



Energizing Our Community

Telephone: (705) 326-7315  
Fax: (705) 326-0800

January 5, 2010

Ms. Kirsten Walli, Board Secretary  
Ontario Energy Board  
P.O. Box 2319, 27<sup>th</sup> Floor  
2300 Yonge Street  
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

**Re: Orillia Power Distribution Corporation - Board File No: EB-2009-0273  
2010 Electricity Distribution Rate Application**

The School Energy Coalition (SEC) interrogatory - Question 8 submitted November 16, 2009, requested 2007, 2008 and pro forma 2009 financial statements for Orillia Power Generation Corporation.

In accordance with Procedural Order No. 2 and section 6.3.2 of the Practice Direction, you will find attached a redacted version of these confidential documents.

The unredacted version of the documents was delivered by courier to the Board Secretary on December 2, 2009 in a sealed envelope marked "Confidential".

If you have any questions, please contact Pat Hurley at (705)326-2495 ext 222 or phurley@orilliapower.ca.

Respectfully,

John F. Mattinson P. Eng.  
President & Secretary  
Orillia Power Distribution Corporation



**Orillia Power Generation Corporation  
Financial Statements  
December 31, 2007**



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## Auditors' report

Grant Thornton LLP  
Suite 300  
6 West Street N  
Orillia, ON  
L3V 5B8  
T (705) 326-7605  
F (705) 326-0837  
[www.GrantThornton.ca](http://www.GrantThornton.ca)

To the Directors of

Orillia Power Corporation

We have audited the balance sheet of Orillia Power Generation Corporation as at December 31, 2007 and the statements of earnings and retained earnings and cash flows for the year then ended. 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 December 31, 2007 and the results of its operations and cash flows for year then ended in accordance with Canadian generally accepted accounting principles.

*Grant Thornton LLP*

Orillia, Canada

Chartered accountants,

March 18, 2008

Licensed public accountants

# Orillia Power Generation Corporation

## Statements of Earnings and Retained Earnings

(In Thousands)

Year Ended December 31

2007

2006

Revenue		
Generation	\$	
Other		
Costs		
Operations, maintenance and administration		
Amortization		
Earnings from operations		
Interest income		
Interest on long term debt		
Earnings before payments in lieu of taxes		
Payments in lieu of taxes (Note 9)		
Net earnings	\$	
<hr/>		
Retained earnings, beginning of year	\$	
Net earnings		
Dividends		
Retained earnings, end of year	\$	

See accompanying notes to the financial statements.

# Orillia Power Generation Corporation

## Balance Sheet

(In Thousands)

December 31

2007

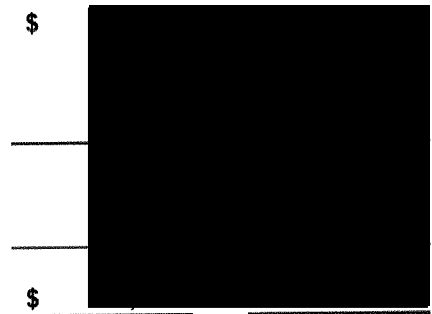
2006

### Assets

#### Current

Cash  
Receivables  
Payments in lieu of taxes recoverable  
Prepays

\$

A large black rectangular redaction covers the numerical data for the Assets section, including the current assets and property and equipment.

Property and equipment (Note 3)

\$

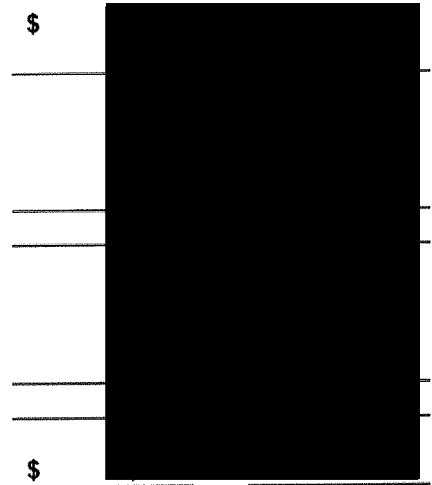
### Liabilities

#### Current

Payables and accruals  
Due to related parties (Note 4)

\$

Employee future benefits (Note 5)  
Long term debt (Note 6)

A large black rectangular redaction covers the numerical data for the Liabilities section, including current liabilities and long-term debt.

