

WEST PERTH POWER INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2009

WEST PERTH POWER INC.
INDEX TO AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2009

	Page
Auditors' Report	1
Balance Sheet	2
Statement of Retained Earnings (deficit)	3
Statement of Income (Loss)	4
Statement of Cash Flows	5
Notes to the Financial Statements	6-17



KPMG LLP
Chartered Accountants
140 Fullarton Street Suite 1400
PO Box 2305
London ON N6A 5P2
Canada

Telephone (519) 672-4880
Fax (519) 672-5684
Internet www.kpmg.ca

AUDITORS' REPORT

To the Shareholders of West Perth Power Inc.

We have audited the balance sheet of West Perth Power Inc. as at December 31, 2009 and the statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative amounts were audited by another firm of Chartered Accountants.

Chartered Accountants, Licensed Public Accountants

London, Canada

October 15, 2010

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

WEST PERTH POWER INC.

BALANCE SHEET

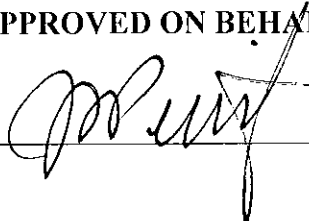
AS AT DECEMBER 31, 2009

	ASSETS	
	2009	2008
Current Assets		
Cash	\$ 824,449	\$ 1,474,968
Investment (note 6)	11,677	10,978
Accounts receivable (note 3)	1,360,656	909,362
Inventory	12,095	5,620
Prepaid expenses	99,418	13,167
Due from related party (note 8)	<u>39,312</u>	<u>10,998</u>
	2,347,607	2,425,093
Property, Plant and Equipment (note 4)	1,772,354	1,712,445
Future Payment in Lieu of Income Tax Asset (note 12)	<u>881,000</u>	<u>-</u>
	<u>\$ 5,000,961</u>	<u>\$ 4,137,538</u>

LIABILITIES AND SHAREHOLDER'S EQUITY

Current Liabilities		
Accounts payable and accrued liabilities	\$ 913,987	\$ 877,090
Demand note payable (note 9)	1,183,391	1,183,391
Regulatory liabilities (note 5)	1,073,966	199,272
Customer deposits (note 7)	<u>64,988</u>	<u>67,227</u>
	3,236,332	2,326,980
Shareholder's Equity		
Share capital (note 10)	2,118,274	2,118,274
Retained earnings (deficit)	(365,321)	(318,694)
Accumulated other comprehensive income (AOCI)	<u>11,676</u>	<u>10,978</u>
	<u>1,764,629</u>	<u>1,810,558</u>
	<u>\$ 5,000,961</u>	<u>\$ 4,137,538</u>
Contingent Liabilities (notes 11 and 16)		
Commitments (note 13)		
Subsequent event (note 15)		

APPROVED ON BEHALF OF THE BOARD:



Director



Director

The attached Auditors' Report and notes form an integral part of these audited financial statements.

WEST PERTH POWER INC.
STATEMENT OF RETAINED EARNINGS (DEFICIT)
FOR THE YEAR ENDED DECEMBER 31, 2009

	Deficit	AOCI	2009	2008
Balance, Beginning of Year	\$ (318,693)	\$ 10,978	\$ (307,716)	\$ (233,481)
Net Loss	(46,628)	-	(46,628)	(63,709)
Other Comprehensive Income (Loss)	<u>-</u>	<u>698</u>	<u>698</u>	<u>(10,526)</u>
Balance, End of Year	\$ <u>(365,321)</u>	\$ <u>11,676</u>	\$ <u>(353,646)</u>	\$ <u>(307,716)</u>

The attached Auditors' Report and notes form an integral part of these audited financial statements.

