Financial Statements of

ENERSOURCE HYDRO MISSISSAUGA INC.

Years ended December 31, 2005 and 2004

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3
Canada

Telephone (416) 228-7000
Fax (416) 228-7123
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheets of Enersource Hydro Mississauga Inc. as at December 31, 2005 and 2004 and the statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada

February 24, 2006

ENERSOURCE HYDRO MISSISSAUGA INC.

Balance Sheets
(In thousands of dollars)

December 31, 2005 and 2004

	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	$ 61,275	$ 25,121
Accounts receivable	52,996	47,348
Unbilled revenue	64,478	51,187
Amounts due from related parties, without interest (note 12)	53	627
Inventory	4,845	4,081
Prepaid and deposits	550	354
	184,197	128,718
Capital assets (note 3)	394,048	393,844
Other assets:		
Cash and cash equivalents held for consumer deposits	22,354	28,120
Deferred debt issue costs, net of amortization of $2,024 (2004 - $1,590)	2,312	2,746
Regulatory assets (note 4)	21,014	24,365
	45,680	55,231
	$ 623,925	$ 577,793
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 114,318	$ 72,222
Payments in lieu of corporate income taxes payable	6,398	1,160
Advance payments - subdividers	486	1,480
Due to related parties, without interest (note 12)	1,187	2,702
Regulatory liabilities (note 4)	8,678	8,181
	131,067	85,745
Long-term liabilities:		
Bonds payable (note 5)	290,000	290,000
Consumer deposits	22,354	28,120
Employee retirement and post-retirement benefits (note 8)	2,140	2,049
	314,494	320,169
Shareholder's equity:		
Capital stock (note 6)	155,629	155,629
Retained earnings	22,735	16,250
	178,364	171,879
Contingencies (note 9)		
Commitments (note 10)		
	$ 623,925	$ 577,793

See accompanying notes to financial statements.

On behalf of the Board:

_______________________________ Director _______________________________ Director

ENERSOURCE HYDRO MISSISSAUGA INC.

Statements of Income and Retained Earnings
(In thousands of dollars)

Years ended December 31, 2005 and 2004

	2005	2004
Revenue:		
Energy sales	$ 672,412	$ 534,046
Distribution	103,495	90,819
Other	6,455	3,674
	782,362	628,539
Operating expenses:		
Energy purchases	672,412	534,046
Operations, maintenance and administration	35,374	31,331
Amortization of capital assets	29,766	29,321
Amortization of regulatory assets	7,513	5,252
	745,065	599,950
Operating income	37,297	28,589
Interest:		
Income	1,718	1,782
Expense	(17,677)	(15,055)
	(15,959)	(13,273)
Income before payments in lieu of corporate income taxes	21,338	15,316
Payments in lieu of corporate income taxes (note 2)	8,559	4,826
Net income	12,779	10,490
Dividends paid	(6,294)	(25,742)
Retained earnings, beginning of year	16,250	31,502
Retained earnings, end of year	$ 22,735	$ 16,250

See accompanying notes to financial statements.

ENERSOURCE HYDRO MISSISSAUGA INC.

Statements of Cash Flows
(In thousands of dollars)

Years ended December 31, 2005 and 2004

	2005	2004
Cash provided by (used in):		
Operating activities:		
Net income	$ 12,779	$ 10,490
Items not affecting cash:		
Amortization of debt issue costs	434	434
Amortization of capital assets	29,766	29,321
Amortization of regulatory assets	7,513	5,252
Loss (gain) on disposal of capital assets	189	(49)
Employee retirement and post-retirement benefits	91	78
	50,772	45,526
Change in non-cash operating working capital (note 7)	25,997	(11,837)
Cash provided by operating activities	76,769	33,689
Financing activities:		
Consumer deposits	(5,766)	2,669
Dividends paid	(6,294)	(25,742)
Cash used in financing activities	(12,060)	(23,073)
Investing activities:		
Cash and cash equivalents held for consumer deposits	5,766	(2,669)
Additions to capital assets	(30,245)	(27,483)
Proceeds on disposal of capital assets	86	183
Regulatory assets	(4,162)	(8,233)
Cash used in investing activities	(28,555)	(38,202)
Increase (decrease) in cash and cash equivalents	36,154	(27,586)
Cash and cash equivalents, beginning of year	25,121	52,707
Cash and cash equivalents, end of year	$ 61,275	$ 25,121
Supplemental cash flow information:		
Interest received	$ 1,726	$ 1,773
Interest paid	18,241	18,241
Supplemental disclosure of non-cash financing and investing activities:		
Instalments paid in respect of payments in lieu of corporate income taxes	6,116	12,315

