

Financial Statements of

POWERSTREAM INC.

December 31, 2005



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Auditors' Report

To the Shareholders of
PowerStream Inc.

We have audited the balance sheet of PowerStream Inc. as at December 31, 2005 and the statements of earnings and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

"Deloitte & Touche LLP"

Chartered Accountants

Toronto, Ontario
April 7, 2006

POWERSTREAM INC.

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POWERSTREAM INC.

Balance Sheet

December 31, 2005

(in thousands of dollars)

	December 31, 2005	December 31, 2004
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 33,477	\$ 27,461
Restricted cash - current portion of customer deposits (Note 11)	1,605	11,662
Short-term investments	6,608	7,880
Accounts receivable	33,720	43,000
Unbilled revenue	66,115	61,298
Income taxes recoverable	-	4,616
Inventory	5,774	4,915
Prepays and other	487	486
	147,786	161,318
PROPERTY, PLANT AND EQUIPMENT (Note 5)	376,773	350,609
OTHER ASSETS		
Restricted cash - non-current portion of customer deposits (Note 11)	13,378	11,497
Deferred debt issue costs, net of amortization of \$1,957 (2004 - \$1,403)	3,670	4,224
Intangibles, net of amortization of \$866 (2004 - \$391)	561	1,036
Goodwill	32,988	32,988
	\$ 575,156	\$ 561,672
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 8)	\$ 95,223	\$ 74,130
Income taxes payable	1,116	-
Due to related parties (Note 9)	16,612	37,635
Liability for subdivision development	1,923	5,000
	114,874	116,765
LONG-TERM LIABILITIES		
Notes payable (Note 15)	146,102	146,102
Debentures payable (Note 10)	100,000	100,000
Regulatory liabilities (Note 6)	15,315	16,597
Customers' deposits (Note 11)	13,378	11,497
Employee future benefits (Note 12)	5,294	4,223
Other liabilities	931	106
	281,020	278,525
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 14)	149,433	142,633
CONTRIBUTED SURPLUS (Note 14)	14,324	16,030
RETAINED EARNINGS	15,505	7,719
	179,262	166,382
	\$ 575,156	\$ 561,672

APPROVED ON BEHALF OF THE BOARD

..... *"Peter Meffe"* Director

..... *"Frank Scarpitti"* Director

POWERSTREAM INC.**Statement of Earnings and Retained Earnings**

Year ended December 31, 2005

(in thousands of dollars)

	<u>2005</u> <u>(12 months)</u>	<u>2004</u> <u>(7 months)</u>
REVENUE		
Energy and distribution	\$ 592,242	\$ 289,588
Other	9,300	7,043
	<u>601,542</u>	<u>296,631</u>
EXPENSES		
Cost of power purchased (Note 6(d))	491,331	235,661
High voltage transformation	1,071	589
Distribution	11,776	5,282
Utilization	3,060	870
Billing and collection	6,302	2,677
Administration and general	16,016	10,911
Taxes, other than amounts in lieu of corporate income taxes	2,088	1,306
	<u>531,644</u>	<u>257,296</u>
EARNINGS BEFORE AMORTIZATION, INTEREST AND INCOME TAXES	69,898	39,335
AMORTIZATION OF CAPITAL ASSETS AND INTANGIBLES (net of \$906; 2004 - \$571 charged to other accounts)	26,097	14,862
INTEREST EXPENSE	19,305	11,680
INCOME BEFORE INCOME TAXES	24,496	12,793
INCOME TAX EXPENSE (Note 19)	9,910	5,074
NET EARNINGS FOR THE PERIOD	14,586	7,719
RETAINED EARNINGS, BEGINNING OF PERIOD	7,719	-
DIVIDENDS (Note 14)	(6,800)	-
RETAINED EARNINGS, END OF PERIOD	<u>\$ 15,505</u>	<u>\$ 7,719</u>

POWERSTREAM INC.
Statement of Cash Flows
Year ended December 31, 2005
(in thousands of dollars)

	2005 (12 months)	2004 (7 months)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net earnings for the period	\$ 14,586	\$ 7,719
Adjustments to determine cash provided by operating activities		
Amortization of property, plant and equipment	26,528	15,106
Amortization of debt issue costs	554	346
Amortization of intangibles	475	327
Employee future benefits	901	773
Increase in regulatory liabilities	2,559	7,407
Gain on disposal of capital assets	(14)	(274)
Net change in non-cash operating working capital (Note 20)	31,185	(18,722)
	76,774	12,682
FINANCING		
(Decrease) increase in liability for subdivisions development	(3,158)	1,548
Decrease in due to related parties	(27,823)	(374)
Increase in long-term customer's deposits	807	310
Decrease in bank loan	-	(25,000)
Increase in other liabilities	825	148
	(29,349)	(23,368)
INVESTING		
Shares issued from treasury	6,800	
Acquisition of Aurora Hydro (Note 4)	(30,019)	-
Proceeds on disposal of capital assets	36	312
Intangibles	-	(285)
Decrease (increase) in restricted cash - customer deposits	8,176	(310)
Decrease in short term investments	1,272	1,194
Adjustment to contributed surplus (Note 14)	(1,706)	-
Expenditure on capital assets, net of contribution of capital construction	(25,968)	(14,668)
	(41,409)	(13,757)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	6,016	(24,443)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	27,461	51,904
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 33,477	\$ 27,461

Supplementary cash flow information (Note 21)

POWERSTREAM INC.
Notes to the Financial Statements
December 31, 2005
(in thousands of dollars)

1. DESCRIPTION OF THE BUSINESS

PowerStream Inc. (the "Corporation") was incorporated on June 1, 2004, under the *Business Corporations Act* (Ontario) and is wholly owned by the City of Vaughan through its wholly owned subsidiary, Vaughan Holdings Inc. and the Town of Markham, through its wholly owned subsidiary, Markham Enterprises Corporation.

