ERIE THAMES POWERLINES CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2005

Davis Martindale

ERIE THAMES POWERLINES CORPORATION

INDEX TO AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2005

Davis Martindale LLP
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AUDITOR'S REPORT

To the Shareholder of:
Erie Thames Powerlines Corporation

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

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

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

Davis Martindale LLP
Chartered Accountants

London, Ontario
June 15, 2006

Accountants *with personality!*

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ERIE THAMES POWERLINES CORPORATION

BALANCE SHEET

AS AT DECEMBER 31, 2005

ASSETS

	2005	2004
Current Assets		
Bank	$ 457,704	$ 167,610
Accounts receivable (note 3)	6,249,082	5,580,807
Prepaid expenses	78,254	9,857
Current portion of note receivable (note 4)	29,304	26,862
Payment in lieu of income taxes recoverable	5,966	43,137
	6,820,310	5,828,273
Note Receivable (note 4)	58,608	115,354
Property, Plant and Equipment (note 5)	15,438,469	14,877,793
Future Payment in Lieu of Income Tax Asset	93,896	-
Regulatory Assets (note 6)	2,482,517	1,983,501
Intangible Asset (note 7)	76,667	76,667
Deferred Charges (note 8)	60,554	150,487
	$25,031,021	$23,032,075

LIABILITIES AND SHAREHOLDER'S EQUITY

	2005	2004
Current Liabilities		
Accounts payable and accrued liabilities	$ 4,798,978	$ 3,965,332
Customer deposits (note 9)	655,407	841,294
Due to related parties (note 10)	3,013,671	1,299,834
	8,468,056	6,106,460
Long-term Debt (note 11)	8,038,524	8,038,524
Future Payment in Lieu of Income Tax Liability	-	95,104
Shareholder's Equity		
Share capital (note 12)	8,038,524	8,038,524
Retained earnings	485,917	753,463
	8,524,441	8,791,987
	$25,031,021	$23,032,075

APPROVED ON BEHALF OF THE BOARD:

Susan Hampson Director

Director

The attached Auditor's Report forms an integral part of these audited financial statements.

ERIE THAMES POWERLINES CORPORATION

STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 2005

	2005	2004
Balance, Beginning of Year	$ 753,463	$ 845,949
Net Income (Loss)	218,369	(92,486)
	971,832	753,463
Dividends	485,915	-
Balance, End of Year	$ 485,917	$ 753,463

The attached Auditor's Report forms an integral part of these audited financial statements.

ERIE THAMES POWERLINES CORPORATION

STATEMENT OF INCOME (LOSS)

FOR THE YEAR ENDED DECEMBER 31, 2005

	2005	%	2004	%
Electricity Revenue (note 13)	$39,380,916	100.00	$31,529,901	100.00
Cost of Power	33,932,978	86.17	26,490,207	84.02
Distribution Revenue	5,447,938	13.83	5,039,694	15.98
Expenses				
Billing and collecting	617,738	1.57	546,950	1.73
Community relations	24,210	0.06	33,218	0.11
Direct operation	2,982,088	7.57	2,920,601	9.26
Office and administration	310,821	0.79	354,980	1.13
Regulatory and professional	475,164	1.21	330,546	1.05
	4,410,021	11.20	4,186,295	13.28
Net Income from Operations Before Taxes, Interest & Amortization	1,037,917	2.63	853,399	2.70
Amortization	1,037,906	2.64	970,610	3.08
Interest income on regulatory assets	(349,154)	(0.89)	(401,572)	(1.27)
Interest	582,793	1.48	582,793	1.85
Net Income (Loss) from Operations Before Tax	(233,628)	(0.60)	(298,432)	(0.96)
Other Income				
Investment income	23,759	0.06	12,699	0.04
Miscellaneous	307,238	0.78	314,941	1.00
	330,997	0.84	327,640	1.04
Net Income Before Income Tax	97,369	0.24	29,208	0.08
Payment in Lieu of Income Taxes (note 14)				
Current	68,000	0.17	73,394	0.23
Future tax expense (benefit)	(189,000)	(0.48)	48,300	0.15
	(121,000)	(0.31)	121,694	0.38
Net Income (Loss)	$ 218,369	0.55	$ (92,486)	(0.30)

The attached Auditor's Report forms an integral part of these audited financial statements.