WEST PERTH POWER INC.
STATEMENT OF INCOME (LOSS)
FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	%	2008	%
Electricity Revenue	\$ 4,993,954		\$ 5,481,954	
Cost of Power	<u>4,235,624</u>		<u>4,746,465</u>	
Distribution Revenue	758,330	100.00	735,489	100.00
Expenses				
Billing and collecting	97,622	12.87	152,844	20.79
Community relations	80,213	10.58	(16)	-
Direct operation	351,030	46.29	360,895	49.07
Office and administration	105,628	13.93	64,531	8.77
Regulatory and professional	<u>166,125</u>	<u>21.91</u>	<u>63,894</u>	<u>8.69</u>
	<u>800,618</u>	<u>105.58</u>	<u>642,148</u>	<u>87.32</u>
Net Income (Loss) from Operations Before Interest, Amortization and Other	(42,288)	(5.58)	93,341	12.68
Amortization	206,127	27.18	185,168	25.18
Interest	<u>87,706</u>	<u>11.57</u>	<u>93,970</u>	<u>12.78</u>
Income (Loss) from Operations Before Other Income	(336,121)	(44.33)	(185,797)	(25.28)
Other Income				
Interest income	6,326	0.83	56,654	7.70
Service revenue	<u>283,167</u>	<u>37.34</u>	<u>65,434</u>	<u>8.89</u>
	<u>289,493</u>	<u>38.17</u>	<u>122,088</u>	<u>16.59</u>
Net Income (Loss)	<u>\$ (46,628)</u>	<u>(6.16)</u>	<u>\$ (63,709)</u>	<u>(8.69)</u>

The attached Auditors' Report and notes form an integral part of these audited financial statements.

WEST PERTH POWER INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
Cash Flows from Operating Activities		
Net Income (loss)	\$ (46,628)	\$ (63,709)
Items not requiring an outlay of cash:		
Amortization	<u>206,127</u>	<u>185,168</u>
	159,499	121,459
Changes in non-cash working capital balances:		
Accounts receivable	(451,293)	339,320
Inventory	(6,475)	372
Prepaid expenses	(86,251)	6,426
Accounts payable and accrued liabilities	36,897	144
Regulatory liabilities	(6,306)	182,765
Customer deposits	(2,239)	(14,407)
Due from related party	<u>(28,314)</u>	<u>-</u>
Net Cash Provided by (Used in) Operating Activities	(384,482)	636,079
Cash Flows from Investing Activities		
Additions to property, plant and equipment	<u>(266,037)</u>	<u>(180,411)</u>
Net Increase (Decrease) in Cash	(650,519)	455,668
Cash, Beginning of Year	<u>1,474,968</u>	<u>1,019,300</u>
Cash, End of Year	<u>\$ 824,449</u>	<u>\$ 1,474,968</u>
Supplemental Cash Flow Information		
Interest paid	<u>\$ 23,359</u>	<u>\$ 93,970</u>

The attached Auditors' Report and notes form an integral part of these audited financial statements.

WEST PERTH POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

1. Nature of Operations

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

The Company is wholly owned by the Municipality of the Corporation of West Perth. West Perth Power Inc. ("the Company") is in the business of distributing electricity to the communities of Mitchell and Dublin.

2. Significant Accounting Policies

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

(a) Property, Plant and Equipment

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

Plant and equipment	
Automotive equipment	5 years
Computer equipment	5 years
Service, office and other equipment	10 years
Leasehold improvements	5 years
Transmission and distribution system	5 - 25 years

Construction work in progress is recorded at cost until such time that the asset is completed and available for use.

(b) Contributions to Property, Plant and Equipment

Contributions are received from developers and contractors for capital costs incurred by the Company. These contributions are included as a reduction to the cost of the related Property, Plant or Equipment when those assets are placed in service.

The attached Auditors' Report and notes form an integral part of these audited financial statements.

WEST PERTH POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

2. Significant Accounting Policies (cont.)

(c) Revenue Recognition

(i) Electricity Sales

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

(ii) Interest Income

Interest income is recognized on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Company.

(iii) Service Revenue

Service revenue is recognized as service is performed.

