WESTARIO POWER INC.

Notes to Financial Statements

Year ended December 31, 2003

Westario Power Inc. (the "Company") was incorporated under the laws of the Province of Ontario for the purpose of distribution of electricity in accordance with legislation provided in the Energy Competition Act, 1998. Effective May 6, 2002, Westario Power Inc., Hanover electric Services Inc. and Minto Hydro Inc. were amalgamated to form Westario Power Inc.

The principal business of Westario Power Inc. is the distribution and sale of electricity to customers in mid-western Ontario. These businesses are regulated by the Ontario Energy Board ("OEB"). The Ontario Energy Board Act, 1998 gave the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for licensed distributors of electricity.

1. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(a) Revenue recognition:

In accordance with OEB regulation, the Company recognizes as revenue the regulated distribution tariffs associated with energy distributed and variances between energy purchase costs and energy billed are recorded as regulatory assets or liabilities for future rate application consideration.

The Company follows the practice of cycle billing customers' accounts and revenue is recognized in the period billed. An accrual is made in the accounts at December 31 for power supplied but not billed to customers between the date the meters were last read and the end of the year.

(b) Deferred organizational costs:

Costs incurred to establish the Westario Power group of companies. These are being amortized on a straight-line basis over five years.

1. Significant accounting policies (continued):

(c) Capital assets:

Capital assets are recorded at cost. Amortization is provided on the straight-line basis using the following annual rates:

Asset	Rate
Buildings	4%
Distribution stations	3%
Distribution lines, overhead	4%
Distribution lines, underground	4%
Distribution equipment and transformers	4%
Meters	4%
Computer software	20%

(d) Goodwill:

Goodwill reflects the excess of the purchase price over the fair value of net tangible assets acquired. Goodwill is not amortized. The Company has not tested for goodwill impairment since the adoption of The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3062 in January, 2002.

(e) Financial instruments:

The Company's financial instruments consist of accounts receivable, bank borrowings and accounts payable. Management is of the opinion that the fair values of all financial assets and liabilities are not materially different from their carrying values. The carrying value of long-term debt approximates its fair value as debt bears interest at rates comparable to current market rates.

(f) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. Change in accounting policy:

Effective January 1, 2003, and in accordance with the recommendation of the Canadian Institute of Chartered Accountants, the Company retroactively adopted the liability method for accounting for income taxes and restated prior period amounts. Under this method, future income tax assets and liabilities are recognized for 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 those differences are expected to be recovered or settled. To the extent that there is uncertainty regarding the recovery of a future income tax asset a valuation allowance reducing the future income tax asset is recorded. This change in accounting policy resulted in a retroactive increase as at December 31, 2001 to both long-term future income tax assets and retained earnings in the amount of $797,000.

3. Capital assets:

			2003	2002
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 107,769	$ -	$ 107,769	$ 107,769
Buildings	6,517	1,050	5,467	5,789
Distribution stations	3,073,798	436,609	2,637,189	2,519,457
Distribution lines, overhead	8,809,696	1,241,471	7,568,225	7,205,241
Distribution lines, underground	4,772,049	754,156	4,017,893	4,219,214
Distribution equipment and transformers	258,630	163,800	94,830	146,557
Distribution transformers	3,335,216	502,440	2,832,776	2,790,869
Meters	1,639,223	212,724	1,426,499	1,145,966
Computer software	242,929	48,589	194,340	-
	$ 22,245,827	$ 3,360,839	$ 18,884,988	$ 18,140,862

4. Regulatory assets:

	2003	2002
Transition costs	$ 2,189,795	$ 2,046,896
Pre-market opening energy variance	1,021,006	1,021,006
Post market energy variances	61,742	1,105,850
Deferred payment in lieu of taxes	55,810	37,729
Other	78,219	59,809
	$ 3,406,572	$ 4,271,290

(a) Transition costs and retail settlement variance accounts:

Regulatory assets represent costs incurred by the Company for the purpose of supporting the deregulation of the electricity industry in Ontario. These amounts have been accumulated pursuant to regulations underlying the Electricity Act ("EA") and deferred in anticipation of their future recovery in electricity distribution service charges.

Transition costs represent specific and incremental costs to the Company for systems and process changes to support the opening of the competitive electricity market in Ontario on May 1, 2002 ("Market Opening"). These costs have been deferred pursuant to regulations underlying the EA and are subject to review and approval for recovery by the OEB. Expenditures determined to be ineligible for recovery will be expensed in the period of such determination.

Pre-market opening cost of power variances represent the excess of the cost of the commodity electricity to the Company over the amount billed to its customers prior to Market Opening.

Post-market opening retail settlement variances represent amounts that have accumulated since Market Opening and comprise:

(i) Variances between amounts charged by the Independent Electricity Market Operator ("IMO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges and transmission charges, and the amounts billed to customers by the Company based on the OEB approved wholesale market service rate; and,

4. Regulatory assets (continued):

(a) Transition costs and retail settlement variance accounts (continued):

(ii) Variances between the amounts charged by the IMO to allow for purchases of imported electricity and the amounts billed to customers by the Company based on OEB approved rates.

(b) Recovery of regulatory amounts:

In December, 2003, the OEB permitted the Company to commence recovery of regulatory assets through distribution rates over a four-year period commencing March 1, 2004. During fiscal 2004, the Company will receive an interim recovery until such time as the OEB undertakes a detailed review to validate the amounts for final recovery. In accordance with this direction, the Company has filed an application for the first year recovery commencing March 1, 2004, which will amount to an approximate recovery of $900,000 during the Company's fiscal 2004 year.

