



January 16, 2012

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

Dear Ms. Walli:

**RE: TILLSONBURG HYDRO INC.  
2012 Electricity Distribution Rate Application  
EB-2011-0198**

Tillsonburg Hydro Inc. ("THI") filed its 2012 Incentive Regulation Mechanism (IRM) application for 2012 Electricity Distribution Rates on December 9, 2011.

After an initial review by Ontario Energy Board ("Board") staff of THI's PILS evidence, THI was requested to file the following evidence:

- 2001 to 2005 Financial statements submitted with tax returns;
- 2001 T2 Tax return; and
- 2004 Rate year signed Board decision.

Attached, please find the financial statements and 2001 T2 tax return as requested.

As for the 2004 Rate year signed Board decision, THI contacted Georgette Vlahos, Board staff, and noted that THI was unable to locate a copy, and attempts to find a copy on the Board website were unsuccessful. THI had noted this issue on page 8 of 20 of the Manager's Summary in the original application filing. Board staff commented that this issue would be brought to the attention of the PILS team and attempts would be made to locate a copy internally.

Should you have any questions or require further information, please do not hesitate to contact me.

Yours truly,

A handwritten signature in black ink, appearing to be "S.T. Lund", written over a horizontal line.

S.T. Lund, P.Eng  
General Manager

---

**CORPORATE OFFICE**

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Web: [www.tillsonburg.ca](http://www.tillsonburg.ca)



BB-2011-0198 - PILS Missing Evidence

Georgette Vlahos

to:

'jgott@tillsonburg.ca'

01/16/2012 08:11 AM

Hide Details

From: Georgette Vlahos &lt;Georgette.Vlahos@ontarioenergyboard.ca&gt;

To: "'jgott@tillsonburg.ca'" &lt;jgott@tillsonburg.ca&gt;

Hi John,

After an initial review of Tillsonburg's filed PILS evidence, our team has noticed a few documents missing. Please see below, the items marked with an "x" seem to have been left out of the evidence. If you could please file the following documents through the Board Secretary's office at your earliest convenience that would be great. Please don't hesitate to contact me if you have any questions.

**Distributor: Tillsonburg****EB-2011-XXXX****PILs 1562 Evidence Checklist****Missing Information**

The following evidence is missing in the 2012 application for the following years:

	2001	2002	2003	2004	2005	Jan. 1 to April 30, 2006	May 1, 2006 to April 30, 2012
Excel PILs proxy model (active)							
Signed Board decision				x			
Excel RAM model (active)							
Excel Continuity schedule (active) for 2001 to 2012 including interest carrying charge calculations							
Excel PILs Recoveries (active) - Amounts billed to customers							
T2 Tax returns	x						
CT23 Tax returns							
Notice of assessment							
Notice of reassessment and/or Statement of adjustments							
Financial statements submitted with tax returns	x	x	x	x	x		
Excel SIMPIL model (active)							

Thank you,

Georgette Vlahos  
Analyst, Electricity Rates  
Tel: 416-544-5169  
Email: Georgette.Vlahos@ontarioenergyboard.ca

*Take note – our website and email addresses have changed to: [www.ontarioenergyboard.ca](http://www.ontarioenergyboard.ca) and [@ontarioenergyboard.ca](mailto:@ontarioenergyboard.ca). Please update your contact lists and bookmarks.*

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**TILLSONBURG HYDRO INC.**  
**STATEMENT OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED DECEMBER 31, 2001**

	3 months ended December 31, 2001 \$
<b>SERVICE REVENUE</b>	
General	3,096,318
Residential	1,025,255
Street Lighting	22,362
	<u>4,143,935</u>
<b>COST OF POWER</b>	<u>4,143,935</u>
<b>GROSS MARGIN ON POWER</b>	-
<b>DISTRIBUTION REVENUE</b>	47,995
<b>OTHER REVENUE</b>	8,250
	<u>56,245</u>
<b>EXPENSES</b>	
Operating and Maintenance	66,144
Billing and Collecting	17,581
General Administration	199,085
Capital Tax	1,901
Depreciation	71,146
	<u>355,857</u>
	( 299,612 )
<b>Income Taxes</b>	-
	<u>( 299,612 )</u>



**FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**TILLSONBURG HYDRO INC.  
2001 FINANCIAL REPORT**

**I**

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## AUDITORS' REPORT

To the Shareholder of Tillsonburg Hydro Inc.

We have audited the Balance Sheet of Tillsonburg Hydro Inc. as at December 31, 2001 and the Statements of Equity, Operations and Cash Flow for the year then ended. These financial statements are the responsibility of 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 Tillsonburg Hydro Inc. as at December 31, 2001 and the results of its operations and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles as described in note 1.

*Millard Rouse and Rosebrugh LLP*  
CHARTERED ACCOUNTANTS

April 26, 2002  
Tillsonburg, Ontario



**Millard, Rouse & Rosebrugh LLP**  
*Chartered Accountants*

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**Treasurer's Report**

Tillsonburg Hydro Inc. experienced a net loss for the year ended December 31, 2001 of \$312,360 as compared with the net loss for the year ended December 31, 2000 of \$356,299. Revenues increased by \$1,052,093 largely due to increased rates in accordance with new legislation governing the deregulated market. Consumption declined by 1.5 megawatt hours as a result of the loss of a major industry.

The gross margin increased to \$896,095 or 5.7% of service revenue in 2001 compared to \$726,315 or 4.9% of service revenue in 2000. Again, the increase is attributable to the increase in rates approved by the Ontario Energy Board.

Operating and maintenance expenses increased to \$1,407,808 in 2001 from \$1,314,782 in 2000, predominantly due to increased billing, collecting and administration costs related to deregulated market readiness activities.

Contributing \$10,693 to the current year's loss was payments in lieu of taxes (PILS), a requirement of new provincial legislation. Property taxes: PILS of \$7,411 and capital tax PILS for the period commencing October 1, 2001 of \$3,282 are recorded. No income tax PILS were recorded since there is no income reported for the period.

The \$64,928 receipt for an extraordinary item represents settlement received, including interest, for a class action suit facilitated by the Electric Distributors Association against Toronto Hydro for late payment penalties charged at excessive rates.

The net working capital figure at December 31, 2001 was \$2,233,414 down from \$2,734,084 at December 31, 2000. This is a result of an increase in accounts receivable and amount due from the Town of Tillsonburg, offset by an increase in payables. The significant increase in accounts receivable and payables is largely due to the timing of the final power invoice from the supplier and the associated billings as well as inclusion of the year end cost of power accrual showing on the Tillsonburg Hydro Inc.'s balance sheet rather than that of the Town of Tillsonburg.

Capital spending on the distribution system amounted to \$472,893 for a total of \$9,629,633 at December 31, 2001 compared to \$9,156,740 at December 31, 2000. The capital projects that took place during the year include: Fleetwood; Concession; Bidwell; Glenridge; Cedar; Charlotte; Queen Streets and the Soccer Fields. Developer funded projects for the year include: Brookside and Southridge Subdivisions.

Tillsonburg Hydro Inc. is committed to meet the changing needs of a deregulated marketplace and continues to prepare for market opening in 2002 while striving to find means of improving profits.

Lynn S. Buchner, CGA, AMCT  
Secretary/Treasurer



**TILLSONBURG HYDRO INC.**  
**BALANCE SHEET**  
**AS AT DECEMBER 31, 2001**

	2001	2000
	\$	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Accounts receivable	1,625,802	969,148
Accrued utility revenues	459,807	450,832
Prepaid expenses	16,513	15,597
Inventory	346,097	315,990
Due from related parties (Note 3)	1,514,308	1,061,327
	<b>3,962,527</b>	2,812,894
<b>Capital Assets</b>		
Cost (Note 2)	10,161,608	9,688,715
Accumulated depreciation	(4,783,953)	(4,499,370)
	<b>5,377,655</b>	5,189,345
	<b>9,340,182</b>	8,002,239
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	1,475,924	5,038
Customer deposits - current portion (Note 9)	253,189	73,772
	<b>1,729,113</b>	78,810
<b>Long Term Liabilities</b>		
Customer deposits	96,778	96,778
	<b>1,825,891</b>	175,588
<b>Equity</b>		
Share Capital (Note 10)	6,992,565	6,992,565
Contributed capital	1,190,385	1,190,385
Retained earnings (deficit)	(668,659)	(356,299)
	<b>7,514,291</b>	7,826,651
	<b>9,340,182</b>	8,002,239

The accompanying notes are an integral part of this financial statement

**TILLSONBURG HYDRO INC.**  
**STATEMENT OF EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**

	Retained Earnings \$	Contributed Capital \$	<b>Total 2001 \$</b>	Total 2000 \$
<b>BALANCE - Beginning of the Year</b>	(356,299)	1,190,385	<b>834,086</b>	8,249,206
Net income (loss) for the year	(312,360)	-	<b>(312,360)</b>	(356,299)
Share capital issued	-	-	-	(6,992,565)
Capital contributed (transferred)	-	-	-	(66,256)
<b>BALANCE - End of the Year</b>	<b>(668,659)</b>	<b>1,190,385</b>	<b>521,726</b>	<b>834,086</b>

The accompanying notes are an integral part of this financial statement.

**TILLSONBURG HYDRO INC.**  
**STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**

	Actual 2001 \$	Actual 2000 \$
<b>SERVICE REVENUE</b>		
General	11,503,835	10,777,253
Residential	4,237,278	3,930,575
Street lighting	95,993	90,919
Accrued utility revenue adjustment	8,975	(4,759)
	15,846,081	14,793,988
<b>COST OF POWER</b>	14,949,986	14,067,673
<b>GROSS MARGIN ON SERVICE REVENUE</b>	896,095	726,315
<b>OTHER REVENUE</b>	145,118	232,168
	1,041,213	958,483
<b>EXPENSES</b>		
Operating and maintenance	264,577	280,304
Billing and collecting	70,325	49,513
General administration	788,323	704,298
Depreciation	284,583	280,667
	1,407,808	1,314,782
<b>NET INCOME (LOSS) FOR THE YEAR BEFORE EXTRAORDINARY ITEM AND INCOME TAXES</b>	(366,595)	(356,299)
<b>INCOME TAXES (Note 7)</b>	10,693	-
<b>NET INCOME (LOSS) FOR THE YEAR BEFORE EXTRAORDINARY ITEM</b>	(377,288)	(356,299)
<b>EXTRAORDINARY ITEM (Note 5)</b>	64,928	-
<b>NET INCOME (LOSS) FOR THE YEAR</b>	(312,360)	(356,299)

The accompanying notes are an integral part of this financial statement.

