

Financial Statements of

POWERSTREAM INC.

December 31, 2006

Auditors' Report

To the Shareholders of
PowerStream Inc.

We have audited the balance sheet of PowerStream Inc. as at December 31, 2006 and the statements of earnings and retained earnings and of 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 financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
April 13, 2007

POWERSTREAM INC.

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POWERSTREAM INC.

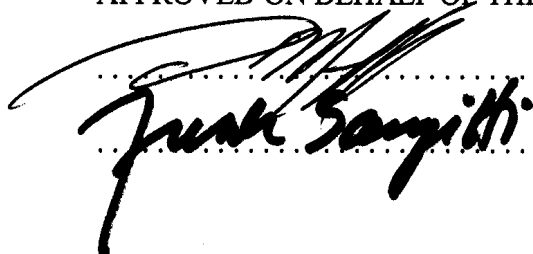
Balance Sheet

December 31, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 3,428	\$ 33,477
Restricted cash - current portion of customer deposits (Note 10)	1,022	1,605
Short-term investments	-	6,608
Accounts receivable	61,801	33,720
Unbilled revenue	52,679	66,115
Inventory	5,407	5,774
Prepays and other	566	487
	124,903	147,786
PROPERTY, PLANT AND EQUIPMENT (Note 4)	404,771	376,773
OTHER ASSETS		
Restricted cash - non-current portion of customer deposits (Note 10)	12,657	13,378
Deferred debt issue costs, net of amortization of \$2,511 (2005 - \$1,957)	3,116	3,670
Intangibles, net of amortization of \$1,206 (2005 - \$865)	224	561
Goodwill	32,988	32,988
	\$ 578,659	\$ 575,156
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 7)	\$ 89,515	\$ 95,223
Income taxes payable	955	1,116
Due to related parties (Note 8)	10,751	16,612
Liability for subdivision development	1,420	1,923
	102,641	114,874
LONG-TERM LIABILITIES		
Notes payable (Note 14)	148,157	146,102
Debentures payable (Note 9)	100,000	100,000
Regulatory liabilities (Note 5)	14,554	15,315
Customers' deposits (Note 10)	12,657	13,378
Employee future benefits (Note 11)	6,322	5,294
Other liabilities	2,139	931
	283,829	281,020
COMMITMENTS (Note 15)		
CONTINGENCIES (Note 16)		
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 13)	149,433	149,433
CONTRIBUTED SURPLUS (Note 13)	14,324	14,324
RETAINED EARNINGS	28,432	15,505
	192,189	179,262
	\$ 578,659	\$ 575,156

APPROVED ON BEHALF OF THE BOARD

..... Director
..... Director

POWERSTREAM INC.

Statement of Earnings and Retained Earnings

Year ended December 31, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
REVENUE		
Energy and distribution	\$ 581,162	\$ 592,242
Other	10,734	9,300
	<u>591,896</u>	<u>601,542</u>
EXPENSES		
Cost of power purchased	475,661	491,331
High voltage transformation	886	1,071
Distribution	10,475	11,776
Utilization	4,718	3,060
Billing and collection	6,440	6,302
Administration and general	15,891	16,016
Taxes, other than amounts in lieu of corporate income taxes	2,093	2,088
	<u>516,164</u>	<u>531,644</u>
EARNINGS BEFORE AMORTIZATION, INTEREST AND INCOME TAXES	75,732	69,898
AMORTIZATION OF CAPITAL ASSETS AND INTANGIBLES (net of \$968; 2005 - \$906 charged to other accounts)	28,500	26,097
INTEREST EXPENSE	16,285	19,305
EARNINGS BEFORE INCOME TAXES	30,947	24,496
INCOME TAX EXPENSE (Note 18)	11,465	9,910
NET EARNINGS FOR THE YEAR	19,482	14,586
RETAINED EARNINGS, BEGINNING OF YEAR	15,505	7,719
DIVIDENDS	(6,555)	(6,800)
RETAINED EARNINGS, END OF YEAR	<u>\$ 28,432</u>	<u>\$ 15,505</u>

POWERSTREAM INC.

Statement of Cash Flows

Year ended December 31, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
NET (OUTFLOW) INFLOW OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net earnings for the year	\$ 19,482	\$ 14,586
Adjustments to determine cash provided by operating activities		
Amortization of property, plant and equipment	29,127	26,528
Amortization of debt issue costs	554	554
Amortization of intangibles	341	475
Employee future benefits	1,028	901
(Decrease) increase in regulatory liabilities	(761)	2,559
Gain on disposal of capital assets	(1,071)	(14)
Net change in non-cash operating working capital (Note 19)	(20,226)	31,185
	<u>28,474</u>	<u>76,774</u>
FINANCING		
Decrease in liability for subdivisions development	(503)	(3,158)
Decrease in due to related parties	(5,861)	(27,823)
(Decrease) increase in long-term customer's deposits	(721)	807
Increase in other liabilities	1,208	825
Increase in long-term debt	2,055	-
Dividends paid	(6,555)	-
	<u>(10,377)</u>	<u>(29,349)</u>
INVESTING		
Shares issued from treasury	-	6,800
Acquisition of Aurora Hydro	-	(30,019)
Proceeds on disposal of capital assets	1,716	36
Intangibles	(4)	-
Decrease in restricted cash - customer deposits	1,304	8,176
Decrease in short term investments	6,608	1,272
Adjustment to contributed surplus	-	(1,706)
Expenditure on capital assets, net of contribution of capital construction	(57,770)	(25,968)
	<u>(48,146)</u>	<u>(41,409)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(30,049)	6,016
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	33,477	27,461
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,428	\$ 33,477

SUPPLEMENTARY CASH FLOW INFORMATION (Note 20)

POWERSTREAM INC.
Notes to the Financial Statements
December 31, 2006
(in thousands of dollars)

1. DESCRIPTION OF THE BUSINESS

PowerStream Inc. (the "Corporation") was incorporated on June 1, 2004, under the *Business Corporations Act* (Ontario) and is owned by the City of Vaughan through its wholly owned subsidiary, Vaughan Holdings Inc. and by the Town of Markham, through its wholly owned subsidiary, Markham Enterprises Corporation.

