FINANCIAL STATEMENTS

KITCHENER-WILMOT HYDRO INC.

January 1 – December 31, 2005

March 13, 2006

REPORT TO SHAREHOLDERS:

CORPORATION OF THE CITY OF KITCHENER

CORPORATION OF THE TOWNSHIP OF WILMOT

We are pleased to provide you with the fifth Annual Report of Kitchener-Wilmot Hydro Inc. for the period ending December 31, 2005.

As required by Provincial Legislation the former Hydro-Electric Commission of Kitchener-Wilmot ceased operations on July 31, 2000 and the new successor local distribution company Kitchener-Wilmot Hydro Inc. was created effective August 1, 2000 by Municipal Transfer By-Laws of the City and Township. This Annual Report represents the fifth full fiscal year of operations for the new Corporation.

2005 continued to be a year of enormous change for Ontario=s electricity industry, Kitchener-Wilmot Hydro Inc. continued to meet the challenge of responding effectively and in a timely manner to numerous changes mandated by the Ontario Energy Board and the Ministry of Energy. The regulation of the Province's local distribution companies' continues to be onerous and extremely time consuming for staff at a time of substantial growth for Kitchener-Wilmot Hydro.

During the year the company achieved further efficiencies in the way electrical power and other services are delivered to our customers. This improvement reflects the success of our distribution asset management strategy. The Board continues to support the need for investment in system upgrades and expansion which is vital to ensuring our continued ability to deliver safe and reliable electricity.

Kitchener-Wilmot Hydro Inc. achieved a new safety milestone in 2005, reaching 750,000 worker hours without a lost-time accident. We will continue to promote a healthy and safe work environment for the corporation=s valued employees.

2005 was a year of high growth in terms of new customers. A total of 2,204 new customers were connected to our system. Kilowatt hour sales increased approximately 96 million kWhrs as a result of experiencing an extremely hot summer. Operating costs were effectively controlled during the year and the corporation remains in a strong financial position for the future.

Your Corporation continues to deliver electricity to the citizens of our communities with the lowest local residential retail rates. By controlling costs the Corporation continues to have the lowest local distribution costs amongst all the major utilities in the province. At the same time, the system infrastructure is continually being refurbished and enhanced in order to continue to provide a reliable and a safe supply of electricity. The Corporation continues to provide value to its shareholders, the City of Kitchener and the Township of Wilmot, as well as to its customers and provides a supporting base for economic development in the communities we serve.

In conclusion, we wish to thank the Board and all staff for their dedication, support and commitment to excellence which has provided us with a solid base to meet future unknown challenges as we move along the path of deregulation with its ever changing regulation environment.

K. DIEBEL, CHAIR

R. CHARIE, PRESIDENT & C.E.O.

MANAGEMENT REPORT

December 31, 2005

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Kitchener-Wilmot Hydro Inc. are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the Company are described in note 2 of the notes section to the financial statements. The preparation of the financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been prepared within reasonable limits of materiality and in light of information available up to February 24, 2006.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable information was available on a timely basis. The system included formal policies and procedures, and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

These financial statements have been examined by KPMG LLP, a firm of independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles in Canada. The Auditor's Report, which follows, outlines the scope of their examination and their opinion.

On behalf of management,

R. Charie, B.Comm., C.G.A.
President & CEO

G.L. Guthrie, C.G.A.
Vice-President, Finance

KPMG LLP
Chartered Accountants
20 Erb Street West
Marsland Centre 3rd Floor
Waterloo ON N2L 1T2

Telephone 519-747-8800
Fax 519-747-8830
Internet www.kpmg.ca

AUDITORS' REPORT

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

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

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

KPMG LLP

Chartered Accountants

Waterloo, Canada

February 24, 2006

Kitchener-Wilmot Hydro Inc.

BALANCE SHEET

As at December 31st	2005 $	2004 $
ASSETS		
Current assets		
Cash and cash equivalents	**34,667,286**	25,388,538
Accounts receivable (note 4)	**29,554,370**	30,330,565
Inventories (note 5)	**2,743,155**	2,730,039
Prepaid expenses	**440,789**	337,257
Payments-in-lieu of corporate income taxes receivable	**772,242**	-
Current portion of regulatory assets (note 17)	**1,438,808**	967,135
Total current assets	**69,616,650**	59,753,534
Capital assets – net of accumulated amortization (note 6)	**132,020,384**	129,692,812
Regulatory assets (note 17)	**9,328,358**	4,977,243
Reserve for impairment of regulatory assets (notes 2 [a] & 3 [ii])	**(3,444,911)**	(3,444,911)
Total assets	**207,520,481**	190,978,678
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	**22,700,544**	16,139,821
Payments-in-lieu of corporate income taxes payable	**-**	95,658
Current portion of customer and construction deposits (note 8)	**5,935,296**	6,561,535
Current portion of regulatory liabilities (note 17)	**1,673,044**	339,750
Total current liabilities	**30,308,884**	23,136,764
Long-term liabilities		
Long-term debt (note 9)	**76,962,142**	76,962,142
Customer deposits (note 8)	**2,826,501**	2,098,041
Post-employment benefits (note 11)	**4,524,686**	4,612,979
Regulatory liabilities (note 17)	**10,102,534**	5,681,890
Total long-term liabilities	**94,415,863**	89,355,052
Total liabilities	**124,724,747**	112,491,816
Shareholders' equity		
Share capital – common shares (note 12)	**63,689,499**	63,689,499
Retained earnings	**19,106,235**	14,797,363
Total shareholders' equity	**82,795,734**	78,486,862
Total liabilities and shareholders' equity	**207,520,481**	190,978,678

Approved by the Board of Directors

K. Diebel, Chair

R. Charie, President & C.E.O. / Director

See accompanying notes

STATEMENT OF RETAINED EARNINGS

For the year ended December 31st

	2005 $	2004 $
Retained earnings, beginning of year	**14,797,363**	11,449,841
Net Income	**5,121,880**	3,889,527
Dividend paid out (note 23)	**(813,008)**	(542,005)
Retained earnings, end of year	**19,106,235**	14,797,363

See accompanying notes

Kitchener-Wilmot Hydro Inc.

