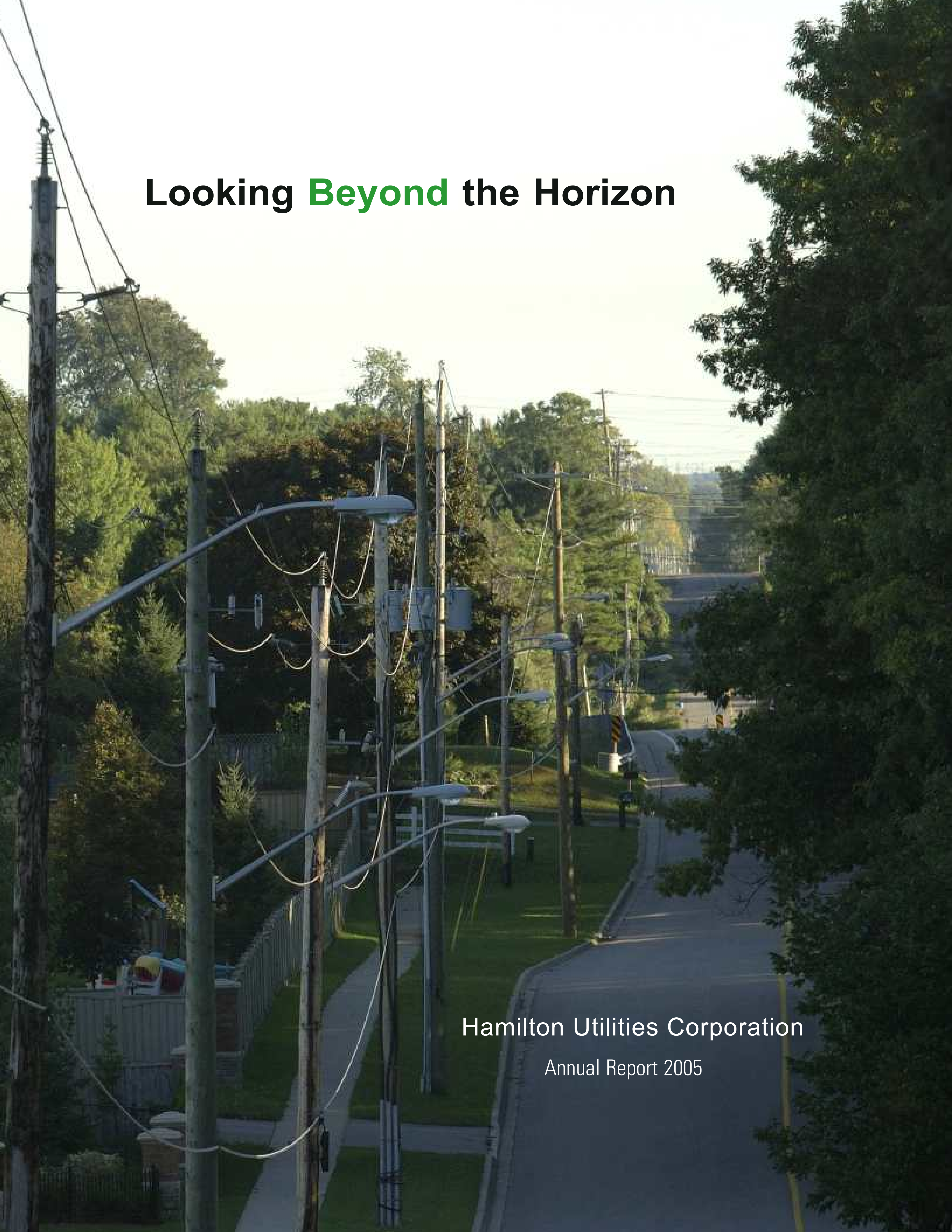
Looking Beyond the Horizon



Hamilton Utilities Corporation

Annual Report 2005

Hamilton Utilities Corporation

Hamilton Utilities Corporation is a municipally owned, multi-utility holding company established by articles of incorporation dated July 1, 2000, under the Business Corporations Act (Ontario).

The Business of Public Service™

Hamilton Utilities Corporation is committed to providing essential public utility and related services in a way that balances commercial discipline with environmental and social responsibility.

Hamilton Utilities Corporation delivers on its corporate vision through its three operating affiliates:

Horizon Utilities Corporation

Hamilton Hydro
Horizon Utilities Corporation

St.Catharines Hydro
Horizon Utilities Corporation

Horizon Utilities Corporation is a local electricity distribution company jointly owned by Hamilton Utilities Corporation and St. Catharines Hydro Inc. and operating in the communities of Hamilton and St. Catharines.

Hamilton Community Energy
a Hamilton Utilities company

Hamilton Community Energy delivers environmentally friendly electricity and heat energy to a variety of customers within the downtown core of Hamilton through the first district heating system within Hamilton.

FIBREWIRED™
a Hamilton Utilities company

FibreWired offers high-speed data telecommunications and related services to public institutions and business customers principally within Hamilton through its 500-kilometre network of fibre-optic cable.

Looking Beyond the Horizon

Hamilton Utilities Corporation

Annual Report 2005

Contents

Art Leitch, President and Chief Executive Officer (left)
and Charles Hantho, Chairman of the Board of Directors.

Message from the Chairman and President of Hamilton Utilities Corporation

The year 2005 marked the beginning of a new era in the history of Hamilton Utilities Corporation as we kept our sights firmly on our utility growth strategies and moved forward to expand our horizons. We have made significant progress towards achieving our goal of being "recognized as the leader in the delivery of utility services."

A major strategic accomplishment occurred on March 1st of 2005 when our wholly-owned electricity distribution subsidiary, Hamilton Hydro Inc., merged with St. Catharines Hydro Utilities Services Inc. to continue as Horizon Utilities Corporation. Hamilton Utilities Corporation holds a 78.9 per cent ownership interest in Horizon Utilities. This highly successful merger of two progressive organizations has positioned Horizon Utilities as the third largest participant in Ontario's electricity distribution sector, serving more than 230,000 customers in the cities of Hamilton and St. Catharines. This merger showcases, to both electricity ratepayers and municipal shareholders in Ontario, the substantial benefits that can be realized through further consolidation and rationalization of Ontario's electricity distribution sector.

We believe the successful formation of Horizon Utilities ushers in an exciting new era of continued expansion and growth for Hamilton Utilities Corporation. Thanks to the dedicated efforts of all of our employees, the merger was completed in less than five months while maintaining above average levels of system reliability and customer satisfaction along with the highest level of safety – zero lost time injuries.

We expect the utility sector in Ontario to rationalize through a combination of larger regional utilities and shared service business models that create economies of scale to deliver cost efficiencies in back office functions, improved financing capabilities, and investment in innovative technologies. We remain firm in our commitment towards a regional distribution company extending from the borders of Toronto, around the Golden Horseshoe, and throughout the Niagara Peninsula. We will be working diligently towards this goal in 2006.

There can be no doubt that Ontario's electricity industry is at one of the most challenging points in its history. Ontario's per capita electricity consumption is among the highest in the world. Confronted with the prospect of a province-wide shortfall in supply combined with rising energy prices, Ontario residents and businesses will need to embrace conservation through changes in behaviour and the utilization of energy efficient technologies. Horizon Utilities is proud to be supporting a proactive energy conservation culture in Ontario through its powerWISE® initiatives.

The government initiative to introduce smart meters provides ratepayers with real-time information about electricity usage and costs and will enable customers to manage their electricity consumption and reduce their energy bills. In 2005, Horizon Utilities conducted smart meter pilot programs and anticipates being ready to support mass deployment of this new technology once it receives further direction from the Ontario government and the Ontario Energy Board.

As part of its Conservation and Demand Management program, Horizon Utilities focused resources on educating low-income ratepayers with real-life examples of sustainable energy conservation to assist them in reducing their energy costs. The powerWISE® team was visible at many events offering incentives for conducting residential energy audits and encouraging the use of energy efficient light bulbs and appliances. These Conservation and Demand Management initiatives will continue through 2006 and beyond as part of the powerWISE® program to support a conservation culture in Ontario. The powerWISE® brand, which was developed by Hamilton Utilities Corporation and deployed under license to Horizon Utilities, has now been adopted by five of the other largest electricity distribution utilities in Ontario as well as the Ontario Ministry of Energy.

In 2005, Hamilton Utilities Corporation posted solid gains in both operational and financial performance. Net income totalled $12.4 million compared with $11 million in 2004. On December 1, 2005, Standard & Poor’s re-affirmed the company's A with a stable outlook credit rating, which remains the highest within the sector.

Hamilton Utilities Corporation paid regular dividends of $4.9 million to its shareholder, the City of Hamilton, in 2005. In addition, the City received a one-time recapitalization dividend of $18.2 million in June 2005 that reflected a reduced requirement for shareholder investment in Horizon Utilities. As a result of the merger, Horizon Utilities Corporation achieved significant savings in annual labour costs and process improvements in excess of $5 million in 2005. The company contributed 82.7 per cent of Hamilton Utilities Corporation's annual earnings.

FibreWired, our telecommunications utility, continued to post solid financial results in 2005 and remains one of the most profitable companies in its business segment. FibreWired is working towards transforming downtown Hamilton into one of the world's most advanced, high-tech municipalities by developing the infrastructure for a wireless fidelity (Wi-Fi) network. Such a network would provide economical, anytime-anywhere, wireless Internet access to homes and businesses within its service area. This technology has the potential to fundamentally change the way people live and work and to attract commercial development to the City of Hamilton. It could also benefit the local community by supporting a more connected emergency services system through the two-way transmission of real-time information which will contribute to improved response times.

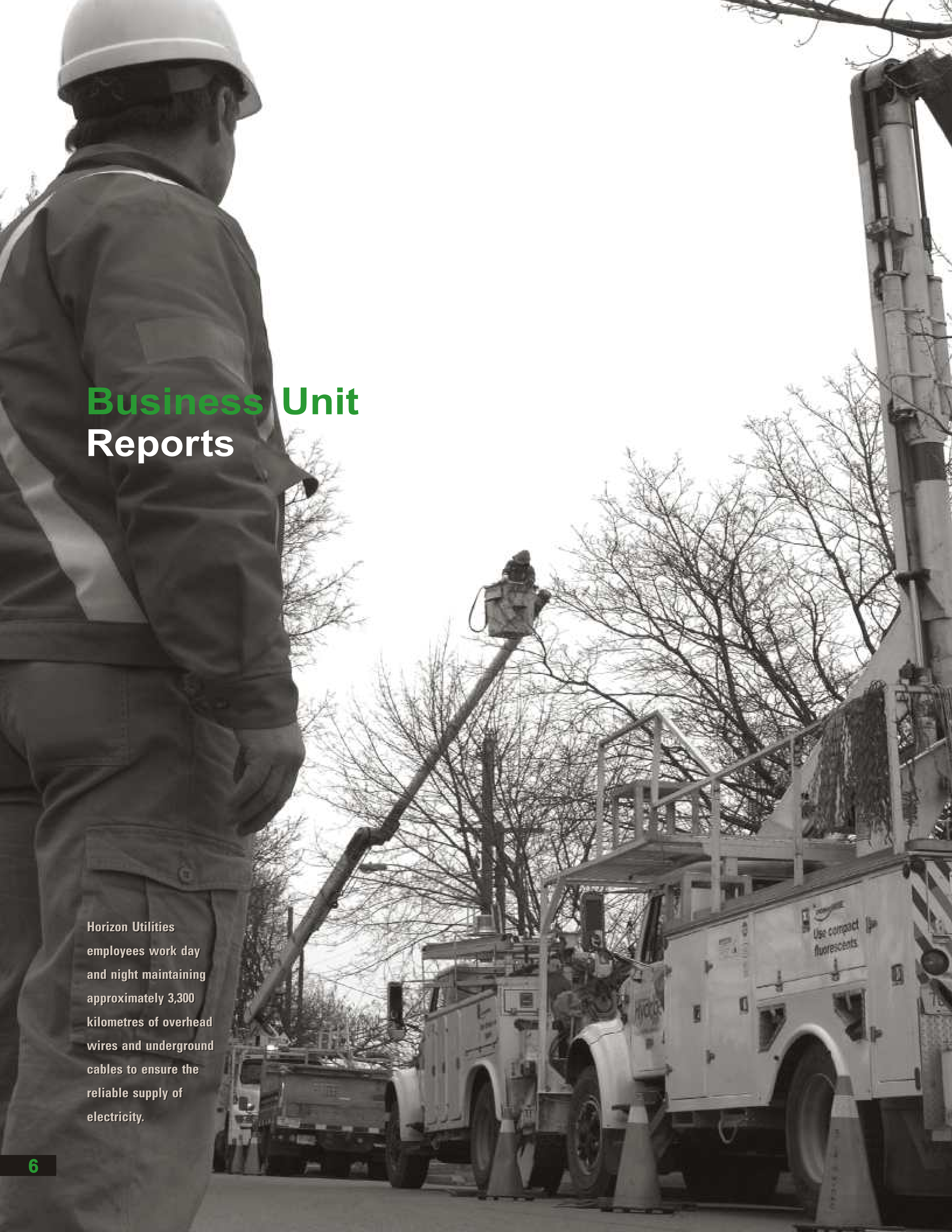
Hamilton Community Energy, our district energy company, continues to operate below full capacity and steps are being taken to improve utilization and financial results. The company continues to deliver valuable environmental, health and social benefits to the Hamilton community. In 2005, the company received the *Canadian Council of the Ministers of the Environment Pollution Prevention Award* in the Greenhouse Gas Reduction Category for its work in improving local air quality and reducing greenhouse gas emissions. Hamilton Community Energy continues to explore alternative sources of power including energy from waste. We expect that proven technologies for environmentally friendly power generation will gain support from government and industry and that Hamilton Community Energy will be well positioned to develop related business opportunities.

