

ERIE THAMES POWERLINES CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2002

ERIE THAMES POWERLINES CORPORATION
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DECEMBER 31, 2002

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AUDITOR'S REPORT

To the Shareholder of:
Erie Thames Powerlines Corporation

We have audited the balance sheet of Erie Thames Powerlines Corporation as at December 31, 2002 and the statements of income (loss), retained earnings (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.

The opening balance sheet was unaudited. As a result, we were not able to perform sufficient audit procedures on the opening balances to satisfy ourselves regarding the existence, completeness and valuation of opening assets and liabilities. Since the opening balance sheet enters into the determination of results from operations and cash flows, we were unable to determine whether adjustments to the statement of income (loss), opening retained earnings (deficit) and cash flows might be necessary.

In our opinion, except for the effect of adjustments, if any, which we may have determined to be necessary had we been able to satisfy ourselves regarding the existence, completeness and valuation of opening assets and liabilities, as described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

London, Ontario
June 12, 2006

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ERIE THAMES POWERLINES CORPORATION

BALANCE SHEET

AS AT DECEMBER 31, 2002


ASSETS


	2002
Current	
Bank	\$ 1,083,788
Accounts receivable (note 3)	5,750,042
Prepaid expenses	<u>3,450</u>
	6,837,280
Property, Plant and Equipment (note 5)	13,263,547
Regulatory Assets (note 4)	1,216,993
Intangible Asset (note 7)	76,667
Deferred Charges (note 6)	<u>471,756</u>
	<u>\$21,866,243</u>

LIABILITIES AND SHAREHOLDER'S EQUITY

Current	
Accounts payable and accrued liabilities	\$ 4,341,170
Customer deposits (note 9)	479,835
Payment in lieu of income taxes	58,285
Due to related parties (note 8)	<u>900,255</u>
	5,779,545
Long-term Debt (note 10)	8,038,524
Future Payment in Lieu of Income Tax Liability	136,177
Shareholder's Equity	
Share capital (note 11)	8,038,524
Retained earnings (deficit)	<u>(126,527)</u>
	<u>7,911,997</u>
	<u>\$21,866,243</u>

APPROVED ON BEHALF OF THE BOARD:

 Director

 Director

The attached Auditor's Report and notes form an integral part of these audited financial statements.

ERIE THAMES POWERLINES CORPORATION
STATEMENT OF RETAINED EARNINGS (DEFICIT)
FOR THE YEAR ENDED DECEMBER 31, 2002

	2002
Balance, Beginning of Year	\$ 107,736
Net Income (Loss)	<u>(234,263)</u>
Balance, End of Year	\$ <u>(126,527)</u>

The attached Auditor's Report and notes form an integral part of these audited financial statements.

ERIE THAMES POWERLINES CORPORATION

STATEMENT OF INCOME (LOSS)

FOR THE YEAR ENDED DECEMBER 31, 2002

	2002	%
Electricity Revenue (note 12)	\$29,768,686	100.00
Cost of Power	<u>25,271,722</u>	<u>84.89</u>
Gross Margin	4,496,964	15.11
Expenses		
Billing and collecting	171,803	0.58
Community relations	25,175	0.08
Regulatory and professional	459,518	1.54
Office and administration	259,444	0.87
Direct operation	<u>2,520,343</u>	<u>8.47</u>
	<u>3,436,283</u>	<u>11.54</u>
Net Income from Operations Before Taxes, Interest & Amortization	1,060,681	3.57
Amortization	804,129	2.70
Interest	<u>683,275</u>	<u>2.30</u>
Net Income from Operations Before Tax	(426,723)	(1.43)
Other Income (Expenses)		
Investment income	65,552	0.22
Gain on sale of capital assets	4,719	0.02
Miscellaneous	<u>132,434</u>	<u>0.44</u>
	<u>202,705</u>	<u>0.68</u>
Net Income (Loss) Before Income Tax	(224,018)	(0.75)
Provision for Income Taxes (note 14)		
Current	28,060	0.09
Future tax expense (benefit)	<u>(17,815)</u>	<u>(0.06)</u>
	<u>10,245</u>	<u>0.03</u>
Net Income (Loss)	<u>\$ (234,263)</u>	<u>(0.78)</u>

The attached Auditor's Report and notes form an integral part of these audited financial statements.