The principal activity of the Corporation is to distribute electricity in the service area of Vaughan, Markham, Richmond Hill and Aurora, in the Province of Ontario, under the license issued by the Ontario Energy Board ("OEB"). The Corporation is regulated under the OEB and adjustments to the distribution rates require OEB approval.

2. ELECTRICITY INDUSTRY REGULATION

The Energy Competition Act, 1998 (the "Act") was given Royal Assent on October 30, 1998. The Act provides for a competitive market in the sale of electricity and the regulation of the monopoly electricity delivery system in the Province of Ontario (the "Province") by the OEB. Electricity retailers began competing for customers as of March 1, 2000. On May 1, 2002, with the electricity market opening, or (Open Access), electricity retailers began to sell electricity.

The OEB has regulatory oversight of electricity matters in the Province. The Act sets out the OEB's powers to issue a distribution license, which must be obtained by any person owning or operating a distribution system under the Ontario Energy Board Act, 1998. The OEB may prescribe license requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, separation of accounts for separate businesses and filing/process requirements for rate-setting purposes.

The Ontario Energy Board Act, 1998 gave the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

In December 2002, the Province passed Electricity Pricing, Conservation and Supply Act, 2002 ("Bill 210") which among other things

- (a) Fixed the price of electricity paid by low volume and designated consumers at 4.3 cents per kWh (retroactive to May 1, 2002); and
- (b) Capped distribution rates at current levels and deferred further rate increases and certain cost recoveries by distributors.

The price freeze and rate caps were originally expected to continue until at least May 1, 2006.

In November 2003, the Province announced its intention to increase (effective April 1, 2004) the price of electricity payable by low volume and designated customers from 4.3 to 4.7 cents per kWh on the first 750 kWhs consumed during a month and 5.5 cents per kWh thereafter and directed the OEB to develop new pricing mechanisms (to take effect no later than May 1, 2005) for setting the price of electricity payable by low volume and designated customers.

POWERSTREAM INC.
Notes to the Financial Statements
December 31, 2005
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2. ELECTRICITY INDUSTRY REGULATION (continued)

The Province also announced its intention in November 2003 to permit electricity distributors to make rate applications to the OEB earlier than had been contemplated under Bill 210 with respect to the:

- (a) Recovery of regulatory assets (based on year-end balances at December 31, 2002) to be phased in over a four-year period effective March 1, 2004; and
- (b) The final adjustment necessary to achieve a market-based rate of return (subject to a one-time investment in conservation and demand management initiatives equal to one year of additional revenue resulting from such rate increase) effective March 1, 2005.

In December 2003, the OEB issued filing guidelines with respect to the recovery of regulatory assets. The OEB's filing guidelines provided that:

- (a) PowerStream was permitted to recover 25% to 30% of certain regulatory assets in rate adjustments to become effective March 1, 2004;
- (b) The 2004 rate adjustment was implemented on April 1, 2004 (with a gross-up added to the recovered amount to allow recovery over 11 months);
- (c) The OEB provided additional instructions with respect to the filing of evidence to facilitate the OEB's review of the balance of the regulatory assets; and
- (d) Permitted recoveries will be phased in over a four-year period (2004 through 2007).

During the period that the price freeze is in effect, it is expected that distributors and retailers will be compensated by the Ontario Electricity Financial Corporation (OEFC) as follows:

- (a) In the case of distributors, for amounts by which the price paid by distributors for electricity purchased by them in the wholesale market on behalf of low volume and designated consumers is greater than the fixed price per kWh; and
- (b) In the case of retailers, for amounts by which the retail contract price between retailers and low volume and designated consumers is greater than the fixed price per kWh.

Consumers other than designated consumers who annually utilize more than 250,000 kWh continue to be eligible to receive Business Protection Plan ("BPP") rebates (formerly received under the Market Power Mitigation Agreement) from Ontario Power Generation Inc. ("OPG") to the extent that electricity prices exceed certain prescribed thresholds.

On December 9, 2004, the Province passed the Electricity Restructuring Act. The purpose of this act is to provide stable prices for consumers that reflect the true cost of electricity, facilitate new supply additions and promote conservation and demand management. The act also creates the Ontario Power Authority, with a mandate to ensure an adequate, long-term supply of electricity in Ontario. The Independent Electricity System Operator (IESO) (formerly the Independent Electricity Market Operator) will continue to be responsible for operating the system and the spot market, and shorter-term system planning.

POWERSTREAM INC.
Notes to the Financial Statements
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2. ELECTRICITY INDUSTRY REGULATION (continued)

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and future possible consultations between the OEB and interested stakeholders, may affect the distribution rates, including payments in lieu of taxes ("PILS") collected from customers, that the Corporation may charge and the costs that the Corporation may recover, including the balance of its regulatory assets.

The Corporation implemented the final rate increase in April 2005 to achieve a 9.88% return on equity in 2005. However, the related monies raised equal to one year of additional revenue resulting from this rate increase will be spent specifically on demand side management and energy conservation initiatives over a three year period ending in 2007.