In order to create value for our customers and our shareholder, we are working diligently to strategically position Hamilton Utilities Corporation as an influential leader in all of the business segments in which it operates. As we look beyond the horizon and prepare to take on new and different challenges in the years ahead, we know we can rely on the 359 dedicated and hard-working employees of the three companies that comprise Hamilton Utilities Corporation to continue to provide essential public utility services safely, reliably, economically, and with outstanding customer service.

Charles Hantho
Chairman of the Board of Directors

Art Leitch
President and Chief Executive Officer

Hamilton Utilities Corporation provides customers in Hamilton and St. Catharines with essential public utility and related services.



Business Unit Reports

Horizon Utilities employees work day and night maintaining approximately 3,300 kilometres of overhead wires and underground cables to ensure the reliable supply of electricity.

Horizon Utilities Corporation

Horizon Utilities Corporation

Hamilton Hydro
Horizon Utilities Corporation

St. Catharines Hydro
Horizon Utilities Corporation

On March 1, 2005, Hamilton Hydro Inc. and St. Catharines Hydro Utility Services Inc. merged to form Horizon Utilities Corporation and proudly moved into position as Ontario's third largest municipally owned electricity distributor. Now serving 230,000 customers in the communities of Hamilton and St. Catharines, Horizon Utilities remains committed to delivering safe and reliable electricity distribution services, and unparalleled customer value.

From a financial perspective, the merger made excellent business sense with approximately $5 million in economies of scale being realized within the first six months.

In July, ratification of a collective agreement with the International Brotherhood of Electrical Workers (IBEW) successfully brought together the unionized workforce of each of the former utilities under one common contract without any disruption of service. The new three-year agreement features a first-ever, gain-sharing incentive plan for IBEW members.

We are delighted to report that in 2005, despite dealing with the challenges of the merger, the employees of Horizon Utilities were successful in attaining the ultimate annual goal in safety – 365 days with zero lost time accidents. This outstanding result is evidence of the strong safety culture that has been established at Horizon Utilities and the commitment of our employees to work safely every day.

For our customers, reliability and customer service are undoubtedly the key measures of our success. In 2005, Horizon Utilities distributed 5,837 gigawatt hours of electricity to ratepayers, up from 4,320 gigawatt hours in 2004 distributed by Hamilton Hydro Inc. In spite of a tornado and other severe weather systems passing through the area, outages were kept to a minimum and emergencies were dealt with promptly.

Horizon Utilities supplied 5,837 gigawatt hours of electricity to 208,000 residential and 22,000 commercial customers in 2005.

A survey conducted in April 2005 of approximately 800 customers in Hamilton and St. Catharines revealed that 90 per cent of these ratepayers consider delivery of our service "reliable" and more than 80 per cent are very satisfied or satisfied with our level of customer service. Although we were very pleased with these results, 2006 and beyond will see us strategically investing in infrastructure and advanced information systems that, together, will drive the company to new levels of operational excellence.

The single most important issue facing all utilities in Ontario today is the creation of a conservation culture in order to reduce demand. Horizon Utilities is playing a leading role in supporting the province's energy strategy to reduce the demand for electricity by promoting energy conservation to consumers through the powerWISE® program. Key components of the program will be consumer and student education, print and television advertising, mass coupon offers, and the roll out of smart meters in support of the Ontario Ministry of Energy objective to have 800,000 smart meters installed in the province by 2007. Full deployment of this technology for all electricity consumers is scheduled for 2010.

To prepare for the eventual roll out of the smart meter program, Horizon Utilities conducted two pilot projects in 2005 to test the efficiency and effectiveness of smart meter technology including interfaces with Horizon's systems and operational requirements.

Smart meters, coupled with a soon-to-be-released provincial pricing plan for electricity, will make it financially rewarding for consumers to use electricity during off-peak hours. Smart meters will allow ratepayers to monitor their usage, determine if they should alter their consumption patterns, and assist in energy conservation. Over the next five years, Horizon Utilities anticipates investing $60 million in smart meters. Such an investment is subject to further direction from the Ontario Ministry of Energy and the Ontario Energy Board providing for the role of Horizon and other local distribution companies in the deployment of smart meters.

Our objective in support of this endeavour will be to transform our traditional power network into a digital system complete with "smart" devices that will collect, analyze, remotely control and communicate with customer end-use systems and utility networks.

As a result of the merger and looking forward, Horizon Utilities will continue as an influential contributor to the evolution of the energy sector in Ontario, delivering best value to customers through responsive and reliable service. As changes in energy policy continue to challenge the energy sector, Horizon Utilities is committed to pro-actively pursuing strategies to exploit opportunities and minimize risks related to delivering customer and shareholder value. In support of these objectives, Horizon will continue to develop strategic alliances, mergers and joint ventures as well as alternative ways to deliver services, to mitigate future rate increases and improve profitability.

Electricity Distribution Customers and Volume of Electricity Consumed

	2002	2003	2004	2005
Commercial customers				
Large users (> 5,000 kW)	10	10	10	13
Medium users (50 - 5,000 kW)	1,347	1,379	1,539	2,084
Light users (< 50 kW)	15,786	15,483	15,377	20,037
Residential customers	158,221	159,055	160,464	208,193
TOTAL CUSTOMERS	175,364	175,927	177,390	230,327
Volume of Electricity Supplied	5,438 GWh	4,341 GWh	4,320 GWh	5,837 GWh

Note: 2002, 2003 and 2004 results were for Hamilton Hydro Inc.
2005 results are for Horizon Utilities Corporation.

Service Interruptions

	2002	2003	2004	2005
System Average Interruption Duration Index (SAIDI) *(minutes)*	41	69*	46	66
Customer Average Interruption Duration Index (CAIDI) *(minutes)*	33	54*	44	39
System Average Interruption Frequency Index (SAIFI) *(interruptions)*	1.25	1.28*	1.03	1.67

Note: 2002, 2003 and 2004 results were for Hamilton Hydro Inc.
2005 results are for Horizon Utilities Corporation.

*Excludes the impact of the major blackout in August 2003.

Hamilton Community Energy

Hamilton Community Energy
a Hamilton Utilities company

The *2005 Canadian Council of the Ministers of the Environment Pollution Prevention Award* in the Greenhouse Gas Reduction Category was awarded to the company in June. This award recognized the significant environmental benefits Hamilton Community Energy contributes to the community through its alternative energy co-generation plant. The plant delivers thermal energy in the form of hot water to 14 buildings in downtown Hamilton. It also generates a supply of 14,000 megawatts of electricity over the year with a reliability factor of 99.4 per cent on its operating model of 4,000 hours per year. This facility not only reduces the amount of pollutants being released into the air by millions of kilograms per year, but it also provides a reliable and economical supply of electricity.

As a result of increasing the plant load by 30 per cent and implementing a series of system improvements and equipment modifications, plant combined heat and power operating efficiencies increased from 57 per cent in 2004 to 65 per cent in 2005. Changes to the cooling towers alone resulted in a reduction of water consumption of 299,047 litres per year. These circumstances are expected to contribute towards improved profitability for Hamilton Community Energy as it continues to move towards selling out its remaining heating capacity to local businesses and institutions in downtown Hamilton. Many opportunities for such heating services exist as owners of older buildings are confronted with the need for re-investment in aging boilers and piping.

As Hamilton Community Energy grows towards capacity, it will deliver environmental and financial benefits to the Hamilton community and its customers while serving as a model to other communities in Canada and the United States interested in exploring alternate sources of environmentally friendly renewable energy.

The 14 downtown buildings connected to the thermal heating system include some of Hamilton's largest public venues – City Hall, Copps Coliseum, Hamilton Convention Centre, Central Library, Hamilton Farmers' Market, Victoria Park Community Homes, the Ellen Fairclough Building and the newly renovated Art Gallery of Hamilton.

FibreWired is working closely with Hamilton school boards in the delivery of advanced Internet protocol telecommunications.

FibreWired

FIBREWIRED™
a Hamilton Utilities company

During 2005, FibreWired concentrated efforts on the future of high-speed data connectivity: wireless fidelity or Wi-Fi. The development of a Wi-Fi network within its service area will strengthen and broaden FibreWired's core offerings of Transparent LAN Service, Internet, Storage Area Networks and related professional services.

Similar to the way in which cell phones transfer calls from cell to cell without service interruption, a ubiquitous metropolitan Wi-Fi network can provide continuous, real-time connectivity for mobile workforces. For example, Wi-Fi technology, used in conjunction with vehicle locating applications, will be a powerful enabler of fleet management (school buses, mass transit buses, emergency response vehicles, commercial fleets, etc.) through the continuous and secure exchange of data such as traffic reports, criminal records, medical data, work orders, instructions, etc., while vehicles are en route. Once deployed, this powerful tool will contribute to the efficiency of many services offered both publicly and commercially and will broaden Internet access.

FibreWired undertook a pilot of its Wi-Fi network development in parallel with and in support of a smart meter initiative of Horizon Utilities Corporation. The pilot successfully demonstrated the ability of Wi-Fi, combined with a fibre back-bone, to support a high-speed, reliable, and secure two-way communication network between the smart meters, a monitoring station and Horizon's billing system. Pursuant to Ontario energy policy, it is anticipated that smart meters will be installed throughout the province by 2010. Since FibreWired has the technology in place to enable the required two-way communication for smart meters, this program is expected to deliver a new business opportunity for the company.

The development of Wi-Fi in 2005 was in addition to ongoing efforts and successes geared towards increasing revenues and profits in core product lines, improving customer service, and continuing to invest in the local high-speed, fibre-optic telecommunications network. Overall, 2005 was a year of great success for FibreWired.

Management's Discussion and Analysis

For the year ended December 31, 2005
(amounts in thousands of dollars unless otherwise noted)

This discussion contains forward looking statements that are subject to risks, uncertainties and assumptions. These statements reflect the current views of management based on information available as at the date of this report. Management does not intend to update this information and disclaims any legal obligation for actual results that vary from those implied by forward looking statements.

The following discussion and analysis should be read in conjunction with the consolidated financial statements and Auditors' Report included in this annual report, and any reference to financial statements or related note disclosures in this document refer to the consolidated financial statements and notes. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

OVERVIEW

Hamilton Utilities Corporation (the "Corporation") is a multi-utility holding company with investments primarily in regulated utilities that deliver related services to its customers. The Corporation was established in response to the restructuring and deregulation of Ontario's electricity industry, pursuant to the *Energy Competition Act (Ontario), 1998* (the "ECA"), which is presently regulated by the Ontario Energy Board (the "OEB"), a board appointed by the Lieutenant Governor in Council of the Province of Ontario (the "Province"). The sole shareholder of the Corporation is the City of Hamilton.

The Corporation's principal operating subsidiary, Horizon Utilities Corporation ("Horizon Utilities"), is an electricity distributor for businesses and residents within the City of Hamilton and the City of St. Catharines, the activities of which are regulated by the OEB. Horizon Utilities also provides certain non-regulated water billing and customer care services to the City of Hamilton. On March 1, 2005, Hamilton Hydro Inc. ("HHI") and St. Catharines Hydro Utility Services Inc. ("SCHUSI") merged by amalgamation under the *Business Corporations Act (Ontario)* and continue as Horizon Utilities. Horizon Utilities is 78.9% owned by the Corporation, with the remainder held by St. Catharines Hydro Inc.

The ECA and its enabling statutes and regulations distinguish and require the separation of regulated electricity businesses from non-regulated business activities. The consolidated financial statements include results for both the regulated and non-regulated business activities of its subsidiaries.

The other non-regulated utility businesses of the Corporation are operated through its wholly-owned subsidiary, Hamilton Hydro Services Inc.:

- FibreWired is a telecommunications services business which charges a broad range of business and institutional customers for the use of its fibre-optic network and provides a range of related services to the same.
- Hamilton Community Energy (HCE), through a district energy system, generates and distributes heat and electricity to commercial and institutional customers within the downtown core of Hamilton under long-term contracts.

