

**Tay Hydro Electric Distribution
Company Inc.**

Financial Statements
For the year ended December 31, 2001

Tay Hydro Electric Distribution Company Inc.
Financial Statements
For the year ended December 31, 2001

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Auditors' Report

To the Board of Directors of Tay Hydro Electric Distribution Company Inc.

We have audited the balance sheet of Tay Hydro Electric Distribution Company Inc. as at December 31, 2001 and the statements of operations, deficit 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, 2001 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP
Chartered Accountants

Barrie, Ontario
February 4, 2002

Tay Hydro Electric Distribution Company Inc. Balance Sheet

December 31	2001	2000
Assets		
Current		
Cash	\$ 1,207,668 ✓	1,302,457
Accounts receivable:		
Service revenue	465,679 ✓	365,052
Due from Related Parties (Note 8)	(11,741)	2,466
Other	29,938 ✓	26,182 ✓
Unbilled revenue	200,612 ✓	363,291 ✓
Inventory	155,715 ✓	144,331
Prepaid expenses	12,481 ✓	12,992
	<u>2,083,834</u>	<u>2,216,771</u>
Capital assets (Note 1)	3,324,856 ✓	3,478,439 ✓
Goodwill, net of amortization of \$98,300 (2000 - \$14,000)	1,601,700 ✓	1,686,000 ✓
Other assets		
Reserve fund (Note 2)	100,565 ✓	96,118 ✓
Deferred charge (Note 3)	131,674 ✓	24,743 ✓
	<u>232,239</u>	<u>120,861</u>
	<u>\$ 7,242,629</u>	<u>7,502,071</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Tay Hydro Electric Distribution Company Inc.

Balance Sheet page 2

December 31 2001 2000

Liabilities and Shareholder's Equity

Current

Accounts payable and accrued liabilities	\$ 486,705	501,309
Due to related parties (Note 8)	219,309 ✓	46
Current portion of long-term debt (Note 4)	156,000 ✓	208,000 ✓
Customer advance payments	19,449 ✓	29,755 ✓
Customer deposits	7,475 ✓	6,700 ✓
	888,938	745,810

Long-term debt (Note 4)

3,948,821 4,104,821

Other

Development charges (Note 2)	100,565 ✓	96,118 ✓
Miscellaneous liabilities (Note 8)	876	876
Customer deposits	11,075 ✓	6,895 ✓
	112,516	103,889

Shareholder's equity

Share capital (Note 5)	2,592,831 ✓	2,592,831
Deficit	(300,477)	(45,280)
	2,292,354	2,547,551

\$ 7,242,629 7,502,071

On behalf of the Board:

_____ Director

_____ Director

Tay Hydro Electric Distribution Company Inc.

Statement of Operations and Deficit

	2001	2000 (note 9)
Service revenue	\$ 3,978,308 ✓	\$ 696,257 ✓
Cost of power	2,928,059 ✗	596,579 ✓
	<u>1,050,249</u>	<u>99,678</u>
Other revenue		
Late payment charges	48,761 ✓	7,141 ✓
Pole rentals	43,265 ✓	7,395 ✓
Interest earned	49,936 ✓	12,553 ✓
Gain (loss) on disposal of capital assets	(2,012) ✓	(6,512) ✓
Ontario hydro assistance	44,103 ✓	8,596 ✓
Miscellaneous	17,233 ✓	5,957 ✓
	<u>201,286 ✓</u>	<u>35,130</u>
Expenditures		
Operation maintenance	211,258 ✗	31,595 ✓
Administration	230,843 ✗	41,158
Amortization	317,984 ✓	47,311 ✓
Billing and collecting	153,255 ✗	40,923 ✓
Interest	316,959 ✗	17,321 ✓
Property tax	13,573 ✗	1,780 ✓
Miscellaneous	4,292 ✗	-
	<u>1,248,164</u>	<u>180,088</u>
Income (loss) before capital taxes	3,371	(45,280)
Capital taxes	3,999 ✗	-
Loss before extraordinary gain	(628)	(45,280)
Extraordinary gain	9,431 ✗	-
Excess of revenues over expenditures, (expenditures over revenues) for the year	8,803	(45,280)
Retained earnings (deficit), beginning of year	(45,280)	-
Dividends	(264,000)	-
Deficit, end of year	\$ (300,477) \$	(45,280)

Tay Hydro Electric Distribution Company Inc.

