Consolidated Financial Statements of

ENERSOURCE CORPORATION

Years ended December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Enersource Corporation

We have audited the accompanying consolidated financial statements of Enersource Corporation, which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Enersource Corporation as at December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 26, 2015
Toronto, Canada

ENERSOURCE CORPORATION

Consolidated Statement of Financial Position
(In thousands of Canadian dollars)
As at December 31, 2014 and 2013

	Note	December 31, 2014	December 31, 2013 Recast- Note 2(d)
Assets			
Current assets:			
Cash and cash equivalents	5	$ 15,322	$ 58,800
Accounts receivable	6	59,414	58,172
Unbilled revenue		73,045	70,049
Income taxes receivable		711	-
Inventories	2,7	4,073	3,104
Prepaid expenses		2,181	3,521
Customer deposits	8	23,367	21,920
Total current assets		178,113	215,566
Non-current assets:			
Property, plant and equipment	2,9	556,617	531,936
Intangible assets	10	16,309	17,330
Promissory note	11	2,068	-
Deferred tax assets	13	16,747	13,393
Total non-current assets		591,741	562,659
Total assets		**$ 769,854**	**$ 778,225**
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	14	$ 105,858	$ 109,691
Income taxes payable		-	490
Advance payments		4,962	3,672
Deferred revenue		77	241
Customer deposits	8	23,367	21,920
Current portion of environmental provision	21	1,600	2,825
Total current liabilities		135,864	138,839
Non-current liabilities:			
Debentures payable	15	318,137	318,042
Deferred contributions	16	15,153	11,333
Post-employment benefits	17	7,035	5,986
Environmental provision	21	1,267	-
Total non-current liabilities		341,592	335,361
Total liabilities		477,456	474,200
Shareholders' equity:			
Share capital	18	175,691	175,691
Accumulated other comprehensive income		446	916
Retained earnings		116,261	127,418
Total shareholders' equity		292,398	304,025
Total liabilities and shareholders' equity		**$ 769,854**	**$ 778,225**

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board of Directors:

____________________ Director ____________________ Director

ENERSOURCE CORPORATION

Consolidated Statement of Comprehensive Income
(In thousands of Canadian dollars)
Years ended December 31, 2014 and 2013

	Note	December 31, 2014	December 31, 2013
Revenue:			
Energy sales	23	$ 786,505	$ 765,984
Distribution	23	111,675	124,010
Services		9,779	12,452
Other revenue	24	21,020	18,728
		928,979	921,174
Operating expenses:			
Energy purchases	23	801,795	770,026
Employee salaries and benefits		35,532	36,085
Materials and transportation		6,065	6,206
Contract labour		9,198	8,334
Other expenses		12,247	13,408
Conservation and demand management	24	14,546	14,274
Depreciation of property, plant and equipment	9	26,040	25,608
Amortization of intangible assets		3,556	3,198
		908,979	877,139
Results from operating activities		20,000	44,035
Non-operating revenue (expense):			
Interest income		816	1,212
Interest expense		(16,248)	(16,047)
Interest expense on accrued post-employment benefits		(285)	(260)
		(15,717)	(15,095)
Profit before income tax expense		4,283	28,940
Income tax expense	12	869	8,165
Profit for the year		3,414	20,775
Other comprehensive income (loss) net of income tax:			
Remeasurements of the defined benefit obligation		(639)	1,247
Income tax recovery (expense)		169	(331)
		(470)	916
Total comprehensive income for the year		**$ 2,944**	**$ 21,691**

The accompanying notes are an integral part of the consolidated financial statements.

ENERSOURCE CORPORATION
Consolidated Statement of Cash Flows
(In thousands of Canadian dollars)
Years ended December 31, 2014 and 2013

	Note	December 31, 2014	December 31, 2013 Recast-Note 2(d)
Cash flows from operating activities:			
Comprehensive income for the year		$ 2,944	$ 21,691
Adjustments for:			
Depreciation of property, plant and equipment		26,040	25,608
Amortization of intangible assets		3,556	3,198
Amortization of deferred contributions		(318)	(195)
Gain on disposal of property, plant and equipment		(56)	(183)
Post-employment benefits		1,049	(791)
Environmental provision	21	1,267	-
Promissory note	11	(2,068)	-
Income tax expense		700	8,496
Interest income		(816)	(1,212)
Interest expense		16,248	16,047
Income tax paid		(5,253)	(5,085)
		43,293	67,574
Change in non-cash working capital	19	(7,192)	(4,727)
Net cash from operating activities		36,101	62,847
Cash flows from investing activities:			
Customer deposits		(1,447)	(2,188)
Interest received		853	1,290
Capitalized interest		348	379
Additions to property, plant and equipment		(51,278)	(53,856)
Additions to intangible assets		(2,699)	(2,301)
Additions to deferred contributions		4,138	5,944
Proceeds from sale of property, plant and equipment		131	231
Cash used in investing activities		(49,954)	(50,501)
Cash flows from financing activities:			
Customer deposits		1,447	2,188
Dividend paid	18	(14,571)	(12,080)
Interest paid		(16,501)	(16,378)
Cash used in financing activities		(29,625)	(26,270)
Decrease in cash and cash equivalents, during the year		(43,478)	(13,924)
Cash and cash equivalents, beginning of year		58,800	72,724
Cash and cash equivalents, end of year		$ 15,322	$ 58,800

The accompanying notes are an integral part of the consolidated financial statements.

ENERSOURCE CORPORATION

Consolidated Statement of Changes in Equity

(In thousands of Canadian dollars)

Years ended December 31, 2014 and 2013

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance at January 1, 2014	$ 175,691	$ 916	$ 127,418	$ 304,025
Profit for the year	-	-	3,414	3,414
Other comprehensive loss, net of tax	-	(470)	-	(470)
Dividends paid	-	-	(14,571)	(14,571)
Balance at December 31, 2014	$ 175,691	$ 446	$ 116,261	$ 292,398

Balance at January 1, 2013	$ 175,691	$ (926)	$ 119,649	$ 294,414
Profit for the year	-	-	20,775	20,775
Other comprehensive income, net of tax	-	916	-	916
Accumulated other comprehensive income transferred to retained earnings	-	926	(926)	-
Dividends paid	-	-	(12,080)	(12,080)
Balance at December 31, 2013	$ 175,691	$ 916	$ 127,418	$ 304,025

The accompanying notes are an integral part of the consolidated financial statements.

1. General Information

a) Corporate Information

Enersource Corporation (the "Corporation"), incorporated under the Ontario Business Corporations Act, was formed to conduct electricity distribution and non-regulated utility service ventures. The Corporation is owned 90% by the City of Mississauga (the "City") and 10% by BPC Energy Corporation ("Borealis"), a wholly owned subsidiary of the Ontario Municipal Employees Retirement System ("OMERS").

The Corporation’s equity is not traded in a public market. The Corporation’s registered office is located at 2185 Derry Road West in Mississauga, Ontario, L5N 7A6.

The accompanying consolidated financial statements include the accounts of the Corporation's wholly owned subsidiaries: Enersource Hydro Mississauga Inc. ("Enersource Hydro"), Enersource Services Inc., Enersource Technologies Inc. (“Technologies”) and Enersource Power Services Inc. (“Power Services”). On July 7, 2014, Enersource Hydro Mississauga Services Inc. officially changed its name to Enersource Power Services Inc.

b) Nature of operations

The Corporation provides electricity distribution services to businesses and residences in the City of Mississauga, Ontario through its subsidiary, Enersource Hydro.