Electricity distribution

The electricity distribution business of the Corporation represented approximately 92% (2004 – 89%) of consolidated assets and 89% (2004 – 87%) of consolidated revenue and other income at year end. This business distributes electricity through approximately 3,300 kilometres of a low-voltage distribution system to approximately 230,000 residential and business customers. The distribution system serves all residents and businesses within the borders of Hamilton and St. Catharines with the exception of approximately 25,000 rural customers served by another electricity distributor.

The Corporation earns revenue from this business by charging its customers for the use of the distribution system. Such electricity distribution services charges, or distribution charges, comprise a fixed periodic service charge combined with a variable charge based on electricity consumption. The distribution charges are subject to the approval of the provincial industry regulator, the OEB.

Pursuant to industry regulation, the Corporation is required to be the default billing and collecting agent for all electricity related charges for all electricity industry participants, which, in addition to its own distribution charges, include transmission charges accruing to the provincially owned Hydro One Inc., commodity costs for electricity accruing to generators such as the provincially owned Ontario Power Generation Inc. ("OPGI"), service charges for market participants such as the Independent Electricity System Operator ("IESO"), and the "Debt Retirement Charge" which is a provincial charge directed to the repayment of certain debt obligations of the former Ontario Hydro which continue in the provincially owned Ontario Electricity Financial Corporation ("OEFC"), an agency of the Ontario government. These other non-distribution charges represent "pass-through" charges accruing to these and other electricity industry participants and amounted to approximately 86% (2004 – 85%) of gross annual amounts billed by the Corporation. The Corporation must remit these non-distribution charges to other industry participants irrespective of whether or not such charges are ultimately collected from customers thus exposing the Corporation to credit risk well in excess of its own capacity to generate revenue. The Corporation views such uncompensated risk to represent a significant flaw in the design of the electricity market in Ontario with potentially serious consequences for electricity distribution companies and has instituted credit policy to mitigate such risk.

Restructuring of Ontario's electricity industry

Energy Competition Act (Ontario), 1998 (the "ECA")

Commencing in 1999, the Province of Ontario (the "Province") has undertaken a significant restructuring of its electricity sector. Pursuant to the ECA, the former hydro-electric commissions operating within Hamilton were reorganized into the Corporation and its subsidiaries. Similar corporatizations of municipal hydro commissions were required throughout the province in addition to a restructuring of the Province's own former hydro business, Ontario Hydro. This restructuring preceded plans to operate the wholesale and retail electricity market on a competitive basis, which occurred on May 1, 2002 ("Market Opening").

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

Under the OEBA and the decisions of the OEB, distribution charges for the electricity distribution business were to be increased annually over three years (2001, 2002 and 2003) to achieve an annual rate of return of 9.88% on the amount of common equity deemed to be allocated to this business.

Distribution charges were also to be increased to permit the recovery of costs incurred by the Corporation to prepare for the opening of the competitive electricity market in Ontario ("Market Opening"). The Corporation has capitalized some of these costs as regulatory assets *[note 10]* and taken appropriate reserves against such to reflect the amount anticipated to be recoverable.

In January 2005, the Corporation filed rate applications to adjust its distribution charges to provide for the full theoretical regulatory rate of return of 9.88% and continued recovery of its regulatory assets. As mandated by the OEB, the rate increase is subject to a financial commitment by the Corporation to invest $7,078 in conservation and demand management activities over the period September 1, 2005 to September 30, 2007. The rate applications and applications for the approval of its conservation and demand management programs have since been approved by the OEB.

On August 26, 2005, the Corporation filed its Electricity Distribution Rate Application for 2006 distribution rates ("2006 EDR"), to be effective May 1, 2006. The 2006 distribution rate application, in accordance with the OEB filing requirements, provides for a revised rate of return of 9.0%, as compared to 9.88% in previous years. OEB approval is anticipated in April 2006.

The Electricity Restructuring Act (Ontario), 2004 (the "ERA")

On December 9, 2004, the Province enacted the ERA, which provides for a restructuring of Ontario's electricity sector to promote the expansion of electricity supply and capacity, alternative and renewable energy sources, and conservation and demand management. Under the ERA, the commodity cost of electricity for certain customer classes will be determined by the OEB on an annual basis and based on a combination of regulated, contract and competitive market prices for electricity. There are few provisions in the ERA that apply to electricity distributors.

Bill 21 – Energy Conservation Responsibility Act (Ontario), 2005 (the "ECRA")

Bill 21, or the ECRA, not yet enacted, provides a legislative framework to support energy conservation and efficiency in Ontario including support for an initiative of the Government of Ontario to install "smart meters" in all homes and businesses throughout Ontario by 2010. Smart meters permit consumption to be recorded within specific time intervals and specific tariffs to be levied within such intervals.

It is anticipated that electricity distribution companies will be required to procure, install, maintain, and provide some level of information management of smart meters. Such would require an estimated total investment by the Corporation of $50,000 - $60,000 through to 2010. Such investment, if required, is anticipated to be supported by adjustments to electricity distribution rates. The 2006 EDR application of the Corporation provides for a modest initial investment in smart meters. The specific role of the Corporation, and electricity distributors in general, in support of the smart meter initiative is anticipated to be defined by enabling legislation under Bill 21 or otherwise.

Amalgamation of Hamilton Hydro Inc. and St. Catharines Hydro Utility Services Inc.

On March 1, 2005, HHI and SCHUSI merged by amalgamation under the *Business Corporations Act (Ontario)* and continue as Horizon Utilities Corporation.

The amalgamation was completed pursuant to a Merger Co-operation Agreement dated November 25, 2004, between the City of Hamilton, as sole shareholder of the Corporation, and The City of St. Catharines, as sole shareholder of St. Catharines Hydro Inc. ("SCHI"), which acknowledged their approval of the merger of HHI and SCHUSI under terms and conditions set out in a Merger Participation Agreement (the "MPA"), dated November 25, 2004, between the Corporation, HHI, SCHI and SCHUSI.

The MPA provided that the respective shareholders of the HHI and SCHUSI, the Corporation and SCHI, receive common shares in Horizon Utilities with votes and value in proportion to the respective values of HHI and SCHUSI.

A valuation of HHI and SCHUSI was undertaken by a competent third party and was largely based on projections of capital assets, capital expenditures and operating expenses anticipated to be permitted by regulation administered by the OEB in its approval of allowable distribution charges for each respective corporation. The values agreed to by HUC and SCHI (the "Parties") were as negotiated by the Parties based on such valuation. The results of the negotiation and valuation provide for common share allocations of 78.9% for the Corporation and 21.1% for SCHI.

In accordance with the MPA, immediately prior to the merger, HHI declared a dividend in specie to HUC consisting of the right to receive any future amounts received by Horizon Utilities that represent the recovery of any regulatory assets in excess of HHI's book value of such assets as at February 28, 2005. SCHUSI also declared a dividend in specie to SCHI consisting of the right to receive any future amounts received by Horizon Utilities that represent the recovery of any regulatory assets in excess of SCHUSI's book value of such assets as at February 28, 2005.

On March 1, 2005, Horizon Utilities issued the following shares in exchange for all of the issued and outstanding shares of HHI and SCHUSI:

	No. Shares
Class 1 Common owned by the Corporation	7,890
Class A Common owned by SCHI	2,110

This transaction resulted in the Corporation receiving a controlling interest in Horizon Utilities. The transaction was recorded by Horizon Utilities using the purchase method of accounting. As such, the results of operations and cash flow for 2005, reflect that of Horizon Utilities for the ten months ended December 31, 2005 and HHI for the two months ended February 28, 2005. The comparative financial information for 2004 reflects the financial position, the results of operations and cash flow of HHI.

For the year ended December 31, 2005 (amounts in thousands of dollars unless otherwise noted)

The purchase consideration was determined by the fair value of the assets and liabilities assumed as at March 1, 2005, and adjusted for the costs related to the merger, including direct costs associated with the transaction as well as human resource and other integration costs.

The total purchase consideration was allocated to identifiable net assets acquired based on their respective fair values as at the date of amalgamation as follows:

Purchase consideration comprised of:	
Issuance of 2,110 Class A common shares at fair value	55,052
Transaction and integration costs	3,545
Total purchase consideration	58,597
Fair value of net assets of SCHUSI acquired:	
Current assets	27,449
Fixed assets	56,498
Other assets	2,068
Current liabilities	(14,151)
Long-term liabilities	(32,190)
Net assets acquired	39,674
Excess purchase consideration over fair value of net assets acquired, allocated to goodwill	18,923

In addition to transaction and integration costs included as part of the total purchase consideration, the Corporation also incurred $2,689 in additional costs related to the amalgamation, which have been included in operating expenses. These additional costs included severance costs associated with voluntary retirement and separation programs offered to employees, computer programming and other administrative costs related to the integration of operations.

Selected comparative financial information is provided below as at and for the year ended December 31, 2004:

	HHI	**SCHUSI**
Assets		
Cash and cash equivalents	$ 54,926	$ 6,074
Accounts receivable and other assets	62,489	32,177
Fixed assets	208,398	56,620
Total assets	$ 325,813	$ 94,871
Liabilities and shareholder's equity		
Liabilities	$ 205,121	$ 47,037
Shareholder's equity	120,692	47,834
Total liabilities and shareholder's equity	$ 325,813	$ 94,871
Capital expenditures	$ 16,129	$ 5,146
Electricity distribution services charges	$ 57,036	$ 17,570
Other income from operations	5,886	604
Operating expenses, depreciation, interest and taxes	(53,319)	(15,642)
Net income	$ 9,603	$ 2,532

RESULTS OF OPERATIONS

Year Ended December 31, 2005 compared to Year Ended December 31, 2004

As noted previously, the 2005 consolidated results of operations include the results of operations for Horizon Utilities for the ten months ended December 31, 2005, and HHI for the two months ended February 28, 2005. The 2004 comparative consolidated results of operations include the results of operations of HHI.

Revenues

	2005	2004
Electricity distribution services charges	**$ 76,815**	$ 57,036

Electricity distribution services charges for the year ended December 31, 2005, increased by $19,779 over the prior year. This increase reflects revenue contributed by the former SCHUSI subsequent to the merger on March 1, 2005, ($15,411), and an increase in weather related electricity consumption ($4,368).

	2005	2004
Telecommunications services charges	**$ 7,605**	$ 6,714

Telecommunications services charges for the year ended December 31, 2005, increased by 13% reflecting customer growth in the FibreWired business unit as a result of new product offerings such as offsite data storage and wireless connectivity services.

	2005	2004
Electricity, heating, and cooling services charges	**$ 2,893**	$ 2,262

These charges represent revenue from the HCE business unit. HCE has long-term contracts with its customers, primarily government and institutional, for the delivery of electricity and heat. The increase in these charges reflects the addition of a new customer to the district energy system in February 2005, an increase in weather related electricity consumption and pass through of increased natural gas costs to thermal customers.

	2005	2004
Other income from operations	**$ 7,339**	$ 6,019

Other income from operations is comprised primarily of water billing and customer care services provided to the City of Hamilton, late payment charges, rental income from water heaters, sentinel lights and pole attachments, and miscellaneous other income. This increase reflects revenue contributed by the former SCHUSI subsequent to the merger ($775), as well as increases in water billing charges, water heater rental rates and an increase in the regulated pole attachment rates charged to telecommunications and cable television industries ($545).

Expenses

	2005	2004
Operating expenses	**$ 46,037**	$ 32,540

Operating expenses increased by $13,497 in 2005 as compared to 2004.

Electricity Distribution Operations – $13,272 increase in 2005

This increase is primarily attributable to the contribution by SCHUSI subsequent to the merger on March 1, 2005 ($8,500). The Corporation also incurred $2,689 in merger related expenses such as severance costs associated with voluntary retirement and separation programs offered to employees, computer programming, and other administrative costs related to the integration of operations. The merger is expected to result in annualized net operating and capital cost savings of approximately $4,800 as a result of the elimination of systems and process redundancies.

Increased activity in the forestry program ($600), expenditures to support regulated conservation and demand management programs ($205), and higher credit losses ($781) also contributed to the increase in operating expenses during 2005. Credit losses in the prior year reflected a pre-tax recovery of $1,080 related to a credit loss from Stelco Inc., the largest customer of the Corporation, including certain set-offs and proceeds realized from the sale and assignment of a receivable from Stelco Inc. to a third party.

FibreWired – $348 increase in 2005

This increase is attributable to related revenue growth in 2005.

Hamilton Community Energy – $631 increase in 2005

This increase reflects price excursions for natural gas and the addition of a new customer to the district energy system.

Other – $754 decrease in 2005

Other includes corporate activities and the elimination of inter-company transactions on consolidation.

	2005	2004
Depreciation and amortization	**$ 20,999**	$ 17,209

The Corporation has applied consistent amortization rates to its capital assets throughout the reporting period.

The merger of the Corporation with SCHUSI contributed $3,412 of the $3,790 increase in depreciation expense for the year.

