

Barrie Hydro Distribution Inc.
Financial Statements
For the year ended December 31, 2007

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For the year ended December 31, 2007

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Driving growth

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Auditors' Report

To the Shareholder of
Barrie Hydro Distribution Inc.

We have audited the balance sheet of Barrie Hydro Distribution Inc. as at December 31, 2007 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation'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 corporation as at December 31, 2007 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in cursive script that reads 'BDO Dunwoody LLP'.

Chartered Accountants, Licensed Public Accountants

Alliston, Ontario
March 11, 2008

Barrie Hydro Distribution Inc. Balance Sheet

December 31 2007 2006

Assets

Current

Cash (Note 1)	\$ 4,282,292	\$ 2,186,053
Accounts receivable	10,285,080	11,714,935
Unbilled service revenue	14,574,342	13,506,096
Inventories	1,258,853	1,575,759
Prepaid expenses	599,377	702,882
	<u>30,999,944</u>	<u>29,685,725</u>

Property, plant and equipment (Note 2)	126,428,489	122,302,120
Construction in progress (Note 2)	3,665,584	2,420,821
Long-term investment (Note 3)	-	71,785
Goodwill	9,554,075	9,554,075
Deferred charges and other long-term assets (Note 4)	852,801	1,058,687
	<u>\$171,500,893</u>	<u>\$165,093,213</u>

Liabilities and Shareholder's Equity

Current

Accounts payable and accrued liabilities	\$ 15,134,725	\$ 15,532,928
Construction deposits	1,068,107	1,143,500
Payments in lieu of corporate taxes payable	491,085	969,164
Due to related parties (Note 6)	1,476,376	2,428,521
Current portion of customer deposits	1,624,815	1,913,168
Current portion of obligations under capital leases (Note 10)	64,892	54,372
	<u>19,860,000</u>	<u>22,041,653</u>

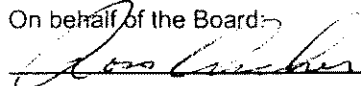
Customer deposits	3,017,514	2,624,808
Regulatory liabilities (Note 5)	5,107,661	1,657,769
Other long-term liabilities (Note 7)	250,012	244,114
Employee future benefits (Note 8)	2,628,249	2,571,708
Long-term debt (Notes 6 and 9)	45,000,000	45,000,000
Obligations under capital leases (Note 10)	-	64,892
Subdivision deposit (net of refunds)	13,851,534	13,332,283
	<u>89,714,970</u>	<u>87,537,227</u>

Contingent liabilities (Note 13)

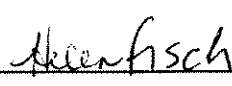
Shareholder's equity

Share capital (Note 14)	61,491,374	61,491,374
Retained earnings	20,294,549	16,064,612
	<u>81,785,923</u>	<u>77,555,986</u>
	<u>\$171,500,893</u>	<u>\$165,093,213</u>

On behalf of the Board:



Director



Director

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

Barrie Hydro Distribution Inc. Statement of Operations and Retained Earnings

For the year ended December 31	2007	2006
Service revenue		
Residential	\$ 19,212,933	\$ 17,877,570
Commercial (Note 6)	11,691,701	10,504,721
Street lighting	97,824	93,331
	<u>31,002,458</u>	<u>28,475,622</u>
Service revenue adjustments	112,705	61,613
	<u>31,115,163</u>	<u>28,537,235</u>
Cost of power revenue	<u>112,788,540</u>	<u>110,243,230</u>
	143,903,703	138,780,465
Cost of power	<u>112,788,540</u>	<u>110,243,230</u>
Distribution revenue	<u>31,115,163</u>	<u>28,537,235</u>
Other revenue		
Customers' forfeited discounts and late payment charges	579,945	521,785
Water and sewer billing collection services (Note 6)	1,507,749	1,480,731
Other revenue	1,465,484	1,943,287
	<u>3,553,178</u>	<u>3,945,803</u>
	<u>34,668,341</u>	<u>32,483,038</u>
Expenses		
Administration and general (Note 6)	6,595,425	7,084,216
Amortization	9,014,758	8,432,623
Interest on long-term debt (Note 6)	2,912,500	2,912,508
Other interest	354,178	313,769
Operation maintenance	4,495,543	3,804,017
	<u>23,372,404</u>	<u>22,547,133</u>
	11,295,937	9,935,905
Provision for payments in lieu of corporate income taxes and capital taxes (Note 16)	<u>(5,450,000)</u>	<u>(5,450,000)</u>
Net income for the year	5,845,937	4,485,905
Retained earnings, beginning of year	16,064,612	14,478,707
Dividends (Notes 6 and 15)	<u>(1,616,000)</u>	<u>(2,900,000)</u>
Retained earnings, end of year	<u>\$ 20,294,549</u>	<u>\$ 16,064,612</u>