ERIE THAMES POWERLINES CORPORATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2005

	2005	2004
Cash Flows from Operating Activities		
Net income (loss)	$ 218,369	$ (92,486)
Items not requiring an outlay of cash:		
Amortization	1,037,906	970,610
Gain on sale of capital assets	-	(14,954)
Future payment in lieu of income tax expense (benefit)	(189,000)	48,300
	1,067,275	911,470
Changes in non-cash working capital balances:		
Accounts receivable	(613,971)	(258,753)
Regulatory assets	(691,564)	(146,416)
Prepaid expenses and deferred charges	(68,397)	(6,680)
Accounts payable and accrued liabilities	833,646	277,584
Note receivable	-	(142,216)
Payment is lieu of income taxes	37,170	(146,328)
Customer deposits	(185,887)	94,133
Due to related parties	1,713,837	471,160
Net Cash Provided by Operating Activities	2,092,109	1,053,954
Cash Flows from Financing Activities		
Dividends	(485,915)	-
Cash Flows from Investing Activities		
Additions to capital assets	(1,316,100)	(1,305,458)
Proceeds on disposal of capital assets	-	18,000
Net Cash Provided by (Used in) Investing Activities	(1,316,100)	(1,287,458)
Net Increase (Decrease) in Cash	290,094	(233,504)
Cash, Beginning of Year	167,610	401,114
Cash, End of Year	$ 457,704	$ 167,610

The attached Auditor's Report forms an integral part of these audited financial statements.

1. Nature of Operations

The Ontario Government enacted the Energy Competition Act, 1998 to introduce competition to the Ontario electricity market by the year 2000. Under the terms of this legislation, the Ontario Energy Board (the "OEB") regulates industry participants by issuing licences for the right to generate, transmit, distribute or retail electricity. These licences require compliance with established market rules and codes. The Ontario Government opened the Ontario electricity market to competition on May 1, 2002.

Pursuant to this legislation, the shareholder municipalities of Erie Thames Power Corporation enacted by-laws, which transferred the assets, liabilities, rights and obligations of the Municipal Hydro Electric Commissions, in respect of the distribution of electricity, to the Company, which was incorporated, on July 7, 2000, under the Business Corporations Act (Ontario) pursuant to Section 142 of the Electricity Act, 1998 (Ontario) and Sections 71 and 73 of the Ontario Energy Board Act, 1998 (Ontario).

The Company is solely owned by Erie Thames Power Corporation who in turn is owned by the following seven municipalities, each of whom has one voting common share: Aylmer, Central Elgin, East Zorra Tavistock, Ingersoll, Norwich, South West Oxford and Zorra.

Erie Thames Powerlines Corporation carries on the business of distributing electricity to the following communities: Aylmer, Beachville, Belmont, Burgessville, Embro, Ingersoll, Norwich, Otterville, Port Stanley, Tavistock, and Thamesford.

In December 2003, the government of Ontario enacted Bill 4, the OEB Amendment Act (Electricity pricing). Bill 4 was enacted in response to the Electricity Pricing, Conservation and Supply Act 2002, which froze commodity rates at 4.3 cents per kilowatt hour (kWh). This act did not, in the government's opinion, reflect the true cost of electricity. Future electricity pricing will be billed using a block structure where the initial 750 kWhs billed per month are at a rate of 4.7 cents per kWhs and the remaining consumption is billed at 5.5 cents per kWh. Should this revenue exceed the true cost of the new block structure, all eligible consumers would receive a credit for the difference.

Effective April 1, 2005, the block structure implemented for certain customers in 2004 was amended to increase the rates for the initial 750 kWhs per month to 5.0 cents per kWh and the rate for the remaining consumption per month to 5.8 cents per kWh. For residential customers, beginning in November 2005, the 750 kWhs per month threshold was increased to 1,000 kWhs per month from November 1 to April 30 and decreases to 600 kWhs per month from May 1 to October 31.

Residential and small businesses, schools, hospitals and others covered by the Regulated Price Plan received a one-time credit known as the "Ontario Price Credit". Under the regulated price plan, consumers were paying 4.7 cents for the first 750 kWhs of electricity and 5.5 cents for consumption over 750 kWhs. The credit results from lower-than-expected wholesale electricity

1. Nature of Operations (cont.)

prices because of the moderate weather during the summer of 2004. The amount of the credit was based on the amount that consumers paid for their electricity at regulated prices during the period April 1, 2004 to March 31, 2005.

Further changes implemented by Bill 4 allowed local distribution companies (LDCs) to apply to the OEB for rate adjustments. Specifically, LDCs began to recover the amounts deferred for regulatory purposes on April 1, 2004, and continued to recover these amounts through its April 1, 2005 rate approval. The 2006 rate process will further review the LDCs' deferral account balances and is anticipated to continue to permit LDCs to recover these amounts through their rate structure. In 2005, the deferral account balances were subject to a prudency review and the Company is still awaiting the results of this review.

