

Table of Contents

| | |
|--|----|
| Agenda | 2 |
| Tillsonburg Hydro Inc. Annual General Meeting | |
| Tillsonburg Hydro Inc. Agenda Packet 2018-06-26 11-00 | 4 |
| By-Law 4209, To Confirm the Proceedings of the Council Meeting of June 26, 2018. | |
| By-law 4209 Confirming June 26, 2018 | 46 |



COUNCIL MEETING

Tuesday, June 26, 2018
12:15 PM
Council Chambers
200 Broadway, 2nd Floor

AGENDA

1. Call to Order

2. Adoption of Agenda

Proposed Resolution #1

Moved By:

Seconded By:

THAT the Agenda as prepared for the Council meeting of Tuesday, June 26, 2018 , be adopted.

3. Moment of Silence

4. Disclosures of Pecuniary Interest and the General Nature Thereof

5. Public Meetings

5.1. Tillsonburg Hydro Inc. Annual General Meeting

[Tillsonburg Hydro Inc. Agenda Packet 2018-06-26 11-00](#)

Proposed Resolution # 2

Moved By:

Seconded By:

THAT Council move into the Annual General Meeting of the Shareholder of Tillsonburg Hydro Inc.

6. Notice of Motions

7. By-Laws

By-Laws from the Meeting of Tuesday, June 26, 2018

7.1. By-Law 4209, To Confirm the Proceedings of the Council Meeting of June 26, 2018.

Proposed Resolution # 4

Moved By: _____ Seconded By: _____

THAT [By-law 4209](#), To Confirm the Proceedings of the Council Meeting of June 26, 2018, be read for a first, second and third and final reading and that the Mayor and Clerk be and are hereby authorized to sign the same, and place the corporate seal thereunto.

8. Adjournment

Proposed Resolution # 5

Moved By: _____ Seconded By: _____

THAT the Council Meeting of Tuesday, June 26, 2018 be adjourned at _____ p.m.

Table of Contents

| | |
|--|----|
| Agenda | 2 |
| Minutes of the Meeting of the Tillsonburg Hydro Inc. Annual General Meeting | |
| 170627 THI AGM MIN | 5 |
| Appointment of Directors for Tillsonburg Hydro Inc. | |
| Board Recommend directors 2018 | 9 |
| 2017 Audited Financial Statements | |
| FinancialStatements-Client | 10 |
| Scrimbeour Engagement letter | 28 |
| Scrimgeour independence letter | 34 |
| Scrimgeour Rep letter. | 36 |
| Memorandum of Understanding | |
| MOUD - Revisions- FINAL | 39 |



ANNUAL GENERAL MEETING

Tuesday, June 26, 2018

12:15 AM

Council Chambers

200 Broadway, 2nd Floor, Tillsonburg

AGENDA

1. Call to Order

2. Adoption of Agenda

Resolution No. 1:

THAT the agenda for the Annual General Meeting of Tillsonburg Hydro In. on Tuesday, June 26, 2018 , be adopted.

3. Disclosures of Pecuniary Interest and the General Nature Thereof

4. Adoption of Minutes of Previous Meeting

[170627 THI AGM MIN](#)

Resolution No. 2:

THAT the Minutes of the Tillsonburg Hydro Inc. Annual General Meeting of June 27, 2017, be approved.

5. Appointments

5.1. Appointment of Directors for Tillsonburg Hydro Inc.

[Board Recommend directors 2018](#)

Resolution No. 3:

THAT the appointment of Directors for Tillsonburg Hydro Inc. for the current term until the next Annual General Meeting shall be as follows:

Daniel Rasokas, John Gilvesy, Alex Urbanowicz, Ann Loker, Ernie Vidovic, Julie Ann Snell ;

AND THAT Dave Beres (Shareholder Representative), be appointed until the end of the term of Council, December 1, 2018.

6. Finance

6.1. Finance

6.1.1. 2017 Audited Financial Statements

[FinancialStatements-Client](#)

[Scrimbeour Engagement letter](#)

[Scrimgeour independence letter](#)

[Scrimgeour Rep letter](#)

Resolution No. 4:

THAT The auditor's report for 2017 as presented by Christine Scrimgeour, CPA, CA, Scrimgeour & Company, and all activities and transactions for the year ended December 31, 2017 be approved.

6.1.2. Appointment of Auditor for the 2018 Fiscal Year

Resolution No. 5:

THAT the Shareholder appoint Christene Scrimgeour, CPA, CA, Scrimgeour & Company, as auditor for Tillsonburg Hydro Inc. for the 2018 fiscal year.

7. Legal

7.1. Legal

7.1.1. Memorandum of Understanding

[MOUD - Revisions- FINAL](#)

Resolution No. 6:

THAT the Memorandum of Understanding between The Corporation of the Town of Tillsonburg and Tillsonburg Hydro Inc. be approved.

7.1.2. Appointment of Legal Council for the 2018 Fiscal Year**Resolution No. 7:**

THAT the Shareholder appoint Aird & Berlis, LLP as general legal counsel for Tillsonburg Hydro Inc. for the 2018 fiscal year.

7.1.3. Ratification of Tillsonburg Hydro Inc. Board Decisions for the 2017 Fiscal Year**Resolution No. 8:**

THAT the actions and proceedings of the Board of Directors of Tillsonburg Hydro Inc. for the 2017 fiscal year be hereby ratified and confirmed.

8. Adjournment**Resolution No. 9:**

THAT the Annual General Meeting of Tillsonburg Hydro Inc. be adjourned;
AND THAT the Shareholder move back into the regular Council session at _____ a.m.



Tillsonburg Hydro Inc.

ANNUAL GENERAL MEETING

Tuesday, June 27, 2017

10:00 AM

Council Chambers

200 Broadway, 2nd Floor, Tillsonburg

MINUTES

Attendance:

Mayor Stephen Molnar
Deputy Mayor Beres
Councillor Adam
Councillor Esseltine
Councillor Jim Hayes
Councillor Stephenson

Board Members:

Chair John Gilvesy
Ann Loker
Daniel Rasokas
Ernie Vidovic
Julie Ann Snell

Regret:

Councillor Rosehart
Alex Urbanowicz

1. Call to Order

The meeting was called to order at 10:08 a.m.

2. Adoption of Agenda

Resolution No. 1:

Moved By: Councillor Hayes

Seconded By: Councillor Adam

THAT the agenda for the Annual General Meeting of Directors of Tillsonburg Hydro In. on Tuesday, June 27, 2017, be adopted.