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

Barrie Hydro Distribution Inc. Statement of Cash Flows

For the year ended December 31	2007	2006
Cash flows from operating activities		
Net income for the year	\$ 5,845,937	\$ 4,485,905
Adjustments for		
Amortization of property, plant and equipment	9,014,758	8,432,623
Loss on disposal of long-term investment	30,800	-
Gain on disposal of property, plant and equipment	(65,686)	(14,839)
Amortization of deferred charges and other long-term assets	205,886	185,768
	<u>15,031,695</u>	<u>13,089,457</u>
Changes in non-cash operating working capital		
Accounts receivable	1,429,855	(3,015,155)
Unbilled service revenue	(1,068,246)	1,393,175
Inventories	316,906	(334,918)
Prepaid expenses	103,505	(326,129)
Accounts payable and accrued liabilities	(398,204)	(5,863,042)
Construction deposits	(75,393)	59,703
Payments in lieu of corporate taxes payable	(478,079)	57,557
Due to related parties	497,855	(520,506)
	<u>328,199</u>	<u>(8,549,315)</u>
	<u>15,359,894</u>	<u>4,540,142</u>
Cash flows from investing activities		
Purchase of property, plant and equipment and construction in progress	(13,866,638)	(12,161,883)
Investment in deferred charges	-	(314,862)
Proceeds on sale of property, plant and equipment	65,686	14,839
Net decrease in regulatory assets	-	1,864,343
Proceeds on disposition of long-term investment	40,985	-
	<u>(13,759,967)</u>	<u>(10,597,563)</u>
Cash flows from financing activities		
Increase in customer deposits	104,353	336,327
Increase in regulatory liabilities	3,449,892	1,657,769
Increase (decrease) in other long-term liabilities	5,898	(24,867)
Increase in employee future benefits	56,541	200,082
Repayment of capital lease obligations	(54,372)	(51,172)
Dividends paid	(3,066,000)	(3,100,000)
	<u>496,312</u>	<u>(981,861)</u>
Increase (decrease) in cash during the year	2,096,239	(7,039,282)
Cash, beginning of year	2,186,053	9,225,335
Cash, end of year	\$ 4,282,292	\$ 2,186,053

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

Barrie Hydro Distribution Inc. Summary of Significant Accounting Policies

December 31, 2007

Nature of Business

The corporation was incorporated on October 19, 2000 under the laws of Ontario and is licensed by the Ontario Energy Board ("OEB") as an electricity distributor.

The principal activity of the corporation is to distribute electricity to the City of Barrie, and the towns of Bradford West Gwillimbury, Thornton, New Tecumseth and Penetanguishene.

The corporation is regulated by the OEB under authority of the Ontario Energy Board Act, 1998.

Basis of Accounting

The financial statements of Barrie Hydro Distribution Inc. are prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) and accounting policies provided by its regulator, the OEB, as contained in the Accounting Procedures Handbook for Electric Distribution Utilities ("AP Handbook"), issued under the authority of the Ontario Energy Board Act, 1998.

Due to the regulatory framework the timing of recognition of revenues and expenses and the measurement of certain assets and liabilities may differ from that otherwise expected under Canadian generally accepted accounting principles (GAAP) for non-rate regulated enterprises. Please refer to accounting policies for Spare Transformers and Meters, Post 1999 Contributed Capital, Regulatory Assets and Liabilities, and Payments in lieu of corporate income taxes and capital taxes.

The financial statements reflect the significant accounting policies summarized below.

Seasonality of Operations

The corporation's operations are seasonal. Electricity consumption is typically highest in the summer and winter months, July through September and January through March.

Regulation and Rate Setting

The corporation is required to follow regulations as set by the OEB. The OEB approves and sets rates for the transmission and distribution of electricity, ensures distribution companies fulfil their obligations to connect and service customers, and has the authority to provide rate protection for certain electricity customers.

The OEB sets rates on an annual basis with rates becoming effective on May 1st through April 30th of the following year. The regulation and monitoring of Ontario's Energy Sector is completed by the OEB through application of codes, rules and guidelines, the licensing of market participants, assisting firms with the management of regulatory requirements, monitoring and enforcing compliance and adjudication.

Barrie Hydro Distribution Inc. Summary of Significant Accounting Policies

December 31, 2007

Inventories

Inventories consist of parts, supplies and materials held for future capital expansion or maintenance and are stated at the lower of average cost and replacement cost.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Costs may include material, labour, contracted services, overhead, engineering costs, and interest on funds used during construction when applicable. Also included in property, plant and equipment is the costs of property, plant and equipment constructed by developers or customers and contributed to the corporation.

Upon disposal the cost and accumulated amortization related to the asset are removed and any gains or losses on disposal are credited or charged to other income on the statement of operations.

Amortization based on the estimated useful life of the asset is calculated as follows:

Land rights	- up to 50 years	straight-line basis
Buildings	- 30 to 60 years	straight-line basis
Distribution system	- 25 to 30 years	straight-line basis
General office equipment	- 10 years	straight-line basis
Computer equipment	- 5 years	straight-line basis
Computer software	- 3 years	straight-line basis
Rolling stock	- 5 to 8 years	straight-line basis
Other equipment	- 10 to 25 years	straight-line basis

**Spare Transformers
and Meters**

Spare transformers and meters are held to back up plant in service and are expected to substitute for original distribution plant transformers and meters when these original plant assets are being repaired. These amounts are not being amortized.

