

Newmarket Hydro Holdings Inc.

2012 Annual General Meeting



A Very Busy Year

- Energy Board Policy
 - New rate setting regime
- Government Policy
 - Long-term Energy Plan
 - New Conservation and Demand Management Framework
 - Regional Energy Supply Planning
- Strategic Initiatives
 - "G8" Collaborative
 - Newmarket-Tay
 - Greater Sudbury Hydro
 - Bluewater Power (Sarnia)
 - Niagara-On-The-Lake Hydro
 - St. Thomas Energy
 - North Bay Hydro
 - Northern Ontario Wires (Cochrane)
 - PUC Distribution (Sault Ste. Marie)



The G8

- Alternative services delivery
 - Targeted services that achieve savings and deliver local benefits while avoiding the expense and pitfalls of consolidation

A Very Successful Year

Our Customers

- 95% of our customers are very or fairly satisfied with our service
- Our customer experience performance is 87%
 - National benchmark 83%
 - Ontario benchmark 83%
- Our customer engagement index is 85%
 - National benchmark is 81%
 - Ontario benchmark is 81%
- *One of the best results in Ontario!*




A Very Successful Year In the Community

- Major support for
 - Salvation Army
 - Southlake Health
 - Paediatric Oncology Clinic
 - Festival of Trees
 - Golf Tournament
 - Belindas Place
 - Town
 - First Night
 - Team sponsorships in hockey, baseball, soccer
 - Arts Gala
- \$5,000 annually in student scholarships
- Junior Achievement
 - Since 2008, Newmarket-Tay has sponsored and mentored 100 students in the JA Company Program generating a \$765,000 societal impact based on findings by the Boston Consulting Group

A Very Successful Year

Audit Report



- Audit Opinion

- The opinion was unqualified or a “clean opinion” was expressed
- Statements are free of material misstatements and can be relied upon

A Very Successful Year

Dividends





Dividend Policy

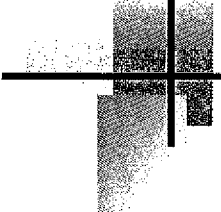
- Shareholder payments based on:
 - 100% of Promissory Note interest at OEB prescribed interest rate
 - 60% of regulatory net income based on 60/40 debt – equity split
- Retained earnings used for investment in rate base
 - Fixed Assets including
 - viva project
 - Asset management

Dividend Projection - Newmarket

NT Power Payment Projection Newmarket Shareholder 93% Shareholding, \$22M P Note Debt/Equity = 60/40

	OEB Income (%)	2011 (Payable in 2012)	2012 (Payable in 2013)	2013 (Payable in 2014)	2014 (Payable in 2015)
Dividend	9.66	1,336,000	1,336,000	1,336,000	1,336,000
Other Dividend		214,285	0	0	0
P Note Interest	5.48	1,205,600	1,205,600	1,205,600	1,205,600
Other^[1]	N/A	270,000	275,000	275,000	275,000
Total	-	3,025,885	2,816,600	2,816,600	2,816,600

^[1] Rent on Steven Court facility



A Very Successful Year

Value of the Investment

- Last DCF valuation put the value north of \$75 Million
- The value to the Municipality should be the Replacement amount of principal so that it is held harmless on a cash flow basis.
 - NT power pays a minimum of \$1.437 million in Dividends
 - NT power pays a minimum of \$1.301 million in interest payments on the Municipal Promissory Notes
- Initial investment in 2000 – \$25 million
- *2013 Replacement value – over \$200 million*

**CONSOLIDATED
FINANCIAL STATEMENTS OF**

NEWMARKET HYDRO HOLDINGS INC.

December 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Newmarket Hydro Holdings Inc.

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Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Newmarket Hydro Holdings Inc., which comprise the consolidated balance sheet as at December 31, 2012, and the consolidated statements of retained earnings, income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Newmarket Hydro Holdings Inc. as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Kawartha LLP