ERIE THAMES POWERLINES CORPORATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2002

	2002
Cash Flows from Operating Activities	
Net income (loss)	\$ (234,263)
Items not requiring an outlay of cash:	
Amortization	804,129
Gain on sale of capital assets	(4,719)
Future payment in lieu of income tax expense (benefit)	<u>(17,815)</u>
	547,332
Changes in non-cash working capital balances:	
Accounts receivable	(1,817,718)
Regulatory assets	(852,404)
Prepaid expenses	(3,450)
Income taxes recoverable	65,285
Accounts payable and accrued liabilities	282,012
Customer deposits	145,576
Due to related party	<u>1,089,041</u>
Net Cash Provided by (Used in) Operating Activities	(544,326)
Cash Flows from Investing Activities	
Additions to capital assets	(1,143,395)
Proceeds on disposal of capital assets	31,693
Deferred charges	<u>-</u>
Net Cash Provided by (Used in) Investing Activities	<u>(1,111,702)</u>
Net Increase (Decrease) in Cash	(1,656,028)
Cash, Beginning of Year	<u>2,739,816</u>
Cash, End of Year	\$ <u>1,083,788</u>

The attached Auditor's Report and notes form an integral part of these audited financial statements.

ERIE THAMES POWERLINES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2002

1. Nature of Operations

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") will regulate industry participants by issuing licences for the right to generate, transmit, distribute or retail electricity. These licences will require compliance with established market rules and codes. The Ontario Government opened the Ontario electricity market to competition on May 1, 2002.

Pursuant to this legislation, the shareholder municipalities of Erie Thames Power Corporation enacted by-laws, which transferred the assets, liabilities, rights and obligations of the Municipal Hydro Electric Commissions, in respect of the distribution and retailing of electricity, to the Company, which was incorporated, on July 7, 2000, under the Business Corporations Act (Ontario) pursuant to Section 142 of the Electricity Act, 1998 (Ontario) and Sections 71 and 73 of the Ontario Energy Board Act, 1998 (Ontario).

The Company is solely owned by Erie Thames Power Corporation who in turn is owned by the following seven municipalities, each of whom has one voting common share: Aylmer, Central Elgin, East Zorra Tavistock, Ingersoll, Norwich, South West Oxford and Zorra.

Erie Thames Powerlines Corporation carries on the business of distributing electricity to the following communities: Aylmer, Beachville, Belmont, Burgessville, Embro, Ingersoll, Norwich, Otterville, Port Stanley, Tavistock, and Thamesford.

In December 2002, the government of Ontario enacted The Electricity Pricing, Conservation and Supply Act, 2002 ("EPCSA"). The EPCSA was enacted in response to volatile and rising electricity prices during 2002. Under the EPCSA, the electricity distribution rates charged by Local Distribution Companies ("LDCs") are effectively frozen at current rates until 2006. Under the EPCSA, LDCs may apply to the Minister of Energy for rate increases or adjustments prior to 2006. However, it is anticipated that increases or adjustments in rates will only be approved in very limited circumstances and only if they meet one of the following criteria:

- (i) rates proposed are lower than the rates then in effect;
- (ii) currently there is no rate order in effect;
- (iii) the applicant has incurred extraordinary costs; or
- (iv) the Minister is of the opinion that other circumstances justify the approval, considering the interests of the consumers with respect to prices, reliability and quality of service.

Consequently, LDCs will be unable to apply for the recovery of amounts deferred for regulatory purposes, which was previously anticipated to commence March 1, 2003. However, the EPCSA directed LDCs to continue to defer these amounts.

In a letter dated January 23, 2003, the Minister of Energy directed the OEB to complete, prior to December 31, 2003, a review of these deferred charges and to confirm the amount eligible for recovery and that the recovery of these amounts will commence no later than 2006.

The attached Auditor's Report and notes form an integral part of these audited financial statements.