According to the criteria prescribed by the OEB in the AP Handbook the spare transformers and meters are treated as property, plant and equipment. Under Canadian GAAP for unregulated businesses the spare transformers and meters would be treated as inventory. In absence of rate regulation, inventory in 2007 would have been \$3,115,857 (2006 - \$3,015,827).

Post 1999 Contributed Capital

Post 1999 contributed capital consists of third party contributions toward the cost of constructing distribution assets collected after January 1, 2000, and are recorded with property, plant and equipment as a contra account. Contributions are amortized at rates corresponding with the useful lives of the related property, plant and equipment. Canadian GAAP provides no specific guideline on the accounting for this type of contribution.

Barrie Hydro Distribution Inc. Summary of Significant Accounting Policies

December 31, 2007

Construction in Progress	Construction in progress is comprised of the cost of assets not yet placed into service, assets under construction, and pre-construction activities related to projects expected to be completed. These amounts are not amortized. Upon completion of construction the amounts are transferred to property, plant and equipment and are amortized on a straight-line basis over the expected service life of the asset.
Long-term Investment	The corporation accounts for its investment by the cost method. Income from such investment is recognized only to the extent received or receivable.
Goodwill	Goodwill represents the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill impairment is assessed based on a comparison for the fair value of the reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill. When the carrying amount of goodwill exceeds the implied fair value of goodwill an impairment loss is recognized in an amount equal to the excess as a charge against the results of operations. The corporation has determined that goodwill is not impaired.
Deferred Charges	Deferred financing charges represent the unamortized cost to issue long-term debt including fees paid to fix the interest rate of the issue. Amortization is provided on a straight-line basis, over the period to maturity of the related debt. Deferred separation charges represent an unamortized cost to purchase assets from Ontario Hydro Corporation in 1992. Amortization is provided on a straight-line basis, over the remaining useful life of the related assets of 16 years.

Barrie Hydro Distribution Inc.

Summary of Significant Accounting Policies

December 31, 2007

Other Long-Term Assets

Other long-term assets consist of amounts paid to Hydro One under capital cost recovery agreements. These costs are amortized over the life of the agreements, being 25 years, which represents the guaranteed revenue stream for Hydro One.

Regulatory Assets and Liabilities

The corporation has adopted the CICA's Accounting Guideline 19 "Disclosures by Entities Subject to Rate Regulation". Based on OEB regulations, certain costs and variance account balances are recorded as regulatory assets or regulatory liabilities and are reflected in the balance sheet until the OEB determines the manner and timing of their disposition.

Regulatory assets represent future revenues associated with certain costs, incurred in current or prior period(s), that are expected to be recovered through the rate setting process. Regulatory assets and liabilities can arise from differences in amounts billed to customers (based on regulated rates) and the corresponding cost of non-competitive electricity service incurred by the corporation in the wholesale market administered by the Independent Electricity System Operator "IESO" after May 1, 2002. These amounts have been accumulated pursuant to regulation underlying the Electricity Act and deferred in anticipation of their future recovery in electricity distribution service charges.

Customer Deposits

Customer deposits represent amounts collected from customers to guarantee the payment of energy bills. The customer deposits liability includes interest credited to customers' deposit accounts, with interest expense recorded to offset this amount. Deposits expected to be refunded to customers within one year are classified as a current liability.

Customer deposits also include prudential deposits from retailers.

Construction Deposits

Construction deposits represent maintenance deposits and deposits for recoverable work.

Pension Plan

The corporation offers a pension plan for its full-time employees through the Ontario Municipal Employee Retirement System ("OMERS"). OMERS is a multi-employer, contributory, public sector pension fund established for employees of municipalities, local boards and school boards in Ontario. Participating employers and employees are required to make plan contributions based on participating employees' contributory earnings. The corporation accounts for its participation in OMERS as a defined contribution plan and recognizes the expense related to this plan as contributions are made.

Barrie Hydro Distribution Inc.

Summary of Significant Accounting Policies

December 31, 2007

Post-employment Benefits

Employee future benefits other than pension provided by the corporation include medical and insurance benefits. These benefit plans provide benefits to certain employees when they are no longer providing active service.

Standards issued by The Canadian Institute of Chartered Accountants require the corporation to accrue for its obligations under other employee benefit plans and related costs.

The cost of post-employment benefits offered to employees are actuarially determined using the projected benefit method, prorated on service and based on assumptions that reflect management's best estimate. Under this method, the projected post-retirement benefit is deemed to be earned on pro-rata basis over the years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits.

The current service cost for the period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of the employees active at the date of the amendment.

The excess of the net actuarial gains (losses) over 10% of the accrued benefit obligation are amortized into expense on a straight-line basis over the average remaining service period of active employees to full eligibility.

