

FINANCIAL STATEMENTS OF

**TAY HYDRO ELECTRIC
DISTRIBUTION COMPANY INC.**

April 30, 2007

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AUDITORS' REPORT

To the Shareholders of
Tay Hydro Electric Distribution Company Inc.

We have audited the balance sheet of Tay Hydro Electric Distribution Company Inc. as at April 30, 2007 and the statements of retained earnings, income and cash flows from January 1, 2007 to April 30, 2007. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at April 30, 2007 and the results of its operations and its cash flows from January 1, 2007 to April 30, 2007 then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Kawartha LLP

Chartered Accountants
Licensed Public Accountants

Peterborough, Ontario
December 14, 2007

TAY HYDRO ELECTRIC DISTRIBUTION COMPANY INC.

BALANCE SHEET

As at April 30, 2007

	April 2007 \$	December 2006 \$
ASSETS		
Current assets		
Cash	1,080,622	1,131,051
Accounts receivable	319,428	378,867
Inventory	115,894	119,042
Prepaid expenses	38,537	46,109
Due from related parties (note 3)	86,778	84,878
Unbilled revenue	709,062	622,622
	2,350,321	2,382,569
Other assets		
Property, plant and equipment (note 4)	2,945,421	2,814,651
Regulatory assets (note 5)	40,397	97,789
Organization costs	14,726	16,567
	3,000,544	2,929,007
	5,350,865	5,311,576
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	903,539	854,546
Income taxes payable	86,010	141,010
Dividend payable (note 7)	175,000	-
Current portion of long-term debt (note 8)	1,952,821	1,952,821
	3,117,370	2,948,377
Long-term liabilities		
Regulatory liabilities (note 5)	15,572	30,021
Dividend payable (note 7)	390,000	-
Long-term debt (note 8)	423,000	423,000
Customer and retailer deposits	150,065	139,132
	978,637	592,153
Shareholders' equity		
Share capital (note 9)	1,742,821	1,742,821
Retained earnings (deficit)	(487,963)	28,225
	1,254,858	1,771,046
	5,350,865	5,311,576

The accompanying notes are an integral part of these financial statements

TAY HYDRO ELECTRIC DISTRIBUTION COMPANY INC.
STATEMENT OF RETAINED EARNINGS

For the period from January 1, 2007 to April 30, 2007

	April 2007 \$	December 2006 \$
Retained earnings - beginning of period		
As previously stated	28,225	264,263
<u>Equity adjustment (note 10)</u>	-	118,678
As restated	28,225	382,941
Net income (loss) for the period	48,812	(33,716)
<u>Dividend (note 7)</u>	(565,000)	(321,000)
<u>Retained earnings (deficit) - end of period</u>	(487,963)	28,225

The accompanying notes are an integral part of these financial statements

TAY HYDRO ELECTRIC DISTRIBUTION COMPANY INC.

STATEMENT OF INCOME

For the period from January 1, 2007 to April 30, 2007

	April 2007 \$	December 2006 \$
Revenue		
Sale of power	1,221,871	3,314,322
Distribution	385,247	1,203,145
	1,607,118	4,517,467
Cost of sales		
Power purchased	1,221,871	3,314,322
Gross profit	385,247	1,203,145
Expenses		
Distribution	32,707	198,184
Amortization	97,939	282,724
Operations and administration	92,413	309,680
Billing and collecting	88,198	222,770
	311,257	1,013,358
Income before undernoted items and income taxes	73,990	189,787
Other expenses (income)		
Interest on long term debt	49,109	169,861
Interest income	(16,573)	(70,013)
Other income	(32,358)	(101,842)
	178	(1,994)
Income before income taxes	73,812	191,781
Provision for income taxes	25,000	225,497
Net income (loss) for the period	48,812	(33,716)

The accompanying notes are an integral part of these financial statements

TAY HYDRO ELECTRIC DISTRIBUTION COMPANY INC.

STATEMENT OF CASH FLOWS

For the period from January 1, 2007 to April 30, 2007

	April 2007 \$	December 2006 \$
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income (loss) for the period	48,812	(33,716)
Items not affecting cash		
Amortization	97,939	282,724
	146,751	249,008
Change in non-cash working capital items (note 11)	(13,255)	(118,664)
	133,496	130,344
Investing activities		
Purchase of property, plant and equipment	(226,868)	(359,200)
Net additions to regulatory assets	57,392	288,534
Organization costs	-	144,158
Net additions to other assets	(14,449)	(29,376)
	(183,925)	44,116
Financing activities		
Repayment of long-term debt	-	(197,000)
Dividends paid	-	(321,000)
	-	(518,000)
Decrease in cash	(50,429)	(343,540)
Cash - beginning of period	1,131,051	1,474,591
Cash - end of period	1,080,622	1,131,051
Other information		
Interest paid	-	190,078
Interest received	16,573	61,691
Income taxes paid (recovered)	80,000	(29,141)

The accompanying notes are an integral part of these financial statements

TAY HYDRO ELECTRIC DISTRIBUTION COMPANY INC.