The principal activity of the Corporation is to distribute electricity in the service area of Vaughan, Markham, Richmond Hill and Aurora, in the Province of Ontario, under the license issued by the Ontario Energy Board ("OEB"). The Corporation is regulated under the OEB and adjustments to the distribution rates require OEB approval.

2. ELECTRICITY INDUSTRY REGULATION

The Energy Competition Act, 1998 provides for a competitive market in the sale of electricity and the regulation of the monopoly electricity delivery system in the Province of Ontario (the "Province") by the OEB. On May 1, 2002, with the electricity market opening, or (Open Access), electricity retailers began to sell electricity.

The OEB has regulatory oversight of electricity matters in the Province. The Energy Competition Act, 1998 sets out the OEB's powers to issue a distribution license, which must be obtained by any person owning or operating a distribution system under the Ontario Energy Board Act, 1998. The OEB may prescribe license requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, separation of accounts for separate businesses and filing/process requirements for rate-setting purposes.

The Ontario Energy Board Act, 1998 gave the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

In December 2002, the Province passed the Electricity Pricing, Conservation and Supply Act, 2002 ("Bill 210") which among other things:

- (a) Fixed the price of electricity paid by low volume and designated consumers at 4.3 cents per kWh (retroactive to May 1, 2002); and
- (b) Capped distribution rates at current levels and deferred further rate increases and certain cost recoveries by distributors.

The price freeze and rate caps were originally expected to continue until at least May 1, 2006.

In November 2003, the Province announced its intention to increase (effective April 1, 2004) the price of electricity payable by low volume and designated customers from 4.3 to 4.7 cents per kWh on the first 750 kWhs consumed during a month and 5.5 cents per kWh thereafter and directed the OEB to develop new pricing mechanisms (to take effect no later than May 1, 2005) for setting the price of electricity payable by low volume and designated customers.

POWERSTREAM INC.
Notes to the Financial Statements
December 31, 2006
(in thousands of dollars)

2. ELECTRICITY INDUSTRY REGULATION (continued)

The Province also announced its intention in November 2003 to permit electricity distributors to make rate applications to the OEB earlier than had been contemplated under Bill 210 with respect to the:

- (a) Recovery of regulatory assets (based on year-end balances at December 31, 2002) to be phased in over a four-year period effective March 1, 2004; and
- (b) The final adjustment necessary to achieve a market-based rate of return (subject to a one-time investment in conservation and demand management initiatives equal to one year of additional revenue resulting from such rate increase) effective March 1, 2005.

In December 2003, the OEB issued filing guidelines with respect to the recovery of regulatory assets. The OEB's filing guidelines provided that:

- (a) PowerStream was permitted to recover 25% to 30% of certain regulatory assets in rate adjustments to become effective March 1, 2004;
- (b) The 2004 rate adjustment was implemented on April 1, 2004 (with a gross-up added to the recovered amount to allow recovery over 11 months);
- (c) The OEB provided additional instructions with respect to the filing of evidence to facilitate the OEB's review of the balance of the regulatory assets; and
- (d) Permitted recoveries will be phased in over a four-year period (2004 through 2007).

During the period that the price freeze was in effect, it was expected that distributors and retailers would be compensated by the Ontario Electricity Financial Corporation (OEFC) as follows:

- (a) In the case of distributors, for amounts by which the price paid by distributors for electricity purchased by them in the wholesale market on behalf of low volume and designated consumers was greater than the fixed price per kWh; and
- (b) In the case of retailers, for amounts by which the retail contract price between retailers and low volume and designated consumers was greater than the fixed price per kWh.

Consumers other than designated consumers who annually utilized more than 250,000 kWh continued to be eligible to receive Business Protection Plan ("BPP") rebates (formerly received under the Market Power Mitigation Agreement) from Ontario Power Generation Inc. ("OPG") to the extent that electricity prices exceeded certain prescribed thresholds.

On December 9, 2004, the Province passed the Electricity Restructuring Act. The purpose of this act was to provide stable prices for consumers that reflect the true cost of electricity, facilitate new supply additions and promote conservation and demand management. The Act also created the Ontario Power Authority, with a mandate to ensure an adequate, long-term supply of electricity in Ontario. The Independent Electricity System Operator (IESO) (formerly the Independent Electricity Market Operator) continued to be responsible for operating the market.

POWERSTREAM INC.
Notes to the Financial Statements
December 31, 2006
(in thousands of dollars)

2. ELECTRICITY INDUSTRY REGULATION (continued)

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and future possible consultations between the OEB and interested stakeholders, may affect the distribution rates, including payments in lieu of taxes ("PILS") collected from customers, that the Corporation may charge and the costs that the Corporation may recover, including the balance of its regulatory assets.

The Corporation implemented a rate increase in April 2005 to achieve a 9.88% return on equity in 2005. However, the related monies equal to one year of additional revenue resulting from this rate increase will be spent specifically on conservation and demand management initiatives over a three year period ending September 30, 2007.

In October 2005, the Corporation applied to the OEB for a decrease in distribution rates. This decrease, the first since the inception of the Corporation, was implemented May 1, 2006 but was offset by an increase in commodity rates implemented by the OEB on the same date. The OEB established the distribution rates using the Corporation's rate base, a deemed equity structure and an allowed rate of return of 9.0% in 2006.