In 2005, the electricity distribution business invested approximately $18,848 in capital assets as compared to approximately $16,129 in 2004. The increase reflects approximately $1,842 in capital expenditures for the former SCHUSI service territory subsequent to March 1, 2005, as well as capital expenditures related to regulated conservation and demand management programs. The electricity distribution business operates within a mature and low-growth service area resulting in a predictable capital program that is largely based on routine replacement of aging infrastructure. The average recurring annual capital maintenance program for the electricity distribution business is estimated to be approximately $20,000 to $22,000. Additional non-recurring capital investments of approximately $5,000 are anticipated over the next three years.

Proposed legislation introduced under the ECRA will provide a framework for the installation of 800,000 smart meters in Ontario homes and businesses by 2007 and installation in all homes and small businesses by 2010. It is anticipated that electricity distribution companies will be required to procure, install, maintain, and provide some level of information management of smart meters. Such is estimated to require a total investment by the Corporation of $50,000 - $60,000 through to 2010. Such investment, if required, is anticipated to be supported by adjustments to electricity distribution rates. The 2006 EDR application of the Corporation provides for a modest initial investment in smart meters. The specific role of the Corporation, and electricity distributors in general, in support of the smart meter initiative is anticipated to be defined by enabling legislation under Bill 21 or otherwise.

	2005	2004
Interest income	**$ (1,155)**	$ (1,110)
Interest expense	**$ 7,784**	$ 7,343

The net increase in interest income and expense reflects $417 in interest paid on a $29,124 promissory note payable to SCHI that was assumed by the Corporation on the acquisition of SCHUSI on March 1, 2005. The promissory note was subsequently repaid in full on June 17, 2005. There were no significant changes to the financing arrangements of the Corporation during 2005.

	2005	2004
Payments in lieu of income and large corporations taxes (PILs)	**$ 6,920**	$ 5,714

The Corporation is currently exempt from taxes under the *Income Tax Act (Canada)* and the *Ontario Corporations Tax Act* (collectively referred to as the "Tax Acts").

Commencing October 1, 2001, and pursuant to the ECA, the Corporation is required to compute taxes under the Tax Acts and remit such amounts to OEFC to be applied against certain debt obligations of the former Ontario Hydro continuing in Ontario Electricity Financial Corporation.

The effective rate of PILs expense in 2005 was 31.14% (2004 – 33.37%) versus the statutory rate of 36.12% (2004 – 36.12%) before PILs large corporations tax. The favourable effective rate reflects a tax basis of depreciable capital property and eligible capital expenditure in excess of the book basis. The tax basis of the Corporation's assets was valued at fair value pursuant to the provisions of the Tax Acts as at the date the Corporation became subject to PILs. The Corporation anticipates favourable effective tax rates on income relative to statutory rates for the next several years.

Year Ended December 31, 2004 compared to Year Ended December 31, 2003

The consolidated net income for the year ended December 31, 2004, was $11,020 compared to $8,224 for the year ended December 31, 2003, and is explained by the results of the Corporation's operations as follows:

Revenues

	2004	2003
Electricity distribution services charges	**$ 57,036**	$ 57,358

Electricity distribution services charges for the year ended December 31, 2004, were relatively unchanged compared to 2003 reflecting a government imposed cap on such charges during 2003 and 2004. Although the Corporation was able to commence recovering its regulatory assets effective March 1, 2004, the impacts of such on distribution charges and revenue was offset by a reduction, pursuant to prescribed OEB filing guidelines, of the recoverable amount of Payments in Lieu of Taxes ("PILs") in distribution charges.

For the year ended December 31, 2005 (amounts in thousands of dollars unless otherwise noted)

	2004	2003
Telecommunications services charges	**$ 6,714**	$ 6,600

Telecommunications services charges for the year ended December 31, 2004, increased marginally from 2003 reflecting modest growth in charges for local area network access and professional services, somewhat offset by lower Internet service charges due to intense price competition.

	2004	2003
Electricity, heating and cooling services charges	**$ 2,262**	$ 1,386

These charges represent revenue from HCE which became fully operational in April 2003. The increase in these charges reflects the first full year of operations in 2004. HCE has long-term contracts with its customers, primarily government and institutional, for the delivery of electricity and heat.

	2004	2003
Other income from operations	**$ 6,019**	$ 5,899

Other income from operations is comprised primarily of water billing and customer care services provided to the City of Hamilton, late payment charges, rental income from water heaters, sentinel lights and pole attachments, and miscellaneous other sources. Other income has increased marginally due to increases in water heater rents offset by declines in late payment interest and collection fees.

Expenses

	2004	2003
Operating expenses	**$ 32,540**	$ 34,815

Operating expenses decreased by $2,275 in 2004 as compared to 2003.

Electricity Distribution Operations – $3,026 decrease in 2004

The Corporation continues to improve productivity and reduce costs in its electricity distribution business through reductions in management staffing levels and process improvement initiatives. With the exception of super-inflationary payroll costs related to the end of an employer pension contribution holiday, the Corporation has been successful in these efforts. Increased employer pension contributions in 2004 impacted operating expenses by approximately $700. This was offset by a reduction in credit losses of approximately $3,900 as a result of the year over year net change in estimate of the Stelco Loss ($2,638), other favourable credit loss experience ($740), and, as a result of such experience and enhancements to credit and collection policies, a reduction in the reserve for doubtful accounts ($550).

FibreWired – $64 increase in 2004

The operating expenses for FibreWired were relatively unchanged compared to 2003, which is consistent with the marginal revenue growth for this business in 2004.

Hamilton Community Energy – $670 increase in 2004

The increase compared to 2003 reflects the first full year of operations for HCE, which became fully operational in the second quarter of 2003.

Other – relatively unchanged $17 decrease in 2003

	2004	2003
Depreciation and amortization	**$ 17,209**	$ 16,323

Depreciation and amortization expenses increased in 2004 as compared to 2003 as a result of modest growth in the FibreWired business, a full year of experience related to HCE which became fully operational in the second quarter of 2003, and the ongoing capital maintenance program of the electricity distribution business. The electricity distribution business operates within a mature and low-growth service area resulting in a predictable capital program that is largely based on routine replacement of aging infrastructure.

In 2004, the electricity distribution business invested approximately $16,129 in capital assets as compared to approximately $19,057 in 2003. The 2004 investment represents the completion of all capital programs scheduled for this year. The 2003 results included the completion of a $4,000 non-recurring investment in two new transformer stations within the service area of the Corporation to serve future electricity load growth. The average recurring annual capital program for the electricity distribution business is estimated to be approximately $18,000 to $20,000.

The Corporation has applied consistent amortization rates to its capital assets throughout the reporting period.

	2004	2003
Interest income	**$ (1,110)**	$ (723)
Interest expense	**$ 7,343**	$ 7,463

The net decrease in interest expense is a result of higher average cash balances in 2004 as compared to 2003. Otherwise, there were no significant changes to the financing arrangements of the Corporation during 2004.

	2004	2003
Payments in lieu of income and large corporations taxes (PILs)	**$ 5,714**	$ 5,192

The Corporation is currently exempt from taxes under the *Income Tax Act (Canada)* and the *Ontario Corporations Tax Act* (collectively referred to as the "Tax Acts").

Commencing October 1, 2001, and pursuant to the ECA, the Corporation is required to compute taxes under the Tax Acts and remit such amounts to OEFC to be applied against certain debt obligations of the former Ontario Hydro continuing in Ontario Electricity Financial Corporation.

The effective rate of PILs expense in 2004 was 33.37% (2003 – 34.56%) versus the statutory rate of 36.12% (2003 – 36.62%) before PILs large corporations tax. The favourable effective rate reflects a tax basis of depreciable capital property and eligible capital expenditure in excess of the book basis. In 2003, this was partially offset by an increase in liability for future PILs resulting from a legislated increase in the Ontario portion of the statutory tax rate commencing January 1, 2004. The tax basis of the Corporation's assets was valued at fair value pursuant to the provisions of the Tax Acts as at the date the Corporation become subject to PILs. The Corporation anticipates favourable effective tax rates on income relative to statutory rates for the next several years.

LIQUIDITY AND CAPITAL RESOURCES

Requirements for liquidity and capital resources

The Corporation's principal liquidity and capital resource requirements comprise its ongoing commitment to maintain, improve and expand its distribution and other infrastructure assets on a sustainable basis; working capital requirements; the servicing and repayment of debt obligations; and the paying of dividends to its shareholder.

Capital resource requirements

In addition to the capital program of the electricity distribution business noted above, the Corporation requires capital to continue its infrastructure investments in FibreWired and HCE.

During the year, the Corporation invested $1,482 (2004 – $1,402) in FibreWired infrastructure, including customer connections and back-office systems to support customer growth. The recurring capital program for FibreWired is anticipated to be between $1,700 and $1,900 per year to support a sustainable network and new customer connections.

As well, during this period, the Corporation invested approximately $968 (2004 – $625) to complete a new customer connection to the district energy facility of HCE. Future capital expenditure levels for HCE will be dependent upon the Corporation's ability to sell the remaining thermal heating capacity of its existing infrastructure. Thereafter, the Corporation does not anticipate any significant recurring capital investment in this discrete district energy project.

Debt servicing requirements

The Corporation has no debt maturities until 2012.

Dividend requirements

Dividends in the amount of $23,088, including a one-time dividend payment of $16,605, were paid in 2005 (2004 – $3,000) by the Corporation to its sole shareholder. The one-time dividend payment was the result of an adjustment to the capital structure of Horizon Utilities representing retained earnings not required to support the existing business or approved business strategy.

Dividends on common shares are declared at the discretion of the Board of Directors based on its approved dividend policy and recommendations of management with consideration for results of operations, financial condition and future outlook, cash requirements and industry practice.

Sources of liquidity and capital resources

The principal sources of liquidity and capital resources comprise funds generated from both operations and financing through the debt capital markets and available bank lines of credit.

Funds generated from operating activities

Cash provided from operations was $60,788 in 2005 as compared to $39,971 in 2004. The increase was primarily due to an increase in working capital, including timing differences between collections realized from customer receivables, amounts paid to third parties with respect to non-distribution charges and increases in accounts payable. Also reflected in the current year is the receipt of $21,463 from the IESO in December 2005 to fund the Ontario Pricing Credit, a refund to residential and small business electricity customers, schools, hospitals and other customers covered by the Regulated Pricing Plan, a plan that sets out prices per kWh that local electricity utilities charge for electricity use. The credits will be applied to customer accounts over the next few months.

Financing activities

Short-term and long-term liquidity were available to the Corporation throughout the year through its $93,500 (2004 – $93,500) credit facility *(refer to note 13).* The credit facility was subsequently amended on January 20, 2006, as a three-year revolving operating credit facility that allows the Corporation to borrow up to $100,000 to finance general corporate requirements, working capital requirements and prudential obligations. The amended credit facility expires on January 19, 2009.

Long-term liquidity is available to the Corporation through its access to the debt capital markets by issuing debentures as provided for under its trust indenture *(refer to note 8).*

The Corporation currently has a credit rating with Standard & Poor's Rating Services Inc. ("S&P") of A with a stable outlook. Such was last affirmed November 1, 2005.

RISK FACTORS

The Audit and Risk Management Committee of the Board of Directors is mandated to identify the principal control risks in the business of the Corporation and to verify that effective control systems are in place to manage and mitigate these risks. The President and Chief Executive Officer has ultimate accountability for risk management and the Senior Vice-President and Chief Financial Officer is responsible to the President and Chief Executive Officer for the ongoing monitoring and review of the risk profile, policies and practices of the Corporation and ensuring that the risk management program is an integral part of business strategy and planning.

Significant risk factors affecting the businesses of the Corporation include:

Regulatory risk related to the electricity distribution business

Regulatory risk is the risk that the Province and its regulator, the OEB, could establish a regulatory regime that imposes conditions that restrict the electricity distribution business from achieving an acceptable rate of return that permits financial sustainability of its operations including the recovery of expenses incurred for the benefit of other market participants in the electricity industry such as transition costs and other regulatory assets. All requests for changes in electricity distribution charges require the approval of the OEB.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The principal source of credit risk for the Corporation relates to the realization of its customer receivables. The Corporation earns its revenue from a broad base of customers located in the City of Hamilton and the City of St. Catharines. Two customers account for 6% and 1% of total revenue (2004 – 7% and 2%), one of which is the City of Hamilton, and the other a local school board. No other single customer in either year would account for revenue in excess of 1%.

One customer, the City of Hamilton, accounts for 2.9% of accounts receivable at year end. No other single customer accounts for more than 1% of accounts receivable at year end.

Management actively monitors and manages its exposure to credit risk, within regulatory constraints, and records credit losses in the period in which, in management's opinion, the collection of related receivables becomes doubtful.

