

Consolidated Financial Statements of

OAKVILLE HYDRO CORPORATION

December 31, 2005



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Auditors' Report

To the Shareholder of
Oakville Hydro Corporation

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

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

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

The prior year's figures, presented for comparative purposes, have been audited by another firm of chartered accountants

KPMG LLP

Chartered Accountants

Hamilton, Ontario
May 15, 2006

OAKVILLE HYDRO CORPORATION

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OAKVILLE HYDRO CORPORATION

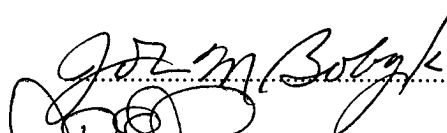
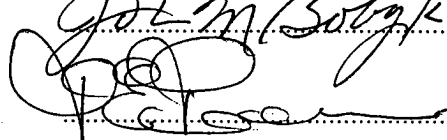
Consolidated Balance Sheet

December 31, 2005

(in thousands of dollars)

	2005	2004
ASSETS		(Note 3)
CURRENT		
Cash and cash equivalents	\$ 49,998	\$ 46,524
Accounts receivable (Notes 4)	26,241	25,595
Inventories	3,905	3,897
Prepaid expenses	701	60
	80,845	76,076
OTHER		
Deferred qualifying transition costs and regulatory assets (Note 5)	685	656
Future income taxes (Note 6)	18,784	18,268
	19,469	18,924
CAPITAL ASSETS (Note 7)	99,992	95,696
	\$ 200,306	\$ 190,696
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT		
Accounts payable and accrued charges (Notes 8)	\$ 28,368	\$ 21,619
Consumer deposits	3,801	3,300
Income taxes payable (Note 6)	335	1,878
Current portion - capital lease obligations (Notes 11)	557	529
	33,061	27,326
OTHER		
Consumer deposits	2,718	5,626
Post employment benefits (Note 9)	6,621	6,368
Capital lease obligations (Notes 11)	11,061	11,618
Long-term debt (Notes 12)	77,029	77,029
	97,429	100,641
	130,490	127,967
SHAREHOLDER'S EQUITY		
SHARE CAPITAL		
Authorized and issued - 2,000 common shares	63,024	63,024
RETAINED EARNINGS (DEFICIT)	6,792	(295)
	69,816	62,729
	\$ 200,306	\$ 190,696

APPROVED BY THE BOARD

 Director
 Director

Contingencies - see Note 13

OAKVILLE HYDRO CORPORATION

Consolidated Statement of Operations and Retained Earnings

Year ended December 31, 2005
(in thousands of dollars)

	2005	2004 (Note 3)
REVENUE (Note 15)		
Energy and distribution	\$ 155,088	\$ 138,480
Other	10,087	8,721
	165,175	147,201
EXPENSES (Note 15)		
Cost of power	124,263	113,066
Personnel costs	11,297	10,205
Material costs	994	691
Other costs	7,306	6,489
Costs allocated to capital assets	(4,243)	(3,199)
	139,617	127,252
EARNINGS BEFORE AMORTIZATION, INTEREST AND INCOME TAXES	25,558	19,949
AMORTIZATION	8,296	8,206
INTEREST (Note 15)	6,265	6,129
Income taxes payable (Note 6)	14,561	14,335
INCOME BEFORE INCOME TAXES	10,997	5,614
INCOME TAX PROVISION (Note 6)	3,910	2,341
NET INCOME	7,087	3,273
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	(295)	9,575
RESTATEMENT (Note 3)	-	(13,143)
REVISED RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	(295)	(3,568)
RETAINED EARNINGS, END OF YEAR	\$ 6,792	\$ (295)