STATEMENT OF OPERATIONS

For the year ended December 31st

	2005 **$**	2004 $
REVENUE		
Sales Revenue		
Distribution services revenue	**31,503,586**	29,363,383
Electric energy services (note 13)	**151,137,931**	127,393,701
	182,641,517	156,757,084
Other revenue		
Investment income	**573,697**	1,241,270
Late payment penalties	**178,528**	180,040
Miscellaneous revenue (note 14)	**860,757**	788,029
	1,612,982	2,209,339
Total revenue	**184,254,499**	158,966,423
EXPENSES		
Electric energy services (note 13)	**151,137,931**	127,393,701
Distribution operations and maintenance	**5,418,660**	5,052,878
General administration	**2,105,315**	2,323,924
Customer accounts	**2,288,198**	2,341,230
Community relations	**424,949**	308,790
Property and capital taxes	**1,020,503**	1,006,150
Amortization (note 15)	**8,218,644**	8,045,955
Total expenses	**170,614,200**	146,472,628
Income before interest and provision for payments-in-lieu of corporate income taxes	**13,640,299**	12,493,795
Interest expense	**5,578,968**	5,581,825
Income before provision for payments-in-lieu of corporate income taxes	**8,061,331**	6,911,970
Provision for payments-in-lieu of corporate income taxes (note 18)	**2,939,451**	3,022,443
NET INCOME	**5,121,880**	3,889,527

See accompanying notes

Kitchener-Wilmot Hydro Inc.

STATEMENT OF CASH FLOWS

For the year ended December 31st

	2005 $	2004 $
OPERATING ACTIVITIES		
Net Income	**5,121,880**	3,889,527
Add (deduct) charges to operations not requiring a current cash payment:		
(Gain) on disposal of capital assets	**(50,514)**	(35,377)
Amortization (note 15)	**8,744,270**	8,562,155
(Decrease) increase in post-employment benefits obligation (note 11)	**(88,293)**	220,616
Increase (decrease) in non-current customer deposits (note 8)	**728,460**	(57,056)
Net change in non-cash operating working capital (note 16)	**6,587,752**	(2,613,684)
Cash provided by operating activities	**21,043,555**	9,966,181
INVESTING ACTIVITIES		
(Additions) to capital assets	**(15,081,086)**	(16,543,655)
Decrease in long-term regulatory assets / liabilities (note 17)	**69,529**	3,070,625
Proceeds on disposals of capital assets	**67,690**	35,454
Cash (applied to) investing activities	**(14,943,867)**	(13,437,576)
FINANCING ACTIVITIES		
Increase in contributed capital	**3,992,068**	3,622,128
Dividends paid out (note 23)	**(813,008)**	(542,005)
Cash provided by financing activities	**3,179,060**	3,080,123
Net cash provided (applied) during the year	**9,278,748**	(391,272)
Cash and cash equivalents, beginning of year	**25,388,538**	25,779,810
Cash and cash equivalents, end of year	**34,667,286**	25,388,538
Cash and cash equivalents is represented by:		
Cash	**667,286**	1,888,538
Cash equivalents	**34,000,000**	23,500,000
	34,667,286	25,388,538
Supplemental cash flow information		
Interest paid	**5,575,286**	5,538,676
Payments-in-lieu of corporate income taxes and capital taxes	**4,302,981**	3,414,883

See accompanying notes

1. INCORPORATION

Kitchener-Wilmot Hydro Inc. [the Company] is a regulated electricity distribution company incorporated under the Business Corporation Act (Ontario) on July 1, 2000. The incorporation was required in accordance with the provincial government's Energy Competition Act (Bill 35). The Company is wholly owned by Kitchener Power Corporation whose shareholders are the City of Kitchener and the Township of Wilmot.

These municipalities both passed by-laws which transferred the net assets of the former Hydro-Electric Commission of Kitchener-Wilmot to the new Company on August 1, 2000. Certain surplus property assets and cash funds were excluded from the transfer and were retained by the City and the Township.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ["GAAP"] including accounting principles prescribed by the Ontario Energy Board [the "OEB"] in the Accounting Procedures Handbook [the "AP Handbook"] for Electric Distribution Utilities, and reflect the significant accounting policies as summarized below:

[a] Rate regulation

Kitchener-Wilmot Hydro Inc. is regulated by the Ontario Energy Board under the authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity customers, and for ensuring the distribution companies fulfill obligations to connect and service customers.

The economic impact of rate regulation is reported in these financial statements. Regulatory assets represent future revenues associated with certain costs that may be recovered from customers in future periods through the rate-making process. Regulatory liabilities represent future reduction in revenues associated with amounts that are expected to be refunded to customers through the rate-making process.

In its capacity to approve or fix rates, the OEB has specified the following regulatory treatments, which have resulted in accounting treatments that differ from GAAP for enterprises operating in a non-regulated environment:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[a] Rate regulation (continued)

[i] Transition costs

Capital and operating costs incurred in respect of the transition to competitive electricity markets in Ontario [transition costs or market ready costs] have been deferred in accordance with the criteria set in the OEB's Electricity Distribution Rate Handbook and the AP Handbook. Under such regulation, certain costs are allowed to be deferred that would be expensed when incurred under GAAP. To the extent that transition costs have been incurred which do not qualify for deferral, these costs have been expensed during the period they were incurred.

[ii] Pre-market opening energy variance

At December 31, 2002, the Company recognized the pre-market opening energy variance [the "variance"] for the period January 1, 2001 to April 30, 2002, the date of market opening [notes 3 and 17], in accordance with the AP Handbook. The variance represents the difference between the utility's cost of power purchased based on time-of-use ["TOU"] rates, and the amounts billed for the cost of power to non-TOU customers at an average rate for the same period.

[iii] Settlement variances

The Company has deferred certain post-market opening retail settlement variances in accordance with Article 490 set out in the AP Handbook. The settlement variances relate primarily to service charges, non-competitive electricity charges, and power charges (note 17). Other than the variance for the cost of imported power, the nature of the settlement variances is such that their balance shall change each reporting period-end date.

[iv] Conservation and demand management costs

Conservation and demand management [CDM] program costs incurred in 2004 and 2005 have been deferred pursuant to the OEB's Procedural Order No. 1 and the AP Handbook. Effective for 2005 and subsequent years, a CDM contra asset account has been established in accordance with the OEB's AP Handbook, which effectively reverts the original entries and recognizes CDM related expenses and CDM related capital assets incurred by the Company, in accordance with GAAP.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[a] Rate regulation (continued)

[v] OEB incremental cost assessments

OEB costs which have been assessed to the Company in 2004 and 2005, and which are incremental to amounts already included in the Company's rates, have been deferred in accordance with the AP Handbook. It is expected these costs will be recovered in rates beginning in 2006. To the extent that OEB cost assessments have been incurred which do not qualify for deferral, these costs have been expensed during the period they were incurred.

[vi] OMERS pension costs

Cash pension costs and associated carrying costs incurred by the Company beginning in 2005, have been deferred in accordance with the OEB's letter of direction of February 15, 2005 to all local electricity distribution companies. It is expected these costs will be recovered in rates starting in 2006. To the extent that OMERS pension costs have been incurred which do not qualify for deferral, these costs have been expensed during the period they were incurred.

[vii] Ontario price credit administration costs

In October 2005, provincial regulation 566/05 was passed, requiring a rebate to be paid to all residential and low volume commercial customers (regulated price plan customers), equal to the difference between the wholesale energy price and the fixed price of electricity during the period April 1, 2004 to March 31, 2005.