Power Services provides utility services, including electricity distribution infrastructure design, construction and operations and streetlight construction and maintenance services to customers in Ontario.

Enersource Services Inc. is the parent company of Power Services, the Corporation's non-regulated businesses, which also owns 100% of Technologies.

2. Basis of Preparation

a) Statement of compliance

The accompanying annual consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards ("IFRS")* as issued by the *International Accounting Standards Board ("IASB").*

These consolidated financial statements have been approved by the Corporation's Board of Directors on February 27, 2015.

b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis.

c) Rate setting

Enersource Hydro, as an electricity distributor, is both licensed and regulated by the Ontario Energy Board ("OEB") which has a legislative mandate to oversee various aspects of the electricity industry. The OEB exercises statutory authority through setting or approving all rates charged by Enersource Hydro and establishing standards of service for Enersource Hydro's customers.

Enersource Hydro is subject to a cost of service regulatory mechanism under which the OEB establishes the revenues required to: (i) recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) provide a fair and reasonable return on utility investment, or rate base. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The OEB has the power to establish electricity prices to be charged to low volume consumers and designated consumers who do not choose an electricity retailer. The OEB may adjust electricity commodity prices charged to these consumers every six months as required.

On April 27, 2012, Enersource Hydro submitted a cost of service rate application to the OEB to change distribution rates effective January 1, 2013. The application was approved by the OEB on December 19, 2012.

On August 16, 2013, Enersource Hydro submitted an Incentive Regulation Mechanism Application to the OEB to change distribution rates effective January 1, 2014. The application was approved by the OEB on December 5, 2013.

(In thousands of Canadian dollars)

2. Basis of Preparation (continued)

d) Change in classification

During the current year, the Corporation modified the classification of major spare parts from inventories to property, plant and equipment to reflect more appropriately the way in which economic benefits are derived from the use of these items. Comparative amounts in the statement of financial position and the statement of cash flows were reclassified for consistency. These reclassifications did not have any impact on the statement of comprehensive income or the statement of changes in equity.

The following table summarizes the impact of the reclassification on the Corporation's previously reported results:

Statement of Financial Position	Property, plant and equipment	Inventories
As at December 31, 2013	$ 526,557	$ 8,483
Reclassification	5,379	(5,379)
As at December 31, 2013 recast	$ 531,936	$ 3,104

Statement of Cash Flows	Additions to property, plant and equipment	Non-cash working capital
As at December 31, 2013	$ (48,477)	$ (10,106)
Reclassification	(5,379)	5,379
As at December 31, 2013 recast	$ (53,856)	$ (4,727)

3. Key Accounting Judgements, Estimates and Assumptions

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and amounts reported and disclosed in the financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty and judgments at the end of the reporting period that could have a significant impact on the consolidated financial statements, relate to the following:

a) Useful lives of depreciable assets

The Corporation relies on a third party independent study to componentize and determine the estimated useful lives of its distribution system assets. The useful life values from the study were derived from industrial statistics, research studies, reports and past utility experience. Actual lives of assets may vary from estimated useful lives.

b) Post-employment benefits other than pensions

The costs of post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, any expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

c) Accounts receivable impairment

In determining the allowance for doubtful accounts, the Corporation considers historical loss experience of account balances based on the aging and arrears status of accounts receivable balances.

d) Unbilled revenue

Unbilled revenue is based on either the actual usage at the end of the period or an assessment of unbilled electricity distribution services supplied to customers between the date of the last meter reading and the period ending date. The Corporation applies judgement to the measurement of the estimated consumption and to the valuation of that consumption.

4. Significant Accounting Policies

a) Financial instruments

All financial assets of the Corporation are classified as loans and receivables and all financial liabilities are classified as other financial liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently they are accounted for based on their classification as following:

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. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Financial assets are assessed at each reporting period to determine whether there is any objective evidence that they are impaired. Impairment provisions are recognized when there is objective evidence that the Corporation will be unable to collect all of the amounts due under the terms receivable. The impairment loss is calculated as the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. All impairment losses are recognized in net income.

Loans and receivables are comprised of cash and cash equivalents, accounts receivable, promissory note, unbilled revenue and customer deposits.

ii) Other financial liabilities

All non-derivative financial liabilities are classified as other liabilities. They are initially recognized at fair value plus transaction costs that are directly attributable to their issue, and are subsequently carried at amortised cost using the effective interest rate method.

Financial liabilities are derecognized from the statement of financial position when the Corporation is discharged from the obligation, or when the obligation is cancelled or expired.

Financial liabilities are further classified as current or non-current depending on whether they are due within twelve months of the reporting date.

Other financial liabilities are comprised of accounts payable and accrued liabilities, advance payments, debentures payable and deposits payable.

The Corporation does not enter into derivative instruments.

4. Significant Accounting Policies (continued)

b) Inventories

Inventories consist of parts and supplies acquired for internal construction, consumption or recoverable work. The Corporation accounts for major spare parts and standby equipment as property, plant and equipment.

Inventory is carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence. Cost is comprised of the purchase price and other directly attributable expenditures to bring the inventories to their present condition and location.

c) Customer deposits

Customers may be required to post security to obtain electricity or other services, which are interest bearing and refundable on demand. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded as customer deposits and are reported separately from the Corporation's own cash and cash equivalents.

d) Property, plant and equipment (“PP&E”)

PP&E is measured at cost less accumulated depreciation and impairment losses. Cost includes all directly attributable expenditures to acquire and bring the asset into operation including labour, employee benefits, materials and transportation costs, contracted services and borrowing costs where applicable. Subsequent expenditures are included in an asset’s carrying amount or recognized as a separate asset, where appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be reliably measured. All other subsequent expenditures, including the costs of day-to-day servicing, repairs and maintenance, are expensed as incurred.

An asset is derecognized at its carrying value when it is disposed of or when no future economic benefits are expected from its use. The gain or loss arising on the disposal or retirement of an item of PP&E is determined as the difference between the proceeds from sale and the carrying amount of the asset, and is recognized in the statement of comprehensive income.

Major spare parts and standby equipment are accounted for as PP&E since they support the Corporation’s distribution system reliability. Depreciation of PP&E is recorded in the statement of comprehensive income on a straight-line basis over the estimated useful life of each component of PP&E. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

4. Significant Accounting Policies (continued)

Estimated useful lives for the main categories of PP&E are shown in the table below:

Buildings and other fixtures	20 - 60 years
Distribution system and station equipment	15 - 40 years
Overhead and underground distribution system	15 - 55 years
Other PP&E	3 - 25 years

Assets under construction and spare parts accounted as PP&E, which are not available for use, are not depreciated.

During the construction period of qualifying assets, borrowing costs are capitalized as a component of the cost of self-constructed assets. The capitalization rate is the Corporation's weighted average cost of borrowings.

e) Intangible assets

Intangible assets include easements and computer software.

Easements are measured at cost and are held in perpetuity. Since there is no foreseeable limit to the period over which these easements are expected to provide benefit to the Corporation, they have been assessed as having indefinite useful lives and are not amortized.

Computer software is measured at cost less accumulated amortization and impairment losses. Cost includes expenditures associated with the initial acquisition or development and other directly attributable expenditures to prepare the asset for its intended use.

Computer software is amortized on a straight line basis over the estimated useful life of the related asset from the date that they are available for use. The estimated useful lives and amortization methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Software in development is not amortized.