OAKVILLE HYDRO CORPORATION

Consolidated Statement of Cash Flows

Year ended December 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		(Note 3)
OPERATING		
Net income	\$ 7,087	\$ 3,273
Items not affecting cash		
Gain on sale of property	(680)	-
Amortization	8,296	8,206
Future taxes recoverable	(516)	(1,708)
Post-employment benefits	253	308
	14,440	10,079
Changes in non-cash working capital items		
Accounts receivable	(646)	(2,109)
Accounts payable and accrued charges	6,749	442
Income taxes payable	(1,543)	(453)
Other	(649)	(614)
	18,351	7,345
FINANCING		
Consumer deposits	(2,407)	2,829
Contribution in aid of construction	2,636	1,214
Capital lease obligations	(529)	(501)
	(300)	3,542
INVESTING		
Proceeds on disposal of capital assets, net of costs	706	-
Deferred qualifying transition costs and regulatory assets - net (Note 5)	(29)	3,733
Additions to capital assets	(15,254)	(9,078)
	(14,577)	(5,345)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,474	5,542
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	46,524	40,982
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 49,998	\$ 46,524
SUPPLEMENTAL INFORMATION		
Interest paid	\$ 6,252	\$ 6,093
Income taxes paid	\$ 6,145	\$ 4,924

OAKVILLE HYDRO CORPORATION

Notes to the Consolidated Financial Statements

December 31, 2005
(in thousands of dollars)

1. NATURE OF OPERATIONS

Oakville Hydro Corporation, “the Corporation”, and its wholly owned subsidiaries were incorporated January 28, 2000, under the laws of the Province of Ontario.

The principal activity of the Corporation and its subsidiaries is to distribute electricity to the residents and businesses in the Town of Oakville, under the license issued by the Ontario Energy Board (“OEB”). The Corporation’s subsidiary, Oakville Hydro Electricity Distribution Inc., is regulated by the OEB and any power rate adjustments require OEB approval. All other subsidiaries must adhere to the Affiliate Relationship Code issued by the OEB. Further, Oakville Hydro Communications Inc. is regulated by the Canadian Radio and Television Commission (“CRTC”).

Other activities of the Corporation, and its subsidiaries, are to provide data communications services, energy services, water heater rental, billing services and street lighting services. In 2001, the Corporation’s subsidiary, Oakville Hydro Energy Services Inc., obtained a license from the OEB to operate as a retailer of energy through the sale of fixed price contracts that became effective once the electricity market opened on May 1, 2002. All these fixed price contracts expired in 2005 and Oakville Hydro Energy Services is no longer in the business of retailing energy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and policies as set forth in the Accounting Procedures Manual issued by the Ontario Energy Board under the authority of the Ontario Energy Board Act, 1998:

(a) *Principles of consolidation*

The consolidated financial statements include the accounts of Oakville Hydro Corporation and its wholly owned subsidiaries: Oakville Hydro Electricity Distribution Inc., Oakville Hydro Energy Services Inc. and Oakville Hydro Communications Inc.

(b) *Cash and cash equivalents*

Cash equivalents include short-term investments that are readily convertible to cash without significant loss in value. These short-term investments are comprised of bankers’ acceptances and bankers demand notes issued by Canadian banks.

(c) *Inventories*

Inventories are stated at the lower of cost and net realizable value.

(d) *Rate regulation*

Oakville Hydro Electricity Distribution Inc. (“OHEDI”) is regulated by the Ontario Energy Board (“OEB”), under the authority granted by the Ontario Energy Board Act (1998). The OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity

OAKVILLE HYDRO CORPORATION
Notes to the Consolidated Financial Statements
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

In January 2000, the OEB established that distribution rates would be subject to Performance Based Regulation (“PBR”), a method of regulation whereby distribution rates are reduced annually to reflect productivity improvements required of OHEDI. Under this rate methodology, rates also include regulated amounts for return on company equity and debt, which were initially determined by the OEB to be 9.88% and 7.00%, respectively. While the initial PBR regulatory framework provided for those regulatory rates of return, subsequent regulation and Provincial Government initiatives prevented distribution companies from fully achieving the theoretical rate of return on equity.