(iii) When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

(d) Financial Instruments

The Company's financial assets and financial liabilities are classified and measured as follows:

- Cash is classified as held for trading and is measured at fair value. Gains and losses related to periodical revaluation are recorded in net income.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value and, subsequently, at amortized cost using the effective interest rate method.
- Investments are classified as available for sale and are measured at fair value. Gains and losses related to periodical revaluation are recorded in AOCI.
- Accounts payable and accrued liabilities, regulatory liabilities, customer deposits, due from related party and demand note payable are classified as other liabilities and are initially measured at fair value and, subsequently, at amortized cost using the effective interest rate method.

WEST PERTH POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

2. Significant Accounting Policies (cont.)

(e) Financial Effects of Distribution Rate Regulation

The financial results presented are in accordance with generally accepted accounting principles and within that framework the Company accounts for the impact of regulatory actions in the following manner:

(i) Regulatory Decisions to Adjust Distribution Rates

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset or creation of a liability and culminating in an adjustment to the Company's distribution rates, such occurrences are immediately reflected in the Company's accounts.

(ii) Regulatory Direction and Practice

In the absence of regulatory decision impacting rates, and where the Company is required by regulatory accounting practice or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. 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 decisions 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.

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provisions for future uncertainty, are more fully described in note 5 to the financial statements.

(f) Payments in Lieu of Income Taxes ("PILs")

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

The attached Auditors' Report and notes form an integral part of these audited financial statements.

WEST PERTH POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

2. Significant Accounting Policies (cont.)

(g) Inventories

Effective January 1, 2008, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031 - *Inventories*, which is based on the International Accounting Standards Board's International Accounting Standard 2 and replaced existing CICA Handbook Section 3030. Under this new standard, inventories are required to be measured at the lower of cost and net realizable value and any items considered to be major future components of property, plant and equipment are to be transferred to property, plant and equipment. The new standard also provides updated guidance on the appropriate methods of determining cost and the impact of any write-downs to net realizable value. The implementation of this standard did not have any impact on the Company's results of operations.

Inventories consist primarily of materials and supplies. Inventories are carried at the lower of cost and net realizable value, with cost determined on an average cost basis net of a provision for obsolescence.

(h) Use of Estimates

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

(i) Impairment of Long-lived Assets

Long-lived assets are tested for recoverability when events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized when the carrying value exceeds the total undiscounted cash flow expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

The attached Auditors' Report and notes form an integral part of these audited financial statements.

WEST PERTH POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

2. Significant Accounting Policies (cont.)

(j) Accounting Changes

(i) Generally Accepted Accounting Principles

Effective January 1, 2009, the Company adopted the changes to CICA Handbook Section 1100 - *Generally Accepted Accounting Principles*. The amendment to this section removed the temporary exemption pertaining to the application of the section to the recognition and measurement of assets and liabilities arising from rate regulation. In response to the removal of the exemption, the Company established accounting policies for the recognition and measurement of assets and liabilities arising from rate regulation. In accordance with the Canadian GAAP hierarchy guidance framework outlined in CICA Handbook Section 1100, the company has determined that its assets and liabilities arising from rate regulation qualify for recognition under Canadian GAAP and this recognition is constant with U.S. Statement of Financial Accounting Standards No. 71, *Accounting for Effects of Certain Types of Regulations* ("FAS71"). The company concluded that its policies for assets and liabilities arising from rate regulation were consistent with the primary sources of Canadian GAAP and were developed through the exercise of professional judgment. As a result there was no changes in the Company's opening retained earnings as at January 1, 2009 or the Company's results from operations for the year ended December 31, 2009 as a result of the adoption of this section.

(ii) Income tax expense

Effective January 1, 2009, the Company retroactively adopted the liability method for accounting for income taxes and restated prior period amounts. Under this method, future income tax assets are recognized for the differences between the financial statement carrying amounts of existing assets and liabilities and their respective values for income tax purposes. These differences are measured using substantively enacted tax rates in effect in the period in which these differences are expected to be recovered or settled. As a rate regulated entity, future income taxes will be returned to customers as they are recovered. As a result, all increases or decreases in future income tax assets are offset by a regulatory liability. As a result of the adoption of this standard, future income tax assets of \$635,000 were determined to exist, however given the uncertainty about the Company's ability to utilize those assets, a full valuation allowance was taken. There was no impact to prior period earnings as a result of adopting this standard.

