Consolidated Financial Statements

Lakeland Holding Ltd.

December 31, 2013

Contents

Independent Auditor's Report

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To the Shareholders of Lakeland Holding Ltd.:

We have audited the accompanying consolidated financial statements of Lakeland Holding Ltd., which comprise the consolidated balance sheet as at December 31, 2013, and the consolidated statements of earnings and comprehensive loss, shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's 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 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 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 financial statements.

We believe that the audit evidence we have obtained 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 Lakeland Holding Ltd. as at December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Orillia, Canada
April 29, 2014

Chartered Accountants
Licensed Public Accountants

Lakeland Holding Ltd.
Consolidated Statements of Earnings and Comprehensive Loss

Year Ended December 31		2013		2012
Power Revenue	$	**27,875,834**	$	25,888,572
Power purchased		**22,539,317**		20,179,772
		5,336,517		5,708,800
Other revenues				
Generation		**6,246,665**		4,918,918
Energy		**1,454,316**		1,424,392
Miscellaneous income		**328,206**		222,852
Gain on disposal of property and equipment		**4,000**		12,700
Investment income		**64,186**		59,684
		13,433,890		12,347,346
Expenses				
Administration and general		**2,040,608**		1,669,708
Amortization (Note 12)		**1,816,471**		2,039,092
Billing and collecting		**713,843**		721,277
Taxes other than income taxes		**(163,538)**		74,238
Interest		**856,664**		803,992
Operations and maintenance		**2,999,755**		2,583,487
Payments in lieu of capital tax		**999**		-
		8,264,802		7,891,794
Earnings before payments in lieu of income taxes		**5,169,088**		4,455,552
Payments in Lieu of income taxes (Note 7)				
Current-Payments in Lieu of income taxes (PILs)		**86,243**		303,044
Future-Payments in Lieu of income taxes (PILs)		**994,606**		750,800
		1,080,849		1,053,844
Net earnings	$	**4,088,239**	$	3,401,708
Other comprehensive loss				
Change in fair value of the interest rate swap	$	**304,121**	$	(578,495)

See accompanying notes to the consolidated financial statements.

Lakeland Holding Ltd.
Consolidated Statement of Shareholders' Equity
December 31, 2013

	Share Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
Balance, beginning of the year	$ 12,609,650	$ (578,495)	$ 13,887,113	$ 25,918,268
Net income	-	-	4,088,239	4,088,239
Dividends	-	-	(875,000)	(875,000)
Other comprehensive loss Change in FMV of interest rate swap	-	304,121	-	304,121
Balance, end of the year	$ 12,609,650	$ (274,374)	$ 17,100,352	$ 29,435,628

See accompanying notes to the consolidated financial statements

Lakeland Holding Ltd.
Consolidated Balance Sheet

December 31		2013		2012
Assets				
Current				
Cash and cash equivalents	$	**1,793,259**	$	-
Receivables		**3,565,820**		5,378,152
Unbilled revenue		**3,047,521**		2,384,301
Inventory		**271,259**		291,344
Prepaids		**323,227**		261,701
Payments in lieu of income tax receivable		**206,114**		-
		9,207,200		8,315,498
Property and equipment (Note 4)		**47,549,341**		46,035,006
Intangible assets (Note 5)		**979,674**		1,060,027
Regulatory assets (Note 6)		**1,119,010**		1,258,457
Future income tax assets (Note 7)		**-**		180,274
	$	**58,855,225**	$	56,849,262
Liabilities				
Current				
Bank Indebtedness	$	**-**	$	1,649,372
Payables and accruals		**5,227,806**		4,724,793
Payments in lieu of income taxes payable		**-**		25,339
Deferred revenue		**406,456**		231,857
Current portion of long-term debt (Note 9)		**1,000,967**		1,000,967
		6,635,229		7,632,328
Long-term debt (Note 9)		**21,504,906**		22,505,874
Customer deposits		**167,656**		191,197
Future income tax liabilities (Note 7)		**814,332**		-
Other non-current liabilities		**23,100**		23,100
Interest Rate Swap (Note 8)		**274,374**		578,495
		29,419,597		30,930,994
Shareholders' equity				
Share capital (Note 11)		**12,609,650**		12,609,650
Accumulated other comprehensive loss		**(274,374)**		(578,495)
Retained earnings		**17,100,352**		13,887,113
		29,435,628		25,918,268
	$	**58,855,225**	$	56,849,262