See accompanying notes to financial statements.

Enersource Hydro Mississauga Inc. (the "Corporation") is the electric distribution utility for residents of the City of Mississauga (the "City").

1. Significant accounting policies:

(a) Basis of accounting:

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

(b) Rate setting:

The Corporation is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include costs, revenue, losses or gains in the rates of a specific period, resulting in the change in the timing of accounting recognition from that which would have applied in an unregulated company. Specifically, the following accounting treatments have been applied:

(i) Capital and operating costs incurred in respect of the transition to competitive markets have been deferred with amortization to commence on the date that a rate increase is implemented to offset the amortization of the transition costs. In November 2003, the Province of Ontario introduced the Ontario Energy Board Amendment Act (Electricity Pricing) 2003 (the "2003 Act"). The 2003 Act impacts both the distribution and energy rates charged to customers and includes a provision for the recovery of regulatory assets (note 1 (k)).

(ii) An amount to represent the cost of funds used during construction and development has been applied based on the value of construction in progress.

(iii) The Corporation does not record future income tax assets or liabilities for its regulated business activities to the extent that it is expected that the recovery or realization of these amounts will be included in future distribution rates.

1. Significant accounting policies (continued):

(iv) The Corporation has deferred certain pre-market opening cost of power variances and post-market opening retail settlement variances in accordance with Article 490 of the OEB's Accounting Procedures Handbook.

(v) The Corporation has deferred the recognition of the employer's share of contributions to Ontario Municipal Employees Retirement System ("OMERS") for its regulated business activities from 2004 onward to the extent that it is expected that these costs will be recovered through future distribution rates.

(c) Cash and cash equivalents:

Cash and cash equivalents are defined as cash and bank term deposits or equivalent financial instruments with original maturities upon issue of less than 90 days.

(d) Revenue recognition:

Revenue is recognized on the accrual basis and includes an estimate of unbilled revenue representing electricity consumed by customers since the date of each customer's last meter reading. Actual results could differ from estimates made of actual electricity usage.

Other revenue is recognized as services are rendered or contract milestones are achieved.

(e) Measurement uncertainty:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, as well as the disclosure of contingent assets and liabilities at the financial statement date. Accounts receivable, unbilled revenue and regulatory assets are reported based on amounts expected to be recovered with an appropriate allowance for unrecoverable amounts. Inventories are recorded net of provisions for obsolescence.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these financial statements, including changes as a result of future decisions of the OEB or the Minister of Energy. Amounts recorded for amortization of capital assets are based on the estimates of useful service life.

(In thousands of dollars)

1. Significant accounting policies (continued):

(f) Inventory:

Inventory, which consists of parts and supplies acquired for internal construction or consumption, is valued at the lower of cost and replacement cost. Cost is determined on a weighted moving average basis.

(g) Capital assets:

Capital assets are recorded at cost and include contracted services, materials, labour, engineering costs, overheads and an allowance for the cost of funds used during construction when applied. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers. The OEB requires that such contributions, whether in cash or in-kind, be offset against the related asset cost. Contributions in-kind are valued at their fair market value at the date of their contribution.

When identifiable assets, such as buildings, distribution station equipment and equipment and furniture are retired or otherwise disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period. The cost and related accumulated amortization of grouped assets, such as transmission and distribution facilities, is removed from the accounts at the end of their estimated service life.