Chartered Accountants
Licensed Public Accountants

Peterborough, Ontario
April 24, 2013

NEWMARKET HYDRO HOLDINGS INC.
CONSOLIDATED BALANCE SHEET
As at December 31, 2012

	2012	2011
	\$	\$
ASSETS		
Current assets		
Cash	7,943,135	5,380,954
Short-term investments (note 3)	3,339,347	3,165,825
Accounts receivable	8,947,648	8,126,106
Unbilled revenue	8,525,292	9,527,083
Inventory	947,105	832,962
Prepaid expenses	395,761	367,957
Income taxes receivable	915,112	796,050
	31,013,400	28,196,937
Other assets		
Property, plant and equipment (note 4)	53,885,877	51,628,503
Future income taxes (note 13)	3,560,000	3,970,000
	57,445,877	55,598,503
	88,459,277	83,795,440
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	10,639,451	10,736,770
Due to shareholder	87,412	87,412
Current portion of deposits held	325,000	325,000
	11,051,863	11,149,182
Long-term liabilities		
Long-term debt (note 6)	24,742,821	24,742,821
Deposits held	3,096,717	3,044,384
Employee future benefits (note 7)	1,059,572	874,341
Deferral accounts (note 8)	4,739,270	1,666,527
	33,638,380	30,328,073
	44,690,243	41,477,255
Non-controlling interest (note 10)	2,896,574	2,815,394
Shareholder's equity		
Share capital (note 11)	29,609,342	29,609,342
Retained earnings	11,263,118	9,893,449
	40,872,460	39,502,791
	88,459,277	83,795,440

The accompanying notes are an integral part of these financial statements

NEWMARKET HYDRO HOLDINGS INC.
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
For the year ended December 31, 2012

	2012 \$	2011 \$
Retained earnings - beginning of year	9,893,449	8,810,548
Net income for the year	2,821,669	2,680,401
Dividends (note 12)	(1,452,000)	(1,597,500)
Retained earnings - end of year	11,263,118	9,893,449

The accompanying notes are an integral part of these financial statements

NEWMARKET HYDRO HOLDINGS INC.
CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2012

	2012	2011
	\$	\$
Sales		
Service revenue (note 8)	13,079,618	16,286,474
Cost of power revenue	58,954,390	57,184,583
Other operating income	1,126,208	925,702
Investment income	59,931	69,485
Interest income	164,521	100,474
	73,384,668	74,566,718
Cost of power purchased	58,954,390	57,184,583
Gross profit	14,430,278	17,382,135
Expenses		
Amortization	2,661,719	4,562,377
Administration	2,641,334	2,817,670
System operation and maintenance	2,239,264	2,133,357
Customer billing and collecting	1,925,847	1,810,613
Interest on long-term debt	1,331,890	1,344,984
	10,800,054	12,669,001
Income before undernoted items and income taxes	3,630,224	4,713,134
Other income (expense)		
Non-controlling interest (note 10)	(81,180)	(75,136)
Gain (loss) on disposal of property, plant and equipment	179,701	(489,840)
	98,521	(564,976)
Income before income taxes	3,728,745	4,148,158
Provision for income taxes (note 13)		
Current	497,076	1,217,757
Future	410,000	250,000
	907,076	1,467,757
Net income for the year	2,821,669	2,680,401

The accompanying notes are an integral part of these financial statements

NEWMARKET HYDRO HOLDINGS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2012

	2012 \$	2011 \$
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	2,821,669	2,680,401
Items not affecting cash		
Amortization	2,661,719	4,562,377
Future income taxes	410,000	250,000
Loss (gain) on disposal of property, plant and equipment	(179,701)	489,840
Employee future benefits	185,231	55,299
Increase in non-controlling interest (note 10)	81,180	75,136
	5,980,098	8,113,053
Change in non-cash working capital items (note 14)	(299,268)	(1,742,125)
	5,680,830	6,370,928
Investing activities		
Purchase of property, plant and equipment	(6,334,839)	(5,192,680)
Proceeds on disposal of property, plant and equipment	1,595,447	16,792
Deferral accounts	3,072,743	1,091,595
	(1,666,649)	(4,084,293)
Financing activities		
Proceeds of long-term debt	-	1,000,000
Dividends paid	(1,452,000)	(1,597,500)
	(1,452,000)	(597,500)
Increase in cash	2,562,181	1,689,135
Cash - beginning of year	5,380,954	3,691,819
Cash - end of year	7,943,135	5,380,954

The accompanying notes are an integral part of these financial statements

NEWMARKET HYDRO HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012

1. NATURE OF OPERATIONS

Newmarket Hydro Holdings Inc. ("the Company") was incorporated April 10, 2000 under the Business Corporations Act of the Province of Ontario. The Company commenced operations on November 1, 2000. Newmarket Hydro Holdings Inc. is wholly-owned by the Town of Newmarket.