Estimated useful lives for intangible assets are shown in the table below:

Computer software	2 - 10 years
Easements	Indefinite

4. Significant Accounting Policies (continued)

f) Impairment of non-financial assets

The carrying amounts of 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 tested and assessed.

PP&E and intangible assets with finite lives are tested for recoverability at the cash-generating unit ("CGU") level (or groups of CGUs), which is the smallest identifiable group of assets that generates independent cash inflows. An impairment of PP&E and intangible assets with finite lives is recognized in the statement of comprehensive income when the asset's carrying value exceeds its estimated recoverable amount. The recoverable amount is the higher of its value in use and fair value less costs of disposal. Where fair value less costs to sell is not reliably available, value in use is used as the recoverable amount. Value in use is calculated as the present value of the estimated future cash flows expected to be derived from an asset, CGU or group of CGUs.

The Corporation evaluates indefinite life intangible assets for impairment annually or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. For purposes of such an evaluation, the fair value estimate is compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

An impairment charge may be reversed only if there is objective evidence that a change in the estimate used to determine the asset's recoverable amount since the last impairment was recognized is warranted. A reversal of an impairment charge is recognized immediately in the statement of comprehensive income

g) Regulatory accounting

On January 30, 2014, the IASB issued interim standard *IFRS 14, Regulatory Deferral Accounts*. This standard allows first-time adopters of IFRS to apply previous Generally Accepted Accounting Principles to account for rate-regulated assets and liabilities. As the Corporation is not a first-time adopter, it does not recognize assets and liabilities arising from rate regulated activities. Instead, the Corporation records revenues in accordance with its revenue recognition policy and expenses as operating costs when incurred. Regulatory balances that have an effect on comprehensive income under IFRS are disclosed in Note 23.

4. Significant Accounting Policies (continued)

h) Revenue recognition

The Corporation's principal sources of revenue are:

(i) Energy sales and distribution revenue

Energy sales and distribution revenue are recorded on the basis of cyclical billings based on electricity usage and include unbilled revenue for electricity consumed but not yet billed. The unbilled revenue accrual for the period is based on estimated energy consumption. Energy sales are recognized based on OEB and Independent Electricity System Operator ("IESO") prevailing energy rates and electricity consumed by customers. Distribution revenue attributable to the delivery of electricity is recognized based upon OEB-approved distribution rates and estimated electricity consumed by the customer.

(ii) Services revenue

Services revenue related to the sale of non-regulated services are recognized as services are rendered or contract milestones are achieved. Amounts received in advance of these milestones are presented as deferred revenue.

(iii) Other revenue

Other revenue includes government grants under Conservation and Demand Management ("CDM") programs, amortization of customer contributions and other general revenue. Government grants under CDM programs are recognized when there is reasonable assurance that the grant will be received and all related conditions will be met. Grants are recognized as income on a systematic basis over the period to match to the costs they are intended to compensate.

The Corporation receives customer contributions to construct certain items of PP&E. These contributions are recorded as deferred contributions and amortized into income over the life of the related asset.

Other general revenues are recognized as the services are rendered.

i) Employee benefits

(i) Short-term employee benefits

The Corporation provides short-term employee benefits such as salaries, employment insurance, short-term compensated absences, health and dental care. Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as the related service is provided. Short-term employee benefits are recognized as an expense unless they qualify for capitalization as part of an item of PP&E or intangible asset.

4. Significant Accounting Policies (continued)

(ii) Defined benefit pension plan

The Corporation’s current pension plan is administered by OMERS and is a multi-employer public sector defined benefit pension plan funded by equal contributions from participating employers and employees as well as by investment earnings of the plan. Pension contributions received from all OMERS employers and members are combined and used jointly to purchase investments. Under OMERS’ funding and investment structure, investment and actuarial evaluations are determined on a commingled basis across all employers and as a result, information for individual employers is unavailable.

As the Corporation does not have the information to account for its proportionate share of the defined benefit obligation and plan assets, the Corporation accounts for its participation in OMERS as a defined contribution plan, and all contributions to the plan are recognized as an expense.

(iii) Post-employment benefits

The Corporation provides post-employment life, health, and dental benefits to its employees. An actuary determines the cost of these benefits as well as measures the plan obligation. The actuary uses the projected unit credit method, prorated on service and based on management's best estimate and assumptions. Under this method, the projected post-employment benefit is deemed to be earned on a pro rata basis over the years of service in the attribution period, and ends at the earliest age the employee could retire and qualify for benefits.

Remeasurements of the net defined benefit liability, which are comprised of actuarial gains and losses, are recognized immediately in the statement of financial position with a charge or credit to other comprehensive income. Current service costs are recognized in the statement of comprehensive income under employee salaries and benefits and net interest expense on accrued post-employment benefits are presented as a separate line in the statement of comprehensive income. The Corporation accumulates remeasurements of the defined benefit obligation and transfers them to retained earnings upon OEB’s review and approval.

j) Deferred contributions

Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers when the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers’ specific requirements.

Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as deferred contributions and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset.

4. Significant Accounting Policies (continued)

k) Income taxes

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes ("PILs") to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada), the Taxation Act, 2007 (Ontario), as modified by the Electricity Act, 1998, and related regulations. References in these financial statements to income taxes are with respect to PILs.

The Corporation recognizes deferred tax using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are probable. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment. Deferred income tax assets and liabilities are offset since they relate to income taxes levied by the same taxation authority.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Current taxes are based on taxable profit or loss for the year, which differ from profit or loss as reported in the consolidated statement of comprehensive income because it excludes items that are taxable or deductible in other years and items that are neither taxable nor deductible. The Corporation’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Both current and deferred taxes are included as part of income tax expense on the statement of comprehensive income.

l) Foreign currency translation

Transactions in foreign currencies are translated to Canadian dollars at the prevailing rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing period-end rates. Exchange gains or losses are recognized as income in the period in which they arise.

4. Significant Accounting Policies (continued)

m) Provisions and contingencies

The Corporation recognizes provisions if, as a result of a past event, there is a present legal or constructive obligation that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The evaluation of the likelihood of the contingent events requires judgement by management as to the probability of exposure to potential gain or loss. Actual results could differ from these estimates.

A contingent asset is not recognized in the consolidated financial statements. However, a contingent asset is disclosed where an inflow of economic benefits is probable.

n) Consolidation

The Corporation prepares consolidated financial statements. All intercompany balances and transactions are eliminated in preparing the consolidated financial statements.

o) New standards and interpretations adopted

The IASB has issued an amendment to *IAS 32 Financial Instruments: Presentation*, which provides further guidance on the requirement for offsetting financial instruments. The amendment is effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The adoption of this amendment did not have an impact on the Corporation's results of operations, financial position, and disclosures.

p) New standards and interpretations not yet adopted

Certain new or amended standards issued by the IASB do not have to be adopted in the current period. The standards that the Corporation anticipates might have an impact on its consolidated financial statements or note disclosures are described below.

(In thousands of Canadian dollars)

4. Significant Accounting Policies (continued)

In May 2014, the IASB issued *IFRS 15, Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. The standard is effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. IFRS 15 is available for early adoption. The purpose of this standard is to:

(i) remove inconsistencies and weaknesses in previous revenue requirements;

(ii) provide a more robust framework for addressing revenue issues;

(iii) improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets;

(iv) provide more useful information to users of financial statements through improved disclosure requirements; and

(v) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

In July 2014, the IASB issued *IFRS 9 Financial Instruments* which will replace *IAS 39 Financial Instruments: Recognition and Measurement.* The new standard provides revised guidance on the classification and measurement of financial assets, including impairment, and supplements the new hedge accounting principles published in 2013 as part of IFRS 9. The standard is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. IFRS 9 is available for early adoption.