3. SIGNIFICANT ACCOUNTING POLICIES

The Corporation's financial statements are the representations of management prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and accounting policies provided by its regulator, the OEB, as contained in the Accounting Procedures Handbook, issued under the authority of the Ontario Energy Board Act, 1998.

The financial statements reflect the following significant accounting policies:

(a) Rate setting

The Corporation is regulated by the 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.

As the Corporation is regulated by the OEB, the timing of accounting recognition and measurement of assets and liabilities arising from rate regulation may differ from that otherwise expected under Canadian generally accepted accounting principles for non-rate regulated enterprises. Specifically:

- (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 (Note 6).
- (ii) The Corporation provides for amounts in lieu of corporate income taxes using the taxes payable method for its regulated activities as permitted by The Canadian Institute of Chartered Accountants (CICA).
- (iii) 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 Accounting Procedures Handbook (Note 6).

POWERSTREAM INC.
Notes to the Financial Statements
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(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Disclosures by entities subject to rate regulation

In 2005 the Corporation adopted the new accounting guideline "Disclosures by Entities Subject to Rate Regulation (AcG-19)". This regulation requires the disclosure of information to facilitate an understanding of the nature and economic effects of rate regulation.

(c) Cash and cash equivalents

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

(d) Short-term investments

Short-term investments are recorded at the lower of cost and fair market value.

(e) Revenue recognition

(i) Electricity and distribution sale

Revenue from the sale and distribution of electricity is recorded on a basis of cyclical billings and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. The related cost of power is recorded on the basis of power used. Actual results could differ from estimates made of actual electricity usage.

(ii) Other revenue

Other revenue related to sales of other services is recognized as services are rendered. Contract revenue is accounted for using the percentage of completion method, whereby revenue is recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident.

(f) Inventory

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

(g) Property, plant and equipment and amortization

Property, plant and equipment are recorded at cost and include contracted services, materials, labour, engineering costs, interest and overheads. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers and may be refunded by the Corporation based on economic evaluation (discounted cash flow), in accordance with the OEB Distribution System Code. Such contributions, whether in cash or in-kind, are offset against the related asset cost. Contributions in-kind are valued at their fair market value at the date of their contribution.

POWERSTREAM INC.
Notes to the Financial Statements
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment and amortization (continued)

When identifiable assets, such as buildings, distribution station equipment and equipment and furniture are retired or otherwise disposed of, their original cost and related 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 property, plant and equipment is provided for on the straight-line basis over the estimated service life of the assets. Amortization of contributions from developers or customers are amortized at the rates corresponding with the useful lives of the related capital assets. The estimated service lives of the various assets used in calculating amortization are summarized below:

Buildings	10 to 60 years
Transformer stations	40 years
Transformers and meters	25 to 40 years
Plant and equipment	10 to 30 years
Other	3 to 5 years

Construction in progress comprises property, plant and equipment under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed. An allowance for the outlay of funds employed during the construction period has been applied to the related capital assets.

(h) Impairment of long-lived assets

The Corporation reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of the long-lived assets is not recoverable. Any resulting impairment loss is recorded in the period in which the impairment occurs.

(i) Intangibles

Intangibles include corporate restructuring costs related to amalgamation. Intangibles are stated at cost and are amortized on a straight-line basis over three years.

(j) Regulatory assets and liabilities

Regulatory assets primarily represent costs that have been deferred because it is probable that they will be recovered through future rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers and retailers that the OEB directs the distributor to account for. The Corporation accrues interest on certain regulatory assets and liabilities as allowed by the OEB.

POWERSTREAM INC.
Notes to the Financial Statements
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Regulatory assets and liabilities (continued)

The Corporation began recovery of regulatory assets on April 1, 2005 for deferred balances dating back to December 31, 2003. In 2006, the OEB has directed the Corporation to recover balances accrued to December 31, 2004. The Corporation is anticipating rate approval for implementation on May 1, 2006.

The Corporation received approval from the OEB in 2005 and subsequently implemented for April 1, 2005 the recovery of regulatory assets. This approval addressed the second installment of the four year plan of phased in recovery of regulatory assets. This installment related to balances accrued at December 31, 2003.

As at December 31, 2005, management has provided a "valuation allowance" against regulatory assets comprised principally of pension costs. Management continues to assess the likelihood of recovery of its regulatory assets and believes that it is probable that its regulatory assets, net of the valuation allowance, and liability balances will be factored into setting of future rates.

(k) Deferred debt issue costs

Deferred debt issue costs represent the discount and the cost of the issue of debentures. Amortization is provided on a straight-line basis over the term of the debentures.

(l) Goodwill

Goodwill represents the excess of the purchase price over the fair value assigned to the Corporation's interest of the net identifiable assets acquired on the acquisition, by predecessor corporations, of the former Richmond Hill Hydro Inc. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to the excess.

(m) Pension and other post-employment benefits

The Corporation accounts for its participation in the Ontario Municipal Employees Retirement Fund ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan.

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. Compensated absences and termination benefits that do not vest or accumulate are recognized as an expense when the event occurs. This accounting policy for future employee benefits was applied on the prospective basis. The transitional obligation resulting from this treatment is being amortized over the average remaining service period of employees.