The principal activity of the Company is to distribute electricity to the residents and businesses in the Town of Newmarket and the Township of Tay under a licence issued by the Ontario Energy Board (OEB). The Company is regulated by the OEB and adjustments to its distribution rates require OEB approval.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of its subsidiary, Newmarket-Tay Power Distribution LTD. Tay Hydro Inc. has a 7% interest in Newmarket-Tay Power Distribution Ltd.

(b) Electricity regulation

The Company is subject to rate regulation by the Ontario Energy Board (OEB). The OEB is charged with the responsibility of approving rates for the transmission and distribution of electricity. The following regulatory policy is practiced in a rate regulated environment:

Deferral accounts

Deferral accounts consist of deferred qualifying transition costs and various rate and retail variance accounts. Deferral accounts include amounts recoverable and repayable. The amounts included in these accounts are deferred for accounting purposes because it is probable that they will be recovered (repaid) in future rates. Deferral accounts recognized at December 31, 2012 are disclosed in note 8. The Company continually assesses the likelihood of the recovery of recoverable assets. If recovery is no longer considered probable, the amounts are charged to operations in the year the assessment is made.

(c) Cash

Cash in bank deposit accounts, at times, exceeds federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

(d) Short-term investments

Investments are recorded at fair value. Unrealized gains and losses as a result of fair value adjustments at year end are included in investment income for the year.

NEWMARKET HYDRO HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(e) Inventory

Inventory is valued at the lower of cost and net realizable value with cost being determined on a weighted average basis.

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost. The Company provides for amortization using the straight-line method at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives. The annual amortization rates are as follows:

Buildings	25 to 30 years
Transmission and distribution	40 to 50 years
Office and computer equipment	5 to 10 years
Leasehold improvements	7 years
Computer software	3 to 5 years
Operational equipment	10 to 15 years
Transportation equipment	5 to 10 years
Land rights	30 years

Contributions for capital construction consist of third party contributions toward the cost of constructing distribution assets. The third party contribution is calculated through an economic evaluation as per the OEB Distribution Service Code. Contributed capital amounts are recorded as received and amortized over the same period as the asset to which they relate being 30 to 50 years.

(g) Related party transactions

Related party transactions are in the normal course of operations and have been measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Details of related party transactions and balances are disclosed in note 9.

(h) Employee future benefits

The Company pays certain health, dental and life insurance benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which the employees earn the benefits. The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of salary escalation, retirement ages of employees, employee turnover and expected health and dental care costs. The most recent actuarial valuation of the obligation was performed for December 31, 2012. Details related to the post-employment benefits are detailed in note 7.

NEWMARKET HYDRO HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(i) Income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes (PILS) to the Ontario Electricity Financial Corporation (OEFC). Future income taxes are calculated using the liability method of tax accounting. In providing for corporate income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as future income taxes. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate future income taxes. Additional details related to the calculation and method of accounting for PILS is included in note 13.

(j) Management estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

Key areas where management has made complex or subjective judgments (often as a result of matters that are inherently uncertain) include, among others, the fair value of certain assets, useful lives of capital assets, impairment of assets, inventory provisions, amortization, revenues, allowance for doubtful accounts, environmental and asset retirement obligations, post-retirement benefits and income taxes. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

(k) Revenue recognition

Service revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the period. The related cost of power revenue is recorded on the basis of the power billed by the Independent Electricity System Operator. Other operating revenue is recorded when services are provided.

(l) Asset retirement obligations

Canadian generally accepted accounting principles require the Company to determine the fair value of the future expenditures required to settle legal obligations to remove fixed assets on retirement. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures.

Some of the Company's assets may have asset retirement obligations. As the Company expects to use the majority of its fixed assets for an indefinite period, no removal costs can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations has not been made at this time.

NEWMARKET HYDRO HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(m) International Financial Reporting Standards (IFRS)

On February 13, 2008 the Accounting Standards Board (AcSB) confirmed that IFRS will be required to be adopted by publicly accountable enterprises and certain government enterprises for annual reporting purposes for fiscal years beginning on or after January 1, 2012. On September 10, 2011 the AcSB granted an optional one year deferral of IFRS adoption for entities subject to rate regulation. Subsequent to this, through a series of additional one year extensions, the mandatory change over date for entities with rate regulated activities has been extended to January 1, 2015. At its December 2012 meeting, the International Accounting Standards Board (IASB) decided to develop an interim IFRS on rate regulated activities that "grandfathers" existing recognition and measurement policies. The Company has elected to continue the deferral of transition to IFRS, pending resolution of these matters before the (IASB).