Carried

3. Disclosures of Pecuniary Interest and the General Nature Thereof

No disclosures of pecuniary interest were declared.

4. Adoption of Minutes of Previous Meeting

[160621 THI AGM Min](#)

Resolution No. 2:

Moved By: Councillor Stephenson

Seconded By: Councillor Esseltine

THAT the Minutes of the Tillsonburg Hydro Inc. Annual General Meeting of June 21, 2016, be approved.

Carried

5. Appointments

5.1. Appointment of Directors for Tillsonburg Hydro Inc.

Resolution No. 3:

Moved By: Councillor Esseltine

Seconded By: Councillor Stephenson

THAT the appointment of Directors for Tillsonburg Hydro Inc. for the current term until the next Annual General Meeting shall be as follows:

John Gilvesy, Daniel Rasokas, Alex Urbanowicz, Ann Loker, Ernie Vidovic, Julie Ann Snell;

AND THAT Dave Beres (Shareholder Representative), be appointed until further notice.

Carried

6. Finance

6.1. Finance

6.1.1. 2016 Audited Financial Statements

[2016 Tillsonburg Hydro Inc. Financial Statements](#)

[THI Independence Letter](#)

Rick Scrimgeour, Scrimgeour & Company provided an overview of the financial statements.

The Shareholder was given the opportunity to ask questions.

Resolution No. 4:

Moved By: Councillor Adam

Seconded By: Councillor Hayes

THAT The auditor's report for 2016 as presented by Rick Scrimgeour, CPA, CA, Scrimgeour & Company, and all activities and transactions for the year ended December 31, 2016 be approved.

Carried

6.1.2. Appointment of Auditor for the 2017 Fiscal Year

Resolution No. 5:

Moved By: Deputy Mayor Beres

Seconded By: Councillor Adam

THAT the Shareholder appoint Christene Scrimgeour, CPA, CA, Scrimgeour & Company, as auditor for Tillsonburg Hydro Inc. for the 2017 fiscal year.

Carried

7. Legal

7.1. Appointment of Legal Council for the 2017 Fiscal Year

Resolution No. 6:

Moved By: Councillor Hayes

Seconded By: Councillor Adam

THAT the Shareholder appoint Aird & Berlis, LLP as general legal counsel for Tillsonburg Hydro Inc. for the 2017 fiscal year.

Carried

7.2 Ratification of Tillsonburg Hydro Inc. Board Decisions for the 2016 Fiscal Year

Resolution No. 7:

Moved By: Councillor Stephenson

Seconded By: Councillor Esseltine

THAT the actions and proceedings of the Board of Directors of Tillsonburg Hydro Inc. for the 2016 fiscal year be hereby ratified and confirmed.

Carried

7.3 Round Table

The request was made by the Shareholder to meet with THI Board of Directors regarding the MSA & MOUD documents for discussion and direction.

8. Adjournment

Resolution No. 8:

Moved By: Councillor Esseltine

Seconded By: Councillor Stephenson

THAT the Annual General Meeting of Tillsonburg Hydro Inc. be adjourned;
AND THAT the Shareholder move back into the regular Council session at 11:07a.m.

Carried

June 4, 2018

Tillsonburg Town Council
Shareholder of THI
Town of Tillsonburg
200 Broadway
Tillsonburg, ON N4G 5A7

Dear Shareholder:


RE: Board Recommendation

Please be advised that Tillsonburg Hydro Inc. Board of Directors are recommending the following Board of Directors to be appointed by the Shareholder at the Annual General Meeting on June 26, 2018:

Daniel Rasokas
Alex Urbanowicz
Ann Loker
John Gilvesy
Julie Ann Snell
Ernie Vidovic

The Shareholder Director position is to be selected by the Shareholder.

Regards,


for Dan Rasokas, Chair
Tillsonburg Hydro Inc.

TILLSONBURG HYDRO INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

**TILLSONBURG HYDRO INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

| | |
|-----|-----------------------------------|
| -1- | Independent Auditor's Report |
| -2- | Statement of Financial Position |
| -3- | Statement of Retained Earnings |
| -4- | Statement of Comprehensive Income |
| -5- | Statement of Cash Flows |
| -6- | Notes to the Financial Statements |

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors:

We have audited the accompanying financial statements of Tillsonburg Hydro Inc., which comprise the Statement of Financial Position as at December 31, 2017, and the Statements of Retained Earnings, Comprehensive 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 Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audit standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating overall presentation of the 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 financial statements present fairly, in all material respects, the financial position of Tillsonburg Hydro Inc. as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

April 24, 2018
London, Canada

LICENSED PUBLIC ACCOUNTANT

TILLSONBURG HYDRO INC.
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

| | 2017 | 2016 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current | | |
| Cash and short-term investments | \$ 778,783 | \$ 343,999 |
| Accounts receivable (note 3) | 4,332,792 | 6,208,798 |
| Inventory | 320,315 | 276,107 |
| Prepaid expenses | 26,247 | 28,644 |
| | 5,458,137 | 6,857,548 |
| Property, plant and equipment (note 5) | | |
| Cost | 23,179,399 | 21,701,360 |
| Less accumulated amortization | (11,424,204) | (11,275,020) |
| | 11,755,195 | 10,426,340 |
| Other assets | | |
| Non-utility capital assets (note 11) | 59,563 | 74,336 |
| | 59,563 | 74,336 |
| TOTAL ASSETS | \$ 17,272,895 | \$ 17,358,224 |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 2,081,151 | \$ 2,342,859 |
| Income tax payable (note 3) | 8,486 | 3,986 |
| Customer deposits | 41,113 | 39,533 |
| Current portion of long term debt (note 7) | 109,112 | 149,528 |
| Deposits in aid of construction | - | 11,503 |
| Due to related parties (note 12) | 426,823 | 829,781 |
| | 2,666,685 | 3,377,190 |
| Long term | | |
| Customer deposits | 233,256 | 236,440 |
| Deferred contributions (note 8) | 2,546,494 | 2,201,188 |
| Long term debt (note 7) | 500,000 | 109,219 |
| | 3,279,750 | 2,546,847 |
| Regulatory liabilities (note 6) | 88,049 | 705,974 |
| TOTAL LIABILITIES | 6,034,484 | 6,630,011 |
| Shareholder's equity | | |
| Common shares (note 9) | 6,992,565 | 6,992,565 |
| Contributed capital | 990,387 | 990,387 |
| Retained earnings (page 3) | 3,255,459 | 2,745,261 |
| | 11,238,411 | 10,728,213 |
| TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY | \$ 17,272,895 | \$ 17,358,224 |

On behalf of the Board:

The accompanying notes are an integral part of these financial statements.