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Notes to the Financial Statements
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(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Customer's deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills and fulfillment of construction obligations. Deposits estimated to be refundable to customers within the next fiscal year are classified as a current liability. Interest is paid on customer balances at rates established from time to time by the Corporation.

(o) Variable interest entities

Effective January 1, 2005, the Corporation adopted the new accounting guideline on "*Variable Interest Entities (AcG-15)*". The guidance requires the application of consolidation principles to entities subject to control on a basis other than through the ownership of voting interests. Adoption of this standard has no material impact on the Corporation's financial results.

(p) Payment in lieu of income taxes

In accordance with Ontario Regulation 162/01 made under the Electricity Act, 1998, the Corporation provides for payments in lieu of corporate income taxes using the taxes payable method. No provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers at that time.

(q) Conservation demand management

In accordance with the OEB, funds have been dedicated to spending on conservation and demand management initiatives spanning over a 3 year period ending in 2007. Any amounts collected in excess of the related dedicated conservation and demand spending have been deferred and are recorded as part of regulatory liabilities.

(r) Measurement uncertainty

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles 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, inventory, regulatory assets/liabilities, goodwill and employee future benefits are reported based on amounts expected to be recovered and an appropriate allowance has been provided based on management's best estimate of unrecoverable amounts. Due to the inherent uncertainty involved in making such estimates, actual results could differ from amounts recorded in these financial statements, including changes as a result of future decisions made by the OEB or the Minister of Energy.

POWERSTREAM INC.
Notes to the Financial Statements
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(in thousands of dollars)

4. ACQUISITION

On September 19, 2005 the Corporation received approval from the OEB in respect of the purchase of Aurora Hydro Connections Limited ("Aurora Hydro"). Effective with the close of business on October 31, 2005, the Corporation acquired 100% of the shares of Aurora Hydro for purchase consideration of \$35,239. Aurora Hydro is a licensed local distribution company that distributes electricity to approximately 15,000 customers in the Town of Aurora. On November 1, 2005, immediately following the acquisition, Aurora Hydro was amalgamated into the Corporation.

The following summarizes the net assets acquired as of the closing date of the acquisition:

	<u>Aurora Hydro</u>
Assets	
Current, net of cash acquired of \$5,451	\$ 8,420
Capital	26,593
Regulatory	3,972
	<u>38,985</u>
Liabilities	
Current	7,752
Other	1,214
	<u>8,966</u>
Net assets acquired, inclusive of acquisition costs of \$231	<u>\$ 30,019</u>

5. PROPERTY, PLANT AND EQUIPMENT

	<u>2005</u>			<u>2004</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land and Land Rights	\$ 3,493	\$ 117	\$ 3,376	\$ 2,556
Buildings	1,888	364	1,524	1,564
Transformer stations	81,965	21,544	60,421	60,113
Transformers and meters	220,616	104,972	115,644	109,100
Plant and equipment	540,168	247,511	292,657	263,194
Other	24,146	15,444	8,702	9,457
Construction in progress	10,079	-	10,079	4,501
	<u>882,355</u>	<u>389,952</u>	<u>492,403</u>	<u>450,485</u>
Capital contributions	134,196	18,566	115,630	99,876
	<u>\$ 748,159</u>	<u>\$ 371,386</u>	<u>\$ 376,773</u>	<u>\$ 350,609</u>

Included in property, plant and equipment costs are capitalized interest costs of \$785 (2004 – nil).

POWERSTREAM INC.
Notes to the Financial Statements
December 31, 2005
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6. REGULATORY ASSETS AND LIABILITIES

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

	<u>2005</u>	<u>2004</u>
Regulatory Assets		
Deferred qualifying transition costs	\$ 4,206	\$ 4,107
Pre-market opening cost of power variances	15,033	13,016
Deferred cash pension contributions	1,580	-
Deferred OEB annual cost assessments	1,165	250
	<u>21,984</u>	<u>17,373</u>
Provision for above regulatory assets	(1,723)	(5,228)
Regulatory Assets	<u>20,261</u>	<u>12,145</u>
Regulatory Liabilities		
Retail settlement variance accounts	(19,993)	(21,356)
Estimated over-recovery of payment in lieu of taxes	(1,385)	(105)
Regulatory asset recovery	(7,720)	(6,088)
	<u>(29,098)</u>	<u>\$ (27,549)</u>
Other regulatory liabilities	(6,478)	(1,193)
Regulatory Liabilities	<u>(35,576)</u>	<u>(28,742)</u>
Net regulatory liabilities	<u>\$ (15,315)</u>	<u>\$ (16,597)</u>

(a) *Regulatory Assets*

(i) *Deferred qualifying transition costs*

Deferred qualifying transition costs were incurred to meet the requirements of the competitive electricity market as mandated by the Electricity Act, 1998. The OEB has established rules in respect of transition costs, whereby certain amounts qualify for deferral and amortization against future revenue. To the extent that transition costs have been incurred that do not qualify for deferral, these costs have been expensed in the period incurred. During the current year, \$672 of transition costs which were identified as non-qualifying costs, were expensed.

For the period January 1, 2003 to December 31, 2005 deferred qualifying transition costs increased due to the applied carrying charges prescribed by the OEB. In the absence of rate regulations, interest income would have been \$236 lower in 2005.

POWERSTREAM INC.
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6. REGULATORY ASSETS AND LIABILITIES (continued)

(a) Regulatory Assets (continued)

(ii) Pre-market opening cost of power variance

Pre-market opening cost of power variances represent 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.