Amortization of capital asset values is charged to operations on a straight-line basis over their estimated service lives as follows:

	Estimated service life	
	Range	Average
Buildings	25 - 60 years	55
Distribution station equipment	15 - 35 years	28
Transmission and distribution system	25 - 40 years	26
Equipment and furniture	4 - 10 years	8
Computer software	2 years	2

1. Significant accounting policies (continued):

Amortization is recorded at one-half the usual annual rate for assets placed into service in the current fiscal period.

Construction in progress comprises capital assets under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed.

An allowance for the cost of funds used during the construction period has been applied. The rate applied for the current fiscal period is equal to the rate allowed by the OEB in respect of long-term borrowings, being 6.9% (2004 - 6.9%).

(h) Deferred debt issue costs:

Deferred debt issue costs represent the cost of the issuance of the bonds. Amortization is provided on a straight-line basis over the term of the related bonds.

(i) Consumer deposits:

Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as customer deposits and invested in term deposits, which are reported separately from the Corporation's own cash and cash equivalents. Interest rates paid on customer deposits changed effective August 1, 2004 from a variable rate of prime less 1.9% to a variable rate of prime less 2.0%, updated quarterly.

(j) Pension and other post-employment benefits:

The Corporation accounts for its participation in OMERS, a multi-employer public sector pension fund, as a defined contribution plan. The Corporation has obtained approval from the OEB to defer pension expenses, commencing January 1, 2004, for recovery in future rates.

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

1. Significant accounting policies (continued):

(k) Regulatory assets and liabilities:

Regulatory assets primarily represent costs that have been deferred because it is probable that they will be recovered in rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers under the regulated pricing mechanism and the corresponding wholesale market cost of power regulated by the utility. The OEB has directed distribution utilities to recover these variance balances as at December 31, 2003 plus accrued interest in rates over a four-year period beginning April 2004.

Regulatory balances are comprised principally as follows:

Transition costs - represent costs related to the transition to a competitive electricity market, mandated by the Electricity Act, 1998. The OEB has established rules in respect of transition costs, to qualify amounts for deferral and amortization against future revenue. The Corporation's transition costs have been reviewed via an oral hearing and recovery has been decided upon by the OEB in its December 9, 2004 decision.

Pre-market opening cost of power variances - represents amounts accumulated as a result of the excess of the cost of power purchased by the Corporation over the amount billed for this power prior to the market opening. The OEB directed utilities to accumulate such variances in the period leading up to market opening.

Post-market opening retail settlement variances - are variances that have occurred since May 1, 2002 when the competitive electricity market was declared open and that have accumulated pursuant to direction from the OEB. Specifically, these amounts include variances between the amount charged by the Independent Electricity System Operator ("IESO") for the operation of the markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates.

In November 2003, the Province of Ontario introduced the 2003 Act, which implemented a new electricity pricing regime believed to better reflect the true cost of electricity.

1. Significant accounting policies (continued):

The 2003 Act, which received Royal Assent in December 2003, removed the 4.3¢ per kwh electricity price freeze established under the Electricity Pricing, Conservation and Supply Act, 2002 and gives the OEB the power to establish the electricity commodity price for low volume consumers and designated consumers who do not choose an electricity retailer. The OEB's new pricing regime took effect in May 2005. In the meantime, and beginning on April 1, 2004, the government has implemented an interim pricing plan under which the first 750 kwh consumed in any month by low volume and designated consumers is priced at 4.7¢ per kwh and consumption above that level for these consumers is priced at a higher rate of 5.5¢ per kwh. In the event that these interim prices exceed the costs paid by the Ontario Electricity Financial Corporation ("OEFC"), the 2003 Act includes provisions permitting the making of regulations requiring distributors, retailers or the IESO to credit consumers for the difference. Under the 2003 Act, regulations may also be made to compensate distributors, retailers and the IESO for making any such payments.