In August 2014, the IASB issued an amendment to *IAS 27 Separate Financial Statements*, which allows the use of the equity method and applies to the accounting for associates, joint ventures and subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2016 and must be applied retrospectively.

The Corporation will quantify the effect, if any, of the above mentioned standards, once a full analysis and assessment is completed.

5. Cash and Cash Equivalents

Cash and cash equivalents include cash at the bank, cash on hand and short term investments with a maturity of 90 days or less from the date of purchase.

	December 31, 2014	December 31, 2013
Cash	$ 4,730	$ 43,311
Short term investments	10,592	15,489
Total cash and cash equivalents	$ 15,322	$ 58,800

(In thousands of Canadian dollars)

5. Cash and Cash Equivalents (continued)

There are no restrictions, pledges or limitations to the use of the cash and cash equivalents, except for $10,520 (December 31, 2013 - $5,203) posted as letters of credit.

6. Accounts Receivable

The components of accounts receivable are as follows:

	December 31, 2014	December 31, 2013
Trade receivables	$ 53,335	$ 54,162
Less: allowance for doubtful accounts	(1,928)	(2,142)
Trade receivables, net	$ 51,407	$ 52,020
Receivables due from related parties (Note 20)	4,406	3,838
Other receivables	3,601	2,314
Total accounts receivable, net	$ 59,414	$ 58,172
Of which:		
Not yet due (less than 16 days)	$ 36,539	$ 37,076
Past due 1 day but not more than 14	16,163	13,779
Past due 15 days but not more than 44	5,394	5,168
Past due 45 days but not more than 74	1,516	1,988
Past due 75 days but not more than 104	651	765
Past due more than 104 days	1,079	1,538
Less: allowance for doubtful accounts	(1,928)	(2,142)
Total accounts receivable, net	$ 59,414	$ 58,172

The allowance for doubtful accounts as at December 31, 2014 was 3.1% (December 31, 2013 – 3.6%), of the total accounts receivable which includes accounts receivable that are not yet due or past due, that the Corporation has deemed to be impaired.

7. Inventories

The amount of inventory consumed by the Corporation and recognized as an expense during 2014 was $2,155 (2013 – $2,197). The amount of inventory that was written down due to obsolescence in 2014 was $nil (2013 - $127).

During 2014, the Corporation reclassified $4,581 (2013 – $5,379) from inventory to PP&E as described in Note 2 (d).

(In thousands of Canadian dollars)

8. Deposits and Guarantees

The following outlines the deposits and letters of credit/guarantees of the Corporation posted as security. The amounts are comprised of cash and cash equivalents in the form of deposits and letters of credit/letters of guarantee, under which the Corporation is contingently liable.

	December 31, 2014		December 31, 2013	
	Cash and cash equivalents	Letters of credit/ guarantees	Cash and cash equivalents	Letters of credit/ guarantees
Customer deposits (a)	$ 23,367	$ -	$ 21,920	$ -
Security with the IESO (b)	-	11,450	-	11,450
Security with the City of Brampton (c)	-	10,170	-	4,853
Security with the City of Mississauga (d)	-	350	-	350
	$ 23,367	$ 21,970	$ 21,920	$ 16,653

(a) Customer deposits

The Corporation collects cash and cash equivalents as deposits from certain customers to reduce credit risk.

(b) Security with the IESO

Entities that purchase electricity in Ontario through the IESO are required to post security to mitigate the risk of their default on their expected activity in the market. The IESO could draw on this security if the Corporation fails to make the payment required by a default notice issued by the IESO. The Corporation has posted a letter of credit as security in the amount of $11,450 as at December 31, 2014 (December 31, 2013 - $11,450).

(c) Security with the City of Brampton

The Corporation has posted letters of credit in the amount of $10,170 as at December 31, 2014 (December 31, 2013 - $4,853) relating to contracts with the City of Brampton to provide routine and emergency maintenance of street lighting and related services. The City of Brampton could draw on this security by issuing a certificate demonstrating that the Corporation has failed to fulfill its obligations related to these contracts.

(d) Security with the City of Mississauga

The Corporation has posted a letter of credit in the amount of $350 as at December 31, 2014 (December 31, 2013 - $350) relating to a contract with the City of Mississauga for the installation of Light Emitting Diode (“LED”) streetlight luminaires and monitoring system components. The City of Mississauga could draw on this security by issuing a certificate demonstrating that the Corporation has failed to fulfill its obligations related to this contract.

(In thousands of Canadian dollars)

9. PP&E

PP&E consists of the following as at December 31, 2014:

	December 31, 2013	Additions/ Depreciation	Disposals/ Retirements	December 31, 2014
Cost				
Distribution system	$ 417,267	$ 37,372	$ (1,315)	$ 453,324
Distribution station equipment	58,970	3,852	(246)	62,576
Other PP&E	71,667	4,824	(2,227)	74,264
Buildings and fixtures	34,041	4,187	-	38,228
Land	9,879	-	-	9,879
Construction in progress	4,944	560	-	5,504
Subtotal	$ 596,768	$ 50,795	$ (3,788)	$ 643,775
Accumulated depreciation				
Distribution system	$ (38,998)	$ (14,332)	$ 249	$ (53,081)
Distribution station equipment	(5,238)	(1,925)	33	(7,130)
Other PP&E	(18,071)	(7,080)	1,983	(23,168)
Buildings and fixtures	(2,525)	(1,254)	-	(3,779)
Land	-	-	-	-
Subtotal	$ (64,832)	$ (24,591)	$ 2,265	$ (87,158)
Carrying amount	$ 531,936	$ 26,204	$ (1,523)	$ 556,617

PP&E consists of the following as at December 31, 2013:

	December 31, 2012	Additions/ Depreciation	Disposals/ Retirement	2013 Adjustment Note 2(d)	December 31, 2013 Recast
Cost					
Distribution system	$ 378,722	$ 35,688	$ (1,739)	$ 4,596	$ 417,267
Distribution station equipment	55,681	3,520	(231)	-	58,970
Other PP&E	65,389	6,511	(1,144)	911	71,667
Buildings and fixtures	32,378	1,663	-	-	34,041
Land	9,892	-	(13)	-	9,879
Construction in progress	5,459	(387)	-	(128)	4,944
Subtotal	$ 547,521	$ 46,995	$ (3,127)	$ 5,379	$ 596,768
Accumulated depreciation					
Distribution system	$ (25,615)	$ (13,653)	$ 270	$ -	$ (38,998)
Distribution station equipment	(3,439)	(1,831)	32	-	(5,238)
Other PP&E	(11,852)	(6,944)	725	-	(18,071)
Buildings and fixtures	(1,384)	(1,141)	-	-	(2,525)
Land	-	-	-	-	-
Subtotal	$ (42,290)	$ (23,569)	$ 1,027	$ -	$ (64,832)
Carrying amount	$ 505,231	$ 23,426	$ (2,100)	$ 5,379	$ 531,936

(In thousands of Canadian dollars)

9. PP&E (continued)

During 2014, the Corporation reclassified $4,581 (2013 – $5,379) from inventory to PP&E as described in note 2(d).

The carrying amount of PP&E, that have been derecognized before the end of their estimated useful lives and have been recorded as depreciation expense on the statement of comprehensive income, was $1,449 in 2014 (2013 - $2,039).

