

BRANTFORD POWER INC.

FINANCIAL STATEMENTS

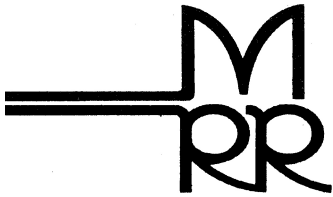
For the year ended December 31, 2003

BRANTFORD POWER INC.

For the year ended December 31, 2003

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Millard, Rouse & Rosebrugh LLP

Chartered Accountants
P.O. Box 367, 96 Nelson Street
Brantford, Ontario N3T 5N3
Telephone: (519) 759-3511
Facsimile: (519) 759-7961

AUDITORS' REPORT

To the Shareholder of
Brantford Power Inc.

We have audited the statement of financial position of Brantford Power Inc. as at December 31, 2003 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of Brantford Power Inc. 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.

Millard, Rouse & Rosebrugh LLP

March 30, 2004

CHARTERED ACCOUNTANTS

BRANTFORD POWER INC.

STATEMENT OF FINANCIAL POSITION

As at December 31	2003	2002
ASSETS		
Current Assets		
Cash and bank	7,495,713	4,692,389
Accounts receivable (Note 3)	3,819,552	8,128,426
Income taxes recoverable	22,394	166,450
Unbilled revenue	6,704,253	6,900,000
Inventories	1,252,418	939,896
Prepaid expenses	46,651	10,219
	19,340,981	20,837,380
Regulatory Assets (Note 4)	4,487,240	5,337,129
Property, Plant and Equipment (Note 5)	41,154,648	41,025,878
	64,982,869	67,200,387
LIABILITIES		
Current Liabilities		
Trade payables and accrued liabilities	10,538,266	13,567,577
Loan interest payable to The Corporation of the City of Brantford	4,354,050	4,354,050
Current portion - long term liabilities	380,000	379,450
	15,272,316	18,301,077
Long Term Liabilities (Note 6)	26,183,638	25,907,456
SHAREHOLDER'S EQUITY		
Capital Stock (Note 7)	22,437,505	22,437,505
Retained Earnings	1,089,410	554,349
	23,526,915	22,991,854
	64,982,869	67,200,387

See accompanying notes

BRANTFORD POWER INC.**STATEMENT OF INCOME AND RETAINED EARNINGS**

For the year ended December 31	2003	2002
Distribution Revenue		
Gross service revenue	72,280,469	74,102,331
Unbilled revenue adjustment	(195,747)	2,456,000
Retail settlement variance accounts	1,364,411	2,245,335
	73,449,133	78,803,666
Cost of Power	62,453,328	67,257,926
Distribution Revenue - net	10,995,805	11,545,740
Direct Expenses - Page 11	3,035,432	3,194,566
Gross Margin After Direct Expenses	7,960,373	8,351,174
Indirect Expenses		
Billing and collecting	1,056,821	854,915
Administration and general	2,752,154	1,766,924
Amortization	1,969,970	1,925,441
Interest on long term liabilities	2,205,799	2,197,830
	7,984,744	6,745,110
Income Before Other Revenue and Income Taxes	(24,371)	1,606,064
Other Revenue - Page 11	944,277	1,079,652
Income Before Income Taxes	919,906	2,685,716
Provision for payments in lieu of taxes	(384,845)	(83,550)
Net Income	535,061	2,602,166
Retained Earnings (Deficit) - Beginning of Year	554,349	(2,047,817)
Retained Earnings - End of Year	1,089,410	554,349

See accompanying notes

BRANTFORD POWER INC.**STATEMENT OF CASH FLOWS**

For the year ended December 31	2003	2002
Cash Flows From Operating Activities		
Net Income	535,061	2,602,166
Charges (Credits) to income not involving cash:		
Amortization - property, plant and equipment	1,969,970	1,925,441
	2,505,031	4,527,607
Net Change in non-cash working capital balances related to operations		
Accounts receivable	4,308,874	(4,585,663)
Income taxes recoverable	144,056	(87,059)
Unbilled revenue	195,747	(2,456,000)
Inventory	(312,522)	60,077
Prepaid expenses	(36,432)	55,095
Regulatory assets	849,889	(3,188,698)
Trade payable and accrued liabilities	(3,029,311)	3,359,319
Loan interest payable to The Corporation of the City of Brantford	-	2,116,612
Employee future benefits	84,165	75,718
	2,204,466	(4,650,599)
	4,709,497	(122,992)
Cash Flows From Financing Activities		
Long term liabilities - customers deposits	192,567	492,925
Cash Flows From Investing Activities		
Acquisition of property, plant and equipment	(2,098,740)	(2,484,370)
Net Increase (Decrease) in Cash and Cash Equivalents	2,803,324	(2,114,437)
Opening Cash and Cash Equivalents	4,692,389	6,806,826
Closing Cash and Cash Equivalents	7,495,713	4,692,389

