Financial Statements of

VERIDIAN CONNECTIONS INC.

Year ended December 31, 2005

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AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of Veridian Connections Inc. as at December 31, 2005 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company'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 Company 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.

KPMG LLP

Chartered Accountants

Toronto, Canada

March 3, 2006

VERIDIAN CONNECTIONS INC.

Balance Sheet

December 31, 2005, with comparative figures for 2004

		2005		2004
Assets				
Current assets:				
Cash and cash equivalents	$	24,662,821	$	13,555,918
Accounts receivable (note 2)		15,662,983		16,788,702
Amounts recoverable in lieu of corporate income taxes		948,753		336,875
Unbilled revenue		32,831,359		23,836,596
Prepaid expenses		384,458		317,100
Inventory		125,935		–
Regulatory assets, current (note 5)		1,102,135		851,956
		75,718,444		55,687,147
Deferred charges (note 3)		32,238		84,696
Capital assets (note 4)		114,054,497		106,990,573
Intangible assets		8,746,197		3,775,889
Regulatory assets (note 5)		1,609,117		1,352,314
	$	200,160,493	$	167,890,619
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable - energy	$	25,927,570	$	13,459,647
Accounts payable and accrued liabilities		20,983,770		10,532,691
Advance payments - construction deposits		535,422		341,420
Developer obligations		1,114,584		–
Current portion of amounts due to related parties (note 7)		19,797,957		8,867,736
Current portion of long-term debt (note 8)		43,588,000		–
Regulatory liabilities, current (note 5)		2,215,829		552,033
Current portion of amounts due to Hydro One Network Inc. (note 9)		432,132		274,467
		114,595,264		34,027,994
Long-term liabilities:				
Long-term debt (note 8)		–		43,588,000
Amounts due to Hydro One Network Inc. (note 9)		641,898		823,401
Regulatory liabilities (note 5)		8,850,777		3,879,625
Due to related parties (note 7)		–		14,500,000
Employee future benefits (note 10)		707,102		580,160
Customer deposits and contractor obligations		4,303,488		5,580,893
		14,503,265		68,952,079
Shareholder's equity:				
Share capital (note 11)		64,302,002		64,302,002
Contributed capital		22,765		22,765
Retained earnings		6,737,197		585,779
		71,061,964		64,910,546
Contingencies and guarantees (note 12)				
Lease commitments (note 13)				
	$	200,160,493	$	167,890,619

See accompanying notes to financial statements.

On behalf of the Board:

Chair, Board of Directors

Chair, Audit and Finance Committee

VERIDIAN CONNECTIONS INC.

Statement of Operations and Retained Earnings

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Revenue	$ 207,388,764	$ 180,210,703
Cost of power	168,860,027	147,564,153
Gross margin	38,528,737	32,646,550
Expenses:		
Billing and settlement services (note 7)	6,394,539	7,085,059
Operating and maintenance	4,415,437	3,684,857
Administrative and general (note 7)	6,183,752	6,620,699
Metering services (note 7)	631,219	701,979
Interest on long-term debt (note 8)	4,847,763	4,726,741
Amortization	8,589,517	8,083,475
	31,062,227	30,902,810
Operating income before the undernoted	7,466,510	1,743,740
Other income (note 14)	2,434,609	3,076,431
Income before income taxes	9,901,119	4,820,171
Payments in lieu of corporate income taxes	(3,749,701)	(2,220,657)
Net income	6,151,418	2,599,514
Retained earnings (deficit), beginning of year	585,779	(2,013,735)
Retained earnings, end of year	$ 6,737,197	$ 585,779

See accompanying notes to financial statements.

VERIDIAN CONNECTIONS INC.