During the year, borrowing costs of $304 (2013 - $354) were capitalized as part of the costs of PP&E. A capitalization rate of 5.091% (2013 – 5.091%) was used to determine the amount of borrowing costs to be capitalized. During the year, the Corporation has included $483 (2013 - $1,482) of accrued liabilities in the additions to PP&E.

PP&E and intangible asset purchase commitments outstanding as at December 31, 2014 total $10,076 (December 31, 2013 - $10,907).

10. Intangible Assets

Intangible assets consist of the following as at December 31, 2014:

	December 31, 2013	Additions/ Amortization	Disposals/ Retirements	December 31, 2014
Cost				
Computer software	$ 23,717	$ 2,087	$ (19)	$ 25,785
Easements	565	18	-	583
Software in development	1,186	430	-	1,616
Subtotal	$ 25,468	$ 2,535	$ (19)	$ 27,984
Accumulated amortization				
Computer software	$ (8,138)	$ (3,556)	$ 19	$ (11,675)
Easements	-	-	-	-
Subtotal	$ (8,138)	$ (3,556)	$ 19	$ (11,675)
Carrying amount	$ 17,330	$ (1,021)	$ -	$ 16,309

(In thousands of Canadian dollars)

10. Intangible Assets (continued)

Intangible assets consist of the following as at December 31, 2013:

	December 31, 2012	Additions/ Amortization	Disposals/ Retirements	December 31, 2013
Cost				
Computer software	$ 22,089	$ 1,652	$ (24)	$ 23,717
Easements	524	28	13	565
Software in development	1,004	182	-	1,186
Subtotal	$ 23,617	$ 1,862	$ (11)	$ 25,468
Accumulated amortization				
Computer software	$ (4,964)	$ (3,198)	$ 24	$ (8,138)
Easements	-	-	-	-
Subtotal	$ (4,964)	$ (3,198)	$ 24	$ (8,138)
Carrying amount	$ 18,653	$ (1,336)	$ 13	$ 17,330

During the year, borrowing costs of $44 (2013 - $25) were capitalized as part of the cost of intangible assets. A capitalization rate of 5.091% (2013 – 5.091%) was used to determine the amount of borrowing costs to be capitalized. During 2014, the Corporation has included $164 (2013 - $440) of accrued liabilities in the additions to intangible assets.

11. Promissory Note Receivable

The Corporation holds a promissory note of $2,068 from Trans Power Holding Inc. relating to the sale of its investment in Enerpower Utility Inc. The promissory note, which matures in February 15, 2020, bears a fixed annual interest rate of 6.25%, with payments due annually. The promissory note is open for repayment at any time without notice, bonus or penalty.

(In thousands of Canadian dollars)

12. Income Taxes

The components of income tax expense for the years ended December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Current income tax expense:		
Expense for the year	$ 4,611	$ 7,831
Utilization of future timing differences in the current year	(558)	54
Total current Income tax expense	4,053	7,885
Deferred income tax expense:		
Reversal of temporary differences	(3,733)	(190)
Reduction of future timing differences	549	470
Total deferred Income tax expense	(3,184)	280
Total income tax expense	$ 869	$ 8,165

The provision for income taxes differs from the amount that would have been recorded using the combined federal and Ontario statutory income tax rate. Reconciliation between the statutory and effective tax rates is provided as follows:

	December 31, 2014	December 31, 2013
Federal and Ontario statutory income tax rate	26.50%	26.50%
Profit before provision for income taxes	$ 4,283	$ 28,940
Provision for income taxes at statutory rate:	1,135	7,669
Increase (decrease) resulting from:		
Non-taxable portion of capital gain	(274)	-
Other timing differences between accounting net Income and net income for tax purpose	8	496
Provision for income taxes	$ 869	$ 8,165
Effective income tax rate	20.29%	28.21%

(In thousands of Canadian dollars)

13. Deferred Tax Assets

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The net deferred tax asset consists of the following:

	December 31,2014	December 31, 2013
PP&E and intangible assets	$ 11,385	$ 14,640
Energy variances	2,907	(3,332)
Employee post-employment benefits other than pensions	1,865	1,587
Unutilized tax loss	213	-
Other temporary differences	377	498
Net deferred income tax assets	$ 16,747	$ 13,393

At December 31, 2014, the Corporation has non-capital loss carry forwards totalling $803 (2013 - $nil), which expires in 2034.

Deferred tax assets have been recognized to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilized. The Company has recognized deferred tax assets in the amount of $279 (2013 – $15) the utilization of which is dependent on future taxable profits. The recognition of these deferred tax assets is based on taxable income forecasts that incorporate existing circumstances that will result in positive taxable income against which non-capital loss carry-forwards can be utilized.

14. Accounts Payable and Accrued Liabilities

The components of accounts payable and accrued liabilities are as follows:

	December 31, 2014	December 31, 2013
Amounts due to the IESO for energy purchases	$ 72,601	$ 70,245
Trade payables due to related parties (Note 20)	88	26
Other trade payables	4,843	5,179
Accrued expenses	18,463	23,992
Other non-trade payables	9,863	10,249
Total accounts payable and accrued liabilities	$ 105,858	$ 109,691

(In thousands of Canadian dollars)

15. Debentures Payable

		December 31, 2014		December 31, 2013
4.52 % Series A Debentures due April 29, 2021	$	110,000	$	110,000
Deferred debt issue cost (net of accumulated amortization of $251) (December 31, 2013 $178)		(540)		(613)
5.30 % Series B Debentures due April 29, 2041		210,000		210,000
Deferred debt issue cost (net of accumulated amortization of $78) (December 31, 2013 $56)		(1,323)		(1,345)
Net debentures payable	$	318,137	$	318,042

The Corporation has a private placement debt of $320,000 comprised of $110,000 of Series A, 10-year debentures with fixed coupon rate of 4.52%, and $210,000 of Series B 30-year debentures with fixed coupon rate of 5.30%.

Interest expense for the year ended December 31, 2014 included $16,097 (December 31, 2013 - $16,053) in respect of interest on the debt. The amortization of the debt issue cost for the year ended December 31, 2014 was $95 (December 31, 2013 - $91).

The Corporation has the following material covenants associated with its long-term debt:

(i) The Corporation will duly and punctually pay or cause to be paid payments of principal and interest to each holder of the debentures.

(ii) The Corporation will, and will cause each designated subsidiary to maintain its corporate existence (unless all of its assets are or have been conveyed to the Corporation or another designated subsidiary), and will carry on and conduct its business in a proper and efficient manner.

(iii) The Corporation will provide to the Trustee copies of (i) within 120 days of each fiscal year end of the Corporation, annual audited consolidated financial statements of the Corporation together with a report of the Corporation's auditors thereon; (ii) within 60 days of the end of the first, second and third quarters of the Corporation's fiscal year, interim consolidated financial statements. The corporation's first interim consolidated financial report prepared in accordance with IFRS for the first quarter in which such report is required to be prepared, which may be provided within 90 days of the end of such quarter.

(iv) The Corporation will, and will cause each Designated Subsidiary to, from time to time pay or cause to be paid all taxes (including transfer taxes), rates, levies, payments in lieu of taxes, assessments (ordinary or extraordinary), government fees or dues lawfully levied, assessed or imposed upon or in respect of its respective property or any part thereof or upon its income and profits as and when the same become due and payable and to withhold and remit any amounts required to be withheld by it from payments due to others and remit the same to any government or agency thereof.