Through the Energy Conservation Leadership Act, changes to the Electricity Act and Ontario Energy Board Act, and new regulations defining the Ontario Government's Smart Meter initiative, it is mandated that residential customers have a Smart Meter by the year 2010. A Smart Meter keeps track of energy consumption at different times of the day, thus allowing customers to be billed at rates that better reflect the cost of power during those times and encouraging customers to reduce their usage during peak periods. The OEB has approved some initial funding for this initiative in rates. Actual costs, less initial funding will be recovered through future rates. The OEB is holding a generic hearing in 2007 to determine the process for reviewing costs and allowing recovery through rates.

POWERSTREAM INC.
Notes to the Financial Statements
December 31, 2006
(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

The Corporation's financial statements are the representations of management prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and accounting policies provided by its regulator, the OEB, as contained in the Accounting Procedures Handbook, issued under the authority of the Ontario Energy Board Act, 1998.

The financial statements reflect the following significant accounting policies:

(a) *Rate setting*

The Corporation is regulated by the OEB under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

As the Corporation is regulated by the OEB, the timing of accounting recognition and measurement of assets and liabilities arising from rate regulation may differ from that otherwise expected under Canadian generally accepted accounting principles for non-rate regulated enterprises. Specifically:

- (i) Capital and operating costs incurred in respect of the transition to competitive markets have been deferred with amortization to commence on the date that a rate increase is implemented to offset the amortization of the transition costs (Note 5).
- (ii) The Corporation provides for amounts in lieu of corporate income taxes using the taxes payable method for its regulated activities as permitted by The Canadian Institute of Chartered Accountants (CICA).
- (iii) The Corporation has deferred certain pre-market opening cost of power variances and post-market opening retail settlement variances in accordance with Article 490 of the OEB Accounting Procedures Handbook (Note 5).

(b) *Disclosures by entities subject to rate regulation*

In 2005 the Corporation adopted the new accounting guideline "Disclosures by Entities Subject to Rate Regulation (AcG-19)". This regulation requires the disclosure of information to facilitate an understanding of the nature and economic effects of rate regulation.

(c) *Cash and cash equivalents*

Cash and cash equivalents include bank term deposits or equivalent financial instruments with original maturities upon issue of less than 90 days.

(d) *Short-term investments*

Short-term investments are recorded at the lower of cost and fair market value.

POWERSTREAM INC.
Notes to the Financial Statements
December 31, 2006
(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition

(i) Electricity distribution and sale

Revenue from the sale and distribution of electricity is recorded on a basis of cyclical billings and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. The related cost of power is recorded on the basis of power used. Actual results could differ from estimates made of actual electricity usage.

(ii) Other revenue

Other revenue related to sales of other services is recognized as services are rendered. Contract revenue is accounted for using the percentage of completion method, whereby revenue is recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident.

(f) Inventory

Inventory, which consists of parts and supplies acquired for internal construction or consumption, is stated at the lower of cost and replacement cost. Cost is determined on a weighted-moving average basis.

(g) Property, plant and equipment and amortization

Property, plant and equipment are recorded at cost and include contracted services, materials, labour, engineering costs, interest and overheads. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers and may be refunded by the Corporation based on economic evaluation (discounted cash flow), in accordance with the OEB Distribution System Code. Such contributions, whether in cash or in-kind, are offset against the related asset cost. Contributions in-kind are valued at their fair market value at the date of their contribution.

When identifiable assets, such as buildings, distribution station equipment and equipment and furniture are retired or otherwise disposed of, their original cost and related accumulated amortization are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period. The cost and related accumulated amortization of grouped assets such as transmission and distribution facilities is removed from the accounts at the end of their estimated service life.

Amortization of property, plant and equipment is provided for on the straight-line basis over the estimated service life of the assets. Amortization of contributions from developers or customers are amortized at the rates corresponding with the useful lives of the related capital assets. The estimated service lives of the various assets used in calculating amortization are summarized below:

POWERSTREAM INC.
Notes to the Financial Statements
December 31, 2006
(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Property, plant and equipment and amortization (continued)*

Buildings	10 to 60 years
Transformer stations	40 years
Transformers and meters	25 to 40 years
Plant and equipment	10 to 30 years
Other	3 to 8 years

Construction in progress comprises property, plant and equipment under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed. An allowance for the outlay of funds employed during the construction period has been applied to the related capital assets.

(h) *Impairment of long-lived assets*

The Corporation reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of the long-lived assets is not recoverable. Any resulting impairment loss is recorded in the period in which the impairment occurs.

(i) *Intangibles*

Intangibles include corporate restructuring costs related to amalgamation. Intangibles are stated at cost and are amortized on a straight-line basis over three years.

(j) *Regulatory assets and liabilities*

Regulatory assets primarily represent costs that have been deferred as it is probable that they will be recovered through future rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers and retailers that the OEB directs the distributor to account for. The Corporation accrues interest on certain regulatory assets and liabilities as allowed by the OEB.

The Corporation began recovery of regulatory assets on April 1, 2005 for deferred balances dating back to December 31, 2003. On April 28, 2006 the Corporation received approval from the OEB and subsequently implemented for May 1, 2006 the recovery of these regulatory assets. This final approval was for recovery of balances accrued at December 31, 2004 plus interest thereon accrued to April 30, 2006:

- a) For the Markham rate zone, recovery of retail and non-retail settlement variance account balances of (\$3,858,854),
- b) For the Richmond Hill rate zone, recovery of retail and non-retail settlement variance and balances of (\$987,050),
- c) For the Vaughan rate zone, recovery of retail and non-retail settlement variance balances of (\$9,100,473), and
- d) For the Aurora rate zone recovery of retail settlement variance balances of \$3,299,655.