ERIE THAMES POWERLINES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2002

2. Significant Accounting Policies

The financial statements of the company have been prepared by management in accordance with Canadian generally accepted accounting principles, as modified by regulations and policies set forth in the Ontario Energy Board Accounting Procedures Handbook. Those policies that are considered to be particularly significant are outlined below:

(a) Property, Plant and Equipment and Amortization

Property, plant and equipment are recorded at the fair market value of the assets transferred from the Municipal Hydro Electric Commissions to the Company on August 31, 2000, and subsequent to August 31, 2000, at cost on the date of purchase. Property, plant and equipment are amortized over their useful lives using the straight-line method over the following periods:

Automotive equipment	8 years
Buildings	25 years
Computer equipment	5 years
Transmission and distribution system	25 years
Service, office and other equipment	10 years

(b) Revenue - Electricity Sales

The company follows the practice of cycle billing of customer's accounts and revenue is recognized in the period billed. Estimated customer usage from the last billing date to the year end (unbilled revenue) is included in revenue.

(c) Financial Instruments

The Company's financial instruments consist of cash, accounts receivable and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risk arising from these financial instruments. The fair value of these financial instruments approximate their carry values, unless otherwise noted.

(d) Use of Estimates

The preparation of the financial statements of the Company in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The attached Auditor's Report and notes form an integral part of these audited financial statements.

ERIE THAMES POWERLINES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2002

3. Accounts Receivable

	2002
Energy, water and sewer	\$3,725,645
Unbilled energy	1,987,433
Service revenues	<u>36,964</u>
	<u>\$5,750,042</u>

The amounts shown above are net of allowance for doubtful accounts.

4. Regulatory Assets

	2002
Retail settlement variances	\$ 413,355
Pre-market opening cost of power variances	926,490
Transition costs	<u>533,249</u>
	1,873,094
Less: Allowance for uncollectable amounts	<u>656,101</u>
	<u>\$1,216,993</u>

- (a) Retail settlement variances, represent amounts accumulated since the opening of the electricity market on May 1, 2002. These variances are comprised of:
- (i) variances between amounts charged by the Independent Electricity Market Operator for the operation of the wholesale electricity market and grid, various wholesale market settlement charges and transmission charges and the amounts billed to customers; and
 - (ii) variances between the amounts charged by the Independent Electricity Market Operator to allow for purchases of imported electricity and the amounts billed to customers.
- (b) Pre-market opening cost of power variances, represent the excess cost of electricity to the Company over the amount billed to customers from January 1, 2001 until April 30, 2002.
- (c) An allowance for uncollectable amounts has been recorded for the entire amount of the variances recorded in the current year as it is not yet known whether these amounts will be recoverable through future increases in rates to customers because of the implementation of the EPCSA as mentioned earlier.
- (d) Market readiness represents costs incurred by the company to ready its systems for the opening of the electricity market. These include the updating of the billing computer equipment and software, testing of computer systems and consumer education concerning changes in the electricity market. In accordance with the Ontario Energy Board guidelines, the costs are being amortized over a period of five years, commencing May 1, 2002, when the market opens.

The attached Auditor's Report and notes form an integral part of these audited financial statements.

ERIE THAMES POWERLINES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2002

5. Property, Plant and Equipment

	Cost 2002	Accumulated Amortization	Net 2002
Land	\$ 120,344	\$ -	\$ 120,344
Building	111,797	9,670	102,127
Plant and equipment	196,297	21,810	174,487
Transmission and distribution system	<u>13,968,306</u>	<u>1,101,717</u>	<u>12,866,589</u>
	<u>\$14,396,744</u>	<u>\$ 1,133,197</u>	<u>\$13,263,547</u>

During the year, the Company recorded amortization of \$551,502.