Contingent liability (Note 10)

On behalf of the Board

______________________________ Director ______________________________ Director

See accompanying notes to the consolidated financial statements

Lakeland Holding Ltd.
Consolidated Statement of Cash Flows

Year Ended December 31		2013		2012
Increase (decrease) in cash and cash equivalents				
Operating activities				
Net earnings	**$**	**4,088,239**	$	3,401,708
Amortization (Note 13)		**1,946,214**		2,149,098
Gain on disposal of property and equipment		**(4,000)**		(12,700)
Future payments in lieu of income taxes (Note 7)		**994,606**		750,800
		7,025,059		6,288,906
Change in non-cash working capital				
Receivables		**1,812,331**		(2,042,608)
Unbilled revenue		**(663,220)**		(122,144)
Inventory		**20,084**		(85,605)
Prepaids		**(61,526)**		(27,034)
Payables and accruals		**503,010**		(3,169,471)
Deferred revenue		**174,599**		13,097
Payment in lieu of income taxes		**(231,453)**		11,890
		8,578,884		867,031
Customer deposits		**(23,541)**		(14,612)
Regulatory assets and liabilities		**139,447**		1,196,227
		8,694,790		2,048,646
Financing activities				
Long-term loan advances		**-**		3,911,442
Repayment of long-term debt		**(1,000,968)**		(221,416)
Dividends paid		**(875,000)**		(500,000)
		(1,875,968)		3,190,026
Investing activities				
Proceeds from sale of property and equipment		**4,000**		24,136
Purchase of property and equipment		**(3,494,082)**		(8,277,613)
Contributions received in aid of construction		**156,275**		1,120,478
Acquisition of intangible assets		**(42,384)**		(248,025)
		(3,376,191)		(7,381,024)
Increase/(decrease) in cash and cash equivalents		**3,442,631**		(2,142,352)
Cash and cash equivalents, beginning of year		**(1,649,372)**		492,980
Cash and cash equivalents, end of year	**$**	**1,793,259**	$	(1,649,372)

See accompanying notes to the consolidated financial statements.

1. Nature of operations

The Company is incorporated under the laws of Ontario. Two of the subsidiaries are also incorporated under the laws of Ontario and operate as local utility companies producing and distributing hydro electric power to users in Bracebridge, Huntsville, Sundridge, Burk's Falls and Magnetawan, Ontario. These businesses are granted license to operate and are regulated by the Ontario Energy Board (OEB). A third subsidiary is incorporated under the laws of Ontario and sells utility related products and services.

2. Summary of significant accounting policies

a) Reporting entity

The consolidated financial statements include all transactions of the companies in which the Company has a controlling interest. All significant intercompany transactions and balances have been eliminated on consolidation.

The assets, liabilities and operations of the following subsidiaries are included in these consolidated financial statements:

Bracebridge Generation Ltd.
Lakeland Energy Ltd.
Lakeland Power Distribution Ltd.

b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances, and bank indebtedness.

c) Inventory

Inventory consists of repair parts, supplies and materials and is stated at the lower of average cost and net realizable value. Cost includes all direct costs plus any related shipping and freight costs. Net realizable value is the estimated selling price in the ordinary course of business, less any applicable selling expenses. The company classifies rebates received from vendors as a reduction to the cost of inventory. Amount of inventory expensed during the year was $50,425 (2012 - $43,845).

d) Property and equipment

Property and equipment are recorded at cost less accumulated amortization which includes internal labour and allocated overhead. Amortization is provided on the straight line basis over the estimated useful life of the assets as follows:

2. Summary of significant accounting policies (continued)

d) Property and equipment (continued)