Statement of Cash Flows

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Cash provided by (used in):		
Operating activities:		
Net income	$ 6,151,418	$ 2,599,514
Items not affecting cash:		
Decrease in regulatory assets (liabilities)	5,912,421	2,922,345
Change in employee future benefits obligation	126,942	9,946
Amortization of capital assets and deferred charges	8,589,517	8,083,475
	20,780,298	13,615,280
Change in non-cash operating working capital, net of effect of businesses acquired (note 15)	27,153,650	(7,282,762)
	47,933,948	6,332,518
Financing activities:		
Decrease in customer deposits and contractor obligations	(1,277,405)	(1,325,970)
Decrease in long-term amounts due to related parties	(14,500,000)	–
Amounts due to Hydro One Network Inc.	(23,838)	1,097,868
	(15,801,243)	(228,102)
Investing activities:		
Additions to capital assets, net of contributed capital	(6,949,427)	(5,948,813)
Acquisitions, net of cash acquired	(14,076,375)	–
	(21,025,802)	(5,948,813)
Increase in cash and cash equivalents	11,106,903	155,603
Cash and cash equivalents, beginning of year	13,555,918	13,400,315
Cash and cash equivalents, end of year	$ 24,662,821	$ 13,555,918
Supplemental cash flow information:		
Interest received	$ 576,108	$ 469,728
Interest paid	126,744	310,042
Supplemental disclosure of non-cash financing activities and investing activities:		
Amounts in lieu of corporate income taxes	4,169	3,121,018

See accompanying notes to financial statements.

Veridian Connections Inc. (the "Company") commenced operations on November 1, 1999. It is a fully owned subsidiary of Veridian Corporation (the "Corporation"). The Company is licensed by the Ontario Energy Board (the "OEB") as an electricity distributor.

1. Significant accounting policies:

(a) Basis of presentation:

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

(b) Rate setting:

The Company 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.

The OEB has the general power to include or exclude costs, revenues, 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. Such change in the timing involves the application of rate regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Company has recorded regulatory liabilities which represent amounts for expenses incurred in different periods that would be the case had the Company been unregulated. 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.

(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 Company 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 Company 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.

(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 from the sale of electricity is recognized on the accrual basis, which 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.

(e) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Accounts receivable, unbilled revenue and regulatory assets are reported based on amounts expected to be recovered and an appropriate allowance for unrecoverable amounts. Inventories are recorded net of provisions for obsolescence. Due to inherent uncertainty involved in making such estimates, actual results reported in future years could differ from those estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the OEB or the Minister of Energy. Amounts recorded for amortization of capital assets are based on estimates of useful service life.

(f) Capital assets:

Capital assets purchased or constructed by the Company are stated at cost and include contracted services, material labour, engineering costs, overheads and an allowance for the cost of funds used during construction when applied. Also included in capital assets is the cost of capital assets constructed by developers or customers and contributed to the Company. The OEB requires that such contributions be offset against the related asset cost.

1. Significant accounting policies (continued):

When identifiable buildings, distribution station equipment and office equipment 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 current operations. Repairs and maintenance expenditures are charged to operations. The cost and related accumulated amortization of transmission and distribution system are removed from the accounts at the end of the estimated average service lives.

Amortization is provided on the straight-line basis over the estimated service lives at the following annual rates:

Land rights	2%
Buildings	2% - 4%
Distribution station equipment	3% - 33%
Transmission and distribution system	4% - 10%
Meters and water heaters	10%
Office equipment	10%
Computer hardware	20%
Computer software	33.33%
Vehicle fleet	12.5% - 33.33%

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 7% (2004 - 7%).

When portions of the Company's distribution facilities are replaced or relocated, the asset is charged with the costs of construction less the salvage value of any material returned to inventory. Amortization is then provided at the same rate used for the original asset.

1. Significant accounting policies (continued):

(g) Intangible assets:

Intangible assets are principally comprised of licences issued by the OEB granting authority to provide electricity distribution services within specified exclusive areas. Such amounts arise from acquisitions. Intangible assets are assessed for future recoverability or impairment on an annual basis. Intangible assets with indefinite lives are not amortized. Any permanent impairment of the value of intangible assets is recorded as a charge against income in the year that such determination is made.

(h) Deferred charges:

Deferred charges consist of deferred incorporation charges and other corporate costs and software development costs. The incorporation charges and other corporate costs are amortized over five years. The software costs are capitalized as computer software when they are ready for use.

(i) Customer deposits and contractor obligations:

Customers and contractors may be required to post security to obtain electricity or other services. Interest is paid on customer balances at rates established from time to time by the Company.

(j) Pension and other post-employment benefits:

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

The Company actuarially determines the cost of other employment and post-employment benefits offered to employees. These unfunded plans are accounted for as defined benefit obligations. The Company applies the projected benefit method, prorated on service and based on management's best estimate and 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 ending at the earliest age the employee could retire and qualify for benefits.