6. Deferred Charges

	Cost 2002	Accumulated Amortization	Net 2002
Organizational	\$ 512,814	\$ 239,313	\$ 273,501
Amalgamation and integration	<u>290,130</u>	<u>91,875</u>	<u>198,255</u>
	<u>\$ 802,944</u>	<u>\$ 331,188</u>	<u>\$ 471,756</u>

Deferred charges represents costs incurred by the Company to facilitate the organization and incorporation of the company and preparation for the opening of the electricity commodity market, in support of the deregulation of the electricity industry in Ontario. These amounts have been accumulated pursuant to regulation underlying the Electricity Act and deferred in anticipation of their recovery by future increases in electricity distribution rates.

(a) Organizational Charges

Expenditures incurred by the former Municipal Hydro Electric Commissions during the organization of the new business prior to the commencement of commercial operations. Commencing September 1, 2000, amortization is calculated on a straight-line basis over a period of five years.

(b) Amalgamation and Integration

Costs incurred by the Company relating to the amalgamation and integration of the systems of the former Municipal Hydro Electric Commissions will be amortized over a period of five years commencing June 1, 2001.

During the year, the Company recorded amortization of \$252,627.

The attached Auditor's Report and notes form an integral part of these audited financial statements.

ERIE THAMES POWERLINES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2002

7. Intangible Asset

	Cost 2002	Accumulated Amortization	Net 2002
Goodwill	\$ <u>100,000</u>	\$ <u>23,333</u>	\$ <u>76,667</u>

8. Related Parties

Erie Thames Power Corporation provides management services and facilities rental based on a contract between the two companies.

The Company has contracted its sister company, Erie Thames Services Corporation, a company under common control, to provide the following services: maintenance and upgrades to the existing capital infrastructure of the Company, billing and collection services of the Company's revenues and administrative services.

The contracts between the Company and Erie Thames Service Corporation and Erie Thames Power Corporation are measured at the exchange amount, which is the amount of consideration paid or received as established and agreed to by the related parties, unless noted otherwise.

The revenue reflected in the financial statements includes the distribution revenue from the sale of electricity to Erie Thames Power Corporation and the municipal facilities located in the communities of Aylmer, Beachville, Belmont, Burgessville, Embro, Ingersoll, Norwich, Otterville, Port Stanley, Tavistock, and Thamesford in the amount of \$814,934. These transactions are in the normal course of operations at rates approved by the Ontario Energy Board.

During the year, the company purchased services from related parties amounting to the following:

Erie Thames Services Corporation	2002
Purchase of capitalized items	\$ 965,231
Purchase of operations, maintenance and administrative services	<u>2,548,911</u>
	<u>\$3,514,142</u>
Erie Thames Power Corporation	
Purchase of management services	\$ 193,100
Rent	<u>177,020</u>
	<u>\$ 370,120</u>
Shareholders of Erie Thames Power Corporation	
Interest on long-term debt as set out in note 10.	

The attached Auditor's Report and notes form an integral part of these audited financial statements.

ERIE THAMES POWERLINES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2002

8. Related Parties (cont.)

The contracts with Erie Thames Power Corporation for management services and facilities rental and with Erie Thames Services Corporation for maintenance and upgrades to the existing capital infrastructure of the Company, billing and collection services of the Company's revenues and administrative services are automatically renewed every two years unless either party terminates the agreement with notice.

	2002
Due to Erie Thames Services Corporation	\$ 354,178
Due to Erie Thames Power Corporation	<u>546,077</u>
	<u>\$ 900,255</u>

These amounts represent funds owing to related parties. The amounts are non-interest bearing and payable in the normal course of business.

9. Customer Deposits

Customer deposits are held as security for energy consumption. On an annual basis, interest is calculated and credited to the customers' utility accounts.

10. Long-term Debt

Related Party Note Payable

The long-term debt represents amounts owing to the municipal shareholders of Erie Thames Power Corporation for purchase of the respective Municipality's Hydro Electric Commission's net assets. The debt is convertible to Class B shares at the fair market value of the Class B shares of the company divided by the number of Class B shares issued and outstanding. The rate of interest is 8.5% and is set by the Board of Directors, from time to time. The term of the debt is undefined and no principal amounts are anticipated to be paid over the next twelve months. The amounts owing to the municipalities are as follows:

	2002
Aylmer	\$2,263,500
Central Elgin	1,077,000
East Zorra Tavistock	760,000
Ingersoll	1,846,524
Norwich	1,020,000
Southwest Oxford	256,500
Zorra	<u>815,000</u>
	<u>\$8,038,524</u>

During 2002, \$683,275 was charged to interest expense for interest on related party long-term debt.