POWERSTREAM INC.
Notes to the Financial Statements
December 31, 2006
(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Regulatory assets and liabilities (continued)

Regulatory assets and liabilities are comprised principally of transition costs, pre-market opening cost of power variances and retail settlement variances.

As at December 31, 2006, management has provided a “valuation allowance” against regulatory assets comprised principally of pension costs. Management continues to assess the likelihood of recovery of its regulatory assets and believes that it is probable that its regulatory assets, net of the valuation allowance, and liability balances will be factored into the setting of future rates.

(k) Deferred debt issue costs

Deferred debt issue costs represent the discount and the cost of the issue of debentures. Amortization is provided on a straight-line basis over the term of the debentures.

(l) Goodwill

Goodwill represents the excess of the purchase price over the fair value assigned to the Corporation’s interest of the net identifiable assets acquired on the acquisition, by predecessor corporations of the former Richmond Hill Hydro Inc. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of goodwill exceeds the implied fair value of goodwill an impairment loss is recognized in an amount equal to the excess.

(m) Pension and other post-employment benefits

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

The Corporation actuarially determines the cost of other employment and post-employment benefits offered to employees using the projected benefit method prorated on service and based on management’s best estimate assumptions. Under this method, the projected post-retirement benefit is deemed to be earned on a pro-rata basis over the years of service in the attribution period commencing at date of hire, and ended at the earliest age the employee could retire and qualify for benefits. Compensated absences and termination benefits that do not vest or accumulate are recognized as an expense when the event occurs. This accounting policy for future employee benefits was applied on the prospective basis. The transitional obligation resulting from this treatment is being amortized over the average remaining service period of employees.

POWERSTREAM INC.
Notes to the Financial Statements
December 31, 2006
(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Customer's deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills and fulfillment of construction obligations. Deposits estimated to be refundable to customers within the next fiscal year are classified as a current liability. Interest is paid on customer balances at rates established from time to time by the Corporation.

(o) Variable interest entities

Effective January 1, 2005, the Corporation adopted the new accounting guideline on "Variable Interest Entities (AcG-15)". The guidance requires the application of consolidation principles to entities subject to control on a basis other than through the ownership of voting interests. Adoption of this standard has no material impact on the Corporation's financial results.

(p) Payment in lieu of income taxes

In accordance with Ontario Regulation 162/01 made under the Electricity Act, 1998, the Corporation provides for payments in lieu of corporate income taxes using the taxes payable method. No provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers at that time.

(q) Conservation and demand management

In accordance with the OEB, funds have been dedicated to spending on conservation and demand management initiatives spanning a three year period ending September 30, 2007. Any amounts collected in excess of the conservation and demand spending have been deferred and are recorded as part of regulatory liabilities.

(r) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, as well as the disclosure of contingent assets and liabilities at the financial statement date. Accounts receivable, unbilled revenue, inventory, regulatory assets/liabilities, goodwill and employee future benefits are reported based on amounts expected to be recovered/refunded and an appropriate allowance has been provided based on managements' best estimate of unrecoverable amounts. Due to the inherent uncertainty involved in making such estimates, actual results could differ from amounts recorded in these financial statements, including changes as a result of future decisions made by the OEB or the Minister of Energy.

POWERSTREAM INC.
Notes to the Financial Statements
December 31, 2006
(in thousands of dollars)

4. PROPERTY, PLANT AND EQUIPMENT

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land and land rights	\$ 7,033	\$ 253	\$ 6,780	\$ 3,376
Buildings	5,376	417	4,959	1,524
Transformer stations	91,179	25,931	65,248	60,421
Transformers and meters	233,415	113,455	119,960	115,644
Plant and equipment	560,744	266,968	293,776	292,657
Other	25,532	16,121	9,411	8,702
Construction in progress	29,444	-	29,444	10,079
	952,723	423,145	529,578	492,403
Capital contributions	149,033	24,226	124,807	115,630
	\$ 803,690	\$ 398,919	\$ 404,771	\$ 376,773

Included in property, plant and equipment costs is an amount of \$1,278 (2005 – \$785) related to an “allowance for the outlay of funds” employed during the construction period. In the absence of rate regulation interest income would have been lower by \$1,278 (2005 - \$785).

5. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-making process and consist of the following:

	2006	2005
Regulatory assets		
Deferred qualifying transition costs	\$ 4,281	\$ 4,206
Pre-market opening cost of power variances	15,303	15,033
Deferred cash pension contributions	2,272	1,580
Deferred OEB annual cost assessments	1,312	1,165
	23,168	21,984
Provision for above regulatory assets	(2,059)	(1,723)
Regulatory assets	21,109	20,261
Regulatory liabilities		
Retail settlement variance accounts	(21,615)	(19,993)
Estimated over-recovery of payment in lieu of taxes	(1,807)	(1,385)
Regulatory asset/liability recovery	(4,113)	(7,720)
	(27,535)	(29,098)
Other regulatory liabilities	(8,128)	(6,478)
Regulatory liabilities	(35,663)	(35,576)
Net regulatory liabilities	\$ (14,554)	\$ (15,315)

POWERSTREAM INC.
Notes to the Financial Statements
December 31, 2006
(in thousands of dollars)

5. REGULATORY ASSETS AND LIABILITIES (continued)

(a) *Regulatory assets*

(i) Deferred qualifying transition costs

Deferred qualifying transition costs represent costs related to the transition to a competitive electricity market as mandated by the Electricity Act, 1998. The OEB has established rules in respect of transition costs, to qualify amounts for deferral and amortization against future revenue. To the extent that transition costs have been incurred that do not qualify for deferral, these costs have been expensed during the period in which they were incurred.