**TILLSONBURG HYDRO INC.  
STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED DECEMBER 31, 2001**

	2001 \$	2000 \$
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Net Income (Loss) for the Year	(312,360)	(356,299)
Changes in Non-cash Amounts:		
Depreciation	284,583	280,667
Transfer of capital assets to Town of Tillsonburg	-	1,256,643
	(27,777)	1,181,011
Changes in non-cash working capital amounts:		
Accounts receivable	(656,654)	502,916
Accrued utility revenue	(8,975)	4,759
Prepaid expenses	(916)	8,879
Inventory	(30,107)	31,136
Due from related parties	(452,981)	(958,281)
Accounts payable and accrued liabilities	1,470,886	(1,518,696)
Customer deposits - current portion	179,417	9,904
	500,670	(1,919,383)
	472,893	(738,372)
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
Additions to capital assets	(472,893)	(241,694)
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>		
Capital contributions received (transferred)	-	(66,256)
<b>NET INCREASE (DECREASE) IN CASH FOR THE YEAR</b>	-	(1,046,322)
<b>CASH AND SHORT TERM INVESTMENTS</b>		
- Beginning of the Year	-	1,046,322
<b>CASH AND SHORT TERM INVESTMENTS - End of the Year</b>	-	-

The accompanying notes are an integral part of this financial statement.

**TILLSONBURG HYDRO INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**

**1. Accounting Policies**

The financial statements have been prepared using the accounting principles prescribed for Municipal Utilities in Ontario by the Ontario Energy Board as contained in the "Accounting Procedures Handbook for Electric Distribution Utilities".

Significant accounting policies, which adhere to generally accepted accounting principles are as follows:

**a) Basis of Accounting**

These financial statements have been prepared using the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

**b) Revenue Recognition**

Service revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading to the end of the year. Estimated customer usage from the last billing date to the end of the year (accrued utility revenue) is included in revenue.

Contributions in aid of construction are deferred until expended on the intended capital project. Amounts expended are transferred to a contra-asset account and amortized. Unspent balances are refunded.

**c) Inventory**

Inventory of supplies is valued at the lower of cost and replacement value. Cost is determined on an averaged item by item basis.

**d) Capital Assets**

Capital assets are valued at acquisition cost less accumulated depreciation. Depreciation is provided on a declining balance basis using the following rates, which are designed to reflect the approximate economic life of each class of asset:

Substation Equipment	5%
Distribution Lines and Transformers	5%
Distribution Meters	4%



**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**1. Accounting Policies (continued)**

**c) Cost of Power**

The adjusting power bill received from Ontario Power Generation Inc. is recorded in the year to which it pertains and not in the year it is received.

**d) Income Taxes**

Tillsonburg Hydro Inc. is a regulated Lines Distribution Corporation (LDC) and by virtue of being an LDC is allowed to recover income taxes through its rates. Therefore, the CICA handbook allows a departure from GAAP for the reporting of future income tax assets and liabilities based on temporary differences between accounting values and income tax values at the end of a fiscal reporting period.

**2. Capital Assets**

	<b>Cost 2001 \$</b>	<b>Cost 2000 \$</b>
Land	11,520	11,520
Substation Equipment	520,425	520,425
Distribution System	9,629,663	9,156,770
	<b>10,161,608</b>	<b>9,688,715</b>

As further explained in Notes 3 and 4, effective January 1, 2000 a by-law was passed to transfer all assets and employees from the Tillsonburg Public Utilities Commission to the Town of Tillsonburg. The Town of Tillsonburg then transferred substation equipment and distribution system assets to Tillsonburg Hydro Inc.

**3. Amounts Due From Related Parties**

In connection with the transfer by-law referred to in Note 4 below, all banking activities are administered by the Town of Tillsonburg on behalf of Tillsonburg Hydro Inc. Accordingly the amount due from/to related parties represents the net working capital position between the Town and the company.



**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**4. Deregulation in the Utilities Industry**

The Ontario Government enacted the *Energy Competition Act, 1998* to introduce competition to the Ontario electricity market. Under the terms of this legislation, the Ontario Energy Board will regulate industry participants by issuing licences for the right to generate, transmit, distribute and retail electricity. These licences will require compliance with established market rules and codes.

Pursuant to this legislation, effective January 1, 2000 a by-law was passed to initially transfer all assets and employees of the Town of Tillsonburg Public Utility Commission to the Town of Tillsonburg, who is the owner of the Commission. The Town, in turn, incorporated a company for the purpose of continuing the current distribution activities of the Commission. This newly incorporated company is Tillsonburg Hydro Inc.

This by-law also authorized the transfer of substation equipment and distribution system assets to Tillsonburg Hydro Inc. at book value. Working capital was also transferred at book value.

On May 1, 2002, subsequent to year end, retail activities within the Province of Ontario were deregulated. Tillsonburg Hydro Inc., in conjunction with the aforementioned distribution activities, continued to retail electric services at rates approved and regulated by the Ontario Energy Board as a default supplier.

**5. Litigation and Contingent Liabilities**

A class action suit claiming \$500 million in restitutionary payments plus interest was served on Toronto Hydro in November 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the defendant class consisting of all municipal electric utilities in Ontario, which have charged late payment charges on overdue utility bills at any time after April 1, 1981. The claim is that late payment penalties result in municipal electric utilities receiving interest at excessive rates, which are considered illegal under the criminal code. The Electric Distributors Association, formerly Municipal Electric Association, initiated a class action suit that was settled in 2001, resulting in a \$64,928 payment to Tillsonburg Hydro Inc.

**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**6. Pensions**

The Town of Tillsonburg and its local boards makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan on behalf of the full-time members of the hydro 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.

The amount contributed to OMERS for current service is normally included as an expenditure on the Statement of Operations. The amount contributed to OMERS for 2001 was \$Nil (2000 - \$Nil) as a result of a provincially legislated contribution holiday.

There were no contributions made during the year or the previous year with respect to past service.

**7. Income Taxes**

In addition to payments in lieu of property taxes for the entire year, Tillsonburg Hydro Inc. was required to remit payments in lieu of income taxes and capital taxes for the three months ended December 31, 2001.

**8. Future Income Taxes**

Tillsonburg Hydro Inc. is a rate regulated LDC and therefore is not required to account for temporary differences between accounting values and income tax values at the end of a fiscal reporting period and therefore, are not included on the Balance Sheet or the Statement of Operations. If Tillsonburg Hydro Inc. did account for these amounts, the amount of future income tax assets, liabilities and expenses at the end of the year are estimated at:

	\$
Assets	61,500
Liabilities	-
Expenses	(61,500)

**9. Contributions in Aid of Construction**

Prior to January 1, 2000, contributions in aid of construction were reflected as contributed capital since 100% of the construction costs were recoverable. Contributions received subsequently are to be deferred as a deposit against construction costs. Once construction costs are incurred, the applicable amount is to be recorded as a contra-asset and amortized. As the actual amount earned cannot be determined at this time, the entire amount received in 2001 of \$172,318 has been deferred and reflected as a current customer deposit.

**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**10. Share Capital**

Authorized:

Unlimited common shares

Unlimited Class A shares – non-voting, non-cumulative, redeemable

Issued and outstanding:

	2001	2000
	\$	\$
1 Common share	6,992,565	6,992,565

On January 1, 2000, Tillsonburg Hydro Inc. issued 1 common share to The Corporation of the Town of Tillsonburg in exchange for the assets and liabilities received as a result of the transfer by-law discussed in Note 4 above.



**FINANCIAL STATEMENTS**

**DECEMBER 31, 2002**

**TILLSONBURG HYDRO INC.**  
**2002 FINANCIAL STATEMENTS**

**1**

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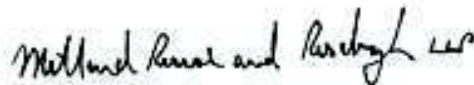
## AUDITORS' REPORT

To the Shareholder of Tillsonburg Hydro Inc.

We have audited the Balance Sheet of Tillsonburg Hydro Inc. as at December 31, 2002 and the Statements of Equity, Operations and Cash Flow for the year then ended. These financial statements are the responsibility of 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 Tillsonburg Hydro Inc. as at December 31, 2002 and the results of its operations and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles as described in note 1.



CHARTERED ACCOUNTANTS

May 14, 2003  
Tillsonburg, Ontario



**Millard, Rouse & Rosebrugh LLP**  
*Chartered Accountants*

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**TILLSONBURG HYDRO INC.**  
**BALANCE SHEET**  
**AS AT DECEMBER 31, 2002**

	2002	2001
	\$	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Accounts receivable	3,152,576	2,085,609
Prepaid expenses	12,682	16,513
Inventory	353,153	346,097
Due from related parties (Note 2)	263,636	1,514,308
	<u>3,782,047</u>	<u>3,962,527</u>
<b>Capital Assets</b>		
Cost (Note 3)	10,586,937	10,161,608
Accumulated depreciation	(5,076,576)	(4,783,953)
	<u>5,510,361</u>	<u>5,377,655</u>
<b>Other Assets</b>		
Regulatory Assets (Note 12)	300,371	-
	<u>9,592,779</u>	<u>9,340,182</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	1,711,398	1,475,924
Customer deposits - current portion (Note 9)	502,543	253,189
	<u>2,213,941</u>	<u>1,729,113</u>
<b>Long Term Liabilities</b>		
Customer deposits	96,778	96,778
<b>Other Liabilities</b>		
Regulatory Liabilities (Note 12)	-	51,878
	<u>2,310,719</u>	<u>1,877,769</u>
<b>Equity</b>		
Share Capital (Note 10)	6,992,565	6,992,565
Contributed capital	1,190,387	1,190,387
Retained earnings (deficit)	(900,892)	(720,539)
	<u>7,282,060</u>	<u>7,462,413</u>
	<u>9,592,779</u>	<u>9,340,182</u>

The accompanying notes are an integral part of this financial statement

**TILLSONBURG HYDRO INC.**  
**STATEMENT OF EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

	Retained Earnings	Contributed Capital	2002	2001
	\$	\$	\$	\$
<b>BALANCE - Beginning of the Year as previously stated</b>	(668,661)	1,190,387	<b>521,726</b>	834,086
Over recovery of Cost of Power (Note 11)	(51,878)	-	<b>(51,878)</b>	
<b>BALANCE - As restated</b>	(720,539)	1,190,387	<b>469,848</b>	834,086
Net income (loss) for the year	(180,353)	-	<b>(180,353)</b>	(364,238)
<b>BALANCE - End of the Year</b>	(900,892)	1,190,387	<b>289,495</b>	469,848

The accompanying notes are an integral part of this financial statement.