Subdivision Deposits

Subdivision deposits represent deposits received from developers based on the expected cost of capital for a new development. The OEB has stated that effective January 1, 2007 an economic evaluation is to be done at the beginning of the process and funds received will be based on developers' anticipated share of the cost based on the NPV calculation. A software developed by the EDA is used to determine the Economic Evaluation (Guidelines were created by OEB). The economic evaluation is a calculation of the net present value (NPV) of the expected revenue net of expected maintenance costs for the next 25 years. If the NPV calculation results in an amount less than the total cost to put the capital in place to service the subdivision the developer will pay the net difference as a deposit.

There is a 5 year window for the developer to collect any refunds available to them. If the money is not refunded to the developer it will be recorded as post 1999 contributed capital and taken out of the subdivision deposit account.

Barrie Hydro Distribution Inc.

Summary of Significant Accounting Policies

December 31, 2007

Revenue Recognition

Revenue from the sale and distribution of electricity is recognized on the accrual basis. The revenue includes cycles billed during the year plus an estimate for unbilled revenue. The unbilled revenue is calculated by estimating the consumption of electricity by customers since their last meter reading date to December 31, 2007. Actual results could differ from estimates made of electricity usage.

Other revenues, which include revenues from pole attachment, customer demand work, and other miscellaneous revenues are recognized at the time the service is provided.

Payment in Lieu of Corporate

Income Taxes and Capital Taxes

The corporation is a municipal electricity utility ("MEU") for purposes of the PIL's regime contained in the Electricity Act, 1998. As a MEU the corporation is exempt from tax under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario).

Each taxation year, the corporation is required to make payments in lieu of corporate income taxes and capital taxes to Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated based on the rules for computing taxable income and taxable capital outlined in Income Tax Act (Canada) and the Corporations Tax Act (Ontario) with taking into account any modifications made by the Electricity Act, 1998, and related regulations.

The corporation provides for payments in lieu of corporate income taxes and capital taxes related to its regulated business using the taxes payable method as permitted by the CICA and the OEB.

Under this method, no provisions are made for future income taxes as a result of temporary differences between the tax bases of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes become payable or receivable, it is expected that they will be reflected in the rates approved by the OEB at that point in time.

Barrie Hydro Distribution Inc. Summary of Significant Accounting Policies

December 31, 2007

Use of Estimates and Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes as well as the disclosure of contingent assets and liabilities at the financial statement date.

Accounts receivable, unbilled service revenue, regulatory assets, regulatory liabilities and employee future benefits are reported based on amounts expected to be recovered or incurred and an appropriate allowance has been provided based on management's estimate of unrecoverable amounts.

Due to uncertainty involved in making such estimates, actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Minister of Energy or the Minister of Finance.

The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies.

Financial Instruments

The corporation classifies its financial instruments into one of the following categories:

Held-for-Trading

Held-for-trading is comprised of cash. This instrument is carried in the balance sheet at fair value with changes in fair value recognized in the income statement. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.

Loans and Receivables

Loans and receivables are comprised of accounts receivable and unbilled service revenue. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment.

Other Financial Liabilities

Other financial liabilities are comprised of accounts payable and accrued liabilities, construction deposits, customer deposits, subdivision deposits, obligations under capital leases, long-term debt and other long-term liabilities. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are netted against the amount initially recognized.

Barrie Hydro Distribution Inc.

Summary of Significant Accounting Policies

December 31, 2007

New Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the company, are as follows:

Capital Disclosures

CICA Handbook Section 1535, Capital Disclosures, requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The corporation is currently assessing the impact of the new standards.

Inventories

The CICA has issued Section 3031, Inventories, which provides guidance on determining cost as well as other recognition, measurement, disclosure and presentation issues related to inventories. The standard includes guidance on the treatment of excess capacities, inventory valuation and write-downs and additional elements to be considered in measuring inventory costs. The new standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The corporation does not expect the adoption of these changes to have a material impact on its financial statements.

General Standards on Financial Statement Presentation

CICA Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The corporation does not expect the adoption of these changes to have a material impact on its financial statements.

International Financial Reporting Standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the corporation's financial statements has yet to be determined.

Barrie Hydro Distribution Inc. Notes to Financial Statements

For the year ended December 31, 2007

1. Cash

The corporation's bank accounts are held at one chartered bank. The corporation received interest on the bank accounts at prime less 1.75%.

The corporation also has an available credit facility of \$10,000,000 by way of prime rate based loans, bankers acceptances, letters of credit and stand-by letters of guarantee. At the year end date, the credit facility has not been utilized.