Any unforeseen costs incurred by the Company related to the payment of the Ontario Price Credit to participating retailers and to low volume and designated consumers, as required by Ontario Regulation 48/05, has been deferred in accordance with the OEB's letter of December 13, 2005 to all licensed electricity distributors. Disposition of these amounts will be considered by the OEB when setting rates for 2007. To the extent that administration costs relating to the payment of the Ontario Price Credit have been incurred do not qualify for deferral, these costs have been expensed during the period they were incurred.

[viii] Low voltage wheeling service costs

Low voltage wheeling service costs incurred since market opening have been deferred in accordance with Ontario Energy Board order dated December 14, 2001. The low voltage wheeling service costs relates to the use of Kitchener-Wilmot Hydro Inc.'s distribution facilities to supply load to Waterloo North Hydro's Wellesley high tension transformer station as per their request. It is expected these costs will be recovered in rates commencing in 2006.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[b] Cash and cash equivalents

Cash equivalents are readily convertible investments with maturities of three months or less from their date of acquisition. Investments are carried at costs, which approximates market value.

[c] Inventories

Inventories consist of parts, supplies and material held for the future capital expansion and are valued at the lower of average weighted cost and net realizable value.

[d] Spare transformers and meters

Spare transformers and meters are classified as capital assets in accordance with guidance in the CICA Handbook.

[e] Capital assets and amortization

Capital assets are valued at cost. Costs for assets installed or erected by the Company include material, labour and overhead.

Amortization is provided on a straight-line basis for capital assets available for use over their estimated service lives, at the following annual rates:

Buildings	2%
Transformer station equipment	2.5%
Distribution station equipment	3.33%
Distribution system	4%
Meters	4%
SCADA equipment	6.67%
Other capital assets	10 – 25%

Amortization on general equipment directly used in the installation of other capital assets, is capitalized to the new assets based on a pro-ration of the time during the year they are used for such purposes.

Full amortization is recorded in the year of acquisition and none in the year of disposal, except for readily identified assets, which are amortized on a monthly basis.

For readily identifiable assets retired or disposed of, the asset and related accumulated amortization are removed from the records. Differences between the proceeds, if any, and the unamortized asset amount plus removal costs are recorded as a gain or loss in the year of disposal.

For grouped assets, the assets and accumulated amortization are removed from the records at the end of their estimated average service life, regardless of actual service life.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[f] Computer software

The acquisition costs of major computer software systems are amortized by the straight-line method at an annual rate of 20%, which approximates their estimated useful lives.

[g] Construction in progress

Capital assets under construction at year-end are referred to as construction in progress and disclosed as a component of capital assets. Construction in progress is recognized as a capital asset and amortized when the asset is either put into service or construction is substantially completed

[h] Contributed capital

Prior to January 1, 2000, contractor's capital contributions toward the construction or acquisition of capital assets by the Company were referred to as miscellaneous paid-in capital and disclosed as a permanent component of utility equity.

Effective May 1, 2000, the Company prospectively adopted the change in accounting policy for contributions received in aid of construction [contributed capital], as prescribed by the OEB "Accounting Procedures Handbook for Electric Distribution Utilities". Contributed capital contributions are required contributions received from outside sources, used to finance additions to capital assets. Contributed capital contributions received are treated as a "credit" contra account included in the determination of capital assets. The amount is subsequently amortized by a charge to accumulated amortization and a credit to amortization expense, at an equivalent rate to that used for the amortization of the related capital assets.

[i] Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[j] Payments-in-lieu of corporate income taxes and capital taxes

The current tax-exempt status of the Company under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Company is wholly owned by municipalities. This tax-exempt status might be lost in a number of circumstances, including if the municipality ceases to own 90% or more of the shares or capital of the Company, or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Company.

Commencing October 1, 2001, the Company is required, under the Electricity Act 1998, to make payments-in-lieu of corporate income taxes ["PILs"] to Ontario Electricity Financial Corporation, which will be used to repay the stranded debt incurred by the former Ontario Hydro. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act 1998 and related regulations.

As a result of becoming subject to PILs, the Company's taxation year was deemed to have ended immediately beforehand and a new taxation year was deemed to have commenced immediately thereafter. The Company was therefore deemed to have disposed of each of its assets at their then fair market value and to have reacquired such assets at that same amount for purposes of computing its future income subject to PILs. For purposes of certain provisions, the Company was deemed to have a new company and, as a result, tax credits or tax losses not previously utilized by the Company would not be available to it after the change in tax status. Essentially, the Company was taxed as though it had a "fresh start" at the time of its change in tax status.

The Company provides for PILs relating to its regulated business using the taxes payable method as allowed by the OEB. Under the taxes payable method, no provisions are booked for temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes, as a result of temporary differences between tax basis and accounting purposes become payable, they will be charged to the statement of operations at that time.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[k] Post-employment benefits

Employee future benefits provided by Kitchener-Wilmot Hydro Inc. include medical and life insurance benefits. These plans provide benefits to certain employees when they are no longer providing active service. Employee future benefit expense is recognized in the period in which the employees render the services.

Employee future benefits are recorded on an accrual basis. The accrued benefit obligations and current service cost are calculated using the projected benefits method pro-rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. Actuarial gains (losses) are expensed during the period in which the gains (losses) become known.

[l] Pension plan

Kitchener-Wilmot Hydro Inc. provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ["OMERS"]. OMERS is a multi-employer pension plan, which operates as the Ontario Municipal Employees Retirement Fund [the "Fund"] and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. Prior to 2005, the Company recognized the expense related to this plan as contributions were made.

In 2005, cash pension costs incurred by the Company were deferred and recognized as regulatory assets as per OEB direction, which are expected to be recovered in distribution rates commencing in 2006 (see note 2 [a] [vi]).

[m] Revenue recognition and cost of electrical energy

The Company records revenue from the sale of energy on the basis of regular meter readings and estimates of customer usage since the last meter reading to the end of the year. The cost of power is recognized when the energy is consumed.

[n] Use of estimates

The preparation of financial statements, in conformance 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 date of the financial statements and the reported amounts of revenue and expenses for the year. Actual results could differ from those estimates including changes as a result of future decisions made by the OEB, Minister of Energy, or the Minister of Finance.

3. ELECTRICITY INDUSTRY RESTRUCTURING AND REGULATION

On October 30, 1998, the provincial government passed the Electricity Act and the Ontario Energy Board Act, collectively known as Bill 35, the Energy Competition Act, 1998. The Electricity Act established the framework for a competitive market for the sale of electricity in the Province of Ontario. The Ontario Energy Board Act gave the Ontario Energy Board [OEB] the power to licence and regulate all market participants, and set transmission and distribution rates.