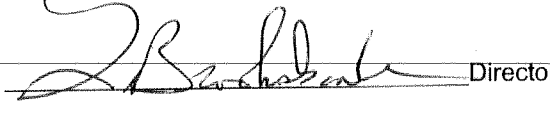
### Shareholder's Equity

Capital stock (Note 7)  
Retained earnings

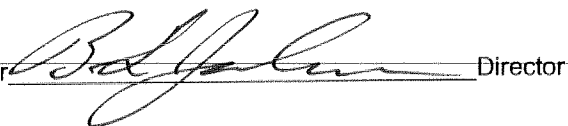
\$

Commitments (Note 8)

On Behalf of the Board

A handwritten signature in cursive script, likely of a director, is written over a horizontal line.

Director

A second handwritten signature in cursive script, likely of another director, is written over a horizontal line.

Director

See accompanying notes to the financial statements.

# Orillia Power Generation Corporation

## Statement of Cash Flows

(In Thousands)

Year Ended December 31

2007

2006

Increase (decrease) in cash and cash equivalents

<b>Operating</b>		
Net earnings	\$	
Amortization		
Change in non-cash operating working capital (Note 10)		
<b>Financing</b>		
Dividends		
<b>Investing</b>		
Net additions to property and equipment		
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents, beginning of year		
Cash and cash equivalents, end of year	\$	

See accompanying notes to the financial statements.

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2007

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### 1. Nature of operations

The Company generates electricity under license from the Ontario Energy Board (OEB). The Electricity Act, 1998 provides for a competitive marketplace in the sale of electricity where price is established by the economics of supply and demand. The Company does not bid production into the market but accepts the rate established by the market at time it supplies power into the Provincial grid.

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### 2. Summary of significant accounting policies

#### Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks.

#### Property and equipment

Property and equipment are recorded at cost and include contracted services, materials, labour, engineering costs and overheads. Significant renewals and enhancements to existing assets are capitalized only if the service life of the asset is extended, reliability or productivity is improved above original design standards or associated operating costs are lowered. Maintenance and repair costs are expensed as incurred.

Property and equipment is amortized using the straight-line method over periods approximating its estimated useful life as follows:

Land rights	5 years
Generation stations and buildings	30-50 years
Other capital assets	5-10 years

In the case of capital expenditures that become part of a generating station, that expenditure is amortized over the remaining useful life of the station as a whole. When property and equipment is sold or scrapped, the cost of the asset and the related accumulated amortization is removed when identifiable from the accounts, with the resulting net gain or loss being included in operations for the year.

#### Corporate income and capital taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate taxes to Ontario Electricity Financial Corporation (OEFC). 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) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998 and related regulations.



# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2007

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### 2. Summary of significant accounting policies (Continued)

#### Corporate income and capital taxes (Continued)

The Company provides for payments in lieu of corporate income taxes relating to its regulated business using the taxes payable method as directed by the OEB. 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 for accounting purposes. This regulation accounting treatment differs from Canadian generally accepted accounting principles for enterprises operating in a non-regulated environment.

#### Employee future benefits

##### *Pension plan*

The Company provides pension benefits for its employees through the Ontario Municipal Employees Retirement System (OMERS). This multi-employer pension plan provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. It is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees and by investment earnings of the fund. The Company recognizes the expense related to this plan as contributions are made.

##### *Employee future benefits other than pension plan*

The Company provides life insurance benefits to employees hired prior to January 1, 2008 when they are no longer providing active service. Employee future benefits expense is recognized in the period in which the employee renders services. Employee future benefits other than pension plans are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected benefit method pro-rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the present value of expected future benefits attributed to employee's services rendered in the period.

#### Fixed assets 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. An equivalent amount is capitalized as an inherent cost of the associated fixed assets.

