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NIAGARA-ON-THE-LAKE HYDRO INC.

Financial Statements

December 31, 2003

NIAGARA-ON-THE-LAKE HYDRO INC.

Financial Statements

December 31, 2003

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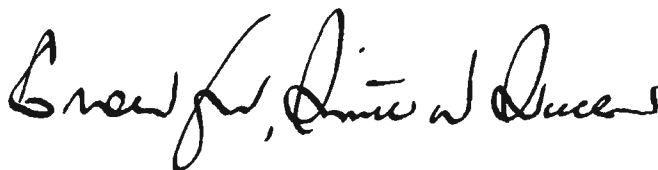
AUDITORS' REPORT

To the Board Members and Shareholder
of Niagara-on-the-Lake Hydro Inc.

We have audited the balance sheet of Niagara-on-the-Lake Hydro Inc. as at December 31, 2003 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Niagara Falls, Ontario
March 31, 2004

CRAWFORD, SMITH AND SWALLOW
CHARTERED ACCOUNTANTS LLP

NIAGARA-ON-THE-LAKE HYDRO INC.

BALANCE SHEET

December 31, 2003

Assets - notes 8 and 16	2003	2002
	\$	\$
Current Assets		
Accounts receivable	1,230,954	647,499
Rate settlement rebate receivable		825,897
Unbilled revenue	1,246,226	1,819,679
Payments in lieu of corporate income taxes refundable	89,602	
Due from affiliated companies - note 2	19,786	
Note receivable - note 3	130,000	
Inventories	158,011	188,123
Prepaid expenses	69,050	58,489
	2,943,629	3,539,687
Capital Assets		
Land	187,798	55,986
Buildings	820,333	820,333
Transformer stations	2,708,439	104,579
Distribution stations	284,701	271,887
Distribution overhead lines	8,473,461	8,081,571
Distribution underground lines	7,934,013	7,558,576
Distribution transformers	4,539,586	4,415,650
Distribution meters	883,548	848,503
Equipment	2,231,886	1,920,633
Other	25,038	25,038
	28,088,803	24,102,756
Less accumulated amortization	11,637,741	10,645,354
	16,451,062	13,457,402
Other Assets		
Regulatory assets - note 5	730,302	441,120
Special deposits	130,127	114,243
Long-term investments- note 6	46,231	36,000
	906,660	591,363
	20,301,351	17,588,452

See accompanying notes

NIAGARA-ON-THE-LAKE HYDRO INC.

BALANCE SHEET

December 31, 2003

Liabilities and Shareholder's Equity	2003 \$	2002 \$
Current Liabilities		
Bank indebtedness	66,973	445,781
Demand instalment loan - note 8	2,758,764	
Accounts payable		
Trade	317,215	309,315
Independent Market Operator payable	748,853	609,708
Hydro One payable	125,114	153,528
Rebate cheques payable		796,251
Payments in lieu of corporate income taxes payable		107,706
Due to affiliated companies - note 2		12,428
Other current liabilities	414,140	541,158
	4,431,059	2,975,875
Other Liabilities		
Employee future benefits - note 7	415,345	380,568
Customer deposits	130,127	114,243
Accumulated vested sick leave credits	19,361	19,361
Other deposits	39,848	46,811
Deferred charges - HVDS - note 18	787,504	
	1,392,185	560,983
Long-Term Note Payable - note 9	6,901,333	6,901,333
Contingent Liability - note 14		
Shareholder's Equity		
Share capital - note 10	2,632,307	2,632,307
Paid-up capital	4,269,026	4,269,026
Retained earnings	675,441	248,928
	7,576,774	7,150,261
	20,301,351	17,588,452

Signed on behalf of the Board:

Director

Director

See accompanying notes

NIAGARA-ON-THE-LAKE HYDRO INC.**STATEMENT OF RETAINED EARNINGS**

for the year ended December 31, 2003

	2003	2002
	\$	\$
Retained Earnings, Beginning of Year	78,928	(383,524)
Accounting Change - note 19	170,000	
Retained Earnings, Beginning of Period as Restated	248,928	(383,524)
Net Income for the Year	426,513	632,452
Retained Earnings, End of Year	675,441	248,928