2. Property, Plant and Equipment and Construction in Progress

	2007		2006	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 1,856,641	\$ -	\$ 1,856,641	\$ -
Land rights	75,274	59,263	75,274	57,926
Buildings	17,388,836	4,423,574	17,303,742	4,080,073
Distribution system	206,144,977	81,455,353	192,050,087	73,846,958
Spare meters and transformers	1,857,004	-	1,493,009	-
General office equipment	1,311,451	1,078,843	1,276,900	1,037,239
Computer equipment	5,427,331	4,021,133	5,189,734	3,468,322
Computer software	3,261,266	2,441,448	2,986,562	1,827,031
Rolling stock	4,532,773	2,945,988	3,878,133	2,716,647
Other equipment	5,453,387	2,587,382	5,270,612	2,360,772
Post 1999 contributed capital	(25,399,222)	(3,531,755)	(22,319,787)	(2,636,181)
	\$221,909,718	\$ 95,481,229	\$209,060,907	\$ 86,758,787
Net Book Value		\$126,428,489		\$122,302,120
			2007	2006
Construction in progress			\$ 3,665,584	\$ 2,420,821

During the year the corporation acquired \$13,866,638 (2006 - \$12,161,883) of property, plant and equipment and construction in progress using cash.

Barrie Hydro Distribution Inc. Notes to Financial Statements

For the year ended December 31, 2007

3. Long-term Investment

	2007	2006
3.5784% interest in the ENERconnect Limited Partnership	\$ -	\$ 71,785

During the year, the corporation sold their partnership interest for \$40,985.

4. Deferred Charges and Other Long-term Assets

	2007	2006
Separation charges	\$ -	\$ 12,444
Financing charges	145,920	307,760
Deferred assets - Hydro One	706,881	738,483
	\$ 852,801	\$ 1,058,687

In 2006 the corporation entered into agreements with Hydro One for the right to deliver electricity through Hydro One owned lines and equipment. The total costs per the agreements were \$765,887. The asset is being amortized over the term of the agreement of 25 years.

Amortization of the separation charges in the amount of \$12,444 (2006 - \$12,444), financing fees in the amount of \$161,840 (2006 - \$145,920), and deferred assets - Hydro One in the amount of \$31,602 (2006 - \$27,404) are included in the Statement of Operations and Retained Earnings.

5. Regulatory Assets/(Liabilities)

Regulatory assets/(liabilities) arise as a result of the rate-making process and consist of the following:

	2007	2006
Settlement variance accounts	\$ (4,613,795)	\$ (1,529,885)
Smart meters deferred revenue	(321,499)	(110,240)
Carrying charges (recovery)	(172,367)	723,406
Recovery of regulatory assets	-	(741,050)
Net Regulatory Liabilities	\$ (5,107,661)	\$ (1,657,769)

Barrie Hydro Distribution Inc. Notes to Financial Statements

For the year ended December 31, 2007

5. Regulatory Assets/(Liabilities) continued

Regulatory balances are comprised as follows:

(i) Settlement Variances:

Settlement variances represent the differences between amounts charged by the corporation to its customers based on regulated rates and the corresponding cost incurred by the corporation in the wholesale market administered by the IESO. Under the OEB's direction, the corporation has deferred the settlement variances that have occurred since May 1, 2002. Accordingly, the corporation has deferred these recoveries in accordance with the AP Handbook.

The OEB allows the variances to be deferred which would normally be recorded as revenue for unregulated businesses under Canadian GAAP. In absence of rate regulation, revenues in 2007 would have been \$3,449,892 higher (2006 - \$3,522,112 higher). The deferred balance for unapproved settlement variances continues to be calculated and carrying charges are accumulated in accordance with the OEB's direction. The manner and timing of disposition of the variance has not been determined by the OEB.

(ii) Carrying Charges

Carrying charges are calculated monthly on the opening balance of the applicable variance account using a specific interest rate as outlined by the OEB. In the absence of rate regulation, other revenues would have been higher by \$895,773 (2006 - \$601 higher).

(iii) Recovery of Regulatory Assets

In a letter dated December 19, 2003, the Minister of Energy granted approval for distributors to make application to the OEB with regard to rate recovery of certain distribution regulatory assets whose inclusion in rates was delayed by the Electricity Pricing, Conservation and Supply Act, 2002 (Electric Pricing, Conservation and Supply Act). As a result of the corporation's distribution rate application dated January 22, 2004, the distribution regulatory assets that accumulated up to December 31, 2002 are expected to be recovered over a four-year period, effective March 1, 2004 with an implementation date for consumption of April 1, 2004.

The rate application for 2006, approved by the OEB, included the recovery of regulatory assets accumulated to December 31, 2004 plus projected interest on these balances up to April 30, 2006. This second phase of recovery is for a two year period with rates effective May 1, 2006.

(iv) Additional Information

Included in regulatory assets/(liabilities) is \$265,526 to reflect amounts owing to Hydro One with respect to low voltage charges relating to the time period beginning May 1, 2002 ending December 31, 2003. Also included in regulatory assets/(liabilities) is \$123,248 representing an estimate of the low voltage charges for the period beginning January 1, 2004 ending April 30, 2006. These amounts were included in the rate submission for 2006 and are being recovered over a two year period through rates effective May 1, 2006.