The electricity marketplace was deregulated on May 1, 2002 and electricity generators, electricity wholesalers and retailers began competing for customers. As mandated by the Energy Competition Act [Bill 35], a three-year phase-in (2001 to 2003) of the electricity distributors' commercial rate of return and provincial tax increases was implemented to smooth the impact on consumers of the transition of distributors from municipal electric utilities.

However, in response to volatile and rising electricity prices in 2002, the Province of Ontario enacted The Electricity Pricing, Conservation and Supply Act, 2002 [Bill 210]. This new legislation was given Royal Assent on December 9, 2002 which effectively froze distribution rates until 2006, and fixed the commodity price paid by low volume and designated customers at 4.3 cents per kilowatt-hour [kWh] retroactive May 1, 2002.

On December 18, 2003, Bill 210 was superseded and modified by Bill 4 when a newly elected provincial government passed the Ontario Energy Board Amendment Act (Electricity Pricing), 2003 which enabled further changes to the pricing of electricity in Ontario.

In June 2004, the provincial government introduced legislation to further restructure the electricity industry. On December 9, 2004, this new legislation, the Electricity Restructuring Act, 2004 [Bill 100] received Royal Assent. Bill 100 makes amendments to the Electricity Act, and the Ontario Energy Board Act, 1998. The legislation deals primarily with supply and conservation, reassigns responsibilities to different entities, and lays out the roles and responsibilities for the new Ontario Power Authority (OPA). Additionally, the Independent Market Operation (IMO) was renamed the Independent Electricity System Operator (IESO) to better reflect its new role.

[i] Electricity commodity pricing

On April 1, 2004, Bill 4 removed the 4.3 cents commodity price freeze, and a two-tiered pricing regime was implemented for all low volume and designated. The commodity price was fixed at 4.7 cents per kWh for the first 750 kWh of consumption per month and 5.5 cents per kWh for any incremental monthly consumption thereafter. This current two-tiered pricing regime remained in place until April 1, 2005 when the OEB replaced the fixed price plan with a regulated price plan [RPP].

This regulated price plan retained the two-tiered pricing regime for all low volume and designated customers. However, different prices are prescribed for different levels of consumption, depending on the time of the year. The RPP prices are based on an OEB's forecast of the price of electricity between April 1, 2005 and April 30, 2006. RPP prices may be adjusted periodically by the OEB to reflect the expected price of wholesale energy and to "true up" the price paid by consumers to the actual cost of wholesale energy paid to generators.

Commencing at a date to be determined by the OEB, residential customers with smart meters will pay a three-part variable rate, based on peak, off-peak and shoulder prices. Large business and industrial consumers will continue to pay default rates that fluctuate with wholesale electricity prices, or have the option of entering into electricity supply contracts with competitive retailers.

3. ELECTRICITY INDUSTRY RESTRUCTURING AND REGULATION (CONTINUED)

[ii] Recovery of regulatory assets

The Electricity Pricing, Conservation and Supply Act, 2002, eliminated the ability of electricity distributors to recover a variety of costs incurred since their preparations for market opening. These costs were deemed to be "regulatory assets", and are reflected in the balance sheet until the manner and timing of disposition is determined by the OEB.

With the introduction of the Ontario Energy Board Amendment Act (Electricity Pricing), 2003, the Company was allowed to recover some of its regulatory assets under the supervision of the OEB, on an interim basis, over a four-year period starting April 1, 2004 (note 17). In light of the four-year time span coupled with uncertainty and associated political risks, management has recorded a reserve for regulatory asset impairment in the amount of $3,444,911. This represents the pre-market opening energy variance of $3,033,473 and the transition costs of $411,438, net of carrying charges, incurred to meet the requirements of market readiness.

On December 9, 2004, the OEB released its process for OEB review of the prudence of the total regulatory asset amounts claimed by electricity distributors. This process, which commenced in 2005, will determine the final recovery amount of their regulatory assets to be included in future distribution rates. This determination will be released by the OEB as part of their 2006 distribution rate approval process.

[iii] Recovery of the third instalment of market adjusted revenue requirement [MARR]

Provincial legislation allowed electricity distributors to adjust their distribution rates in 2005 to collect the third instalment of the prescribed regulated rate of return of 9.88%, conditional on LDCs investing the equivalent of one year of these monies in conservation and demand management initiatives, by no later than September 30, 2007. In 2005, the OEB approved this rate recovery of the Company's third instalment and its Conservation and Demand Management Plan which commits expenditures totalling $2,340,264.

4. ACCOUNTS RECEIVABLE

	2005 $	2004 $
Electric energy	**9,042,098**	11,332,288
Miscellaneous	**1,581,390**	2,977,092
	10,623,488	14,309,380
Less: Allowance for doubtful accounts	**(325,000)**	(325,000)
	10,298,488	13,984,380
Unbilled revenue receivable	**18,993,000**	16,143,900
Interest receivable	**85,264**	68,547
Related parties receivable:		
Atria Networks Inc.	**4,819**	11,358
City of Kitchener	**116,689**	120,434
Township of Wilmot	**56,110**	1,946
	177,618	133,738
	29,554,370	30,330,565

Related Party Transactions

The Company conducted the following transactions with related parties during the year ended December 31, 2005. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

	2005 $	2004 $
Atria Networks Inc. (formerly known as Fibretech Telecommunications Inc.) – construction, engineering and operation services	**218,529**	318,745
City of Kitchener – capital and maintenance street light services	**528,007**	518,261
Township of Wilmot – capital and maintenance street light services	**68,920**	9,914
	815,456	846,920

5. INVENTORIES

Inventories consist of:

	2005 $	2004 $
Stores	**2,219,283**	2,191,251
Transformers	**471,035**	489,936
Meters	**52,837**	48,852
	2,743,155	2,730,039

6. CAPITAL ASSETS – NET OF ACCUMULATED AMORTIZATION

2005	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Land	3,528,937	-	3,528,937
Land rights	261,699	236,652	25,047
Buildings	14,978,483	3,610,830	11,367,653
Transformer station equipment	36,707,954	10,874,183	25,833,771
Distribution station equipment	2,759,055	1,504,323	1,254,732
Distribution system – conductors and devices	133,215,241	60,939,893	72,275,348
Distribution system – line and network transformers	40,522,990	18,384,200	22,138,790
Meters	10,336,671	4,640,033	5,696,638
SCADA – system supervisory equipment	1,928,386	1,379,740	548,646
Other capital assets	11,637,337	7,778,434	3,858,903
Construction in progress	2,931,473	-	2,931,473
	258,808,226	109,348,288	149,459,938
Less: Contributed capital	(20,619,130)	(2,697,484)	(17,921,646)
	238,189,096	106,650,804	131,538,292
Computer Software			
Financial system software	572,305	518,585	53,720
Supervisory control software	82,220	59,923	22,297
Meter interrogation software	111,221	67,136	44,085
Computer aided design system software	372,001	319,010	52,991
Network software	296,391	103,989	192,402
Human resources software	154,108	37,511	116,597
	1,588,246	1,106,154	482,092
	239,777,342	107,756,958	132,020,384