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 date can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations can not be made at this time.

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2007

### 2. Summary of significant accounting policies (Continued)

#### Revenue recognition

Revenue is recognized in the period power is generated at rates established by the electricity market.

#### Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures for the year. Actual results could differ from these estimates.

### 3. Property and equipment

		<u>2007</u>	<u>2006</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
			<u>Net Book Value</u>
Land	\$		
Land rights			
Buildings			
Generating stations			
Other capital assets			
	\$		

### 4. Related party transactions

Transactions involving the sale of electricity are in the normal course of operations and are measured at the exchange amount, which is equal to the fair value as prescribed by regulation. Transactions involving other services have been recorded in these financial statements at the carrying amounts, which were equal to historical cost or fair value. Fair values represent fees for equivalent services provided to third parties in the normal course of operations as prescribed by regulations. The Company had the following related party transactions:

	<u>2007</u>	<u>2006</u>
Orillia Power Distribution Corporation – related Company		
Services purchased	\$	
Services provided		
Power generated and supplied on behalf of Orillia customers		

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2007

### 4. Related party transactions (Continued) 2007      2006

City of Orillia - the shareholder of Orillia Power Corporation, the parent Company		
Services purchased	\$	
Services provided		
Interest expense		
Balance outstanding at December 31:		
Due to Orillia Power Distribution Corporation – related Company	\$	

During the year, the Company paid interest of [REDACTED] on a promissory note payable, to the City of Orillia, the shareholder of Orillia Power Corporation, the parent Company. Included in payables and accruals is \$ [REDACTED] due to the City of Orillia.

### 5. Employee future benefits

*Pension plan*  
Current service contributions to OMERS for 2007 were [REDACTED]

*Employee future benefits other than pension plan*  
The Company measures its accrued benefits obligation for accounting purposes as at December 31 of each year. The latest actuarial valuation was performed as at December 31, 2006. Key economic assumptions used to determine the valuation are Consumer Price Index; 2% per annum, discount rate; 5% per annum and salary increase rate; 3.3%. A reconciliation of the Company's accrued benefits obligation is as follows:

	<u>2007</u>	<u>2006</u>
Employee future benefits obligation, beginning of year	\$	
Current service cost		
Interest on benefits obligation		
Benefit plan payments		
Employee future benefits obligation, end of year	\$	

### 6. Long term debt

The promissory note payable to the City of Orillia, the shareholder of Orillia Power Corporation, the parent Company, bears interest for the current year at [REDACTED] per annum [REDACTED]. The interest rate is reviewed annually. Payments of interest are required to be made quarterly on the last day of March, June, September and December. The promissory note is due December 31, 2030.

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2007

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### 7. Capital stock

2007

2006

#### Authorized:

The Company is authorized to issue an unlimited number of common shares.

#### Issued:

1,001 shares

\$

████████████████████

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### 8. Commitments

#### *Parks Canada license renewal*

In 2004, the Company agreed in principle to a license renewal with Parks Canada – Trent Severn Waterway, which includes the right to use surplus water at the Swift Rapids Generating Station. In 2005, it was determined by the Federal Department of Justice that the Company would be required to make application for a new license to operate the plant in order to ensure compliance under the Dominion Waterpower Act. During 2006, the Company made application for and was granted the right to continue operating the plant under license. The Company is currently in discussions with Parks Canada to finalize the wording and execute the license.

#### *Donation*

During 2007, the Company pledged to make a donation of ██████████ for five years to assist with the funding requirements of the local hospital expansion. Total payments of ██████████ have been made to satisfy this pledge to date.