See accompanying notes

BRANTFORD POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2003

NATURE OF ACTIVITIES

The Company provides electricity distribution services to residents of the City of Brantford. The Company is incorporated under the Ontario Business Corporations Act. The operations of the Company are regulated by the Ontario Energy Board and the Ministry of Energy.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles for electrical utilities in Ontario as required by the Ontario Energy Board under the authority of Section 70(2) of the OEB Act, 1998, of The Energy Competition Act, 1998, and reflect the following policies as set forth in the Ontario Energy Board Accounting Procedures Handbook. All principles employed are in accordance with Canadian generally accepted accounting principles.

(a) **Measurement**

Financial statements are based on representations that may require estimates to be made in anticipation of future transactions and events and include measurement that may, by their nature, be approximations. These have been made using careful judgement.

(b) **Inventories**

Inventories consist of repair parts, supplies and materials and are valued at the lower of cost or replacement cost determined using a weighted average method.

(c) **Property, Plant and Equipment and Amortization**

Property, plant and equipment are recorded at cost. Amortization is calculated on a straight-line basis over the estimated useful service life as follows:

Buildings	50 years	Distribution station equipment	33 years
Distribution lines - overhead	25 years	Distribution lines - underground	25 years
Distribution transformers	25 years	Distribution meters	25 years
Load control units	10 years	Vehicles	5 - 8 years
Tools	2 years		

(d) **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 Brantford Power Inc. at that time. As at December 31, 2003, future income tax liabilities of \$1,038,000, based on substantively enacted tax rates, have not been recorded.

BRANTFORD POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Regulatory Policies

The Company 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 in a non-rate-regulated environment:

1. Market ready 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 has 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 businesses using the taxes payable method as directed by the OEB.

2. RATE SETTING

Prior to the market opening May 1, 2002, Brantford Power purchased power at a fixed price and charged customers a bundled rate for the generation, transmission and distribution of electricity. With the commencement of the open market, the Company purchased electricity from the Independent Market Operator (IMO), at spot market rates and charged its customers unbundled rates. The unbundled rates included 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 were collected by Brantford Power and remitted to the IMO. The Company retained the distribution charge on the customer hydro invoices.

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

Current transmission and distribution rates provide for the recovery of transition costs and variance amounts incurred to December 31, 2001. Current rates also allow for the recovery of estimated payments in lieu of corporate taxes for 2001 and the estimated payments in lieu of corporate taxes for 2002.

The enactment of Bill 210 on November 11, 2002, effectively capped the Company's approved distribution rates. This rate cap limits the opportunity to recover increased costs and capital spending above current rate base levels through rates during the rate cap period. The rate cap period was in effect throughout 2003.

Effective December 19, 2003, the Ontario Government passed the Ontario Energy Board Amendment Act 2003 (Bill 4). This new act allows for a two tier pricing structure for electricity and also permits distribution companies, through rate filings, to request rate increases to permit the recovery of regulatory asset expenditures incurred to December 31, 2002.

BRANTFORD POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2003

3.	ACCOUNTS RECEIVABLE	2003	2002
	Customer rebate program	(119,480)	2,905,103
	Accounts receivable	4,489,032	5,773,323
	Less: allowance for doubtful accounts	(550,000)	(550,000)
	Net accounts receivable	3,819,552	8,128,426
4.	REGULATORY ASSETS	2003	2002
	Transition costs receivable	977,175	1,196,643
	Retail settlement variance accounts	5,686,786	4,068,659
	Deferred payments in lieu of taxes	(2,176,721)	71,827
	Net regulatory assets	4,487,240	5,337,129

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

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 Brantford Power Inc. by the IMO.

Deferred payments in lieu of taxes represent variances that result from the difference between OEB approved PILs recoverable in electricity distribution services charges and the actual amount of these charges to customers that relates to the recovery of PILs. As a result of filing a PILs true up variance return for PILs paid and collected to December 31, 2002, the Company was required to true up approximately \$2,100,000. The estimated PILs true up for 2003 is a recovery of \$100,000. Both variances have been recorded as part of deferred payments in lieu of taxes and charged to income in 2003.

Bill 4 allows for the company, through rate filings, to request rate increases to permit the recovery of regulatory assets over a four year period.

Brantford Power has calculated regulatory asset expenditures on the same basis as prior costs that were approved by the OEB. If recovery through future rates was no longer considered probable, the amounts would be charged to income in the period the assessment was made.

Brantford Power is permitted through legislation to charge interest at the rate of 7¼% on regulatory assets. For reporting purposes, the interest has been calculated based on the actual costs to date. Any discount factor applicable on the regulatory assets has been considered to offset the future interest chargeable on the cost of the assets.