The attached Auditors' Report and notes form an integral part of these audited financial statements.

WEST PERTH POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

2. Significant Accounting Policies (cont.)

(k) Future Accounting Changes

(i) International Financial Reporting Standards ("IFRS")

On February 13, 2008, the Accounting Standards Board of Canada ("AcSB") confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2012.

A limited number of converged or IFRS-based standards will be incorporated into Canadian GAAP prior to 2012, with the remaining standards to be adopted at the change over date.

The Company has an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its financial statements. Although the impact of the adoption to IFRS on the Company's Balance Sheet and Income Statement is not yet reasonably determinable or estimable, the company does expect a significant increase in financial statement disclosure requirements resulting from the adoption of IFRS, and is designing the systems and related process changes, which will be required in order to provide the additional information required to make these disclosures.

In July 2009, the International Accounting Standards Board ("IASB") issued an exposure draft on rate regulated activities. The IASB staff has postponed presenting their analysis of the responses to the IASB. This presentation may include options for the next steps of the rate regulated activities project. It is unclear at this time what the outcome of the IASB's deliberations will be and how that will impact the Company's reporting under IFRS.

At this time, the impact on the Company's future financial statements cannot be determined.

3. Accounts Receivable

	2009	2008
Energy, water and sewer	\$ 520,689	\$ 334,885
Unbilled energy	796,050	574,477
Service revenues	<u>43,917</u>	<u>-</u>
	<u>\$ 1,360,656</u>	<u>\$ 909,362</u>

The amounts shown above are net of allowance for doubtful accounts of \$139,768 (2008 - \$49,079).

The attached Auditors' Report and notes form an integral part of these audited financial statements.

WEST PERTH POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

4. Property, Plant and Equipment

	Cost	Accumulated Amortization	Net 2009	Net 2008
Land	\$ 3,745	\$ -	\$ 3,745	\$ 3,745
Plant and equipment	344,860	284,492	60,368	44,431
Transmission and distribution system	<u>4,444,051</u>	<u>2,735,810</u>	<u>1,708,241</u>	<u>1,664,269</u>
	<u>\$ 4,792,656</u>	<u>\$ 3,020,302</u>	<u>\$ 1,772,354</u>	<u>\$ 1,712,445</u>

During the year, the Company recorded amortization of \$206,127 (2008 - \$185,168).

5. Regulatory Liabilities

Regulatory liabilities consist of the following:

	2009	2008
Retail settlement variances	\$ 543,708	\$ 409,435
Deferred charges	(367,616)	(156,042)
Demand side management expenses	-	(70,609)
Future payment in lieu of income tax liability	<u>881,000</u>	<u>-</u>
	1,057,092	182,784
Recovery of regulatory assets	<u>(16,874)</u>	<u>(16,488)</u>
	<u>\$ 1,073,966</u>	<u>\$ 199,272</u>

The OEB approved an Interim Rate Order for May 1, 2008, that effectively removed the recovery allocation of the regulatory assets amounts until the final Cost of Service Rate Application was approved. The new Cost of Service Rate Order approved by the OEB, effective December 1, 2008, includes an allocation of the recovery of the low voltage energy variances. The remainder of the regulatory assets will be recovered based on future rate orders.

- (a) Retail settlement variances represent amounts accumulated since the opening of the electricity market on May 1, 2002. These variances are comprised of variances between amounts charged by the Independent Electricity Market Operator and amounts billed to customers plus variances from settlement and transmission charges. In the absence of rate regulations, these costs (revenues) would be charged to the period incurred.
- (b) Demand side management ("DSM") amounts are expenses incurred in accordance with OEB rules and regulations and represent costs to the Company of literature provided to its customers and capital expenditures to provide energy conservation. In the absence of rate regulations, these costs (revenues) would be charged to the period incurred.

The attached Auditors' Report and notes form an integral part of these audited financial statements.