Barrie Hydro Distribution Inc. Notes to Financial Statements

For the year ended December 31, 2007

5. Regulatory Assets and Liabilities continued

(v) Smart Meter Deferred Revenue

During 2006, the OEB adopted recommendations on smart meters with regard to cost recovery during the phase-in period of this equipment. The OEB stated that given the increased need for electricity and the importance of conservation, specific funding for smart meters should be included in 2006 rates by all Ontario electric LDC. Variance accounts were established to track revenues collected with respect to smart meters and associated costs of the initiatives. In the absence of rate regulation, net income would have been higher in 2007 by \$211,259 (2006 - \$110,240).

(vi) Fair Value of Regulatory Assets and Regulatory Liabilities

For certain regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties related to the ultimate authority of the regulator in determining the asset's treatment for rate setting purposes.

Management continually assesses the likelihood of recovery of regulatory assets. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

6. Related Party Transactions

The Corporation of the City of Barrie is the 100% owner of Barrie Hydro Holdings Inc. which is the parent company of Barrie Hydro Distribution Inc. and Barrie Hydro Energy Services Inc.

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

	2007	2006
The Corporation of the City of Barrie	\$ 888,283	\$ 750,468
Barrie Hydro Energy Services Inc.	(14,526)	151,171
Barrie Hydro Holdings Inc.	602,619	1,526,882
	<u>\$ 1,476,376</u>	<u>\$ 2,428,521</u>

These balances are interest-free, unsecured, payable on demand and have arisen from the sales of product and provision of services referred to below.

Included in the amount due to Barrie Hydro Holdings Inc. is a dividend payable of \$Nil (2006 - \$1,450,000) (see Note 15).

The corporation is also indebted to the Corporation of the City of Barrie for a \$20,000,000 (2006 - \$20,000,000) promissory note (see Note 9).

Barrie Hydro Distribution Inc. Notes to Financial Statements

For the year ended December 31, 2007

6. Related Party Transactions - continued

The following are the corporation's related party transactions for the year:

During the year, the corporation billed electricity and services to the Corporation of the City of Barrie in the amount of \$1,549,334 (2006 - \$1,508,471).

During the year, the corporation billed miscellaneous revenues to the Corporation of the City of Barrie in the amount of \$1,009,061 (2006 - \$1,160,946).

During the year, the corporation paid municipal taxes to the Corporation of the City of Barrie in the amount of \$307,605 (2006 - \$303,753). Municipal taxes are included in administration and general on the Statement of Operations and Retained Earnings.

During the year, the corporation was charged interest expense of \$1,300,000 (2006 - \$1,300,008) by the Corporation of the City of Barrie.

During the year, the corporation billed Barrie Hydro Energy Services Inc. an amount of \$1,507,749 (2006 - \$1,480,731) for billing and collection services.

These transactions are in the normal course of operations and are measured at exchange value.

7. Other Long-term Liabilities

	<u>2007</u>	<u>2006</u>
Developer deposits	\$ 111,207	\$ 111,207
Collateral funds	138,805	132,907
	<u>\$ 250,012</u>	<u>\$ 244,114</u>

Collateral funds represent amounts collected in lieu of development charges. Use of these funds is limited to specific terms set out in an agreement. The above balance includes accrued interest calculated annually at a rate equal to the bank rate obtained by the corporation for its deposits.

Barrie Hydro Distribution Inc. Notes to Financial Statements

For the year ended December 31, 2007

8. Employee Future Benefits

Barrie Hydro Distribution Inc. pays certain medical and insurance benefits under an unfunded defined benefit plan on behalf of its retired employees. The corporation recognizes these post-retirement costs in the period in which the employees render the services.

An actuarial report was performed and dated February 28, 2008. The accrued benefit obligation and current service cost were determined using the projected method, pro-rated on service. The actuarial valuation was performed on the post-retirement obligations sponsored by Barrie Hydro Distribution Inc. as at January 1, 2007.

Information about Barrie Hydro Distribution Inc.'s defined benefit plan is as follows:

	<u>2007</u>	<u>2006</u>
Accrued benefit obligation, opening balance	\$ 2,571,708	\$ 2,371,626
Current service cost	90,527	72,701
Interest cost	135,640	127,382
Actuarial losses	12,375	81,447
Benefits paid	<u>(182,001)</u>	<u>(81,448)</u>
Projected accrued benefit obligation	<u>\$ 2,628,249</u>	<u>\$ 2,571,708</u>

Additional Disclosures:

Unamortized actuarial gain (loss)	<u>\$ -</u>	<u>\$ -</u>
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Sensitivity Analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans.

The effect of a one-percentage point increase in assumed health care cost trend rates on 2007:

Accrued benefit obligation, end of period	<u>\$ 2,735,249</u>	<u>\$ 2,717,708</u>
Increase in net period benefit cost	<u>\$ 107,000</u>	<u>\$ 146,000</u>

The effect of a one-percentage point decrease in assumed health care cost trend rates on 2007:

Accrued benefit obligation, end of period	<u>\$ 2,452,249</u>	<u>\$ 2,447,708</u>
Decrease in net period benefit cost	<u>\$ 176,000</u>	<u>\$ 124,000</u>

Barrie Hydro Distribution Inc.
Notes to Financial Statements

For the year ended December 31, 2007

8. Employee Future Benefits - continued

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

(a) General inflation:

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.0% in 2007 (2006 - 2.2%).