**TILLSONBURG HYDRO INC.
STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2017**

| | 2017 | 2016 |
|---|---------------------|---------------------|
| RETAINED EARNINGS, BEGINNING OF YEAR | \$ 2,745,261 | \$ 2,412,069 |
| Comprehensive income for the year (page 4) | 660,198 | 483,192 |
| Dividends | (150,000) | (150,000) |
| RETAINED EARNINGS, END OF YEAR | \$ 3,255,459 | \$ 2,745,261 |

The accompanying notes are an integral part of these financial statements.

**TILLSONBURG HYDRO INC.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017**

| | 2017 | 2016 |
|--|----------------------|----------------------|
| Electricity revenue | \$ 23,525,347 | \$ 26,053,864 |
| Cost of power | 23,525,347 | 26,053,864 |
| Gross margin on power | - | - |
| Distribution revenue | | |
| Distribution service (note 6) | 3,503,926 | 3,430,117 |
| Retail service | 8,541 | 11,580 |
| Other | 187,947 | 219,748 |
| | 3,700,414 | 3,661,445 |
| Net non-utility activities (note 11) | 313 | 39,806 |
| Expenditures | | |
| Operating and maintenance (note 6) | 682,687 | 677,226 |
| Billing and collecting | 630,301 | 604,067 |
| General administration | 1,346,322 | 1,415,708 |
| Regulatory (note 6) | 35,749 | 28,003 |
| Amortization (note 3) | 364,128 | 327,998 |
| Interest and finance charges | 44,444 | 40,557 |
| | 3,103,631 | 3,093,559 |
| Net operating revenue | 597,096 | 607,692 |
| Provision for payment in lieu of corporate taxes (note 10) | (63,102) | 124,500 |
| COMPREHENSIVE INCOME FOR THE YEAR | \$ 660,198 | \$ 483,192 |

The accompanying notes are an integral part of these financial statements.

TILLSONBURG HYDRO INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | 2017 | 2016 |
|---|--------------------|-------------------|
| OPERATING ACTIVITIES | | |
| Comprehensive income for the year (page 4) | \$ 660,198 | \$ 483,192 |
| Changes not involving cash | | |
| Amortization | 364,128 | 327,998 |
| Net change in non-cash working capital balances related to operations (A) | 1,164,106 | (1,003,655) |
| | 2,188,432 | (192,465) |
| INVESTING ACTIVITIES | | |
| Deferred contributions | 345,306 | 10,034 |
| Capital asset acquisitions (net of dispositions) | (1,692,983) | (840,758) |
| Non-utility capital asset disposals (acquisitions) | 14,773 | 14,773 |
| | (1,332,904) | (815,951) |
| FINANCING ACTIVITIES | | |
| Regulatory assets (liabilities) | (617,925) | 918,009 |
| Customer deposits-long term | (3,184) | 3,364 |
| Debt advances (repayments) | 350,365 | (142,910) |
| Dividends paid | (150,000) | (150,000) |
| | (420,744) | 628,463 |
| Change in cash during the year | 434,784 | (379,953) |
| CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR | 343,999 | 723,952 |
| CASH AND SHORT-TERM INVESTMENTS, END OF YEAR | \$ 778,783 | \$ 343,999 |

(A) Consists of changes in accounts receivable, inventory, prepaid expenses, accounts payable and accrued liabilities, income taxes payable, current customer deposits, deposits in aid of construction and due to related parties.

The accompanying notes are an integral part of these financial statements.

**TILLSONBURG HYDRO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

1. Reporting entity

Tillsonburg Hydro Inc. (the Corporation) was incorporated under the Business Corporations Act (Ontario) on October 26, 2000 to distribute electrical power to the residents of the Town of Tillsonburg in accordance with Section 144 of the Electricity Act, 1998. The Corporation is wholly owned by the Town of Tillsonburg. The Corporation operates under a licence issued by the Ontario Energy Board ("OEB"). The Corporation is regulated by the OEB and adjustments to the Corporation's distribution and power rates require OEB approval. The address of the Corporation's registered office is 200 Broadway Street, 2nd Floor, Tillsonburg, Ontario, N4G 5A7.

2. Basis of presentation

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB") and interpretations as issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

Approval of the financial statements

The financial statements were approved by the Board of Directors on April 24, 2018.

Basis of measurement

The financial statements have been prepared on the historical cost basis.

These financial statements have been prepared using the accrual basis of accounting. The accrual basis of accounting recognizes revenue as it becomes available and measurable. Expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

**TILLSONBURG HYDRO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

2. Basis of presentation continued

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make certain estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

- i.** Note 3 - Revenue recognition - estimate of unbilled revenue
- ii.** Note 3 - Accounts receivable - allowance for impairment
- iii.** Note 3 - Property, plant and equipment, useful lives and the identification of significant components of property, plant and equipment
- iv.** Note 6 - Recognition and measurement of regulatory balances

Rate setting and industry regulation

The Ontario Energy Board Act (1998) (the Act) gave the Ontario Energy Board (OEB) powers and responsibilities to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers, and ensuring that distribution companies fulfil obligations to connect and service customers. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounts treatment that may differ from IFRS for enterprises operating in a non-rate regulated environment.

The Act provides for a competitive market in the sale of electricity in addition to the regulation of the monopoly electricity delivery system in Ontario.

The OEB has regulatory authority over the electricity delivery sector. The Act sets out the Board's powers to issue a distribution license, which must be obtained by any person owning or operating a distribution system under the Act. The Act allows the Board to prescribe license requirements and conditions to electricity distributors, which includes such considerations as specified accounting records, regulatory accounting principles, separation of accounts for separate businesses and filing requirements for rate setting purposes.

**TILLSONBURG HYDRO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

2. Basis of presentation continued

Rate setting and industry regulation

With the commencement of the open market, the Corporation purchases electricity from the Independent Electricity System Operator (IESO), at spot market rates and charges its customers unbundled rates. The unbundled rates include the actual cost of generation and transmission of electricity and an approved rate for electricity distribution. The cost of generation, transmission and other charges such as connection and debt retirement are collected by Tillsonburg Hydro Inc. and remitted to the IESO. The Corporation retains the distribution charge on the customer hydro invoices. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated Corporation. Such change in timing gives rise to the recognition of regulatory assets and liabilities. The Corporation's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered on future rates. In addition, the Corporation has recorded regulatory liabilities, which will represent amounts for expenses incurred in different periods than would be the case had the Corporation been unregulated. Specific regulatory assets and liabilities are disclosed in note 6.