Distribution plant

Buildings and fixtures	50 years
Conductors and devices	60 years
Distribution station equipment	40 years
Line transformers	40 years
Meters	15 years
New services distribution	45 years
Poles, towers and fixtures	45 years
Underground conduits	40 to 45 years

General plant

Building and fixtures	50 years
Communication equipment	5 to 10 years
Computer hardware and software	5 years
Office furniture and equipment	10 years
Stores equipment	10 years
Tools and garage equipment	10 years
Transportation equipment	5 & 8 years
Leasehold improvements	5 years

Generation plants

Buildings	50 years
Generation plants	25 to 45 years
Transportation equipment	5 to 8 years
Fibre optics	20 years
Water heaters and sentinel lights	10 to 12 years

e) Contributions in aid of construction

Certain property and equipment may be acquired or constructed with financial assistance in the form of non-refundable contributions from customers. These contributions are netted against property and equipment and amortized on the same basis as the property and equipment to which they relate.

2. Summary of significant accounting policies (continued)

f) Impairment of long-lived assets

The Company tests for impairment loss of long-lived assets whenever events or changes in circumstances occur, which may cause their carrying value to exceed the total undiscounted cash flows expected from their use and eventual disposition. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its fair value. No impairments have been recognized to date.

g) Property and equipment retirement obligations

Canadian generally accepted accounting principles require the Company to determine the fair value of the future expenditures required to settle legal obligations to remove property and equipment on retirement. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures. An equivalent amount is capitalized as an inherent cost of the associated property and equipment.

Some of the Company's assets may have asset retirement obligations. As the Company expects to use the majority of its property and equipment for an indefinite period, no removal date can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations has not been made at this time.

h) Intangible assets

Intangible assets consists of land rights, waterpower lease and computer software, which are recorded at cost less accumulated amortization and are amortized over the useful life of the asset. Computer software is amortized on a straight line basis over 5 years. Land rights and waterpower lease both have an indefinite life and are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount and no impairment has been recorded to date.

i) Regulatory assets and liabilities

The rates of the Company's electricity transmission and distribution businesses are subject to regulation by the Ontario Energy Board (OEB). The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing gives rise to the recognition of regulatory assets and liabilities that management believes will be settled in future rates to customers.

Specific regulatory assets are described below and disclosed in (Note 6).

2. Summary of significant accounting policies (continued)

i) Regulatory assets and liabilities (continued)

Smart meters/Stranded meters

This amount consists of the net balance of capital and operating expenditures for smart meters, less recoveries received from the rate adder charged to customers. In 2012 this amount was transferred to property and equipment with the approval of recovery as per OEB guidelines.

The net book value of stranded meters related to the deployment of smart meters was transferred to regulatory assets from property and equipment.

Retail settlement variance accounts

These accounts reflect the difference between the cost of electricity and the amounts billed to consumers that have not yet been approved for recovery.

Renewable generation

These assets relate to the Green Energy Act with the distributor being responsible for the cost of expansion up to the value of the generators renewable energy expansion cost of $90,000 per MW generation capacity. These amounts have not yet been submitted for recovery.

Regulatory assets approved for recovery

These assets have been approved for recovery by the OEB and are currently included in rates being charged to the customers.

j) Income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes to Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with rules contained in the Income Tax Act, as modified by the electricity Act, 1998, and related regulations.

The Company follows the asset and liability method of accounting for payments in lieu of income taxes (PILs). Under this method, current PILs are recognized for the estimated PILs payable (receivable) for the current year. Future PILs assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes, that are likely to be realized. Future PILs are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled.

2. Summary of significant accounting policies (continued)

k) Revenue recognition

Power revenue is recognized as power is transmitted and delivered to customers. Revenue is recognized on the accrual basis, which includes an estimate of electricity consumed by customers in the year, but billed subsequent to year end. This revenue is recorded as unbilled service revenue.

Generation revenues are recognized in the period power is generated based on fixed rate contracts which have a CPI index included.

Energy revenues are recognized over the term of the lease as they are earned. Initial setup revenues on monthly contracts are recognized over a twelve month period.