Statement of Cash Flows

	2001	2000 (note 9)
Cash flows from operating activities		
Excess of revenue over expenditures (expenditures over revenue) for the year	\$ 8,803	(45,280)
Adjustments for		
Amortization	342,818	54,552
Loss on disposal of capital assets	(2,012)	(6,512)
Change in non-cash working capital		
Accounts receivable	(104,383)	(391,234)
Unbilled revenue	162,679	(363,291)
Due from / to related parties	209,988	(2,420)
Inventory	(11,384)	(144,331)
Prepaid expenses	511	(12,992)
Accounts payable and accrued liabilities	(14,604)	501,309
Increase in deferred charge	(106,931)	(24,743)
Decrease (increase) in customer deposits	4,955	13,595
Increase in customer advance payments	(10,306)	29,757
Miscellaneous liabilities	-	875
	<u>480,134</u>	<u>(390,715)</u>
Cash flows from investing activities		
Expenditures on capital assets	(102,923)	(3,492,470)
Cash flows from financing activities		
Increase (decrease) in long-term debt	(208,000)	2,592,821
Share capital issued	-	2,592,821
Dividends paid	(264,000)	-
	<u>(472,000)</u>	<u>5,185,642</u>
Increase in cash during the year	(94,789)	1,302,457
Cash, beginning of year	1,302,457	-
Cash, end of year	\$ 1,207,668	1,302,457

Tay Hydro Electric Distribution Company Inc. Summary of Significant Accounting Policies

December 31, 2001

Nature of Business

The company is incorporated under the laws of Ontario and is licensed by the Ontario Energy Board ("OEB") as an electricity distributor.

Basis of Accounting

The financial statements of the Tay Hydro Electric Distribution Company Inc. are the representation of management prepared in accordance with accepted accounting policies prescribed for Ontario electric companies by the utilities regulator, the OEB, in its Accounting Procedures Handbook.

The company is regulated by the OEB under authority of the Electricity Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and serve customers. In its capacity to approve or set rates, the OEB has the authority to specify regulatory treatments that may result in accounting treatments that differ from Canadian generally accepted accounting principles ("GAAP") for enterprises operating in a non-rate regulated environment.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Revenue Recognition

Revenue is recognized on the accrual basis, which includes an estimate of unbilled revenue representing electricity consumed by customers since the date of each customer's last meter reading to the end of the year. Actual results could differ from estimates made of actual electricity usage.

Capital Assets

Capital assets are recorded at cost less accumulated amortization. Costs may include contracted services, material, labour, engineering costs, overheads and an allowance for the cost of funds used during construction when applied. Also included in capital assets is the costs of capital assets constructed by developers or customers and contributed to the company. Amortization is provided using the following method and annual rates:

Land rights	- 50 years	straight-line basis
Buildings	- 25 years	straight-line basis
Transmission and distribution system	- 25 years	straight-line basis
Rolling stock	- 5 and 8 years	straight-line basis
Meters	- 25 years	straight-line basis
Equipment	- 10 years	straight-line basis
Computer hardware	- 5 years	straight-line basis

Tay Hydro Electric Distribution Company Inc. Summary of Significant Accounting Policies

December 31, 2001

Goodwill	Goodwill being the excess of cost over assigned values of net assets, is stated at cost less amortization. Amortization is provided on a straight line basis over 20 years. All of the assets of the corporation are being valued and in future this may result in a reallocation of goodwill to other assets.
Inventory	Inventory is valued at the lower of cost and replacement cost.
Deferred Charges	Deferred charges are amortized on the straight line basis over the estimated useful life of the asset.
Pension Plan	The Company participates in the Ontario Municipal Employees retirement Fund ("OMERS"), a multi-employee public sector pension fund, to provide pension benefits to its qualifying employees. Participation in OMERS is accounted for by the Company as a defined contribution plan.
Corporate Income and Capital Taxes	As a municipal owned utility, the company has been exempted from corporate income and capital taxes until October 1, 2001 and thereafter the company is required to make payments in lieu of corporate income taxes to the Ontario Electricity Financial Corporation.
Deferred Transition Costs	<p>The company has incurred costs related to the transition to a competitive electricity market mandated by the Electricity Act, 1998. The OEB has established rules in respect of transition costs which qualify for deferral and amortization against future revenue. To the extent that transition costs are incurred which do not qualify for deferral, these costs are expensed during the period incurred.</p> <p>Transition costs which are capital in nature, such as computer software, are accounted for as part of deferred charges. These assets are initially recorded as deferred charges until placed in service. Once in service, the asset will be transferred to capital assets and amortized.</p> <p>Amortization of the deferred transition costs will commence upon opening of the competitive electricity markets (the "open access date"). The open access date will be determined by the Ministry of Energy, Science and Technology on advice from the Independent Market Operator, the body responsible for supervising the day to day operation of Ontario's electricity system. The OEB has indicated that it will review the timing and mechanism for the recovery of transition costs after the open access date and at that time the company will establish an amortization policy for such costs.</p>

Tay Hydro Electric Distribution Company Inc.