The Company is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable. The company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any necessary system changes to gather and process the information. The impact of new IFRS standards and interpretations not yet effective has also not been assessed.

3. SHORT-TERM INVESTMENTS

	2012 \$	2011 \$
Bond	500,000	1,000,000
Mutual bond fund	2,839,347	2,165,825
	<u>3,339,347</u>	<u>3,165,825</u>

The bond is at a rate of 3.95% (2011 - 3.7% and 3.95%) and is due January 21, 2013.

NEWMARKET HYDRO HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012

4. PROPERTY, PLANT AND EQUIPMENT

	Cost \$	Accumulated amortization \$	2012 Net book value \$	2011 Net book value \$
Land	3,612,170	-	3,612,170	3,141,958
Buildings	281,705	79,057	202,648	206,923
Transmission and distribution	92,507,913	45,758,501	46,749,412	45,080,715
Office and computer equipment	735,143	340,603	394,540	440,345
Leasehold improvements	1,012,021	493,137	518,884	570,931
Computer software	884,545	371,548	512,997	591,884
Operational equipment	696,752	420,818	275,934	288,996
Transportation equipment	2,969,573	1,760,532	1,209,041	880,150
Land rights	510,698	100,447	410,251	426,601
	103,210,520	49,324,643	53,885,877	51,628,503

During the current year, the Company changed the rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives. This change decreased current year amortization expense by \$1,932,487.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2012 \$	2011 \$
Accounts payable - purchased power	3,745,467	4,202,884
Other accounts payable and accrued liabilities	3,695,718	3,585,653
Water and sewer billings payable	1,704,054	1,418,090
Credits on customer accounts	901,976	1,125,084
Independent Electric System Operator	75,198	75,198
OPA program payable	517,038	329,861
	10,639,451	10,736,770

6. LONG-TERM DEBT

	2012 \$	2011 \$
Note payable, 5.48% - Town of Newmarket	22,000,000	22,000,000
Note payable, 5.48% - Township of Tay	1,742,821	1,742,821
Committed term facility, 3.07%, due December 31, 2014	1,000,000	1,000,000
	24,742,821	24,742,821

NEWMARKET HYDRO HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012

6. LONG-TERM DEBT, continued

The notes are unsecured and have no specific terms of repayments. Since the holders of the notes have indicated that it is not their intention to request payment of this amount during the next fiscal year, this amount has been classified as a non-current liability in the accompanying financial statements.

The committed term facility was drawn for the purpose of the purchase of smart meters. The Company is required to make monthly interest payments only with 100% of the remaining balance due December 31, 2014. At December 31, 2012 the Company was in compliance of all covenants.

7. EMPLOYEE FUTURE BENEFITS

The Company provides certain health, dental and life insurance benefits for retired employees pursuant to the Company's policy. The accrued benefit obligation and net periodic expense for the year were determined by actuarial valuation. The most recent valuation was performed for December 31, 2012.

The unamortized past service cost obligation resulting from the inclusion of the former Tay Hydro Electric Distribution Company Inc. employees in the plan, is being amortized over the remaining service life of those employees, being 11 years with 6 years remaining to be amortized.

Significant actuarial assumptions employed for the valuations are as follows: future general inflation level of 2.5%, discount rate of 3.9%, salary and wage level increases at 3.3% per annum. A 7.63% annual increase in the per capita cost for health benefits was used for 2012. This rate will increase to 8% for 2013; and decrease to 7.47% for 2014; 6.93% for 2015; 6.4% for 2016; 5.87% for 2017; 5.33 for 2018; 4.8% for 2019 and thereafter. A 5% annual rate of increase in the per capita cost of covered dental costs was used for 2012. This rate will increase to 6.88% for 2013; 6.5 for 2014; 6.13% for 2015; 5.75% for 2016; 5.38% for 2017; 5.0% for 2018 and thereafter. Information about the Company's defined benefit plan is included in the table which follows.