Regulated electricity distribution business

The legislation governing the operation of Ontario's electricity industry exposes the Corporation, through its electricity distribution operations, to credit risk of several multiples of its means to generate revenue *(refer to note 14)*. Pursuant to Provincial regulation, electricity distribution companies in Ontario are required to act as the billing agent for all industry participants and must remit billed amounts accruing to these participants irrespective of whether such amounts are ultimately collected. With the exception of the debt retirement charge, electricity distribution companies are exposed to losses for entire amounts billed to customers. Electricity distribution companies are not compensated for assuming this level of risk nor is there a regulatory means to recover losses for non-distribution charges.

Management has implemented credit and collection policies in accordance with the OEB regulation to mitigate the exposure of the Corporation to credit risk. Such policies have significantly improved credit loss experience with respect to residential customers. However, OEB regulation continues to impose unreasonable restrictions on credit policy that exposes electricity distribution corporations to unmitigated and uncompensated credit risk of several multiples of their means to generate revenue.

Extraordinary event risk

Unforeseen extraordinary events could disrupt the ability of the electricity distribution business to deliver electricity to all or some of its customers. These risks include weather disasters, major accidents or other involuntary events that may affect the electricity distribution system.

The Corporation has no obligation to deliver an uninterrupted supply of electricity due to extraordinary events, thereby avoiding third-party liability concerns.

The Corporation may make application to the Ministry of Energy for rate increases to recover costs incurred as a result of extraordinary circumstances impacting the electricity distribution system.

OUTLOOK

The reliable, efficient and safe delivery of electricity continues to be the primary focus of the Corporation through its regulated electricity distribution business. The Corporation operates the third largest municipally owned electricity distribution business in Ontario. As one of the lowest cost, most efficient providers of electricity distribution in Ontario, the Corporation is well positioned to bring further efficiencies to electricity distribution customers as the industry continues to rationalize and consolidate.

The Corporation is also committed to its multi-utility strategy to offer other utility services, such as water billing and customer care provided to the City of Hamilton and those services provided by FibreWired and Hamilton Community Energy, where internal skills and competencies support the delivery of such services in a manner that generates commercial returns on invested capital and creates value for its customers.

Revenues of the Corporation are expected to improve in 2006 as electricity distribution charges increase to permit the Corporation to earn revenues that achieve the theoretical regulated rate of return in its electricity distribution operations. The Corporation also anticipates modest revenue growth in its residential and commercial electricity distribution customer base and in its FibreWired, HCE and other business operations.

The Corporation remains committed to containing and reducing costs through process improvement and expanding its customer base across its existing and new utility businesses to achieve economies of scale and scope.

With the exception of certain non-recurring capital commitments described above, the capital program of the Corporation remains largely routine related to the replacement of existing infrastructure.

The Corporation has conservative levels of debt capitalization that strongly support its debt servicing obligations.

Overall, management believes that these strategies and conditions are favourable towards providing debt-holders with necessary assurances for current and ongoing investment in the Corporation.

Management's Responsibility for Financial Reporting

The accompanying Consolidated Financial Statements of Hamilton Utilities Corporation (the "Corporation") are the responsibility of management and have been approved by the Board of Directors. In management's opinion, the Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting principles are disclosed in note 2 to the Consolidated Financial Statements. The preparation of financial statements necessarily requires judgement and estimation when events affecting the current year depend on determinations to be made in the future. Management has exercised careful judgement where estimates were required, and these Consolidated Financial Statements reflect all information available to February 3, 2006.

Management maintains systems of internal controls designed to provide assurance that the assets of the Corporation are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis. The internal control systems include formal policies and procedures and an organizational structure that provides for a proper delegation of authority and segregation of incompatible responsibilities. The internal control systems are monitored by management which reports regularly to the Audit and Risk Management Committee of the Board of Directors.

The Consolidated Financial Statements have been examined by KPMG LLP, the external auditors of the Corporation.
The responsibility of the external auditors is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report, which appears on the following page, outlines the scope of their audit examination and states their opinion.

The Board of Directors, through the Audit and Risk Management Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit and Risk Management Committee, which is comprised of independent directors, meets regularly with management and the external auditors to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The Audit and Risk Management Committee reviews the Consolidated Financial Statements and recommends their approval to the Board of Directors. The external auditors have full and open access to the Audit and Risk Management Committee, with and without the presence of management.

On behalf of the management of Hamilton Utilities Corporation:

A. F. Leitch
President and Chief Executive Officer

John G. Basilio
Senior Vice-President and Chief Financial Officer

February 3, 2006

Auditors' Report to the Shareholder

KPMG LLP
Chartered Accountants
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To the Shareholder of
Hamilton Utilities Corporation:

We have audited the consolidated balance sheets of Hamilton Utilities Corporation ("the Corporation") as at December 31, 2005 and 2004 and the consolidated statements of income and 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 consolidated 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

Hamilton, Canada
February 3, 2006

Consolidated Balance Sheets

As at December 31,	(in thousands of dollars)	
		[note 3]
	2005	2004
ASSETS		
Current assets		
Cash and cash equivalents	**$ 46,613**	$ 64,906
Accounts receivable	**86,345**	58,570
Inventory	**5,859**	3,673
Other assets *[note 4]*	**1,551**	3,741
	140,368	130,890
Fixed assets *[note 5]*	**287,481**	231,450
Goodwill *[note 3]*	**18,923**	–
Deferred debt issuance costs	**1,968**	2,279
Future payments in lieu of taxes *[note 6]*	**1,525**	–
Total assets	**$ 450,265**	$ 364,619
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accruals	**$ 93,568**	$ 58,272
Credit support for service delivery *[note 7]*	**19,166**	15,804
	112,734	74,076
Long-term liabilities		
Long-term borrowings *[note 8]*	**105,000**	105,000
Employee future benefits *[note 9]*	**15,679**	12,427
Net regulatory liabilities *[note 10]*	**13,655**	5,569
Future payments in lieu of taxes *[note 6]*	**–**	1,990
	134,334	124,986
Total liabilities	**247,068**	199,062
Minority interest *[note 11]*	**33,205**	–
Shareholder's equity		
Share capital *[note 12]*	**129,897**	129,897
Contributed surplus *[note 3]*	**15,218**	–
Retained earnings	**24,877**	35,660
Total shareholder's equity	**169,992**	165,557
Total liabilities and shareholder's equity	**$ 450,265**	$ 364,619

Commitments and contingencies *[note 14]*

On behalf of the Board:

Director

Director

Consolidated Statements of Income and Retained Earnings

For the years ended December 31, (in thousands of dollars)

	2005	[note 3] 2004
Revenue		
Electricity distribution services charges *[note 15]*	**$ 76,815**	$ 57,036
Telecommunications services charges *[note 16]*	**7,605**	6,714
Electricity, heating and cooling services charges *[note 16]*	**2,893**	2,262
Total revenue	**87,313**	66,012
Other income from operations *[notes 16 and 17]*	**7,339**	6,019
	94,652	72,031
Expenses:		
Operating expenses *[note 19]*	**46,037**	32,540
Depreciation and amortization *[note 5]*	**20,999**	17,209
	67,036	49,749
Income from operating activities	**27,616**	22,282
Gain on sale of fixed assets	**610**	685
Interest income	**1,155**	1,110
Interest expense *[note 8]*	**(7,784)**	(7,343)
Income before payments in lieu of taxes	**21,597**	16,734
Payments in lieu of income and large corporations taxes *[note 6]*	**(6,920)**	(5,714)
Net income before minority interest	**14,677**	11,020
Minority interest *[note 11]*	**(2,308)**	–
Net income	**12,369**	11,020
Retained earnings, beginning of year	**35,660**	27,640
Dividends paid	**(23,088)**	(3,000)
Refundable dividend tax on hand	**(64)**	–
Retained earnings, end of year	**$ 24,877**	$ 35,660

Consolidated Statements of Cash Flows

For the years ended December 31,	(in thousands of dollars)	
		[note 3]
	2005	2004
OPERATING ACTIVITIES		
Net income for the year	**$ 12,369**	$ 11,020
Add (deduct) non-cash items:		
Depreciation and amortization	**21,963**	18,057
Future payments in lieu of taxes	**(2,715)**	(341)
Minority interest	**2,308**	–
Gain on sale of fixed assets	**(610)**	(685)
Net change in employee future benefits	**184**	396
Net change in other assets and liabilities	**27,289**	11,524
Cash provided by operating activities	**60,788**	39,971
INVESTING ACTIVITIES		
Additions to fixed assets	**(21,538)**	(18,379)
Proceeds received on disposal of fixed assets	**651**	1,008
Cash used in investing activities	**(20,887)**	(17,371)
FINANCING ACTIVITIES		
Repayment of long-term borrowings	**(29,123)**	(453)
Net change in credit support for service delivery	**338**	3,079
Cash received on amalgamation	**2,680**	–
Minority interest dividend	**(8,937)**	–
Dividends paid in the year	**(23,088)**	(3,000)
Refundable dividend tax on hand	**(64)**	–
Cash used in financing activities	**(58,194)**	(374)
Net (decrease) increase in cash and cash equivalents during the year	**(18,293)**	22,226
Cash and cash equivalents, beginning of year	**64,906**	42,680
Cash and cash equivalents, end of year	**$ 46,613**	$ 64,906
Supplemental disclosure of cash flow information		
Interest received	**$ 1,092**	$ 964
Interest paid	**$ (7,114)**	(6,805)
Taxes paid	**$ (12,891)**	(5,476)

Notes to Consolidated Financial Statements

December 31, 2005 (in thousands of dollars)

1) BUSINESS OF CORPORATION

On June 1, 2000, Hamilton Utilities Corporation (the "Corporation") was incorporated under the *Business Corporations Act (Ontario).* The Corporation is an investment holding company with investments in Horizon Utilities Corporation ("Horizon Utilities"), a regulated electricity distribution company, and Hamilton Hydro Services Inc. ("HHSI"), a company operating telecommunications, district energy and retail services.

2) SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada, consistently applied. The more significant accounting policies are summarized below:

a) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries, some of which have a minority interest. The principal operating companies and the Corporation's ownership in these companies are as follows:

Horizon Utilities	78.9%
HHSI	100.0%

All significant inter-company accounts and transactions have been eliminated.

b) Regulation

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA"), conferred on the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

Under the OEBA and the decisions of the OEB, distribution charges for the electricity distribution business were to be increased annually over three years (2001, 2002 and 2003) to achieve an annual rate of return of 9.88% on the amount of common equity deemed to be allocated to this business.

Distribution charges were also to be increased to permit the recovery of costs incurred by the Corporation to prepare for the opening of the competitive electricity market in Ontario ("Market Opening"). The Corporation has capitalized some of these costs as regulatory assets *[note 10].*

In January 2004, the Corporation filed applications to adjust its distribution charges to provide for the recovery of its regulatory assets over a four-year period. The applications were approved by the OEB effective March 1, 2004.

In January 2005, the Corporation filed rate applications to adjust its distribution charges to provide for the full theoretical regulatory rate of return of 9.88% and continued recovery of its regulatory assets. As mandated by the OEB, the rate increase is subject to a financial commitment by the Corporation to invest $7,078 in conservation and demand management activities over the period September 1, 2005, to September 30, 2007. The rate applications and applications for the approval of its conservation and demand management programs have since been approved by the OEB.

On August 26, 2005, the Corporation filed its Electricity Distribution Rate Application for 2006 distribution rates, to be effective May 1, 2006. The 2006 distribution rate, in accordance with the OEB filing requirements, provides for a revised rate of return of 9.0%, as compared to 9.88% in previous years. OEB approval is anticipated later in the first quarter of 2006.

The Electricity Restructuring Act (Ontario), 2004 (the "ERA")

On December 9, 2004, the Province enacted the ERA, which provides for a restructuring of Ontario's electricity sector to promote the expansion of electricity supply and capacity, alternative and renewable energy sources, and conservation and demand management. Under the ERA, the commodity cost of electricity for certain customer classes will be determined by the OEB on an annual basis and based on a combination of regulated, contract and competitive market prices for electricity. There are few provisions in the ERA that apply to electricity distributors.

Bill 21 - Energy Conservation Responsibility Act (Ontario), 2005 (the "ECRA")

Bill 21, or the ECRA, not yet enacted, provides a legislative framework to support energy conservation and efficiency in Ontario including support for an initiative of the Government of Ontario to install "smart meters" in all homes and businesses throughout Ontario by 2010. Smart meters permit consumption to be recorded within specific time intervals and specific tariffs to be levied within such intervals.

c) Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and note disclosures related thereto. Due to the inherent uncertainty in making estimates, actual results could differ from estimates recorded in preparing these financial statements, including changes as a result of future regulatory decisions.

Accounts receivable and regulatory assets are stated after evaluation of amounts expected to be collected and an appropriate allowance for doubtful accounts. Inventory is recorded net of provisions for obsolescence. Amounts recorded for depreciation and amortization of equipment are based on estimates of useful service life.

d) Cash and cash equivalents

Cash equivalents comprise overnight deposits in an investment account with a Schedule A bank. Investments are carried at cost, which approximates fair value.

e) Inventory

Inventory consists principally of construction and maintenance materials. Inventory is stated at the lower of cost and replacement value, with cost determined on an average cost basis.

f) Fixed assets and depreciation

Fixed assets are recorded at cost, including the cost of work in process, and are removed from the accounts at the end of their estimated services lives, except in those instances where specific identification allows their removal at retirement or disposition. For specifically identifiable assets, gains or losses at retirement or on disposition are credited or charged to other income, otherwise, no gain or loss is recognized unless a sale has occurred.