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2007

### 9. Payments in lieu of taxes

The provision for payments in lieu of corporate income taxes (PILS) differs from the amount that would have been recorded using the combined Canadian Federal and Ontario statutory income tax rate. The reconciliation between the statutory rate and effective tax rates is provided as follows:

	<u>2007</u>	<u>2006</u>
Earnings before provision for PILS	\$	
Federal and Ontario statutory income tax rates		
Provision for PILS at statutory rate	\$	
Increase (decrease) resulting from:		
Temporary differences		
Capital cost allowance in excess of amortization		
Adjustment to prior year provision		
Net temporary differences		
Permanent differences		
Capital cost allowance on appraisal increment		
Manufacturing and processing deduction		
Dividend refund		
Other		
Net permanent differences		
Provision for PILS	\$	
Effective income tax rate		

Future income taxes have not been recorded as they are expected to be reflected through future rates. Significant components of the Company's deductible timing differences at year end are related to property and equipment [REDACTED].

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2007

<b>10. Supplemental cash flow information</b>	<u>2007</u>	<u>2006</u>
Change in non-cash operating working capital		
Receivables	\$	
Payments in lieu of taxes recoverable		
Prepays		
Payables and accruals		
Due to related parties		
Payments in lieu of taxes	\$	
Interest received	\$	
Interest paid	\$	
Payment in lieu of taxes paid (net)	\$	

### 11. Public liability insurance

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE), which was created on January 1, 1987. 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 through the same attorney. MEARIE has provided general liability insurance to the Company of [REDACTED] per occurrence.

### 12. Financial instruments

Financial instruments consist of cash, receivables, payables and accruals, due to related parties, payments in lieu of taxes recoverable 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 fair value of these financial instruments approximates their carrying values, unless otherwise noted.

### 13. Comparative figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2007

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### 14. Future accounting pronouncements

Accounting pronouncements that will come into effect during 2008 and 2009 are listed below. The Company is currently assessing the potential impact that each of the following new standards will have on its financial statements.

#### **Financial instruments, hedges, and comprehensive income**

Effective January 1, 2008, the Company will be required to adopt CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement"; Section 3865 "Hedges"; and Section 1530 "Comprehensive Income". Under the new standards, all financial assets must be classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale and all financial liabilities must be classified as held-for-trading and other. Financial instruments classified as held-for-trading will be measured at fair value with changes in fair value recognized in net income. Financial assets classified as held-to-maturity or as loans and receivables and financial liabilities not classified as held-for-trading will be measured at amortized cost. Available-for-sale financial assets will be measured at fair value with changes in fair value recognized in other comprehensive income. All derivative financial instruments will be reported on the balance sheet at fair value with changes in fair value recognized in net income unless the derivative is part of a hedging relationship. The new standards will also require presentation of a separate statement of comprehensive income.

#### **Financial instruments disclosures and presentation**

Effective January 1, 2008, the Company will be required to adopt CICA Handbook Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which will replace Section 3861, Financial Instruments – Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The presentation standard carries forward former presentation requirements that are unchanged.

#### **Capital disclosures**

Effective January 1, 2008, the Company will be required to adopt CICA Handbook Section 1535 "Capital Disclosures". The new standard requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance.

#### **Inventories**

Effective January 1, 2008, the Company will be required to adopt CICA Handbook Section 3031 "Inventories". This new standard replaces the existing Section 3030 of the same name and contains requirements on measurement and disclosure of inventories and revises and enhances the requirements for assigning costs to inventories. This new standard also allows for reversal of previous write-downs.

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2007

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### 14. Future accounting pronouncements (Continued)

#### General standards on financial statement presentation

Effective January 1, 2008, the Company will be required to adopt CICA Handbook Section 1400 "General Standards on Financial Statement Presentation". This new standard amends the previous standard to include requirements to assess and disclose an entity's ability to continue as a going concern.

#### Rate regulated operations

Effective January 1, 2009, the Company will be required to adopt changes to the CICA Handbook regarding rate regulated operations. The temporary exemption of Section 1100 that provided relief from the requirement to apply the Section to the recognition and measurement of assets and liabilities arising from rate regulation will be removed. Section 3465 will be amended to require the recognition of future income tax liabilities and assets as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to future customers.

There will be adjustments within AcG-19 to reflect the changes made for Sections 1100 and 3465 of the CICA Handbook.