	2012 \$	2011 \$
Accrued Benefit Obligation, beginning of period	874,341	819,042
Current service cost	147,561	83,687
Amortization of past service costs	13,204	13,204
Benefits paid	(33,422)	(41,592)
Actuarial loss	57,888	-
	1,059,572	874,341
Unamortized past service costs	70,421	83,625
	1,129,993	957,966

NEWMARKET HYDRO HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012

8. DEFERRAL ACCOUNTS

As described in note 2(b) the Company has recorded the following deferral accounts:

	2012 \$	2011 \$
Deferral accounts approved for recovery	2,130,324	2,096,502
Recovered to date	(2,678,320)	(1,822,067)
Repayment - payment in lieu deferral account	(1,333,036)	-
	(1,881,032)	274,435
Power purchased for resale	(819,156)	(1,517,396)
Smart meters	(380,407)	(402,035)
Change in useful life of property, plant and equipment	(1,762,969)	-
Retail settlements and other	104,294	(21,531)
	(4,739,270)	(1,666,527)

Pursuant to The Ontario Energy Board Decision on EB 2011-0184 the Company is returning an unintentional over collection of charges related to Payments in Lieu of Taxes. These charges were collected from 2002 to 2006. The repayment of the amounts due will continue through the 2014 fiscal year.

In addition, as indicated in note 4, the Company has adjusted the estimate useful life related to the amortization period for certain capital assets, based upon the Ontario Energy's Board regulatory accounting direction as contained in the revised 2012 Accounting Procedures Handbook for Electricity Distributors. As a result of OEB direction related to the settlement of these amounts, the Company has recorded a payable in the deferral account of \$1,762,969 and a reduction in service revenue.

9. ADVANCES FROM RELATED PARTIES AND RELATED PARTY TRANSACTIONS

- (a) During the year, the Company entered into transactions with its majority parent, Newmarket Hydro Holdings Inc. (NHHI) and with The Town of Newmarket which is the sole shareholder of Newmarket Hydro Holdings Inc. Revenue charged during the year included energy, street light capital and street light maintenance charged at commercial rates to the Town of Newmarket.

Included in accounts payable (note 5) are water and sewer amounts collected which are due to the Town. These amounts are collected and remitted in accordance with a contract with URB Olameter and remitted on their behalf.

Included in long term debt (note 6) are notes payable to related parties.

- (b) Transactions

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

NEWMARKET HYDRO HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012

9. **ADVANCES FROM RELATED PARTIES AND RELATED PARTY TRANSACTIONS, continued**

(b) *Transactions, continued*

	2012 \$	2011 \$
Revenue		
Energy sales	3,642,968	3,247,808
Services - Street light capital	4,097	12,191
Services - Street light maintenance	267,809	267,809
	3,914,874	3,527,808
Expenses		
Interest	1,205,600	1,246,300
Rent, property tax and other	382,244	390,371
	1,587,844	1,636,671

(c) *The following amount is due from the Town of Newmarket and included in the financial statements:*

	2012 \$	2011 \$
Accounts receivable	318,309	345,379

10. **NON-CONTROLLING INTEREST**

The changes in non-controlling interest consist of:

	2012 \$	2011 \$
Balance - beginning of the year	2,815,394	2,740,258
Proportional share of income	197,180	186,636
Proportional share of dividends paid	(116,000)	(111,500)
Balance - end of the year	2,896,574	2,815,394

NEWMARKET HYDRO HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012

11. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued

	2012	2011
	\$	\$
201 common shares	29,609,342	29,609,342

12. DIVIDENDS

During the year the Company declared and paid \$1,452,000 of dividends. An additional \$214,285 was declared and paid, however, was loaned to Newmarket-Tay Power Distribution LTD. and eliminated upon consolidation. \$116,000 of this amount was charged against the non-controlling interest as described in note 10.