(b) Interest (discount) rate:

The obligation as at December 31, 2007, representing the present value of future liabilities was determined using a discount rate of 5.25% (2006 - 5.5%). This corresponds to the assumed CPI rate plus an assumed real rate of return of 3.25% (2006 - 3.3%).

(c) Salary levels:

Future general salary and wage levels were assumed to increase at 3.3% (2006 - 3.5%) per annum.

(d) Medical costs:

Medical costs were assumed to increase at the CPI rate plus a further increase of 8.0% (2006 - 6.8%). This rate will be graded down by 1% per year to 3.0% in 2012 and thereafter.

(e) Dental costs:

Dental costs were assumed to increase at the CPI rate plus a further increase of 3.0% (2006 - 2.8%).

Barrie Hydro Distribution Inc. Notes to Financial Statements

For the year ended December 31, 2007

9. Long-term Debt

	2007	2006
6.45% EDFIN bond, with interest only payable in arrears semi-annually on August 15 and February 15, maturing August 15, 2012	\$ 25,000,000	\$ 25,000,000
6.5% unsecured promissory note, payable to the Corporation of the City of Barrie with interest only payable December 31 maturing December 31, 2009	20,000,000	20,000,000
	<u>\$ 45,000,000</u>	<u>\$ 45,000,000</u>

(a) EDFIN bond:

In August of 2002 the corporation refinanced part of the existing debt with a 10-year bond issue for \$25,000,000. The corporation was one of five local distribution companies ("LDCs") that participated in the Electricity Distributors Finance Corporation ("EDFIN") 10-year Bond issue (Series 2002-1) that was offered on a private placement. EDFIN is a special purpose corporation managed by MEARIE Management Inc., for the purpose of providing LDCs with efficient access to the debt capital markets. Each LDC has executed a debenture which is a direct and unsecured obligation of the LDC. The LDCs' obligations will be several and not joint, and each LDC will be liable for its own obligation and not that of any other LDC. Due to a change in structure of the participating corporations, there are now three LDCs with EDFIN bonds.

(b) Promissory note:

The promissory note was renewed subsequent to the year end for a two-year term commencing on January 1, 2008 with an interest rate of 6.5% per annum. The promissory note is subordinated to the bank loan, if applicable.

10. Obligations Under Capital Lease

	2007	2006
Capital lease, \$3,648 payable monthly, bearing interest at 4.75%, maturing September 2008, secured by computer equipment, plus a \$21,903 buyout at the end of the term	\$ 53,990	\$ 94,740
Capital lease, \$1,249 payable monthly, bearing interest at 7.45%, maturing September 2008, secured by computer equipment	10,902	24,524
	64,892	119,264
Less amount due within one year included in current liabilities	(64,892)	(54,372)
	<u>\$ -</u>	<u>\$ 64,892</u>

Barrie Hydro Distribution Inc. Notes to Financial Statements

For the year ended December 31, 2007

10. Obligations Under Capital Lease continued

The future minimum lease payments are as follows:

2008	\$	65,975
Less: imputed interest		<u>(1,083)</u>
	\$	<u>64,892</u>

11. Pension Agreements

The corporation makes contributions to the OMERS, which is a multi-employer plan, on behalf of 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 plan is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund.

The contribution rates for 2007 were 6.5% for employees earning up to \$43,700 and 9.6% thereafter. The amount contributed to OMERS for 2007 was \$491,902 (2006 - \$487,969).

12. Liability Insurance

The corporation belongs to the Municipal Electrical Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a self-insurance plan that pools the risks of all of its members. Any losses experienced by MEARIE are shared amongst its members. As at December 31, 2007, the corporation has not been made aware of any assessments for losses.

Barrie Hydro Distribution Inc. Notes to Financial Statements

For the year ended December 31, 2007

13. Contingent Liabilities

i) Griffith et al. v. Toronto Hydro-Electric Commission et al.

This action has been brought under the Class Proceedings Act, 1992. The plaintiff class seeks \$500 million in restitution for amounts paid to Toronto Hydro and to other Ontario municipal electric utilities ("LDCs") who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to section 347 of the Criminal Code. Pleadings have closed in this action. The action has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceedings brought against Enbridge Gas Distribution Inc. (formerly Consumers Gas).

On April 22, 2004, the Supreme Court of Canada released a decision in the Consumers Gas case rejecting all of the defences which had been raised by Enbridge, although the Court did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by Enbridge and that settlement was approved by the Ontario Superior Court.

On February 4, 2008, the OEB, in response to an application filed by Enbridge, ruled that all of Enbridge's costs related to settlements of the class action lawsuits, including legal costs, settlement costs and interest, are recoverable from ratepayers over a five year period.