For the period January 1, 2003 to April 30, 2006 deferred qualifying transition costs increased due to the applied carrying charges prescribed by the OEB. In the absence of rate regulations, interest income would have been \$75 lower in 2006 (2005 - \$236).

(ii) Pre-market opening cost of power variance

Pre-market opening cost of power variances represent amounts accumulated as a result of the excess of the cost of power purchased by the Corporation over the amount billed for this power prior to the market opening. The OEB directed utilities to accumulate such variances in the period leading up to market opening.

Under OEB regulations, expenses were allowed to be deferred which would have been expensed under Canadian GAAP for unregulated businesses. From January 1, 2001 to April 30, 2006, the pre-market cost of power variance increased due to the applied carrying charges prescribed by the OEB. In the absence of rate regulation, interest income would have been \$270 lower in 2006 (2005 - \$769).

(iii) Deferred cash pension contributions account

The OEB has approved the establishment of a regulatory deferral account to record the incremental OMERS pension costs beginning January 1, 2005. The Corporation has deferred all 2005 and 2006 (up to April 30, 2006) OMERS expenditures in accordance with the criteria set out in the Accounting Procedures Handbook (hereafter "APH").

Under an unregulated business all costs would be expensed under Canadian GAAP. Under this regulation the Corporation has been allowed to defer the 2006 expense for the period up to April 30, 2006 related to the 2005 rate year. Carrying charges have been applied to this deferred balance in accordance with OEB direction at a rate of 3.38%. In the absence of regulation, operating expenses in the fiscal year 2006 would have been \$607 (2005 - \$1,475) higher. Interest revenue would have been lower by \$85 (2005 - \$21).

POWERSTREAM INC.
Notes to the Financial Statements
December 31, 2006
(in thousands of dollars)

5. REGULATORY ASSETS AND LIABILITIES (continued)

(a) *Regulatory assets (continued)*

(iv) Deferred OEB annual cost assessments account

The OEB has allowed the Corporation to defer the OEB annual cost assessments beginning January 1, 2004. The Corporation has deferred the above noted costs in accordance with prescribed criteria in the APH.

Under OEB regulations, expenses were allowed to be deferred which would have been expensed under Canadian GAAP for unregulated businesses. The deferred balance in this account has had carrying charges applied as per the OEB direction. In the absence of rate regulation, operating expenses would have been \$84 higher in 2006 (2005 - \$832). Interest revenue would have been \$64 lower (2005 - \$37).

(b) *Regulatory liabilities*

(i) Retail settlement variance accounts

Retail settlement variances are variances that have occurred since May 1, 2002 when the competitive electricity market was declared open to December 31, 2006, and have accumulated pursuant to direction from the OEB. Specifically, these amounts include:

- (a) variances between the amount charged by the Independent Electricity System Operator ("IESO") for the operation of the markets and grid, the purchase of imported power by the IESO to augment Ontario's power supply and charged by the IESO as an uplift charge that is part of the wholesale market service charges, as well as various wholesale market settlement charges and transmission charges, as compared to the amount billed to consumers based on the OEB-approved wholesale market service rate; and
- (b) the differences between the amounts charged by the IESO and billed to consumers for energy costs due to line losses.

Under OEB regulations, the retail settlement variances are allowed to be deferred which under Canadian GAAP would be recorded as revenue for an unregulated business. Under non regulated reporting, revenues would have been \$1,520 higher in 2006 (2005 - \$992) and interest expense would have been lower in 2006 by \$105 (2005 - \$1,773).

(ii) Estimated over-recovery of payment in lieu of taxes (PILs)

Variances are recorded as the differences resulting from the OEB approved PILs methodology (billed recovery) and the PILs proxy/allowance amount as determined. The cumulative amount of this variance, net of carrying charges, as of December 31, 2006 is \$1,807 (2005 - \$1,385).

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5. REGULATORY ASSETS AND LIABILITIES (continued)

(b) Regulatory liabilities (continued)

(iii) Regulatory assets recovery account

On May 1, 2006 PowerStream began recovering the 3rd phase of a 4 year regulatory asset recovery plan. These recoveries are based on final balances approved by the Ontario Energy Board reflecting costs and carrying interest accrued to December 31, 2004. The billed amounts are recorded in the regulatory assets recovery account and carrying interest is applied at the OEB prescribed interest rate for carrying charges. If regulated rates were not implemented the interest expense in 2006 would have been \$320 (2005 - \$444) lower.

(c) Other regulatory liabilities

In April 2005 the Corporation received approval to collect its final phase of market adjusted rate of return. These funds were to be collected over the 2005 rate year beginning April 1 2005 and ending April 30, 2006. These funds are to be dedicated to spending on conservation and demand management initiatives over a 3-year period ending in 2007. Consistent with revenue recognition principles and the revenue neutrality of the program, the Corporation has deferred revenue in 2006 in excess of the dedicated conservation and demand spending. Total deferred revenue balance for the period is \$6,478 (2005 - \$5,337).

(d) Provision

Management has determined that there is uncertainty concerning the future recovery of OMERS pension costs deferred for 2005 and 2006 based on the guidelines issued by the Ontario Energy Board on February 15, 2005. Based on this uncertainty, a provision against this deferred expense in the amount of \$2,059 (2005 - \$1,453) has been recorded.