5. Bank indebtedness:

Westario Power Holdings Inc. has a bank operating line of credit of $3,500,000 which is available to the Company. At December 31, 2003, the Company was indebted to the bank in the amount of $637,674 (2002 - $1,573,094). The line of credit is unsecured and bears interest at bank prime rate less 0.50%. At December 31, 2003 the rate was 4%.

6. Long-term debt:

	2003	2002
Loans payable, at rates varying from 3.5% to 4.75%, monthly principal payments of $12,440 plus interest, due 2005	$ 2,520,540	$ 52,800
Notes payable to shareholders of parent company, 5.47%, payable quarterly interest only, due on demand	9,856,765	12,417,068
	12,377,305	12,469,868
Current portion of loan payable	149,292	21,200
Current portion of shareholders' loans	1,240,000	2,560,303
	$ 10,988,013	$ 9,888,365

The shareholder notes are only due on demand to the extent the shareholder requests payment ninety days prior to year end. In the event a request is made, the Company is obligated to repay the shareholder during the following fiscal year. No repayments are required without a written request. As such, amounts recorded as current were requested by shareholders prior to October 1, 2003.

Principal payments required on long-term debt over the next two years are due as follows:

2004	$ 149,292
2005	2,371,248

7. Related parties:

Westario Power Inc. and Westario Power Services are wholly-owned subsidiaries of Westario Power Holdings Inc.

At the end of the year, the amounts due to related parties are as follows:

	2003	2002
Westario Power Services Inc.	$ 31,631	$ 1,291,978
Westario Power Holdings Inc.	337,759	245,000
	$ 369,390	$ 1,536,978

These balances are unsecured, non-interest bearing with no specific repayment terms.

Westario Power Services Inc., provides management and administrative services to the Company under the term of a management services agreement. The cost of these services for the year was $3,508,400. These transactions are in the normal course of operations and are measured at the exchange amount of considerations agreed to by the related parties.

Westario Power Services Inc., also purchases or constructs capital assets for the Company. The cost of assets purchased or constructed for the year was $1,990,600. These transactions are in the normal course of operations and are measured at the exchange amount of considerations agreed to by the related parties.

Westario Power Holdings Inc. also provides management and administrative services to the Company. The cost of these services for the year was $337,800. These transactions are in the normal course of operations and are measured at the exchange amount of considerations agreed to by the related parties.

8. Income taxes:

(a) Income tax status:

The Company is exempt from income taxes under the Income Tax Act (Canada). Effective October 1, 2001 and pursuant to the EA (1998)(Ontario) the Company is required to make payments in lieu of tax to the Ontario Electricity Financial Corporation. The amount of payments in lieu of tax will be approximately equivalent to the income and capital taxes that would have to be paid if the Company was a taxable corporation under the Income Tax Act (Canada).

8. Income taxes (continued):

(b) Income tax rate:

The Company's effective income tax rates differed from the statutory combined federal and provincial rates primarily due to the following:

		2003		2002
Earnings before income taxes	$	1,090,887	$	1,540,801
Income tax expense based on combined federal and provincial statutory income tax rate of 36.6% (2002 - 38.6%)	$	399,265	$	594,749
Federal and provincial minimum taxes		87,000		52,590
Tax effect of undeductible amounts		6,102		2,040
Increase in future income taxes resulting from statutory rate increases		22,250		2,800
Other items		7,383		411
Income tax expense recognized	$	522,000	$	652,590

9. Share capital:

	2003	2002
Authorized:		
Unlimited common shares, voting		
Issued:		
10,000 common shares	$ 14,064,719	$ 14,064,719

10. Change in non-cash working capital:

		2003	2002
Accounts receivable, net of allowance	$	240,756	(156,582)
Unbilled revenue		1,306,396	(2,653,980)
Prepaid expenses		(6,239)	3,700
Accounts payable and accrued liabilities		(406,158)	(208,360)
Income taxes payable		39,467	8,275
Customer deposits		(124,280)	182,657
Due to related parties		(1,167,588)	(1,383,195)
	$	(117,646)	$ (4,207,485)

11. Public liability insurance:

The Company joined the Municipal Electrical Association Reciprocal Insurance Exchange (the "MEARIE") in 2000. MEARIE is a pooling of the public liability insurance risks of many of the municipal utilities in Ontario. All members of the pool are subject to assessment for losses experienced by the pool for the years in which they were members on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to five years. As at December 31, 2003 no assessments have been made.

12. Credit risks:

Credit risk is the risk that a counterparty will fail to discharge its obligation to the Company reducing the expected cash inflow from Company assets recorded at the balance sheet date. Credit risk can be concentrated in debtors that are similarly affected by economic or other conditions.

The Company has assessed that there are no significant concentrations of credit risk other than the present uncertainty relating to the recovery of regulatory assets. The final regulatory amount recoverable will be assessed in future years by the regulator after the audit of those costs.

13. Prior period figures:

Certain prior period figures presented have been restated to conform with the financial statements presentation adopted in the current year.

Appendix 38

2004 Financial Statements

Financial Statements of

WESTARIO POWER INC.

Year ended December 31, 2004

DISTRIBUTION Jun 24/05
CLIENT 6 55
TAX 4
LONDON 1
WORKING PAPERS 1
SPARE
PARTNER
TOTAL 12

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AUDITORS' REPORT

To the Shareholder of Westario Power Inc.