**TILLSONBURG HYDRO INC.  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2002**

	2002	2001
	\$	\$
<b>POWER REVENUES (Notes 11 and 12)</b>		
General	10,963,387	11,353,839
Residential	3,024,520	3,515,074
Street lighting	65,953	81,073
Other Charges	2,423,351	-
	<u>16,477,211</u>	<u>14,949,986</u>
<b>COST OF POWER</b>	<u>16,477,211</u>	<u>14,949,986</u>
<b>GROSS MARGIN ON POWER</b>	<u>-</u>	<u>-</u>
<b>DISTRIBUTION REVENUES</b>		
Distribution Service	1,349,070	844,218
Retail Service	7,959	-
Other	34,375	145,118
	<u>1,391,404</u>	<u>989,336</u>
	<u>1,391,404</u>	<u>989,336</u>
<b>EXPENSES</b>		
Operating and maintenance	572,434	275,270
Billing and collecting	318,515	64,344
General administration	352,201	785,042
Depreciation	292,623	284,583
Interest and Finance Charges	27,077	5,981
	<u>1,562,850</u>	<u>1,415,220</u>
<b>NET INCOME (LOSS) FOR THE YEAR BEFORE EXTRAORDINARY ITEM AND INCOME TAXES</b>	<u>(171,446)</u>	<u>(425,884)</u>
<b>INCOME TAXES (Note 7)</b>	<u>8,907</u>	<u>3,282</u>
<b>NET INCOME (LOSS) FOR THE YEAR BEFORE EXTRAORDINARY ITEM</b>	<u>(180,353)</u>	<u>(429,166)</u>
<b>EXTRAORDINARY ITEM (Note 5)</b>	<u>-</u>	<u>64,928</u>
<b>NET INCOME (LOSS) FOR THE YEAR</b>	<u>(180,353)</u>	<u>(364,238)</u>

The accompanying notes are an integral part of this financial statement.

**TILLSONBURG HYDRO INC.**  
**STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

	2002	2001
	\$	\$
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Net Income (Loss) for the Year	(180,353)	(364,238)
Changes in Non-cash Amounts:		
Depreciation	292,623	284,583
	<u>112,270</u>	<u>(79,655)</u>
Changes in non-cash working capital amounts:		
Accounts receivable	(1,066,967)	(665,629)
Prepaid expenses	3,831	(916)
Inventory	(7,056)	(30,107)
Due from related parties	1,250,672	(452,981)
Regulatory assets	(352,249)	51,878
Accounts payable and accrued liabilities	235,474	1,470,886
Customer deposits - current portion	249,354	179,417
	<u>313,059</u>	<u>552,548</u>
	<u>425,329</u>	<u>472,893</u>
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
Additions to capital assets	(425,329)	(472,893)
<b>NET INCREASE (DECREASE) IN CASH FOR THE YEAR</b>	-	-
<b>CASH AND SHORT TERM INVESTMENTS</b>		
- Beginning of the Year	-	-
<b>CASH AND SHORT TERM INVESTMENTS - End of the Year</b>	-	-

The accompanying notes are an integral part of this financial statement

**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2002**

**1. Accounting Policies**

The financial statements have been prepared using the accounting principles prescribed for Municipal Utilities in Ontario by the Ontario Energy Board as contained in the "Accounting Procedures Handbook for Electric Distribution Utilities".

Significant accounting policies, which adhere to generally accepted accounting principles, are as follows:

**a) Basis of Accounting**

These financial statements have been prepared using the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

**b) Revenue Recognition**

Service revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading to the end of the year. Estimated customer usage from the last billing date to the end of the year (accrued utility revenue) is included in revenue.

Contributions in aid of construction are deferred until expended on the intended capital project. Amounts expended are transferred to a contra-asset account and amortized. Unspent balances are refunded.

**c) Inventory**

Inventory of supplies is valued at the lower of cost and replacement value. Cost is determined on an averaged item by item basis.

**d) Capital Assets**

Capital assets are valued at acquisition cost less accumulated depreciation. Depreciation is provided on a declining balance basis using the following rates, which are designed to reflect the approximate economic life of each class of asset:

Substation Equipment	5%
Distribution Lines and Transformers	5%
Distribution Meters	4%

**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2002**

**1. Accounting Policies (continued)**

**e) Cost of Power**

The adjusting power bill received from Ontario Power Generation Inc. is recorded in the year to which it pertains and not in the year it is received.

**f) Income Taxes**

Tillsonburg Hydro Inc. is a regulated Lines Distribution Corporation (LDC) and by virtue of being an LDC is allowed to recover income taxes through its rates. Therefore, the CICA handbook allows a departure from GAAP for the reporting of future income tax assets and liabilities based on temporary differences between accounting values and income tax values at the end of a fiscal reporting period.

**2. Amounts Due From Related Parties**

All banking activities are administered by the Town of Tillsonburg on behalf of Tillsonburg Hydro Inc. Accordingly the amount due from/to related parties represents the net working capital position between the Town and the company.

**3. Capital Assets**

	<b>Cost 2002 \$</b>	<b>Cost 2001 \$</b>
Land	11,520	11,520
Substation Equipment	520,425	520,425
Distribution System	10,054,992	9,629,663
	<b>10,586,937</b>	<b>10,161,608</b>



**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2002**

**4. Deregulation in the Utilities Industry**

The Ontario Government enacted the *Energy Competition Act, 1998* to introduce competition to the Ontario electricity market. Under the terms of this legislation, the Ontario Energy Board will regulate industry participants by issuing licences for the right to generate, transmit, distribute and retail electricity. These licences will require compliance with established market rules and codes.

On May 1, 2002, retail activities within the Province of Ontario were deregulated. Tillsonburg Hydro Inc. continued to retail electric services at rates approved and regulated by the Ontario Energy Board as a default supplier.

**5. Litigation and Contingent Liabilities**

A class action suit claiming \$500 million in restitutionary payments plus interest was served on Toronto Hydro in November 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the defendant class consisting of all municipal electric utilities in Ontario, which have charged late payment charges on overdue utility bills at any time after April 1, 1981. The claim is that late payment penalties result in municipal electric utilities receiving interest at excessive rates, which are considered illegal under the criminal code. The Electric Distributors Association, formerly Municipal Electric Association, initiated a class action suit that was settled in 2001, resulting in a \$64,928 payment to Tillsonburg Hydro Inc.

**6. Pensions**

The Town of Tillsonburg and its local boards makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan on behalf of the full-time members of the hydro 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.

The amount contributed to OMERS for current service is normally included as an expenditure on the Statement of Operations. The amount contributed to OMERS for 2002 was \$Nil (2001 - \$Nil) as a result of a provincially legislated contribution holiday. As this contribution holiday ended December 31, 2002, contributions resumed in January 2003.

There were no contributions made during the year or the previous year with respect to past service.

**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2002**

**7. Income Taxes**

In addition to payments in lieu of property taxes for the entire year, Tillsonburg Hydro Inc. was required to remit payments in lieu of income taxes and capital taxes for the three months ended December 31, 2001, and the year ended December 31, 2002.

**8. Future Income Taxes**

Tillsonburg Hydro Inc. is a rate regulated LDC and therefore is not required to account for temporary differences between accounting values and income tax values at the end of a fiscal reporting period and therefore, is not included on the Balance Sheet or the Statement of Operations. If Tillsonburg Hydro Inc. did account for these amounts, the amount of future income tax assets, liabilities and expenses at the end of the year are estimated at:

	<b>2002</b>	2001
	<b>\$</b>	\$
Assets	129,770	61,500
Liabilities	-	-
Tax Expenses	(68,270)	(61,500)

**9. Contributions in Aid of Construction**

Prior to January 1, 2000, contributions in aid of construction were reflected as contributed capital since 100% of the construction costs were recoverable. Contributions received subsequently are to be deferred as a deposit against construction costs. Once construction costs are incurred, the applicable amount is to be recorded as a contra-asset and amortized. As the actual amount earned cannot be determined at this time, the entire amount received in 2002 of \$242,975 (2001 - \$172,318) has been deferred and reflected as a current customer deposit.

**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2002**

**10. Share Capital**

Authorized:

Unlimited common shares

Unlimited Class A shares – non-voting, non-cumulative, redeemable

Issued and outstanding:

	<b>2002</b>	2001
	<b>\$</b>	\$
1 Common share	6,992,565	6,992,565

**11. Over recovery of Cost of Power**

The difference between the utility's purchased cost of power based on time of use and the amounts billed to non-time of use customers is required to be deferred. The disposition of these amounts is expected to be reflected in future rate adjustments.

As the rates were deemed to be unbundled as of January 1, 2001, the prior period has been restated to reflect the over recovery of \$51,878.

