Niagara Power Incorporated
231 Roberts Road
Grimsby, ON
L3M 5N2
PH: 905.945.5437
FX: 905.945.9933

August 13, 2012

Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
Suite 2700
Toronto, ON
M4P 1E4

Re: MAAD Application

Dear Ms. Walli:

Please find attached an application for Niagara Power Incorporated to purchase Pen West Power Incorporated's 50% shares in Niagara West Transformation Corporation.

We trust that you will find the information contained within the application suitable for providing a positive response and subsequent decision.

Looking forward to a timely response.

Regards,

James Detenbeck
Chair

PART I: GENERAL INFORMATION

1.1 Nature of Application

1.1.1 Application Type

☐ For leave for a transmitter or distributor to sell, lease or otherwise dispose of its transmission or distribution system as an entirety or substantially as an entirety (section 86(1)(a))

☐ For leave for a transmitter or distributor to sell, lease or otherwise dispose of that part of its transmission or distribution system that is necessary in serving the public (section 86(1)(b))

☐ For leave for a transmitter or distributor to amalgamate with any other corporation (section 86(1)(c))

☒ For leave for a person to acquire voting securities that will exceed 20% of a distributor or transmitter (section 86(2)(a))

☐ For leave for a person to acquire control of a company that holds more than 20% of the voting securities of a transmitter or distributor if such voting securities constitute a significant asset of the corporation (section 86(2)(b))

1.1.2 Notice under section 80 or 81 of the Act

Is a notice of proposal required under section 80 or 81 of the Act?

☐ Yes

☒ No

If yes, the applicant must also file a completed "Preliminary Filing Requirements for a Notice of Proposal Under Sections 80 and 81 of the *Ontario Energy Board Act, 1998*" with the Board.

1.2 Identification of the Parties

1.2.1 Name of Applicant

Legal name of the applicant: **Niagara Power Incorporated ("NPI")**

Name of Primary Contact:

Mr. ☒	Mrs. ☐	Last Name	First Name	Initial
Miss ☐	Ms. ☐	Detenbeck	James	
Other ☐	______	Title/Position		
		Chair		

Address of Head Office:

City	Province/State	Country	Postal/Zip Code
Grimsby	Ontario	Canada	L3M5N2
Phone Number	Fax Number	E-mail Address	
905-945-5437	**905-945-9933**	jamesdetenbeck@hotmail.com	

1.2.2 Other Party to the Transaction (if more than one attach a list)

Name of the other party: **Peninsula West Power Incorporated** ("**PWPI**")

Name of Primary Contact:

Mr. ☒	Mrs. ☐	Last Name	First Name	Initial
Miss ☐	Ms. ☐	Walker	Brian	
Other ☐	______	Title/Position		
		President & Secretary-Treasurer		

Address of Head Office:

City	Province/State	Country	Postal/Zip Code
Smithville	Ontario	Canada	L0R 2A0
Phone Number	Fax Number	E-mail Address	
905-892-5225		Brian.walker@sympatico.ca	

Name of the other party: **Niagara West Transformation Corporation** (“**NWTC**”)

Name of Primary Contact:

Mr. ☒	Mrs. ☐	Last Name	First Name	Initial
Miss ☐	Ms. ☐	Bacchus	Shafee	R
Other ☐	______			
		Title/Position		
		VP of Administration & Secretary		

Address of Head Office:

City	Province/State	Country	Postal/Zip Code
Grimsby	Ontario	Canada	L3M 5N2
Phone Number	**Fax Number**	**E-mail Address**	
905-945-5437	905-945-9933	s.bacchus@bell.net	

1.3 Description of the Business of Each of the Parties

1.3.1 Please provide a description of the business of each of the parties to the proposed transaction, including each of their affiliates engaged in, or providing goods or services to anyone engaged in, the generation, transmission, distribution or retailing of electricity ("Electricity Sector Affiliates").

NPI

NPI is a holding company owned by The Corporation of the Town of Grimsby ("**Town of Grimsby**") and FortisOntario Inc. ("**FortisOntario**").