WEST PERTH POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

6. Investment

	2009	2008
386 common shares in Sunlife Financial, at market value (cost - \$1).	\$ <u>11,677</u>	\$ <u>10,978</u>

7. Customer Deposits

Customer deposits are obtained as security for energy consumption. On an annual basis, interest is calculated at a rate of 1.5% and credited to the customers' utility accounts. Also included are security deposits received for construction projects.

8. Related Party Transactions

The companies are related as follows:

The Municipality of the Corporation of West Perth owns all the outstanding common shares of West Perth Power Inc.

The revenue reflected in the financial statements includes the electricity revenue for the sale of electricity to the Corporation of the Municipality of West Perth. These transactions are in the normal course of operations at rates approved by the Ontario Energy Board.

The following table summarizes the company's related party transactions for the year.

	2009
Revenues	\$ <u>67,621</u>
Expenses	\$ <u>104,081</u>

At the end of the year, amounts due to the related party is as follows:

	2009	2008
Corporation of the Municipality of West Perth	\$ <u>1,144,079</u>	\$ <u>1,172,393</u>

The balances are interest free and payable on demand.

9. Demand Note Payable

The demand note payable interest rate is currently 7.25% and is set by the Board of Directors, from time to time. There are no fixed repayment terms associated with the principle outstanding and no principal amounts are anticipated to be paid over the next twelve months.

During 2009, \$85,796 was charged to interest expense for interest on related party long-term debt (\$86,004 - 2008).

The attached Auditors' Report and notes form an integral part of these audited financial statements.

WEST PERTH POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

10. Share Capital

Authorized

Unlimited number of common shares

Issued capital

550 common shares

	2009	2008
	\$ <u>2,118,274</u>	\$ <u>2,118,274</u>

11. Prudential Support Requirements

The Company, as a Local Distribution Company under the Energy Competition Act, 1998, R.S.O., posted prudential support obligations on market opening, May 1, 2002 with the Electric Independent Market Operator. The prudential support obligation as at October 2006 was \$382,227 and had not changed as at December 31, 2009. The prudential support requirement is honoured through a letter of credit.

12. Payments in Lieu of Income Taxes

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

	2009	2008
Income (loss) from continuing operations before PILs	\$ (46,628)	\$ (63,709)
Statutory Canadian Federal and Provincial income tax rate	33.00 %	33.50 %
Basic rate applied to income before PILs	(15,387)	(21,343)
Other	<u>15,387</u>	<u>21,343</u>
Provision for payment in lieu of income tax	<u>\$ -</u>	<u>\$ -</u>
Effective tax rate	<u>- %</u>	<u>- %</u>

The Company as of December 31, 2009 has recorded a future payment in lieu of income tax asset of \$881,000 (2008 - \$Nil) and future income tax regulatory liability of \$881,000 (2008- \$Nil), based on future substantively enacted income tax rates.

The attached Auditors' Report and notes form an integral part of these audited financial statements.

WEST PERTH POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

12. Payments in Lieu of Income Taxes (cont.)

Significant components of the Company's future income tax assets and regulatory liability are as follows:

	2009	2008
Property, plant and equipment	\$ 547,000	\$ 555,000
Regulatory adjustments	287,000	50,000
Non-Capital loss carryforwards	<u>47,000</u>	<u>30,000</u>
	881,000	635,000
Valuation allowance	<u>-</u>	<u>(635,000)</u>
	<u>\$ 881,000</u>	<u>\$ -</u>

In addition, the Company has accumulated non-capital losses for tax purposes of \$188,000, which are available to offset income in the future. These non-capital loss carry forwards of \$120,000 and \$68,000 will expire in 2015 and 2029 respectively.

13. Lease Commitments

The Company has entered into various contractual agreements. The future minimum annual payments under contractual agreements are as follows:

Year ending	\$ 88,354
December 31, 2011	<u>88,354</u>
	<u>\$ 176,708</u>

14. Capital Disclosures

The Company's main objective is to ensure ongoing access to funding to maintain and improve the electricity distribution system of the Company.