The attached Auditor's Report and notes form an integral part of these audited financial statements.

ERIE THAMES POWERLINES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2002

11. Capital Stock

Authorized

Unlimited number of Class "A" voting shares without nominal or par value

Unlimited number of Class "B" non-voting shares without nominal or par value, redeemable, with non-cumulative dividend entitlements.

2002

Issued capital

7 Class "A" shares
10,000 Class "B" shares

\$ 7
8,038,517
\$8,038,524

12. Electricity Revenue

	2002	%
Residential	\$ 7,612,202	25.56
Commercial	7,850,081	26.37
Street lighting	172,453	0.58
General service	6,280,958	21.10
Distribution charges	4,074,866	13.69
Transmission charges	2,386,287	8.02
Rent from electrical property	161,693	0.54
Retailer energy sales	657,803	2.21
Service revenue	1,386,437	4.66
Unbilled revenue	820,580	2.76
Customer rebate	<u>(1,634,674)</u>	<u>(5.49)</u>
	<u>\$29,768,686</u>	<u>100.00</u>

13. Settlement of Lawsuit

When the Ontario Government enacted the Energy Competition Act, 1998, whose purpose was to introduce competition to the Ontario electricity market, the Municipal Electricity Association (MEA), on behalf of its members, filed a class action lawsuit against the former Ontario Hydro. The lawsuit related to the municipal electric utilities having an investment in the equity of Ontario Hydro, which was not distributed on the break-up of Ontario Hydro. This action was successfully settled during 2001 in favour of the MEA for \$29 million. The company's portion of the settlement amounted to \$118,742.

The attached Auditor's Report and notes form an integral part of these audited financial statements.

ERIE THAMES POWERLINES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2002

14. Payments in Lieu of Income Taxes

The provision for payments in lieu ("PILs") of income taxes differs from amounts which would be calculated by applying the Company's combined statutory income tax rate as follows:

	2002
Income from continuing operations before PILs	\$ (224,018)
Statutory Canadian federal and provincial income tax rate	38.62 %
Basic rate applied to income (loss) before PILs	(86,516)
Large corporation tax net of surtax	28,696
Tax benefit of non-capital losses not recognized (recognized)	24,892
Other	<u>60,988</u>
Provision for payment in lieu of income tax	\$ <u>28,060</u>
Effective tax rate	<u>(12.53)%</u>

Payments in Lieu of Income Taxes Expense made up of the following:

Current	\$ 28,060
Future tax expense (benefit)	<u>(17,815)</u>
	\$ <u>10,245</u>

The Company as of December 31, 2002, has recorded future income tax liabilities of \$136,177, based on substantially enacted income tax rates of 36.12%. Such future income tax liabilities relate to the tax basis of depreciable assets being lower than the amounts recorded for accounting purposes. In addition, the corporation has accumulated non-capital losses for tax purpose of \$884,925, which are available to offset income in the future. These carry forwards expire as follows:

2008	\$ 820,472
2009	\$ 64,453

ERIE THAMES POWERLINES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2002

15. 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 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.

This case had been on hold pending the resolution of a similar case against Consumers Gas Company Limited. The class action against Consumers Gas Company Limited for repayment of late payment charges was dismissed on December 3, 2001 by the Ontario Court of Appeals.

At this time, it is not possible to quantify the effect, if any, on the financial statements of the Company.

16. Prudential Support Requirements

Erie Thames Powerlines Corporation, as a local distribution company under the Energy Competition Act, 1998, R.S.O., posted prudential support obligations on market opening, May 1, 2002 with the Electric Independent Market Operator. The prudential support obligation as at May 1, 2002 was \$2,630,000. The prudential requirement will be honoured through long-term payment history, letter of credit or credit rating from an accredited rating agency.

The attached Auditor's Report and notes form an integral part of these audited financial statements.