1. Significant accounting policies (continued):

(k) Payments in lieu of corporate income taxes:

Under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate income taxes ("PILs") to Ontario Electricity Financial Corporation ("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 Company uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and tax basis of the Company'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 Company's income taxes payable in the year or a later period. No provision is made in these financial statements 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.

2. Accounts receivable:

	2005	2004
Energy revenue	$ 14,127,206	$ 14,819,689
Retailer revenue (expense)	(213,575)	139,990
Project expenditures recoverable from customers	1,953,055	1,371,297
Other	405,124	827,726
	16,271,810	17,158,702
Less allowance for doubtful accounts	608,827	370,000
	$ 15,662,983	$ 16,788,702

3. Deferred charges:

	2005	2004
Deferred incorporation charges	$ 8,816	$ 31,606
Other	23,422	53,090
	$ 32,238	$ 84,696

4. Capital assets:

	Cost	Accumulated amortization	2005 Net book value	2004 Net book value
Land	$ 763,406	$ –	$ 763,406	$ 558,320
Land rights	690,060	86,067	603,993	93,777
Buildings	1,246,023	458,787	787,236	417,230
Distribution station equipment	24,043,991	11,427,719	12,616,272	11,667,353
Transmission and distribution system	211,900,437	103,269,162	108,631,275	101,410,882
Meters and water heaters	10,094,648	2,102,800	7,991,848	6,220,057
Office equipment	203,764	143,174	60,590	15,934
Computer hardware	406,463	357,027	49,436	26,488
Computer software	1,397,266	655,671	741,595	372,997
Vehicle fleet	1,831,230	1,231,804	599,426	110,041
Contributions in aid of construction	(22,065,855)	(3,275,275)	(18,790,580)	(13,902,506)
	$ 230,511,433	$ 116,456,936	$ 114,054,497	$ 106,990,573

During the year, $168,561 (2004 - $154,479) representing an allowance for the cost of funds used during construction was capitalized.

5. Regulatory assets (liabilities):

Regulatory assets (liabilities) can arise out of the rate making process.

	2005	2004
Regulatory assets:		
Deferred transition costs	$ 1,050,865	$ 831,352
Pre-market opening cost of power variances	2,537,531	1,997,707
OEB costs and pension contributions	760,550	–
Less:		
Amounts recovered through distribution rates	1,268,621	624,789
Amounts expected to be recovered in the next year	1,102,135	851,956
Valuation allowance	369,073	–
	$ 1,609,117	$ 1,352,314
Regulatory liabilities:		
Conservation and demand management	$ 126,811	$ –
Post-market opening retail settlement variances	10,939,795	4,431,658
Less amounts expected to be settled in the next year	2,215,829	552,033
	$ 8,850,777	$ 3,879,625

Deferred 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. To the extent that transition costs have been incurred that do not qualify for deferral, these costs have been expensed during the year in which they were incurred. In the absence of rate regulated accounting, amortization expense in 2005 would have been lower by approximately $47,054.

Pre-market opening cost of power variances represent amounts accumulated as a result of the excess of the cost of power purchased by the Company 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. In the absence of rate regulated accounting, interest income in 2005 would have been lower by $169,131.

The OEB approved the establishment of a regulatory deferral account to record the Company's distribution-related pension contributions and OEB hearing costs that would otherwise have been charged to results of operations, less the effect of the valuation allowance.

5. Regulatory assets (liabilities) (continued):

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, transmission charges as compared to the amount billed to consumers based on the OEB approved wholesale market services rate. In the absence of rate regulated accounting, interest income in 2005 would have been lower by $39,732.

As a result of the Company's distribution rate application filed in January 2004, the regulatory assets are expected to be recovered over a period not to exceed four years from March 1, 2004. The amount to be recovered annually is subject to an OEB review and approval process.

Management continues to assess the likelihood of recovery of its regulatory assets and believes that it is probable that its regulatory assets and liability balances will be factored into setting of future rates. In the event that recovery from future rates is no longer considered probable or portions of amounts deferred are determined not to be recoverable, such amounts will be expensed in the period this determination is made.

6. Amounts available to offset future payments in lieu of corporate income taxes:

The Company has unrecorded future income tax assets arising substantially from differences between accounting and tax values for capital assets amounting to $10,729,000 (2004 - $11,500,000) based on current PILs rates. The benefit of these amounts will be recorded as they are realized and form part of the rates charged to customers.