The Corporation's approved distribution rates include components for the recovery of distribution expenses, regulatory assets and liabilities, payments in lieu of corporate income taxes, and a rate of return on capital assets.

On November 2, 2015, the Corporation submitted a Price Cap Incentive Rate-setting application to the OEB for 2016 Electricity Distribution Rates. On March 17, 2016, the Corporation received a decision from the OEB that approved changes to the rates that the Corporation charges for Electricity distribution, to be effective May 1, 2016.

On November 7, 2016, the Corporation submitted a Price Cap Incentive Rate-setting application to the OEB for 2017 Electricity Distribution Rates. On March 30, 2017, the Corporation received a decision from the OEB that approved changes to rates that the Corporation charges for Electricity distribution, to be effective May 1, 2017.

**TILLSONBURG HYDRO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

3. Significant accounting policies

The accounting policies set out below have been applied consistently in all years presented in these financial statements.

Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and short-term investments with maturities of less than one year when purchased.

Revenue recognition

Service revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading to the end of the year (unbilled revenue). Estimated customer usage from the last billing date to the end of the year is included in revenue. The Corporation applies judgment to the measurement of the estimated consumption and to the valuation of that consumption. Unbilled revenue, which is included in accounts receivable, at December 31, 2017 was \$2,306,973 (2016 - \$2,920,683).

Accounts receivable

Accounts receivable are shown net of an allowance for doubtful accounts of \$111,514 (2016 - \$96,629).

Inventory

Inventory consists of repair parts, supplies and material held for future capital expansion and maintenance activities and is valued at the lower of cost and net realizable value, with cost being determined on an average cost basis. Items considered major spare parts are recorded as capital assets.

Property, plant and equipment

Property, plant and equipment are measured at cost or deemed cost established on the transition date. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Parts of an item of property, plant and equipment that have different useful lives are accounted for as separate items (major components) of property, plant and equipment.

**TILLSONBURG HYDRO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

3. Significant accounting policies continued

Property, plant and equipment continued

Amortization is recognized in comprehensive income on a straight-line basis over the estimated useful life of each part or component of property, plant and equipment. Land is not amortized. The estimated useful lives are as follows:

| | |
|------------------------------------|----------|
| Distribution station equipment | 40 years |
| Poles, towers and fixtures | 50 years |
| Overhead conductors | 60 years |
| Overhead devices | 40 years |
| Underground conduit | 50 years |
| Underground conductors and devices | 30 years |
| Transformers | 40 years |
| Services - overhead | 50 years |
| Services - underground | 40 years |
| Distribution meters | 25 years |
| Smart meters | 15 years |
| Computer hardware | 5 years |
| Computer software | 5 years |

Amortization methods, useful lives and residual values are reviewed at each reporting date.

Impairment

Property, plant and equipment assets with finite lives are tested for recoverability whenever events or changes in circumstances indicate a possible impairment. Any impairment is recognized in comprehensive income when the asset's carrying value exceeds its estimated recoverable amount.

An impairment charge may be reversed only if there is objective evidence that a change in the estimate used to determine the asset's recoverable amount since the last impairment was recognized is warranted. A reversal of an impairment charge is recognized immediately in comprehensive income. After such a reversal, the amortization charge, where relevant, is adjusted in future periods on a systematic basis over the asset's remaining useful life.

**TILLSONBURG HYDRO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

3. Significant accounting policies continued

Deferred contributions

Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers where the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements.

Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as deferred contributions and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset.

Payment in lieu of corporate income taxes

The Corporation provides for payments in lieu of corporate income taxes using the taxes payable method. Under the taxes payable method, no provisions are made for the future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers of Tillsonburg Hydro Inc.

Regulatory policies

Tillsonburg Hydro Inc. has adopted the following policies, as prescribed by the Ontario Energy Board (OEB) for rate-regulated enterprises. The policies have resulted in accounting treatments differing from International Financial Reporting Standards. IFRS 14, which will undergo a comprehensive review by IASB in future years, allows the Corporation to continue to follow the prescribed OEB policies to record the following assets and liabilities:

1. Various regulatory costs have been deferred in accordance with criteria set out in the OEB's Accounting Procedures handbook. In the absence of such regulation, their costs would have been expensed when incurred under IFRS.
2. The Corporation has deferred certain retail settlement variance amounts under the provisions of Article 490 in the OEB's Accounting Procedures handbook.

Future accounting pronouncements

A number of new standards, amendments and interpretations under IFRS are not yet effective for the year ended December 31, 2017, and have not yet been applied in preparing these financial statements. The Corporation continues to analyze these standards, however, it is not anticipated these will have a material impact on its financial statements.

**TILLSONBURG HYDRO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

4. Financial instruments

The fair value of cash, accounts and income taxes receivable, due from (to) related parties, accounts payable and accrued liabilities and customer deposits is approximately equal to their carrying value given their short-term maturity date.

Exposure to market risk, credit risk, and liquidity risk arises in the normal course of the Corporation's business.

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Corporation does not have market risk due to the flow through nature of its energy purchases and costs. The Corporation does not have foreign exchange risk. The Corporation minimizes interest rate by issuing long-term fixed rate debt.

Financial assets create credit risk if customers fail to discharge an obligation, causing a financial loss. The Corporation's distribution revenue is earned on a broad base of customers principally located in Tillsonburg, with no single customer that accounts for revenue or accounts receivable balance in excess of 10% of the respective balance.

The Corporation invests in short-term investments which are not considered a credit risk.

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. Short-term liquidity is expected to be sufficient to fund normal operating requirements.