Through Bill 4, LDCs obtained approval to apply for a rate order that would allow the recovery of their full Market Based Rate of Return beginning March 1, 2005. This rate change is conditional on the LDC's reinvestment of one year's worth of the incremental rate of return in conservation and demand management initiatives over a three year period.

On December 18, 2003, the Ontario Energy Board renewed the LDC's distribution license for a 20 year period.

2. Significant Accounting Policies

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles, as modified by regulations and policies set forth in the Ontario Energy Board Accounting Procedures Handbook. Those policies that are considered to be particularly significant are outlined below:

(a) Property, Plant, Equipment and Amortization

Property, plant and equipment are recorded at the fair market value of the assets transferred from the Municipal Hydro Electric Commissions to the Company on August 31, 2000, and subsequent to August 31, 2000, at cost on the date of purchase. Property, plant and equipment are amortized over their useful lives using the straight-line method over the following periods:

Automotive equipment	8 years
Buildings	25 years
Computer equipment	5 years
Transmission and distribution system	25 years
Service, office and other equipment	10 years

(b) Revenue - Electricity Sales

The Company follows the practice of cycle billing of customer's accounts and revenue is recognized in the period consumed. Estimated customer usage from the last billing date to the year end (unbilled revenue) is included in revenue.

2. Significant Accounting Policies (cont.)

(c) Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, recoverable transition costs, accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risk arising from these financial instruments except for the recoverable transition costs ("Regulatory assets"). The credit risk of the Regulatory assets is solely dependent upon future applications for rate increases by the Company and approval of such application by the OEB. The fair value of these financial instruments approximate their carry values, unless otherwise noted.

(d) Payments in Lieu of Corporate Income Taxes

The Company uses the liability method for accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for differences between the carrying value of assets and liabilities for accounting purposes and their respective values for income tax purposes. These differences are measured using substantially enacted tax rates applicable for the period in which those differences are expected to be recovered or settled. To the extent that there is uncertainty regarding the recovery of a future income tax asset, a valuation allowance reducing the future income tax asset is recorded.

(e) Use of Estimates

The preparation of the financial statements of the Company in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

3. Accounts Receivable

	2005	2004
Energy, water and sewer	$ 3,718,527	$ 4,135,163
Unbilled energy	2,227,239	1,208,105
Service revenues	303,316	237,539
	$ 6,249,082	$ 5,580,807

The amounts shown above are net of allowance for doubtful accounts.

4. Note Receivable

The note is non-interest bearing and repayable in monthly installments of $2,442 commencing February 2005 for a term of 48 months.

	2005	2004
Note Receivable	$ 87,912	$ 142,216
Less: current portion of note receivable	(29,304)	(26,862)
	$ 58,608	$ 115,354

5. Property, Plant and Equipment

	Cost 2005	Accumulated Amortization	Net 2005	Net 2004
Land	$ 146,684	$ -	$ 146,684	$ 145,625
Building	114,317	23,136	91,181	93,184
Plant and equipment	482,914	137,557	345,357	318,586
Transmission and distribution system	17,879,543	3,024,296	14,855,247	14,320,398
	$18,623,458	$ 3,184,989	$15,438,469	$14,877,793

During the year, the Company recorded amortization of $755,425 ($684,788 - 2004).

6. Regulatory Assets

	2005	2004
Transition costs	$ 296,854	$ 432,646
Retail settlement variances	953,290	435,708
Pre-market opening cost of power variances	1,178,524	1,115,147
Demand side management expenses	53,849	-
	$ 2,482,517	$ 1,983,501

(a) Transition costs represent specific and incremental costs incurred by the Company to ready its systems and processes for the opening of the competitive electricity market in Ontario on May 1, 2002. These costs have been deferred pursuant to regulation underlying the Electricity Act and are subject to review and approval by the OEB. Expenditures determined to be ineligible for recovery will be expensed in the period of such determination. During 2005, the Company submitted its transition costs to the OEB and is awaiting a response.

6. Regulatory Assets (cont.)

(b) Retail settlement variances represent amounts accumulated since the opening of the electricity market on May 1, 2002. These variances are comprised of:

(i) variances between amounts charged by the Independent Electricity Market Operator for the operation of the wholesale electricity market and grid, various wholesale market settlement charges and transmission charges and the amounts billed to customers; and

(ii) variances between the amounts charged by the Independent Electricity Market Operator to allow for purchases of imported electricity and the amounts billed to customers.