In the absence of rate regulated accounting, the Company's provision for PILs would have been recognized on an accrual basis rather than under the taxes payable method. As a result, the provision for PILs would have been higher by approximately $771,000.

7. Related party transactions and balances:

The Company purchases administrative and management services from its parent, and meter reading, billing and collection services from Veridian Energy Inc., another subsidiary of the parent. Charges for these services are recorded at exchange amounts established and agreed to by the related parties. For the year ended December 31, 2005, the cost of these services is as follows:

	2005	2004
Billing and settlement services	$ 6,394,539	$ 7,085,059
Administrative and management services	3,965,639	4,171,070
Metering services	631,219	701,979
	$ 10,991,397	$ 11,958,108

At December 31, balances owing to related parties are as follows:

	2005	2004
Veridian Corporation:		
Payables relating to services rendered, without interest or terms of repayment	$ 4,053,424	$ 785,736
Loan payable, due December 2006 at interest rates ranging from 5.6% to 5.7%	14,500,000	14,500,000
Veridian Energy Inc.:		
Payable relating to services rendered, without interest or terms of repayment	1,244,533	8,082,000
	19,797,957	23,367,736
Less current portion	19,797,957	8,867,736
	$ –	$ 14,500,000

Interest on long-term debt includes interest of $3,312,996 (2004 - $3,312,996) on the notes payable to the shareholders of the parent company.

During the year, interest in the amount of $898,488 (2004 - $826,268) and $132,307 (2004 - $415,415) was paid to Veridian Corporation and Veridian Energy Inc., respectively.

7. Related party transactions and balances (continued):

The Company provides electricity and services to the shareholders of its parent company, the Town of Ajax, the Municipality of Clarington, the City of Pickering and the City of Belleville (collectively, the "shareholders"). Electrical energy is sold to the shareholders at the same prices and terms as other electricity customers consuming equivalent amounts of electricity. The Company also provides street light and power line maintenance services to the shareholders on a contract basis. The charges for these services are at rates similar to those charged to other customers of maintenance services. A summary of amounts charged by the Company to the parent company shareholders is as follows:

	2005	2004
Electrical energy and services	$ 5,105,585	$ 5,470,294

At December 31, 2005, accounts receivable includes $668,015 (2004 - $922,107) due from the shareholders.

8. Long-term debt:

	2005	2004
7.6% notes payable to shareholders of Veridian Corporation, due on November 1, 2006	$ 43,588,000	$ 43,588,000

The notes payable mature on November 1, 2006 and are convertible at the option of the holder on the basis of one common share for each $1,000 of principal amount.

Interest on long-term debt is comprised of:

	2005	2004
Interest on notes payable and debentures	$ 3,312,996	$ 3,312,996
Interest on customer deposits and other	1,703,328	1,568,224
	5,016,324	4,881,220
Less allowance for funds used during construction	168,561	154,479
	$ 4,847,763	$ 4,726,741

9. Amounts due to Hydro One Network Inc.:

During the year, the OEB rendered a decision to allow Hydro One Network Inc. to recover certain costs from embedded distributors and for this recovery to take place on a monthly basis commencing April 1, 2005. The amount is expected to be recovered in full by April 30, 2006.

The amount due to Hydro One Network Inc. by the Company is $1,074,030. This amount is expected to be recovered through the Company's distribution rates. The amount expected to be paid during the next year is $432,132.

10. Employee benefits:

(a) Pensions:

During 2005, the Company made contributions totalling $334,971 (2004 - $311,059) to OMERS.

(b) Employee future benefits:

The Company pays certain benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which the employees render the services.

Information about the Company's non-contributory defined benefit plans to fund life insurance benefits is as follows:

	2005	2004
Accrued benefit liability recognized at January 1	$ 580,160	$ 570,214
Current service costs and interest expense on accrued benefit obligation	178,303	41,158
Benefits payments	(51,361)	(31,212)
Accrued benefit obligation at December 31	$ 707,102	$ 580,160

The amounts presented are based upon an actuarial valuation performed as of December 31, 2004, with a measurement date of February 18, 2005. The next valuation is expected to be performed for the year ended December 31, 2007.

10. Employee benefits (continued):

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

(i) General inflation:

Future general inflation levels, as measured by change in the Consumer Price Index ("CPI"), were assumed at 2.2% for future years.

(ii) Interest (discount) rate:

Amounts were determined using an annual discount rate of 5.75%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 3.55%.