Under OEB regulations, expenses were allowed to be deferred which would have been expensed under Canadian GAAP for non rate regulated businesses. No further costs were incurred relating to this deferral account after May 1, 2002. Increases to the pre-market cost of power variance are related to the applied carrying charges prescribed by the OEB. In the absence of rate regulation, interest income would have been \$769 lower in 2005.

(iii) Deferred cash pension contributions account

The OEB has approved the establishment of a regulatory deferral account to record the incremental OMERS pension costs beginning January, 2005. The Corporation has deferred all 2005 OMERS expenditures in accordance with the criteria setout in the Accounting Procedures Handbook ("APH").

Under OEB regulations, expenses were allowed to be deferred which would have been expensed under Canadian GAAP for non rate regulated businesses. Carrying charges have been applied to this deferred balance, in accordance with OEB direction, at a rate of 3.38%. In the absence of regulation, operating expenses in the fiscal year 2005 would have been \$1,475 higher. Interest revenue would have been lower by \$21.

(iv) Deferred OEB annual cost assessments account

The OEB has allowed the deferral of OEB annual cost assessments beginning January 1, 2004. The Corporation has deferred the above noted costs in accordance with prescribed criteria in the APH.

Under OEB regulations, expenses were allowed to be deferred which would have been expensed under Canadian GAAP for non rate regulated businesses. The deferred balance in this account has had carrying charges applied in accordance with the OEB direction. In the absence of rate regulation, operational expenses would have been \$832 higher in 2005. Interest revenue would have been \$37 lower.

POWERSTREAM INC.
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December 31, 2005
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6. REGULATORY ASSETS AND LIABILITIES (continued)

(b) Regulatory Liabilities

(i) Retail settlement variance accounts

Retail settlement variance accounts relate to 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:

- (a)* variances between the amount charged by the Independent Electricity System Operator ("IESO") for the operation of the markets and grid, the purchase of imported power by the IESO to augment Ontario's power supply and charged by the IESO as an uplift charge that is part of the wholesale market service charges, as well as various wholesale market settlement charges, transmission charges as compared to the amount billed to consumers based on the OEB-approved wholesale market service rate; and
- (b)* the differences between the amounts charged by the IESO and billed to consumers for energy costs due to line losses.

Under OEB regulations, the retail settlement variances are allowed to be deferred which under Canadian GAAP would be recorded as revenue for non rate regulated businesses. Under non regulated reporting, revenues would have been \$992 higher in 2005 and interest expense would have been lower in 2005 by \$1,773.

(ii) Estimated over-recovery of payment in lieu of taxes (PILs)

Variances are recorded as the differences resulting from the OEB approved PILs methodology (billed recovery) and the PILs proxy/allowance amount as determined. The cumulative amount of this variance, net of carrying charges, as of December 31, 2005 is \$1,385.

(iii) Regulatory assets recovery account

On April 1, 2005 PowerStream began recovering the second phase of a 4 year recovery plan. These recoveries are based on balances accrued to December 31, 2003. The regulatory assets recovery account is credited with recovery amounts and credited by the OEB prescribed interest rate for carrying charges (2005 - 6.90%). If regulated rates were not implemented the interest expense in 2005 would have been \$444 lower.

POWERSTREAM INC.

Notes to the Financial Statements

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6. REGULATORY ASSETS AND LIABILITIES (continued)

(c) *Other regulatory liabilities*

In April 2005 the Corporation received approval to collect its final phase of market adjusted rate of return. These funds were to be collected over the 2005 rate year beginning April 1 2005 and ending April 30, 2006. These funds are to be dedicated to spending on conservation and demand management initiatives spanning a 3 year period ending in 2007. Consistent with revenue recognition principles and the revenue neutrality of the program the Corporation has deferred revenue in 2005 in excess of the dedicated conservation and demand spending. Total deferred revenue for the period included in other regulatory liabilities is \$5,337.

(d) *Provision*

Management has determined that there is uncertainty concerning the future recovery of OMERS pension costs deferred for 2005 based on the guidelines issued by the Ontario Energy Board on February 15, 2005. Based on this uncertainty a provision against this deferral account has been recorded. Based on the Corporation's October 2005 regulatory asset filing, management has reversed a regulatory asset provision held by two predecessor companies in the amount of \$4,178 as management believes the entire amount to be recoverable. This amount was recorded as a reduction of the cost of power in the current year.

7. BANK INDEBTEDNESS AND CREDIT FACILITY

The Corporation requested and received an unsecured credit facility with a Canadian chartered bank and the related agreement was executed on March 23, 2005. This credit facility agreement provides an extendible 364-day revolving credit facility of \$125 million. This facility replaces the credit facilities that were in place for the former utilities (Hydro Vaughan, Markham Hydro and Richmond Hill Hydro).

As at December 31, 2005, the Corporation had utilized \$15.7 million of the credit facility to provide the IESO with a letter of credit for prudential support. With the opening of Ontario's electricity market to wholesale and retail competition on May 1, 2002 ("Open Access"), the IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the letter of credit if the Corporation defaults on its payment.

The existing credit facility can be drawn upon by either direct advances, bearing interest at prime less 0.50% or Bankers' Acceptances, with a stamping fee of 20 basis points, or by way of letter of credit with a fee of 20 basis points per annum.