5. Property, plant and equipment

The value of property, plant and equipment as at year end are as follows:

| | Cost | Accumulated Amortization | Net 2017 | Net 2016 |
|----------------------|---------------------|-------------------------------------|---------------------|---------------------|
| Substation land | \$ 11,520 | \$ - | \$ 11,520 | \$ 11,520 |
| Substation equipment | 185,698 | (135,000) | 50,698 | 56,144 |
| Distribution system | 22,400,885 | (10,712,947) | 11,687,938 | 10,357,800 |
| Computer hardware | 19,886 | (19,886) | - | 28 |
| Computer software | 561,410 | (556,371) | 5,039 | 848 |
| | \$23,179,399 | \$ (11,424,204) | \$11,755,195 | \$10,426,340 |

**TILLSONBURG HYDRO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

6. Regulatory assets and liabilities

The following expenses (recoveries) may be considered by the Ontario Energy Board in future rate applications and accordingly have been deferred until such time as direction is provided by the OEB.

| | 2017 | 2016 |
|----------------------------------|-------------|--------------|
| Regulatory assets (liabilities): | | |
| Retail settlement variances | \$ (11,713) | \$ (841,448) |
| Deferred costs | 33,198 | 33,849 |
| Recovery of regulatory assets | (109,534) | 101,625 |
| Total regulatory liabilities | \$ (88,049) | \$ (705,974) |

The retail settlement variance accounts represent the difference between the amount charged by the IESO based on the settlement invoice and the amount billed to customers using the OEB approved rates. The disposition of these amounts is expected to be reflected in future rate adjustments.

The balance in the recovery of regulatory assets represents the amount that the OEB has considered final in prior applications and set a rate for recovery.

The Corporation continually assesses the likelihood of recovery of each of its regulatory assets and liabilities into the setting of future rates. If, at some future date, the Corporation judges that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be reflected in results of operations in the period that the assessment is made.

**TILLSONBURG HYDRO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

7. Long term debt

The Corporation incurred long term financing for the smart meter program. The debt is a bank loan, repayable over 10 years, bears interest at 4.53%, and has the option of a 10% prepayment each year. The loan is secured by a general security agreement.

Principal repayments over the next year is as follows:

| | |
|------|-----------|
| 2018 | \$109,112 |
|------|-----------|

In addition, during 2017, the Corporation was approved to borrow \$2,000,000 for capital projects at prime rate of interest. As of December 31, 2017, the Corporation had been advanced \$500,000. The loan is to be paid back at interest only payments, .65% per annum, for one year after the draw, which can be extended for one more year upon approved request. As a result, the \$500,000 has been reflected in the financial statements as long-term debt.

8. Deferred contributions

Deferred customer contributions in aid of construction or acquisition of property, plant and equipment is as follows:

| | 2017 | 2016 |
|---|--------------|--------------|
| Deferred contributions received | \$ 3,596,499 | \$ 3,173,337 |
| Less: Amount recognized as distribution revenue | (1,050,005) | (972,149) |
| Deferred contributions, end of year | \$ 2,546,494 | \$ 2,201,188 |

9. Share capital

The share capital of the Corporation consists of the following:

Authorized:

Unlimited common shares

Unlimited number of Class A shares - non-voting, non-cumulative redeemable

| | 2017 | 2016 |
|-----------------------|--------------|--------------|
| Issued | | |
| 1 voting common share | \$ 6,992,565 | \$ 6,992,565 |

**TILLSONBURG HYDRO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

10. Payments in lieu of corporate income taxes

As a regulated Lines Distribution Corporation, Tillsonburg Hydro Inc. is required to remit payments in lieu of corporate income taxes as follows:

| | 2017 | 2016 |
|------------------------------|--------------------|-------------------|
| Income taxes - current | \$ 58,435 | \$ 124,500 |
| Recovery of prior year taxes | <u>(121,537)</u> | <u>-</u> |
| | <u>\$ (63,102)</u> | <u>\$ 124,500</u> |

Payments in lieu of corporate income taxes are calculated on the net operating revenues, adjusted for timing differences arising on differences between amortization of capital assets for tax purposes. The applicable rates for the year ending December 31, 2017 are 26.5% (2016 - 26.5%) combined federal and provincial rates.

In addition, the Corporation amended their corporate income tax returns for 2014 and 2015 taxes for the calculation of taxable capital that resulted in a refund of \$121,537.

The timing differences based on the amortization for tax purposes are not material and therefore, deferred taxes are not recorded.

11. Net non-utility activities

Independent Electricity System Operator/Ontario Power Authority funded Conservation and Demand Management programs are not regulated by the OEB and therefore, are classified as non-utility activities. Consequently, these net revenues are not recognized for rate-setting purposes.

The non-utility capital assets are comprised of solar powered equipment which is not regulated by the OEB. These assets are being amortized over their useful lives and are shown as non-utility capital assets. The net revenue generated from these assets is recorded in the non-utility activities.

12. Related party transactions

Banking and accounting activities are administered by the Town of Tillsonburg on behalf of Tillsonburg Hydro Inc. Amounts due from (to) related parties represent the net working capital position between the Town and the Corporation. A Master Service Agreement, which was updated in 2013, governs the financial relationship between the Corporation and the Town of Tillsonburg. These financial statements reflect this Agreement. This Agreement is currently being reviewed.

**TILLSONBURG HYDRO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

13. Prudential support

Tillsonburg Hydro Inc. has posted a letter of credit with the Independent Electricity System Operator (IESO) in the amount of \$956,406 (2016 - \$956,406). The IESO is responsible for ensuring that prudential support is posted by all market participants to satisfy their prudential support and obligation and, therefore, mitigate the impact of an event of default by a market participant on the rest of the market.

SCRIMGEOUR & COMPANY
CPA PROFESSIONAL CORPORATION

December 31, 2017

This copy to be returned
to our office

Tillsonburg Hydro Inc.
200 Broadway Street, 2nd floor
Tillsonburg, Ontario
N4G 5A7

SCRIMGEOUR & COMPANY
CPA PROFESSIONAL CORPORATION

Dear Sirs:

The purpose of this letter is to outline the terms of our engagement to audit the financial statements of Tillsonburg Hydro Inc., which comprise the statement of financial position as at December 31, 2017, and the statements of retained earnings, operations and changes in financial position for the year then ended, and a summary of significant accounting policies and other explanatory information.

We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

Objective, Scope and Limitations

Our statutory function as auditor of Tillsonburg Hydro Inc. is to report to the Board by expressing an opinion on Tillsonburg Hydro Inc.'s annual financial statements. We will conduct 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. 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 financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Canadian generally accepted auditing standards.