On March 11, 2005, the OEB announced further changes to electricity prices for residential, low-volume and designated customers to take effect April 1, 2005. Electricity prices increased effective April 1 from 4.7¢ per kwh to 5.0¢ per kwh for the first 750 kwh consumed in a month, and from 5.5¢ per kwh to 5.8¢ per kwh for consumption in excess of that amount. Commencing November 1, 2005, the price threshold will change twice a year. The price threshold will be 1,000 kwh per month during the November 1 through April 30 season and 600 kwh in the May 1 through October 31 season ("the 2005 pricing"). The new plan is designed to ensure that electricity pricing to low volume customers better reflects the true cost of power while also helping customers manage their electricity costs in a stable and predictable manner.

In November 2003, the Province of Ontario announced its intention to allow electricity distributors to recover deferred transition costs and energy variances over a four-year period commencing April 1, 2004. In January 2004, in compliance with regulatory direction, the Corporation submitted to the OEB an application to recover 25% of the December 31, 2002 balance of these regulatory assets. On December 9, 2004, the OEB awarded the Corporation $26,800 for the recovery of regulatory balances as at December 31, 2003, plus interest, as determined by a Regulatory Hearing. These financial statements include a net interest adjustment in the amount of $3,948 to record the interest component of that decision for the year ended December 31, 2004.

1. Significant accounting policies (continued):

On April 1, 2005, the Corporation implemented the final rate increase, as permitted by the OEB, toward achieving a market-based rate of return. The initial 12 months of this incremental revenue will be fully invested in electricity conservation and demand management strategies by September 2007.

2. Payments in lieu of corporate income taxes:

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes to OEFC. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario), as modified by the Electricity Act, 1998, and related regulations.

The Corporation uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and tax basis of the Corporation's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Corporation's income taxes payable in the year or a later period. No provision is made for future income taxes to the extent the future income taxes are expected to be included in the rates charged to customers in the future. Management believes that when unrecorded future income taxes become payable, or the assets are realized, it is expected that they will be included in rates approved by the OEB and recovered from customers at that time.

Based on substantively enacted income tax rates, the potential benefit of unrecorded future income tax assets arising substantially from differences between accounting and tax values for capital assets is $43,923 (2004 - $36,353). Future income taxes have not been recorded in the accounts as they are expected to be recovered through future revenue.

(In thousands of dollars)

3. Capital assets:

	Cost	Accumulated amortization	2005 Net book value	2004 Net book value
Land	$ 4,071	$ –	$ 4,071	$ 3,921
Buildings	14,065	4,462	9,603	9,527
Distribution station equipment	78,168	33,970	44,198	43,725
Transmission and distribution system	571,056	253,593	317,463	320,518
Equipment and furniture	23,610	13,240	10,370	9,099
Computer software	2,227	1,197	1,030	2,040
Construction in progress:				
Buildings	1	–	1	–
Electric distribution system	7,312	–	7,312	5,014
	$ 700,510	$ 306,462	$ 394,048	$ 393,844

During the year, $438 (2004 - $583), representing an allowance for the cost of funds used during construction, was capitalized to construction in progress.

4. Regulatory assets and liabilities:

Regulatory assets and liabilities can arise as a result of the rate-making process. The following table demonstrates the impact on 2005 earnings net of PILS as a result of regulated accounting requirements.

	2005	2004	Estimated remaining settlement period (yrs)	2005 impact on earnings net of PILS ((a)(i))
Regulatory assets:				
Deferred OMERS employer contributions ((a)(ii))	$ 1,916	$ 874	1 - 2	$ 1,042
Other regulatory assets ((a)(iii))	1,436	486	1 - 2	950
	3,352	1,360		1,992
Regulatory assets approved for recovery ((a)(iv))	17,662	23,005	2 - 3	(3,184)
	$ 21,014	$ 24,365		$ (1,192)
Regulatory liabilities:				
Retail settlement variances ((a)(v))	$ 2,276	$ 8,181	1	$ (334)
Global adjustment retail settlement variance ((a)(vi))	6,402	–	1	360
	$ 8,678	$ 8,181		$ 26

4. Regulatory assets and liabilities (continued):

(a) Explanatory notes:

(i) The 2005 impact on earnings net of PILs represents the effect on the consolidated net income as a result of applying rate regulated accounting.