NPI has four subsidiaries:

- Grimsby Power Inc., a licensed electricity distributor;
- Grimsby Hydro Inc., is the deregulated company that was set up as our retail affiliate. Originally, it was in the business of fibre optic telecommunications and related activities. Later, the fibre optic assets were sold for shares in a region-wide telecommunication business known as Niagara Regional Broadband Networks. Grimsby Hydro maintains a 25% equity ownership in this company along with three other utility partners.
- Grimsby Energy Inc., an energy service provider Grimsby Energy Incorporated is a services company which is responsible for exploring green energy and other business opportunities. Their assets are held by Niagara Power Inc.
- Niagara West Transformation Corporation, a licensed electricity transmitter; and

NPI also has an indirect interest in Niagara Regional Broadband Networks, a subsidiary of Grimsby Hydro Inc.

PWPI

Peninsula West Power Inc. Is a holding company owned by The Corporation of the Town of Lincoln, The Corporation of the Township of West Lincoln, and The Corporation of the Town of Pelham.

PWPI has two subsidiaries:

- Peninsula West Services Ltd., an energy service provider
- Niagara West Transformation Corporation, a licensed electricity transmitter.

PWPI also owns a minority interest (25.5%) in Niagara Peninsula Energy Inc, a licensed electricity distributor whose service territory includes the City of Niagara Falls, the Town of Lincoln, the Township of West Lincoln, and the former Village of Fonthill in the Town of Pelham.

Niagara West Transformation Corporation

NWTC is a licensed electricity transmitter, owning and operating a transmission station that provides power to PWPI and Grimsby Power. NWTC's transformation station is located in the Township of West Lincoln and consists of:

- A transformer station with connection to Hydro One Networks Inc.; and
- Transmission Lines Q23BM and Q25BM to supply power to the two local distribution companies Grimsby Power and PWPI located at 3021 Regional Road #12, Grassie, Ontario.

1.3.2 Please provide a description of the geographic territory served by each of the parties to the proposed transaction, including each of their Electricity Sector Affiliates, if applicable.

Please refer to the response provided in section 1.3.1 above.

1.3.3 Please provide a description of the customers, including the number of customers in each class, served by each of the parties to the proposed transaction.

Niagara West Transformation Corporation

NWTC's transformer station serves two customers, Grimsby Power and PWPI, representing a total load of **429,664 kW** as of **January 2011 – December 2011.**

1.3.4 Please provide a description of the proposed geographic service area of each of the parties after completion of the proposed transaction.

The proposed geographic service area of each of the parties after completion of the proposed transaction will not change.

1.3.5 Please attach a corporate chart describing the relationship between each of the parties to the proposed transaction and each of their respective affiliates.

Please refer to Attachment 1.3.5 of this application for a corporate chart describing the relationship between each of the parties to the proposed transactions.

1.4 Description of the Proposed Transaction

1.4.1 Please provide a detailed description of the proposed transaction.

NPI and PWPI each own 50% of the shares in NWTC. The shareholders and their respective ownership interest in NWTC are as follows:

Shareholder	No. of Common Shares (voting shares)	No. of Class A Shares (non-voting shares)
NPI	50	120
PWPI	50	120

According to the Letter of Intent dated February 10, 2012 (the "**LOI**"), PWPI intends to sell, and NPI intends to purchase, all of the PWPI's interest (the "**Shares**") in NWTC (the "**Share Transaction**"). A copy of the form of Share Purchase Agreement for the proposed Share Transaction can be found in Attachment 1.5.2(b) of this application.

1.4.2 Please provide the details of the consideration (e.g. cash, assets, shares) to be given and received by each of the parties to the proposed transaction.

The proposed purchase price, being the fair market value of the Shares, will be one million Canadian dollars (CAD$1,000,000) (the "**Purchase Price**"). It is the intention of NPI to fully own NWTC upon completion of the Share Transaction.

1.4.3 Please attach the financial statements (including balance sheet, income statement, and cash flow statement) of the parties to the proposed transaction for the past two most recent years.

Please refer to Attachment 1.4.3

1.4.4 Please attach the pro forma financial statements for each of the parties (or if amalgamation, the one party) for the first full year following the completion of the proposed transaction.

