WASAGA DISTRIBUTION INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2005

CONTENTS

AUDITORS' REPORT

To the Shareholder of **Wasaga Distribution Inc.**:

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

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

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

Gaviller & Company LLP

Chartered Accountants
Collingwood, Ontario
May 5, 2006

BALANCE SHEET
AS AT DECEMBER 31

	2005	2004
	$	$
Assets		
Current		
Unbilled revenue	**2,097,638**	1,886,069
Due from Wasaga Resource Services Inc. (Note 3)	**348,919**	-
Taxes recoverable	**31,359**	85,622
	2,477,916	1,971,691
Capital		
Land	**508,704**	508,716
Buildings	**982,607**	982,607
Distribution stations	**1,203,705**	1,171,328
Subtransmission feeders	**847,710**	846,805
Distribution lines - overhead	**4,447,221**	4,326,247
Distribution lines - underground	**5,717,530**	5,287,849
Distribution transformers	**2,738,605**	2,575,224
Distribution meters	**913,728**	868,907
	17,359,810	16,567,683
Accumulated amortization	**(8,079,073)**	(7,496,948)
Contributions in aid of construction, net of amortization of $154,277 (2004 - $108,173)	**(1,106,495)**	(860,433)
	8,174,242	8,210,302
Other (Note 10)	**-**	1,153
	10,652,158	10,183,146

Approved on behalf of the Board:

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See accompanying notes to the financial statements

BALANCE SHEET
AS AT DECEMBER 31

	2005	2004
	$	$
Liabilities		
Current		
Accounts payable and accruals (Note 2 & 10)	**133,677**	61,834
Interest on note payable to the Town of Wasaga Beach (Note 4)	**260,512**	260,512
Due to Wasaga Resource Services Inc. (Note 3)	-	20,797
	394,189	343,143
Long-term		
Note payable to the Town of Wasaga Beach (Note 4)	**3,593,269**	3,593,269
Other (Note 10)	**3,969**	-
	3,597,238	3,593,269
Total liabilities	**3,991,427**	3,936,412
Shareholder's equity		
Capital stock		
Authorized		
Unlimited common shares		
Issued		
100 common shares	**100**	100
Retained income	**1,427,662**	1,013,665
Miscellaneous paid-in capital	**5,232,969**	5,232,969
Total shareholder's equity	**6,660,731**	6,246,734
	10,652,158	10,183,146

See accompanying notes to the financial statements

WASAGA DISTRIBUTION INC.

INCOME AND RETAINED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31

	2005	2004
	$	$
Revenue		
Sale of power	**8,556,211**	7,001,864
Distribution services	**2,708,424**	2,763,182
	11,264,635	9,765,046
Cost of power	**8,556,211**	7,001,864
Distribution income (24.04%; 2003- 28.30%)	**2,708,424**	2,763,182
Other operating revenue	**368,811**	199,117
	3,077,235	2,962,299
Operating and maintenance expense		
Administration charges (Note 2)	**1,389,325**	1,306,324
Amortization	**582,125**	553,977
Management fee	**49,640**	39,350
Municipal and capital taxes	**45,476**	35,123
Regulatory expenses	**5,848**	39,989
Property insurance	**881**	868
Interest on long-term liabilities (Note 4)	**266,408**	260,347
Miscellaneous	**106,883**	148,396
	2,446,586	2,384,374
Net income before taxes	**630,649**	577,925
Provision for taxes		
Current	**216,652**	255,129
Net income for the year	**413,997**	322,796
Retained income, beginning of year	**1,013,665**	690,869
Retained income, end of year	**1,427,662**	1,013,665

See accompanying notes to the financial statements

CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31

	2005	2004
	$	$
Cash flows from (for):		
Operating activities		
Net income for the year	**413,997**	322,796
Items not requiring funds		
Amortization	**582,125**	553,977
Unbilled revenue adjustment	**(211,569)**	(318,335)
Amortization of contributions in aid of construction	**(46,104)**	(35,851)
	738,449	522,587
Changes in		
Accounts payable and accruals	**71,843**	32,457
Interest on note payable to the Town of Wasaga Beach	**-**	93,066
Due from Wasaga Resource Services Inc.	**(369,716)**	746,758
Taxes payable	**54,263**	(402,072)
	494,839	992,796
Investing and financing activities		
Net contributions in aid of construction	**292,166**	147,314
Net change to other assets/liabilities	**5,122**	(21,713)
Net additions to capital assets	**(792,127)**	(1,118,397)
	(494,839)	(992,796)
Cash position, end of year	**-**	-

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2005

1. Accounting policies

The financial statements of the company are the representations of management. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment based on available information. The financial statements have, in the opinion of management, been properly prepared within the framework of the accounting policies summarized below:

(a) The financial statements are prepared in accordance with the Ontario Energy Board Accounting Procedures Handbook and directives.

(b) The company's distribution of electricity is subject to rate regulation by the OEB. This rate regulation results in the company accounting for specific transactions differently than it would if it was not rate-regulated. The differences in accounting treatment give rise to regulatory assets or liabilities. These balances will be recovered from or returned to customers by increases or decreases to rates in the future.

The electricity rates charged by the company are approved on an annual basis using performance-based regulation. For the rate year ending April 30, 2006, the company was authorized to earn 9.88% on equity and 7.25% on debt with a deemed debt to equity ratio of 1:1.

(c) The company recognizes revenue on an accrual basis. This includes unbilled revenue which is an estimate of electricity consumed by customers to the end of year but not yet billed by the company.