Notes to Financial Statements

December 31, 2001

1. Capital Assets

			2001	2000
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 304,707	\$ 79,104	\$ 225,603	230,927
Buildings	270,160	37,415	232,745	234,271
Distribution Station equipment	422,404	173,304	249,100	263,942
Subtransmission feeders	198,316	87,583	110,733	118,468
Distribution lines and feeders	3,599,286	1,815,247	1,784,039	1,850,937
Distribution transformers	846,179	421,546	424,633	435,369
Distribution meters	329,142	180,923	148,219	155,071
Rolling stock	318,670	253,535	65,135	91,227
Miscellaneous equipment	63,301	36,408	26,893	27,046
General office equipment	46,296	31,939	14,357	17,160
Computer equipment	69,555	29,404	40,151	49,691
Sentinal lighting	9,966	6,718	3,248	4,330
	\$ 6,477,982	\$ 3,153,126	\$ 3,324,856	3,478,439

2. Development Charges

Pursuant to The Development Charges Act, 1989, Ontario Regulation 725/89, the municipality has passed a development charges by-law to impose charges on all forms of development for net capital costs that are related to growth. At December 31, 2001 the Company held development charges \$100,565 (2000 - \$96,118).

3. Deferred Charges

	2001	2000
Deferred charges net of amortization	\$ 1,296	\$ 3,730
Transitional costs	130,378	21,013
	\$ 131,674	\$ 24,743

Tay Hydro Electric Distribution Company Inc.

Notes to Financial Statements

December 31, 2001

4. Long-term Debt

	2001	2000
Debenture payable, variable semi-annual interest, due May, 2009	\$ 1,512,000	\$ 1,720,000
Note payable to the Township of Tay, with interest at 7.25%, payable semi-annually June and December with no due date	2,592,821	2,592,821
	4,104,821	4,312,821
Current portion of long-term debt	(156,000)	(208,000)
	<u>\$ 3,948,821</u>	<u>4,104,821</u>

Principal payments for the next five years are as follows:

2002	156,000
2003	165,000
2004	175,000
2005	186,000
2006	197,000

5. Share Capital

The authorized share capital of the company is an unlimited number of common shares. The issued share capital is as follows:

	2001	2000
1,000 common shares	<u>\$ 2,592,831</u>	<u>\$ 2,592,831</u>

6. Contingent Liabilities

A class action claiming \$500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 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 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.

The Regulatory treatment of rate differences of approximately \$120,000 with respect to the cost of power is unknown and will be accounted for when determined.

Tay Hydro Electric Distribution Company Inc.

Notes to Financial Statements

December 31, 2001

7. Transfer

The Ontario Government enacted the Energy Competition Act, 1998 to introduce competition to the Ontario Electricity market by the year 2000. Under the terms of this legislation, the Ontario Energy Board (the "OEB") regulate industry participants by issuing licences for the right to generate, transmit, distribute or retail electricity. These licences require compliance with established market rules and codes.

Pursuant to this legislation, the Township of Tay, as owners of the Tay Hydro Electric Commission, have enacted By-Law 2000-56 to authorize the incorporation of three companies created for the purpose of continuing the current distributing and retailing activities of the Commission. By-Law 2000-63 authorized the transfer of all assets and liabilities of the Commission to the appropriate, newly created corporations.

The Township of Tay has transferred certain assets, liabilities and equity of the Commission to the Tay Hydro Electric Distribution Company Inc. The amounts are as follows:

Net Assets	\$ 5,185,642
Debt	\$ 2,592,821
Equity	\$ 2,592,821

8. Related Party Transactions

The company provides electricity and services to its shareholder and sister company. These transactions are in the normal course of operations and are measured at fair value.

At the end of the year, the amounts due from (to) related parties are as follows:

	2001	2000
Company controlled by the shareholder	\$ -	(46)
Company controlled by the shareholder	\$ 11,741	1,812
Shareholder	\$ (219,309)	654

9. Comparative Figures

The comparative figures represent the two month period from November 1, 2000 to December 31, 2000.