As at December 31, 2009 the Company's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2009, shareholders' equity amounts to \$1,764,629 (2008 - \$1,810,558) and long-term debt amounts to \$1,183,391 (2008 - \$1,183,391). The Company's structure as at December 31, 2009 is 40% debt and 60% equity (2008 - 40% debt and 60% equity). There have been no changes in the Company's approach to capital management during the year.

15. Subsequent Event

Subsequent to year end, the Company sold 100% of its issued and outstanding shares for \$1,693,000, which was funded through the issuance of shares of the purchasing Company. As part of the purchase consideration, the Company agreed to purchase and subscribe for one voting Class "A" share of the purchaser for consideration of one dollar.

The attached Auditors' Report and notes form an integral part of these audited financial statements.

WEST PERTH POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

16. Contingent Liability

On March 2, 2010 the Electric Distributors Association ("EDA") presented to its members and all electric distributors in Ontario, the terms of a tentative settlement with respect to a pending class action lawsuit against all local distribution company's ("LDC's") regarding the charging of late payment penalties ("LPP's") which are alleged to have contravened Section 347 of the Criminal Code. It is contended that LPP's are "interest" as defined in the Criminal Code and that, in certain circumstances, the implied rate of interest exceeds the prescribed limit of 60%.

The plaintiffs seek repayment of all improper LPP charges. This litigation has been pending since 1994 in the case of Toronto Hydro, and since 1998 in the case of all the other LDC's. Similar class actions were also brought against Enbridge/Consumers Gas and Union Gas. On each of these occasions, the Supreme Court of Canada has made rulings which were favourable to the plaintiffs and which deprived the defendant utilities of most of their defences to these claims.

In light of the settlement in the other cases, industry counsel instruction by an Ad Hoc Committee of the EDA recently participated in a court-supervised mediation process to explore possible settlement of the case against the LDC's. A settlement in principle of the litigation on behalf of all LDC's has now been reached. The tentative settlement agreement requires the unanimous consent and approval of all LDC's. All LDC's must indicate their acceptance of the settlement on or before April 5, 2010. The Ontario Superior court of Justice convened a hearing on May 26, 2010 to consider the settlement of the class action suit at which a tentative resolution was reached. Specific details related to the Company's liabilities are not yet available at this time.

17. Financial Instruments

As a rate-regulated entity, the nature of the Company's operations are defined and restricted by regulation. Financial operations and risks are also substantially influenced by regulation, limiting the necessity to engage in risk mitigation strategies involving the use of derivatives or hedges, and the Company did not engage in those activities during the fiscal year.

The company has adopted CICA Handbook Section 3861- *Financial Instruments* for disclosure purposes as the Company's financial instruments are not subject to disclosure requirements under Section 3862 or 3863 of the CICA Handbook

a) Credit Risk

By regulation, the Company is responsible for collecting both the distribution and energy portions of the electricity bill. On average, 16% of amounts billed to customers are for distribution charges and 84% of the bill is energy related. Unless the retailer elects to bill the customers directly for the energy portion of the bill, the Company is exposed to a credit risk substantially greater than their portion of the electricity bill.

The attached Auditors' Report and notes form an integral part of these audited financial statements.

WEST PERTH POWER INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

17. Financial Instruments (cont.)

a) Credit Risk (cont.)

Mitigation of substantial losses is provided through the opportunity to apply for recovery for those losses through distribution rate adjustments in future years, if approved by the regulator. Additionally, regulation provides for certain customers to provide security deposits for a prescribed period of period to mitigate collection loss.

The Company is not exposed to a significant concentration of credit risk within any customer segment or individual customer.

b) Fair Values

The fair values of the Company's financial assets and liabilities approximate their book values unless otherwise disclosed.

c) Interest Rate Risk

The Company is subject to the risks associated with debt financing, including the risk that existing indebtedness secured by the property may not be refinanced or that the terms of such refinancing may not be as favourable as the terms of existing indebtedness. The Company does not use any hedging instruments to mitigate its risk.

18. Comparative Figures

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

The attached Auditors' Report and notes form an integral part of these audited financial statements.