POWERSTREAM INC.
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8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2005</u>	<u>2004</u>
Accounts payable - energy purchased	\$ 45,086	\$ 36,274
Current portion of customer's deposits	1,605	11,662
Other accounts payable and accrued liabilities (including construction deposits to be refunded within one year in the amount of \$8,067 - 2004 - \$1,533)	48,532	26,194
	<u>\$ 95,223</u>	<u>\$ 74,130</u>

9. RELATED PARTY BALANCES AND TRANSACTIONS

The amount due to the Corporation of the City of Vaughan ("City") and the Corporation of the Town of Markham ("Town") is comprised of amounts payable to the City and Town and their wholly-owned companies established under the provisions of the Ontario Business Corporation Act in order to comply with provisions of provincial legislation enacted to restructure the publicly-owned electricity business in Ontario.

Components of the amounts due to related parties are as follows:

	<u>2005</u>	<u>2004</u>
The Corporation of the City of Vaughan		
Accounts payable - Hydro Vaughan Distribution Inc. Dividend	\$ -	\$ 25,000
Accrued interest on Hydro Vaughan Distribution Inc. Dividend	-	814
Accounts payable - Hydro Vaughan Distribution Inc. Dividend	-	1,900
Accrued interest on note payable of \$78,236 at an annual rate of 5.58%	1,100	1,100
Net balance payable of inter entity transactions, without interest	5,769	5,951
Vaughan Holdings Inc.		
Special dividend payable	6,800	-
Accrued interest on special dividend payable an annual rate of 2.76%	113	-
	<u>13,782</u>	<u>34,765</u>
The Corporation of the Town of Markham		
Accrued interest on note payable of \$67,866 at an annual rate of 5.58%	955	955
Net balance payable of inter entity transactions, without interest	1,875	1,915
	<u>2,830</u>	<u>2,870</u>
	<u>\$ 16,612</u>	<u>\$ 37,635</u>

POWERSTREAM INC.

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9. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Interest of \$8,153 on the notes payable and interest of \$999 on outstanding Hydro Vaughan dividends was charged to interest expense. Interest on the dividends payable to Vaughan Holdings Inc. of \$113 was charged to interest expense. As at December 31, 2005, the amounts shown as due to related parties included an aggregate accrual of \$2,168 related to such interest.

Other significant related party transactions not otherwise disclosed separately in the financial statements, are summarized below:

	2005		2004	
	City of Vaughan	Town of Markham	City of Vaughan	Town of Markham
Revenue				
Energy and distribution	\$ 3,443	\$ 3,576	\$ 1,697	\$ 1,166
Shared services	\$ 1,397	\$ 1,526	\$ 1,606	\$ -
Expenses				
Facilities rental	\$ 523	\$ 602	\$ 517	\$ 602
Realty taxes	\$ 142	\$ 224	\$ 124	\$ 190
Operations	\$ 1,082	\$ 145	\$ 1,014	\$ 931

10. DEBENTURES PAYABLE

	2005	2004
6.45% unsecured Debentures due August 15, 2012, interest payable in arrears semi-annually on August 15 and February 15	\$ 100,000	\$ 100,000

In August 2002, the three predecessor corporations raised gross proceeds of \$100,000 through a private placement offering. These corporations were three of five local distribution companies ("LDC") that participated in the Electricity Distributors Finance Corporation ("EDFIN") 10 Year Debentures Issued (Series 2002-1) that was offered on a private placement. EDFIN is a specific purpose corporation managed by MEARIE Management Inc., for the purpose of providing LDC with efficient access to the debt capital markets. Each LDC has executed a debenture which is a direct and unsecured obligation of the LDC. The LDC's obligations are several and not joint, and each LDC is liable for its own obligation and not that of any other LDC.

The Corporation assumed the obligations of the three predecessor corporations pursuant to an assumption agreement dated June 1, 2004.

The unsecured debentures, totaling \$100,000 represents the Corporation's debenture payable of \$35,000 (Hydro Vaughan), \$30,000 (Markham Hydro) and \$35,000 (Richmond Hill Hydro).

Interest expense, including amortization of deferred debt issue costs, was \$7,004 (2004 - \$4,116).

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11. CUSTOMERS' DEPOSITS

	<u>2005</u>	<u>2004</u>
Service deposits	\$ 14,983	\$ 23,159
Less amounts expected to be refunded within one year, included in accounts payable and accrued liabilities (Note 8)	1,605	11,662
	<u>\$ 13,378</u>	<u>\$ 11,497</u>

12. EMPLOYEE FUTURE BENEFITS

The Corporation pays certain health, dental and life insurance benefits on behalf of its retired employees. The Corporation recognizes these post-retirement costs in the period in which the employees rendered their services.

The benefits liability for the Corporation is being recorded in the accounts prospectively. Accordingly, the transitional obligation is being amortized over the average remaining service period of active employees of 11 years as determined by actuarial methodology.

The accrued benefit obligation for active employees and retirees as at December 31, 2005 is \$8,734 and the expense for the period ended December 31, 2005 of \$1,121 was based on actuarial valuation using a discount rate of 5.0%.

Payments for the period ended December 31, 2005 are estimated to be equal to the estimated claims for extended health, dental benefits and life insurance in respect of retirees, and the assumed expenses and taxes associated with their benefits.