Please refer to Attachment 1.4.4

1.5 Documentation

1.5.1 Please provide copies of all annual reports, proxy circulars, prospectuses or other information filed with securities commissions or similar authorities or sent to shareholders for each of the parties to the proposed transaction and their affiliates within the past 2 years.

Please refer to Attachment 1.5.1

1.5.2 Please list all legal documents (including those currently in draft form if not yet executed) to be used to implement the proposed transaction.

Please find attached to this application the following documents: 1) LOI, as Attachment 1.5.2(a); 2) Share Purchase Agreement between PWPI and NPI, as Attachment 1.5.2(b); 3) Corporate approvals from NPI/PWPI, approving the transaction. Attached as Attachment 1.5.2(c)

1.5.3 Please list all Board issued licences held by the parties and confirm that the parties will be in compliance with all licence, code and rule requirements both before and after the proposed transaction. If any of the parties will not be in compliance with all applicable licences, codes and rules after completion of the proposed transaction, please explain the reasons for such non-compliance. (Note: any application for an exemption from a provision of a rule or code is subject to a separate application process.)

The following Board issued licences are held by the parties to this application: 1) an Electricity Transmitter Licence , held by NWTC, ET-2010-0294, a copy of which is attached to this application as **Exhibit 1.5.3(**a); The parties confirm the parties will be in compliance with all licence, code and rule requirements both before and after the Share Transactions.

1.6 Consumer Protection

1.6.1 Please explain whether the proposed transaction will cause a change of control of any of the transmission or distribution system assets, at any time, during or by the end of the transaction.

The Share Transaction will result in a change of control of the transmission system assets of NWTC. As stated above, NPI is currently a 50% owner of NWTC. The Share Transaction will result in NPI becoming the sole shareholder, and therefore 100% owner, of NWTC.

1.6.2 Please indicate the impact the proposed transaction will have on consumers with respect to prices and the adequacy, reliability and quality of electricity service.

No impact

1.6.3 Please describe the steps, including details of any capital expenditure plans, that will be taken to ensure that operational safety and system integrity are maintained after completion of the proposed transaction.

No capital expenditure plans are proposed

1.6.4 Please provide details, including any capital expenditure plans, of how quality and reliability of service will be maintained after completion of the proposed transaction. Indicate where service centres will be located and expected response times.

see response to 1.6.3

1.6.5 Please indicate whether the parties to the proposed transaction intend to undertake a rate harmonization process after the proposed transaction is completed. If yes, please provide a description of the plan.

no rate harmonization process will be undertaken

1.6.6 If the application is for an amalgamation, please provide a proposal for the time of rebasing the consolidated entity in accordance with the five-year limit set by the Board.

NPI is not proposing to rebase. Application is strictly for the acquisition of shares.

1.6.7 Please identify all incremental costs that the parties to the proposed transaction expect to incur. These may include incremental transaction costs, (i.e., legal), incremental merged costs (i.e., employee severances), and incremental ongoing costs (i.e., purchase and maintenance of new IT systems). Please explain how the new utility plans to finance these costs.

The only incremental transaction costs are for legal expenses related to the purchase of the shares as proposed.

1.6.8 Please describe the changes, if any, in distribution or transmission rate levels (as applicable) and the impact on the total bill that may result from the proposed transaction.

There will be none.

1.6.9 Please provide details of the costs and benefits of the proposed transaction to the customers of the parties to the proposed transaction.

> Purchasing shares only. No affect to customers..

1.7 Economic Efficiency

1.7.1 Please indicate the impact the proposed transaction will have on economic efficiency and cost effectiveness (in the distribution or transmission of electricity). Details on the impacts of the proposed transaction on economic efficiency and cost effectiveness should include, but are not limited to, impacts on administration support functions such as IT, accounting, and customer service.

> No additional impact is anticipated as this is an application related to the purchase of shares only.

1.8 Financial Viability

1.8.1 Please provide a valuation of any assets or shares that will be transferred in the proposed transaction. Provide details on how this value was determined, including any assumptions made about future rate levels.