6. CAPITAL ASSETS – NET OF ACCUMULATED AMORTIZATION (continued)

2004	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Land	3,527,347	-	3,527,347
Land rights	261,699	234,149	27,550
Buildings	14,590,879	3,338,236	11,252,643
Transformer station equipment	35,768,199	9,969,220	25,798,979
Distribution station equipment	2,759,055	1,411,055	1,348,000
Distribution system – conductors and devices	126,360,361	56,425,790	69,934,571
Distribution system – line and network transformers	38,076,020	16,786,277	21,289,743
Meters	9,878,861	4,238,905	5,639,956
SCADA – system supervisory equipment	1,928,386	1,292,334	636,052
Other capital assets	10,828,564	7,608,697	3,219,867
Construction in progress	1,303,769	-	1,303,769
	245,283,140	101,304,663	143,978,477
Less: Contributed capital	(16,627,062)	(1,872,719)	(14,754,343)
	228,656,078	99,431,944	129,224,134
Computer Software			
Financial system software	572,225	489,746	82,479
Supervisory control software	60,620	58,203	2,417
Meter interrogation software	61,071	57,814	3,257
Computer aided design system software	352,854	273,132	79,722
Network software	287,926	79,560	208,366
Human resources software	106,316	13,879	92,437
	1,441,012	972,334	468,678
	230,097,090	100,404,278	129,692,812

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2005	2004
	$	$
Independent Electricity System Operator	**15,613,514**	12,557,704
Ontario Electricity Financial Corporation	**1,005,357**	927,472
Energy rebates payable	**2,918,901**	167
Others	**3,162,772**	2,654,478
	22,700,544	16,139,821

8. CUSTOMER AND CONSTRUCTION DEPOSITS

	2005 $	2004 $
Construction deposits	**3,729,596**	3,692,135
Customer deposits – current portion	**2,205,700**	2,869,400
	5,935,296	6,561,535
Customer deposits – non current portion	**2,826,501**	2,098,041

9. LONG-TERM DEBT

[i] Effective August 1, 2000, Kitchener-Wilmot Hydro Inc. incurred unsecured promissory notes payable to the City of Kitchener and to the Township of Wilmot. The amounts due at the end of the year are:

	2005 $	2004 $
City of Kitchener	**70,997,576**	70,997,576
Township of Wilmot	**5,964,566**	5,964,566
	76,962,142	76,962,142

[ii] Interest for year 2005 is paid quarterly at an annual effective rate of 7% (OEB established rate). Repayment of all or part of the outstanding principal may be made upon eighteen months written notice. The Company paid the following interest:

	2005 $	2004 $
City of Kitchener	**4,969,830**	4,983,446
Township of Wilmot	**417,520**	418,664
	5,387,350	5,402,110

10. PENSION PLAN

Effective August 1, 1998, OMERS provided a temporary contribution holiday, with no company or employee pension contributions required until after December 31, 2002. In January 2003, OMERS contributions resumed at reduced rates and in January 2004, returned to full levels at higher rates than before the contribution holiday. The cash pension costs incurred by the Company in 2004 in the amount of $626,881 were recorded as an expense in the statement of operations.

In 2005, cash pension costs totalling $678,442 paid by the Company are deferred and recognized as regulatory assets as directed by the OEB and are expected to be recovered in distribution rates starting in 2006.

11. POST-EMPLOYMENT BENEFITS

Kitchener-Wilmot Hydro Inc. pays certain health, dental and life insurance benefits on behalf of its retired employees.

The significant actuarial assumptions adopted in measuring the accrued benefit obligations are as follows:

	2005	2004
	%	%
Discount rate	**5.0**	5.5
Future general salary and wage levels increase	**3.3**	3.5
Future general inflation increase	**2.2**	2.2
Dental costs increase	**CPI rate plus a further 2.8% increase in 2005, through to 2010 and thereafter**	CPI rate plus a further 3.4% increase in 2004, graded down to 1.65% in 2009 and thereafter
Medical costs increase	**CPI rate plus a further 12.8% increase in 2005, graded down to 7.8% in 2010 and thereafter**	CPI rate plus a further 10.8% increase in 2004, graded down to 8.3% in 2009 and thereafter

Information about Kitchener-Wilmot Hydro Inc.'s defined benefits plans is as follows:

	2005	2004
	$	$
Accrued benefit obligation		
Balance, beginning of the year	**4,612,979**	4,392,363
Benefit cost for the year	**365,802**	386,140
Amortized gain	**(285,689)**	-
Benefits paid for the year	**(168,406)**	(165,524)
Projected accrued benefit obligation at December 31 as determined by actuarial valuation	**4,524,686**	4,612,979

12. SHARE CAPITAL

	2005	2004
	$	$
Authorized		
Unlimited common shares		
Issued		
10,000 common shares	**63,689,499**	63,689,499

13. ELECTRIC ENERGY SERVICES

	2005 $	2004 $
Revenue		
Electricity	**121,936,358**	100,523,367
Wholesale market services	**14,209,543**	12,451,334
Transmission services	**14,926,176**	14,351,393
Retailer services	**65,854**	67,607
	151,137,931	127,393,701
Costs		
Electricity	**121,936,358**	100,523,367
Wholesale market services	**14,209,543**	12,451,334
Transmission services	**14,926,176**	14,351,393
Retailer services	**65,854**	67,607
	151,137,931	127,393,701

14. MISCELLANEOUS REVENUE

	2005 $	2004 $
Pole attachment rentals, building and other rentals	**405,152**	448,771
Change of occupancy charges	**146,659**	142,749
Scrap sales	**79,714**	27,580
Net gain on disposal of capital assets	**36,188**	35,377
Unsealing / reconnection charges	**19,562**	18,731
Accounts payable discounts taken	**38,505**	31,142
Return cheque charges	**11,311**	12,592
Sundry	**123,666**	71,087
	860,757	788,029

15. AMORTIZATION

	2005 $	2004 $
Amortization	**8,218,644**	8,045,955
Various expense accounts	**525,626**	516,200
	8,744,270	8,562,155

16. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	2005 $	2004 $
Decrease (increase) in accounts receivable	**776,195**	(2,820,342)
(Increase) in inventories	**(13,116)**	(301,834)
(Increase) decrease in prepaid expenses	**(103,532)**	81,140
(Increase) in payment-in-lieu of corporate income taxes	**(867,900)**	(32,103)
(Increase) in current portion of regulatory assets	**(471,673)**	(967,135)
Increase in accounts payable and accrued liabilities	**6,560,723**	42,709
(Decrease) increase in current portion of customer and construction deposits	**(626,239)**	1,044,131
Increase in current portion of regulatory liabilities	**1,333,294**	339,750
	6,587,752	(2,613,684)

17. REGULATORY ASSETS & LIABILITIES

The "Electricity Pricing, Conservation and Supply Act, 2002" [Bill 210] deems certain costs and variance account balances to be accounted for as regulatory assets [note 2(a)].