Management will continue to assess the likelihood of recovery of its regulatory assets and believes that it is probable that regulatory assets/liabilities will be disposed of through a rate setting process sometime in the future. In the event that Management discovers the recovery for these amounts is no longer probable or these deferred amounts become unrecoverable, these amounts will be expensed in the period for which the determination is made.

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6. BANK INDEBTEDNESS AND CREDIT FACILITY

The Corporation requested and received an unsecured credit facility with a Canadian chartered bank and the related agreement was executed on March 23, 2005 for a term of five years, renewable annually. This credit facility agreement provides an extendible 364-day revolving credit facility of \$125 million. This facility replaces the credit facilities that were in place for the former utilities (Hydro Vaughan, Markham Hydro and Richmond Hill Hydro).

As at December 31, 2006, the Corporation had utilized \$22.0 million of the credit facility to provide the IESO with a letter of credit for prudential support. With the opening of Ontario's electricity market to wholesale and retail competition on May 1, 2002 ("Open Access"), the IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the letter of credit if the Corporation defaults on its payment.

The existing credit facility can be drawn upon by either direct advances, bearing interest at prime less 0.50% or Bankers' Acceptances, with a stamping fee of 20 basis points, or by way of letter of credit with a fee of 20 basis points per annum.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2006</u>	<u>2005</u>
Accounts payable - energy purchased	\$ 39,863	\$ 45,086
Current portion of customer's deposits	1,022	1,605
Other accounts payable and accrued liabilities (including construction deposits to be refunded within one year in the amount of \$17,003 - 2005 - \$8,067)	48,630	48,532
	<u>\$ 89,515</u>	<u>\$ 95,223</u>

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8. RELATED PARTY BALANCES AND TRANSACTIONS

The amount due to the Corporation of the City of Vaughan (“City”) and the Corporation of the Town of Markham (“Town”) is comprised of amounts payable to the City and Town and their wholly-owned companies established under the provisions of the Ontario Business Corporation Act in order to comply with provisions of provincial legislation enacted to restructure the publicly-owned electricity business in Ontario.

Components of the amounts due to related parties are as follows:

	<u>2006</u>	<u>2005</u>
The Corporation of the City of Vaughan		
Accrued interest on note payable of \$78,236 at an annual rate of 5.58%	\$ -	\$ 1,100
Net balance payable of inter entity transactions, without interest	6,422	5,769
	6,422	6,869
The Corporation of the Town of Markham		
Accrued interest on note payable of \$67,866 at an annual rate of 5.58%	-	955
Net balance payable of inter entity transactions, without interest	4,329	1,875
	4,329	2,830
Vaughan Holdings Inc.		
Special dividend payable	-	6,800
Accrued interest on special dividend payable an annual rate of 2.76%	-	113
	-	6,913
	\$ 10,751	\$ 16,612

Interest of \$4,366 on the note payable to the city of Vaughan and \$3,787 on the note payable to the Town of Markham was charged to interest expense. As at December 31, 2006, the amounts shown as due to related parties included an aggregate accrual of \$nil (2005 - \$2,055) related to such interest.

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8. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Other significant related party transactions not otherwise disclosed separately in the financial statements, are summarized below:

	<u>2006</u>		<u>2005</u>	
	<u>City of Vaughan</u>	<u>Town of Markham</u>	<u>City of Vaughan</u>	<u>Town of Markham</u>
Revenue				
Energy and distribution	\$ 3,591	\$ 3,571	\$ 3,443	\$ 3,576
Shared services	\$ 1,279	\$ 1,108	\$ 1,397	\$ 1,526
Expenses				
Facilities rental	\$ 517	\$ 602	\$ 523	\$ 602
Realty taxes	\$ 171	\$ 140	\$ 142	\$ 224
Operations	\$ 783	\$ 212	\$ 1,082	\$ 145

9. DEBENTURES PAYABLE

	<u>2006</u>	<u>2005</u>
6.45% unsecured Debentures due August 15, 2012, interest payable in arrears semi-annually on August 15 and February 15	\$ 100,000	\$ 100,000

In August 2002, the three predecessor corporations raised gross proceeds of \$100,000 through a private placement offering. These corporations were three of five local distribution companies ("LDC") that participated in the Electricity Distributors Finance Corporation ("EDFIN") 10 Year Debentures Issued (Series 2002-1) that was offered on a private placement. EDFIN is a specific purpose corporation managed by MEARIE Management Inc., for the purpose of providing LDC with efficient access to the debt capital markets. Each LDC has executed a debenture which is a direct and unsecured obligation of the LDC. The LDC's obligations are several and not joint, and each LDC is liable for its own obligation and not that of any other LDC.

The Corporation assumed the obligations of the three predecessor corporations pursuant to an assumption agreement dated June 1, 2004.

The unsecured debentures, totaling \$100,000 represents the Corporation's debenture payable of \$35,000 (Hydro Vaughan), \$30,000 (Markham Hydro) and \$35,000 (Richmond Hill Hydro).

Interest expense, including amortization of deferred debt issue costs, was \$7,004 (2005 - \$7,004).

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10. CUSTOMERS' DEPOSITS

	<u>2006</u>	<u>2005</u>
Service deposits	\$ 13,679	\$ 14,983
Less amounts expected to be refunded within one year, included in accounts payable and accrued liabilities (Note 7)	<u>1,022</u>	<u>1,605</u>
	<u>\$ 12,657</u>	<u>\$ 13,378</u>

11. EMPLOYEE FUTURE BENEFITS

The Corporation pays 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 rendered their services.

The benefits liability for the Corporation is being recorded in the accounts prospectively. Accordingly, the transitional obligation is being amortized over the average remaining service period of active employees of 11 years as determined by actuarial methodology.