Depreciation is calculated on a straight-line basis over the estimated service life of fixed assets as follows:

Land rights	50 years
Buildings	15-30 years
Electricity distribution infrastructure	25-30 years
Fibre cable and duct infrastructure	15-25 years
Heating and electricity generation infrastructure	25 years
Other fixed assets	3-15 years

Work in process reflects the cost of construction materials and applied labour and overheads consumed in partially completed capital projects and is not depreciated.

g) Deferred debt issuance costs

Deferred debt issuance costs comprise costs related to issuing long-term borrowings. Such costs are amortized into income on an effective yield basis in relation to the underlying long-term borrowings.

h) Goodwill

Goodwill represents the amount by which the purchase price of an acquired business exceeds the fair value of the net identifiable assets purchased.

Goodwill is not amortized and is evaluated for impairment on an annual basis, or more frequently if circumstances require, with any write-down of the carrying value of goodwill being charged against the results of operations. Goodwill impairment is assessed based on a comparison of the fair value of the reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill.

i) Deferred charges

Deferred charges primarily include professional services costs, including legal and consulting fees, incurred prior to and in respect of the amalgamation between Hamilton Hydro Inc. ("HHI") and St. Catharines Hydro Utility Services Inc. ("SCHUSI"), which transaction is further described in note 3. These costs were subsequently included as part of goodwill.

j) Credit support for service delivery

Credit support for service delivery represents cash deposits from electricity distribution customers and retailers, as well as construction deposits.

Deposits from electricity distribution customers are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid account balances are refundable to individual customers upon termination of their electricity distribution service. Customer deposits are also refundable to residential electricity distribution customers demonstrating an acceptable level of credit risk, as determined by the Corporation.

Pursuant to the Ontario Energy Board retail settlement code, the Corporation is entitled to security from retailers to guarantee the payment of the difference between the market price for electricity and the retailer's average contract price.

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project these deposits are transferred to capital contributions in aid of construction.

k) Employee future benefits

The Corporation pays certain health, dental and life insurance benefits, under unfunded defined benefit plans, on behalf of its retired employees.

Employee future benefits are recorded on an accrual basis. The accrued benefit obligations and current service cost are calculated using the projected benefit method pro rated on service and reflect management's best estimate of certain underlying assumptions. The current service cost for a period is equal to the actuarial present value of benefits attributed to that period in which employees rendered their services. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment. The excess of actuarial gains (losses) over 10% of the accrued benefit obligation is amortized into expense on a straight-line basis over the expected average remaining service life of active employees.

l) Pension plan

The Corporation provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The fund is a contributory defined benefit pension plan. The Corporation records the required contributions as an expense in the period they accrue.

m) Related party transactions

Transactions with related parties represent the culmination of the earnings process and are measured at the exchange amount.

n) Payments in Lieu of Taxes ("PILs")

The Corporation is currently exempt from taxes under the *Income Tax Act (Canada)* ("ITA") and *the Ontario Corporations Tax Act* ("OCTA").

Commencing October 1, 2001, and pursuant to the *Energy Competition Act* ("ECA"), the Corporation is required to compute taxes under the ITA and OCTA and remit such amounts thereunder to the Ontario Electricity Financial Corporation ("OEFC"). These amounts, referred to as PILs under the ECA, are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC.

The Corporation provides for PILs using the asset and liability method. Under this method, future tax assets and liabilities are recognized, to the extent such are determined likely to be realized, for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

PILs recoverable from loss carry-forwards are recorded in other assets at future statutory tax rates reflecting when such loss carry-forwards are expected to be utilized.

December 31, 2005 (in thousands of dollars)

o) Capital contributions in aid of construction

Capital contributions arise from development charges which are provided and paid by developers and used to finance additions to fixed assets. Capital contributions received are treated as a "credit" contra account and are included in fixed assets. These amounts are subsequently amortized by a charge to accumulated amortization and a credit to amortization expense at an equivalent rate to that used for the depreciation of the related fixed asset.

p) Revenue recognition

Electricity distribution services charges

These charges comprise charges to customers for use of the Corporation's electricity distribution system. These charges are recorded when the related services are performed.

Telecommunications services charges

These charges are recorded when the related services are performed. Installation revenue associated with the provisioning of the service is recognized over the term of the contract.

Electricity, heating and cooling services charges

These charges comprise customer billings for the supply and distribution of electricity and thermal energy. Customer billings for these charges are recorded on the basis of a fixed monthly capacity charge, as well as customer usage.

3) HORIZON UTILITIES CORPORATION

On March 1, 2005, HHI and SCHUSI merged by amalgamation under the *Business Corporations Act (Ontario)* and continue as Horizon Utilities Corporation.

The amalgamation was completed pursuant to a Merger Co-operation Agreement dated November 25, 2004, between the City of Hamilton, as sole shareholder of the Corporation, and The Corporation of The City of St. Catharines, as sole shareholder of St. Catharines Hydro Inc. ("SCHI"), which acknowledged their approval of the merger of HHI and SCHUSI under terms and conditions set out in a Merger Participation Agreement (the "MPA"), dated November 25, 2004, between the Corporation, HHI, SCHI and SCHUSI.

The MPA provided that the respective shareholders of HHI and SCHUSI, the Corporation and SCHI, receive common shares in Horizon Utilities with votes and value in proportion to the respective values of HHI and SCHUSI.

A valuation of HHI and SCHUSI was undertaken by a competent third party and was largely based on projections of capital assets, capital expenditures and operating expenses anticipated to be permitted by regulation administered by the OEB in its approval of allowable distribution charges for each respective corporation. The values agreed to by the Corporation and SCHI (the "Parties") were as negotiated by the Parties based on such valuation. The results of the negotiation and valuation provide for common share allocations of 78.9% for the Corporation and 21.1% for SCHI.

In accordance with the MPA, immediately prior to the merger, HHI declared a dividend in specie to HUC consisting of the right to receive any future amounts received by Horizon Utilities that represent the recovery of any regulatory assets in excess of HHI's book value of such assets as at February 28, 2005. SCHUSI also declared a dividend in specie to SCHI consisting of the right to receive any future amounts received by Horizon Utilities that represent the recovery of any regulatory assets in excess of SCHUSI's book value of such assets as at February 28, 2005.

On March 1, 2005, Horizon Utilities issued the following shares in exchange for all of the issued and outstanding shares of HHI and SCHUSI:

	No. Shares
Class 1 Common owned by the Corporation	7,890
Class A Common owned by SCHI	2,110

This transaction resulted in the Corporation receiving a controlling interest in Horizon Utilities. The transaction was recorded by Horizon Utilities using the purchase method of accounting. As such, the results of operations and cash flow for 2005 reflect that of Horizon Utilities for the ten months ended December 31, 2005, and HHI for the two months ended February 28, 2005. The comparative financial information for 2004 reflects the financial position, the results of operations and cash flow of HHI.

The purchase consideration was determined by the fair value of the assets and liabilities assumed as at March 1, 2005, and adjusted for the costs related to the merger, including direct costs associated with the transaction as well as human resource and other integration costs.

The total purchase consideration was allocated to identifiable net assets acquired based on their respective fair values as at the date of amalgamation as follows:

Purchase consideration comprised of:	
Issuance of 2,110 Class A common shares at fair value	55,052
Transaction and integration costs	3,545
Total purchase consideration	58,597
Fair value of net assets of SCHUSI acquired:	
Current assets	27,449
Fixed assets	56,498
Other assets	2,068
Current liabilities	(14,151)
Long-term liabilities	(32,190)
Net assets acquired	39,674
Excess purchase consideration over fair value of net assets acquired, allocated to goodwill	18,923

The excess of the fair value of the Class A common shares issued to SCHI over the stated capital of SCHUSI immediately prior to the merger has been recorded as contributed surplus on the balance sheet, and that, subsequent to amalgamation, a dividend was paid to SCHI in the amount of $8,931 of which $7,374 was charged to contributed surplus.

In addition to transaction and integration costs included as part of the total purchase consideration, the Corporation also incurred $2,689 in additional costs related to the amalgamation, which have been included in operating expenses. These additional costs included severance costs associated with voluntary retirement and separation programs offered to employees, computer programming and other administrative costs related to the integration of operations.

The merger of HHI and SCHUSI results in the third largest municipally owned electricity distribution company in the Province serving approximately 230,000 customers in the municipalities of Hamilton and St. Catharines. The Corporation anticipates that this transaction will create shareholder and customer value through cost efficiencies resulting from the elimination of duplicate processes.

4) OTHER ASSETS

Other assets comprise:

	2005	2004
Prepaid expenses	**1,483**	1,064
Deferred charges	**–**	1,031
Current PILs receivable	**–**	969
Recoverable PILs from loss carry-forwards	**–**	609
Other	**68**	68
Total other assets	**1,551**	3,741

5) FIXED ASSETS

Fixed assets comprise:

	2005			2004		
	Original Cost	Accumulated Depreciation	Net Book Value	Original Cost	Accumulated Depreciation	Net Book Value
Land	**1,493**	**–**	**1,493**	1,182	–	1,182
Land rights	**129**	**(39)**	**90**	115	(35)	80
Buildings	**25,350**	**(12,919)**	**12,431**	21,880	(11,946)	9,934
Electricity distribution infrastructure	**400,913**	**(161,901)**	**239,012**	338,516	(149,104)	189,412
Fibre cable and duct infrastructure	**16,845**	**(6,986)**	**9,859**	15,649	(6,000)	9,649
Heating and electricity generation infrastructure	**10,096**	**(1,038)**	**9,058**	8,539	(648)	7,891
Other fixed assets	**39,151**	**(27,536)**	**11,615**	36,278	(24,729)	11,549
Work in process	**3,923**	**–**	**3,923**	1,753	–	1,753
	497,900	**(210,419)**	**287,481**	423,912	(192,462)	231,450

During the year, the Corporation received $2,453 (2004 – $2,216) of capital contributions in aid of construction.
Total depreciation expense for the year is $21,963 (2004 – $18,057) of which $964 (2004 – $848) has been allocated to operating expenses and capital.

6) PAYMENTS IN LIEU OF TAXES

The provision for PILs varies from amounts which would be computed by applying the Corporation's combined statutory income tax rate as follows:

	2005	2004
Basic rate applied to income before PILs	**36.12%**	36.12%
Increase (decrease) in PILs resulting from:		
Tax basis of depreciable capital assets and goodwill in excess of accounting basis	**(4.74%)**	(5.06%)
Items not deductible for tax purposes and other	**(0.24%)**	2.31%
Provision for payments in lieu of large corporations taxes	**0.90%**	0.78%
Effective rate applied to income before PILs	**32.04%**	34.15%

At year-end, based on substantively enacted income tax rates, future income tax assets of $20,379 (2004 – $15,842) have not been recorded. Such future income tax assets relate to tax bases of depreciable capital assets and employee future benefits in excess of amounts recorded for accounting purposes. Such future tax assets have not been recorded in the accounts as there is uncertainty as to whether the Corporation will realize the benefits related to these assets, which would be realized as relatively modest reductions of future tax liability over many future years.

7) CREDIT SUPPORT FOR SERVICE DELIVERY

Credit support for service delivery comprises:

	2005	2004
Customer deposits	**12,698**	10,884
Retailer deposits	**766**	681
Construction deposits	**5,702**	4,239
Total credit support for service delivery	**19,166**	15,804

December 31, 2005 (in thousands of dollars)

8) LONG-TERM BORROWINGS

Long-term borrowings comprise:

	2005	2004
Senior unsecured debentures bearing interest at 6.25% and due July 31, 2012	**105,000**	105,000

During the year, the Corporation accrued and paid interest in respect of the senior unsecured debentures in the amount of $6,563 (2004 – $6,563).

As at March 1, 2005, and as a result of the transaction described in note 3, the Corporation assumed a promissory note payable to SCHI in the amount of $29,124 on the acquisition of SCHUSI. The promissory note was unsecured and repayable upon 30 days written notice by SCHI. Such notice was received from SCHI. Interest on the promissory note was payable quarterly at a rate of 4.84% per annum. The promissory note was repaid on June 17, 2005. During the year, the Corporation paid interest expense in respect of the promissory note payable to SCHI of $417.

9) EMPLOYEE FUTURE BENEFITS

The Corporation pays certain health, dental and life insurance benefits on behalf of its retired employees. The Corporation accrues the cost of these employee future benefits over the periods in which the employees earn the benefits. The cost of employee future benefits earned by employees is actuarially determined, applying the projected benefit method pro rated on length of service. Significant assumptions underlying the valuation include management's best estimate of the interest (discount) rate, salary escalation, the average retirement age of employees, employee turnover and expected health and dental care costs.