Utility service revenue on customer owned property is recognized under the completed contract method, whereby contract revenue billed and the related contract expenses are deferred until substantial completion of the contract. If losses are anticipated on contracts prior to substantial completion, full provision is made for such losses.

Gain/Loss on disposal of property and equipment is recognized when property and equipment is sold for proceeds that differ from the asset's corresponding net book value.

Investment, late payment/collection charges and other income are recognized as revenue when they are earned. Carrying charges on Regulatory Assets, at prescribed interest rates by the Ontario Energy Board, are also included in investment income.

l) Interest rate swap and hedge accounting

The Company has entered into an interest rate swap agreement to manage the volatility of interest rates. The Company formally documents the relationship between the hedging instrument and the hedged item, as well as its risk management objective and strategy for undertaking the hedging transaction. This process includes linking the interest rate swap to the long term debt on the balance sheet. The Company also formally assesses, both at the hedge's inception and on an on-going-basis, whether the interest rate swap used in the hedging transaction is highly effective in offsetting changes in cash flows of the hedged item.

The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. It is management's intention to hold the swap to maturity.

This interest rate swap qualifies and has been designated by the Company as a cash flow hedge against the floating rate long term debt. The Company has assessed the hedging relationship as effective. The fair value of the interest rate swap is recognized on the balance sheet as an "interest rate swap" liability. The effective portion of changes in fair value is recognized in other comprehensive loss while any gains or losses on fair value relating to the ineffective portion is recognized immediately in the statement of earnings and comprehensive loss.

2. Summary of significant accounting policies (continued)

m) Pension plan

The Company is an employer member of the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer, defined benefit pension plan. The OMERS Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. The Company has adopted defined contribution plan accounting principles for this plan because insufficient information is available to apply defined benefit plan accounting principles. The Company recognizes the expense related to this plan as contributions are made. The required contributions made by the Company to OMERS were $313,119 (2012 - $262,213).

n) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions, that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on management's historical experience, best knowledge of current events and actions that the Company may undertake in the future. Significant accounting estimates include allowance for doubtful accounts, unbilled revenue, inventory obsolescence, estimated useful lives of property and equipment and remaining recovery (settlement) period for regulated assets (liabilities). Actual results could differ from those estimates.

o) Financial instruments

i) Financial instrument categories

The Company classifies its financial instruments into one of the following categories, based on the purpose for which the asset was acquired. The fair value of these financial instruments approximates their carrying values, unless otherwise noted. The Company's accounting policy for each category is as follows:

Assets or liabilities held-for-trading
Cash and cash equivalents and the interest rate swap (a derivative financial instrument) have been classified as "held-for-trading". They are reported at fair value at each balance sheet date, and any change in fair value is recognized in net income in the period during which the change occurs. Transaction costs are expensed when incurred.

Loans and receivables
Receivables and unbilled revenue are classified under "loans and receivables". They are recorded at cost, which, upon their initial measurement, is equal to their fair value. Subsequent measurements of accounts receivable are recorded at amortized cost which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.

2. Summary of significant accounting policies (continued)

o) Financial instruments (continued)

Other financial liabilities
Bank indebtedness, payables and accruals and long term debt are classified as "other financial liabilities". They are initially measured at fair value and the gains and losses resulting from their subsequent measurement at amortized cost, at the end of each period, are recognized in net income.

3. New accounting pronouncements

International financial reporting standards (IFRS)

In 2008, the Canadian Accounting Standards Board (AcSB) confirmed that the adoption of IFRS would be effective for interim and annual periods beginning on or after January 1, 2012 for Canadian publicly accountable profit-oriented enterprises. In February 2013, the AcSB decided to permit rate regulated entities to defer their IFRS implementation date to January 1, 2015. IFRS will replace Canada's current Generally Accepted Accounting Principles (GAAP) for these enterprises upon adoption. Comparative IFRS information for the previous fiscal year will also have to be reported. As such, the Company will apply IFRS to its consolidated financial statements ending December 31, 2014.