# Orillia Power Generation Corporation

## Financial Statements

December 31, 2008



Energizing Our Community

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## Auditors' Report

Grant Thornton LLP  
Suite 300  
6 West Street N  
Orillia, ON  
L3V 5B8  
T (705) 326-7605  
F (705) 326-0837  
www.GrantThornton.ca

To the Directors of

Orillia Power Corporation

We have audited the balance sheet of Orillia Power Generation Corporation as at December 31, 2008 and the statements of earnings and retained earnings and cash flows for the year then ended. 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 December 31, 2008 and the results of its operations and cash flows for year then ended in accordance with Canadian generally accepted accounting principles.



Orillia, Ontario  
March 16, 2009

Chartered Accountants  
Licensed Public Accountants

# Orillia Power Generation Corporation

## Statements of Earnings and Retained Earnings

(In Thousands)

Year Ended December 31

2008

2007

Revenue		
Generation	\$	
Other		
Costs		
Operations, maintenance and administration		
Amortization		
Earnings from operations		
Interest income		
Interest on long term debt (Note 4)		
Earnings before payments in lieu of taxes		
Payments in lieu of taxes (Note 9)		
Net earnings	\$	
Retained earnings, beginning of year	\$	
Net earnings		
Dividends		
Retained earnings, end of year	\$	

See accompanying notes to the financial statements.

# Orillia Power Generation Corporation

## Balance Sheet

(In Thousands)

December 31

2008

2007

### Assets

#### Current

Cash  
 Receivables  
 Payments in lieu of taxes recoverable  
 Prepays

\$ [REDACTED]

Property and equipment (Note 3)

\$ [REDACTED]

### Liabilities

#### Current

Payables and accruals  
 Due to related parties (Note 4)  
 Payments in lieu of taxes payable

\$ [REDACTED]

Employee future benefits (Note 5)

Long term debt (Note 6)

[REDACTED]

### Shareholder's Equity

Capital stock (Note 7)

Retained earnings

[REDACTED]

Commitments (Note 8)

On Behalf of the Board

 Director

 Director

See accompanying notes to the financial statements.

# Orillia Power Generation Corporation

## Statement of Cash Flows

(In Thousands)

Year Ended December 31

2008

2007

Increase (decrease) in cash and cash equivalents

### Operating

Net earnings

\$

Amortization

Change in non-cash operating working capital (Note 10)

### Financing

Dividends

### Investing

Net additions to property and equipment

Net increase in cash and cash equivalents

Cash and cash equivalents, beginning of year

Cash and cash equivalents, end of year

\$

See accompanying notes to the financial statements.

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2008

---

### 1. Nature of operations

The Company generates electricity under license from the Ontario Energy Board (OEB). The Electricity Act, 1998 provides for a competitive marketplace in the sale of electricity where price is established by the economics of supply and demand. The Company does not bid production into the market but accepts the rate established by the market at the time it supplies power into the Provincial grid.

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### 2. Summary of significant accounting policies

#### Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks.

#### Property and equipment

Property and equipment are recorded at cost and include contracted services, materials, labour, engineering costs and overheads. Significant renewals and enhancements to existing assets are capitalized only if the service life of the asset is extended, reliability or productivity is improved above original design standards or associated operating costs are lowered. Maintenance and repair costs are expensed as incurred.

Property and equipment is amortized using the straight-line method over periods approximating its estimated useful life as follows:

Land rights	5 years
Generation stations and buildings	30-50 years
Other capital assets	5-10 years

In the case of capital expenditures that become part of a generating station, that expenditure is amortized over the remaining useful life of the station as a whole. When property and equipment is sold or scrapped, the cost of the asset and the related accumulated amortization is removed when identifiable from the accounts, with the resulting net gain or loss being included in operations for the year.

During the year, there was a change in the estimated useful life of certain components and capital improvements at the Minden and Matthias generating stations. The changes were based on management's analysis of the various improvements and synchronized all related amortization to coincide with the remaining useful life of the respective stations. The change has resulted in a decrease in amortization of \$91 for the year. The effect on future periods is not practical to estimate.