**12. Regulatory Assets**

Due to the deregulation of retail activities on May 1, 2002, new unbundled rates for power came into effect as set by the OEB and Tillsonburg Hydro Inc. continued to distribute power as a default supplier. As a result, the utility must sell the power at its cost. However, a variance results as cost is determined based on time of use and non-time of use customers are charged at the weighted average price for the period. These variances are to be recovered through future rate adjustments.

	<b>2002</b>	2001
	<b>\$</b>	\$
Deferred payments in lieu of taxes	(155,704)	-
Qualifying transition costs	72,840	-
Pre-market opening energy variance	67,238	(51,878)
RSVA – Wholesale market service charges	289,804	-
RSVA – Retail transmission network charges	44,854	-
RSVA – Retail transmission connection charges	33,488	-
RSVA – Power purchased	(52,149)	-
	<b>300,371</b>	<b>(51,878)</b>

**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2002**

**13. Restatement of prior period**

The prior period presentation has been restated to conform to the current method of presentation.

**14. Subsequent Event**

The provincial government of Ontario required municipal shareholders of a local distribution company to reconfirm that the utility would remain a for-profit entity, otherwise they would revert back to a not-for profit status. As the utility's board of directors recommended, the shareholder passed a resolution to retain the for-profit status of the utility.

**TILLSONBURG HYDRO INC.**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2003**



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Norwich, ON N0J 1P0  
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**TILLSONBURG HYDRO INC.  
2003 FINANCIAL REPORT**

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**MILLARD, ROUSE AND ROSEBRUGH LLP**  
**CHARTERED ACCOUNTANTS**

85 Robinson Street  
Simcoe, Ontario

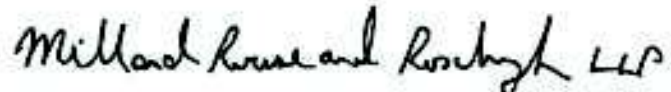
**AUDITORS' REPORT**

**To the Shareholder of Tillsonburg Hydro Inc.**

**We have audited the balance sheet of Tillsonburg Hydro Inc. as at December 31, 2003 and the statements of operations, equity and cash flow for the year then ended. These financial statements are the responsibility of 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 corporation as at December 31, 2003 and the results of its operations and cash flow for the year then ended in accordance with the accounting principles as described in Note 1 to these financial statements.**



**CHARTERED ACCOUNTANTS**

**April 30, 2004  
Tillsonburg, Ontario**

**TILLSONBURG HYDRO INC.  
BALANCE SHEET  
AS AT DECEMBER 31, 2003**

<b>ASSETS</b>	<b>2003</b>	<b>2002</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>		
Bank	360,879	---
Accounts Receivable	2,092,029	3,152,576
Prepaid Expenses	107	12,682
Inventory	403,075	353,153
Due from Related Parties (Note 8)	680,074	263,636
	<u>3,536,164</u>	<u>3,782,047</u>
<b>PROPERTY, PLANT AND EQUIPMENT (Note 3)</b>		
Cost	11,153,695	10,586,937
Accumulated Depreciation	(5,378,961)	(5,076,576)
	<u>5,774,734</u>	<u>5,510,361</u>
<b>OTHER ASSETS</b>		
Regulatory Assets (Note 5)	---	489,815
	<u>9,310,898</u>	<u>9,782,223</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	951,911	1,711,398
Customer Deposits (Current Portion)	85,052	87,431
Deposits in Aid of Construction (Note 4)	592,377	415,112
	<u>1,629,340</u>	<u>2,213,941</u>
<b>LONG TERM LIABILITIES</b>		
Customer Deposits	96,778	96,778
<b>OTHER LIABILITIES</b>		
Regulatory Liabilities (Note 5)	162,930	---
	<u>1,889,048</u>	<u>2,310,719</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 6)	6,992,565	6,992,565
Contributed Capital	1,190,387	1,190,387
Retained Earnings	(761,102)	(711,448)
	<u>7,421,850</u>	<u>7,471,504</u>
	<u>9,310,898</u>	<u>9,782,223</u>

The accompanying notes are an integral part of these financial statements.

**TILLSONBURG HYDRO INC.  
STATEMENT OF EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<b>Retained Earnings \$</b>	<b>Contributed Capital \$</b>	<b>2003 \$</b>	<b>2002 \$</b>
<b>BALANCE - Beginning of the Year</b>				
As Previously Reported	(900,892)	1,190,387	<b>289,495</b>	521,726
Adjustment to Regulatory Assets and Liabilities (Note 9)	189,444	----	<b>189,444</b>	----
Adjustment to Cost of Power (Note 9)	----	----	----	(51,878)
As Restated	(711,448)	1,190,387	<b>478,939</b>	469,848
Net Income (Loss) for the Year	(49,654)	----	<b>(49,654)</b>	9,091
<b>BALANCE - End of the Year</b>	(761,102)	1,190,387	<b>429,285</b>	478,939

The accompanying notes are an integral part of these financial statements.

**TILLSONBURG HYDRO INC.  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	2003 \$	2002 \$
<b>POWER REVENUE</b>		
General Service	9,959,864	10,963,387
Residential Service	1,810,751	3,024,520
Street Lighting	60,356	65,953
Wholesale and Transmission Charges	3,589,443	2,423,351
	<u>15,420,414</u>	<u>16,477,211</u>
<b>COST OF POWER</b>	<u>15,420,414</u>	<u>16,477,211</u>
<b>GROSS MARGIN ON POWER</b>	<u>---</u>	<u>---</u>
<b>DISTRIBUTION REVENUE</b>		
Distribution Service	1,511,814	1,538,514
Retailer Service	11,574	7,959
Other	59,137	34,375
	<u>1,582,525</u>	<u>1,580,848</u>
<b>TOTAL REVENUE</b>	<u>1,582,525</u>	<u>1,580,848</u>
<b>EXPENSES</b>		
Operating and Maintenance	586,516	588,910
Billing and Collecting	320,394	302,039
General Administration	393,710	352,201
Depreciation	302,385	292,623
Interest and Finance Charges	25,350	27,077
	<u>1,628,355</u>	<u>1,562,850</u>
<b>NET INCOME (LOSS) BEFORE TAXES</b>	(45,830)	17,998
<b>INCOME AND CAPITAL TAXES (Note 7)</b>	<u>3,824</u>	<u>8,907</u>
<b>NET INCOME (LOSS) FOR THE YEAR</b>	<u>(49,654)</u>	<u>9,091</u>

The accompanying notes are an integral part of these financial statements.



**TILLSONBURG HYDRO INC.  
STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	2003 \$	2002 \$
<b>CASH PROVIDED BY (USED IN) OPERATIONS</b>		
Net Income (Loss) for the Year	(49,654)	9,091
Items not Requiring an Outlay of Cash:		
Depreciation	302,385	292,623
	<u>252,731</u>	<u>301,714</u>
Changes in Working Capital Amounts other than Cash:		
Accounts Receivable	1,060,547	(1,066,967)
Prepaid Expenses	12,575	3,830
Inventory	(49,922)	(7,056)
Due from Related Parties	(416,438)	1,250,673
Regulatory Assets	652,745	(541,693)
Accounts Payable and Accrued Liabilities	(759,487)	235,473
Customer Deposits	(2,379)	6,379
Deposits in Aid of Construction	177,265	242,975
	<u>927,637</u>	<u>425,328</u>
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
Additions to Property, Plant and Equipment	(566,758)	(425,328)
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>---</u>	<u>---</u>
<b>NET INCREASE (DECREASE) IN CASH FOR THE YEAR</b>	360,879	---
<b>BANK - Beginning of the Year</b>	<u>----</u>	<u>---</u>
<b>BANK - End of the Year</b>	<u>360,879</u>	<u>---</u>

The accompanying notes are an integral part of these financial statements.

**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**1. ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles as amended by principles specifically prescribed by the Ontario Energy Board for rate regulated businesses in the "Accounting Procedures Handbook for Electric Distribution Utilities".

**a) Basis of Accounting**

These financial statements have been prepared using the accrual basis of accounting. The accrual basis of accounting recognizes revenue as it becomes available and measurable. Expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

**b) Inventory**

Inventory consists of repair parts, supplies and material held for future capital expansion and maintenance activities and is valued at the lower of cost and replacement value. Cost is determined using weighted averages.

**c) Property, Plant and Equipment and Depreciation**

Property, plant and equipment is valued at acquisition cost less accumulated depreciation. Depreciation is provided on a declining balance basis using the following rates, which are designed to reflect the approximate economic life of each class of asset:

Substation Equipment	5%
Distribution Lines and Transformers	5%
Distribution Meters	4%

**d) Revenue Recognition**

Service revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading to the end of the year. Estimated customer usage from the last billing date to the end of the year, is included in revenue.

**e) Deposits in Aid of Construction**

Deposits in Aid of Construction are required contributions received from outside sources used to finance additions to property, plant and equipment. These deposits are deferred until expended on the intended capital project. Amounts expended are transferred to a contra-asset account and amortized at an equivalent rate to that used for the depreciation of the related property, plant and equipment. Unspent amounts are refunded.



**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**1. ACCOUNTING POLICIES - Continued**

**f) Deferral of Expenses**

Certain expenses, which may be considered by the Ontario Energy Board (OEB) in future rate applications, may be deferred until such time as direction is provided by the OEB.

**g) Income Taxes**

Tillsonburg Hydro Inc. is a regulated Lines Distribution Corporation (LDC) and by virtue of being an LDC is allowed to recover income taxes through its rates. Canadian generally accepted accounting principles permit rate-regulated enterprises to depart from the requirement to report future income tax assets and liabilities based on temporary differences between accounting values and income tax values at the end of a fiscal reporting period.

**h) Use of Estimates**

The preparation of periodic financial statements sometimes requires management to make certain estimates and assumptions that affect reported amounts. In these instances, since precise determination is dependent on future events, actual results could differ from those estimates.

**2. RATE SETTING AND INDUSTRY REGULATION**

The Ontario Government enacted the Energy Competition Act, 1998 to introduce competition to the Ontario electricity market. Under the terms of this legislation, the Ontario Energy Board will regulate industry participants by issuing licenses for the right to generate, transmit, distribute and retail electricity. These licenses require compliance with established market rules and codes.