See accompanying notes

NIAGARA-ON-THE-LAKE HYDRO INC.**STATEMENT OF OPERATIONS**

for the year ended December 31, 2003

	2003 \$	2002 \$
Service Revenue		
Residential energy	4,122,213	5,342,791
General <50 energy	2,400,142	3,295,331
General >50 energy	4,272,627	5,003,565
Street lighting energy	62,494	76,054
Sentinel lighting energy	11,761	14,984
Unbilled revenue		1,709
Sales for retailers	616,158	333,865
Non-competitive charges	2,782,740	1,764,770
Transformation services	33,299	
	14,301,434	15,833,069
Cost of Power		
Power purchased	11,200,473	12,406,161
Gross Margin	3,100,961	3,426,908
Other Income		
Administration expense recovery	3,654	4,973
Other revenue	189,714	40,879
Interest income	26,415	31,191
	219,783	77,043
	3,320,744	3,503,951
Other Expenditure		
Distribution operations	534,572	573,574
Billing and collection	313,858	316,079
General administration	526,018	495,935
Financial expense	593,140	541,615
Amortization - note 15(a)	916,470	833,590
	2,884,058	2,760,793
Net Income Before Payments in Lieu of Corporate Income Taxes	436,686	743,158
Payments in Lieu of Corporate Income Taxes	10,173	110,706
Net Income for the Year	426,513	632,452

See accompanying notes

NIAGARA-ON-THE-LAKE HYDRO INC.

STATEMENT OF CASH FLOWS

for the year ended December 31, 2003

	2003 \$	2002 \$
Operating Activities		
Net income for the year	426,513	632,452
Amortization - note 15(a)	1,000,229	933,897
Loss (gain) on disposal of capital assets	(57,154)	55,492
Working capital provided by operations	1,369,588	1,621,841
Changes in non-cash working capital components - note 11 (a)	2,430,050	(298,405)
Funds provided by operating activities	3,799,638	1,323,436
Investing Activities		
Proceeds on disposal of capital assets	57,952	
Additions to capital assets - note 11(b)	(3,994,687)	(1,379,887)
Increase in regulatory assets - note 5	(289,182)	(218,276)
Decrease in extraordinary event costs		91,968
Increase in special deposits	(15,884)	(70,930)
Increase in long-term investment	(10,231)	
Funds used by investing activities	(4,252,032)	(1,577,125)
Other Activities		
Increase in future employee benefits	34,777	21,783
Increase in customer deposits	15,884	28,930
Decrease in other deposits	(6,963)	(46,089)
Increase in deferred charges - HVDS	787,504	
Funds provided by other activities	831,202	4,624
Increase (Decrease) in Cash and Cash Equivalents	378,808	(249,065)
Cash and Cash Equivalents, Beginning of Year	(445,781)	(196,716)
Cash and Cash Equivalents, End of Year	(66,973)	(445,781)

See accompanying notes

NIAGARA-ON-THE-LAKE HYDRO INC.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2003

Incorporation

On July 1, 2000, Niagara-on-the-Lake Hydro Inc. was incorporated under the Business Corporations Act (Ontario) along with its affiliate companies, Niagara-on-the-Lake Energy Inc. and Energy Services Niagara Inc. The incorporation was pursuant to the provisions of the Energy Competition Act, 1998.

1. Accounting Policies

These financial statements of Niagara-on-the-Lake Hydro Inc. have been prepared in accordance with Canadian generally accepted accounting principles. The company is a wholly-owned subsidiary of Niagara-on-the-Lake Energy Inc.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses for the year. Actual results could differ from estimates, including changes as a result of future decisions made by the OEB or the Minister of Energy.

Cash and cash equivalents

Cash equivalents are readily convertible investments with maturities of three months or less. Investments are recorded at the lower of cost and market.

Inventories

Inventory is valued at average cost with allowances for obsolete stock.

Capital assets

Capital assets are stated at cost and removed from the accounts when disposed or retired. Costs of assets which are pooled are removed from the accounts at the end of their estimated average service lives. Gains or losses at retirement or disposition of such assets are credited or charged to other income.