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2008

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### 2. Summary of significant accounting policies (Continued)

#### Corporate income taxes

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

The Company provides for payments in lieu of corporate income taxes relating to its regulated business using the taxes payable method as directed by the OEB. 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 for accounting purposes. This regulation accounting treatment differs from Canadian generally accepted accounting principles for enterprises operating in a non-regulated environment.

#### Impairment of long-lived assets

Long-lived assets are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. When indicators of impairment of the carrying value of the long-lived assets exist and the carrying value is greater than the fair value, an impairment loss is recognized to the extent that the fair value is below the carrying value. It is management's opinion that the long-lived assets are not exposed to any impairment and no impairment losses have been recognized.

#### Employee future benefits

##### *Pension plan*

The Company provides pension benefits for its employees through the Ontario Municipal Employees Retirement System (OMERS). This multi-employer pension plan provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. It is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees and by investment earnings of the fund. The Company recognizes the expense related to this plan as contributions are made.

##### *Employee future benefits other than pension plan*

The Company provides life insurance benefits to employees hired prior to January 1, 2008 when they are no longer providing active service. Employee future benefits expense is recognized in the period in which the employee renders services. Employee future benefits other than pension plans are recorded on an accrual basis. The accrued benefit obligation and current service costs are actuarially determined using the projected benefit method pro-rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the present value of expected future benefits attributed to employee's services rendered in the period.



# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)

December 31, 2008

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### 2. Summary of significant accounting policies (Continued)

#### Fixed assets 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. An equivalent amount is capitalized as an inherent cost of the associated fixed assets.

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 date can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations can not be made at the balance sheet date.

#### Revenue recognition

Revenue is recognized in the period power is generated at rates established by the electricity market. Other revenue and interest income are recognized when earned.

#### Use of 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 assets and liabilities at the date of the 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, estimated useful lives of property and equipment, and accrued benefit obligations. Actual results could differ from those estimates.

#### Financial instruments, hedges, and comprehensive income

The Company has made the following classifications for the purpose of measuring the value of the financial instruments:

- Cash and cash equivalents have been classified as "held for trading". They are initially measured at fair market value and the gains and losses resulting from the revaluation at fair value at the end of each period are recognized in net earnings.
- Receivables are classified as "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.

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2008

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### 2. Summary of significant accounting policies (Continued)

#### Financial instruments, hedges, and comprehensive income (Continued)

- 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 earnings.

Unless otherwise noted, it is management's opinion that they are not exposed to significant interest, currency or credit risks arising from its financial instruments.

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### 3. Property and equipment

		<u>2008</u>	<u>2007</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
		<u>Net Book Value</u>	<u>Net Book Value</u>
Land	\$		
Land rights			
Buildings			
Generating stations			
Other capital assets			
	\$		

### 4. Related party transactions

Transactions involving the sale of electricity are in the normal course of operations and are measured at the exchange amount, which is equal to the fair value as prescribed by regulation. Transactions involving other services have been recorded in these financial statements at the carrying amounts, which were equal to historical cost or fair value. Fair values represent fees for equivalent services provided to third parties in the normal course of operations as prescribed by regulations. The Company had the following related party transactions:

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2008

### 4. Related party transactions (Continued)

	<u>2008</u>	<u>2007</u>
Orillia Power Distribution Corporation – a Company under common control		
Services purchased	\$	\$
Services provided		
Power generated and supplied on behalf of Orillia customers		
Orillia Power Corporation – parent Company		
Dividend paid		
City of Orillia - the shareholder of Orillia Power Corporation, the parent Company		
Services provided	\$	
Interest expense		
Balance outstanding at December 31:		
Due to Orillia Power Distribution Corporation – related Company	\$	

During the year, the Company paid interest of [REDACTED] on a promissory note payable, to the City of Orillia, the shareholder of Orillia Power Corporation, the parent Company. Included in payables and accruals is [REDACTED] due to the City of Orillia.

### 5. Employee future benefits

#### *Pension plan*

Current service contributions to OMERS for 2008 were \$52 (2007 - \$51).