Distribution charges were also to be increased to permit the recovery of costs incurred by OHEDI to prepare for the opening of the competitive electricity market in Ontario (“Market Opening”). These costs have been capitalized as regulatory assets. In 2004, OHEDI 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 11, 2004.

In 2005, OHEDI 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 OHEDI to invest \$ 2,898 in conservation and demand management activities over the period April 1, 2005 to March 31, 2008. The rate applications and applications for the approval of its conservation and demand management programs have since been approved by the OEB.

Regulatory assets/liabilities - Net regulatory assets (liabilities) represent costs incurred by OHEDI in excess of amounts billed to the consumer at OEB approved rates less recoveries. These amounts have been accumulated pursuant to the Electricity Act and deferred in anticipation of their future recovery in electricity distribution rates. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

Regulatory assets (liabilities) earn (incur) interest at the rate of 7.0% simple interest per annum.

OAKVILLE HYDRO CORPORATION
Notes to the Consolidated Financial Statements
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred qualifying transition costs - represent specific and incremental costs to OHEDI 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 Electricity Act and are subject to review and approval for recovery by the OEB. OHEDI filed for recovery of these costs in March, 2005 and these costs will be recovered over a three year period.

Other regulatory assets - represents amounts that have accumulated prior to and since Market Opening and comprise:

- a) 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 OHEDI based on the OEB approved wholesale market service rate; and,
- b) variances between the amounts charged by the IESO for energy commodity costs and the amounts billed to customers by OHEDI based on OEB approved rates.

OHEDI filed for recovery of these costs in March, 2004 over a four year period. The application was approved by the OEB effective March 11, 2004.

Also included in this variance are pre-market variances that represent the excess of the cost of the commodity electricity to OHEDI over the amount billed to its customers prior to Market Opening. OHEDI filed for recovery of these costs in March, 2005 and these costs will be recovered over a three year period.

Estimated over-recovery of payments in lieu of taxes ("PILs") – 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.

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders, may affect the distribution rates that OHEDI may charge and the costs that OHEDI may recover, including the balance of its regulatory assets.

In the absence of rate regulation, generally accepted accounting principles would require OHEDI to record the costs and recoveries described above in the operating results of the year in which they are incurred and income before income taxes would be \$ 29 (2004 - \$ 3,733) lower than reported.

OAKVILLE HYDRO CORPORATION
Notes to the Consolidated Financial Statements
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Capital assets

Capital assets are recorded at cost, and are amortized over their estimated service lives using the straight-line method of amortization. Construction in progress assets are not amortized until the project is complete and in service. The Corporation has not capitalized interest to the cost of assets constructed.

The estimated service lives of the various assets used in calculating amortization are as follows:

Buildings	50 - 60 years
Building under capital lease	20 years
Plant and equipment	3 - 10 years
Vehicles under capital lease	1 - 8 years
Transmission and distribution system	15 - 35 years
Office equipment	5 - 10 years

Contributions in aid of construction consist of third party contributions toward the cost of constructing distribution assets and may be refunded by the Corporation based on future economic evaluations, in accordance with the OEB Distribution System Code. They are accounted for as reductions to the cost of related capital assets and are amortized at rates corresponding with the useful lives of the related capital assets.

(f) Derivative financial instruments

Derivative financial instruments are utilized by the Corporation in the management of the retail electricity price exposure between purchasing power in a floating price market and the selling of fixed price contracts to consumers. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking these transactions. This process involves linking all derivatives purchased to the volume of fixed contracts sold, when it is deemed appropriate.

Realized gains or losses are recognized in the operating results of the Corporation

(g) Post-employment benefits other than pension

The Corporation provides its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans. The cost of these benefits is expensed as earned through employment service. Any actuarial gains or losses are amortized over the expected average remaining service lifetime of the active members of the group.