In making our risk assessments, we consider internal control relevant to the entity's preparation of the 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 entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

Unless unanticipated difficulties are encountered, our report will be substantially in the following form:

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors:

We have audited the accompanying financial statements of Tillsonburg Hydro Inc., which comprise the statement of financial position as at December 31, 2017 and the statements of retained earnings, comprehensive 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 Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audit standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating overall presentation of the 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 financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

If we conclude that a modification to our opinion on the financial statements is necessary, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form, or have not formed, an opinion on the financial statements, we may withdraw

from the audit before issuing an auditor's report or we may disclaim an opinion on the financial statements. If this occurs, we will communicate the reasons and provide you details of any misstatements.

Use and Distribution of our Report

The examination of the financial statements and the issuance of our audit opinion are solely for the use of Tillsonburg Hydro Inc. and those to whom our report is specifically addressed by us. We make no representations of any kind to any third party in respect of these financial statements and we accept no responsibility for their use by any third party.

We ask that our name be used only with our consent and that any information to which we have attached a communication be issued with that communication unless otherwise agreed to by us.

Reproduction of Audit Report

If reproduction or publication of our audit report (or reference to our report) is planned in an annual report or other document, including electronic filings or posting of the report on a website, a copy of the entire document should be submitted to us in sufficient time for our review before the publication or posting process begins.

Management is responsible for the accurate reproduction of the financial statements, the auditor's report and other related information contained in an annual report or other public document (electronic or paper-based). This includes any incorporation by reference to either the full or summarized financial statements that we have audited.

We are not required to read the information contained in your website, or to consider the consistency of other information in the electronic site with the original document.

Management's Responsibilities

Our audit will be conducted on the basis that management and, and where appropriate, those charged with governance acknowledge and understand that they have responsibility for:

Financial Statements

- a) The preparation and fair presentation of Tillsonburg Hydro Inc.'s financial statements in accordance with International Financial Reporting Standards.

Completeness of Information

- a) Providing us with and making available complete financial records and related data, and copies of all minutes of meetings;
- b) Providing us with information relating to any known or probable instances of non-compliance with legislative or regulatory requirements, including financial reporting requirements;
- c) Providing us with information relating to any illegal or possibly illegal acts, and all facts related thereto;
- d) Providing us with information regarding all related parties and related-party transactions;
- e) Any additional information that we may request from management for the purpose of this audit; and

- f) Providing us with unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

Fraud and Error

- a) Internal control that management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- b) An assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- c) Providing us with information relating to fraud or suspected fraud affecting the entity involving:
 - i) Management,
 - ii) Employees who have significant roles in internal control, or
 - iii) Others, where the fraud could have a non-trivial effect on the financial statements;
- d) Providing us with information relating to any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- e) Communicating its belief that the effects of any uncorrected financial statement misstatements aggregated during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Recognition, Measurement and Disclosure

- a) Providing us with its assessment of the reasonableness of significant assumptions underlying fair value measurements and disclosures in the financial statements;
- b) Providing us with any plans or intentions that may affect the carrying value or classification of assets or liabilities;
- c) Providing us with information relating to the measurement and disclosure of transactions with related parties;
- d) Providing us with an assessment of all areas of measurement uncertainty known to management that are required to be disclosed;
- e) Providing us with information relating to claims and possible claims, whether or not they have been discussed with Tillsonburg Hydro Inc.'s legal counsel;
- f) Providing us with information relating to other liabilities and contingent gains or losses, including those associated with guarantees, whether written or oral, under which Tillsonburg Hydro Inc. is contingently liable;
- g) Providing us with information on whether Tillsonburg Hydro Inc. has satisfactory title to assets, liens or encumbrances on existing assets, or assets that are pledged as collateral;
- h) Providing us with information relating to compliance with aspects of contractual agreements that may affect the financial statements;
- i) Providing us with information concerning subsequent events; and

- j) Providing us with representations on specific matters communicated to us during the engagement.

Written Confirmation of Significant Representations

- a) Providing us with written confirmation of significant representations provided to us during the engagement on matters that are:
 - i) Directly related to items that are material, either individually or in the aggregate, to the financial statements,
 - ii) Not directly related to items that are material to the financial statements but are significant, either individually or in the aggregate, to the engagement, and
 - iii) Relevant to our judgments or estimates that are material, either individually or in the aggregate, to the financial statements.

Preparation of Schedules

We understand that you or your employees will prepare the following schedules and will locate the following documents for our use at the dates specified:

- a) Prepare various schedules and analyses before our engagement is planned to commence as directed and
- b) Make various invoices and other documents available to us or our staff.

This assistance will facilitate our work and will help to minimize our costs. Any failure to provide these working papers or documents on a timely basis may impede our services and require us to suspend our services or withdraw from the engagement.

Other Services

In addition to the audit of the financial statements, our firm performs the following work:

1. Preparation of the Corporate Income Tax Returns

Working Papers

The working papers, files, other materials, reports and work created, developed or performed by us during the course of the engagement are the property of our Firm, constitute confidential information and will be retained by us in accordance with our Firm's policies and procedures.

File Inspections

In accordance with professional regulations (and by our Firm's policy), our client files may periodically be reviewed by practice inspectors to ensure that we are adhering to professional and our Firm's standards. File reviewers are required to maintain the confidentiality of client information.

Fees

Our professional fees will be based on our regular billing rates plus direct out-of-pocket expenses and applicable HST and are due when rendered. Fees for any additional services will be established separately. These fees are based on the proposal submitted.

The above terms of our engagement will be effective from year to year until amended or terminated in writing.

We will use all reasonable efforts to complete the engagement as described in this letter within the agreed upon time frames. However, we shall not be liable for failures or delays in performance that arise from causes beyond our control, including the untimely performance by the Tillsonburg Hydro Inc. of its obligations.

If you have any questions about the contents of this letter, please raise them with us. If the services outlined are in accordance with your requirements and if the above terms are acceptable to you, please sign the copy of this letter in the space provided and return it to us.

We appreciate the opportunity of continuing to be of service to your Corporation.

Yours truly,

Scrimgeour & Company

**SCRIMGEOUR & COMPANY
CPA PROFESSIONAL CORPORATION**

Acknowledged and agreed on behalf of Tillsonburg Hydro Inc. by:

Signed _____

Title _____

Date _____

Signed _____

Title _____

Date _____



SCRIMGEOUR & COMPANY
CPA PROFESSIONAL CORPORATION

April 24, 2018

**Board of Directors
Tillsonburg Hydro Inc.
200 Broadway Street, 2nd Floor
Tillsonburg, Ontario
N4G 5A7**

Dear Sirs:

We have been engaged to audit the financial statements of Tillsonburg Hydro Inc. for the year ending December 31, 2017.