A reconciliation of the funded status of the Corporation's post-retirement benefit plan to the amounts recorded in the financial statements is as follows:

	<u>2005</u>	<u>2004</u>
Accrued benefit obligation	\$ 8,734	\$ 8,027
Unamortized transitional obligation	(1,097)	(2,164)
Unamortized net actuarial losses	(2,343)	(1,640)
Accrued benefit liability	<u>\$ 5,294</u>	<u>\$ 4,223</u>

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12. EMPLOYEE FUTURE BENEFITS (continued)

Details of the accrued benefit obligation are as follows:

	<u>2005</u>	<u>2004</u>
Accrued benefit obligation, beginning of the period	\$ 8,027	\$ 4,472
Benefit obligation on acquisition of Aurora Hydro	139	-
Current service cost	241	236
Interest cost on obligation	414	297
Benefit payments	(153)	(75)
Actuarial gain - plan curtailment	(838)	-
Actuarial loss on obligation	904	3,097
Accrued benefit obligation, end of the period	<u>\$ 8,734</u>	<u>\$ 8,027</u>

The plan expense for the year is determined as follows:

	<u>2005</u>	<u>2004</u>
Current service cost	\$ 241	\$ 236
Interest cost on obligation	414	297
Amortization of transitional obligation	273	187
Amortization of net actuarial loss	193	103
Plan expense	<u>\$ 1,121</u>	<u>\$ 823</u>

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation are as follows:

Discount rate	5.00%
Rate of compensation increase	3.10%
Medical benefits costs escalation - hospitalization	4.0%-10.0%
Medical benefits costs escalation - extended health care	4.0%-10.0%
Dental benefits costs escalation	4.0%-5.0%

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2005:

	<u>Increase</u>	<u>Decrease</u>
Total service and interest cost	\$ 190	\$ (44)
Accrued benefit obligation	\$ 2,091	\$ (470)

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13. PENSION

The Corporation provides a pension plan for its employees through OMERS. OMERS is a multi-employer pension plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund. The Corporation incurred \$1,626 of contribution expense during the 12 month period-ended December 31, 2005 (2004 - \$919).

14. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Share Capital

The Corporation's authorized share capital is made up of an unlimited number of common shares. The issued share capital as at December 31 is as follows:

	<u>2005</u>	<u>2004</u>
1,035.0877 common shares (2004 - 1,000 common shares)	\$ 149,433	\$ 142,633

Of the total 1,035.0877 common shares issued, 590 (2004 – 590) common shares are registered under Vaughan Holdings Inc. (wholly owned by The Corporation of the City of Vaughan) and 445.0877 (2004 – 410) common shares are registered under Markham Enterprises Corporation (MEC) (wholly owned by The Corporation of the Town of Markham). In accordance with the June 1, 2004 shareholders' agreement, MEC exercised its option to purchase from treasury, an additional 2% of all the issued and outstanding shares after giving effect to the exercise of such an option. An additional 35.0877 common shares were purchased during the current year for cash consideration of \$6,800.

In accordance with the related subscription agreement dated March 24, 2005, a special dividend was declared, payable to Vaughan Holdings Inc., in the amount of \$6,800.

Contributed Surplus

Contributed surplus represents the difference between the total of the net assets contributed by The Corporation of the City of Vaughan and Markham Enterprises Corporation and the amount reported as stated capital in the financial statements of PowerStream Inc., upon amalgamation on June 1, 2004.

A closing adjustment was recorded in the current fiscal year resulting in a \$1,706 payment to Markham Enterprises Corporation to fulfill the terms of the June 1, 2004 Amalgamation Agreement. This payment has been recorded as a reduction in contributed surplus.

POWERSTREAM INC.
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15. NOTES PAYABLE

	<u>2005</u>	<u>2004</u>
Promissory note issued to the City of Vaughan	\$ 78,236	\$ 78,236
Promissory note issued to the Town of Markham	67,866	67,866
	<u>\$ 146,102</u>	<u>\$ 146,102</u>

On June 1, 2004 an unsecured 20 year term promissory note was issued to The Corporation of the City of Vaughan ("City") in the amount of \$78,236. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On June 1, 2004 an unsecured 20 year term promissory note was issued to the Corporation to the Town of Markham ("Town") in the amount of \$67,866. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

The two promissory notes are repayable 90 days following demand by the City or the Town. These notes have been classified as long term as it is not the intent of the City or the Town to demand repayment earlier than January 1, 2007.

16. COMMITMENTS

Shared services agreement

Pursuant to a shared services agreement between the former Vaughan Hydro-Electric Commission and the Corporation of the City of Vaughan ("City"), the Corporation charges the City, at agreed rates, for various administrative functions. In addition, the City performs certain shared services, which are charged to the Corporation. The Corporation also provides water billing services to the Town of Markham. The net charges for services under these agreements were \$2,923.

Long-term operating leases

The Corporation rents buildings and facilities from the Corporation of the City of Vaughan and the Town of Markham under long-term operating leases. The Corporation has signed a long-term lease with the Town of Markham and has exercised its option to renew a lease on a monthly basis with the City of Vaughan. For the period from January 1 to December 31, 2005, the rental for the buildings and facilities was approximately \$1,125. The cost of the rent including both the rent charged under the operating leases and rent not covered by operating leases aggregated \$1,396.

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17. CONTINGENCIES

(a) Legal claims

The Corporation has been named as a defendant in several actions. No provision has been recorded in the financial statements 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 restitution 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.

The claim was that late payment penalties resulted 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 defense of this class action. At this time, it is not possible to quantify the effect, if any, on the financial statements.