OAKVILLE HYDRO CORPORATION
Notes to the Consolidated Financial Statements
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Revenue recognition and cost of power

Energy revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power consumed.

(i) Payments in lieu of income taxes (PILs)

Under the Electricity Act, 1998, the Corporation makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes.

The Corporation accounts for payments in lieu of corporate taxes using the liability method. Under the liability method, future income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized.

Payments in lieu of taxes are henceforth referred to as income taxes.

(j) Impairment of long-lived assets

Effective January 1, 2004, the Corporation adopted the new Canadian accounting standard for impairment of long-lived assets, which requires that an impairment loss be recognized when events or circumstances indicate that the carrying amount of the long-lived asset is not recoverable and exceeds its fair value. Any resulting impairment loss is recorded in the period in which the impairment occurs.

The Corporation has determined that there was no impairment of long-lived assets as at December 31, 2005.

OAKVILLE HYDRO CORPORATION
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(in thousands of dollars)

3. RESTATEMENT OF PRIOR YEAR'S FIGURES:

The financial statements have been restated to record capital assets that were transferred to the Corporation of the Town of Oakville on February 1, 2000 back to the original carrying value of the predecessor Commission. The effect of the restatement is as follows:

	<u>2004</u>
Increase (decrease):	
Capital assets	\$ (16,813)
Future income tax asset	4,888
Amortization	(1,907)
Provision for recovery of income taxes	689
Retained earnings, beginning of year	<u>(13,143)</u>

4. ACCOUNTS RECEIVABLE

	<u>2005</u>	<u>2004</u>
Energy, distribution, water and waste water	\$ 23,987	\$ 21,856
Recoverable capital expenditures	934	1,662
Recoverable other expenditures	499	934
Fibre optic	952	1,104
Energy services	440	414
Other	333	373
	<u>27,145</u>	<u>26,343</u>
Less allowance for doubtful accounts	(904)	(748)
Balance, end of year	<u>\$ 26,241</u>	<u>\$ 25,595</u>

5. DEFERRED QUALIFYING TRANSITION COSTS AND REGULATORY ASSETS

	<u>2005</u>	<u>2004</u>
Deferred qualifying transition costs	\$ 1,702	\$ 2,000
Other regulatory assets	5,892	4,874
Recovery of regulatory assets	(3,261)	(1,410)
Estimated over-recovery of payment in lieu of taxes	(2,921)	(3,561)
	<u>1,412</u>	<u>1,903</u>
Provision for regulatory assets	(727)	(1,247)
Balance, end of year	<u>\$ 685</u>	<u>\$ 656</u>

OAKVILLE HYDRO CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2005
(in thousands of dollars)

6. INCOME TAXES

	<u>2005</u>	<u>2004</u>
Accounting income before tax	\$ 10,997	\$ 5,614
Increase (decrease) in taxable income resulting from:		
Intercompany profits	(124)	437
Non-deductible and non-taxable items	(387)	17
Timing differences	1,636	5,768
Application of loss carryforwards	-	(108)
Taxable income	\$ 12,122	\$ 11,728
Tax rate	36.14%	36.14%

The provision for income taxes consists of:

Current	\$ 4,381	\$ 4,239
Large corporations tax	55	177
Adjustments to prior years income tax amounts	(13)	-
Future income tax expense relating to		
current year change in temporary differences	(547)	(2,052)
Adjustment for prior years and other miscellaneous adjustments	32	(23)
Adjustment to prior year future income tax balances		
for changing recovery rates	2	-
Income tax provision	\$ 3,910	\$ 2,341

Significant components of the Corporation's future tax balance as at December 31 are as follows:

	<u>2005</u>	<u>2004</u>
Tax benefit of loss carryforwards	\$ 201	\$ 205
Tax benefit of donation credit carryforwards	\$ 90	
Post-retirement benefits other than pensions	2,394	2,295
Plant and equipment	16,168	15,730
Deferred qualifying transition costs	(69)	38
Future income taxes	\$ 18,784	\$ 18,268

The Corporation has income tax losses carried forward of \$558 which expire in 2009.