The Company is currently in the process of evaluating the potential impact of IFRS on the future consolidated financial statements. This will be an ongoing process. The consolidated financial statements as disclosed under current GAAP may be different when presented in accordance with IFRS.

4. Property and equipment

	2013		2012	
	Asset Cost	**Accumulated Amortization**	Asset Cost	Accumulated Amortization
Distribution Plant				
Buildings and fixtures	**$ 1,841,808**	**$ 309,911**	$ 1,838,810	$ 242,965
Conductors and devices	**6,375,609**	**1,833,936**	5,939,399	1,691,219
Distribution station equipment	**3,355,291**	**1,028,611**	3,268,437	958,600
Line transformers	**7,011,978**	**2,553,355**	6,717,845	2,402,830
Meters	**1,950,401**	**466,559**	1,905,681	340,334
New services distribution	**782,925**	**149,884**	702,569	134,757
Poles, towers and fixtures	**6,492,955**	**3,114,057**	6,184,783	2,986,297
Underground conduits	**3,431,898**	**1,622,345**	3,345,311	1,554,217
	31,242,865	**11,078,658**	29,902,835	10,311,219

4. Property and equipment (continued)

	2013		2012	
	Asset Cost	**Accumulated Amortization**	Asset Cost	Accumulated Amortization
General Plant				
Land	**278,455**	**-**	278,455	-
Buildings and fixtures	**179,606**	**70,483**	179,606	60,817
Communication equipment	**775,982**	**449,463**	599,304	346,283
Computer hardware	**729,271**	**605,096**	690,637	541,499
Office furniture and equipment	**232,043**	**154,554**	232,043	140,358
Store equipment	**10,960**	**10,216**	10,960	9,396
Tools and garage equipment	**272,262**	**204,656**	261,628	188,134
Transportation equipment	**1,772,193**	**997,129**	1,405,662	903,983
Leasehold improvements	**194,080**	**191,700**	194,080	170,699
	4,449,852	**2,683,297**	3,852,375	2,361,169
Construction in progress	**709,670**	**-**	278,543	-
Generation Plants and Other				
Land	**109,646**	**-**	109,646	-
Buildings and fixtures	**4,710,467**	**307,622**	4,496,984	194,594
Generation plants	**27,228,412**	**3,585,377**	26,590,175	2,988,850
Fibre optics	**2,131,876**	**652,175**	1,916,438	566,907
Water heaters/sentinel lights	**695,758**	**475,224**	674,056	438,715
	34,876,159	**5,020,398**	33,787,299	4,189,066
	71,278,546	**18,782,353**	67,821,052	16,861,454
Less contributions in Aid of construction	**6,273,991**	**1,327,139**	6,117,716	1,193,124
	$ 65,004,555	**$ 17,455,214**	$ 61,703,336	$ 15,668,330
		$ 47,549,341		$ 46,035,006

5. Intangible assets

	2013 Asset Cost	2013 Accumulated Amortization	2012 Asset Cost	2012 Accumulated Amortization
Computer software	**$ 823,049**	**$ 604,700**	$ 784,697	$ 481,964
Land rights	**520,036**	**15,148**	516,004	15,147
Waterpower lease	**256,437**	**-**	256,437	-
	$ 1,599,522	**$ 619,848**	$ 1,557,138	$ 497,111
		$ 979,674		$ 1,060,027

In 2005, the Company acquired a Water Power Lease Agreement with the Ministry of natural Resources through the acquisition of Burk's Falls Waterpower Corporation. The lease provides access to crown lands and water beds and is considered to have an indefinite life. The lease has been in existence since 1985.