(c) Other contingencies

The provision for income taxes reflects management's position that the treatment of regulatory assets and liabilities is the same for tax purposes as for accounting purposes. Primarily as a result of the recovery of revenues through standard provincial transmission rates, there may be additional taxes payable at December 31, 2005 in the amount of approximately \$960. The Minister of Energy has approved the corporation's application for a rate change to address the over-recovery, reduce the rates and ultimately eliminate these amounts. As this is unique and a result of a timing issue and because the "payment-in-lieu of income taxes" regime is relatively new, with no specific precedent in tax assessing practices, it is not determinable whether or not a liability will materialize and no provision has been made for this amount in the financial statements. The above mentioned timing differences will eventually reverse.

(d) Environmental

Under the shareholders agreement, the Corporation is obligated to remediate all transformers and equipment with polychlorinated biphenyl (PCB) contamination in excess of 50 ppm on or before August 31, 2007. A program has been put in place in 2005 and work is underway to test relevant transformers and equipment. Initial results indicated that no PCB has been found. No provision for any contingency has been recorded in the financial statements.

POWERSTREAM INC.
Notes to the Financial Statements
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18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives.

Fair value of financial assets and liabilities

The fair value of the Corporation's cash and cash equivalents, short term investments, accounts receivable, unbilled revenues, accounts payable and accrued liabilities and refundable customer deposits approximate their carrying amount because of the short maturity of these instruments.

The fair value amount of the debenture payable in the amount of \$100,000 was \$110,766 as at December 31, 2005 based on quoted market prices.

The fair value of the Corporation's note payable for the Corporation of the City of Vaughan, the Corporation of the Town of Markham and due to related parties is not determined due to their related party nature and variable terms.

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

Financial assets held by the Corporation expose it to credit risk. As at December 31, 2005, 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 in the City of Vaughan, the Town of Markham, the Town of Richmond Hill and the Town of Aurora. In the period ended December 31, 2005, the Corporation derived approximately 5.66% of its revenue from one customer. As at December 31, 2005, the one customer represented \$2,247 of the outstanding accounts receivable balance.

Insurance

The Corporation maintains appropriate types and levels of insurance with major insurers. With respect to liability insurance, the Corporation is a member of the Municipal Electricity 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 thousands of dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Coverage is provided to a level of \$20,000 per incident.

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19. CORPORATE INCOME TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and provincial statutory income tax rate. The reconciliation between the statutory and effective tax rates is provided as follows:

	<u>2005</u>	<u>2004</u>
Rate reconciliation		
Income from operations before PILs	\$ 24,496	\$ 12,793
Statutory Canadian federal and provincial income tax rate	36.12%	36.12%
Expected tax provision on income at statutory rates	8,848	4,621
Increase (decrease) in income taxes resulting from		
Large corporations tax net of surtax	507	378
Other timing differences non-benefited		
Amortization/CCA differences	(563)	117
Post employment benefits	383	279
Eligible capital expenditures	(99)	(45)
Other	(138)	(97)
Permanent differences	42	63
Other	930	(242)
Provision for PILs	\$ 9,910	\$ 5,074
Component of provision for PILs		
Large corporations tax net of surtax	\$ 507	\$ 378
Income tax expense	9,403	4,696
Provision for PILs	\$ 9,910	\$ 5,074

Future income taxes relating to the regulated business have not been recorded in the accounts as they are expected to be recovered through future electricity rate revenues. As at December 31, 2005, future income tax assets of \$43,222 (consisted mostly of non-deductible reserves and the difference between the tax and book bases of capital assets), based on substantively enacted income tax rates, have not been recorded on the balance sheet.

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20. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	<u>2005</u>	<u>2004</u>
Accounts receivable	\$ 13,974	\$ (10,633)
Unbilled revenue	(1,756)	(4,916)
Income taxes recoverable	4,616	(7,936)
Income taxes payable	279	-
Inventory	(410)	3,417
Prepaid and other	222	331
Accounts payable and accrued liabilities	14,260	1,015
	<u>\$ 31,185</u>	<u>\$ (18,722)</u>

21. SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2005</u>	<u>2004</u>
(a) Cash paid during the period for:		
Interest	\$ 16,526	\$ 7,493
Payments in lieu of taxes	\$ 6,115	\$ 7,398
(b) Non-cash financing activities:		
Share capital exchanged for unsecured debt (5.58% promissory note)	\$ -	\$ 33,236
Vaughan Holdings Inc, special dividend paid after December 31, 2005 (Note 9)	\$ 6,800	\$ -

22. GUARANTEES

In the normal course of business, the Corporation enters into agreements that meet the definition of a guarantee. The Corporation's primary guarantees subject to the disclosure requirements of AcG-14 are as follows:

- (a) The Corporation has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Corporation agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.
- (b) Indemnity has been provided to all directors and/or officers of the Corporation for various items including, but not limited to, all costs to settle suits or actions due to association with the Corporation, subject to certain restrictions. The Corporation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Corporation. The maximum amount of any potential future payment cannot be reasonably estimated.

POWERSTREAM INC.

Notes to the Financial Statements

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22. GUARANTEES (continued)

- (c) In the normal course of business, the Corporation has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Corporation to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Corporation has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

23. SUBSEQUENT EVENT

Subsequent to year end, the Corporation entered into agreements to purchase land in the City of Vaughan, Regional Municipality of York and to construct a new energy-efficient head office facility. The estimated date of completion is 2007 at an estimated cost of approximately \$23,000.