(iii) Salary levels:

Future general salary and wage levels were assumed to increase at 3% per annum.

11. Share capital:

	2005		2004	
	Number of shares	Amount	Number of shares	Amount
Authorized:				
Unlimited common shares				
Issued	10,000	$ 64,302,002	10,000	$ 64,302,002

12. Contingencies and guarantees:

(a) Insurance claims:

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE") which was created on January 1, 1987. 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 provides general liability insurance to member electric utilities.

Insurance premiums charged to each member electric utility consist of a levy per $1,000 of service revenue subject to a credit or surcharge based on each electric utility's claims experience. Insurance limits of $20,000,000 per occurrence are covered by MEARIE.

(b) Other claims:

A class action claiming $500,000,000 in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against 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 anytime after April 1, 1981.

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 action has not yet been certified as either a plaintiff or defendant class action. At this time, it is not possible to quantify the effect, if any, on the financial statements of the Company.

On April 22, 2004, the Supreme Court of Canada released its decision in a 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 on the Toronto Hydro class action cannot be determined at this time.

12. Contingencies and guarantees (continued):

(c) Guarantees:

The Company participates in the competitive electricity market to procure a supply of electricity for its customers. All market participants are required to post security prudentials to participate in the market. Veridian Corporation, the parent of the Company, has posted letters of credit on behalf of the Company in the amount of $5,565,530.

13. Lease commitments:

Future minimum lease payment obligations under operating leases are as follows:

2006	$	33,800
2007		8,700
2008		4,800
2009		2,000
2010		2,000
Thereafter		78,000
	$	129,300

14. Other income:

		2005		2004
Late payment charges	$	501,234	$	424,628
Customer charges		438,959		355,583
Pole rentals		143,304		401,730
Interest		576,108		469,728
Other		775,004		1,424,762
	$	2,434,609	$	3,076,431

15. Change in non-cash operating working capital, net of businesses acquired:

	2005	2004
Accounts receivable	$ 2,380,918	$ (4,045,858)
Unbilled revenue	(7,734,677)	(4,120,256)
Prepaid expenses	(37,065)	(241,298)
Amounts recoverable/payable in lieu of corporate income taxes	(635,878)	(317,871)
Accounts payable - energy	10,780,577	(1,038,152)
Accounts payable and accrued liabilities	10,125,640	3,753,953
Advance payments - construction deposits	142,613	(64,479)
Due to related parties	10,930,221	(1,208,801)
Inventory	86,717	–
Developer obligations	1,114,584	–
	$ 27,153,650	$ (7,282,762)

16. Fair values of financial instruments:

The carrying amounts of all financial instruments, except long-term debt, approximate fair values. It is not practicable to estimate the fair value of long-term debt as it is not publicly traded.

17. Acquisitions:

(a) Gravenhurst Hydro Electric Inc.:

On October 31, 2005, the Company completed a share purchase agreement with Gravenhurst Power Inc., a wholly owned corporation of the Town of Gravenhurst, to acquire 100% of the shares of Gravenhurst Hydro Electric Inc. for purchase consideration of $11.85 million. Gravenhurst Hydro Electric Inc. is a licensed local distribution company that distributes electricity to approximately 6,000 customers in the Town of Gravenhurst.

(b) Scugog Hydro Energy Corporation:

On June 30, 2005, the Company completed a share purchase agreement with the Township of Scugog to acquire 100% of the shares of Scugog Hydro Energy Corporation for purchase consideration of $3.45 million. Scugog Hydro Energy Corporation is a licensed local distribution company that distributes electricity to approximately 2,400 customers in the Township of Scugog.

17. Acquisitions (continued):

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

	Gravenhurst Hydro Electric Inc.	Scugog Hydro Energy Corporation
Assets:		
Current	$ 2,928,486	$ 1,220,478
Capital	7,178,628	1,472,925
Intangible	8,816	–
Regulatory	176,811	385,674
	10,292,741	3,079,077
Liabilities:		
Current	1,210,426	844,452
Other	135,130	51,389
Regulatory	349,142	–
	1,694,698	895,841
Legal costs and other adjustments	185,456	236,131
Net assets acquired	8,412,587	1,947,105
Purchase price	11,880,000	3,450,000
Purchase price premium, allocated to intangible assets	$ 3,467,413	$ 1,502,895

18. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.