NOTES TO THE FINANCIAL STATEMENTS

For the period from January 1, 2007 to April 30, 2007

1. NATURE OF OPERATIONS

Tay Hydro Electric Distribution Company Inc. is incorporated under the Business Corporations Act of the Province of Ontario.

The principal activity of the company is to distribute electricity to the residents and businesses in the Township of Tay under license issued by the Ontario Energy Board (OEB). The company is regulated by the OEB and adjustments to its distribution rates require OEB approval.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant policies are detailed as follows:

(a) Electricity Regulation

The company is subject to rate regulation by the Ontario Energy Board (OEB). The OEB is charged with the responsibility of approving rates for the transmission and distribution of electricity. The following regulatory policies are practiced in a rate regulated environment.

(i) Regulatory Assets

Regulatory assets consist of deferred qualifying transition costs and various rate and retail variance accounts. The costs related to these accounts are deferred for accounting purposes because it is probable that they will be recovered in future rates. Regulatory assets recognized at April 30, 2007 are disclosed in Note 5. The company continually assesses to the likelihood of the recovery of these assets. If recovery is no longer considered probable, the amount are charged to operations in the year the assessment is made. The recovery of regulatory assets commenced April 1, 2004.

(ii) Corporate Taxes

Under the Electricity Act, 1998, the company is required to make payments in lieu of income taxes (PILS) to the Ontario Electricity Financial Corporation (OEFC). As directed by the OEB, the company provides for PILS payments using the taxes payable method. Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts.

(b) Inventory

Inventory is valued at the lower of cost and net realizable value with costs being determined on a weighted average basis. Inventory consists primarily of repair parts, supplies and materials held for future capital expansion.

TAY HYDRO ELECTRIC DISTRIBUTION COMPANY INC.

NOTES TO THE FINANCIAL STATEMENTS

For the period from January 1, 2007 to April 30, 2007

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(c) *Revenue recognition*

Revenues are recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the period. The related cost of power is recorded on the basis of the power billed by the Independent Electric System Operator..

(d) *Property, plant and equipment*

Property, plant and equipment are recorded at cost. The company provides for amortization using the straight-line method at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives. The annual amortization rates are as follows:

Buildings	25-30 years
Distribution system	25 years
Land rights	50 years
Other capital assets	2-10 years

(e) *Asset 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 fixed assets on retirement. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures.

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

(f) *Financial instruments*

The company's financial instruments consist of cash, accounts receivable, unbilled revenue, due from related parties, accounts payable and accrued liabilities and long-term debt. Unless otherwise noted it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The Company is exposed to credit risk from customers. However, the Company has a significant number of customers which minimizes concentration of credit risk.

TAY HYDRO ELECTRIC DISTRIBUTION COMPANY INC.

NOTES TO THE FINANCIAL STATEMENTS

For the period from January 1, 2007 to April 30, 2007

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(g) Management estimates

The preparation of 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 liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. RELATED PARTY TRANSACTIONS

(a) During the period, the company entered into transactions with the following related parties:

Tay Utility Contracting Inc., related company
Township of Tay, shareholder of parent company

(b) Transactions

	April 2007 \$	December 2006 \$
Revenue		
Services - Tay Utility Contracting Inc.	3,340	18,825
Sale of Power - Township of Tay	113,549	305,064
	116,889	323,889
Expenses		
Interest expense - Township of Tay	49,109	169,861
Property taxes - Township of Tay	4,738	14,435
	53,847	184,296

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties. The advances are non-interest bearing with no set terms of repayment.

TAY HYDRO ELECTRIC DISTRIBUTION COMPANY INC.

NOTES TO THE FINANCIAL STATEMENTS

For the period from January 1, 2007 to April 30, 2007

3. RELATED PARTY TRANSACTIONS, continued

(c) The amounts due from (to) related companies consists of:

	April 2007 \$	December 2006 \$
Due from Tay Utility Contracting Inc.	38,312	36,593
Due from Tay Hydro Inc.	48,466	48,285
	86,778	84,878

(d) Balances due to the Township of Tay include in long term debt includes:

	April 2007 \$	December 2006 \$
Note payable to Township of Tay	1,742,821	1,742,821
Debenture payable to Township of Tay	633,000	633,000
	2,375,821	2,375,821

The note payable, debenture and interest thereon have been recorded in these financial statements at the carrying amounts, which were equal to historical cost or fair value. The interest rate represents fair value as was determined at the time the debt was issued.