The Corporation has donation deductions carried forward of \$249, which expire in 2010.

Future income taxes are calculated using a 36.12% rate (2004 - 36.12%).

OAKVILLE HYDRO CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2005
(in thousands of dollars)

7. CAPITAL ASSETS

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 267	\$ -	\$ 267	\$ 282
Land and buildings under capital lease	11,689	(3,473)	8,216	8,803
Buildings	730	(134)	596	608
Plant and equipment	3,003	(1,720)	1,283	882
Vehicles under capital lease	1,433	(1,093)	340	505
Transmission and distribution system	132,432	(37,320)	95,112	92,010
Office equipment	5,925	(4,566)	1,359	1,176
Computer software	1,019	(1,010)	9	8
Construction in progress	5,416	-	5,416	1,976
	161,914	(49,316)	112,598	106,250
Contributions in aid of construction	(14,593)	1,987	(12,606)	(10,554)
Balance, end of year	\$ 147,321	\$ (47,329)	\$ 99,992	\$ 95,696

8. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Power purchased	\$ 12,188	\$ 12,676
Water and waste water	2,722	2,602
Accrued rebates and credits to customers	7,665	1,239
Accrued payment to developers	1,003	1,461
Other	4,790	3,641
Balance, end of year	\$ 28,368	\$ 21,619

The accrued payment to developers arises in response to the OEB approving guidelines as to what proportion of the development costs are to be provided by the developer and the Corporation. The Corporation runs a financial model for each development based on the OEB guidelines to determine the Corporation's share of the capital costs, which is paid to the developer upon activation of the revenue stream from the development.

OAKVILLE HYDRO CORPORATION
Notes to the Consolidated Financial Statements
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(in thousands of dollars)

9. POST EMPLOYMENT BENEFITS

The Corporation provides certain health, dental and life insurance benefits on behalf of its retired employees. The Corporation recognizes these post-retirement costs in the period in which the employees earn the benefits, through their services. The accrued benefits liability and the expense for the year ended December 31, 2005, were based on results and assumptions determined by actuarial valuation as at January 1, 2004.

Information about the employees' future benefits is as follows:

	<u>2005</u>	<u>2004</u>
Accrued benefits liability, beginning of year	\$ 6,368	\$ 6,060
Estimated expense for the year	512	517
Benefits paid during the year	<u>(259)</u>	<u>(209)</u>
Accrued benefits liability, end of year	<u>\$ 6,621</u>	<u>\$ 6,368</u>

The main actuarial assumptions employed for the valuation as at January 1, 2004 were as follows:

(a) *General inflation*

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed to be 2.2% in 2004 and thereafter.

(b) *Discount rate*

The obligation as at December 31, 2003, the present value of future liabilities and the expense for the year ended December 31, 2004, were determined using a discount rate of 6.0%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 3.8 %.

(c) *Assumptions*

The assumptions used in establishing the accrued benefits liability reflected anticipated inflation levels, salary levels, health and dental costs.

10. PENSIONS

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, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. In 2004, the Corporation made employer contributions of \$ 468 (2004-\$438) to OMERS.

OAKVILLE HYDRO CORPORATION
Notes to the Consolidated Financial Statements
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(in thousands of dollars)

11. CAPITAL LEASE OBLIGATIONS

The Corporation has a capital lease arrangement with the Town of Oakville for the property known municipally as 861 Redwood Square, and the vehicle fleet.

The assets under capital lease are included in Capital Assets (see Note 7). The building under capital lease is amortized on a straight-line basis over the term of the lease agreement of 20 years.