Information about the Corporation's defined benefit plan is as follows:

	2005	2004
Accrued benefit liability, beginning of year	**12,427**	12,031
Fair value of liability assumed on acquisition of SCHUSI	**3,068**	–
Net benefit expense:		
Current service cost	**250**	335
Interest cost	**981**	847
Amortization of net actuarial loss	**(14)**	18
Net benefit expense for the year	**1,217**	1,200
Benefits paid for the year	**(1,033)**	(804)
Accrued benefit liability, end of year	**15,679**	12,427

An actuarial valuation of the plan obligations was completed as at December 31, 2003, and March 1, 2005 for Horizon Utilities, resulting in an unamortized net actuarial loss of $1,067. The Corporation has adopted the corridor method of accounting for the actuarially determined experience gains (losses). The excess of actuarial gains (losses) over 10% of the accrued benefit obligation is amortized into expense on a straight-line basis over the expected average remaining service life of active employees.

The main actuarial assumptions underlying the valuation are as follows:

a) General inflation

The health care cost trend for prescription drugs is estimated to increase at a declining rate from 9% to 4% over five years. Other medical and dental expenses are assumed to increase at 4% per year.

The approximate effect on the accrued benefit obligation and the estimated net benefit expense if the health care trend rate assumption was increased or decreased by 1% is as follows:

	Accrued Benefit Obligation	Periodic Benefit Cost
1% increase in health care trend rate	1,839	125
1% decrease in health care trend rate	(1,487)	(99)

b) Interest (discount) rate

The obligations at year end, the present value of future liabilities, and the expense for the period ended, were determined using a discount rate of 6.25% representing an estimate of the yield on high quality corporate bonds as at the valuation date.

c) Salary levels

Future general salary and wage levels were assumed to increase at 4% per year.

10) NET REGULATORY ASSETS (LIABILITIES)

Net regulatory assets (liabilities) comprise:

	2005	2004
Transition costs (net of reserve $3,501; 2004 – $3,501)	**–**	–
Pre-market opening cost of power variances	**7,202**	3,709
Post-market opening retail settlement variances	**(23,571)**	(11,607)
Deferred payments in lieu of taxes	**2,714**	2,329
Total net regulatory liabilities	**(13,655)**	(5,569)

Net regulatory assets (liabilities) represent costs incurred by the Corporation and settlement variances with other participants in the electricity market, less recoveries, for the purpose of supporting the deregulation of the electricity industry in Ontario. These amounts have been accumulated pursuant to regulation underlying the ECA and deferred in anticipation of their future recovery in electricity distribution service charges.

The Corporation ceased recognizing interest income related to transition costs and the retail settlement variance accounts as at December 31, 2002.
The Corporation filed for recovery of these interest amounts as part of the August 2005 rate application.

Transition costs – represent specific and incremental costs to the Corporation for systems and process changes to support the opening of the competitive electricity market in Ontario on May 1, 2002 ("Market Opening"). These costs have been deferred pursuant to regulation underlying the ECA and are subject to review and approval for recovery by the OEB.

Pre-market opening cost of power variances – represent the excess of the cost of the commodity electricity to the Corporation over the amount billed to its customers prior to Market Opening.

Post-market opening retail settlement variances – represent amounts that have accumulated since Market Opening and comprise:

(i) variances between amounts charged by the Independent Electricity System Operator ("IESO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges and transmission charges, and the amounts billed to customers by the Corporation based on the OEB approved wholesale market service rate; and,

(ii) variances between the amounts charged by the IESO to allow for purchases of imported electricity and the amounts billed to customers by the Corporation based on OEB approved rates.

Deferred payments in lieu of taxes – represent variances that result from the difference between OEB approved PILs recoverable in electricity distribution services charges and the actual amount of these charges to customers that relates to the recovery of PILs.

In the absence of rate regulated accounting, generally accepted accounting principles would require the Corporation to reverse the carrying charges recorded, related to the regulatory assets (liabilities) described above, in the operating results for the year in which they are incurred. Since the Corporation ceased recognizing the carrying charges related to these regulatory assets (liabilities) in 2002, there is no impact on operating results in the current year or prior year.

11) MINORITY INTEREST

Minority interest represents SCHI's 21.1% common share ownership in Horizon Utilities and comprises:

	2005	2004
Minority interest, beginning of year	**–**	–
Minority interest on acquisition of SCHUSI *[note 3]*	**39,834**	–
Net income for the period March 1 to December 31, 2005	**2,308**	–
Dividends paid to minority interest	**(8,937)**	–
Minority interest, end of year	**33,205**	–

12) SHARE CAPITAL

The authorized share capital consists of an unlimited number of common shares. Any invitation to the public to subscribe for shares of the Corporation is prohibited. On July 1, 2002, the Corporation issued 1,000 voting common shares for consideration of $129,897.

13) PENSION PLAN

The Corporation participates in the Ontario Municipal Employees Retirement Fund (OMERS), a multi-employer plan, on behalf of its employees. The plan is a contributory defined benefit pension plan. Contributions during the year were 6.0% for employee earnings below the year's maximum pensionable earnings and 8.8% thereafter, and are anticipated to rise to 6.5% and 9.6% in 2006. During 2005, the Corporation expensed contributions totaling $1,601 (2004 – $1,339) made to OMERS in respect of the employer's required contributions to the plan.

14) COMMITMENTS AND CONTINGENCIES

Commitments

Credit Facility

Pursuant to an Amended and Restated Credit Agreement ("Credit Facility") dated July 17, 2003, with a Canadian chartered bank, the Corporation can borrow up to $93,500 as follows:

(i) $70,000 (2004 – $70,000) in unsecured revolving lines of credit available for general corporate purposes ("Facility A"). Borrowings may be in the form of Bankers' Acceptances ("BAs"), prime rate loans and/or current account overdrafts.

(ii) $23,500 (2004 – $23,500) in unsecured revolving credit available for prudential obligations and other Letter of Credit requirements ("Facility B").

The rate of interest payable on the Credit Facility is based on a margin above prime or the BA rate, as the case may be, determined by reference to the Corporation's debt rating. A standby fee is paid on any unutilized portion of the Credit Facility.

No amounts were drawn under Facility A at year end (2004 – nil).

The Corporation has issued a $23,500 letter of credit, under Facility B, in favour of the Independent Electricity System Operator ("IESO") as security for Horizon Utilities' purchase of electricity through the IESO. At year end, no amounts were drawn on these letters of credit.

On January 20, 2006, the Credit Facility was subsequently amended pursuant to a Second Amended and Restated Credit Agreement ("Amended Credit Facility"). The Amended Credit Facility is a revolving operating credit facility that allows the Corporation to borrow up to $100,000 to finance general corporate requirements, working capital requirements and prudential obligations. Borrowings may be in the form of Bankers' Acceptances ("BAs"), prime rate loans, letters of credit, and/or current account overdrafts. The Amended Credit Facility matures on January 19, 2009. Interest rates payable on the Amended Credit Facility are based on a margin above prime or the BA rate, as the case may be, determined by reference to the Corporation's debt rating. A standby fee is paid on any unutilized portion of the Amended Credit Facility.

Contractual Obligation

Pursuant to the terms of a Master Purchase/Sale Agreement dated April 1, 2003, the Corporation has agreed to purchase a fixed quantity of natural gas at a fixed price over five years. The total commitment over the term of the agreement is $4,460 and the remaining commitment at year end is $2,146 (2004 – $3,066). This commitment is part of a risk management strategy to provide the Corporation with sufficient quantities of natural gas at a fixed price to meet the requirements to produce, sell and distribute electrical energy pursuant to an agreement with the City of Hamilton *(note 13)*.

Contingencies

A class action claiming $500,000 in restitutionary payments plus interest was served on the former Toronto Hydro-Electric Commission, continuing as Toronto Hydro Corporation, 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.

December 31, 2005 (in thousands of dollars)

The claim is that late payment penalties result in 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. This action is at a preliminary stage. Pleadings have closed but examinations for discovery have not been conducted and the classes have not been certified. The Electricity Distributors Association is undertaking the defense of this class action on behalf of the Defendant Class.

On April 22, 2004, in a decision in a class action commenced against The Consumers' Gas Company Limited (now Enbridge Gas Distribution Inc.), the Supreme Court of Canada ruled that Consumers' Gas was required to repay that portion of certain late payment charges collected by it from its customers that were in excess of the interest limit stipulated in Section 347 of the Criminal Code. Although the claim related to charges collected by Consumers' Gas after the enactment of Section 347 of the Criminal Code in 1981, the Supreme Court limited recovery to charges collected after the action was initiated in 1994.

The Corporation is not a party to the Consumers' Gas class action; however, it is anticipated that the above noted class action will now proceed for determination in light of the reasons of the Supreme Court in the Consumers' Gas class action.

The Defendant Class may have defenses available to it in this action that were not disposed of by the Supreme Court in the Consumers' Gas class action. Also, the determination of whether the late payment charges collected by the Corporation from its customers were in excess of the interest limit stipulated in Section 347 of the Criminal Code is fact specific in each circumstance.

At this time, given the preliminary status of this action, it is not possible to quantify the effect, if any, on the financial statements of the Corporation. Consequently, no provision has been made in these financial statements with respect to any possible losses that may arise as a result of this matter.

15) BILLINGS TO ELECTRICITY DISTRIBUTION CUSTOMERS

The Corporation is licensed by the OEB to distribute electricity. As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission and other services, provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers. The Corporation may file to recover uncollected debt retirement charges from OEFC once each year. Otherwise, the Corporation is unable to recover uncollected amounts formerly remitted to these third parties. The Corporation retains only its electricity distribution services charge that is regulated by the OEB.

Electricity distribution services charges comprise:

	2005	2004
Gross customer billings	**548,951**	380,100
Less: Pass-through charges billed by the Corporation		
Electricity charges paid through to generators	**(333,823)**	(213,737)
Transmission and miscellaneous charges	**(66,786)**	(54,238)
Market service charges	**(34,710)**	(26,788)
Debt retirement charges	**(36,817)**	(28,301)
Total electricity distribution services charges	**76,815**	57,036

16) RELATED PARTY TRANSACTIONS

The Corporation provides certain water and wastewater billing and customer care services to its sole shareholder, the City of Hamilton. Other income includes $2,790 (2004 – $2,572) earned with respect to this agreement. As at the end of the year, accounts payable and accruals include $8,540 (2004 – $9,206) owing to the City of Hamilton for amounts collected on behalf of the City of Hamilton pursuant to this agreement.

Pursuant to agreements dated December 31, 2002, the Corporation produces, sells and distributes thermal and electrical energy to the City of Hamilton. Revenue earned during the year under the agreements was $2,073 (2004 – $1,917). The agreements expire December 31, 2027. The Corporation also earned $883 (2004 – $678) in telecommunications services revenue from the City of Hamilton. As at the end of the year, accounts receivable includes $619 (2004 – $392) owing from the City of Hamilton.

17) OTHER INCOME FROM OPERATIONS

Other income from operations comprises:

	2005	2004
Water and wastewater billing and customer care charges	**2,790**	2,572
Collection and other service charges	**1,192**	752
Water heater and sentinel light rental income	**1,066**	733
Late payment interest charges	**937**	721
Pole rental income	**775**	693
Scrap sales	**249**	313
Miscellaneous	**330**	235
Total other income from operations	**7,339**	6,019

18) FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, accounts receivable, credit support for service delivery, and accounts payable and accruals approximate fair values because of the short maturity of these instruments.

The 6.25% debentures due July 31, 2012, having a carrying value of $105,000 (2004 – $105,000), have a fair value of $115,805 (2004 – $114,576) based on year-end quoted market prices for similar debt.

Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk.

The Corporation earns its revenue from a broad base of customers located in the City of Hamilton and the City of St. Catharines. Two customers account for 6% and 1% of total revenue (2004 – 7% and 2%), one of which is the City of Hamilton, and the other a local school board. No other single customer in either year would account for revenue in excess of 1%.

One customer, the City of Hamilton, accounts for 2.9% of accounts receivable at year end. No other single customer accounts for more than 1% of accounts receivable at year end.

19) SEGMENTED INFORMATION

The Corporation has four reportable business segments: electricity distribution operations under the business name of Horizon Utilities, telecommunications and related operations under the business name of FibreWired, district energy operations under the business name of Hamilton Community Energy (HCE) and all other, which includes corporate activities and the elimination of inter-segment transactions.

Each segment represents a strategic business unit of the Corporation offering distinct products and services and requiring different technology and marketing strategies.

Inter-segment sales and transfers are accounted for as if the sales and transfers were to third parties.