6. Regulatory assets

	2013	2012
Regulatory assets		
Smart meters/stranded meters	**$ 318,614**	$ 446,409
Other	**20,116**	34,282
Renewable generation	**241,867**	243,380
Retail settlement variances	**225,592**	419,136
Regulatory assets approved for recovery	**312,821**	115,250
	$ 1,119,010	$ 1,258,457

7. Future income tax (liabilities)/assets

Future income tax assets at December 31, 2013, which arise from differences between the carrying amounts and tax bases of the Company's assets, are as follows:

		2013		2012
Future income taxes assets/(liabilities)				
Difference of tax basis of property and equipment and intangibles from the carrying value	**$**	**(2,139,895)**	$	(350,359)
Corporate minimum tax credit carry forward		**112,054**		104,200
Tax losses for carryforward		**1,189,720**		402,644
Transitional credit		**23,789**		23,789
	$	**(814,332)**	$	180,274

Reconciliation of total payments in lieu of income taxes

		2013		2012
Earnings before payments in lieu of income taxes	**$**	**5,169,088**	$	4,455,552
Current effective tax rate		**26.50%**		26.50%
Expected payments		**1,369,808**		1,180,721
Tax rate change		**(74,435)**		(45,170)
Small business deduction		**(91,140)**		(35,000)
Donations		**(11,520)**		-
Dividend refund		**(5,514)**		-
Other		**(106,350)**		(46,707)
		1,080,849		1,053,844
Payments in lieu of income taxes				
Current payments in lieu of income taxes		**86,243**		303,044
Future payments in lieu of income taxes		**994,606**		750,800
	$	**1,080,849**	$	1,053,844

The "transitional credit" is available to reduce taxes in 2014. Any credit amounts not required to reduce taxes in 2014 will expire.

8. Interest rate swap

The Company has entered into an interest rate swap agreement to manage the volatility of interest rates and has applied hedge accounting on the cash flows from the reducing term facility loan as described in Note 2 of the financial statements. The floating interest rate on the bankers acceptance loan has been converted to a fixed rate of 3.74% by entering into an amortizing interest rate swap with an notional amount of $16,559,538. The maturity date of the interest rate swap is March 31, 2022.

The fair value of the interest rate swap agreement is based on amounts determined by third party valuation of the interest rate swap. As at December 31, 2013 the interest rate swap agreement was in a net unfavorable position representing a liability and a decrease in other comprehensive loss of $304,121.

9. Long-term debt

		2013		2012
TD bank term loan	**$**	**3,286,821**	$	3,459,803
Reducing term facility loan		**15,731,552**		16,559,538
TD bank term loan, payments of interest only, payable monthly at 2.94%, due March 2018		**1,162,500**		1,162,500
TD bank term loan, payments of interest only, payable monthly at 2.9268%, due October 2017		**2,325,000**		2,325,000
		22,505,873		23,506,841
Less current portion		**1,000,967**		1,000,967
	$	**21,504,906**	$	22,505,874

The TD term loans are secured by a general security agreement with the TD Bank, conveying a first floating and fixed charge over all assets and evidence of adequate liability insurance. The loan rate on the $3,286,821 term loan is held until June 2014 at 1.39% plus the BA rate. The loan has a 10 year term, 20 year amortization period, due March 2022, with yearly principal payments of $172,982.

The reducing term facility is with the TD Bank. The facility bears interest at a fixed annual rate of 3.74%, which includes 1.27% stamping fee, that is obtained as a result of an interest rate swap agreement (as described in Note 8) combined with the issuance of a monthly bankers' acceptance. The term facility is reduced by annual principal payments of $827,985 in June of each year. Security is provided by a General Security Agreement with the TD Bank, conveying a first floating and fixed charge over all assets and evidence of adequate liability insurance. The loan has a 10 year term, is due March 2022, with 20 year amortization period.

The agreement covering the above facility contains certain restrictions regarding service coverage ratio and debt capitalization tests, which have been met.

Principal payments due annually for the next nine years are $1,000,967.

10. Contingent liability

Legal contingency

The Company is involved in potential litigation regarding a July 2008 drowning at a generation station. In respect to any potential claim, the Company believes that insurance coverage is adequate and that no material exposure exists. No further action has been taken at this time.