On May 1, 2002, retail activities within the Province of Ontario were deregulated. Tillsonburg Hydro Inc. continued to retail electric services at rates approved and regulated by the Ontario Energy Board, as a default supplier.

On November 11, 2002, legislation was introduced to reduce electricity prices for families, small businesses and farmers, while increasing Ontario's supply of electricity and encouraging conservation and alternative energy. The most significant impacts of this legislation were:

- The price of electricity to certain customers was frozen at 4.3 cents per kilowatt-hour;
- Transmission and distribution rates were capped at current rates.

Effective April 1, 2004 the 4.3 cent price cap was replaced with the rates of 4.7 cents on the first 750 kilowatt hours per month and 5.5 cents on the remaining consumption. An adjustment to the transmission and distribution rates also occurred.

**TILLSONBURG HYDRO INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

**3. PROPERTY, PLANT AND EQUIPMENT**

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net 2003</b>	<b>Net 2002</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Land Improvements	11,520	2,137	<b>9,383</b>	9,877
Substation Equipment	520,425	421,640	<b>98,785</b>	103,985
Distribution System	10,621,750	4,955,184	<b>5,666,566</b>	5,396,499
	<u>11,153,695</u>	<u>5,378,961</u>	<u><b>5,774,734</b></u>	<u>5,510,361</u>

**4. DEPOSITS IN AID OF CONSTRUCTION**

As noted above, deposits in aid of construction, which are received subsequent to January 1, 2000, are deferred as a deposit against construction costs. Once construction costs are incurred, the applicable amount is recorded as a contra-asset and amortized. As the actual amount earned to date cannot be determined at this time, the entire amount received to date has been deferred and reflected as a current customer deposit.

	<b>\$</b>
2003	177,265
2002	242,975
2001	<u>172,137</u>
	<u><b>592,377</b></u>

**TILLSONBURG HYDRO INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

**5. REGULATORY ASSETS AND LIABILITIES**

The following expenses (recoveries) may be considered by the Ontario Energy Board in future rate applications and accordingly have been deferred until such time as direction is provided by the OEB.

Likewise, the difference between the utility's purchased cost of power based on time of use and the amounts billed to non-time of use customers is required to be deferred. The disposition of these amounts is expected to be reflected in future rate adjustments.

	2003 \$	2002 \$
Qualifying Transition Costs	121,794	72,840
Pre-Market Opening Variance	67,238	67,238
Retail Settlement Variances (RSVA)	(339,410)	315,997
Deferred PIL's	(12,552)	33,740
	<u>(162,930)</u>	<u>489,815</u>

**6. SHARE CAPITAL**

Authorized:

Unlimited common shares

Unlimited Class A shares - non-voting, non-cumulative, redeemable

	2003 \$	2002 \$
Issued:		
1 common share	<u>6,992,565</u>	<u>6,992,565</u>

**7. INCOME AND CAPITAL TAXES**

As a regulated Lines Distribution Corporation, Tillsonburg Hydro is required to remit payments in lieu of income taxes and capital taxes, as follows:

	2003 \$	2002 \$
Income Taxes	---	---
Capital Taxes	<u>3,824</u>	<u>8,907</u>
	<u>3,824</u>	<u>8,907</u>



**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**8. RELATED PARTY TRANSACTIONS**

Banking and accounting activities are administered by the Town of Tillsonburg on behalf of Tillsonburg Hydro Inc. Amounts due from related parties represents the net working capital position between the Town and the corporation.

**9. ADJUSTMENTS TO RETAINED EARNINGS**

(a) During the year, the Ontario Energy Board provided further direction on the accounting for, and utilization of, certain deferred variance amounts as discussed in note 6 above. As a result, unrecognized payment in lieu of tax amounts previously deferred, in the amount of \$189,444 were reversed as follows:

	As Previously Reported \$	As Restated \$
Regulatory Assets	544,596	
Regulatory Liabilities	(244,225)	
	<u>300,371</u>	<u>489,815</u>
Distribution Service Revenue	<u>1,349,070</u>	<u>1,538,514</u>

(b) During the previous year, the corporation had overestimated the variance arising from the cost of power based on time of use, which was attributed to the timing of the retail market becoming unbundled. The effect of this correction was to increase regulatory assets and decrease retained earnings by \$51,878.

**10. PRUDENTIAL SUPPORT**

Tillsonburg Hydro Inc. has posted a letter of credit with the Independent Electricity Market Operator (IMO) in the amount of \$1,266,441 (2002: \$1,663,940). The IMO is responsible for ensuring that prudential support is posted by all market participants to satisfy their prudential support obligation and, therefore, mitigate the impact of an event of default by a market participant on the rest of the market.

In turn, Tillsonburg Hydro Inc. has received prudential support from retailers in the amount of \$30,011 cash and a \$145,000 letter of credit (2002: \$31,177 and \$70,000 respectively).

**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**11. LITIGATION AND CONTINGENT LIABILITIES**

Class actions were commenced against the Consumers Gas Company in 1994 and against Toronto Hydro in 1998. Both actions claimed restitution for unjust enrichment arising from the late payment penalties levied on overdue utility bills by the defendant utilities.

On April 24, 2004, the Supreme Court of Canada rendered its judgment regarding defenses raised by Consumers Gas. With respect to the unjust enrichment claim, the Court held that the rate orders of the Ontario Energy Board contravened the Criminal Code, which is Federal legislation and this is paramount to Provincial legislation and the Ontario Energy Board Act. The Court also ruled that an order for repayment of monies collected would not occur before the issuance of the statement of claim in 1994. The full impact to Tillsonburg Hydro Inc. is not yet known with certainty and the magnitude of any restitution cannot be reasonably estimated.

The class action against Toronto Hydro is now proceeding and is being defended by the Electric Distributors Association legal counsel.

**TILLSONBURG HYDRO INC.**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2004**



**Millard, Rouse & Rosebrugh LLP**  
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**TILLSONBURG HYDRO INC.  
2004 FINANCIAL REPORT**

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**MILLARD, ROUSE AND ROSEBRUGH LLP**  
**CHARTERED ACCOUNTANTS**

24 HARVEY STREET  
TILLSONBURG, ONTARIO

**AUDITORS' REPORT**

**To the Shareholder of Tillsonburg Hydro Inc.**

**We have audited the balance sheet of Tillsonburg Hydro Inc. as at December 31, 2004 and the statements of operations, equity and cash flow for the year then ended. These financial statements are the responsibility of 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 corporation as at December 31, 2004 and the results of its operations and cash flow for the year then ended in accordance with the accounting principles as described in Note 1 to these financial statements.**

*Millard, Rouse & Rosebrugh LLP*

**CHARTERED ACCOUNTANTS**

**April 29, 2005  
Tillsonburg, Ontario**

**TILLSONBURG HYDRO INC.**  
**BALANCE SHEET**  
**AS AT DECEMBER 31, 2004**

<b>ASSETS</b>	<b>2004</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>		
Bank	401,652	360,879
Accounts Receivable	3,386,011	2,092,029
Prepaid Expenses	2,289	107
Inventory	294,957	403,075
Due to Related Parties (Note 8)	----	680,074
	<u>4,084,909</u>	<u>3,536,164</u>
<b>PROPERTY, PLANT AND EQUIPMENT (Note 3)</b>		
Cost	12,078,389	11,153,695
Accumulated Depreciation	(5,663,219)	(5,378,961)
Contributions In Aid of Construction	(1,077,000)	----
	<u>5,338,170</u>	<u>5,774,734</u>
<b>OTHER ASSETS</b>		
Regulatory Assets (Note 5)	311,251	----
	<u>9,734,330</u>	<u>9,310,898</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	2,012,009	951,911
Customer Deposits (Current Portion)	51,887	85,052
Deposits in Aid of Construction (Note 4)	87,655	592,377
Due to Related Parties (Note 8)	98,434	----
	<u>2,249,985</u>	<u>1,629,340</u>
<b>LONG TERM LIABILITIES</b>		
Customer Deposits	96,778	96,778
<b>OTHER LIABILITIES</b>		
Regulatory Liabilities (Note 5)	—	162,930
	<u>2,296,763</u>	<u>1,889,048</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 6)	6,992,565	6,992,565
Contributed Capital	1,190,387	1,190,387
Retained Earnings (Deficit)	(795,385)	(761,102)
	<u>7,387,567</u>	<u>7,421,850</u>
	<u>9,734,330</u>	<u>9,310,898</u>

The accompanying notes are an integral part of these financial statements.

**TILLSONBURG HYDRO INC.**  
**STATEMENT OF EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	Retained Earnings (Deficit) \$	Contributed Capital \$	2004 \$	2003 \$
<b>BALANCE - Beginning of the Year</b>				
As Previously Reported	(761,102)	1,190,387	429,285	289,495
Adjustment to Regulatory Assets and Liabilities (Note 9)	----	----	----	189,444
As Restated	(761,102)	1,190,387	429,285	478,939
Net Income (Loss) for the Year	(34,283)	----	(34,283)	(49,654)
<b>BALANCE - End of the Year</b>	(795,385)	1,190,387	395,002	429,285

The accompanying notes are an integral part of these financial statements.