Amortization is provided for capital assets using the straight-line method based on the following estimated service lives:

Buildings	25 to 50 years
Transformer station	25 years
Distribution stations	25 years
Distribution lines	25 years
Distribution transformers and meters	25 years
Other capital assets	3 to 15 years
Intangible assets	20 years

Other assets

Expenditures made which may benefit future periods are recorded as other assets. See Regulatory Assets, note 5.

NIAGARA-ON-THE-LAKE HYDRO INC.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2003

1. Accounting Policies - continued

Investment

The company's investment in a limited liability partnership is accounted for using the equity method. The initial investment is recorded at cost and the carrying value adjusted thereafter to include the pro-rata share of income and losses.

Paid-up capital

Paid-up capital reflects the balance of capital contributions received by the former Niagara-on-the-Lake Hydro-Electric Commission prior to January 1, 2000

Revenue recognition

Service revenue is recorded as revenue in the period to which it relates. Service revenue from the sale of electrical energy includes an estimated accrual for power supplied but not billed to customers from the last meter reading date to the year end. The impact of the year end change in this estimated accrual is included in service revenue in the Statement of Operations.

Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of electricity bills. Deposits expected to be refunded to customers within the next fiscal period are classified as a current liability.

Employee future benefits

The company pays certain medical, dental and life insurance benefits on behalf of its retired employees. The company recognizes these post-retirement costs in the period in which the employees rendered the services. See note 7.

Actuarial gains (losses)

Actuarial gains (losses) are amortized over the expected average remaining service life of the active employees.

Capitalized interest

The company capitalizes an amount of interest which represents an allowance for the use of funds expended during the construction period of capital assets. Interest is also capitalized on all funds expended and deferred as regulatory assets. See note 15(b).

Payments in lieu of corporate income taxes and capital taxes

Under the Electricity Act, 1998, the company is required to make payments in lieu of corporate taxes to Ontario Electricity Financial Corporation (OEFC), commencing October 1, 2001. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

NIAGARA-ON-THE-LAKE HYDRO INC.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2003

1. Accounting Policies - continued

Payments in lieu of corporate income taxes and capital taxes - continued

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 Niagara-on-the-Lake Hydro Inc.

2. Due From (To) Affiliated Companies

	2003 \$	2002 \$
Niagara-on-the-Lake Energy Inc.	13,468	8,854
Energy Services Niagara Inc.	6,318	(21,282)
	19,786	(12,428)

Balances are non-interest bearing with no fixed terms of repayment.

3. Note Receivable

The company has a note receivable due from Energy Services Niagara Inc. The note receivable bears interest at 7.25% with no fixed terms of repayment. Interest received for the year amounted to \$ 7,764.

4. Related Party Transactions

During the period, Niagara-on-the-Lake Hydro Inc. provided operation and administration services to its affiliates in the normal course of business in the following amounts:

	2003 \$	2002 \$
Niagara-on-the-Lake Energy Inc.	114	368
Energy Services Niagara Inc.	111,099	81,900
	111,213	82,268

In the ordinary course of business, the company enters into transactions with the Town of Niagara-on-the-Lake (the "Town") including its boards and agencies. The company derives revenues from the sale of electricity and recovers costs of supplying electrical equipment and distribution system from these related parties. Purchases from related parties take place at fair market value. Account balances resulting from these transactions which are included in the balance sheet are settled in accordance with normal trade terms.

NIAGARA-ON-THE-LAKE HYDRO INC.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2003

5. Regulatory Assets

The OEB has established in its Electricity Distribution Rate Handbook and its Accounting Procedures Handbook for Electricity Distribution Utilities provisions for recording regulatory assets on company's Balance Sheet.

Regulatory assets primarily represent costs that have been deferred in anticipation of future cost recoveries as determined by the OEB. The costs include transition costs to prepare the utility for the competitive electricity market, pre and post market opening settlement variances related to the supply of energy to retailers and standard supply service customers, deferred payments in lieu taxes (PILS) representing the difference between PILS revenue entitlements and PILS collections and retailer cost variances.