The projected accrued benefit obligation for active employees and retirees as at December 31, 2006 is \$9,269 and the expense for the period ended December 31, 2006 of \$1,202 was based on actuarial valuation as at January 1, 2005, using a discount rate of 5.0%.

Payments for the period ended December 31, 2006 are estimated to be equal to the estimated claims for extended health, dental benefits and life insurance in respect of retirees, and the assumed expenses and taxes associated with their benefits.

A reconciliation of the funded status of the Corporation's post-retirement benefit plan to the amounts recorded in the financial statements is as follows:

	<u>2006</u>	<u>2005</u>
Accrued benefit obligation	\$ 9,269	\$ 8,734
Unamortized transitional obligation	(782)	(1,097)
Unamortized net actuarial losses	<u>(2,165)</u>	<u>(2,343)</u>
Accrued benefit liability	<u>\$ 6,322</u>	<u>\$ 5,294</u>

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11. EMPLOYEE FUTURE BENEFITS (continued)

Details of the accrued benefit obligation are as follows:

	<u>2006</u>	<u>2005</u>
Accrued benefit obligation, beginning of the year	\$ 8,734	\$ 8,027
Addition to benefit obligation on acquisition	-	139
Current service cost	254	241
Interest cost on obligation	445	414
Benefit payments	(164)	(153)
Actuarial loss on obligation	-	66
Accrued benefit obligation, end of the year	\$ 9,269	\$ 8,734

The plan expense for the year is determined as follows:

	<u>2006</u>	<u>2005</u>
Current service cost	\$ 254	\$ 241
Interest cost on obligation	445	414
Amortization of transitional obligation	315	273
Amortization of net actuarial loss	178	193
Plan expense	\$ 1,192	\$ 1,121

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation are as follows:

Discount rate	5.00%
Rate of compensation increase	3.10%
Medical benefits costs escalation - hospitalization	4.0%-10.0%
Medical benefits costs escalation - extended health care	4.0%-10.0%
Dental benefits costs escalation	4.0%-5.0%

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2006:

	<u>Increase</u>	<u>Decrease</u>
Total service and interest cost	\$ 157	\$ (50)
Accrued benefit obligation	\$ 1,790	\$ (527)

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12. PENSION

The Corporation provides a pension plan for its employees through OMERS. OMERS is a multi-employer pension plan which 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. The Corporation incurred \$2,003 of contribution expense during the year ended December 31, 2006 (2005 - \$1626).

13. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Share capital

The Corporation's authorized share capital is made up of an unlimited number of common shares. The issued share capital is as follows:

	<u>2006</u>	<u>2005</u>
1,035.0877 common shares	\$ 149,433	\$ 149,433

Of the total 1,035.0877 common shares issued 590 common shares are registered under Vaughan Holdings Inc. (wholly owned by The Corporation of the City of Vaughan) and 445.0877 common shares are registered under Markham Enterprises Corporation (MEC) (wholly owned by The Corporation of the Town of Markham).

Contributed surplus

Contributed surplus represents the difference between the total of the net assets contributed by The Corporation of the City of Vaughan and Markham Enterprises Corporation and the amount reported as stated capital in the financial statements of PowerStream Inc., upon amalgamation on June 1, 2004.

Closing adjustments for the Amalgamation of the Corporation which occurred on June 1, 2004, include a \$1,706 payment to the Town of Markham to fulfill the intent of the Amalgamation Agreement. This payment occurred in 2005 and has been recorded as a reduction in contributed surplus.

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14. NOTES PAYABLE

	<u>2006</u>	<u>2005</u>
Promissory note issued to the City of Vaughan	\$ 78,236	\$ 78,236
Deferred interest on promissory note issued to the City of Vaughan	1,100	-
Promissory note issued to the Town of Markham	67,866	67,866
Deferred interest on promissory note issued to the Town of Markham	955	-
	<u>\$ 148,157</u>	<u>\$ 146,102</u>

On June 1, 2004 an unsecured 20 year term promissory note was issued to The Corporation of the City of Vaughan ("City") in the amount of \$78,236. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On June 1, 2004 an unsecured 20 year term promissory note was issued to the Corporation to the Town of Markham ("Town") in the amount of \$67,866. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

The two promissory notes are repayable 90 days following demand by the City or the Town, no earlier than January 1, 2008. These notes have been classified as long term as it is not the intent of the City or the Town to demand repayment within the next year.

At the request of The Corporation of the City of Vaughan and Town of Markham, the interest will be deferred for eight quarters commencing October 1, 2006 for five years, subject to the same interest rate and conditions as the original note.

15. COMMITMENTS

Shared services agreement

Pursuant to a shared services agreement between the former Vaughan Hydro-Electric Commission and the Corporation of the City of Vaughan ("City"), the Corporation charges the City, at agreed rates, for various administrative functions. In addition, the City performs certain shared services, which are charged to the Corporation. The Corporation also provides water billing services to the Town of Markham. The net charges made for services under these agreements were \$2,387 (2005-\$2,923).

Long-term operating leases

The Corporation rents buildings and facilities from the Corporation of the City of Vaughan and the Town of Markham under long-term operating leases. The Corporation has signed a long-term lease with the Town of Markham and has exercised its option to renew a lease on a monthly basis with the City of Vaughan. For the period from January 1 to December 31, 2006, the rental for the buildings and facilities was approximately \$1,119 (2005 - \$1,125). The cost of the rent including both the rent charged under the operating leases and rent not covered by operating leases aggregated \$1,455 (2005 - \$1,396.)

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15. COMMITMENTS (continued)

Contractual commitments

In early 2006, the Corporation entered into an agreement to construct a new energy-efficient head office facility. The estimated date of completion is September 2007. The total contract is approximately \$13,800. At the end of December 2006, \$3,546 was spent on building and construction related costs. The Corporation is projected to complete the contract on target.