We have audited the balance sheet of Westario Power Inc. as at December 31, 2004 and the statements of earnings and 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, 2004 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

London, Canada

May 25, 2005

WESTARIO POWER INC.
Balance Sheet

December 31, 2004, with comparative figures for 2003

	2004	2003 (restated)
Assets		
Current assets:		
Cash	$ 1,877,114	$ -
Accounts receivable, net of allowance	2,569,935	3,364,557
Unbilled revenue	5,200,000	5,115,881
Prepaid expenses	80,099	69,729
	9,727,148	8,550,167
Regulatory assets (note 5)	4,777,348	4,811,664
Deferred organizational costs	42,300	63,450
Capital assets (note 4)	19,856,525	18,884,988
Goodwill	2,214,322	2,214,322
	$ 36,617,643	$ 34,524,591
Liabilities and Shareholder's Equity		
Current liabilities:		
Bank indebtedness (note 6)	$ -	$ 637,674
Accounts payable and accrued liabilities	4,551,345	3,716,938
Income taxes payable (note 9)	126,911	47,742
Customer deposits and credit balances	958,683	908,039
Due to related parties (note 8)	1,384,917	369,390
Demand instalment loans (note 6)	3,516,072	2,488,940
Current portion of long-term debt (note 7)	1,773,206	1,261,200
	12,311,134	9,429,923
Long-term debt (note 7)	6,853,959	8,627,165
Future income taxes (note 9)	977,000	729,000
Shareholder's equity:		
Share capital (note 10)	14,064,719	14,064,719
Retained earnings	2,410,831	1,673,784
	16,475,550	15,738,503
Contingency (note 14)		
	$ 36,617,643	$ 34,524,591

See accompanying notes to financial statements.

On behalf of the Board:

____________________ Director ____________________ Director

WESTARIO POWER INC.

Statement of Earnings and Retained Earnings

Year ended December 31, 2004, with comparative figures for 2003

		2004		2003 (restated)
Revenue:				
Electricity, market related	$	29,711,746	$	28,669,393
Distribution		6,889,287		6,950,294
Late payment charges		105,816		205,689
Rental of electric property		293,533		260,799
Retail services		75,128		78,003
Other		517,702		537,706
		37,593,212		36,701,884
Expenses:				
Electricity, market related		29,711,746		28,669,393
Distribution, operation and maintenance		1,062,765		868,047
Billing and collecting		1,342,164		1,365,207
Administration		2,027,773		2,111,825
Rent and maintenance of general plant		236,822		244,262
Community relations and donations		8,352		3,717
Amortization		1,238,925		1,145,966
Interest on long-term debt		475,132		587,641
Other interest		180,937		113,516
Capital and municipal taxes		123,549		147,038
		36,408,165		35,256,612
Earnings before income taxes		1,185,047		1,445,272
Income taxes (note 9):				
Current		200,000		87,000
Future		248,000		626,000
		448,000		713,000
Net earnings		737,047		732,272
Retained earnings, beginning of year:				
Before restatement		1,673,784		455,335
Restatement (notes 1 and 3)		-		486,177
After restatement		1,673,784		941,512
Retained earnings, end of year	$	2,410,831	$	1,673,784

See accompanying notes to financial statements.

WESTARIO POWER INC.

Statement of Cash Flows

Year ended December 31, 2004, with comparative figures for 2003

		2004		2003 (restated)
Cash provided by (used in):				
Operating activities:				
Net earnings	$	737,047	$	732,272
Items not involving cash:				
Amortization of organizational costs		21,150		21,150
Amortization of capital assets		1,217,775		1,124,816
Change in future income tax		248,000		626,000
Changes in non-cash working capital (note 11)		3,707,012		2,635,824
		5,930,984		5,140,062
Investing activities:				
Additions to capital assets		(2,630,024)		(2,893,377)
Regulatory assets		34,316		245,803
		(2,595,708)		(2,647,574)
Financing activities:				
Capital contributions		440,712		1,024,435
Repayment of long-term debt		(1,261,200)		(2,581,503)
		(820,488)		(1,557,068)
Increase in cash		2,514,788		935,420
Bank indebtedness, beginning of year		(637,674)		(1,573,094)
Cash (bank indebtedness), end of year	$	1,877,114	$	(637,674)
Supplemental cash flow information:				
Interest paid	$	656,069	$	703,157
Income taxes paid		185,833		138,900

See accompanying notes to financial statements.

Westario Power Inc. (the "Company") was incorporated under the laws of the Province of Ontario for the purpose of distribution of electricity in accordance with legislation provided in the Energy Competition Act, 1998. Effective May 6, 2002, Westario Power Inc., Hanover electric Services Inc. and Minto Hydro Inc. were amalgamated to form Westario Power Inc.

The principal business of Westario Power Inc. is the distribution and sale of electricity to customers in mid-western Ontario. These businesses are regulated by the Ontario Energy Board ("OEB"). The Ontario Energy Board Act, 1998 gave the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for licensed distributors of electricity.

1. Retroactive adjustment:

The Company has restated its December 31, 2003 financial statements to correct for errors that occurred in the computation and recording of certain regulatory assets in prior periods as well as a change in accounting policy more fully described in note 3. The impact of the restatement was as follows:

	Errors	Policy change (note 3)	Total
Accounts receivable, net of allowance	$ (152,440)	$ -	$ (152,440)
Regulatory assets	1,076,457	328,635	1,405,092
Accounts payable and accrued liabilities	(112,090)	-	(112,090)
Future income tax liability	(403,000)	(88,000)	(491,000)
Revenue	(150,855)	(203,530)	(354,385)
Future income taxes	103,000	88,000	191,000
Retained earnings	(361,072)	(125,105)	(486,177)

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:

2. Significant accounting policies (continued):

(a) Rate regulation:

Westario Power Inc. is regulated by the OEB 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 distribution companies fulfil obligations to connect and service customers.

The economic impact of rate regulation is reported in these financial statements. Regulatory assets represent certain costs that may be recovered from customers in future periods 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.

(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, 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. Other than the variance for cost of imported power, the nature of the settlement variances is such that their balances shall change each reporting period-end date.