Canadian generally accepted auditing standards requires that we communicate at least annually with you regarding all relationships between the Corporation and ourselves that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, the standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute/order and applicable legislation, covering such matters as:

- Holding a financial interest, either directly or indirectly, in a client;
- Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- Economic dependence on a client; and
- Provision of services in addition to the audit engagement

We are not aware of any relationship between the Corporation and ourselves that, in our professional judgment, may reasonably be thought to bear on our independence, that have occurred from January 1 to December 31, 2017.

Canadian generally accepted auditing standards require that we confirm our independence to management or persons having oversight responsibility for the financial reporting process. However, since the Rules of Professional Conduct of the CPA Ontario deal with the concept of independence in terms of objectivity, our confirmation is to be made in that context. Accordingly, we hereby confirm that we are objective with respect to the Corporation within the meaning of the Rules of Professional Conduct of the CPA Ontario as of April 24, 2018.

This report is intended solely for the use of the Board and should not be used for any other purposes.

Sincerely,

Scrimgeour & Company

**SCRIMGEOUR & COMPANY
CPA PROFESSIONAL CORPORATION**

**TILLSONBURG HYDRO INC.
200 BROADWAY STREET, 2ND FLOOR
TILLSONBURG, ONTARIO
N4G 5A7**

April 24, 2018

**This copy to be returned
to our office**

Scrimgeour & Company CPA Professional Corporation
Suite 1706, 148 Fullarton Street
London, Ontario
N6A 5P3

SCRIMGEOUR & COMPANY
CPA PROFESSIONAL CORPORATION

Dear Sirs:

This representation letter is provided in connection with your audit of the financial statements of Tillsonburg Hydro Inc., for the year ended December 31, 2017 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated December 31, 2017 for the preparation of the financial statements in accordance with International Financial Reporting Standards; in particular, the financial statements are fairly presented in accordance therewith:

- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- All events subsequent to the date of the financial statements and for which International Financial Reporting Standards require adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter. There are no uncorrected misstatements for the year ending December 31, 2017.

The Board approves the attached adjusting journal entries.

Information Provided

- We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.

Yours very truly,

Name

Title

Name

Title



| | |
|------------------|------------------|
| Prepared by | Reviewed by |
| CAS 4/21/2018 | CAS 4/21/2018 |

| Number | Date | Name | Account No | Reference | Debit | Credit | Recurrence | Misstatement |
|--------|------------|--|------------------|-----------|------------|------------|------------|--------------|
| 1 | 12/31/2017 | THI - HST Payable | 9005022900001176 | | | | | |
| 1 | 12/31/2017 | THI - Deferred Contributions | 9006024400001256 | | | 35,951.24 | | |
| 1 | 12/31/2017 | THI - Deferred Contributions | 9006024400001256 | | 35,951.24 | | | |
| 1 | 12/31/2017 | THI-Gov't Assist Direct Cred to Inc-Misc Exp | 9090042450005400 | | | 449.39 | | |
| | | To post client's entry | | | 449.39 | | | |
| 2 | 12/31/2017 | THI - Accrual for Taxes and PILS | 9005022940001209 | | | | | |
| 2 | 12/31/2017 | THI - Income Taxes | 9090061100005400 | | | 4,500.00 | | |
| 2 | 12/31/2017 | THI - Income Taxes | 9090061100005400 | | 4,500.00 | | | |
| 2 | 12/31/2017 | THI - Income Taxes | 9090061100005400 | | 112,786.32 | | | |
| 2 | 12/31/2017 | THI - PIL reassessment | 9090061100005500 | | 8,750.00 | | | |
| 2 | 12/31/2017 | THI - PIL reassessment | 9090061100005500 | | | 112,786.32 | | |
| | | To record income tax provision | | | | 8,750.00 | | |
| 3 | 12/31/2017 | THI - Accrual for Taxes and PILS | 9005022940001209 | | | | | |
| 3 | 12/31/2017 | THI - Miscellaneous General Expense | 9090056650005400 | | | 3,985.79 | | |
| | | To correct opening balance of taxes payable | | | | 3,985.79 | | |
| | | | | | 166,422.74 | 166,422.74 | | |
| | | Net Income (Loss) | 660,197.76 | | | | | |

MEMORANDUM OF UNDERSTANDING AND DIRECTION

BETWEEN

THE CORPORATION OF THE TOWN OF TILLSONBURG (“TOWN”)

AND

TILLSONBURG HYDRO INC. (“THI”)

1.0 STATEMENT OF INTENT:

This Memorandum of Understanding and Direction (MOUD) is designed to identify individual and collective responsibilities that will ultimately provide for safe, reliable and financially responsible distribution of electrical energy to identified stakeholders. The purpose of this MOUD is to confirm the working partner relationship between the TOWN and THI (The PARTIES) that reinforces and enhances their joint commitment to maintain a vibrant Electrical Energy Utility to the benefit of the community they serve. Therefore this document shall set out the general expectations of the TOWN (as Sole Shareholder) and THI.

2.0 GUIDING PRINCIPLES (GOVERNANCE):

The following guiding principles will direct the deliberations of the TOWN and THI in achieving that goal. It must be further understood that the TOWN is the Sole Shareholder of THI and that THI is a distinct and separate Corporation granted the benefits of operating under the regulations of the Ontario Business Corporations Act.

The Board Shall;

- a) Govern and provides stewardship of the business and affairs of THI. In so doing, shall adhere to all appropriate legislation and regulations that impact the electrical distribution industry in the Province of Ontario
- b) Provide that the focus of safe, reliable and financially responsible distribution is adhered to
- c) Address any conflict of interest, act honestly and in good faith with a view to the best interests of THI and shall exercise the same degree of care, diligence and skill that a reasonably prudent person would exercise in similar circumstances
- d) Promote operational and strategic improvement projects that will enhance the profile of THI and the TOWN

The Town Shall;

- a) Encourage and support the THI Board and staff in their endeavors
- b) Receive an annual return on its’ investment in the form of a cash Dividend, subject to the conditions set out in Section 7.0-- Dividend Policy

3.0 BUSINESS ACTIVITIES:

THI may engage in any business activities as may be permitted by the Ontario Energy Board Act, 1998 (OEB Act) and the Electricity Act, 1998 (Electricity Act), and as authorized by the Board from time to time, including;

- a) Distributing electricity
- b) Business activities, the principal purpose of which is to use more effectively the assets of the distribution system of THI
- c) Generating electricity from renewable energy sources
- d) Conservation and Demand Management activities