(ii) The OEB has approved the deferral of the Corporation's employer portion of pension contributions to the OMERS retirement fund. The deferred OMERS employer contributions amount reflects the Corporation's required contributions for 2004 and 2005 plus interest charged at an OEB approved rate.

(iii) The OEB has approved the deferral of the Corporation's OEB assessed costs and requires that the Corporation record and defer the difference between revenues and costs associated with providing retailers with customer settlement services as RCVA deferrals. These items are included in other regulatory assets.

(iv) On December 9, 2004, the OEB approved the recovery of the Corporation's regulatory assets as at December 31, 2003. This amount reflects the total approved regulatory asset for recovery plus interest charged at an OEB approved rate less amounts recovered through distribution rates since April 1, 2004.

(v) The OEB requires the Corporation to record and defer the difference between energy charged to its customers and the actual cost of power incurred and paid to the IESO and to Hydro One. The retail settlement variance reflects this difference since January 1, 2004 plus interest charged at an OEB approved rate.

(vi) The Global Adjustment accounts for differences between the market price and rates paid to regulated and contracted generators and which is set by the IESO. This adjustment may be positive or negative. The Global Adjustment retail settlement variance captures the unpaid or recoverable amounts due to or recoverable from the Corporation's customers.

The Corporation has accrued interest on the deferral accounts for the regulatory assets and retail settlement variances, as directed by the OEB. As at December 31, 2005, this net accrued interest amounted to $1,022 (2004 - $3,702).

4. Regulatory assets and liabilities (continued):

(b) Financial statement effects of rate regulation:

(i) General information regarding rate regulation and its economic effects:

The operations of the Corporation are regulated by the Ontario Energy Board ("OEB"). The OEB exercises statutory authority over matters such as construction, rates and underlying accounting practices, and rate setting issues with the Corporation's customers.

The Corporation has submitted a rate application to the OEB for the rate period beginning May 1, 2006 and ending on April 30, 2007. These rates are set by the OEB under a cost of service methodology that allows revenues to recover utility operating costs plus a regulated rate of return on the equity financed portion of the Corporation's rate base. The allowed rate of return for this rate period is set by the OEB at 9.0%. This application is currently under review by the OEB and a decision regarding distribution rates is expected in April 2006.

(ii) Regulatory risk and uncertainties affecting recovery or settlement:

The regulatory assets and liabilities recorded in the financial statements are based upon an expectation of the future actions of the OEB. To the extent that the OEB's future actions are different from the Corporation expectations, the timing and amount of recovery or settlement of amounts recorded on the statement of financial position could be significantly different from the timing and amounts that are eventually recovered or settled.

(iii) Financial statement effects:

In order to recognize the economic effects of the actions or expected actions of the regulator, the timing of recognition of certain revenues and expenses in these operations may differ from that otherwise expected under GAAP for non rate-regulated entities.

(In thousands of dollars)

4. Regulatory assets and liabilities (continued):

Regulatory assets represent amounts that are expected to be recovered from customers in future periods through the rate setting process. In the absence of rate regulated accounting, GAAP would not permit deferral of regulatory assets and therefore the earnings impact would be recorded in the period of recovery. Long-term regulatory assets are recorded in other assets in the Corporation's balance sheets.

Regulatory liabilities represent amounts that are expected to be refunded to customers as a result of the rate-setting process. The GAAP treatment of regulatory liabilities and the resulting earnings impact is the same as that under rate regulated accounting because the liabilities represent contractual obligations. Regulatory liabilities are recorded in current liabilities in the Corporation's balance sheets.