(In thousands of Canadian dollars)

15. Debentures Payable (continued)

(v) The Corporation will not, and will not permit any Designated Subsidiary to, create, assume or suffer to exist any Security Interest, other than permitted encumbrances, on any of its assets to secure any obligation, unless at the same time it secures equally and rateably therewith all the debentures issued pursuant to the Trust Indenture then outstanding.

(vi) The Corporation shall not issue, incur or become liable for obligations that exceed 75% of the total consolidated capitalization.

(vii) The Corporation may not amalgamate or consolidate with or merge into any other Person, or permit any other Person to amalgamate or consolidate with or merge into with the Corporation, or directly or indirectly transfer, sell, lease or otherwise dispose of all or substantially all of its property or assets. Notwithstanding the foregoing, a Designated Subsidiary shall be permitted to merge with another entity provided that, after giving effect to such merger, it continues to be a Designated Subsidiary

(viii) No default or event of default shall have occurred and be continuing, or shall occur.

The Corporation is in compliance with all credit agreement covenants and limitations associated with its debt.

16. Deferred Contributions

The continuity of deferred contributions is as follows:

	December 31, 2014	December 31, 2013
Deferred contributions, net, beginning of year	$ 11,333	$ 5,584
Additions to deferred contributions	4,138	5,944
Contributions recognized as revenue	(318)	(195)
Deferred contributions, net, end of year	$ 15,153	$ 11,333

17. Post-employment Benefits

The Corporation's retirement plan is comprised of a defined contribution plan. In addition, the Corporation provides other post-employment benefits such as primarily life insurance, health and dental coverage, on a shared basis.

a) OMERS pension plan

The most recently available OMERS annual report is for the year ended December 31, 2013, which reported that the plan was 88% funded, with a fund deficit of $8,641,000. This fund deficit is likely to result in future payments by the participating employers. The Corporation shares in the actuarial risks of other participants in the plan and therefore its future contributions could increase due to their actuarial losses. In addition, the Corporation's contributions may also increase if other entities withdraw from the plan.

(In thousands of Canadian dollars)

17. Post-employment Benefits (continued)

The Corporation expensed contributions to OMERS of $4,210 (December 31, 2013 – $3,968) for the year ended December 31, 2014. These amounts are included under employee salaries and benefit in the statement of comprehensive income.

b) Post-employment benefits other than pension

Post-employment benefits other than pension are subject to annual actuarial valuations. A valuation of the post-employment benefits was performed as of December 31, 2014.

A reconciliation of the defined benefit obligation is as following:

	December 31, 2014	December 31, 2013
Accrued benefit obligation, beginning of year	$ 5,986	$ 6,777
Current service cost	325	376
Interest on accrued benefit obligation	285	260
Benefits paid	(200)	(180)
Re-measurements recognized in other comprehensive income	639	(1,247)
Accrued benefit obligation, end of year	$ 7,035	$ 5,986

Total expense recognized in profit or loss	December 31,2014	December 31,2013
Current service costs	$ 325	$ 376
Interest on obligation	285	260
Total expense for the year	$ 610	$ 636

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

Actuarial assumptions	December 31, 2014	December 31, 2013
Discount rate (beginning of year)	4.75%	3.75%
Discount rate (end of year)	4.00%	4.75%
Health care cost increases	9.00%	9.00%
Dental cost increases	4.00%	4.00%
Rate of compensation increase	3.00%	3.00%

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing to $6,010. A 1% decrease in the assumed discount rate would result in the defined benefit obligation increasing to $7,713.

In 2013, the Corporation reclassified $926 from accumulated other comprehensive income to retained earnings.

(In thousands of Canadian dollars)

18. Share Capital

	December 31, 2014	December 31, 2013
Authorized:		
Unlimited, Class A shares, voting		
1,000 Class B shares, non-voting		
100 Class C shares, voting		
Issued:		
180,555,562 Class A shares	$ 155,628	$ 155,628
1,000 Class B shares	1	1
100 Class C shares	20,062	20,062
	$ 175,691	$ 175,691

The holders of Class A shares and Class C shares are entitled to receive notice of, to attend, and to vote at all general and special meetings of the Corporation's shareholders. The holders of Class B shares are not entitled to vote at any meeting of the Corporation's shareholders (except as required by law) and are only entitled to receive notice of special meetings called to consider certain fundamental changes. Holders of Class A shares are entitled to one vote per share. Holders of Class C shares are entitled to such number of votes in respect of each Class C share as will entitle the holders of the Class C shares, as a class, to the proportion of the total number of votes of all shareholders entitled to vote at any such meeting that the Class C total base equity is of the aggregate regulated rate base equity of the Corporation's and its subsidiaries.

The holders of the Class A shares and holders of the Class C shares, in priority to the holders of the Class B shares, are entitled to receive, if, as and when declared by the Corporation's Board of Directors, concurrent preferential dividends at a rate per annum equal to the regulated rate of return on the rate base equity represented by each such class of shares. Once these preferential dividend entitlements have been satisfied, holders of each class of shares are entitled to receive, on a concurrent basis with each other class of shares, additional dividends if, as and when declared by the Corporation's Board of Directors and in such amounts and payable in such manner as may be determined from time to time by the Corporation's Board of Directors. Holders of the Class A shares and the Class C shares are together entitled to 60% of any such additional dividends, which are to be allocated between the holders of each such class of shares in proportion to the rate base equity represented by each such class. Holders of the Class B shares are entitled to 40% of any such additional dividends. Class A, B and C shares have no par value.

Dividends may be declared by the Board of Directors through a resolution. In 2014, a dividend of $14,571 (2013 - $12,080) was declared and paid to the Shareholders of the Corporation.

(In thousands of Canadian dollars)

19. Change in Non-cash Working Capital

	December 31, 2014	December 31, 2013 Recast-Note 2(d)
Accounts receivable	$ (1,282)	$ 6,989
Unbilled revenue	(2,996)	(10,686)
Inventories	(969)	5,370
Prepaid and deposits	1,340	(1,143)
Accounts payable	(3,833)	2,399
Environmental provision	(1,225)	2,455
Advance payments	1,290	1,594
Deferred revenue	(164)	(13,627)
Accrued PP&E and intangible assets	647	1,922
Decrease in non-cash operating working capital	$ (7,192)	$ (4,727)

20. Related Party Transactions

The Corporation's operations include the provision of electricity and services to its principal shareholder, the City. Electricity is billed to the City at the prices and terms as any other Enersource Hydro customer not with an electricity retailer. Street lighting maintenance and construction services are provided at an exchange amount, being that amount agreed to by the parties. A summary of amounts charged by the Corporation to the City is as follows:

	December 31, 2014	December 31, 2013
Electrical energy	$ 10,912	$ 10,586
Street lighting maintenance and construction	7,280	8,011
Street lighting energy	5,843	6,716

As at December 31, 2014, accounts payable and accrued liabilities include $88 (December 31, 2013 - $26) due to the City. Accounts receivable include $4,406 (December 31, 2013 - $3,838) due from the City.

During 2014, the Corporation paid $1,179 (2013 - $944) in property taxes to the City.

The Corporation charged Borealis $9 in 2014 (2013 - $9) for an access agreement. These transactions were recorded at the exchange amount being the amount agreed to by the parties.

In 2014, a dividend of $13,114 (2013 - $10,872) was declared and paid to the City and a dividend of $1,457 (2013 - $1,208) was declared and paid to Borealis.

No Director had, during or at the end of the period, any material interest in any contract of significance in relation to the Corporation’s business.