In carrying out these business activities THI shall be guided by the following;

- a) Compliance with all applicable laws and regulations.
- b) Operate in a manner that considers community values to the extent possible, Town practices and policies.
- c) Act in a safe and environmentally responsible manner
- d) Employ prudent business practices
- e) Have regard to the fact that the TOWN is a Municipal Corporation
- f) Maintain and appropriately enhance THI owned infrastructure

4.0 BOARD COMPOSITION:

The Board of Directors of THI (the BOARD);

- a) Shall be a number as permitted by current By-law(s) of THI
- b) Shall consist of;
 - a. One member selected by the TOWN at large
 - b. A minimum of 4 (four) and a maximum of six (6) independent members, in accordance with the skills matrix as recommended by the Board
- c) Shall meet the requirement as outlined by the Ontario Energy Board (OEB) through the Affiliate Relationships Code (ARC)
- d) The Chair of the Board shall be selected by Board members
- e) No member of the Board shall receive any remuneration or compensation, other than as expressly stated in applicable by-Law

5.0 TOWN APPROVAL:

The Board shall seek the approval of the TOWN in respect to each of the following matters prior to the BOARD undertaking or causing to undertake, authorizing or approving any of the following matters with respect to THI:

- a) Any changes or amendments to the share structure of THI
- b) Any changes to the business activities of THI as identified in Section 3.0
- c) Entering into any discussions or negotiations regarding a potential merger, amalgamation, divestiture or acquisition of THI or another corporation.

6.0 REPORTING:

THI is required to provide the TOWN with an annual Business Plan and Budget (the "Business Plan"). THI is to carry out its affairs and carry out its business operations in accordance with the Business Plan. THI will provide the TOWN with any revision, update or amendment of a material nature to the Business Plan.

The Business Plan will take the format as adopted by the Board of THI but shall include the following;

- a) Comprehensive financial plan with significant operational projects
- b) Most recent Audited Financial Statements
- c) A statement of any material variances in the projected ability for THI to meet or continue to meet its strategic, financial or development goals, including any material variances from current Business Plan

In addition to the presentation of the annual Business Plan and Budget, THI shall provide updated Financial reports, in a format as adopted by the Board, to the TOWN on a semi-annual basis.

7.0 DIVIDEND POLICY:

Subject to the provisions herein, the Board of THI shall declare and issue an Annual Dividend to the TOWN as referenced in Section 2.0.

The payment of the Dividend shall be subject to the following;

- a) No dividend shall be declared where to do so would significantly impact THI's ability to satisfy any appropriate replacement or improvement of assets of THI
- b) No Dividend shall be declared if the Board can demonstrate to the TOWN that;
 - a. After any expected payment, THI would be unable to meet its financial commitments and pay its liabilities when due
 - b. The realizable value of THI's assets would be less than the aggregate of its liabilities and its stated capital of all classes

With concurrence of the THI Board and the TOWN, the Annual Dividend Policy shall be established as in accordance with Schedule 1 (attached), subject to the conditions in 7.0, and confirmed at the Board's November board meeting, or before December 31. The approval and the declaration of the actual Annual Dividend shall take place at the conclusion of the annual audit of THI.

A Special Dividend may be considered and approved at the discretion of the Board;

- a) After the review of Annual Financial Statements, and
- b) Consultation with the Town of Tillsonburg

8.0 COMMUNICATIONS PROTOCOL:

Positive and effective communication is a cornerstone of relationship building and ultimately enhances the long-term working relationship of the TOWN and THI. In supporting the spirit of this Agreement, the communication protocol between the parties shall be identified as follows;

- a) As to specifically identified services or general information exchange, in writing on Corporate letterhead directed to;
 - i. To TOWN - Clerk copied to CAO
 - ii. To THI – Secretary copied to Chair and Vice-Chair
- b) Best efforts are expected to be used to identify and acknowledge when any issue of communication will be considered and responded to
- c) The Chair of THI will deliver at a minimum, and not counting the Annual General meeting, a semi-annual status reports to the TOWN (Shareholder)

9.0 REVISIONS:

This document shall be reviewed at least once every two years and may be revised from time to time as circumstances may require. A review of the MOUD can be initiated by either party subject to appropriate communication and consultation.

Date: _____

Acknowledged and Agreed to as of the date above
CORPORATION OF THE TOWN OF TILLSONBURG

TILLSONBURG HYDRO INC.

Mayor

Chair

SCHEDULE 1: DIVIDEND POLICY (Section 7.0)

With this Agreement (MOUD) the Annual Dividend Policy, subject to the terms and conditions of Section 7.0, shall be as follows:

- a) \$200,000 per year

THE CORPORATION OF THE TOWN OF TILLSONBURG

BY-LAW NUMBER 4209

BEING A BY-LAW to confirm the proceedings of Council at its meetings held on the 26th day of June, 2018

WHEREAS Section 5 (1) of the *Municipal Act, 2001*, as amended, provides that the powers of a municipal corporation shall be exercised by its council;

AND WHEREAS Section 5 (3) of the *Municipal Act, 2001, as amended*, provides that municipal powers shall be exercised by by-law;

AND WHEREAS it is deemed expedient that the proceedings of the Council of the Town of Tillsonburg at this meeting be confirmed and adopted by by-law;

NOW THEREFORE THE MUNICIPAL COUNCIL OF THE CORPORATION OF THE TOWN OF TILLSONBURG ENACTS AS FOLLOWS:

1. All actions of the Council of The Corporation of the Town of Tillsonburg at its meeting held on June 26th 2018, with respect to every report, motion, by-law, or other action passed and taken by the Council, including the exercise of natural person powers, are hereby adopted, ratified and confirmed as if all such proceedings were expressly embodied in this or a separate by-law.
2. The Mayor and Clerk are authorized and directed to do all the things necessary to give effect to the action of the Council of The Corporation of the Town of Tillsonburg referred to in the preceding section.
3. The Mayor and the Clerk are authorized and directed to execute all documents necessary in that behalf and to affix thereto the seal of The Corporation of the Town of Tillsonburg.
4. This By-Law shall come into full force and effect on the day of passing.

READ A FIRST AND SECOND TIME THIS 26th DAY OF JUNE, 2018.

READ A THIRD AND FINAL TIME AND PASSED THIS 26th DAY OF JUNE, 2018.

MAYOR – Stephen Molnar

TOWN CLERK – Donna Wilson