On November 25, 2003, the Province of Ontario announced, in conjunction with the introduction of Bill 4, the Ontario Energy Board Amendment Act (Electricity Pricing) 2003, that local electricity distribution companies ("LDC's") could start recovering regulatory assets through rate increases. This is effective March 1, 2004 and the recovery will take place over a four year period. Approximately 38% or \$ 167,050 of the \$ 441,120 regulatory asset balance as at December 31, 2002 has been applied for and approved for recovery in 2004.

These regulatory assets are still subject to the review and approval of the OEB. Upon review of the company's submission, the OEB may conclude that certain costs are not eligible for recovery from distribution utility ratepayers. The OEB may then prescribe the accounting treatment of any costs deemed to be ineligible. Failing this, any ineligible costs related to capital expenditures would be transferred to capital assets and be amortized in accordance with the appropriate rate for the capital asset class. Any ineligible costs of an operational nature would be recorded as an expense on the statement of operations in the year they become ineligible.

As at December 31, 2003, the company has accumulated \$ 730,302 (\$ 441,120 - 2002) in regulatory assets on the balance sheet as other assets. It is management's belief that these assets are consistent with the OEB's deferral criteria.

	2003 \$	2002 \$
Qualifying Transition Costs	299,458	362,442
Pre-Market Opening Variances	144,217	135,139
Deferred PILS Variances	1,151	238,583
RSVA & RCVA Variances	275,035	(304,780)
Other Deferred Variances	10,441	9,736
	730,302	441,120

NIAGARA-ON-THE-LAKE HYDRO INC.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2003

6. Long-Term Investments

The company has committed \$ 36,000 to a partnership known as the ENERconnect Limited Partnership as a limited partner. This partnership will carry on the business of procuring power on behalf of, and providing services relating to power procurement to limited partners and other third parties who are not.

7. Employee Future Benefits

Defined Benefit Plan Information

	2003 \$	2002 \$
Employee benefit plan assets		
Employee benefit plan liabilities	361,283	380,568
Employee benefit plan deficit	361,283	380,568
Unamortized actuarial gain	54,062	
Accrued benefit obligation, end of year	415,345	380,568
	2003 \$	2002 \$
Accrued benefit obligation, beginning of year	380,568	358,785
Expense for the year	50,747	35,266
Benefits paid during the year	(15,970)	(13,483)
Accrued benefit obligation, end of year	415,345	380,568

The main actuarial assumptions employed for the valuation are as follows:

General Inflation - Future general inflation levels, as measured by changes in the Consumer Price Index (CPI), were assumed at 2.2% in 2003 and thereafter.

Interest (Discount) Rate - The present value of future liabilities and the expense were determined using discount rates of 6.0% and 5.5% respectively. This corresponds to the assumed CPI rate plus an assumed real rate of return of 3.8% and 3.3%, respectively.

Salary Levels - Future general salary and wage levels were assumed to increase at 3.5% per annum.

Medical Costs - Medical costs were assumed to increase at the CPI rate plus a further increase of 12.8% in 2003 graded down to 2.8% in 2013 and thereafter.

Dental Costs - Dental costs were assumed to increase at the CPI rate plus a further increase of 2.8% in 2003 and thereafter.

NIAGARA-ON-THE-LAKE HYDRO INC.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2003

8. Demand Instalment Loan

Demand instalment loan, bearing interest at prime minus 0.25%, payable in monthly instalments of \$ 15,556 plus interest.

The security for the demand instalment loan, bank advances, and letters of credit is a general security agreement, including an assignment of accounts receivable and finished goods and a floating charge over all tangible properties. Under the terms of the credit facility, the company must maintain certain financial covenants and ratios.

The principal payments of long-term debt due over the next five years are as follows:

	\$
2004	186,672
2005	186,672
2006	186,672
2007	186,672
2008	186,672

9. Long-Term Note Payable

On November 1, 2000, Niagara-on-the-Lake Hydro Inc. incurred a long-term note payable to the Town of Niagara-on-the-Lake in the amount of \$ 6,901,333. Pursuant to the transfer by-law, the long-term note payable was issued as a non-interest bearing instrument pending the establishment of permanent terms. There is no intent to redeem the long-term note payable.