2. Significant accounting policies (continued):

(a) Rate regulation (continued):

(iv) Conservation and demand management costs:

No conservation and demand management ("CDM") program costs were incurred during 2004. Provincial regulations allow electricity distribution companies to apply to the OEB to adjust its distribution rates in 2005 for its approved third installment of its market adjusted revenue requirement ("MARR"). OEB approval in regard to this final MARR installment is conditional on investing an amount equal to one year's incremental returns in conservation and demand management initiatives, by no later than September 30, 2007. The Company's final incremental MARR was $659,218.

(v) OEB incremental cost assessments:

OEB costs which have been assessed to the Company in 2004, 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.

(b) Revenue recognition:

In accordance with OEB regulation, the Company recognizes as revenue the regulated distribution tariffs associated with energy distributed. Variances between energy purchase costs and energy billed are recorded as regulatory assets or liabilities for future rate application consideration.

The Company follows the practice of cycle billing customers' accounts and revenue is recognized in the period billed. An accrual is made at December 31 for power supplied but not billed to customers between the date the meters were last read and the end of the year.

(c) Deferred organizational costs:

Deferred organizational costs consist of costs incurred to establish the Westario Power group of companies. These costs are being amortized on a straight-line basis over five years.

2. Significant accounting policies (continued):

(d) Spare transformers and meters:

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

(e) Capital assets:

Capital assets are recorded at cost. Amortization is provided on the straight-line basis using the following annual rates:

Asset	Rate
Buildings	4%
Distribution stations	3%
Distribution lines, overhead	4%
Distribution lines, underground	4%
Distribution equipment and transformers	4%
Meters	4%
Computer software	20%

(f) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(g) Goodwill:

Goodwill reflects the excess of the purchase price over the fair value of net tangible assets acquired. Goodwill is not amortized.

2. Significant accounting policies (continued):

(h) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the period in which the temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the character of the future income tax asset, and tax planning strategies in making this assessment. To the extent that management believes that the realization of future income tax assets does not meet the more likely than not realization criteria, a valuation allowance is recorded against the future income tax assets.

(i) Financial instruments:

The Company's financial instruments consist of accounts receivable, bank borrowings and accounts payable and accrued liabilities, income taxes payable, customer deposits, due to related parties, term loans and shareholders' loans. Management is of the opinion that the fair values of all financial assets and liabilities are not materially different from their carrying values. The carrying value of long-term debt approximates its fair value as debt bears interest at rates comparable to current market rates.

(j) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

3. Change in accounting policy:

In accordance with the AP Handbook, the Company previously accounted for certain regulatory asset deferral accounts on a cash basis. In its Decision with Reasons in the Matter of Review and Recovery of Regulatory Assets - Phase 2, dated December 9, 2004, the OEB permitted distributors to use an accrual method of accounting for these accounts. The Company determined that an accrual method would result in a more appropriate presentation of these accounts and accordingly changed its accounting policy. The Company applied the change retroactively and restated the comparative figures for 2003 presented in these financial statements. The impact of the change in accounting policy is disclosed in note 1.

4. Capital assets:

			2004	2003
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 107,769	$ -	$ 107,769	$ 107,769
Buildings	6,517	1,371	5,146	5,467
Distribution stations	3,073,798	577,536	2,496,262	2,637,189
Distribution lines, overhead	9,806,046	1,694,330	8,111,716	7,568,225
Distribution lines, underground	5,251,359	999,688	4,251,671	3,869,621
Distribution equipment and transformers	258,631	215,525	43,106	94,830
Distribution transformers	3,884,402	693,161	3,191,241	2,981,048
Meters	1,779,097	294,910	1,484,187	1,426,499
Computer software	267,519	102,092	165,427	194,340
	$ 24,435,138	$ 4,578,613	$ 19,856,525	$ 18,884,988

5. Regulatory assets:

	change	Total (restated)
Transition costs	$ 2,333,085	$ 2,189,795
Pre-market opening energy variance	1,021,006	1,021,006
Post market energy variances	2,110,405	1,466,834
Deferred payment in lieu of taxes	55,810	55,810
Other	113,790	78,219
	5,634,096	4,811,664
Less recovery of regulatory assets	(856,748)	-
	$ 4,777,348	$ 4,811,664

5. Regulatory assets (continued):

Recovery of regulatory amounts:

In December, 2003, the OEB permitted the Company to commence recovery of regulatory assets through distribution rates over a four-year period commencing March 1, 2004. During fiscal 2005, the Company will receive an interim recovery until such time as the OEB undertakes a detailed review to validate the amounts for final recovery. In accordance with this direction, the Company has filed an application for the second year recovery commencing March 1, 2005, which will amount to an approximate recovery of $1,600,000 (2004 - $856,748) during the Company's fiscal 2005 year.

6. Bank indebtedness and demand instalment loans:

The Company has demand instalment loans of $3,516,072 (2003 - $2,488,940) at December 31. The demand instalment loans are secured by a security agreement conveying a security interest in the personal property of the Company, an unlimited guarantee from Westario Power Holdings Inc., the Company's sole shareholder, and an unlimited guarantee from Westario Power Services Inc., an affiliated company wholly-owned by Westario Power Holdings Inc. The demand instalment loans bear interest at rates ranging from 3.5% to 4.75%.

The Company has a bank operating line of credit of $2,561,411, available by way of letters of credit. At December 31, 2004, the line was fully drawn by way of a letter of credit, issued in favour of the Independent Electricity System Operator ("IESO"), to satisfy the Company's prudential support obligation for participation in and withdrawing electricity from the IESO-controlled electricity grid. The line of credit is secured by a security agreement conveying a security interest in the personal property of the Company, an unlimited guarantee from Westario Power Holdings Inc., the Company's sole shareholder, and an unlimited guarantee from Westario Power Services Inc., an affiliated company wholly-owned by Westario Power Holdings Inc.