#### *Employee future benefits other than pension plan*

The Company measures its accrued benefits obligation for accounting purposes as at December 31 of each year. The latest actuarial valuation was performed as at December 31, 2006. Key economic assumptions used to determine the valuation are Consumer Price Index; 2% per annum, discount rate; 5% per annum and salary increase rate; 3.3%. A reconciliation of the Company's accrued benefits obligation is as follows:

	<u>2008</u>	<u>2007</u>
Employee future benefits obligation, beginning of year	\$	
Current service cost		
Interest on benefits obligation		
Benefit plan payments		
Employee future benefits obligation, end of year	\$	

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2008

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### 6. Long term debt

The promissory note payable to the City of Orillia, the shareholder of Orillia Power Corporation, the parent Company, bears interest for the current year at ~~6.25% per annum (2007 — 6.25%)~~. The interest rate is reviewed annually. Payments of interest are required to be made quarterly on the last day of March, June, September and December. The promissory note is due December 31, 2030.

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### 7. Capital stock

	<u>2008</u>	<u>2007</u>
--	-------------	-------------

#### Authorized:

The Company is authorized to issue an unlimited number of common shares.

#### Issued:

1,001 common shares

\$                     

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### 8. Commitments

#### *Parks Canada license renewal*

On April 17, 2008, the Company finalized a license renewal with the Trent Severn Waterway, which includes the right to use surplus water at the Swift Rapids Generating Station. The term of the agreement is 50 years commencing April 1, 2008. The annual license fee to be paid will be determined by the total annual generation of electrical energy in megawatt hours multiplied by \$3.80 and that amount shall be calculated at 90% during navigation season (June 1<sup>st</sup> to October 31<sup>st</sup> each year). At each ten year anniversary of the agreement date, the rate will be adjusted based on the Consumer Price Index.

#### *Donation*

In 2007, the Company pledged to make a donation of  per annum for five years to assist with the funding requirements of the local hospital expansion. Total payments of  have been made to satisfy this pledge to date.

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2008

### 9. Payments in lieu of taxes

The provision for payments in lieu of corporate income taxes (PILS) differs from the amount that would have been recorded using the combined Canadian Federal and Ontario statutory income tax rate. The reconciliation between the statutory rate and effective tax rates is provided as follows:

	<u>2008</u>	<u>2007</u>
Earnings before provision for PILS	\$	
Federal and Ontario statutory income tax rates		
Provision for PILS at statutory rate	\$	
Increase (decrease) resulting from:		
Temporary differences		
Capital cost allowance in excess of amortization		
Adjustment to prior year provision		
Net temporary differences		
Permanent differences		
Capital cost allowance on appraisal increment		
Manufacturing and processing deduction		
Dividend refund		
Other		
Net permanent differences		
Provision for PILS	\$	
Effective income tax rate		

Future income taxes have not been recorded as they are expected to be reflected through future rates. Significant components of the Company's deductible timing differences at year end are related to property and equipment

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2008

<b>10. Supplemental cash flow information</b>	<u>2008</u>	<u>2007</u>
Change in non-cash operating working capital		
Receivables	\$	
Payments in lieu of taxes recoverable (payable)		
Prepays		
Payables and accruals		
Due to related parties		
Payments in lieu of taxes	\$	
Interest received	\$	
Interest paid	\$	
Payment in lieu of taxes paid (received) net	\$	

### 11. Public liability insurance

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE), which was created on January 1, 1987. 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 through the same attorney. MEARIE has provided general liability insurance to the Company of [REDACTED] million per occurrence.

### 12. Capital disclosures

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide adequate returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by controlling costs and establishing rates that maximize rate of return commensurate with the level of risk.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions, annual profitability and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Company will adjust the amount of dividends paid to shareholders. The Company is not subject to any externally imposed capital requirements.

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)

December 31, 2008

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### 12. Capital disclosures (Continued)

Consistently with others in the industry, the Company monitors capital on the basis of the debt-to-capital ratio. This ratio is calculated as long term debt divided by (long term debt plus equity) as shown on the audited balance sheet. Equity consists of share capital, contributed capital and retained earnings. The debt-to-capital ratio at December 31, 2008 is [REDACTED].