13. INCOME TAXES

a) The components of future income tax balances are as follows:

	2012	2011
	\$	\$
Future income tax asset		
Tax basis of equipment in excess of carrying amount	2,957,000	3,414,000
Reserves deductible when paid	313,000	247,000
Cumulative eligible capital available for tax purposes	290,000	309,000
	3,560,000	3,970,000

NEWMARKET HYDRO HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012

13. INCOME TAXES, continued

- b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 26.5% (2011 - 31%) to the income for the years as follows:

	2012 \$	2011 \$
Income for the year before income taxes	3,729,000	4,148,000
Anticipated income tax expense	988,185	1,285,880
Effect of items not deductible for tax purposes	3,975	8,475
Impact of tax rate changes and other	(85,084)	173,402
Income tax expense	907,076	1,467,757

14. STATEMENT OF CASH FLOWS

	2012 \$	2011 \$
Increase in short-term investments	(173,522)	(130,978)
Increase in accounts receivable	(821,542)	(1,320,496)
Decrease in unbilled revenue	1,001,791	369,360
Increase in inventory	(114,143)	(131,708)
Increase in prepaid expenses	(27,804)	(244,417)
Increase in income taxes receivable	(119,062)	(448,279)
Increase (decrease) in accounts payable and accrued liabilities	(97,319)	673,528
Increase (decrease) in deposits held	52,333	(509,135)
	(299,268)	(1,742,125)
Interest paid	1,352,638	1,344,984
Income taxes paid	1,213,600	1,714,036

NEWMARKET HYDRO HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012

15. SHORT TERM CREDIT FACILITIES

The Company has \$3,500,000 available in operating facilities from a major chartered bank. The facilities are 364 day revolving operating loan, bearing interest at prime plus 0.5%, to be repaid within one year from date of acquisition unless extended by the bank. A standby fee of 10 basis points, payable quarterly in arrears applies to any unused portion of the facility. As at the balance sheet date, the Company has no balance outstanding on this facility. The operating loan includes restrictive clauses with respect to repayment.

In addition, the Company has provided prudential support in the amount of \$2,765,940 to the Independent Electricity System Operator. The prudential support is secured by a letter of credit with a major chartered bank for \$2,765,940 and contains restrictive clauses with respect to debt repayments.

A general security agreement covering all assets of the Company has been pledged as security for the operating loans and term facility.

16. PENSION AGREEMENT

The Company makes contributions to the Ontario Municipal Employees' Retirement Fund (O.M.E.R.S.), which is a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on the length of service and rates of pay.

The amount contributed to O.M.E.R.S. for the year ended was \$386,294 (2011 - \$331,096).

NEWMARKET HYDRO HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012

17. CAPITAL DISCLOSURES

The Company's primary objective when managing capital is to address the expectations as provided in the Shareholder Agreement between the Company's parent company, Newmarket Hydro Holdings Inc. and its shareholder, the Town of Newmarket. The expectation is that the Company will maintain a prudent financial structure in order to safeguard the Company's assets and to provide adequate returns for its shareholders and benefits to the stakeholders.

The Ontario Energy Board sets rates based on a deemed capital structure of 60% debt and 40% equity.

Changes to the Company's capital structure are constrained by existing covenants contained in the banking agreement. The Company must maintain a maximum debt to capitalization ratio of 0.60 to 1 and maintain a debt service coverage ratio of 1.2.

The Company's current capital structure is defined as follows:

	2012 \$	2011 \$
Long-term debt	24,742,821	23,742,821
	24,742,821	23,742,821
	2012 \$	2011 \$
Share capital	29,609,342	29,609,342
Retained earnings	11,263,118	9,893,449
Non-controlling interest	2,896,574	2,815,394
	43,769,034	42,318,185

NEWMARKET HYDRO HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012

18. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash, mutual funds, bonds, accounts receivable and unbilled revenue which will result in future cash receipts, as well as accounts payable and accrued liabilities, customer deposits, accounts payable and accruals, advances payable and long term debt which will result in future cash outflows.

The Company does not believe that it is exposed to significant foreign exchange risk.

The Company is exposed to the following risks in respect of certain financial instruments held:

(a) Fair value

The carrying value of the accounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short-term nature.

The short-term investments are carried at fair value, with changes in value recognized in income in the year.

The fair value of the advances from parent company detailed in note 9 are less than carrying value, as the amounts have no terms of repayment, the fair value cannot be calculated with any degree of certainty.

The carrying value of long-term debt approximates the fair value as the interest rates are consistent with the current rates offered to the Company for debt with similar terms.

(b) Interest rate risk

The Company manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings. The fixed rate debt (note 6) is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates. The floating rate credit facility (note 15) is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

(c) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. However, the Company has a significant number of customers which minimizes the concentration of credit risk. An allowance for collection of doubtful accounts in the amount of \$214,867 (2011 - \$211,474) has been recor

(d) Market risk

The securities held as short term investments exposes the company to market risk due to the potential for changes in market prices.