16. CONTINGENCIES

(a) *Legal claims*

The Corporation has been named as a defendant in several actions. No provision has been recorded in the financial statements for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

(b) *Other claims – Griffith et al v. Toronto Hydro-Electric Commissions et al*

A class action claiming \$500,000 in restitution payments plus interest was served on Toronto Hydro on November 18, 1998. This action has been brought under the *Class Proceedings Act, 1992*. The plaintiff class seeks \$500 million in restitution for amounts paid to Toronto Hydro and to other Ontario municipal electric utilities (“LDCs”) who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to section 347 of the *Criminal Code*. Pleadings have closed in this action. The action has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceedings brought against Enbridge Gas Distribution Inc. (formerly Consumers Gas).

On April 22, 2004, the Supreme Court of Canada released a decision in the Consumers Gas case rejecting all of the defences which had been raised by Enbridge, although the Court did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by Enbridge.

After the release by the Supreme Court of Canada of its 2004 decision in the Consumers Gas case, the Plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs. To date, no formal steps have been taken to move the action forward. The electric utilities intent to respond to the action if and when it proceeds on the basis that the LDCs’ situation may be distinguishable from that of Consumers Gas.

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

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16. CONTINGENCIES (continued)

(c) Environmental

Under the shareholders agreement, the Corporation is obligated to remediate all transformers and equipment with polychlorinated biphenyl (PCB) contamination in excess of 50 ppm on or before August 31, 2007. A program has been put in place in 2005 and work is underway to test relevant transformers and equipment. A provision of approximately \$600 has been recorded in the financial statements to meet this obligation.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives.

Fair value of financial assets and liabilities

The review of all existing contracts substantiates that PowerStream does not currently have any contracts containing embedded derivatives that need to be accounted for separately using fair market value.

The fair value of the Corporation's cash and cash equivalents, accounts receivable, unbilled revenue, accounts payable and accrued liabilities and refundable customer deposits approximate their carrying amount because of the short term maturity of these instruments.

The fair value amount of the debenture payable in the amount of \$100,000 was \$109,173 as at December 31, 2006 based on quoted market prices.

The fair value of the Corporation's note payable for the Corporation of the City of Vaughan, the Corporation of the Town of Markham and due to related parties is not determined due to their related party nature and variable terms.

The Corporation is not exposed to significant interest rate risk as a result of its fixed rate debt and the short-term maturity of its monetary current assets and current liabilities.

Financial assets held by the Corporation expose it to credit risk. As at December 31, 2006, there were no significant concentrations of credit risk with respect to any class of financial assets.

Insurance

The Corporation maintains appropriate types and levels of insurance with major insurers. With respect to liability insurance, the Corporation is a member of the Municipal Electricity Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousands of dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Coverage is provided to a level of \$20,000 per incident.

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18. CORPORATE INCOME TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and provincial statutory income tax rate. The reconciliation between the statutory and effective tax rates is provided as follows:

	<u>2006</u>	<u>2005</u>
Rate reconciliation		
Income from operations before PILs	\$ 30,947	\$ 24,496
Statutory Canadian federal and provincial income tax rate	36.12%	36.12%
Expected tax provision on income at statutory rates	11,178	8,848
Increase (decrease) in income taxes resulting from		
Large corporations tax net of surtax	-	507
Other timing differences		
Amortization/CCA differences	(421)	(563)
Post employment benefits	371	383
Eligible capital expenditures	(98)	(99)
Other	440	(138)
Permanent differences	(139)	42
Other	134	930
Provision for PILs	\$ 11,465	\$ 9,910
Component of provision for PILs		
Large corporations tax net of surtax	\$ -	\$ 507
Income tax expense	11,465	9,403
Provision for PILs	\$ 11,465	\$ 9,910

Future income taxes relating to the regulated businesses have not been recorded in the accounts as they are expected to be recovered through future electricity rate revenues. As at December 31, 2006, future income tax assets of \$39,806 (consisted mostly of non-deductible reserves and the difference between the tax and book bases of capital assets), based on substantively enacted income tax rates, have not been recorded on the balance sheet.

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19. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	<u>2006</u>	<u>2005</u>
Accounts receivable	\$ (28,081)	\$ 13,974
Unbilled revenue	13,436	(1,756)
Income taxes recoverable	-	4,616
Income taxes payable	(161)	279
Inventory	367	(410)
Prepaid and other	(79)	222
Accounts payable and accrued liabilities	(5,708)	14,260
	<u>\$ (20,226)</u>	<u>\$ 31,185</u>

20. SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2006</u>	<u>2005</u>
(a) Cash paid during the period for:		
Interest	\$ 14,603	\$ 16,526
Payments in lieu of taxes	\$ 13,538	\$ 6,115
Dividends	\$ 6,555	\$ -
(b) Non-cash financing activities:		
- Vaughan Holdings Inc, special dividend paid after December 31, 2005	\$ -	\$ 6,800

21. GUARANTEES

In the normal course of business, the Corporation enters into agreements that meet the definition of a guarantee. The Corporation's primary guarantees subject to the disclosure requirements of AcG-14 are as follows:

- (a) The Corporation has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Corporation agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suites, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.
- (b) Indemnity has been provided to all directors and/or officers of the Corporation for various items including, but not limited to, all costs to settle suits or actions due to association with the Corporation, subject to certain restrictions. The Corporation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Corporation. The maximum amount of any potential future payment cannot be reasonably estimated.

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21. GUARANTEES (continued)

- (c) In the normal course of business, the Corporation has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Corporation to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Corporation has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.