4. PROPERTY, PLANT AND EQUIPMENT

	Cost \$	Accumulated amortization \$	April 2007 Net book value \$	December 2006 Net book value \$
Buildings	277,520	73,607	203,913	204,945
Distribution system	6,106,403	3,782,879	2,323,524	2,318,505
Land rights	299,804	104,670	195,134	196,717
Other capital assets	786,888	564,038	222,850	94,484
	7,470,615	4,525,194	2,945,421	2,814,651

TAY HYDRO ELECTRIC DISTRIBUTION COMPANY INC.

NOTES TO THE FINANCIAL STATEMENTS

For the period from January 1, 2007 to April 30, 2007

5. REGULATORY ASSETS

As described in note 2, the company has recorded the following regulatory assets and liabilities.

	April 2007 \$
Retail settlement variances	(236,630)
Qualifying market transition costs	-
Other regulatory assets	47,179
Approved regulatory assets	716,661
Regulatory assets recovered	(486,813)
Regulatory assets	40,397
	\$
Regulatory liability	30,021
Current portion included in accounts payable	(14,449)
Regulatory liability	15,572

6. PROVISION FOR INCOME TAXES

The income tax provision differs from that computed using the statutory rates for the following reasons:

	000's \$
Income taxes at statutory rates	32
Amortization in excess of capital cost allowance	3
Timing differences - tax reserves	19
Small business deduction	(32)
Other	3
	25

TAY HYDRO ELECTRIC DISTRIBUTION COMPANY INC.

NOTES TO THE FINANCIAL STATEMENTS

For the period from January 1, 2007 to April 30, 2007

7. DIVIDEND PAYABLE

On April 29, 2007 the Board declared a dividend payable of \$ 565,000 on common shares with payment terms as follows:

	\$
Due December 31, 2007	175,000
Due December 31, 2008	195,000
Due December 31, 2009	195,000
	<u>565,000</u>

8. LONG-TERM DEBT

	April 2007 \$	December 2006 \$
Debenture payable	633,000	633,000
Note payable	1,742,821	1,742,821
	<u>2,375,821</u>	<u>2,375,821</u>
Less: current portion	(1,952,821)	(1,952,821)
	<u>423,000</u>	<u>423,000</u>

The debenture is payable to the Township of Tay, the shareholder of the company and bears interest at rates of 5.05% to 6%. Principal payments are due annually May 31 until 2009.

The note is payable to the Township of Tay, the shareholder of the parent company. Payments are interest only at 6.25% (2007- 7.25%). The note is due on demand.

Scheduled principal re-payments are as follows:

	\$
May through December 2007	210,000
2008	223,000
2009	<u>200,000</u>

TAY HYDRO ELECTRIC DISTRIBUTION COMPANY INC.

NOTES TO THE FINANCIAL STATEMENTS

For the period from January 1, 2007 to April 30, 2007

9. SHARE CAPITAL

Authorized

Unlimited number of common shares

Unlimited number of preference shares

Issued

	April 2007 \$	December 2006 \$
1,000 common shares	1,742,821	1,742,821

10. EQUITY ADJUSTMENT

In 2006, the company established that the development charges included in the financial statements in prior years should have been recorded as equity and accordingly made an adjustment to the prior year opening equity to reflect this reclassification.

11. STATEMENT OF CASH FLOWS

	April 2007 \$	December 2006 \$
Decrease (increase) in accounts receivable	59,439	(84,721)
Decrease in income taxes receivable	-	139,696
Decrease (increase) in prepaid expenses	7,572	(20,471)
Decrease (increase) in inventory	3,148	(14,185)
Customer and retailer deposits	10,933	22,765
Increase (decrease) in income taxes payable	(55,000)	141,010
Due from related parties	(1,900)	(23,866)
Increase in unbilled revenue	(86,440)	(42,092)
Increase (decrease) in accounts payable and accrued liabilities	48,993	(236,800)
	(13,255)	(118,664)

TAY HYDRO ELECTRIC DISTRIBUTION COMPANY INC.

NOTES TO THE FINANCIAL STATEMENTS

For the period from January 1, 2007 to April 30, 2007

12. PENSION PLAN

The company makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of staff. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. OMERS contributions totaled \$9,322 (2006 - \$ 53,380).

13. SUBSEQUENT EVENTS

On March 8, 2007, the Company received approval from the OEB in respect to a merger with Newmarket Hydro Ltd. This merger will be effective beginning on May 1, 2007. Newmarket Hydro Ltd. is a licensed local distribution Company that distributes electricity to approximately 27,000 customers in the Town of Newmarket and area. Tay Hydro Electric Distribution Company Inc. will hold approximately 7% of all outstanding common shares of the combined entity.

14. CONTINGENT LIABILITY

A class action claiming \$500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1999. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric Ontario, which have charged late payment charged on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rate in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Electricity Distributors Association is undertaking the defence of this class action. At this time it is not possible to quantify the effect, if any, on these financial statements, and as such no accrual of any potential liability has been recognized.