

*Financial Statements of*

**THE ONTARIO NFWA TRUST**

*December 31, 2005*

## Auditors' Report

To the Trustee of The Ontario NFWA Trust:

We have audited the statement of net assets of The Ontario NFWA Trust (the "Trust") as at December 31, 2005 and the statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Trustee of the Trust. 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 the Trustee, 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 Trust as at December 31, 2005 and the results of its operations and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Ontario  
February 28, 2006

# THE ONTARIO NFWA TRUST

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# THE ONTARIO NFWA TRUST

## Statement of Net Assets

As at December 31, 2005

(in thousands of dollars)

	2005	2004
<b>ASSETS</b>		
INVESTMENTS (Note 3)		
Cash and cash equivalents	\$ 67,926	\$ 76,790
Short term investments	109,506	49,973
Fixed income investments	816,256	673,856
	<b>993,688</b>	800,619
OTHER		
Interest receivable (Note 4)	3,935	2,724
Receivable for investments sold (Note 7)	14,075	8,369
	<b>18,010</b>	11,093
	<b>1,011,698</b>	811,712
<b>LIABILITIES</b>		
Accounts payable and accruals (Note 5)	507	286
Payable for investments purchased (Note 7)	3,076	8,387
	<b>3,583</b>	8,673
<b>NET ASSETS</b>	<b>\$ 1,008,115</b>	<b>\$ 803,039</b>

# THE ONTARIO NFWA TRUST

## Statement of Operations

For the year ended December 31, 2005

(in thousands of dollars)

	2005	2004
INVESTMENT INCOME (Note 4)		
Interest	\$ 41,524	\$ 33,893
Net realized gains	18,706	12,481
	<b>60,230</b>	46,374
EXPENSES		
Administration fees (Note 8)	1,224	1,042
NET INVESTMENT INCOME	<b>59,006</b>	45,332
CHANGE IN NET UNREALIZED GAIN/(LOSS)	(3,930)	6,704
TOTAL RESULTS OF OPERATIONS	<b>\$ 55,076</b>	\$ 52,036

**THE ONTARIO NFWA TRUST**  
**Statement of Changes in Net Assets**  
For the year ended December 31, 2005  
(in thousands of dollars)

	2005	2004
NET ASSETS, BEGINNING OF YEAR	\$ 803,039	\$ 651,003
INCREASE IN NET ASSETS		
Net investment income	59,006	45,332
Change in unrealized gain/(loss) on investment	(3,930)	6,704
	<b>55,076</b>	52,036
CONTRIBUTIONS (Note 6)	150,000	100,000
NET ASSETS, END OF YEAR	<b>\$ 1,008,115</b>	\$ 803,039

# **THE ONTARIO NFWA TRUST**

## **Notes to the Financial Statements**

**December 31, 2005**  
**(in thousands of dollars, unless otherwise stated)**

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### **1. THE ONTARIO NFWA TRUST**

Bill C-27, the *Nuclear Fuel Waste Act* (“NFWA”), received royal assent on June 13, 2002 and was proclaimed into force on November 15, 2002. Bill C-27 is a key component of the Government of Canada’s 1996 Policy Framework for Radioactive Waste. Under this policy, the federal government, through effective oversight, will ensure that the long-term management of radioactive waste is carried out in a comprehensive, integrated and economically sound manner.

As required under the NFWA, owners of nuclear fuel waste established, by incorporation, the Nuclear Waste Management Organization (“NWMO”), whose purpose is to propose to the Government of Canada approaches for the management of nuclear fuel waste, and to implement the approach that is selected by the Federal Government. In accordance with the NFWA, the NWMO submitted its recommendations for a long-term nuclear used fuel management strategy to the Federal Government in November 2005. Based on this submission from the NWMO, the Federal Government will determine the approach for dealing with the long-term management of nuclear fuel waste.

Upon the NFWA coming into force in November 2002, the owners of nuclear fuel waste were required to establish trust funds and to make annual payments into those trust funds to finance the long-term management of nuclear fuel waste. Accordingly, Ontario Power Generation Inc. (“OPG”), established The Ontario NFWA Trust (the “Trust”), and made an initial deposit of \$500 million into this trust fund on November 25, 2002. Under the NFWA, OPG is required to deposit an additional \$100 million into the Trust each year, no later than the anniversary of the NFWA being proclaimed into force, until such time as an approach for long-term used fuel management is approved by the Federal Government. To comply with this requirement, OPG contributed \$100 million to the Trust in each of 2003 and 2004 and \$150 million in 2005 (\$50 million funded on December 31, 2005 as part of OPG’s \$100 million funding requirement for the November 2005 to 2006 period). Future contributions to the Trust beyond 2005 will be dependent on the direction chosen by the Federal Government based on the recommendations submitted by the NWMO in November 2005. Until such time OPG will continue to contribute \$100 million to the Trust during each November to November period.

The funds in the Trust will be used for the purposes of managing used fuel. These financial statements do not portray the funding requirements of the long-term management of nuclear fuel waste obligations.

The Trustee of the Trust is CIBC Mellon Trust Company. The Province of Ontario and OPG are the beneficiaries of the Trust. The Trust is part of the Used Fuel Segregated Fund set up by OPG pursuant to the Ontario Nuclear Funds Agreement.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### *Basis of presentation*

The financial statements of the Trust have been prepared by management in accordance with Canadian generally accepted accounting principles. 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 assets, liabilities, revenues and

**THE ONTARIO NFWA TRUST**  
**Notes to the Financial Statements**  
**December 31, 2005**  
**(in thousands of dollars, unless otherwise stated)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

The financial statements present the net assets of the Trust as at December 31, 2005 and the statements of operations and changes in net assets for the year ended December 31, 2005 with comparative figures reflecting the year ended December 31, 2004.