Westario Power Holdings Inc. has a bank operating line of credit of $3,500,000 that is available to the Company. At December 31, 2004, the amount drawn by the Company under the line was nil (2003 - $637,674). The line of credit is secured by the unlimited guarantee of the Company, supported by a security agreement conveying a security interest in the personal property of the Company. The line of credit bears interest at bank prime rate less 0.50%. At December 31, 2004, the rate was 3.75% (2003 - 4%).

7. Long-term debt:

	2004	2003
Notes payable to shareholders of parent company, 5.47%, payable quarterly interest only, due on demand	$ 8,627,165	$ 9,888,365
Current portion of shareholders' loans	1,773,206	1,261,200
	$ 6,853,959	$ 8,627,165

The shareholder notes are only due on demand to the extent the shareholder requests payment ninety days prior to year end. In the event a request is made, the Company is obligated to repay the shareholder during the following fiscal year. No repayments are required without a written request. As such, amounts recorded as current were requested by shareholders prior to October 1, 2004

The principal payment required on long-term debt for the year ended 2005 is $1,773,206. Subsequent to year end the Company refinanced this amount with a demand instalment loan.

8. Due to related parties:

Westario Power Inc. and Westario Power Services are wholly-owned subsidiaries of Westario Power Holdings Inc.

At the end of the year, the amounts due to related parties are as follows:

	2004	2003
Westario Power Services Inc.	$ 872,255	$ 31,631
Westario Power Holdings Inc.	512,662	337,759
	$ 1,384,917	$ 369,390

These balances are unsecured, non-interest bearing with no specific repayment terms.

Westario Power Services Inc. provides management and administrative services to the Company under the terms of a management services agreement. The cost of these services for the year was $3,499,816 (2003 - $3,508,413). These transactions are in the normal course of operations and are measured at the exchange amount of considerations agreed to by the related parties.

8. Due to related parties (continued):

Westario Power Services Inc. also purchases or constructs capital assets for the Company. The cost of assets purchased or constructed for the year was $2,464,231 (2003 - $1,990,619). These transactions are in the normal course of operations and are measured at the exchange amount of considerations agreed to by the related parties.

Westario Power Holdings Inc. also provides management and administrative services to the Company. The cost of these services for the year was $516,767 (2003 - $336,374). These transactions are in the normal course of operations and are measured at the exchange amount of considerations agreed to by the related parties.

9. Income taxes:

(a) Income tax status:

The Company is exempt from income taxes under the Income Tax Act (Canada). Effective October 1, 2001 and pursuant to the EA (1998)(Ontario) the Company is required to make payments in lieu of tax to the Ontario Electricity Financial Corporation. The amount of payments in lieu of tax will be approximately equivalent to the income and capital taxes that would have to be paid if the Company was a taxable corporation under the Income Tax Act (Canada).

(b) Income tax rate:

The Company's effective income tax rates differed from the statutory combined federal and provincial rates primarily due to the following:

	2004	2003 (restated)
Earnings before income taxes	$ 1,185,047	$ 1,445,272
Income tax expense based on combined federal and provincial statutory income tax rate of 36.12% (2003 - 36.6%)	$ 428,039	$ 528,970
Federal and provincial minimum taxes	-	87,000
Tax effect of undeductible amounts	3,382	6,102
Benefit of small business deduction	(45,582)	(27,000)
Increase in future income taxes resulting from statutory rate increases	-	93,200
Other	62,161	24,728
	$ 448,000	$ 713,000

9. Income taxes (continued):

(c) Future income tax:

The determination of whether recovery or settlement of an asset or liability will result in future income tax outflows or benefits is determined by reference to the difference between the carrying values and tax basis of assets and liabilities. Management compares the carrying value and tax basis of assets and liabilities at December 31, of each year, to determine the temporary differences and the timing of their expected reversal. Taxable temporary differences give rise to future income tax liabilities while deductible temporary differences give rise to future income tax assets.

10. Share capital:

	2004	2003
Authorized:		
Unlimited common shares, voting		
Issued:		
110,000 common shares	$ 14,064,719	$ 14,064,719

11. Change in non-cash working capital:

	2004	2003 (restated)
Accounts receivable, net of allowance	$ 794,622	393,196
Unbilled revenue	(84,119)	1,306,396
Prepaid expenses	(10,370)	(6,239)
Accounts payable and accrued liabilities	834,407	(294,069)
Income taxes payable	79,169	39,467
Customer deposits and credit balances	50,644	(124,279)
Due to related parties	1,015,527	(1,167,588)
Demand instalment loans	1,027,132	2,488,940
	$ 3,707,012	$ 2,635,824

12. Public liability insurance:

The Company joined the Municipal Electrical Association Reciprocal Insurance Exchange (the "MEARIE") in 2000. MEARIE is a pooling of the public liability insurance risks of many of the municipal utilities in Ontario. All members of the pool are subject to assessment for losses experienced by the pool for the years in which they were members on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to five years. As at December 31, 2004, no assessments have been made.

13. Credit risks:

Credit risk is the risk that a counterparty will fail to discharge its obligation to the Company reducing the expected cash inflow from Company assets recorded at the balance sheet date. Credit risk can be concentrated in debtors that are similarly affected by economic or other conditions.

The Company has assessed that there are no significant concentrations of credit risk other than the present uncertainty relating to the recovery of regulatory assets. The final regulatory amount recoverable will be assessed in future years by the regulator after the audit of those costs.

14. Contingency:

Hydro One Networks Inc. low voltage charges:

The Company's electricity distribution systems are embedded in the low voltage electricity distribution system of Hydro One Networks Inc. ("Hydro One"). Hydro One has advised the Company that it intends to apply to the OEB for recovery of its regulatory asset balances as at December 31, 2004 related to its low voltage system, from electricity distributors embedded in its system. Hydro One has estimated that the Company's share would be approximately $450,000. If the OEB approves Hydro One's application for recovery, the Company would in turn apply to the OEB for recovery of this amount from its customers. The Company considers it likely that both applications will be approved.