Effective March 1, 2001, interest is payable at 7.25% and amounts paid and accrued for the year amounted to \$ 500,347 (\$ 500,347 - 2002).

10. Share Capital

Authorized

Unlimited number of common shares

Issued

1,001 common shares

2003	2002
\$	\$
2,632,307	2,632,307

NIAGARA-ON-THE-LAKE HYDRO INC.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2003

11. Statement of Cash Flows

(a) Changes in working capital components include:

	2003 \$	2002 \$
Accounts receivable	(583,455)	363,312
Rate settlement rebate receivable	825,897	(825,897)
Unbilled revenue	573,453	(1,047,271)
Payments in lieu of corporate income taxes refundable	(197,308)	130,548
Due from affiliated companies	(32,214)	(2,874)
Note receivable	(130,000)	
Inventories	30,112	8,309
Prepaid expenses	(10,561)	(20,129)
Demand instalment loan	2,758,764	
Accounts payable	(677,620)	1,018,347
Other current liabilities	(127,018)	147,250
Note payable		(70,000)
	2,430,050	(298,405)

(b) Acquisition of capital assets

During the period, capital assets were acquired in the amount of \$ 4,623,812. Capital contributions received from third parties amounted to \$ 629,125. Cash payments of \$ 3,994,687 were made to purchase capital assets.

(c) Interest and payments in lieu of corporate income taxes

	2003 \$	2002 \$
Interest received	14,604	510
Interest paid	741,865	406,964
Payments in lieu of corporate income taxes paid	220,493	5,686

12. Pension Agreement

The company makes contributions to the Ontario Municipal Employees Retirement Systems (OMERS), which is a multi-employer plan, on behalf of approximately 20 members of its 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 2003 was \$ 40,925 (nil - 2002) for current service. The substantial increase in contributions is due to the reinstatement of the pension funding requirements by OMERS during the year.

NIAGARA-ON-THE-LAKE HYDRO INC.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2003

13. General Liability Insurance

The company is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE) which is a pooling of general liability insurance risks. Members of MEARIE would be assessed, on a pro-rata basis, based on the total of their respective deposit premiums should losses be experienced by MEARIE, in excess of reserves and supplementary insurance, for the years in which the company or the former Niagara-on-the-Lake Hydro-Electric Commission was a member. To December 31, 2003, the company has not been made aware of any additional assessments. Participation in MEARIE covers a three year underwriting period which expires January 1, 2004. The company has entered into another three year underwriting term.

14. Contingent Liability

Class Action

A class action claiming \$ 500 million in restitutionary payments plus interest was served on the former Toronto Hydro-Electric Commission on November 18, 1998. The action was initiated against the former 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 based on the premise that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under section 347(1)(b) of the Criminal Code.

The Municipal Electric Association is undertaking the defence of this class action. At this time, it is not possible to quantify the effect, if any, on the financial statements of the company.

15. Other Information

(a) Amortization

	2003	2002
	\$	\$
Amortization of capital assets charged to operations	916,470	833,590
Amortization of capital assets charged to operating assets	83,759	100,307
	1,000,229	933,897

NIAGARA-ON-THE-LAKE HYDRO INC.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2003

15. Other Information - continued

(b) Capitalized Interest

	2003	2002
	\$	\$
Capitalized interest	27,529	34,887

16. Financial Instruments

Credit Risk

The company in the normal course of business monitors the financial condition of its customers and reviews the credit history of new customers. The company is currently holding customer deposits on hand in the amount of \$ 130,127 (\$ 114,243 - 2002) and is reflected on the balance sheet. Allowances are also maintained for potential credit losses. Management believes that it has adequately provided for any exposure to normal customer credit risk.

Cash Flow Risk

The company has entered into swap transactions, the effect of which is to fix the interest rate on the \$ 2,758,764 demand instalment loan at 5.28% to the maturity date. The company is exposed to interest rate risk on the bank advances which have floating interest rates.