(In thousands of Canadian dollars)

20. Related Party Transactions (continued)

The following compensation has been provided to the key management personnel of the Corporation and members of the Board of Directors (Directors Honorarium), which have the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

	December 31, 2014	December 31, 2013
Salaries and short term employee benefits	$ 2,233	$ 1,985
Retirement OMERS contributions	246	212
Other compensation	50	37
Directors Honorarium	270	227
	$ 2,799	$ 2,461

21. Contingencies, Provisions, Commitments and Guarantees

a) Contingencies

The Corporation is a member of the Municipal Electric 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 thousand dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Current liability coverage is provided to a level of $24,000 per occurrence. The Corporation has also obtained additional general liability insurance of $10,000 per occurrence through Mearie Insurance Services Inc.

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

(i) Enersource Hydro is party to a connection and cost recovery agreement with Hydro One Networks Inc. (“Hydro One”) as regulated by the OEB under the Transmission System Code. Under this agreement, Hydro One is required to build a transmission station for Enersource Hydro in order to accommodate anticipated electricity load growth. In return, Enersource Hydro is required to provide a capital contribution to cover a portion of the cost of the connection facility. The capital contribution is determined using the economic evaluation methodology as prescribed by the OEB and represents the difference between the total capital cost of constructing and operating the transmission facility and the projection of revenue earned on the conveyance of electricity through such facility. Periodic true-up calculations are carried at the end of each of the fifth, tenth and possibly the fifteenth year of operation of the facility. Based on a preliminary review of the CCRA for the Churchill Meadows transmission facility constructed in 2010, a revenue shortfall to Hydro One may exist.

(In thousands of Canadian dollars)

21. Contingencies, Provisions, Commitments and Guarantees (continued)

Enersource Hydro expects to be presented with a request for settlement in 2015 when the first periodic true-up is scheduled. At this time, Enersource Hydro cannot reliably estimate the amount due to the uncertainty of future events impacting the settlement not wholly within its control; therefore no obligation amount has been recorded in these financial statements. Any amount recorded in the future relating to this true-up will result in the recognition of a corresponding intangible asset.

b) Environmental provision

The Corporation is subject to Canadian federal, provincial and municipal environmental regulations. As part of the Corporation's risk mitigation strategy, environmental assessments and environmental remediation are underway at various sites. The Corporation records a liability for the estimated future expenditures associated with testing and remediation of contaminated lands at various municipal substations and neighbouring properties. Actual environmental expenditures may vary from these estimates. These estimates are reviewed at the end of each reporting period and adjusted to reflect the current best estimate at that point of time. As at December 31, 2014, the Corporation provided $2,867 (December 31, 2013 - $2,825) for testing and future site remediation. Based on the latest estimates and the remediation work plan, $1,267 of the total provision is expected to be settled after twelve months after the reporting date.

	December 31, 2014	December 31, 2013
Environmental provision, beginning of year	$ 2,825	$ 370
Addition	1,000	2,731
Utilized in the year	(783)	(276)
Unwind of discount	(175)	-
Environmental provision, end of year	$ 2,867	$ 2,825
Environmental provision, current	$ 1,600	$ 2,825
Environmental provision, non-current	1,267	-
Environmental provision, end of year	$ 2,867	$ 2,825

c) Commitments

(i) The Corporation has entered into a commercial lease arrangement on a premise which is recognized and reported as part of other costs in the statement of comprehensive income. For the year ended December 31, 2014, the Corporation recognized minimum lease payments of $151 (December 31, 2013 - $145) in the statement of comprehensive income. The lease has a life of one year with yearly renewal options. There are no restrictions placed upon the Corporation by entering into this lease. As at December 31, 2014, the Corporation’s committed future minimum annual lease payments under operating leases were $143 for 2015. The future minimum lease commitments would change depending on the decision to renew the agreement.

21. Contingencies, Commitments and Guarantees (continued)

(ii) The Corporation has numerous cancellable operating leases which are predominantly in the form of encroachment permits required to place distribution infrastructure assets on a rights-of-way or private property. The lease terms are between one and twenty years, and the amounts of these leases are immaterial and have been included in other costs in the statement of comprehensive income.

d) Guarantees

In the normal course of operations, the Corporation executes agreements that provide for indemnification to third parties in transactions such as service agreements, leases and purchases of goods. Under these agreements, the Corporation agrees to indemnify the counterparty against loss or liability arising from the acts or omissions of the Corporation in relation to the agreement.

22. Financial Instruments and Risk Management

Financial instruments which are disclosed at fair value are to be classified using a three-level hierarchy. Each level reflects the inputs used to measure the fair values disclosed of the financial liabilities, and are as follows:

Level 1 – inputs are unadjusted quoted prices for identical instruments in active markets,

Level 2 – inputs other than quoted market prices included within Level 1 that are observable for the instrument, either directly or indirectly, and

Level 3 – inputs that are not based on observable market data.

The Corporation’s debentures have a principal amount of $320,000 as at December 31, 2014 (December 31, 2013 - $320,000) and have a fair value of $382,629 (December 31, 2013 - $350,758). The fair value has been calculated using level 3 inputs. The valuation techniques used took into consideration accrued interest, Government of Canada benchmark yields and statistical data.

Exposure to market risk, credit risk, and liquidity risk arises in the normal course of the Corporation's business.

(a) Market Risk

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Corporation does not have commodity risk due to the flow through nature of energy purchases and costs and its foreign exchange risk is not considered material since the Corporation's exposure is limited to U.S. dollar cash and cash equivalents holdings of $138 as at December 31, 2014 (December 31, 2013 - $99).

22. Risk Management and Financial Instruments (continued)

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference between actual interest income earned by the Corporation and the interest revenue reduction approved by the OEB may have a negative impact on the results of operations.

The Corporation minimizes interest rate risk by issuing long-term fixed rate debt.

(b) Credit Risk

Financial assets create credit risk that counterparties will fail to discharge an obligation, causing a financial loss.

The Corporation manages counterparties credit risk through various techniques including, limiting total exposure levels with individual counterparties consistent with the Corporation's policies, and monitoring the financial condition of counterparties. Short-term investments held as at December 31, 2014, met the credit exposure limits specified under the Corporation's Investment Policy.

The Corporation's distribution revenue is earned on a broad base of customers principally located in Mississauga. As a result, the Corporation did not earn a significant amount of revenue from any individual customer. As at December 31, 2014, there were no significant balances of accounts receivable due from any single customer.

Management believes that the credit risk of accounts receivable is not significant due to the following reasons:

(i) There is a broad base of customers with no single customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance in either year.

(ii) Enersource Hydro, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or letter of credit from customers to mitigate risk of payment default.

(iii) The percentage of accounts receivable that is past due for more than 75 days is approximately 2.8% (2013 – 3.8%) of the total gross accounts receivable (See note 6).

(iv) Enersource Hydro included an amount for accounts receivable write-offs within operating expense for rate setting purposes.

(c) Liquidity Risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, as well as an established $50,000 banking line of credit, if required. Short-term liquidity is expected to be sufficient to fund normal operating requirements.

22. Risk Management and Financial Instruments (continued)

The Corporation has contractual obligations in the normal course of business; future minimum undiscounted contractual maturities are as follows:

Financial Liabilities	Due within 1 year	Due between 1 and 5 years	Due past 5 years
Accounts payable and accrued liabilities	$ 105,858	$ -	$ -
Debentures payable (interest and principal)	16,097	80,484	558,571
Total	$ 121,955	$ 80,484	$ 558,571

23. Divisional Information

The Corporation consists primarily of two operating divisions, regulated and non-regulated operations. Non-regulated operations are primarily comprised of engineering design, construction and maintenance services for utilities and developers and street lighting design and maintenance services. The regulated operation provides electricity distribution services to business and residences in the City of Mississauga.