15. Comparative figures:

Certain of the 2003 comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Appendix 39

2005 Financial Statements

Financial Statements of

WESTARIO POWER INC.

Year ended December 31, 2005

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

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AUDITORS' REPORT

To the Shareholders of Westario Power Inc.

We have audited the balance sheet of the Westario Power Inc. as at December 31, 2005 and the statement of earnings and 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, 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

London, Canada

March 14, 2006

WESTARIO POWER INC.

Balance Sheet

December 31, 2005, with comparative figures for 2004

	2005	2004
Assets		
Current assets:		
Cash	$ 3,259,026	$ 1,877,114
Accounts receivable, net of allowance	1,254,722	2,569,935
Unbilled revenue	5,357,690	5,200,000
Prepaid expenses	115,904	80,099
	9,987,342	9,727,148
Property, plant and equipment (note 2)	21,095,801	19,856,525
Regulatory assets (note 3)	5,443,400	4,777,348
Deferred organizational costs	21,150	42,300
Goodwill	2,214,322	2,214,322
	$ 38,762,015	$ 36,617,643
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	4,919,309	4,551,345
Income taxes payable (note 7)	513,317	126,911
Customer deposits and credit balances	1,839,132	958,683
Due to related parties (note 6)	1,422,889	1,384,917
Demand instalment loans (note 4)	4,928,195	3,516,072
Current portion of long-term debt (note 5)	-	1,773,206
	13,622,842	12,311,134
Long-term debt (note 5)	6,853,957	6,853,959
Future income taxes (note 7)	1,114,461	977,000
Shareholders' equity:		
Share capital (note 8)	14,064,719	14,064,719
Retained earnings	3,106,036	2,410,831
	17,170,755	16,475,550
Contingency (note 12)		
	$ 38,762,015	$ 36,617,643

See accompanying notes to financial statements.

On behalf of the Board:

______________________ Director ______________________ Director

WESTARIO POWER INC.
Statement of Earnings and Retained Earnings

December 31, 2005, with comparative figures for 2004

	2005	2004
Revenue:		
Electricity, market related	$ 32,658,226	$ 29,711,746
Distribution revenue	7,050,274	6,889,287
Retail services	55,653	75,128
Other income	544,618	517,702
Rental of electric property income	284,251	293,533
Late payment charges	97,768	105,816
	40,690,790	37,593,212
Expenses:		
Electricity, market related expenses	32,658,226	29,711,746
Distribution, operation and maintenance	1,074,238	1,062,765
Billing and collecting	1,035,386	1,342,164
Administration	1,789,070	2,027,773
Community relations and donations	15,797	8,352
Energy conservation	54,974	-
Amortization	1,330,308	1,238,925
Rent and maintenance of general plant	237,793	236,822
Interest on long-term debt	377,666	475,132
Other interest	214,453	180,937
Capital and municipal taxes	124,693	123,549
	38,912,604	36,408,165
Earnings before income taxes	1,778,186	1,185,047
Income taxes (note 7):		
Current	518,411	200,000
Future	137,461	248,000
	655,872	448,000
Net earnings	1,122,314	737,047
Retained earnings, beginning of year:	2,410,831	1,673,784
Dividends	(427,109)	-
Retained earnings, end of year	$ 3,106,036	$ 2,410,831

See accompanying notes to financial statements.

WESTARIO POWER INC.
Statement of Cash Flows

December 31, 2005, with comparative figures for 2004

	2005	2004
Cash provided by (used in):		
Operating activities:		
Net earnings	$ 1,122,314	$ 737,047
Adjustments for:		
Amortization of organizational costs	21,150	21,150
Amortization of property, plant and equipment	1,309,158	1,217,775
Change in future income tax	137,461	248,000
Change in non-cash operating working capital (note 9)	4,206,632	3,707,012
	6,796,715	5,930,984
Financing activities:		
Additions to property, plant and equipment	(3,491,787)	(2,630,024)
Regulatory assets	(666,052)	34,316
	(4,157,839)	(2,595,708)
Investing activities:		
Capital contributions	943,353	440,712
Dividends	(427,109)	-
Repayment of long-term debt	(1,773,208)	(1,261,200)
	(1,256,964)	(820,488)
Increase in cash	1,381,912	2,514,788
Cash (bank indebtedness), beginning of year	1,877,114	(637,674)
Cash, end of year	$ 3,259,026	$ 1,877,114
Supplemental cash flow information:		
Interest paid	$ 592,119	$ 656,069
Income taxes paid	161,014	185,833

See accompanying notes to financial statements.

Westario Power Inc. (the "Company") was incorporated under the laws of the Province of Ontario for the purpose of distribution of electricity in accordance with legislation provided in the Energy Competition Act, 1998. Effective May 6, 2002, Western Power Inc., Hanover Electric Services Inc. and Muinto Hydro Inc. were amalgamated to form Westario Power Inc.

The principal business of Westario Power Inc. is the distribution and sale of electricity to customers in mid-western Ontario. This business is regulated by the Ontario Energy Board ("OEB"). The Ontario Energy Board Act, 1998 gave the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for licensed distributors of electricity.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") including accounting principles prescribed by 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:

Westario Power Inc. is regulated by the OEB 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 distribution companies fulfill obligations to connect and service customers

The economic impact of rate regulation is reported in these financial statements. Regulatory assets represent certain costs that may be recovered from customers in future periods 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-regulatory environment.

(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 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.