After the release by the Supreme Court of Canada of its 2004 decision in the Consumers Gas case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs. To date, no formal steps have been taken to move the action forward. The electric utilities intend to respond to the action if and when it proceeds on the basis that the LDCs' situation may be distinguishable from that of Consumers Gas.

The corporation collected total late payment penalties of approximately \$4,569,000 from April 30, 1994 to May 1, 2001. No determination of the portion of these payments which may have constituted interest at an impermissible rate has been made, and as such, no accrual for any potential liability has been recorded in the financial statements.

(ii) The corporation has other claims outstanding which in managements' opinion will be covered by insurance.

iii) The corporation has posted a letter of credit for \$100,000 maturing on October 31, 2008.

Barrie Hydro Distribution Inc. Notes to Financial Statements

For the year ended December 31, 2007

14. Share Capital

The corporation is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares.

The issued share capital is as follows:

	2007	2006
1,000 Common shares	<u>\$ 61,491,374</u>	<u>\$ 61,491,374</u>

15. Dividends

During 2004 a dividend policy was adopted by the Board of Directors of Barrie Hydro Holdings Inc. stating that the amount of dividends payable by the corporation to the Corporation of the City of Barrie is equal to 30% of the corporation's audited net income after extraordinary items for the year.

Dividends totaling \$3,066,000 were paid during the 2007 fiscal year, which included management's best estimate of \$1,450,000 declared and not paid in 2006.

Barrie Hydro Distribution Inc. Notes to Financial Statements

For the year ended December 31, 2007

16. Payments in Lieu of Corporate Income Taxes, Capital Taxes and Future Income Taxes

(a) Payments in lieu of corporate income taxes ("PILs") and capital taxes

The corporation's provision for PILs is calculated as follows:

	2007	2006
Income before provision for PILs	\$ 11,295,937	\$ 9,935,905
Finance costs and employee benefits	202,461	154,642
Regulatory liabilities added back for tax purposes	3,449,892	3,522,112
Capital tax included in tax provision	(362,455)	(373,739)
Capital cost allowance less than amortization expense	246,443	246,976
Other items	(101,607)	38,779
Income for tax purposes	14,730,671	13,524,675
Statutory Canadian federal and provincial tax rate	36.12%	36.12%
Provision for PILs	5,320,718	4,885,113
Capital tax	362,455	373,739
Other (recovery)	(233,173)	191,148
Total provision	<u>\$ 5,450,000</u>	<u>\$ 5,450,000</u>

(b) Future Taxes

Future income taxes have not been recognized in these financial statements. Section 3465 of the CICA Handbook does not require rate regulated enterprises to recognize future income taxes if future income taxes are expected to be included in the approved rate charged to customers in the future and are expected to be recovered from future customers.

Significant components of the corporation's future taxes are as follows:

	2007	2006
Employee future benefits	\$ 880,000	\$ 929,000
Regulatory liabilities	1,711,000	599,000
Property, plant and equipment	7,990,000	8,776,000
Net future income tax asset	<u>\$ 10,581,000</u>	<u>\$ 10,304,000</u>

A future income tax recovery of \$277,000 (2006 - recovery of \$885,000) has not been recognized in the provision.

Barrie Hydro Distribution Inc. Notes to Financial Statements

For the year ended December 31, 2007

17. Financial Instruments

The corporation is not exposed to significant interest rate risk as a result of the short-term maturity of its monetary current assets and current liabilities.

Financial assets held by the corporation expose it to credit risk. As at December 31, 2007 there were no significant concentrations of credit risk with respect to any class of financial assets.

The carrying value of cash, accounts receivable, unbilled service revenue and accounts payable and accrued liabilities approximate their fair value due to the immediate or short-term maturity of these financial instruments.

At December 31, 2007, the fair value of the EDFIN bond payable is approximately \$26,400,000. The fair value has been calculated by discounting the future cash flow of the respective long-term debt at the estimated yield to maturity of similar debt instruments (Note 9).

The fair values of the corporation's related party note payable to the Corporation of the City of Barrie and other amounts due to/from related parties are not determinable due to their related party nature and terms.

Barrie Hydro Distribution Inc. Notes to Financial Statements

For the year ended December 31, 2007

18. Statement of Cash Flows

	2007	2006
Interest paid	<u>\$ 3,266,678</u>	<u>\$ 3,226,277</u>
Payment in lieu of corporate income taxes, Part 1.3 and capital taxes paid (net of taxes received)	<u>\$ 5,928,079</u>	<u>\$ 5,392,443</u>

19. Change in Accounting Policy

On January 1, 2007, the corporation retroactively adopted, without restatement of prior periods, CICA Handbook Section 3861, "Financial Instruments - Disclosure and Presentation" and Section 3855, "Financial Instruments - Recognition and Measurement". These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments. Under these new standards, all financial instruments are included on the balance sheet and are measured either at fair market value or, in limited circumstances, at cost or amortized cost.

The transitional provisions require these new standards to be adopted retroactively, without restatement of prior years. As such, the 2006 amounts have not been restated.

The adoption of these new standards had no material impact on the corporation's statement of operations.