The Ontario Energy Board Amendment Act, (Electricity Pricing), 2003 [Bill 4] allowed LDCs to adjust their distribution rates to recover some of its regulatory assets, on an interim basis, over a four year period starting April 1, 2004.

On December 9, 2004 the OEB released its process for OEB review of the prudence of the total regulatory asset amounts claimed by electricity distributors. This process, which commenced in 2005, will determine the final recovery amount of their regulatory assets to be included in future distribution rates.

[i] Regulatory assets consist of the following:

	2005	2004
	$	$
Current portion of regulatory assets:		
Pre-market opening energy variance	**-**	478,243
Rebate program costs	**-**	15,973
Retailer service cost variances	**549**	3,065
Retail settlement variances	**1,438,259**	407,665
Transition costs	**-**	62,189
	1,438,808	967,135
Long-term portion of regulatory assets:		
Conservation and demand management	**269**	19,000
OEB cost assessments	**268,884**	95,514
OMERS pension costs	**690,536**	-
Pre-market opening energy variance	**4,676,227**	3,150,786
Rebate program costs	**175,076**	97,696
Retailer service cost variances	**109,631**	66,138
Retail settlement variances	**5,042,716**	2,470,108
Transition costs	**538,494**	357,466
Other deferred credits	**62,191**	-
	11,564,024	6,256,708
Less: Regulatory assets recovered	**(2,235,666)**	(1,279,465)
	9,328,358	4,977,243
Total regulatory assets	**10,767,166**	5,944,378

17. REGULATORY ASSETS & LIABILITIES (CONTINUED)

[ii] Regulatory liabilities consist of the following:

	2005	2004
	$	$
Current portion of regulatory liabilities:		
OEB cost assessments	**25,211**	-
Pre-market opening energy variance	**834,905**	-
Rebate program costs	**26,274**	-
Retailer service cost variances	**17,227**	-
Retail settlement variances	**663,705**	310,757
Transition costs	**96,192**	-
Other deferred credits	**9,530**	28,993
	1,673,044	339,750
Long-term portion of regulatory liabilities:		
Retailer service cost variances	**13,775**	2,772
Retail settlement variances	**10,088,759**	5,540,012
Other deferred credits	**-**	139,106
	10,102,534	5,681,890
Total regulatory liabilities	**11,775,578**	6,021,640

[iii] The following table illustrates the pro-forma effect on income before provision for payments-in-lieu of corporate income taxes, of the recognition of regulatory assets and liabilities:

	2005	2004
	$	$
Income before provision for payments-in-lieu of corporate income taxes	**8,061,331**	6,911,970
Energy related variances		
Retail settlement services	**1,016,484**	2,106,125
Interest on energy related variances	**280,692**	(3,764)
	1,297,176	2,102,361
Non-energy related variances		
Conservation and demand management	**-**	(19,000)
OEB cost assessments	**(139,565)**	(93,564)
OMERS pension costs	**(678,442)**	-
Rebate program costs	**(28,155)**	-
Regulatory assets recovery	**828,817**	1,253,414
Retailer services	**(6,968)**	(25,654)
Other deferred credits	**(160,657)**	-
Interest on non-energy related variances	**(141,100)**	(609,600)
	(326,070)	505,596
Incremental effect on income	**971,106**	2,607,957
Income before provision for payments-in-lieu of corporate income taxes without recognition of regulatory assets and liabilities	**9,032,437**	9,519,927

18. CORPORATE INCOME AND CAPITAL TAXES

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

[i] Statement of Operations

	2005	2004
	$	$
Rate reconciliation:		
Income from continuing operations before income taxes	**8,061,331**	6,911,970
Statutory Canadian Federal and Provincial income tax rate	**36.12%**	36.12%
Expected taxes on income	**2,911,753**	2,496,604
Other permanent differences	**9,242**	5,940
Increase (decrease) in income taxes resulting from:		
Large corporations tax net of surtax	**119,242**	143,856
Other current year timing differences not benefited	**91,812**	387,071
Dividend refund	**(271,003)**	(180,668)
Increased tax on investment income	**78,405**	169,640
Income tax expense	**2,939,451**	3,022,443
Effective tax rate	**36.46%**	43.73%
Components of income tax expense:		
Current tax expense, including large corporations tax	**2,939,451**	3,022,443
Income tax expense	**2,939,451**	3,022,443

[ii] Balance Sheet

Future income taxes relating to the regulated businesses have not been recorded in the accounts as they are expected to be recovered through future revenues. As at December 31, 2005, future income tax assets of $11,321,225 [2004 - $10,547,203], based on substantively enacted income tax rates have not been recorded.

As prescribed by regulatory rate orders, income tax expense is recovered from customers through the rate-making process based on the taxes payable method. Therefore, rates do not include the recovery of future income taxes related to temporary differences between the tax basis of assets and liabilities, and their carrying amounts for accounting purposes.

19. CREDIT RISK AND FINANCIAL INSTRUMENTS

[i] Credit risk

For distribution retail customers, credit losses are generally low across the sector. The Company provides for an allowance for doubtful accounts to absorb credit losses. At December 31, 2005, there are no significant concentrations of credit risk with respect to any class of financial assets.

[ii] Fair value of financial instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and promissory notes payable approximates their fair value due to the immediate or short-term maturity of these financial instruments.

20. PRUDENTIAL SUPPORT OBLIGATION

Kitchener-Wilmot Hydro Inc. purchases power from the Independent Electricity System Operator [IESO] on behalf of its customers and retailers. The IESO [formerly IMO] is responsible for ensuring that prudential support is posted by all market participants to mitigate the impact of an event of default by a market participant on the rest of the market. In this regard, at December 31, 2005, Kitchener-Wilmot Hydro Inc. has posted an irrevocable standby letter of credit as security in the amount of $25,558,870 [2004 - $25,558,870] underwritten by the Company's principal bank. The Company has entered into a credit facility agreement with its bank in which contains certain financial covenants.

21. GENERAL LIABILITY INSURANCE

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange [MEARIE], which is a pooling of general liability insurance risks. Members of MEARIE would be assessed on a pro-rata basis should losses be experienced by MEARIE, for the years in which the Company was a member. To December 31, 2005, the Company has not been made aware of any additional assessments.