1. Significant accounting policies (continued):

(a) Rate regulation (continued):

(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, 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”) rate, 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. Other than the variances for cost of imported power, the nature of the settlement variances is such that their balances shall change each reporting period-end date.

(iv) Conservation and demand management costs:

Conservation and demand management (“CDM”) program costs in 2005 were $116,114 of which $61,140 was capitalized. Provincial regulations allow electricity distribution companies to apply to the OEB to adjust its distribution rates in 2005 for its approved third instalment of it market adjusted requirement (“MARR”). OEB approval in regard to this final MARR instalment is conditional on investing an amount equal to one year’s incremental returns in conservation and demand management initiatives, by no later than September 30, 2007. The Company’s final incremental MARR was $659,218.

(v) OEB incremental cost assessments:

OEB costs which have been assessed to the Company in 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.

(b) Revenue recognition:

In accordance with OEB regulation, the Company recognizes as revenue the regulated distribution tariffs associated with energy distributed and variances between energy purchase costs and energy billed are recorded as regulatory assets or liabilities for future rate application consideration.

1. Significant accounting policies (continued):

(b) Revenue recognition (continued):

The Company follows the practice of cycle billing customers' accounts and revenue is recognized in the period billed. An accrual is made in the accounts at December 31, for power supplied but not billed to customers between the date the meters were last read and the end of the year.

(c) Deferred organizational costs:

Deferred organizational costs, consist of costs incurred to establish the Westario Power group of companies. These costs are being amortized on a straight-line basis over five years.

(d) Spare transformers and meters:

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

(e) Property, plant and equipment

Property, plant and equipment are recorded at amortized cost. Amortization is provided on the straight-line basis using the following annual rates:

Asset	Rate
Buildings	4%
Distribution stations	3%
Distribution lines, overhead	4%
Distribution lines, underground	4%
Distribution equipment and transformers	4%
Meters	4%
Computer software	20%

1. Significant accounting policies (continued):

(f) Impairment of long-lived assets:

Long-lived assts, including property, plant and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying or fair value less costs to see, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate assets and liability section of the balance sheet.

(g) Goodwill:

Goodwill reflects the excess of the purchase price over the fair value of net tangible assets acquired. Goodwill is not amortized, but tested for impairment on an annual basis.

(j) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the period in which the temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the character of the future income tax asset, and tax planning strategies in making this assessment. To the extent that management believes that the realization of future income tax assets does not meet the more likely than not realization criteria, a valuation allowance is recorded against the future income tax assets.

1. Significant accounting policies (continued):

(i) Financial instruments:

The Company's financial instruments consist of accounts receivable, accounts payable and accrued liabilities, income taxes payable, customer deposits and credit balances, due to related parties and demand installment loans. Management is of the opinion that the fair values of all financial assets and liabilities are not materially different from their carrying values due to the relatively short periods to maturity of the instruments. The carrying value of long-term debt approximates its fair value as debt bears interest at rates comparable to current market rates.

(j) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. Property, plant and equipment:

			2005	2004
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 107,769	-	$ 107,769	$ 107,769
Buildings	6,517	1,693	4,824	5,146
Distribution stations	3,073,798	718,463	2,355,335	2,496,262
Distribution lines, overhead	11,064,178	2,196,719	8,867,459	8,111,716
Distribution lines, underground	5,730,643	1,271,870	4,458,773	4,251,671
Distribution equipment and transformers	258,631	258,631	-	43,106
Distribution transformers	4,239,822	890,555	3,349,267	3,191,241
Meters	2,212,193	394,247	1,817,946	1,484,187
Computer software	267,519	155,595	111,924	165,427
Assets under construction	22,504	-	22,504	-
	$ 26,983,574	$ 5,887,773	$ 21,095,801	$ 19,856,525

3. Regulatory assets:

		2005		2004
Transition costs	$	2,475,984	$	2,333,085
Pre-market opening energy variance		1,021,006		1,021,006
Post market energy variances		3,871,546		2,110,405
Deferred payment in lieu of taxes		55,811		55,810
Other		302,377		113,790
		7,726,724		5,634,096
Less recovery of regulatory assets		(2,283,324)		(856,748)
	$	5,443,400	$	4,777,348

Recovery of regulatory amounts:

In December, 2003, the OEB permitted the Company to commence recovery of regulatory assets through distribution rates over a four-year period commencing May 1, 2006. During fiscal 2006, the Company will receive an interim recovery until such time as the OEB undertakes a detailed review to validate the amounts for final recovery. In accordance with this direction, the Company has filed an application for the second year recovery commencing May 1, 2006, which will amount to an approximate recovery of $1,500,000 (2005 - $1,426,576) during the Company's fiscal 2006 year.

4. Demand instalment loans:

The Company has demand instalment loans of $4,928,195 (2004 - $3,516,072) at December 31. The demand instalment loans are secured by a security agreement conveying a security interest in the personal property of the Company, an unlimited guarantee from Westario Power Holdings Inc., the Company's sole shareholder, and an unlimited guarantee from Westario Power Services Inc., an affiliated company wholly-owned by Westario Power Holdings Inc. The demand instalment loans bear interest at rates ranging from 4.17% to 4.50%.

The Company has a bank operating line of credit of $2,561,411, available by way of letters of credit. At December 31, 2005, the line was fully drawn by way of a letter of credit, issued in favour of the Independent Electricity System Operator ("IESO"), to satisfy the Company's prudential support obligation for participation in and withdrawing electricity from the IESO controlled electricity grid. The line of credit is secured by a security agreement conveying a security interest in the personal property of the Company, an unlimited guarantee from Westario Power Holdings Inc., the Company's sole shareholder, and an unlimited guarantee from Westario Power Services Inc., an affiliated company wholly-owned by Westario Power Holdings Inc.