(c) Other items affected by rate regulation:

Future income taxes:

The Corporation is regulated recovers tax expense based on the taxes payable method as prescribed by the OEB. As such, the rates approved by the OEB do not include the recovery of future income taxes related to temporary differences. Consequently, the financial statements pertaining to the regulated do not include future income taxes as the future income taxes will be recovered in future rates when they become payable. GAAP requires the recognition of future income tax liabilities and future income tax assets in the absence of rate regulation.

5. Bonds payable:

	2005	2004
6.29% BPC-Enersource Series Bonds, Tranche 1, due May 3, 2011	$ 290,000	$ 290,000

Interest expense includes $18,241 (2004 - $18,241) in respect of interest on long-term liabilities and amortization of debt issue costs in the amount of $434 (2004 - $434).

(In thousands of dollars)

6. Capital stock:

(a) Background:

Mississauga City Council approved a by-law, effective January 1, 2000, affecting the transfer of the electricity distribution business formerly conducted by the Mississauga Hydro-Electric Commission to the Corporation. The City received consideration in the form of a note receivable for $150,000 and common shares in exchange, at the time of the transfer. On December 6, 2001, the City received further consideration in the form of a note receivable for $119,214 and a dividend of $20,785 when it exchanged shares issued on January 1, 2000 for shares of Enersource Corporation, the Corporation's parent. The transfers were recorded at net book value.

(b) Capital stock:

	2005	2004
Authorized:		
Unlimited common shares		
Issued:		
40 common shares	$ 155,629	$ 155,629

In 2005, the Corporation declared and paid a dividend to its shareholder in the amount of $6,294 (2004 - $25,742).

7. Change in non-cash operating working capital:

	2005	2004
Accounts receivable	$ (5,648)	$ (7,286)
Unbilled revenue	(13,291)	(4,781)
Amounts due to/from related parties	(941)	(320)
Inventory	(764)	603
Prepaid and deposits	(196)	(150)
Accounts payable and accrued liabilities	42,096	4,189
Payments in lieu of corporate income taxes payable	5,238	(4,365)
Advance payments - subdividers	(994)	(1,915)
Retail settlement variances	497	2,188
	$ 25,997	$ (11,837)

(In thousands of dollars)

8. Employee retirement and post-retirement benefits:

(a) Pensions:

During fiscal 2005, employer contributions were $1,335 (2004 - $902). With the OEB's approval, the Corporation has deferred $1,042 of its 2005 pension expense for recovery in future rates (2004 - $874).

(b) Other retirement and post-retirement benefits:

	2005	2004
Change in benefit obligations:		
Benefit obligation, beginning of year	$ 2,049	$ 1,971
Service cost	32	30
Interest cost	133	122
Benefits paid	(74)	(74)
Benefit obligation, end of year	$ 2,140	$ 2,049
Change in plan assets:		
Fair value of plan assets, beginning of year	$ –	$ –
Employers' contributions	74	74
Benefits paid	(74)	(74)
Fair value of plan assets, end of year	$ –	$ –
Discount rate	6.5%	6.5%
Expected return on plan assets	6.5%	6.5%
Rate of compensation increase	3.0%	3.5%

The principal funding obligation of the plan is to fund life insurance benefits based on employment date and years of service. A limited group of former employees who elected to retire under a special early retirement incentive plan are entitled to a continuation of health and dental premiums until age 65. Accordingly, based on the current participation profile, changes in health and dental care costs will not significantly impact the estimates of plan obligations. The total estimated plan obligation at December 31, 2005 is $2,140 (2004 -$2,049). There is no unamortized past service component.

(In thousands of dollars)

8. Employee retirement and post-retirement benefits (continued):

The amounts presented are based upon an actuarial valuation performed as of December 31, 2003 on March 15, 2004. The next valuation is expected to be performed for the year ended December 31, 2006.