22. CONTINGENT LIABILITY

Griffith et al. v. Toronto Hydro-Electric Commission et al.

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 Consumer 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 Consumers Gas, 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. Presently, a mediation process is underway to attempt to resolve the issue of the damages payable by Consumer Gas.

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 intend 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.

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

23. DIVIDENDS

Dividends in the amount of $813,008 [2004 - $542,005] were declared and paid to Kitchener Power Corporation in 2005. The Company is in compliance with its covenants contained in the Company's credit facility agreement with its bank pertaining to the payment of dividends.

24. COMPARATIVE FIGURES

Certain of the prior year comparative figures have been restated to conform to the current year's presentation.

SUPPLEMENTARY FINANCIAL STATEMENTS

KITCHENER-WILMOT HYDRO INC.

January 1 – December 31, 2005

KPMG LLP
Chartered Accountants
20 Erb Street West
Marsland Centre 3rd Floor
Waterloo ON N2L 1T2

Telephone 519-747-8800
Fax 519-747-8830
Internet www.kpmg.ca

AUDITORS' REPORT ON SUPPLEMENTARY FINANCIAL INFORMATION

Kitchener-Wilmot Hydro Inc.

We have audited and reported separately herein on the financial statements of Kitchener-Wilmot Hydro Inc. as at and for the year ended December 31, 2005.

Our audit was conducted for purposes of forming an opinion on the basic financial statements of the Company taken as a whole. The supplementary information included in the Supplementary Financial Statements is prepared for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

Chartered Accountants

Waterloo, Canada

February 24, 2006

Kitchener-Wilmot Hydro Inc.

YEAR IN BRIEF

For the year ended December 31st

	2005	2004
Financial Highlights		
Total revenue	**$184,254,499**	$158,966,423
Total expenses	**$179,132,619**	$155,076,896
Net income	**$5,121,880**	$3,889,527
Additions of capital assets	**$15,081,086**	$16,543,655
Net capital assets	**$132,020,384**	$129,692,812
Long-term debt	**$76,962,142**	$76,962,142
Shareholders' equity	**$82,795,734**	$78,486,862
Rate of return on net capital assets	**6.8%**	6.3%
Debt to equity ratio	**48.2%**	49.5%
Current ratio	**2.30**	2.58
Customer Data		
Number of customers	**79,487**	77,283
Number of employees	**168**	167
Kilowatt hour sales	**2,096,185,970**	1,999,939,117
Kilowatts purchased	**3,904,539**	3,717,361
Kilowatt peak demand	**386,568**	344,351
Performance Indicators		
Controllable expenses per customer	**$128.79**	$129.74
Average monthly system load factor	**72.5%**	73.1%

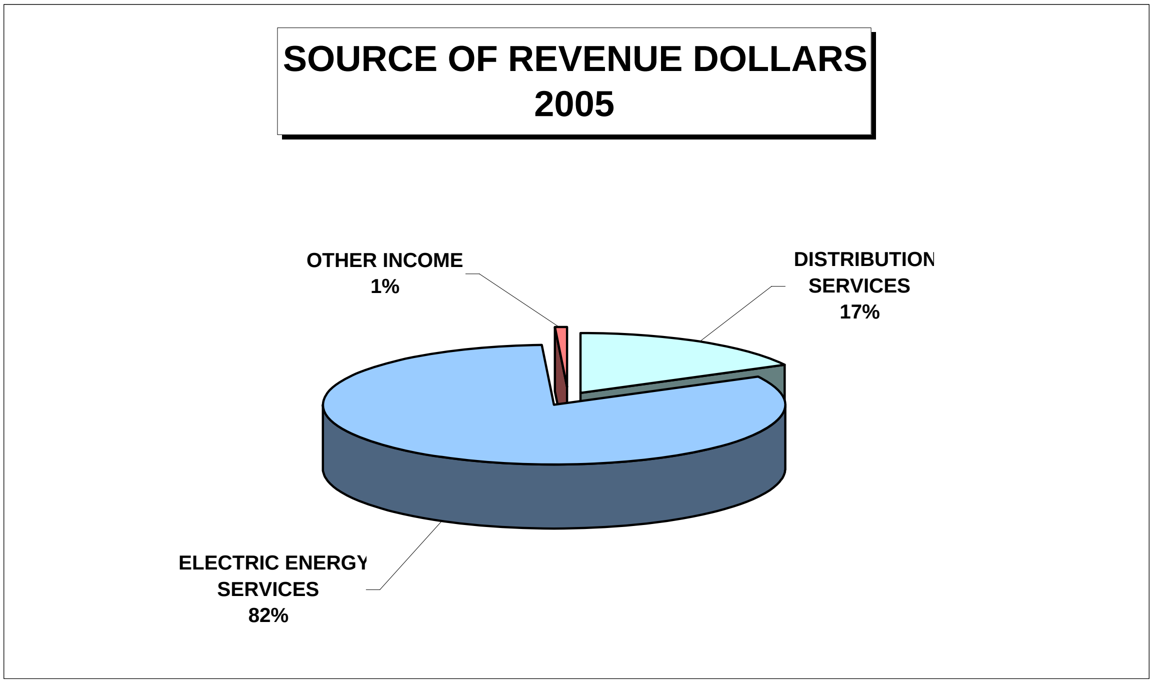
	OEB Standard %	**Annual % met within minimum standards %**	Annual % met within minimum standards %
Connection of new services – low voltage	90.0	**90**	88
Connection of new services – high voltage	90.0	**100**	100
Underground cable locates	90.0	**96**	100
Telephone accessibility	65.0	**83**	74
Appointments met	90.0	**94**	95
Written responses to inquiries	80.0	**100**	97
Emergency response – urban areas	80.0	**93**	98
Emergency response – rural areas	80.0	**100**	100