The lease provides for increasing lease payments in 2002 and onwards based on the percentage increase in the Consumer Price Index for Toronto. On this basis, future minimum payments under the capital lease arrangement are as follows for the year-ends:

2006	\$ 1,353
2007	1,325
2008	1,319
2009	1,240
2010	1,152
2011-2019	12,057
<u>Sub-total</u>	<u>18,446</u>
Less amount representing interest, imputed at 7%	6,828
<u>Less current portion</u>	<u>557</u>
<u>Long-term portion of lease obligation</u>	<u>\$ 11,061</u>

12. LONG-TERM DEBT

The Corporation issued promissory notes effective February 1, 2000, held by the Town of Oakville, with principal repayment due on February 1, 2020. Future rates to be determined annually throughout the balance of the term of the notes. At December 31, 2005, the interest rate in effect was 7%.

13. LEGAL PROCEEDINGS

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 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 are not permitted under Section 347(1)(b) of the Criminal Code.

This action has not yet been certified as either a plaintiff or defendant class action.

OAKVILLE HYDRO CORPORATION
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14. RISK MANAGEMENT

(a) Fair value of financial instruments

The fair value of financial instruments that are included in the consolidated financial statements approximates their carrying amounts due to the short-term maturity of those instruments. The fair value of the long-term debt has not been calculated on the basis that the future terms of the promissory notes (Note 12) are indefinite.

(b) Credit risk

Credit risk results from the potential that a counterparty will fail to perform its obligations. In order to mitigate this risk the Corporation requires customer deposits, performs credit checks as well as other mitigating activities.

(c) Interest rate risk

The Corporation has limited near-term interest rate risk, as its principal debt obligations bear variable rates of interest.

(d) Retail commitments and financial instruments

A subsidiary of Oakville Hydro Corporation, Oakville Hydro Energy Services Inc., is managing a portfolio of electricity fixed sales contracts. The Corporation is subject to changes in electricity prices associated to the open market for electricity in Ontario. The Corporation has entered into various contracts to hedge its market risk exposure related to electricity sold to customers at a fixed rate and purchased from the local distributing companies at variable rates. Specifically, the Corporation has multi-interval swap agreements with a generator to hedge the price risk inherent in retailing power. These fixed sales contracts expired during 2005.

OAKVILLE HYDRO CORPORATION
Notes to the Consolidated Financial Statements
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15. RELATED PARTY TRANSACTIONS

The following summarizes the Corporation's related party transactions and balances with the Town of Oakville for the years ended December 31:

	<u>2005</u>	<u>2004</u>
<u>Transactions</u>		
Revenue		
Energy sales (at commercial rates)	\$ 2,715	\$ 2,933
Gain on disposal of property	680	
Fibre optic rental	60	56
Retal energy sales	899	934
Streetlight maintenance	397	436
Expenses		
Interest on capital leases	\$ 833	\$ 870
Cashier services	4	4
Tree trimming services	189	193
Garage services	466	511
Property taxes	311	310
Donation of property	715	-
Interest on long-term debt	5,392	5,222
<u>Balances</u>		
Amounts due to		
Accounts payable	\$ 128	\$ 150
Capital leases	11,618	12,147
Long-term debt	77,029	77,029
Amounts due from		
Accounts receivable	\$ 692	\$ 278

16. SHORT-TERM CREDIT FACILITIES

The Corporation has an uncommitted line of credit facility available of \$20 million with a chartered bank. As at December 31, 2005 no amount was drawn on this facility. In addition, the Corporation has a letter of credit facility available of \$20 million with a chartered bank, of which \$11.3 million has been assigned to secure a prudential support according to the Independent Electricity System Operator ("IESO") Settlements Manual.

OAKVILLE HYDRO CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2005
(in thousands of dollars)

17. Subsequent Event

Subsequent to the year end, Oakville Hydro Communications Inc. entered into an agreement to purchase the assets of Enersource Telecom Inc. Enersource Telecom is a communications company with fibre infrastructure located in The City of Mississauga. The purchase is anticipated to close in May 2006. The final purchase price is unavailable as it is subject to post closing adjustments.