(d) Capital assets are stated at cost. Contributions received in aid of construction of capital assets are capitalized and amortized at the same rate as the related asset. Capital assets are depreciated over their estimated useful lives, using the straight-line method. Assets constructed by others and donated to the company are recorded at cost to the developer. Depreciation rates are as follows:

Buildings	2%
Distribution stations	3.33%
Other capital assets	6.67% to 20%

(e) Qualifying transition factors are costs that meet the four qualifying criteria established in the Electricity Distribution Rate Handbook related to the restructuring of the electricity industry in Ontario. Qualifying transition factors include annual carrying charges at 7.25%

(f) The purchased power cost variance represent variances in the purchase and sale of electricity which will be recovered from or returned to customers by increases or decreases to rates in the future. Purchased power cost variance includes annual carrying charges at 7.25%.

The OEB has authorized the recovery of certain December 31, 2002 regulatory asset or liability balances beginning in April 2004 and has put a process in place to address the future recovery or reduction of the remaining asset or liability balances over the following three years.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2005

1. Accounting policies (continued)

(g) Taxes are calculated using the taxes payable method as directed by the Ontario Energy Board. Under the taxes payable method, no provision is made for future taxes arising from the temporary difference between the tax basis of an asset or liability and its carrying amount on the balance sheet. When unrecorded future taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers of the company at that time. The unrecognized future tax asset is $335,137 (2004 - $322,805) and the unrecognized future tax recovery is $12,332 (2004 - $56,887) arising from differences between the carrying amount and tax value of capital assets.

2. Contributions in aid of construction

Under the terms of the Distribution System Code, the corporation cannot charge a developer more than the difference between the present value of the projected capital costs and on-going maintenance costs for the equipment and the present value of the projected revenue for distribution services provided by those facilities. These amounts are determined by an economic evaluation study of the project. The corporation estimates that it will return $139,513 (2004 - $100,471) of the amounts collected. The liability is included in current liabilities. The balance of $1,106,495 (2004 - $860,433) is recorded as a reduction of the cost of capital assets.

3. Related parties

The common shares of Wasaga Resource Services Inc., Wasaga Genco Inc. and Wasaga Distribution Inc. are owned by Geosands Inc. which is owned by the Town of Wasaga Beach.

A services agreement was struck between Wasaga Resource Services Inc. and the company. Included in this agreement is an adjustment to the initial base consideration of $1,056,324 paid by the company for its services up to 80% of the change in customer count. Also included is a relief clause stating that if Wasaga Resource Services Inc. realizes substantially greater costs in providing any new services to the company, compensation can be renegotiated and it would be considered reasonable to have 90% of the costs incurred by the company. In 2005, the base consideration was adjusted upward by $83,000 to $1,389,324.

4. Note payable to the Town of Wasaga Beach

There are no fixed terms of principal repayment. Interest is determined on the principal amount outstanding on the 30th day following December 31st of each year in which principal is owing. The interest rate payable in any given year is the Government of Canada 10 year bond rate posted by the Bank of Canada on December 31st of each year. Interest may be payable in cash or in additional common shares issued by the company. The interest rate at December 31, 2005 was 3.98% (4.39% in 2004). For 2004 and 2005, the Town of Wasaga Beach increased the interest rate for the note to 7.25%.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2005

5. Financial instruments

The company's financial instruments consist of unbilled revenue, taxes recoverable, accounts payable and accruals, interest payable, due from/to Wasaga Resources Services Inc. and long-term liabilities. It is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments. Fair value does not vary significantly from recorded value.

6. Tax status

The company is exempt from income taxes under section 149 of the Income Tax Act. The company is required to make payments in lieu of tax calculated on the same basis as income taxes on taxable income earned and capital taxes.

7. Tax reconciliation

	2005	2004
	%	%
Tax rate per tax return	**34.4**	32.1
Timing differences	**(3.7)**	8.0
Permanent differences	-	4.0
Tax rate per financial statements	**30.7**	44.1

8. Supplemental cash flow information

Cash payments and receipts were as follows:

	2005	2004
	$	$
Interest	**260,512**	167,446
Tax and instalments paid	**264,850**	666,626
Tax refunds	**83,541**	-

9. Comparative figures

Certain comparative figures in Note 10 have been reclassified to conform with the current year's financial statement presentation.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2005

10. Other assets (liabilities)

Other assets consist of the following:

	2005	2004
	$	$
Regulatory Assets		
Qualifying transition factors	**627,910**	523,477
Other regulatory assets	**79,140**	53,109
Total regulatory assets	**707,050**	576,586
Regulatory Liabilities		
Purchased power cost variance	**(586,997)**	(478,066)
Hydro One regulatory liability	**(124,022)**	(97,367)
Total regulatory liabilities	**(711,019)**	(575,433)
Net (liability) asset	**(3,969)**	1,153

Other regulatory assets consist of the costs of processing $75 rebate cheques and a portion of OEB regulatory costs to be recovered in future rate applications. The OEB regulatory costs include an interest carrying charge at 5.75%.

Hydro One regulatory liability represents 2002-2006 regulatory assets that Hydro One is collecting from embedded distributors over a 5 year period as authorized by the OEB. The current portion of the liability is $72,060 (2004 - $32,455) and is included in accounts payable and accruals. Payments to Hydro One are $3,606 per month for 3 years starting May 2005 and $2,399 a month for 4 years to start in May 2006.

The OEB has allowed the company to recover the third tranche of its market adjusted revenue requirement (MARR) from customers with the requirement that it be spent on conservation and demand management activities. In 2005, the company recovered $198,811 of MARR from customers and expended $122,140 in conservation and demand management activities. The balance of $76,671 will be spent on conservation and demand management activities in future years.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2005

11. Contingent liability

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

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

The Electricity Distributors Association is undertaking the defence of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the company.

Due to the uncertainty of the outcome, no liability has been recorded. The company will treat this transaction as a current year expense when the liability is reasonably assured and the amount can be reasonably estimated.