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### 13. Change in accounting policies

Accounting pronouncements that came into effect in 2008 along with the Company's approach to addressing the financial statement impact of each of the new standards is reviewed below.

#### General standards of financial statement presentation

On January 1, 2008, the Company adopted CICA Handbook Section 1400 "General Standards of Financial Statement Presentation". This section requires that management make an assessment of the Company's ability to continue as a going concern over a period which is at least, but not limited to, twelve months from the balance sheet date. The adoption of this new requirement has not resulted in any additional disclosure.

#### Capital disclosures

On January 1, 2008, the Company adopted the recommendations included in the CICA Handbook Section 1535 "Capital Disclosures". The standard requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and if it has not complied, the consequences of such non-compliance. The adoption of this new accounting standard had no impact on net earnings. The Company's new disclosure is included in Note 12.

# Orillia Power Generation Corporation

## Notes to the Financial Statements

(In Thousands)  
December 31, 2008

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### 14. Future accounting pronouncements

#### Rate regulated operations

Effective January 1, 2009, the Company will be required to adopt changes to the CICA Handbook regarding rate regulated operations. The temporary exemption of Section 1100 that provided relief from the requirement to apply the Section to the recognition and measurement of assets and liabilities arising from rate regulation will be removed.

Section 3465 will be amended to require the recognition of future income tax liabilities and assets as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to future customers.

There will be adjustments within AcG-19 to reflect the changes made for Sections 1100 and 3465 of the CICA Handbook.

#### International Financial Reporting Standards (IFRS)

The CICA has announced that Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), effective January 1, 2011. IFRS will require increased financial statement disclosure. Although IFRS uses a conceptual framework similar to Canadian generally accepted accounting principles, there will be some differences in accounting policies, that will need to be addressed. The Company is currently developing an implementation plan for the adoption of IFRS.



**OPGC Statement of Earnings and Deficit for Years Ended December 31, 2007 to 2009**

Description	2007 Actual	2008 Actual	2009 Proj'n
<b>REVENUE</b>			
Generation			
Other			
<b>COSTS</b>			
Generation OM &A			
Amortization			
<b>Earnings from operations</b>			
<b>Interest expense (income), taxes</b>			
Interest income			
Interest on long term debt			
Income taxes			
<b>Net earnings</b>			

<b>Retained earnings (deficit), beginning</b>			
Net earnings			
Dividends			
<b>Retained earnings (deficit), end of year</b>			

**OGDC Balance Sheet - December 31, 2007 to 2009**

Description	2007 Actual	2008 Actual	2009 Proj'n
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**ASSETS**

Current

Cash

Receivables

Payments in lieu of taxes recoverable

Prepays

Cash	[REDACTED]	[REDACTED]	[REDACTED]
Receivables	[REDACTED]	[REDACTED]	[REDACTED]
Payments in lieu of taxes recoverable	[REDACTED]	[REDACTED]	[REDACTED]
Prepays	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]

Property and equipment

Property and equipment	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]

**TOTAL ASSETS**

2007 Actual	2008 Actual	2009 Proj'n
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**LIABILITIES**

Current

Accounts payable and accrued liabilities

Payments in lieu of taxes payable

Due to related parties

Accounts payable and accrued liabilities	[REDACTED]	[REDACTED]	[REDACTED]
Payments in lieu of taxes payable	[REDACTED]	[REDACTED]	[REDACTED]
Due to related parties	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]

Employee future benefits

Long term debt - City of Orillia

Employee future benefits	[REDACTED]	[REDACTED]	[REDACTED]
Long term debt - City of Orillia	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]

**SHAREHOLDER'S EQUITY**

Capital Stock

Retained Earnings

Capital Stock	[REDACTED]	[REDACTED]	[REDACTED]
Retained Earnings	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]

**TOTAL LIABILITIES & EQUITY**

2007 Actual	2008 Actual	2009 Proj'n
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