(In thousands of dollars)

23. First-time adoption of IFRS (continued)

Reconciliation of the balance sheet as at December 31, 2011:

	References	Canadian GAAP December 31, 2011	IFRS Adjustments	IFRS December 31, 2011
		$	$	$
Assets				
Current assets				
Cash		-	-	-
Accounts receivable	A	86,933	(377)	86,556
Due from a related party	G	-	2,173	2,173
Unbilled revenue		90,369	-	90,369
Inventories		3,267	-	3,267
Prepaids and other		3,035	-	3,035
		183,604	1,796	185,400
Property, plant and equipment	A,C	690,041	29,153	719,194
Regulatory assets	A	14,591	(14,591)	-
Intangible assets	A	6,852	2,138	8,990
Deferred tax assets	B,D	49,533	(7,912)	41,621
Goodwill		42,543	-	42,543
		987,164	10,584	997,748
Liabilities				
Current liabilities				
Bank indebtedness		8,039	-	8,039
Short-term debt		40,000	-	40,000
Infrastructure Ontario financing		3,206	-	3,206
Customer deposits	E	1,005	12,030	13,035
Accounts payable and accrued liabilities		116,113	-	116,113
Due to related parties	G	11,102	2,173	13,275
Income taxes payable		3,446	-	3,446
Liability for subdivision development	E	2,984	201	3,185
Finance lease obligation		277	-	277
		186,172	14,404	200,576
Long-term liabilities				
Notes payable		182,430	-	182,430
Debentures payable		124,489	-	124,489
Bank term loan		50,000	-	50,000
Infrastructure Ontario debentures		980	-	980
Finance lease obligation		17,402	-	17,402
Deferred revenue	C	-	56,166	56,166
Post-employment benefits	B	15,265	1,546	16,811
Deferred tax liabilities		505	-	505
Regulatory liabilities	A	59,246	(59,246)	-
Construction deposits	C	33,045	(33,045)	-
Customer deposits	E	12,030	(12,030)	-
Liability for subdivision development	E	201	(201)	-
		495,593	(46,810)	448,783
Shareholders' equity				
Share capital		251,957	-	251,957
Accumulated other comprehensive income		-	(739)	(739)
Retained earnings	A,B,C, D	53,442	43,729	97,171
		305,399	42,990	348,389
		987,164	-	997,748

(In thousands of dollars)

23. First-time adoption of IFRS (continued)

Reconciliation of statement of comprehensive income for year ended December 31, 2011:

	Reference	Canadian GAAP December 31, 2011	IFRS Adjustments	IFRS December 31, 2011
		$	$	$
Revenue				
Sale of energy	A	751,457	8,828	760,285
Distribution revenue	A	160,914	(6,609)	154,305
Other revenue	A,C, F	10,052	4,430	14,482
Total revenue		922,423	6,649	929,072
Cost of power purchased	A	751,457	6,594	758,051
		170,966	55	171,021
Operating expenses	C	65,492	11,176	76,668
Depreciation and amortization	C	46,127	(11,701)	34,426
		59,347	580	59,927
Finance costs	C	23,821	342	24,163
Loss on disposals of assets		-	-	-
Income before income taxes		35,526	11,939	35,764
Income tax expense		5,222	4,931	10,153
Net income		30,304	7,008	25,611
Other comprehensive income				
Remeasurement of defined benefit obligation, net of tax	B	-	(739)	(739)
Total comprehensive income for the year		30,304	6,269	24,872

Explanation of adjustments:

(a) *Rate-regulated assets and liabilities*

At the date of transition, the Corporation derecognized all rate-regulated assets and liabilities that did not qualify for recognition under IFRS. Certain items that were presented as rate-regulated assets under Canadian GAAP qualify for recognition as other types of assets under IFRS. The effect is to increase PP&E by $20,387 at January 1, 2011 and by $29,153 at December 31, 2011; to decrease intangible assets by $719 at January 1, 2011 and increase it by $2,138 at December 31, 2011; to increase accounts receivable by $1,102 at January 1, 2011 and by $2,173 at December 31, 2011.

The total impact of this adjustment decreased total assets by $19,444 at January 1, 2011 and increased by $8,411 at December 31, 2011; decreased total liabilities by $69,540 at January 1, 2011 and by $36,125 at December 31, 2011 and increased retained earnings by $50,096 at January 1, 2011 and by $44,536 at December 31, 2011.