**TILLSONBURG HYDRO INC.**  
**STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budget 2004 \$	Actual 2004 \$	Actual 2003 \$
<b>POWER REVENUE</b>			
General Service	10,657,000	9,859,764	9,959,864
Residential Service	1,938,000	2,000,409	1,810,751
Street Lighting	65,000	72,471	60,356
Wholesale and Transmission Charges	3,840,000	3,728,625	3,589,443
	<u>16,500,000</u>	<u>15,661,269</u>	<u>15,420,414</u>
<b>COST OF POWER</b>	<u>16,500,000</u>	<u>15,661,269</u>	<u>15,420,414</u>
<b>GROSS MARGIN ON POWER</b>	----	----	----
<b>DISTRIBUTION REVENUE</b>			
Distribution Service	1,450,000	1,534,107	1,511,814
Retail Service	9,000	11,012	11,574
Other	41,000	72,470	59,137
	<u>1,500,000</u>	<u>1,617,589</u>	<u>1,582,525</u>
<b>TOTAL REVENUE</b>	<u>1,500,000</u>	<u>1,617,589</u>	<u>1,582,525</u>
<b>EXPENSES</b>			
Operating and Maintenance	548,809	548,809	586,516
Billing and Collecting	288,539	327,047	320,394
General Administration (Note 11)	411,586	461,586	393,710
Depreciation	293,000	284,258	302,385
Interest and Finance Charges	55,000	20,328	25,350
	<u>1,596,934</u>	<u>1,642,028</u>	<u>1,628,355</u>
<b>NET INCOME (LOSS) BEFORE TAXES</b>	(96,934)	(24,439)	(45,830)
<b>INCOME AND CAPITAL TAXES (Note 7)</b>	4,000	9,844	3,824
<b>NET INCOME (LOSS) FOR THE YEAR</b>	<u>(100,934)</u>	<u>(34,283)</u>	<u>(49,654)</u>

The accompanying notes are an integral part of these financial statements.

**TILLSONBURG HYDRO INC.  
STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	2004 \$	2003 \$
<b>CASH PROVIDED BY (USED IN) OPERATIONS</b>		
Net Income (Loss) for the Year	(34,283)	(49,654)
Items not Requiring an Outlay of Cash:		
Depreciation	284,258	302,385
	<u>249,975</u>	<u>252,731</u>
 Changes in Working Capital Amounts other than Cash:		
Accounts Receivable	(1,293,982)	1,060,547
Prepaid Expenses	(2,182)	12,575
Inventory	108,118	(49,922)
Due from Related Parties	778,508	(416,438)
Regulatory Assets	(474,181)	652,745
Accounts Payable and Accrued Liabilities	1,060,098	(759,487)
Customer Deposits	(33,165)	(2,379)
Deposits in Aid of Construction	(504,722)	177,265
	<u>(111,533)</u>	<u>927,637</u>
 <b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
Contributions in Aid of Construction	1,077,000	----
Additions to Property, Plant and Equipment	(924,694)	(566,758)
	<u>152,306</u>	<u>(566,758)</u>
 <b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>----</u>	<u>----</u>
 <b>NET INCREASE (DECREASE) IN CASH FOR THE YEAR</b>	<u>40,773</u>	<u>360,879</u>
<b>BANK - Beginning of the Year</b>	360,879	----
 <b>BANK - End of the Year</b>	<u>401,652</u>	<u>360,879</u>

The accompanying notes are an integral part of these financial statements.



**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**1. ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles as amended by principles specifically prescribed by the Ontario Energy Board for rate regulated businesses in the "Accounting Procedures Handbook for Electric Distribution Utilities".

**a) Basis of Accounting**

These financial statements have been prepared using the accrual basis of accounting. The accrual basis of accounting recognizes revenue as it becomes available and measurable. Expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

**b) Inventory**

Inventory consists of repair parts, supplies and material held for future capital expansion and maintenance activities and is valued at the lower of cost and replacement value. Cost is determined using weighted averages.

**c) Property, Plant and Equipment and Depreciation**

Property, plant and equipment is valued at acquisition cost less accumulated depreciation. Depreciation is provided on a declining balance basis using the following rates, which are designed to reflect the approximate economic life of each class of asset:

Substation Equipment	5%
Distribution Lines and Transformers	5%
Distribution Meters	4%

**d) Revenue Recognition**

Service revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading to the end of the year. Estimated customer usage from the last billing date to the end of the year, is included in revenue.

**e) Deposits in Aid of Construction**

Deposits in Aid Construction are required contributions received from outside sources used to finance additions to property, plant and equipment. These deposits are deferred until expended on the intended capital project. Amounts expended are transferred to a contra-asset account and amortized at an equivalent rate to that used for the depreciation of the related property, plant and equipment. Unspent amounts are refunded.

**f) Deferral of Expenses**

Certain expenses, which may be considered by the Ontario Energy Board (OEB) in future rate applications, may be deferred until such time as direction is provided by the OEB.

**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**1. ACCOUNTING POLICIES - Continued**

**g) Corporate Taxes**

Tillsonburg Hydro Inc. is a regulated Lines Distribution Corporation (LDC) and by virtue of being an LDC is allowed to recover income taxes through its rates. Canadian generally accepted accounting principles permit rate-regulated enterprises to depart from the requirement to report future income tax assets and liabilities based on temporary differences between accounting values and income tax values at the end of a fiscal reporting period. Accordingly, the company uses the taxes payable method whereby the income tax expense for the year is the cost of current corporate taxes.

**h) Use of Estimates**

The preparation of periodic financial statements sometimes requires management to make certain estimates and assumptions that affect reported amounts. In these instances, since precise determination is dependent on future events, actual results could differ from those estimates.

**2. RATE SETTING AND INDUSTRY REGULATION**

The Ontario Government enacted the Energy Competition Act, 1998 to introduce competition to the Ontario electricity market. Under the terms of this legislation, the Ontario Energy Board will regulate industry participants by issuing licenses for the right to generate, transmit, distribute and retail electricity. These licenses require compliance with established market rules and codes.

On May 1, 2002, retail activities within the Province of Ontario were deregulated. Tillsonburg Hydro Inc. continued to retail electric services at rates approved and regulated by the Ontario Energy Board, as a default supplier.

On November 11, 2002, legislation was introduced to reduce electricity prices for families, small businesses and farmers, while increasing Ontario's supply of electricity and encouraging conservation and alternative energy. The most significant impacts of this legislation were:

- The price of electricity to certain customers was frozen at 4.3 cents per kilowatt-hour;
- Transmission and distribution rates were capped at current rates.

Effective April 1, 2004 the 4.3 cent price cap was replaced with the rates of 4.7 cents on the first 750 kilowatt hours per month and 5.5 cents on the remaining consumption. An adjustment to the transmission and distribution rates also occurred.

Effective April 1, 2005 the price cap was adjusted to the rates of 5.0 cents on the first 750 kilowatt hours per month and 5.8 cents on the remaining consumption. An adjustment to the transmission and distribution rates also occurred.



**TILLSONBURG HYDRO INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

**3. PROPERTY, PLANT AND EQUIPMENT**

	<b>Cost \$</b>	<b>Accumulated Depreciation \$</b>	<b>Net 2004 \$</b>	<b>Net 2003 \$</b>
Land Improvements	11,520	2,606	<b>8,914</b>	9,383
Substation Equipment	520,425	426,579	<b>93,846</b>	98,785
Distribution System	11,546,444	5,273,651	<b>6,272,793</b>	5,666,566
	12,078,389	(5,702,836)	<b>6,375,553</b>	5,774,734
Contributions in Aid of Construction	(1,077,000)	39,617	<b>(1,037,383)</b>	----
	<b>11,001,389</b>	<b>(5,663,219)</b>	<b>5,338,170</b>	5,774,734

**4. DEPOSITS IN AID OF CONSTRUCTION**

Deposits in aid of construction, which are received subsequent to January 1, 2000, are deferred as a deposit against construction costs. Once construction costs are incurred, the applicable amount is recorded as a contra-asset and amortized.

	<b>2004 \$</b>	<b>2003 \$</b>
2004	<b>87,655</b>	----
2003	----	177,265
2002	----	242,975
2001	----	172,137
	<b>87,655</b>	<b>592,377</b>

**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**5. REGULATORY ASSETS AND LIABILITIES**

The following expenses (recoveries) may be considered by the Ontario Energy Board in future rate applications and accordingly have been deferred until such time as direction is provided by the OEB.

Likewise, the difference between the utility's purchased cost of power based on time of use and the amounts billed to non-time of use customers is required to be deferred. The disposition of these amounts is expected to be reflected in future rate adjustments.

	2004 \$	2003 \$
Qualifying Transition Costs	106,272	121,794
Pre-Market Opening Variance	95,983	67,238
Retail Settlement Variances (RSVA)	97,213	(339,410)
Deferred PIL's	3,221	(12,552)
Other	8,562	----
	<u>311,251</u>	<u>(162,930)</u>

**6. SHARE CAPITAL**

	2004 \$	2003 \$
Authorized:		
Unlimited Common Shares		
Unlimited Class A Shares - non-voting, non-cumulative, redeemable		
Issued:		
1 common share	<u>6,992,565</u>	<u>6,992,565</u>

**7. INCOME AND CAPITAL TAXES**

As a regulated Lines Distribution Corporation, Tillsonburg Hydro is required to remit payments in lieu of income taxes and capital taxes, as follows:

	2004 \$	2003 \$
Income Taxes	----	----
Capital Taxes	<u>9,844</u>	<u>3,824</u>
	<u>9,844</u>	<u>3,824</u>

**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**8. RELATED PARTY TRANSACTIONS**

Banking and accounting activities are administered by the Town of Tillsonburg on behalf of Tillsonburg Hydro Inc. Amounts due from related parties represents the net working capital position between the Town and the corporation.

**9. ADJUSTMENTS TO RETAINED EARNINGS**

During 2003, the Ontario Energy Board provided further direction on the accounting for, and utilization of, certain deferred variance amounts as discussed in note 5 above. As a result, unrecognized payment in lieu of tax amounts previously deferred, in the amount of \$189,444 were reversed as follows:

	<b>2003 As Previously Reported \$</b>	<b>2003 As Restated \$</b>
Regulatory Assets	544,596	
Regulatory Liabilities	(244,225)	
	<u>300,371</u>	<u>489,815</u>
Distribution Service Revenue	<u>1,349,070</u>	<u>1,538,514</u>

**10. PRUDENTIAL SUPPORT**

Tillsonburg Hydro Inc. has posted a letter of credit with the Independent Electricity Market Operator (IMO) in the amount of \$1,266,441 (2003 - \$1,266,441). The IMO is responsible for ensuring that prudential support is posted by all market participants to satisfy their prudential support obligation and, therefore, mitigate the impact of an event of default by a market participant on the rest of the market.