*Cash and cash equivalents*

Cash and cash equivalents include cash on deposit and liquid money market securities with a term to maturity that is less than 90 days from the financial statement date, with costs approximating fair value. All other liquid money market securities with a term to maturity that is greater than 90 days and less than one year from the financial statement date are recorded as short-term investments. Interest earned on cash and cash equivalents and short-term investments is recognized as interest income.

*Investment valuation*

Fixed income investments are presented in the financial statements at fair value at the balance sheet date, with the changes between fair value and average cost recorded as unrealized gain / (loss) on the value of the investments.

The carrying value of the cash equivalents approximates their fair value due to their immediate or short-term maturity.

The market values of foreign investments are translated into Canadian dollars at the exchange rates prevailing at the close of each business day. Purchases and sales of foreign securities and income and expenses are translated into Canadian dollars at the exchange rates prevailing on the transaction dates. The gains and losses on foreign exchange are recorded in the statement of operations.

Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the period. Listed securities for which no sale was recorded on that date are valued at the average of the last reported bid and ask prices. Pooled Funds are valued based on the unit value of the pooled fund as reported by the investment manager. Security transactions are recorded on the trade date. Dividends are accrued as of the ex-dividend date. Stock dividends are recorded in income based on the market value of the security. The realized gain/(loss) on the sale of securities is calculated with reference to the average cost of the securities and included in investment income or investment loss. The Trust follows the accrual method of recording investment income.

For certain other investments that do not have an established fair value, the fair value is estimated based on comparable securities of issuers with similar credit ratings or net realizable value using available information.



**THE ONTARIO NFWA TRUST**  
**Notes to the Financial Statements**  
December 31, 2005  
(in thousands of dollars, unless otherwise stated)

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Taxation*

In 2002, a letter was received from the Senior Assistant Deputy Minister, Department of Finance Canada, stating the Department's overall intent to ensure that the legislative obligations under the NFWA do not cause the Trust to be subject to income taxes. As a result of the Department's recommendation, a proposed amendment to add subsection 149(1)(z.2) to the Income Tax Act was released by the Department on July 18, 2005. This new paragraph would have exempted the Trust from tax as it was created and maintained solely to meet the obligations of the NFWA. The recent change in the federal government has created some uncertainty with regard to the proposed legislative change. However, we have confirmed with the Department that their position remains unchanged. Accordingly, the Trust has made no provision for income taxes in these financial statements.

**3. INVESTMENTS**

The fair value of each of the investments is based on market value determined at December 31, 2005. The fair values and historical costs of the investments with 2004 included for comparison purposes are as follows:

	2005		2004	
	Historical		Historical	
	Fair Value	Cost	Fair Value	Cost
Fixed income investments	\$ 816,256	\$ 810,089	\$ 673,856	\$ 664,497
Short term investments	109,506	110,110	49,973	50,004
Cash and cash equivalents				
Cash	(85)	(86)	47	47
Cash equivalents	68,011	68,198	76,743	76,764
	67,926	68,112	76,790	76,811
	\$ 993,688	\$ 988,311	\$ 800,619	\$ 791,312

**THE ONTARIO NFWA TRUST**  
**Notes to the Financial Statements**  
December 31, 2005  
(in thousands of dollars, unless otherwise stated)

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**3. INVESTMENTS (continued)**

Terms to maturity of interest bearing investments at December 31 are as follows:

	<b>2005</b>	2004
Fixed income investments		
1 to 5 years	\$ <b>419,371</b>	\$ 219,487
5 to 10 years	<b>187,414</b>	229,954
Over 10 years	<b>209,471</b>	224,415
<b>Total</b>	<b>\$ 816,256</b>	\$ 673,856
Average yield	<b>4.26%</b>	4.13%

**4. INVESTMENT INCOME**

Investment income consists of interest earned on cash and cash equivalents, short term investments, and bonds and debentures.

As at December 31, 2005, there was approximately \$3,935 (2004 - \$2,724) of interest receivable from fixed income investments, short term investments, and cash and cash equivalents.

**5. ACCOUNTS PAYABLE AND ACCRUALS**

Accounts payable consists of the following:

	<b>2005</b>	2004
Audit fees	\$ <b>21</b>	\$ 20
Trustee fees	<b>6</b>	6
Investment management fees	<b>480</b>	260
	<b>\$ 507</b>	\$ 286

**6. CONTRIBUTIONS**

Cash contributions to The Ontario NFWA Trust during the year were \$150,000 (2004 - \$100,000), which includes a contribution of \$50,000 funded on December 31, 2005 as part of OPG's \$100 million funding requirement for the November 2005 to November 2006 period.

**7. RECEIVABLE/PAYABLE FOR INVESTMENTS TRANSACTIONS**

Investments that have been sold at the end of the year but have not settled at December 31, 2005, have been presented as a receivable of approximately \$14,075 (2004 - \$8,369).

Investments that have been purchased at the end of the period but have not settled at December 31, 2005, have been presented as a payable of approximately \$3,076 (2004 - \$8,387).

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**8. ADMINISTRATION FEES**

Administration fees for the year ended December 31, 2005 were as follows:

	<b>2005</b>	2004
Audit fees	\$ 21	\$ 21
Trustee fees	31	34
Investment management fees	<b>1,172</b>	987
	<b>\$ 1,224</b>	\$ 1,042

**9. PAYMENTS/WITHDRAWALS**

There were no payments or withdrawals made from the Trust relating to the disposal of long-term nuclear fuel waste as permitted under the NFWA.