The following table presents the results of the Corporation from continuing operations by reportable segment for 2005:

	Horizon Utilities	FibreWired	HCE	Other	Total
Revenue	76,815	7,607	2,893	–	87,315
Other income	7,650	–	–	(313)	7,337
	84,465	7,607	2,893	(313)	94,652
Operating expenses	39,508	4,333	2,739	(543)	46,037
Depreciation	18,599	1,775	496	129	20,999
Gain on sale of assets	(104)	(499)	–	(7)	(610)
Interest expense	8,936	226	760	(2,138)	7,784
Interest income	(931)	–	–	(224)	(1,155)
PILs	5,917	493	(399)	909	6,920
Expenses, finance charges and PILs	71,925	6,328	3,596	(1,874)	79,975
Net income (loss) before minority interest	12,540	1,279	(703)	1,561	14,677
Minority interest	(2,308)	–	–	–	(2,308)
Net income (loss)	10,232	1,279	(703)	1,561	12,369
Total assets	412,178	20,676	12,178	5,233	450,265
Capital acquisitions	18,848	1,482	968	240	21,538

The following table presents the results of the Corporation from continuing operations by reportable segment for 2004:

	Horizon Utilities	FibreWired	HCE	Other	Total
Revenue	57,036	6,714	2,262	–	66,012
Other income	5,886	20	–	113	6,019
	62,922	6,734	2,262	113	72,031
Operating expenses	26,236	3,985	2,108	211	32,540
Depreciation	15,034	1,620	446	109	17,209
Gain on sale of assets	(309)	(367)	–	(9)	(685)
Interest expense	8,416	423	737	(2,233)	7,343
Interest income	(931)	(6)	–	(173)	(1,110)
PILs	4,873	322	(298)	817	5,714
Expenses, finance charges and PILs	53,319	5,977	2,993	(1,278)	61,011
Net income (loss)	9,603	757	(731)	1,391	11,020
Total assets	325,813	20,313	11,865	6,628	364,619
Capital acquisitions	16,129	1,402	625	223	18,379

20) COMPARATIVE FIGURES

Certain comparative data have been reclassified to conform with the presentation of the current year.

Consolidated Five Year Summary

Years ended December 31,	(in thousands of dollars)				
	2005	**2004**	**2003**	**2002**	**2001**
STATEMENT OF INCOME					
Electricity distribution services charges	$ 76,815	$ 57,036	$ 57,358	$ 55,316	$ 40,313
Telecommunications services charges	7,605	6,714	6,600	5,135	4,188
Electricity, heating and cooling services charges	2,893	2,262	1,386	41	–
Total revenue	87,313	66,012	65,344	60,492	44,501
Other income from operations	7,339	6,019	5,899	5,217	3,598
	94,652	72,031	71,243	65,709	48,099
Operating expenses	46,037	32,540	34,815	30,814	30,417
Depreciation and amortization	20,999	17,209	16,323	14,467	13,586
	67,036	49,749	51,138	45,281	44,003
Income from operating activities	27,616	22,282	20,105	20,428	4,096
Gain on sale of fixed assets	610	685	51	–	–
Net interest (expense) income	(6,629)	(6,233)	(6,740)	(7,762)	200
Payments in lieu of taxes	(6,920)	(5,714)	(5,192)	(4,169)	2,745
Proceeds from legal settlement with Ontario Power Generation Inc.	–	–	–	–	1,918
Minority interest	(2,308)	–	–	–	–
Net income	$ 12,369	$ 11,020	$ 8,224	$ 8,497	$ 8,959
BALANCE SHEET					
Assets					
Current assets	$ 140,368	$ 130,890	$ 101,901	$ 93,278	$ 145,021
Capital assets	309,897	233,729	236,181	233,123	212,847
	$ 450,265	$ 364,619	$ 338,082	$ 326,401	$ 357,868
Liabilities and shareholder's equity					
Current liabilities	$ 112,734	$ 74,076	$ 61,183	$ 55,449	$ 62,466
Long-term debt	105,000	105,000	105,000	105,634	138,333
Other long-term liabilities	29,334	19,986	14,362	13,755	14,003
Minority interest	33,205	–	–	–	–
Shareholder's equity	169,992	165,557	157,537	151,563	143,066
	$ 450,265	$ 364,619	$ 338,082	$ 326,401	$ 357,868
STATEMENT OF CASH FLOWS					
Cash provided by operating activities	$ 60,788	$ 39,971	$ 47,392	$ 6,598	$ 26,355
Cash used in the purchase of capital assets	(21,538)	(18,379)	(26,274)	(26,053)	(24,341)
Cash provided by other investing activities	651	1,008	156	191	592
Cash provided by (used in) financing activities	(58,194)	(374)	1,475	(28,628)	653
Net increase (decrease) in cash and cash equivalents	$ (18,293)	$ 22,226	$ 22,749	$ (47,892)	$ 3,259

Corporate Governance

Hamilton Utilities Corporation is governed in accordance with the Ontario Business Corporations Act and a Shareholder Declaration. The Shareholder Declaration requires that the Board of Directors observe the same standards of corporate governance as the Toronto Stock Exchange for publicly traded corporations. Hamilton Utilities Corporation is not publicly traded. However, the Corporation recognizes the role of good governance in a successful business enterprise and has provided voluntary disclosure on its corporate governance practices.

Responsibilities of the Board of Directors

The Toronto Stock Exchange has published a comprehensive report on guidelines for effective corporate governance. The report covers a broad spectrum of good governance practice and elaborates specifically on five major areas where Boards should explicitly assume responsibility for stewardship:

- Strategic planning process
- Risk assessment and management systems
- Succession planning and management performance
- Communications policy
- Integrity of internal controls and management information systems

The Board of Directors of Hamilton Utilities Corporation has recognized and assumed responsibilities in the areas identified by the Toronto Stock Exchange. The Board directly and with supporting oversight by its committees discharges such responsibilities.

The Toronto Stock Exchange also provided guidelines that the majority of Directors should be independent and free from conflicting interests and that the corporation should disclose any conflicts. Hamilton Utilities reports that its governance structure consists of 10 directors, eight of which are to be independent of Hamilton Utilities and its sole shareholder, the City of Hamilton. A non-management Chairman leads the Board and there are two non-independent members of the Board: the Chief Executive Officer and the Mayor of the City of Hamilton's designate. As well, the Corporation reports that all independent Directors are free from conflicting interests. The Board meets independently of Management for a portion of each of its meetings.

Annually the Board requests and receives an independence letter from the auditors. The last letter received from KPMG LLP dated February 3, 2006, confirmed that they are objective with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

Board Committees

There are three committees of the Board with respective oversight mandates as follows:

- **Audit and Risk Management Committee:** risk management, internal control, financial information and annual audit, and the information systems activities of Hamilton Utilities Corporation.
- **Human Resources and Corporate Governance Committee:** succession planning, management objective setting and performance, compensation and communications policy activities of the Corporation. They also cover all governance issues including an annual performance review of the Board and its committees.
- **Nominating Committee:** evaluation of Board composition and nomination of Directors of the Board as may be required.

The Strategic Plans for the Corporation are approved and monitored directly by the Board of Directors.

The Toronto Stock Exchange Guidelines also recommend that Committees of the Board should generally be comprised of independent Directors. Each Committee of Hamilton Utilities Corporation is comprised of only independent Board members.

Mandate of Management

The Board approves the Chief Executive Officer's mandate and annual corporate objectives consistent with the recommendations of the Toronto Stock Exchange.

The permitted business activities of the Corporation are outlined in its Shareholder Declaration. The mandate of the Chief Executive Officer and annual corporate objectives are consistent with the Shareholder Declaration. The authority limits of the Chief Executive Officer, as delegated by the Board, have been formally documented and executed by the Board.

In addition, the Human Resources and Corporate Governance Committee annually reviews the Chief Executive Officer's objectives, evaluates the Chief Executive Officer's performance, makes recommendations on the appointment of executive management and monitors the succession planning process.

Hamilton Utilities Corporation is committed to providing essential public utility and related services in a way that balances commercial discipline with environmental and social responsibility.

2005
Board of Directors

Charles Hantho, Board Chairman
Charles Hantho is former Chairman & Director, Dofasco Inc. and Chairman, Mabe Canada. Mr. Hantho also serves as a Director of the International Institute for Sustainable Development and Zoom Media. Mr. Hantho has been honoured as a member of the Order of Canada, and has received a Fellowship in the Canadian Academy of Engineering and a Fellowship in the Institute of Corporate Directors. He is a former Chairman and CEO of Dominion Textile Inc. and Chairman and CEO of CIL.

Robert Dolan, Chair, Human Resources and Corporate Governance Committee
Robert Dolan is Managing Partner of Enns Partners, a management consulting firm, and former Senior Vice-President, Corporate Services, Canadian National. Mr. Dolan was responsible for Human Resources and Information Technology at CN. He has previously held senior executive positions at John Labatt Ltd. and the Bank of Montreal.

Brian McHattie, Director
Brian McHattie represents the Mayor of the City on Hamilton Utilities Corporation's Board of Directors. City Councillor for West Hamilton (Ward One) since 2003, he was employed as a lecturer at McMaster University in the Arts and Science Program from 2002-2004. Previously, Councillor McHattie worked for Environment Canada and was Regional Coordinator for the Canadian Community Monitoring Development that wrote Vision 2020.

Ed Minich, Director
Ed Minich is a Chartered Director and an instructor in Strategic Management at the DeGroote Graduate School of Business. Mr. Minich serves on the Oakville Hospital Foundation Board and the McMaster University Board of Governors, of which he was past-Chairman. Mr. Minich, former President and CEO of Otis Canada Inc., holds a B.Sc., M.B.A. and LL.D (Hon.) degree from McMaster University.

Owen Shewfelt, Chair, Audit and Risk Management Committee

Owen Shewfelt graduated with a B. Comm from McMaster University. He was in public practice with Clarkson Gordon in Hamilton and is a former Vice-President, Finance & Administration for Westinghouse Canada in Hamilton and for the JWI Group of Companies in Ottawa. Mr. Shewfelt has served on the Board of Directors for several companies and charitable organizations.

Terry Cooke, Director

Terry Cooke is former Regional Chairman for Hamilton-Wentworth and current President of Cooke Capital Corporation, a management consulting and real estate holding company. Mr. Cooke is Chair of the Board of Obvious Solutions Inc., a Hamilton based technology company and a director of Northgate Properties of Hamilton.

Art Leitch, Director

Art Leitch is President and CEO of Hamilton Utilities Corporation. Mr. Leitch was previously General Manager of Public Works for the City of Hamilton and a Commissioner with the former Hamilton Hydro-Electric Commission. He has also served as General Manager of Sarnia Hydro, Senior Vice-President of United Utilities International PLC, and as Commissioner of Planning and Public Works in the Region of Halton. Mr. Leitch is a director on the Boards of the Ontario Energy Association and the Canadian Automobile Association.

Joan Prior, Director

Joan Prior is Deputy General Counsel, Bank of Nova Scotia. Previously, Ms. Prior was Executive Vice-President, General Counsel and Secretary of Hydro One Inc. (1999-2003) and held the concurrent position of President and CEO of Hydro One Telecom Inc. (2000-2003), a wholly-owned subsidiary of Hydro One. She currently sits on the Board of Directors of Youth Employment Service.

Peter Routliff, Director

Peter Routliff is a graduate of The Directors College Program and participates as faculty of this Conference Board/ McMaster program. He is a member of the Ontario Municipal Employees Retirement System (OMERS) Board and sits as Chair of the Investment Committee. Mr. Routliff chaired the Board of the Electrical Safety Association in 2004-05, is the past-Chair of the Audit Committee and current Chair of the Governance Committee. Mr. Routliff is an International Representative for the International Brotherhood of Electrical Workers (IBEW) working with the Vice-President in its Canadian Office.

Marnie A. Spears, Director

Marnie Spears is Chief Executive Officer, Ketchum Canada Inc. She is a former principal of Hamilton-based The Landmark Consulting Group and former Executive Director, Development and Public Relations, at McMaster University. Ms. Spears is widely known as a leader in the development profession in Canada. She is extensively involved in Hamilton-area business, educational, and cultural institutions.

2005 Corporate Management Team

(Front to back)

Art Leitch*
President and Chief Executive Officer of Hamilton Utilities Corporation.

Marjorie Richards*
Vice-President of Corporate Services of Hamilton Utilities Corporation and Corporate Secretary to the Board of Directors.

John G. Basilio*
Senior Vice-President and Chief Financial Officer of Hamilton Utilities Corporation.

Max Cananzi
President and Chief Executive Officer of Horizon Utilities Corporation, a subsidiary of Hamilton Utilities Corporation, effective December 1, 2005.

* *Corporate Officers of Hamilton Utilities Corporation*

Vision

We are recognized as the leader in the delivery of municipal utility services and our customers say they are receiving best value.

Mission

We are a customer focused multi-utility service provider,

Our operations and investments contribute to economic development and improvement of the natural environment,

We provide a healthy, safe and challenging workplace with recognition for the contributions of our employees,

We will continue to grow by attracting new utility customers and creating value for our shareholders.

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Hamilton Utilities Corporation

The Business of Public Service™

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