(c) Pre-market opening cost of power variances, represent the excess cost of electricity to the Company over the amount billed to customers from January 1, 2001 until April 30, 2002. The introduction of Bill 4 provided greater certainty as to the process, qualification and collectability of the pre-market opening cost of power variances. As such, management has revised its estimate of the pre-market opening cost of power variances that will be collected.

(d) Demand side management expenses represent costs to the Company of literature provided to its customers and capital expenditures to provide energy conservation. The Company is required by the OEB to spend a year's allocation of the final one-third Market Base Rate of Return on Demand Side Management by December 31, 2007.

(e) Amortization Policy

These amounts will be amortized at an amount equal to the revenue collected from the approved rates over a period of four years, commencing on April 1, 2004, as set out in Bill 4.

During the year, the Company recorded amortization of $156,063 ($125,142 - 2004).

7. Intangible Asset

	Cost 2005	Accumulated Amortization	Net 2005	Net 2004
Goodwill	$ 100,000	$ 23,333	$ 76,667	$ 76,667

On January 1, 2003, the Company adopted the standard in Section 3062 "Goodwill and Other Intangible Assets" of the CICA Handbook to be applied prospectively. Under the new standard, goodwill is no longer amortized but tested for impairment on an annual basis and the excess of the carrying value amount over the fair value of goodwill is charged to earnings. At year end, the Company tested goodwill in each of its reporting units using a discounted cash flow and cost methodology and determined that there was no impairment of goodwill.

8. Deferred Charges

	Cost 2005	Accumulated Amortization	Net 2005	Net 2004
Organizational	$ 549,298	$ 512,813	$ 36,485	$ 68,338
Amalgamation and integration	290,130	266,061	24,069	82,149
	$ 839,428	$ 778,874	$ 60,554	$ 150,487

Deferred charges represents costs incurred to facilitate the organization and incorporation of the Company and preparation for the opening of the electricity commodity market and in support of the deregulation of the electricity industry in Ontario. These amounts have been accumulated pursuant to regulations in the Electricity Act.

(a) Organizational Charges

Expenditures were incurred by the former Municipal Hydro Electric Commissions during the organization of the new business prior to the commencement of commercial operations. Commencing September 1, 2000, amortization is calculated on a straight-line basis over a period of five years.

(b) Amalgamation and Integration

Costs incurred by the Company relating to the amalgamation and integration of the systems of the former Municipal Hydro Electric Commissions will be amortized over a period of five years commencing June 1, 2001.

During the year, the Company recorded amortization of $126,418 ($285,822 - 2004).

9. Customer Deposits

Customer deposits are obtained as security for energy consumption. On an annual basis, interest is calculated and credited to the customers' utility accounts.

10. Related Parties

Erie Thames Power Corporation provides management services and facilities rental based on a contract between the two companies.

The Company has contracted its sister company, Erie Thames Services Corporation, a company under common control, to provide the following services: maintenance and upgrades to the existing capital infrastructure of the Company, billing and collection services of the Company's revenues and administrative services.

10. Related Parties (cont.)

The contracts between the Company and Erie Thames Service Corporation and Erie Thames Power Corporation are measured at the exchange amount, which is the amount of consideration paid or received as established and agreed to by the related parties, unless noted otherwise.

The revenue reflected in the financial statements includes the distribution revenue from the sale of electricity to Erie Thames Power Corporation and the municipal facilities located in the communities of Aylmer, Beachville, Belmont, Burgessville, Embro, Ingersoll, Norwich, Otterville, Port Stanley, Tavistock, and Thamesford in the amount of $922,029 ($927,276 in 2004). These transactions are in the normal course of operations at rates approved by the Ontario Energy Board.

During the year, the Company purchased services from related parties amounting to the following:

	2005	2004
Erie Thames Services Corporation		
Purchase of capitalized items	$1,189,206	$1,297,667
Purchase of operations, maintenance and administrative services	3,150,939	3,072,188
	$4,340,145	$4,369,855
Erie Thames Power Corporation		
Purchase of management services	$ 495,000	$ 482,000
Rent	220,011	217,433
	$ 715,011	$ 699,433

Shareholders of Erie Thames Power Corporation
Interest on long-term debt as set out in note 11.

The contracts with Erie Thames Power Corporation for management services and facilities rental and with Erie Thames Services Corporation for maintenance and upgrades to the existing capital infrastructure of the Company, billing and collection services of the Company's revenues and administrative services are automatically renewed every two years unless either party terminates the agreement with notice.

	2005	2004
Due to Erie Thames Services Corporation	$ 542,341	$ 345,217
Due to Erie Thames Power Corporation	2,324,434	809,318
Due to Shareholders of Parent Corporation (interest)	146,896	145,299
	$ 3,013,671	$ 1,299,834

These amounts represent funds owing to related parties. The amounts are non-interest bearing and payable in the normal course of business.