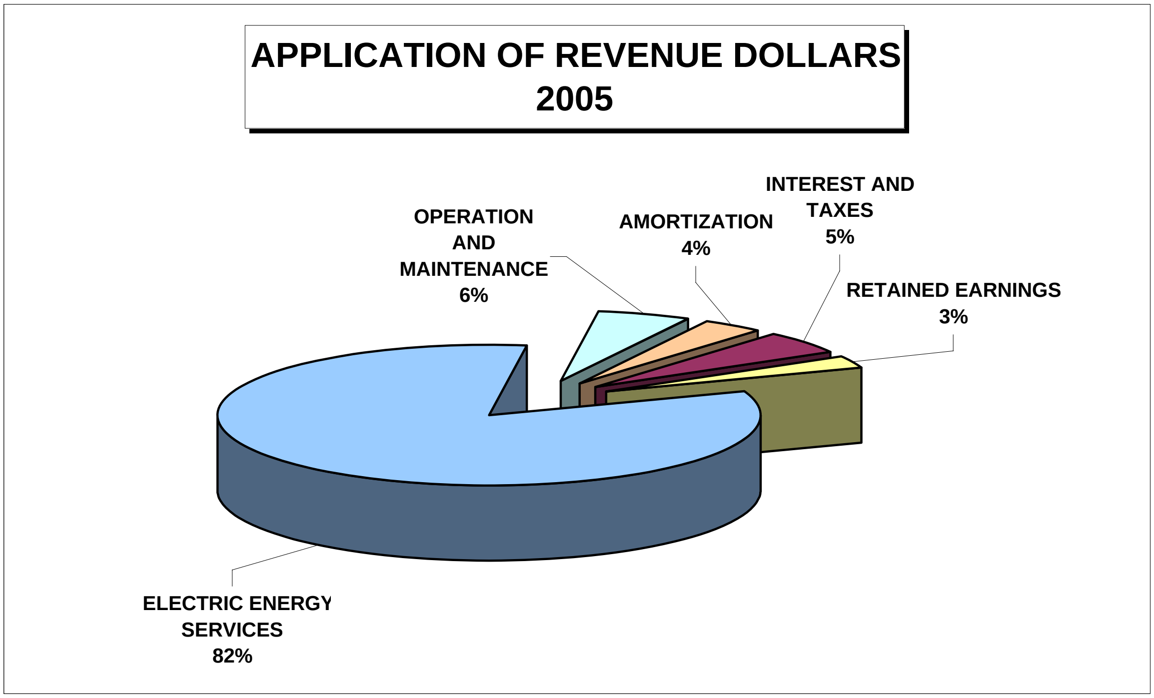
Service Reliability Indices

System average interruption duration (minutes)	**59.9**	32.2
System average interruption frequency index (average number of interruptions per customer)	**0.80**	0.51
Customer average interruption duration (minutes)	**74.8**	63.4

SOURCE & APPLICATION OF REVENUE DOLLARS

For the year ended December 31st





OPERATING STATISTICS

For the year ended December 31st

	2005	2004
Kilowatt Hours Sold		
Residential	**659,625,447**	611,126,167
General Service	**1,187,722,170**	1,137,365,729
Large User	**233,288,313**	235,982,074
Street Lighting	**15,550,040**	15,465,147
	2,096,185,970	1,999,939,117

	2005	2004
Number of Customers		
Residential	**71,490**	69,405
General Service	**7,993**	7,874
Large User	**4**	4
	79,487	77,283
Average monthly kilowatts	**325,378**	309,780

STATEMENT OF CAPITAL ASSETS

For the year ended December 31st

		2005 $
Land		3,528,937
Land Rights		261,699
Buildings		
Distribution and transformer stations (as per list)	6,052,136	
Operations centre – Victoria Street South	8,526,892	
Vehicle maintenance garage building	399,455	14,978,483
Equipment		
Distribution and transformer station equipment (as per list)	38,138,638	
Spare power transformer	1,115,380	
Portable mobile transformer substation	79,664	
Portable mobile generator	133,327	39,467,009
Distribution system – overhead conductors and devices	50,331,799	
Distribution system – underground conductors and devices	82,883,442	133,215,241
Distribution system – line transformers	40,217,642	
Distribution system – network transformers	305,348	40,522,990
Meters		10,336,671
SCADA – system supervisory equipment		1,928,386
General office equipment	881,158	
Computer equipment	2,143,632	
Computer application software	1,588,246	
Vehicles & equipment	6,972,494	
Stores warehouse equipment	95,274	
Major tools, instruments & radios	1,520,396	
Safety equipment	24,383	13,225,583
Construction in progress		2,931,473
Contributed capital		(20,619,130)
		239,777,342

Kitchener-Wilmot Hydro Inc.

STATEMENT OF TRANSFORMER STATION BUILDINGS AND EQUIPMENT

For the year ended December 31st

		2005 $	2005 $
		BUILDINGS	**EQUIPMENT**
Distribution station # 1	New Hamburg	**110,211**	**403,613**
Distribution station # 2	New Hamburg	**31,314**	**262,291**
Distribution station # 3	New Dundee	**122,611**	**330,143**
Distribution station # 5	Josephsburg	**50,227**	**239,304**
Distribution station # 6	Baden	**109,666**	**493,728**
Distribution station # 7	New Hamburg	**144,047**	**330,439**
Distribution station # 8	Philipsburg	**156,153**	**486,545**
Transformer station # 1	West Avenue	**709,637**	**4,546,852**
Transformer station # 2	Bleams Road	**460,149**	**1,312,316**
Transformer station # 3	Bleams Road	**817,730**	**6,411,480**
Transformer station # 4	West Avenue	**477,438**	**4,013,905**
Transformer station # 5	Graber Place	**402,274**	**3,275,468**
Transformer station # 6	Ottawa Street South	**548,654**	**6,165,785**
Transformer station # 7	Fairway Road	**666,626**	**4,162,492**
Transformer station # 8	Huron Road	**1,245,399**	**5,704,277**
		6,052,136	**38,138,638**

ADDITIONS TO CAPITAL ASSETS

For the year ended December 31st

		2005 $
Land		
Motz Park		1,590
Buildings		
Operations centre – Victoria Street South	66,476	
Transformer station # 4	287,051	353,527
Transformer station equipment		
Transformer station # 1	367,121	
Transformer station # 3	142,462	
Transformer station # 4	2,916	
Transformer station # 5	515,861	
Transformer station # 6	321,017	
Transformer station # 8	7,565	1,356,942
Distribution system – conductors and devices		
Overhead	2,949,720	
Underground	5,815,216	8,764,936
Distribution system – line and network transformers		2,428,816
Meters		457,810
General Office equipment		63,344
Computer hardware		253,520
Computer software		186,516
Vehicles and equipment		1,116,613
Major tools, instruments and radios		97,472
		15,081,086

CHANGES IN WORKING CAPITAL COMPONENTS

For the year ended December 31st

	2005 $
Current Assets	**69,616,650**
Current Liabilities	**(30,308,884)**
Working Capital	**39,307,766**

	2005 $	2004 $	Change $
Cash and cash equivalents	**34,667,286**	25,388,538	9,278,748
Accounts receivable	**29,554,370**	30,330,565	(776,195)
Inventories	**2,743,155**	2,730,039	13,116
Prepaid expenses	**440,789**	337,257	103,532
Payments-in-lieu of corporate income tax	**772,242**	(95,658)	867,900
Current portion of regulatory assets	**1,438,808**	967,135	471,673
Accounts payable and accrued liabilities	**(22,700,544)**	(16,139,821)	(6,560,723)
Current portion of customers and Construction deposits	**(5,935,296)**	(6,561,535)	626,239
Current portion of regulatory liabilities	**(1,673,044)**	(339,750)	(1,333,294)
Working Capital	**39,307,766**	36,616,770	2,690,996