BRANTFORD POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2003

5.	PLANT, PROPERTY AND EQUIPMENT	Accumulated		Net Book Value	
		Cost	Amortization	2003	2002
	Land	52,064	-	52,064	52,064
	Buildings	129,182	8,102	121,080	123,665
	Distribution stations	140,683	14,691	125,992	128,676
	Distribution lines - overhead	14,980,275	1,811,243	13,169,032	13,221,599
	Distribution lines - underground	15,567,527	1,877,619	13,689,908	13,726,359
	Distribution transformers	9,911,836	1,200,114	8,711,722	8,665,912
	Distribution meters	4,730,617	567,390	4,163,227	4,122,393
	Load control units	547,972	173,521	374,451	429,248
	Vehicles	800,390	100,294	700,096	555,962
	Tools	54,400	54,400	-	-
	Work In Progress	47,076	-	47,076	-
		46,962,022	5,807,374	41,154,648	41,025,878

6.	LONG TERM LIABILITIES	2003	2002
	9% Note payable to The Corporation of the City of Brantford interest only payable annually - balance due February 1, 2006	24,189,168	24,189,168
	Post employment benefit premiums	421,788	337,623
	Customer deposits and interest	1,952,682	1,760,115
		26,563,638	26,286,906
	Less: Current portion	380,000	379,450
		26,183,638	25,907,456

The City of Brantford has an option to extend the maturity date of the promissory note for successive five year periods. The City also has the option to convert the principal sum outstanding into common shares of the Corporation at a conversion ratio of \$100 per common share.

7.	CAPITAL STOCK	2003	2002
	Authorized - an unlimited number of common shares		
	Issued - 1,001 common shares	22,437,505	22,437,505

BRANTFORD POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2003

8. POST-EMPLOYMENT BENEFIT PREMIUMS

The Company acquired various life insurance, health care related and dental coverage plan liabilities for certain retired employees of the former Hydro Electric Commission of the City of Brantford. Travel, dental, vision and semi-private health care coverage is continued until the retiree reaches 65 years of age. Life insurance and extended health care coverage is continued until the retiree's death. The following amounts have been recorded by the Company:

	2003	2002
Estimated liability relating to future benefit payments owing	421,788	337,623
Current benefit premiums paid	84,165	71,479

9. RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary of Brantford Energy Corporation and Brantford Energy Corporation is wholly owned by The Corporation of the City of Brantford. Brantford Energy Corporation also owns Brantford Hydro Inc. Transactions between Brantford Hydro Inc., Brantford Power Inc. and Brantford Energy Corporation occur in the normal course of operations and consideration paid is on similar terms as those to unrelated parties.

The Company has entered into a shared services agreement with The Corporation of the City of Brantford, whereby the City will provide administrative, support, maintenance and operational services for the Company. The exchange amount for these services has been set out in the agreement.

10. PRUDENTIAL SUPPORT

Brantford Power is required, through the IMO, to provide security to mitigate the company's risk of default based on its expected activity in the electricity market. The IMO could draw on this guarantee if Brantford Power fails to make a payment required by a default notice issued by the IMO. The maximum potential payment is the face value of the bank letters of credit. As at December 31 2003, the company provided prudential support in the form of bank letters of credit of \$15,008,750.

11. FINANCIAL INSTRUMENTS

Fair Value

The fair value of financial instruments such as cash and bank, accounts receivable, unbilled revenue and trade payables and accrued liabilities are determined to approximate their recorded value due to their short term maturity.

Credit Risk

The Company's exposure to credit risk relates to its customer accounts receivable and unbilled revenue. The risk of significant credit loss is considered remote.

BRANTFORD POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2003

12. LATE PAYMENT PENALTIES

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 The 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.

This 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 Electrical Distributors Association is undertaking the defence of this class action. At this time it is not possible to quantify the effect, if any, of this claim on the financial statements of the Company.

13. COMPARATIVE FIGURES

Certain of the prior year's figures, provided for the purpose of comparison, have been reclassified to conform to the current year's statement presentation.

BRANTFORD POWER INC.

SCHEDULE OF DIRECT EXPENSES

For the year ended December 31	2003	2002
Operating and maintenance	1,374,971	1,567,449
Demand side management	56,703	101,029
Community relations and metering	460,713	422,180
Board expenses	57,017	84,274
Administration	570,968	472,317
Industry associations	46,911	90,466
Engineering	468,149	456,851
	3,035,432	3,194,566

SCHEDULE OF OTHER REVENUE

For the year ended December 31	2003	2002
Late payment charges	137,351	191,253
Interest and investment income	468,271	500,976
Connection fees	236,281	209,253
Property rental	99,166	128,204
Other revenue	3,208	49,966
Total Other Revenue	944,277	1,079,652