The designation of activities to the two operating divisions is based on a combination of regulatory status and the nature of the products and services provided. The accounting policies followed by the divisions are the same as those described in the summary of significant accounting policies.

Financial information that adjusts IFRS results to show the effect of rate regulation is used by the Corporation’s Board of Directors, as well as members of key Management having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. This group is determined to be the Chief Operating Decision Maker (“CODM”) and it assesses operating performance principally on the basis of earnings adjusted for regulatory items as shown in the divisional information disclosed below.

(In thousands of Canadian dollars)

23. Divisional Information (continued)

2014	Enersource Hydro regulated	Regulatory adjustments	Non-regulated	Consolidating eliminations	Total
Energy revenue	$ 786,505	$ -	$ -	$ -	$ 786,505
Distribution revenue	123,629	(11,954)	-	-	111,675
Other revenue	19,270	-	12,168	(639)	30,799
	929,404	(11,954)	12,168	(639)	928,979
Energy purchases	(786,505)	(15,290)	-	-	(801,795)
Operating expenses	(66,560)	(22)	(11,645)	639	(77,588)
Depreciation and amortization	(29,246)	(183)	(171)	4	(29,596)
Interest income	751	(263)	328	-	816
Interest expense	(16,664)	218	(87)	-	(16,533)
Profit (loss) before income tax expense	31,180	(27,494)	593	4	4,283
Income tax expense (recovery)	5,115	(4,164)	(82)	-	869
Other comprehensive loss	-	(440)	(30)	-	(470)
Comprehensive income (loss) for year ended December 31, 2014	$ 26,065	$ (23,770)	$ 645	$ 4	$ 2,944

2013	Enersource Hydro regulated	Regulatory adjustments	Non-regulated	Consolidating eliminations	Total
Energy revenue	$ 765,984	$ -	$ -	$ -	$ 765,984
Distribution revenue	121,726	2,284	-	-	124,010
Other revenue	19,031	-	12,831	(682)	31,180
	906,741	2,284	12,831	(682)	921,174
Energy purchases	(765,984)	(4,042)	-	-	(770,026)
Operating expenses	(68,590)	(170)	(10,218)	671	(78,307)
Depreciation and amortization	(28,299)	(354)	(161)	8	(28,806)
Interest income	1,111	(224)	325	-	1,212
Interest expense	(17,130)	905	(82)	-	(16,307)
Profit (loss) before income tax expense	27,849	(1,601)	2,695	(3)	28,940
Income tax expense	5,609	1,853	703	-	8,165
Other comprehensive income	-	860	56	-	916
Comprehensive income (loss) for year ended December 31, 2013	$ 22,240	$ (2,594)	$ 2,048	$ (3)	$ 21,691

(In thousands of Canadian dollars)

23. Divisional Information (continued)

Total assets for the Corporation's two operating divisions are as follows:

	December 31, 2014	December 31, 2013
Enersource Hydro regulated	$ 747,236	$ 746,245
Non-regulated	30,574	31,980
Consolidating elimination	(7,956)	-
	$ 769,854	$ 778,225

Total liabilities for the Corporation's two operating divisions are as follows:

	December 31, 2014	December 31, 2013
Enersource Hydro regulated	$ 481,414	$ 469,373
Non-regulated	3,998	4,827
Consolidating elimination	(7,956)	-
	$ 477,456	$ 474,200

Total regulatory balances that have been derecognized under IFRS that will be recovered or refunded through future distribution rates are as follows:

	December 31, 2013	2014 activity	December 31, 2014
Regulatory assets	$ (3,377)	$ 7,913	$ 4,536
Regulatory liabilities	(20,179)	20,179	-
Net regulatory assets (liabilities)*	$ (23,556)	$ 28,092	$ 4,536

**Income tax recovery on other comprehensive loss of $158 has been excluded from net regulatory assets as at December 31, 2014.*

IFRS 14 Regulatory Deferral Accounts was issued by the IASB on January 30, 2014 and permits first time adopters of IFRS to use previous Generally Accepted Accounting Principles to account for regulatory deferral account balances. As the Corporation is not a first time adopter, the Corporation does not recognize assets and liabilities arising from rate regulated activities. Since the economics of rate regulation have not changed from the adoption of IFRS, the CODM will continue to assess operating performance principally on the basis of earnings adjusted for the following significant regulatory activities:

(i) Retail settlement variances are caused by the difference between the actual price of the electricity commodity throughput and the prices set by the OEB. Specifically, these amounts include variances between the amounts charged by Hydro One and the IESO for the operation of the electricity markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates. Under regulatory accounting, the Corporation would have adjusted energy purchases for these variances. Under IFRS, the Corporation recognizes these differences in future periods as an increase or decrease to distribution revenue.

23. Divisional Information (continued)

(ii) The OEB approved deferral accounts to record transitional differences associated with the implementation of IFRS, any incremental costs needed to comply with Environment Canada's new regulations associated with Polychlorinated biphenyls, costs relating to stranded conventional meters, and unearned revenue and costs associated with Enersource Hydro's smart metering program. On December 19, 2012 the OEB approved the recovery of these deferral accounts and the Corporation has recognized the related revenue.

(iii) The OEB approved a variance account to record lost revenues associated with the delivery of CDM programs between 2011 and 2014. The variance account tracks the difference between the results of actual, verified impacts of CDM activities and the level of CDM program activities included in the distributor's load forecast. The Corporation may recover or refund this revenue through future distribution rates.

(iv) The OEB requires Enersource Hydro to track the difference between revenue and costs associated with providing retailers with customer settlement services as retail cost variance account deferrals. Under IFRS, the Corporation recognizes these differences as an increase or decrease to distribution revenue when incurred and will recover or refund these differences through future distribution rates.

(v) The difference in income taxes or PILs resulting from legislative or regulatory changes to tax rates or rules as compared to rate-setting is recorded in an OEB approved variance account in regulatory accounting. Under IFRS, the Corporation recognizes these differences as an increase or decrease to distribution revenue.

(vi) The OEB requires the Corporation to accrue interest on regulatory assets and liabilities balances. Under IFRS, the Corporation recognizes the net interest on these balances in future periods as an increase or decrease to distribution revenue once approved for recovery or refund by the OEB.

(vii) The OEB approved four deferral accounts to record qualifying incremental capital investments, OM&A expenses and funding adders approved by the OEB related to the connection of renewable generation or the development of smart grid. Under IFRS, the Corporation capitalizes or expenses these items as incurred and recognizes revenue in accordance with the Corporation's revenue recognition policy.

(viii) The OEB approved a deferral account to record any re-measurements of the post-employment net defined liability including actuarial gains or losses. Under IFRS, the Corporation recognizes any re-measurements of the post-employment net defined liability in other comprehensive income.

To the extent that the OEB's future actions are different from the Corporation's expectations, the timing and amount of recovery or settlement of amounts included in the adjustment for regulatory activities could be significantly different from the amounts that are eventually recovered or settled through distribution rates in the future.

24. CDM

The Corporation recognized $14,563 (2013- $14,278) of Ontario Power Authority ("OPA") funding in other revenue for the year ended December 31, 2014. The Corporation recognized $14,546 (2013- $14,274) of OPA costs under operating expenses for the year ended December 31, 2014. The Corporation currently has no unfilled obligations relating to the government grants received by the OPA.