The Corporation's net benefit expense is as follows:

	2005	2004
Current service cost	$ 32	$ 30
Interest cost	133	122
	$ 165	$ 152

9. Contingencies:

(a) Insurance claims:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Current coverage is provided to a level of $30,000 per incident.

The Corporation has been jointly named as a defendant in several actions. No provision has been made for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

(b) Other claims:

A class action claiming $500,000 in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against the former Toronto Hydro-Electric Commission as the representative of the Defendant Class, consisting of all municipal electric utilities in Ontario, which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

9. Contingencies (continued):

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Electricity Distributors Association is undertaking the defence of this class action. At this time, it is not possible to quantify the effect, if any, on the financial statements of the Corporation. It is the Corporation's position that any late payment charges that are required to be repaid to customers as a result of this class action would be included in a rate adjustment application to the OEB for full recovery.

On April 22, 2004, the Supreme Court of Canada released its decision in the case commenced against Enbridge Gas Distribution ("EGD") by a customer with respect to late payment penalties. The Supreme Court of Canada determined that EGD would be required to repay a portion of amounts paid to it as late payment penalties from April 1994. Any implications of the EGD decision in the Toronto Hydro class action cannot be determined at this time.

10. Commitments:

(a) Guarantees:

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default on their expected activity in the market. The IESO could draw on these guarantees if the Corporation failed to make payment required by a default notice issued by the IESO. The Corporation has provided the IESO with a letter of credit in the amount of $16,618 (2004 - $16,618).

(b) Commitments:

The Corporation leases equipment under operating lease agreements. The minimum lease payment due in 2006 under these agreements is $7.

(In thousands of dollars)

11. Financial instruments:

The carrying values of cash and cash equivalents, accounts receivable, cash and cash equivalents held for consumer deposits, accounts payable and accrued liabilities, advance payments - subdividers, and amounts due to and from related parties approximate fair values because of the short maturity of these instruments.

The bonds payable, having a carrying value of $290,000 (2004 - $290,000), have a fair value of $316,329 (2004 - $317,538) based on year-end quoted market prices for similar debt. Financial assets held by the Corporation expose it to credit risk. As at December 31, 2005 and 2004, there were no significant concentrations of credit risk with respect to any class of financial assets. The Corporation earns its revenue from a broad base of customers located principally in Mississauga. No single customer would account for revenue or an accounts receivable balance in excess of 10% of the respective reported balances.

12. Related party transactions:

The Corporation provides electricity and services to the principal shareholder of its parent company, the City. Electrical and streetlighting energy is sold to the City at the same prices and terms as other electricity customers consuming equivalent amounts of electricity. Other construction services are provided at cost. A summary of amounts charged by the Corporation to the City is as follows:

	2005	2004
Electrical energy	$ 7,572	$ 8,787
Streetlighting energy	4,013	3,170

The Corporation charged the City $439 for other construction services in 2005 (2004 - $227).

The Corporation charged Borealis $159 (2004 - nil) for consulting services in 2005. These transactions were recorded at the exchange amount, being the amount agreed to by the parties. At December 31, 2005, accounts receivable included $24 (2004 - nil) due from Borealis.

During 2005, the Corporation was charged $6,367 (2004 - $4,608) by Enerpower, a company under common ownership, for construction of distribution infrastructure.

12. Related party transactions (continued):

At December 31, 2005, accounts payable and accrued liabilities include $96 (2004 - $76) due to the City and accounts receivable includes $1,855 (2004 - $297) due from the City.

Amounts due from related parties include $53 (2004 - $619) from a company under common control and nil (2004 - $8) from the parent company.

Amounts due to related parties include $355 (2004 - $294) to a company under common control and $832 to the parent company (2004 - $2,408).

13. Energy purchases:

As a participant in the competitive electricity market, all electricity purchases for standard supply customers are subject to pricing determined by the IESO, a provincial government body.

Included in accounts payable and accrued liabilities as at December 31, 2005 is $64,832 (2004 - $48,060) owed in respect of electricity purchases through the IESO.