4. Demand instalment loans (continued):

Westario Power Holdings Inc. has a bank operating line of credit of $3,500,000 that is available to the Company. At December 31, 2005, the amount drawn by the Company under the line was nil (2004 - nil). The line of credit is secured by the unlimited guarantee of the Company, supported by a security agreement conveying a security interest in the personal property of the Company. The line of credit bears interest at bank prime rate less 0.50%. At December 31, 2005, the rate was 4.50% (2004 - 3.75%).

5. Long-term debt:

	2005	2004
Notes payable to shareholders of parent company, 5.47% payable quarterly interest only, due on demand	$ 6,853,957	$ 8,627,165
Current portion of shareholders' loans	-	1,773,206
	$ 6,853,957	$ 6,853,959

The shareholder notes are only due on demand to the extent the shareholder requests payment ninety days prior to year end. In the event a request is made, the Company is obligated to repay the shareholder during the following fiscal year. No repayments are required without a written request. As such, amounts recorded as current were requested by shareholders prior to October 1, 2005.

6. Due to related parties:

Westario Power Inc. and Westario Power Services Inc. are wholly-owned subsidiaries of Westario Power Holdings Inc.

At the end of the year, the amounts due to related parties are as follows:

	2005	2004
Westario Power Services Inc.	$ 960,067	$ 872,255
Westario Power Holdings Inc.	462,822	512,662
	$ 1,422,889	$ 1,384,917

6. Due to related parties (continued):

These balances are unsecured, non-interest bearing with no specific repayment terms.

Westario Power Services Inc. provides management and administrative services to the Company under the terms of a management services agreement. The cost of these services for the year was $3,522,680 (2004 - $3,499,816). These transactions are in the normal course of operations and are measured at the exchange amount of consideration agreed to by the related parties.

Westario Power Service Inc. also purchases or constructs capital assets for the Company. The cost of assets purchased or constructed for the year was $2,915,873 (2004 - $2,464,231). These transactions are in the normal course of operations and are measured at the exchange amount of consideration agreed to by the related parties.

Westario Power Holdings Inc. also provides management and administrative services to the Company. The cost of these services for the year was $441,917 (2004 - $516,787). These transactions are in the normal course of operations and are measured at the exchange amount of consideration agreed to by the related parties.

7. Income taxes:

(a) Income tax status:

The Company is exempt from income taxes under the Income Tax Act (Canada). Effective October 1, 2001 and pursuant to the Electricity Act ("EA") (1998) (Ontario) the Company is required to make payments in lieu of tax to the Ontario Electricity Financial Corporation. The amount of payments in lieu of tax will be approximately equivalent to the income and capital taxes that would have to be paid if the Company was a taxable corporation under the Income Tax Act (Canada).

7. Income taxes:

(b) Income tax rate:

The Company's effective income tax rates differed from the statutory combined federal and provincial rates primarily due to the following:

	2005	2004
Earnings before income taxes	$ 1,778,186	$ 1,185,047
Income tax expense based on combined federal and provincial statutory income tax rate of 36.12% (2004 - 36.12%)	$ 642,281	$ 428,039
Tax effect of undeductible amounts	4,391	3,382
Benefit of small business deduction		(45,582)
Other	9,201	62,161
Income tax expense recognized	$ 655,872	$ 448,000

(c) Future income taxes:

The determination of whether recovery or settlement of an asset or liability will result in future income tax outflows or benefits is determined by reference to the difference between carrying values and tax basis of assets and liabilities. Management compares the carrying value and tax basis of assets and liabilities at December 31 of each year, to determine the temporary differences and the timing of their and expected reversal. Taxable temporary differences give rise to future income tax liabilities while deductible temporary differences give rise to future income tax assets.

8. Share capital:

	2005	2004
Authorized:		
Unlimited common shares, voting		
Issued:		
100,000 common shares	$ 14,064,719	$ 14,064,719

9. Change in non-cash operating working capital:

	2005	2004
Accounts receivable, net of allowance	$ 1,315,213	$ 794,622
Unbilled revenue	(157,690)	(84,119)
Prepaid expenses	(35,805)	(10,370)
Accounts payable and accrued liabilities	367,964	834,407
Customers deposits and credit balances	880,449	50,644
Income taxes payable	386,406	79,169
Due to related parties	37,972	1,015,527
Demand instalment loans	1,412,123	1,027,132
	$ 4,206,632	$ 3,707,012

10. Public liability insurance:

The Company joined the Municipal Electrical Association Reciprocal Insurance Exchange ("MEARIE") in 2000. MEARIE is a pooling of public liability insurance risks of many of the municipal utilities in Ontario. All members of the pool are subject to assessment for losses experienced by the pool for the years in which they were members on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to five years. As at December 31, 2005, no assessments have been made.

11. Credit risks

Credit risk is the risk that a counterparty will fail to discharge its obligation to the Company reducing the expected cash inflow from Company assets recorded at the balance sheet date. Credit risk can be concentrated in debtors that are similarly affected by economic or other conditions.

The Company has assessed that there are no significant concentrations of credit risk other than the present uncertainty relating to the recovery of regulatory assets. The final regulatory amount recoverable will be assessed in future years by the regulator after the audit of those costs.

12. Contingency:

Hydro One Networks Inc. low voltage charges:

The Company's electricity distribution systems are embedded in the low voltage electricity distribution system of Hydro One Networks Inc. ("Hydro One"). Hydro One has advised the Company that it intends to apply to the OEB for recovery of its regulatory asset balances as at December 31, 2004 related to its low voltage system, from electricity distributors embedded in its system. Hydro One has estimated that the Company's share would be approximately $600,000. If the OEB approves Hydro One's application for recovery, the Company would in turn apply to the OEB for recovery of this amount from its customers. The Company considers it likely that both applications will be approved.