Operating Line of Credit

As at December 31, 2003, the company had a line of credit of \$ 2,000,000 of which NIL had been drawn down. The line of credit is revolving operating and term facilities that bear interest at prime rate minus 0.25% and are secured by all assets of the company. There are unlimited guarantees provided by Niagara-on-the-Lake Energy Inc. and Energy Services Niagara Inc.

Letters of Credit/Guarantees

The company had arranged for a total letter of credit or guarantee in the amount of \$ 1,000,000. As at December 31, 2003, \$ 857,908 is available to the Independent Market Operator (the "IMO") of which NIL had been drawn upon. This is to provide a prudential letter of credit in support of the purchase of electrical power from the IMO. Any draw under this facility will be converted into a capital loan facility with a monthly repayment program to be negotiated.

NIAGARA-ON-THE-LAKE HYDRO INC.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2003

16. Financial Instruments - continued

Fair Values

The carrying values of cash and bank advances, accounts receivable, accounts payable and accrued liabilities, and client deposits and advances approximate their fair values due to the relatively short periods to maturity of the instruments.

The demand instalment loan bears interest at a floating rate and thus, the carrying value approximates fair value.

The potential replacement cost to Niagara-on-the-Lake Hydro Inc. of the interest rate swap was \$ 69,590.

The investment and long-term note payable are stated at face value. It is not practicable within the constraints of timeliness or cost to determine the fair value with sufficient reliability.

17. Payments in Lieu of Corporate Income Taxes

Future income taxes relating to this regulated business have not been recorded in the accounts as they are expected to be recovered through future revenues. As at December 31, 2003, future income tax assets of \$ 1,217,089 (\$ 1,186,735 - 2002), based on substantively enacted income tax rates, have not been recorded. The company was not subject to payments in lieu of corporate income taxes prior to October 1, 2001.

Temporary differences and carryforwards which give rise to future income tax assets and liabilities are as follows:

	2003 \$	2002 \$
Future income tax assets		
Capital assets	1,330,851	1,218,249
Employee future benefits	150,023	114,627
Regulatory assets	(263,785)	(146,141)
	1,217,089	1,186,735

An independent valuation was completed effective October 1, 2001 in order to determine the fair market value of the company for the purpose of calculating payments in lieu of corporate income taxes under s. 93 of the Electricity Act. The valuation resulted in a fair market value of approximately \$ 17,219,000 of tangible capital assets, an increase of approximately \$ 4,116,022 over net book value as at October 1, 2001. This valuation was performed for the purposes of calculating payments in lieu of corporate income taxes only and has not been reflected as an adjustment to net book value for accounting purposes.

NIAGARA-ON-THE-LAKE HYDRO INC.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2003

17. Payments in Lieu of Corporate Income Taxes - continued

The reconciliation of the company's effective income tax rate for payments in lieu of corporate income taxes is as follows:

	2003 %	2002 %
Federal income tax rate	29.12	29.12
Provincial income taxes, net of federal abatement	12.50	12.50
Applicable tax rate	41.62	41.62
Losses of prior years recognized in the year		(2.84)
Reduction relating to general rate reduction		(1.27)
Reduction relating to small business		(2.95)
Surtax and large corporations tax	4.36	1.10
Tax effect of expenses that are deductible for income tax purposes	(19.55)	(1.62)
Capital cost allowance	(22.27)	(19.14)
Addition related to CMT	4.00	
2002 reassessment	3.84	
2003 loss carryback	(9.67)	
	2.33	14.90

18. Deferred Charges - HVDS

The amount reflected as deferred charges - HVDS represent transformation tariffs related to a distribution station owned by Hydro One. Hydro One's collection of these charges were deferred by Bill 210. Charges have been accrued from May 1, 2002 to present and are recorded as part of RSVA variances on the balance sheet. Payment of these charges will commence in 2006 according to the provisions of Bill 210.

19. Accounting Change

The company's depreciation expense related to meters for 2002 was overstated by \$ 170,000 and has been adjusted accordingly.

20. Comparative Figures

Certain comparative figures have been restated to conform with the current years presentation.