In turn, Tillsonburg Hydro Inc. has received prudential support from retailers in the amount of \$24,961 cash and a \$73,074 letter of credit (2003 - \$30,011 and \$145,000 respectively).



**TILLSONBURG HYDRO INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**11. LITIGATION AND CONTINGENT LIABILITIES**

Class actions were commenced against the Consumers Gas Company in 1994 and against Toronto Hydro in 1998. Both actions claimed restitution for unjust enrichment arising from the late payment penalties levied on overdue utility bills by the defendant utilities.

On April 24, 2004, the Supreme Court of Canada rendered its judgment regarding defenses raised by Consumers Gas. With respect to the unjust enrichment claim, the Court held that the rate orders of the Ontario Energy Board contravened the Criminal Code, which is Federal legislation and this is paramount to Provincial legislation and the Ontario Energy Board Act. The Court also ruled that an order for repayment of monies collected would not occur before the issuance of the statement of claim in 1994. The full impact to Tillsonburg Hydro Inc. is not yet known with certainty and the magnitude of any restitution cannot be reasonably estimated. However, Tillsonburg Hydro Inc.'s Board of Directors felt it prudent to make an allowance of \$50,000 in the current year.

The class action against Toronto Hydro is now proceeding and is being defended by the Electric Distributors Association legal counsel.



**TILLSONBURG HYDRO INC.**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**MILLARD, ROUSE AND ROSEBRUGH LLP**  
**CHARTERED ACCOUNTANTS**

24 HARVEY STREET  
TILLSONBURG, ONTARIO

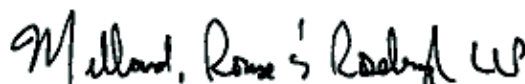
**AUDITORS' REPORT**

To the Shareholder of Tillsonburg Hydro Inc.

We have audited the balance sheet of Tillsonburg Hydro Inc. as at December 31, 2005 and the statements of operations, equity and cash flow for the year then ended. These financial statements are the responsibility of 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 corporation as at December 31, 2005 and the results of its operations and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANTS

May 2, 2006  
Tillsonburg, Ontario

**TILLSONBURG HYDRO INC.  
2005 FINANCIAL STATEMENTS**

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**TILLSONBURG HYDRO INC.**  
**BALANCE SHEET**  
**AS AT DECEMBER 31, 2005**

<b>ASSETS</b>	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>		
Bank	408,235	401,652
Accounts Receivable	2,818,911	3,386,011
Prepaid Expenses	38,134	2,289
Inventory	318,170	294,957
Due from Related Parties (Note 8)	294,115	----
	<u>3,877,565</u>	<u>4,084,909</u>
<b>PROPERTY, PLANT AND EQUIPMENT (Note 4)</b>		
Cost	11,590,954	11,001,389
Accumulated Depreciation	(6,336,046)	(5,951,725)
	<u>5,254,908</u>	<u>5,049,664</u>
<b>OTHER ASSETS</b>		
Regulatory Assets (Note 5)	554,350	561,670
	<u>9,686,823</u>	<u>9,696,243</u>
<b>LIABILITIES AND SHAREHOLDER EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	2,038,128	2,012,009
Customer Deposits (Current Portion)	70,436	51,887
Deposits in Aid of Construction	81,522	87,655
Due to Related Parties (Note 8)	----	98,434
	<u>2,190,086</u>	<u>2,249,985</u>
<b>LONG TERM LIABILITIES</b>		
Customer Deposits	96,778	96,778
<b>SHAREHOLDER EQUITY</b>		
Share Capital (Note 6)	6,992,565	6,992,565
Contributed Capital	1,190,387	1,190,387
Retained Earnings (Deficit)	(782,993)	(833,472)
	<u>7,399,959</u>	<u>7,349,480</u>
	<u>9,686,823</u>	<u>9,696,243</u>

Approved on behalf of the Board

**TILLSONBURG HYDRO INC.**  
**STATEMENT OF EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Retained Earnings (Deficit) \$	Contributed Capital \$	2005 \$	2004 \$
<b>BALANCE - Beginning of the Year</b>				
As Previously Reported	(795,385)	1,190,387	395,002	429,285
Adjustment to Regulatory Assets (Note 9 a)	250,419	----	250,419	242,728
Adjustment to Prior Year Depreciation (Note 9 b)	(288,506)	----	(288,506)	(207,343)
As Restated	(833,472)	1,190,387	356,915	464,670
Net Income (Loss) for the Year	50,479	----	50,479	(107,755)
<b>BALANCE - End of the Year</b>	(782,993)	1,190,387	407,394	356,915

The accompanying notes are an integral part of these financial statements.



**TILLSONBURG HYDRO INC.**  
**STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budget 2005 \$	Actual 2005 \$	Actual 2004 \$
<b>POWER REVENUE</b>			
General Service	9,996,000	11,495,406	9,859,764
Residential Service	2,036,000	2,429,787	2,000,409
Street Lighting	72,000	81,777	72,471
Wholesale and Transmission Charges	3,526,000	3,906,281	3,728,625
	<u>15,630,000</u>	<u>17,913,251</u>	<u>15,661,269</u>
<b>COST OF POWER</b>	<u>15,630,000</u>	<u>17,913,251</u>	<u>15,661,269</u>
<b>GROSS MARGIN ON POWER</b>	----	----	----
<b>DISTRIBUTION REVENUE</b>			
Distribution Service	1,504,000	1,731,176	1,534,107
Retail Service	13,000	10,778	11,012
Other	41,476	115,567	72,470
	<u>1,558,476</u>	<u>1,857,521</u>	<u>1,617,589</u>
<b>TOTAL REVENUE</b>	<u>1,558,476</u>	<u>1,857,521</u>	<u>1,617,589</u>
<b>EXPENSES</b>			
Operating and Maintenance	671,778	671,784	548,809
Billing and Collecting	328,289	331,029	327,047
General Administration	341,839	366,844	461,586
Depreciation	281,000	384,320	365,421
Interest and Finance Charges	22,163	15,099	12,638
	<u>1,645,069</u>	<u>1,769,076</u>	<u>1,715,501</u>
<b>NET INCOME (LOSS) BEFORE TAXES</b>	(86,593)	88,445	(97,912)
<b>INCOME AND CAPITAL TAXES (Note 7)</b>	<u>5,933</u>	<u>37,966</u>	<u>9,843</u>
<b>NET INCOME (LOSS) FOR THE YEAR</b>	<u>(92,526)</u>	<u>50,479</u>	<u>(107,755)</u>

The accompanying notes are an integral part of these financial statements.

**TILLSONBURG HYDRO INC.  
STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	2005 \$	2004 \$
<b>CASH PROVIDED BY (USED IN) OPERATIONS</b>		
Net Income (Loss) for the Year	50,479	(107,755)
Items not Requiring an Outlay of Cash:		
Depreciation	384,320	365,421
	<u>434,799</u>	<u>257,666</u>
 Changes in Working Capital Amounts other than Cash:		
Accounts Receivable	567,100	(1,293,982)
Prepaid Expenses	(35,845)	(2,182)
Inventory	(23,213)	108,118
Due from Related Parties	(392,550)	778,508
Regulatory Assets	7,320	(481,872)
Accounts Payable and Accrued Liabilities	26,119	1,060,098
Customer Deposits	18,549	(33,165)
Deposits in Aid of Construction	(6,133)	(504,722)
	<u>596,146</u>	<u>(111,533)</u>
 <b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
Contributions in Aid of Construction	167,882	1,077,000
Additions to Property, Plant and Equipment	(757,445)	(924,694)
	<u>(589,563)</u>	<u>152,306</u>
 <b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>----</u>	<u>----</u>
 <b>NET INCREASE (DECREASE) IN CASH FOR THE YEAR</b>	6,583	40,773
<b>BANK - Beginning of the Year</b>	401,652	360,879
 <b>BANK - End of the Year</b>	<u>408,235</u>	<u>401,652</u>

The accompanying notes are an integral part of these financial statements.

**TILLSONBURG HYDRO INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

**1. ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles as amended by principles specifically prescribed by the Ontario Energy Board for rate regulated businesses in the "Accounting Procedures Handbook for Electric Distribution Utilities".

**a) Basis of Accounting**

These financial statements have been prepared using the accrual basis of accounting. The accrual basis of accounting recognizes revenue as it becomes available and measurable. Expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

**b) Inventory**

Inventory consists of repair parts, supplies and material held for future capital expansion and maintenance activities and is valued at the lower of cost and replacement value. Cost is determined using weighted averages.

**c) Property, Plant and Equipment and Depreciation**

Property, plant and equipment is valued at acquisition cost less accumulated depreciation. Depreciation is provided on the straight line basis using the following rates, which are designed to reflect the approximate economic life of each class of asset:

Substation Equipment	25 Years
Distribution Lines and Transformers	25 Years
Distribution Meters	25 Years

**d) Revenue Recognition**

Service revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading to the end of the year. Estimated customer usage from the last billing date to the end of the year, is included in revenue.

**e) Deposits in Aid of Construction**

Deposits in Aid Construction are required contributions received from outside sources used to finance additions to property, plant and equipment. These deposits are deferred until expended on the intended capital project. Amounts expended are transferred to a contra-asset account and amortized at an equivalent rate to that used for the depreciation of the related property, plant and equipment. Unspent amounts are refunded.

**TILLSONBURG HYDRO INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

**1. ACCOUNTING POLICIES - Continued**

**f) Payments in Lieu of Corporate Income Taxes**

The company provides for payments in lieu of corporate income taxes 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 for accounting purposes. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers of Tillsonburg Hydro Inc.

**g) Regulatory Policies**

Tillsonburg Hydro Inc. has adopted the following policies, as prescribed by the Ontario Energy Board (OEB) for rate-regulated enterprises. The policies have resulted in accounting treatments differing from Canadian generally accepted accounting principles for enterprises operating on a non-rate-regulated environment:

1. Various regulatory costs have been deferred in accordance with criteria set out in the OEB's Accounting Procedures handbook. In the absence of such regulation, these costs would have been expensed when incurred under Canadian GAAP.
2. The company had deferred certain retail settlement variance amounts under the provisions of Article 490 in the OEB's Accounting Procedures handbook.
3. 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.