11. Long-term Debt

Related Party Note Payable

The long-term debt represents amounts owing to the municipal shareholders of Erie Thames Power Corporation for purchase of the respective Municipality's Hydro Electric Commission's net assets. The debt is convertible to Class B shares at the fair market value of the Class B shares of the Company divided by the number of Class B shares issued and outstanding. The rate of interest is 7.25% and is set by the Board of Directors, from time to time. The term of the debt is undefined and no principal amounts are anticipated to be paid over the next twelve months. The loan is secured by a General Security Agreement covering inventory, equipment including motor vehicles and accounts receivable.

The amounts owing to the municipalities are as follows:

	2005	2004
Aylmer	$ 1,694,863	$ 1,694,863
Central Elgin	806,436	806,436
East Zorra Tavistock	569,073	569,073
Ingersoll	3,402,080	3,402,080
Norwich	763,755	763,755
Southwest Oxford	192,062	192,062
Zorra	610,255	610,255
	$ 8,038,524	$ 8,038,524

During 2005, $582,793 was charged to interest expense for interest on related party long-term debt ($582,793 in 2004).

The Company has guaranteed the loans payable of its parent company Erie Thames Power Corporation. The loan is secured by a General Security Agreement covering all Company assets excluding real property. At December 31, 2005, the loans amounted to $3,215,785 ($1,218,785 in 2004).

12. Capital Stock

Authorized
- Unlimited number of Class "A" voting shares without nominal or par value
- Unlimited number of Class "B" non-voting shares without nominal or par value, redeemable, with non-cumulative dividend entitlements.

	2005	2004
Issued capital		
7 Class "A" shares	$ 7	$ 7
10,000 Class "B"shares	8,038,517	8,038,517
	$ 8,038,524	$ 8,038,524

The attached Auditor's Report forms an integral part of these audited financial statements.

13. Electricity Revenue

	2005	%	2004	%
Sale of electricity	$27,802,882	70.60	$20,972,981	66.52
Distribution charges	5,447,938	13.83	5,039,694	15.98
Transmission charges	4,098,969	10.41	4,143,382	13.14
Retailer energy sales	2,031,127	5.16	1,362,720	4.32
Customer rebate	-	-	11,124	0.04
	$39,380,916	100.00	$31,529,901	100.00

14. Payments in Lieu of Income Taxes

The provision for payments in lieu ("PILs") of income taxes differs from amounts which would be calculated by applying the Company's combined statutory income tax rate as follows:

	2005	2004
Income from continuing operations before PILs	$ 97,369	$ 29,208
Statutory Canadian federal and provincial income tax rate	36.12 %	36.12 %
Basic rate applied to income before PILs	35,170	10,550
Other	32,830	62,844
Provision for payment in lieu of income tax	$ 68,000	$ 73,394
Effective tax rate	69.84 %	251.28 %

Provision for payments (recovery) in lieu of income taxes are made up of the following:

	2005	2004
Current	$ 68,000	$ 73,394
Future tax expense (benefit)	(189,000)	48,300
	$ (121,000)	$ 121,694

The Company as of December 31, 2005, has recorded future income tax assets (liabilities) of $93,896 (2004 - $(95,104)), based on substantially enacted income tax rates of 36.12%. Such future income tax liabilities relate to the tax basis of depreciable assets being lower than the amounts recorded for accounting purposes.

15. Prudential Support Requirements

Erie Thames Powerlines Corporation, as a local distribution company under the Energy Competition Act, 1998, R.S.O., posted prudential support obligations on market opening, May 1, 2002 with the Electric Independent Market Operator. The prudential support obligation as at April 21, 2003 was $2,371,089 and had not changed as at December 31, 2005. The prudential support requirement will be honoured through long-term payment history, letter of credit or credit rating from an accredited rating agency.

16. Contingent Liabilities

A class action claiming $500 million 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 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 Municipal Electric Association is undertaking the defence of this class action.

This case had been on hold pending the resolution of a similar case against Consumers Gas Company Limited. The class action against Consumers Gas Company Limited for repayment of late payment charges was dismissed on December 3, 2001 by the Ontario Court of Appeals.

At this time, it is not possible to quantify the effect, if any, on the financial statement of the Company.

17. Comparative Figures

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

18. Subsequent Event

Subsequent to the year end, management was informed that a former transformer substation property is contaminated with arsenic. As at the audit report date, the Company does not have sufficient information to quantify the remediation cost. Based on the Company's experience in such matters, it does not believe that the remediation cost will have a material affect on the financial position of the Company.