NEWMARKET HYDRO HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012

18. FINANCIAL INSTRUMENTS, continued

(e) Liquidity risk

The Company does have a liquidity risk in the accounts payable and accrued liabilities of \$10,639,451 (2011 - \$10,736,770). Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate line of credit to repay trade creditors and repays long term debt interest and principal as they become due. In the opinion of management the liquidity risk exposure to the Company is low and is not material.

19. COMMITMENTS

The company has an operating lease agreement with the Town of Newmarket, expiring December 31, 2017 for the rental of the building. Minimum lease payments over the next five year period under this commitment are as follows;

	\$
2013	275,000
2014	275,000
2015	275,000
2016	275,000
2017	275,000
	<hr/> 1,375,000 <hr/>

NEWMARKET HYDRO HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2012

20. CONTINGENCIES

(a) In the normal course of business, the Company enters into agreements that meet the definition of a guarantee. The guarantees include indemnities under lease agreements, purchase and sale agreements, confidentiality agreements, outsourcing, service and information agreements. The nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability related to the likelihood and predictability of future events. Historically, the Company has not made any significant payments under similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

(b) Indemnity has been provided to all directors and/or officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential suits or actions. The amount of any potential future liability which exceeds the amount of insurance coverage cannot reasonably be determined.

(c) The Company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the Company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual losses, claims and costs experienced.

21. COMPARATIVE AMOUNTS

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.



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Newmarket Hydro Holdings Inc.

November 5, 2013

Newmarket Hydro Holdings Inc. Report of the President

TO: Town of Newmarket Committee of the Whole

SUBJECT: Newmarket Hydro Holdings Inc. 2012 Annual General Meeting

ORIGIN: President, Newmarket Hydro Holdings Inc.

RECOMMENDATIONS:

THAT the Newmarket Hydro Holdings Inc. Report of the President dated November 5, 2013 regarding the financial statements of Newmarket Hydro Holdings Inc. (the "Corporation"), the written resolutions of Newmarket – Tay Power Distribution Ltd. ("NT Power") and appointment of the sole director and auditors be received and the following recommendations be adopted:

WHEREAS the Corporation of the Town of Newmarket (the "Sole Shareholder") is the sole shareholder of the Corporation;

AND WHEREAS the Sole Shareholder by a Shareholder Declaration dated November 1, 2000 appointed the Mayor as its legal representative for the purpose of communicating any shareholder consent or approval required by either the terms of the Shareholder Declaration or the *Business Corporations Act* (Ontario) (the "OBCA");

AND WHEREAS the Corporation owns a majority of the common shares of NT Power;

AND WHEREAS pursuant to s.102(2) of the *OBCA* where a body corporate is the shareholder of a corporation the corporation shall recognize any individual properly authorized by the body corporate to represent it at meetings of shareholders of the corporation;

AND WHEREAS pursuant to s.104 of the *OBCA* a written resolution dealing with all the matters required to be dealt with at a shareholders meeting and signed by the shareholders entitled to vote at that meeting satisfies all requirements of the *OBCA* relating to that meeting of shareholders;

Newmarket Hydro Holdings Inc. 2012 Annual General Meeting

NOW THEREFORE BE IT RESOLVED by the Municipal Council of the Corporation of the Town of Newmarket as follows:

1. THAT the Mayor, as the Sole Shareholder's legal representative, is directed to sign the following Corporation Shareholder resolutions:

- a. THAT the Corporation's financial statements for the financial year ended December 31, 2012 together with the report of the Corporation's auditors, Collins Barrow, thereon dated April 24, 2013 be approved and adopted.
- b. THAT Collins Barrow, Chartered Accountants, be appointed auditors of the Corporation to hold office until the next annual meeting of shareholders at such remuneration as may be fixed by the sole director and the sole director is authorized to fix such remuneration.
- c. THAT R.N. Shelton be appointed as the sole director of the Corporation to hold office until the next annual meeting of shareholders or until his successor is elected or appointed.
- d. THAT R.N. Shelton, so long as he is the sole director of the Corporation, shall represent the Corporation at meetings of shareholders of NT Power;
- e. AND THAT all acts, contracts, bylaws, proceedings, appointments elections and payments, enacted, made, done and taken by the sole director and sole officer of the Corporation to December 31, 2012, as the same are set out or referred to in the resolutions of the sole director, or in the financial statements of the corporation, are approved, sanctioned and confirmed.