**h) Use of Estimates**

The preparation of periodic financial statements sometimes requires management to make certain estimates and assumptions that affect reported amounts. In these instances, since precise determination is dependent on future events, actual results could differ from those estimates.

**2. RATE SETTING AND INDUSTRY REGULATION**

The Ontario Energy Board Act (1998) (the Act) gave the Ontario Energy Board (OEB) increased powers and responsibilities to regulate the electricity industry on Ontario. These powers and responsibilities include the ability to approve or fix rates for the transmission and distribution of electricity, the ability to provide continued rate protection for rural and remote electricity consumers and the responsibility for ensuring the distribution companies fulfill obligations to connect and service customers.

The Act provides for a competitive market in the sale of electricity in addition to the regulation of the monopoly electricity delivery system in Ontario.



**TILLSONBURG HYDRO INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

**2. RATE SETTING AND INDUSTRY REGULATION - Continued**

The OEB has regulatory authority over the electricity delivery sector. The Act sets out the Board's powers to issue a distribution license, which must be obtained by any person owning or operating a distribution system under the Act. The Act allows the Board to prescribe license requirements and conditions to electricity distributors, which they include such considerations as specified accounting records, regulatory accounting principles, separation of accounts for separate businesses and filing requirements for rate setting purposes.

With the commencement of the open market, the company purchases electricity from the Independent Electricity System Operator (IESO), at spot market rates and charges its customers unbundled rates. The unbundled rates include the actual cost of generation and transmission of electricity and an approved rate for electricity distribution. The cost of generation, transmission and other charges such as connection and debt retirement are collected by Tillsonburg Hydro Inc. and remitted to the IESO. The company retains the distribution charge on the customer hydro invoices. 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. The company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the company has recorded regulatory liabilities which represent amounts for expenses incurred in different periods than would be the case had the company been unregulated. Specific regulatory assets and liabilities are disclosed in Note 5.

The company's approved rate for distribution includes components for the recovery of approved transition costs and estimated payments in lieu of corporate income taxes.

**3. ELECTRICITY PRICES AND CREDITS TO CUSTOMERS**

Under the new regulation issued in October 2005, Regulated Price Plan customers receive a one-time credit reflecting a lower cost of power than the fixed community price between April 1, 2004 and March 31, 2005. The application of the one-time credit did not result in any adjustment to net income in the current or previously reported periods.

Effective April 1, 2004 the 4.3 cent price cap was replaced with the rates of 4.7 cents on the first 750 kilowatt hours per month and 5.5 cents on the remaining consumption. An adjustment to the transmission and distribution rates also occurred at that time.

Effective April 1, 2005 the price cap was adjusted to the rates of 5.0 cents on the first 750 kilowatt hours per month and 5.8 cents on the remaining consumption. An adjustment to the transmission and distribution rates also occurred at that time.

Effective August 1, 2005, an adjustment to the distribution rates occurred.

Effective November 1, 2005 the price cap for residential customers was adjusted to the rates of 5.0 cents on the first 1,000 kilowatt hours per month and 5.8 cents on the remaining consumption.



**TILLSONBURG HYDRO INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

**4. PROPERTY, PLANT AND EQUIPMENT**

	Cost \$	Accumulated Depreciation \$	Net 2005 \$	Net 2004 \$
Substation Land	11,520	----	11,520	11,520
Substation Equipment	606,264	(462,113)	144,151	67,178
Distribution System	12,218,052	(5,962,219)	6,255,833	6,006,117
	12,835,836	(6,424,332)	6,411,504	6,084,815
Contributions in Aid of Construction	(1,244,882)	88,286	(1,156,596)	(1,035,151)
	11,590,954	(6,336,046)	5,254,908	5,049,664

**5. REGULATORY ASSETS AND LIABILITIES**

The following expenses (recoveries) may be considered by the Ontario Energy Board in future rate applications and accordingly have been deferred until such time as direction is provided by the OEB.

Likewise, the difference between the utility's purchased cost of power based on time of use and the amounts billed to non-time of use customers is required to be deferred. The disposition of these amounts is expected to be reflected in future rate adjustments.

	2005 \$	As Restated 2004 \$	As Previously Reported 2004 \$
Qualifying Transition Costs	499,883	342,120	106,272
Pre-Market Opening Variance	130,554	108,249	95,983
Retail Settlement Variances	(153,429)	74,930	74,930
Recovery of Regulatory Assets	231,463	(430)	----
OEB Cost Assessment	19,677	6,586	6,462
Conservation and Demand Management	(126,696)	2,100	2,100
Deferred PIL's	6,472	3,221	3,221
One-Time Wholesale Market Service Charges	23,800	----	----
Recovery of Non-RSVA Amounts	(109,766)	22,283	22,283
Miscellaneous Deferrals	32,392	2,611	----
	554,350	561,670	311,251

**TILLSONBURG HYDRO INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

**5. REGULATORY ASSETS AND LIABILITIES - Continued**

Transition costs represent the incremental recoverable costs of preparing for the open electricity market.

Qualifying transition costs are subject to OEB approval of unamortized balances as at December 31, 2005 and future direction from the OEB for further write downs.

The pre-market opening energy variance and the retail settlement variance accounts represent differences between charges billed to customers using the Ontario Energy Board approved fixed reference price and the actual costs billed to Tillsonburg Hydro Inc. by the IESO.

The deferred payment in lieu of taxes represents the accumulated difference in the approved estimate of taxes to be paid and the actual taxes paid. The estimates were approved by the OEB and are now being recovered as part of the company's rate base. The true up has been recorded as part of deferred payments in lieu of taxes and charged to income.

On December 9, 2004, the OEB issued its decision on the Phase II recovery of various regulatory deferral accounts incurred prior to December 31, 2003, plus related interest. As a result of the OEB's decision, the proportion of our regulatory assets subject to potential OEB disallowance has been significantly reduced. However, regulatory asset amounts included in approved accounts that were recognized after December 31, 2003 have not yet been reviewed by the OEB. The company continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If, at some future date, the company judges that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be reflected in results of operations in the period that the assessment is made.

Includes costs of conservation and demand management activities and investments outlined in the company's Conservation and Demand Management Plan. This also includes amounts the company collects in rates for its third tranche or final installment of MARR (market adjusted revenue requirement), over the approved collection period between March 1, 2005 and February 28, 2006.

**6. SHARE CAPITAL**

	2005	2004
	\$	\$
Authorized:		
Unlimited Common Shares		
Unlimited Class A Shares - non-voting, non-cumulative, redeemable		
Issued:		
1 common share	<u>6,992,565</u>	<u>6,992,565</u>

**TILLSONBURG HYDRO INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

**7. PAYMENTS IN LIEU OF INCOME AND CAPITAL TAXES**

As a regulated Lines Distribution Corporation, Tillsonburg Hydro is required to remit payments in lieu of income taxes and capital taxes, as follows:

	2005 \$	2004 \$
Income Taxes	34,184	----
Capital Taxes	3,782	9,843
	<u>37,966</u>	<u>9,843</u>

**8. RELATED PARTY TRANSACTIONS**

Banking and accounting activities are administered by the Town of Tillsonburg on behalf of Tillsonburg Hydro Inc. Amounts due from related parties represent the net working capital position between the Town and the corporation.

**9. ADJUSTMENTS TO RETAINED EARNINGS**

**a) Adjustment to Regulatory Assets**

During the year the Ontario Energy Board provided further direction on the accounting and utilization of certain deferred variance amounts as described in note 5 above.

The adjustment has been made retroactively as follows:

	As Previously Reported \$	Adjustment \$	As Restated \$
Regulatory Assets	311,251	250,419	561,670
Interest and Finance Charges for 2004	20,328	(7,690)	12,638

**TILLSONBURG HYDRO INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

**9. ADJUSTMENTS TO RETAINED EARNINGS - Continued**

**b) Adjustment to Depreciation**

The Ontario Energy Board requires that the company record depreciation of property, plant and equipment assets using the straight line basis. The company had previously used the declining balance method.

Depreciation has been retroactively adjusted as follows:

	As Previously Reported \$	Adjustment \$	As Restated \$
Accumulated Depreciation	(5,663,219)	288,506	(5,951,725)
Net Book Value	5,338,170	(288,506)	5,049,664
Depreciation Expense for 2004	284,258	81,163	365,421

**10. PRUDENTIAL SUPPORT**

Tillsonburg Hydro Inc. has posted a letter of credit with the Independent Electricity Market Operator (IMO) in the amount of \$1,266,441 (2004 - \$1,266,441). The IMO is responsible for ensuring that prudential support is posted by all market participants to satisfy their prudential support obligation and, therefore, mitigate the impact of an event of default by a market participant on the rest of the market.

In turn, Tillsonburg Hydro Inc. has received prudential support from retailers in the amount of \$21,881 cash and a \$55,000 letter of credit (2004 - \$24,961 and \$73,074 respectively).

**11. LITIGATION AND CONTINGENT LIABILITIES**

Class actions were commenced against the Consumers Gas Company in 1994 and against Toronto Hydro in 1998. Both actions claimed restitution for unjust enrichment arising from the late payment penalties levied on overdue utility bills by the defendant utilities.

On April 24, 2004, the Supreme Court of Canada rendered its judgment regarding defenses raised by Consumers Gas. With respect to the unjust enrichment claim, the Court held that the rate orders of the Ontario Energy Board contravened the Criminal Code, which is Federal legislation and this is paramount to Provincial legislation and the Ontario Energy Board Act. The Court also ruled that an order for repayment of monies collected would not occur before the issuance of the statement of claim in 1994. The full impact to Tillsonburg Hydro Inc. is not yet known with certainty and the magnitude of any restitution cannot be accurately estimated. Tillsonburg Hydro Inc. increased its allowance to \$75,000 in 2005 (2004 - \$50,000)

The class action against Toronto Hydro is now proceeding and is being defended by the Electric Distributors Association legal counsel.