11. Share capital

			2013		2012
Authorized					
Unlimited	Common shares				
Issued					
10,000	Common shares	**$**	**12,609,650**	$	12,609,650

12. Amortization of property and equipment

The amortization of property and equipment amounted to $1,946,214 for the year (2012 - $2,149,098). The line item *Amortization* on the statement of earnings reflects $1,816,471 (2012 - $2,039,092) because the transportation and communication equipment amortization of $129,743 (2012 - $110,006) has been expensed and capitalized to operating lines where the equipment was used.

13. Statement of cash flow supplementary information

During the year, the Company paid (received) the following amounts in cash:

		2013		2012
Interest received	**$**	**43,468**	$	27,484
Interest paid	**$**	**841,074**	$	758,269
Payments in lieu of income taxes	**$**	**317,696**	$	291,154

14. Related party transactions

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties) which approximates the arm's length equivalent value.

The following table summarizes the Company's related party shareholder transactions for the year:

	2013	2012
Purchases		
Town of Bracebridge		
Dividends	**$ 569,710**	$ 325,548
Operating expenses	**30,329**	7,370
Town of Huntsville		
Dividends	**219,886**	125,648
Operating expenses	**5,828**	4,590
Village of Burk's Falls		
Dividends	**34,650**	19,800
Operating expenses	**1,236**	1,065
Village of Sundridge		
Dividends	**37,890**	21,652
Municipality of Magnetawan		
Dividends	**12,864**	7,352
Sales		
Town of Bracebridge	**$ 1,019,548**	$ 995,899
Town of Huntsville	**497,406**	451,681
Village of Burk's Falls	**163,882**	144,702
Village of Sundridge	**107,243**	112,100
Municipality of Magnetawan	**50,742**	45,110

15. Capital disclosures

The Company defines its capital to be its long-term debt, share capital and retained earnings. The Company's objectives when managing its capital are:

- To safeguard its ability to continue as a going concern which will allow it to continue to service its customers
- To provide adequate returns to its shareholders
- To ensure ongoing access to funding to maintain and improve the electricity distribution system
- To ensure compliance with covenants related to its credit facilities.

Annual budgets are developed along with three year business plans and actual results are reviewed on a regular basis to monitor the Company's capital and ensure it is maintained at an appropriate level. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company will adjust the amount of dividends paid to its shareholders. The Company's externally imposed capital requirements consist of banking covenants related to its long-term debt (Note 10). One of the covenants limits the debt to 60% of the Company's total capitalization.

There have been no changes in the Company's capital management strategy in relation to the prior year.

16. Risks arising from financial instruments

Credit risk
The Company's cash is all held at The Toronto-Dominion Bank (TD Bank). The Company's credit risk associated with receivables is related to payments from LDC customers. The Company collects security deposits from customers in accordance with directions provided by the Ontario Energy Board. Current customer deposits total $167,656 (2012 - $191,197). In addition, the Company holds credit risk insurance on all its commercial and industrial customers thereby minimizing its overall credit risk. The carrying amount of receivables is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the consolidated statement of operations. Subsequent recoveries of receivables previously provisioned are credited to the statement of operations.

Interest rate risk
The TD bank term loan of $3,286,821 is partly fixed with 180 day BA loan that bears interest at a floating rate after this period, which gives rise to a risk that the Company's income (loss) and cash flows may be adversely impacted by fluctuations in interest rates. The remaining long-term debt bears fixed interest rates. Consequently, the long-term interest rate risk exposure is minimal. The bank indebtedness bears interest at floating rates which gives rise to a risk that the Company's future income (loss) and cash flows may be adversely impacted by fluctuations in interest rates.

The reducing term facility may be exposed to interest rate risk if the Company is not in compliance with its year end financial and capital expenditure covenants. The amount is currently being hedged and therefore has an effective fixed rate of 3.74%. The Company closely monitors its financial performance to ensure it remains in compliance with its banking covenants.

The interest rate swap is exposed to interest rate risk as it is recorded at fair market value, which is dependent on projections of current and future interest rates.

Liquidity risk
The Company manages its liquidity risk to ensure access to sufficient funds to meet operational needs. Liquidity risks are comprised of liabilities totaling $6,635,229 which are due within one year and long-term debt of $21,504,906 to be repaid over the next 9 years.