2. AND THAT the Mayor, as the Sole Shareholder's legal representative, direct R.N. Shelton, the sole director and legal representative of the Corporation, to sign the following NT Power shareholder resolutions in lieu of an annual meeting:

- a. THAT the financial statements of NT Power for the financial year ended December 31, 2012 together with the report of NT Power's auditors, Collins Barrow, thereon dated April 24, 2013 be approved and adopted.
- b. THAT Collins Barrow, Chartered Accountants, be appointed auditors of NT Power to hold office until the next annual meeting of shareholders at such remuneration as may be fixed by the directors and the directors are authorized to fix such remuneration.

Newmarket Hydro Holdings Inc. 2012 Annual General Meeting

c. THAT T. Van Bynen, S. Warnock, P. Daniels, R. Betts, A. Ott, T. Taylor and P. Ferguson are elected directors of NT Power to hold office until the next annual meeting of shareholders or until their successors are elected or appointed.

d. THAT C. Prattas is elected as a director of NT Power upon the resignation of T. Taylor

e. AND THAT all acts, contracts, bylaws, proceedings, appointments elections and payments, enacted, made, done and taken by the directors and officers of NT Power to December 31, 2012, as the same are set out or referred to in the resolutions of the board of directors, the minutes of the meetings of the board of directors or in the financial statements of NT Power, are approved, sanctioned and confirmed.

Financial Statements of the Corporation

The audited financial statements for the Corporation were presented at a council workshop on September 23, 2013 and are attached to this report. Mr. Iain Clinton, Chief Financial Officer of NT Power will be available at the meeting to answer questions regarding them.

Appointment of Auditors

The Board of Directors of NT Power recommends the re-appointment of Collins Barrow for the period January 1 to December 31, 2013 for both the corporation and NT Power.

Election of Directors for the Corporation

Upon the merger of Newmarket Hydro Ltd. and Tay Hydro Electric Distribution Company Inc. on May 1, 2007, Mr. R.N. Shelton was appointed as the sole director of the corporation. There has been no change requested by the Shareholder to this appointment.

Election of Directors – NT Power

The existing directors of NT Power are:

T. Van Bynen, Mayor of the Town of Newmarket
S. Warnock, Mayor of the Township of Tay
R. Betts, Independent Director
Dr. U. Phillip Daniels, Independent Director
Tom Taylor, Independent Director

Newmarket Hydro Holdings Inc. 2012 Annual General Meeting

Andy Ott, Independent Director
P.D. Ferguson, President of NT Power

Director T. Taylor has indicated he will be resigning from the board of directors of NT Power (the "Board") no later than the end of 2014 creating one director vacancy.

In accordance with the NT Power Shareholders Agreement, the Board struck a Nominating Committee (the 'Committee'), being the standing Governance and Compensation Committee consisting of chair P. Daniels, and directors T. Van Bynen and T. Taylor to; with input from a professional recruiting firm and utilizing corporate governance best practices, provide the shareholders with a recommended list of candidates from which to select nominees to be elected directors with respect to all then vacant director positions or all director positions which will be vacant as at the next annual general meeting of NT Power. Given only one vacancy would exist, the Newmarket and Tay shareholders agreed to forego the requirement to retain a professional recruiting firm.

The Committee recommended a two person slate of candidates to an Ad-Hoc Joint Committee of the councils of Newmarket and Tay (the "Ad-Hoc Committee") consisting of:

- | | | |
|---------|---|---------------------------------|
| Chair | - | Newmarket Councillor C. Emanuel |
| Members | - | Tay Councillor N. Baumgardner |
| | - | Newmarket Councillor D. Kerwin |
| | - | Tay Mayor S. Warnock |
| | - | Newmarket Mayor T. Van Bynen |

The Ad - Hoc Committee unanimously selected Ms. Cristine Prattas to be nominated to replace T. Taylor. The report of the Ad-Hoc Committee is attached.

The appointments of The Mayor of Newmarket, the Mayor of Tay and the President are de facto. The independent directors Betts, Daniels, Taylor and Ott are eligible for re-appointment.

[Original signed by]

P.D. Ferguson P.Eng.
President,
Newmarket Hydro Holdings Inc.