(In thousands of dollars)

23. First-time adoption of IFRS (continued)

(a) *Rate-regulated assets and liabilities (continued)*

The movements of the regulatory accounts are shown in the table below:

	January 1, 2011	December 31, 2011
	$	$
Assets		
Accounts Receivable	1,102	(377)
Property, Plant and Equipment	20,387	29,153
Regulatory assets	(31,961)	(14,591)
Intangible assets	(719)	2,138
Deferred tax assets	(8,253)	(7,912)
Total	(19,444)	8,411
Liablities		
Deferred tax liablities	(69,540)	(59,246)
Relcass construction deposits	(23,364)	(33,045)
Deferred revenue	23,364	56,166
Total	(69,540)	(36,125)
Retained Earnings		
Total change in assets	19,444	(8,411)
Total change in liablities	(69,540)	(36,125)
Total	(50,096)	(44,536)

(b) Application of IAS 19 (June 2011)

The Corporation adopted IAS 19 (June 2011) on January 1, 2012 and now accounts for employee benefits as described in its accounting policy. However, the Corporation has elected the IFRS 1 exemption which recognizes all cumulative unamortized actuarial gains and losses at the date of transition to retained earnings and going forward all actuarial gains and losses to other comprehensive income.

The Corporation also adjusted past service costs from predecessor utilities, and the transitional obligation from the adoption of Canadian GAAP section 3461 through retained earnings upon transition to IFRS.

The effect was to increase the post-employee benefit obligation by $1,678 at January 1, 2011 and by $1,546 at December 31, 2011; to decrease retained earnings by $1,678 at January 1, 2011 and by $1,678 at December 31, 2011; and to decrease operating expense by $132 for the year ended December 31, 2011.

The effect of recognizing actuarial gains and losses to other comprehensive income along with the related tax impact is a decrease in other comprehensive income by $739 at December 31, 2011, an increase in retained earnings by $739, a decrease in deferred tax assets by $267 and an increase in tax expense by $267.

23. First-time adoption of IFRS (continued)

(c) Capital assets

(i) Useful lives

The Corporation has adopted IAS 16 *Property, plant and equipment,* as a result the useful lives of the assets were reassessed to ensure management estimates are consistent with the actual asset use and assets were componentized as required by IAS 16. There was no impact on January 1, 2011, but for December 31, 2011 depreciation and amortization expense decreased by $11,701 and capital assets increased by $11,701.

(ii) Capitalization policy

In line with IAS 16 *Property, plant and equipment* requirements, the Corporation has assessed its capitalization policy to ensure that only directly attributable costs are included within its capital assets. The effect was to increase operating expenses balance by $11,176 for the year ended December 31, 2011 and to decrease capital assets balance by $11,176 as at December 31, 2011.

(iii) Interest capitalization

The Corporation applied IAS 23 *Borrowing Costs*. There was no impact to the balance sheet as at January 1, 2011. However, at December 31, 2011 finance costs increased by $342 and the capital asset balance decreased by $342; this was due to changing the definition of assets that qualify as taking a substantial period of time to get ready for their intended use.

(iv) Customer contributions

Under Canadian GAAP, customer contributions were netted against the cost of PP&E and amortized to income, as an offset to depreciation expense, on the same basis as the assets for which the customer contributions were received. Customer contributions were presented as construction deposits until the time that the related assets were put into service, at which point the contributions were reclassified as an offset to PP&E.

Under IFRIC 18 *Transfers of Assets from Customers*, customer contributions are recognized initially as deferred revenue, not as construction deposits, and are amortized into income over the life of the related assets.

The effect of the above is to increase deferred revenue by $23,364 at January 1, 2011 and by $33,045 at December 31, 2011; to decrease construction deposits by $23,364 at January 1, 2011 and by $33,045 at December 31, 2011; to increase PP&E by $23,121 at December 31, 2011 and to increase other revenue and depreciation expense by $291 for the year ended December 31, 2011.

(d) Deferred taxes

Deferred income taxes have decreased as a result of removing the gross-up that was required for rate-regulated accounting. The impact was to decrease retained earnings balance by $8,253 as at January 1, 2011 and to decrease rate regulated liability balance by $7,912 for the year ended December 31, 2011, however, as the rate regulated liability balance is not allowed to be recognized under IFRS this adjustment increased the tax provision.

The following reclassifications were made due to differences in presentation between Canadian GAAP and IFRS:

23. First-time adoption of IFRS (continued)

(e) Current liabilities

Under Canadian GAAP certain liabilities were presented as non-current on the basis that there was no intent for the liabilities to be settled within 12 months of the reporting date. The Corporation does not have the unconditional right to defer settlement of these liabilities and as a result, the liabilities must be presented as current liabilities under IFRS.

The effect is that customer deposits and the liability for subdivision development have been reclassified as current liabilities.

(f) Other revenue

Under Canadian GAAP, certain incidental revenue earned by the Corporation was presented as an offset to associated expenses. Netting of these accounts is not allowed under IFRS therefore, revenue is presented on a gross basis under IFRS.

The effect of the aforementioned is to increase other revenue and Finance Costs by $470 for the year ended December 31, 2011.

(g) Due from a related party

Under Canadian GAAP, amounts due from one of the Corporation's related parties were netted against amounts due to other shareholders. Netting of these accounts is not allowed under IFRS therefore, the amounts due from the related party are presented as a separate asset and liability under IFRS.