> NWTC has an operational loss and also a loss on the interest swap agreement. The operational loss has been deducted from the total capital of $2,400,100 invested by both parties. The amount left is $1,698,978 or $849,489 for each party that invested in NWTC. See Attachment 1.8.1

1.8.2 If the price paid as part of the proposed transaction is significantly more than the book value of the assets of the selling utility, please provide details as to why this price will not have an adverse affect on the economic viability of the acquiring utility.

> Price paid is $150,000 less than the book value.

1.8.3 Please provide details of the financing of the proposed transaction.

> Niagara Power will be paying out of their current cash account.

1.8.4 If the proposed transaction involves a leasing arrangement, please identify separately any assets in the service area that are owned, from those assets that are encumbered by any means, e.g., subject to a lease or debt covenant.

No leasing arrangement in anticipated in the Share Transaction.

1.8.5 Please outline the capital (debt/equity) structure, on an actual basis, of the parties to the proposed transaction prior to the transaction and on a pro forma basis after completion of the proposed transaction. In order to allow the Board to assess any potential impacts on the utility's financial viability, please include the terms associated with the debt structure of the utility as well as the utility's dividend policy after the completion of the proposed transaction. Please ensure that any debt covenants associated with the debt issue are also disclosed.

The debt/equity structure in 2011 is 42.38%. Projections for 2012 and 2013 are 44.20% and 43.59% respectively. See Attachment 1.8.5

1.8.6 Please provide details of any potential liabilities associated with the proposed transaction in relation to public health and safety matters or environmental matters. These may be matters that have been identified in the audited financial statements or they may be matters that the parties have become aware of since the release of the most recently audited financial statements. If there are any pre-existing potential liabilities regarding public health and safety matters or environmental matters for any party to the proposed transaction, provide details on how the parties propose to deal with those potential liabilities after the transaction is completed. Specify who will have on-going liability for the pre-existing potential liabilities.

None anticipated

1.9 Other Information

1.9.1 If the proposed transaction requires the approval of a parent company, municipal council or any other entity please provide a copy of appropriate resolutions indicating that all such parties have approved the proposed transaction.

See attachment 1.9.1

1.9.2 Please list all suits, actions, investigations, inquiries or proceedings by any government body, or other legal or administrative proceeding, except proceedings before the Board, that have been instituted or threatened against each of the parties to the proposed transaction or any of their respective affiliates.

There are none

1.9.3 Regarding net metering thresholds, the Board will, absent exceptional circumstances, add together the kW threshold amounts allocated to the individual utilities and assign the sum to the new or remaining utility. Please indicate the current net metering thresholds of the utilities involved in the proposed transaction. Please also indicate if there are any special circumstances that may warrant the Board using a different methodology to determine the net metering threshold for the new or remaining utility.

There are no special circumstances that would warrant the Board to use a different methodology to determine the net metering threshold for the new or remaining utility.

1.9.4 Please provide the Board with any other information that is relevant to the application. When providing this additional information, please have due regard to the Board's objectives in relation to electricity.

Nothing further

PART II: CERTIFICATION AND ACKNOWLEDGMENT

2.1 <u>Certification and Acknowledgment</u>

I certify that the information contained in this application and in documents provided are true and accurate.

Signature of Key Individual	Print Name of Key Individual James Detenbeck	Title/Position Chair
	Date August 13, 2012	Company Niagara Power Incorporated

(Must be signed by a key individual. A key individual is one that is responsible for executing the following functions for the applicant: matters related to regulatory requirements and conduct, financial matters and technical matters. These key individuals may include the Chief Executive Officer, the Chief Financial Officer, other officers, directors or proprietors.)

TOR01: 4931921: v2

1.9.3 Regarding net metering thresholds, the Board will, absent exceptional circumstances, add together the kW threshold amounts allocated to the individual utilities and assign the sum to the new or remaining utility. Please indicate the current net metering thresholds of the utilities involved in the proposed transaction. Please also indicate if there are any special circumstances that may warrant the Board using a different methodology to determine the net metering threshold for the new or remaining utility.

There are no special circumstances that would warrant the Board to use a different methodology to determine the net metering threshold for the new or remaining utility.

1.9.4 Please provide the Board with any other information that is relevant to the application. When providing this additional information, please have due regard to the Board's objectives in relation to electricity.

Nothing further

PART II: CERTIFICATION AND ACKNOWLEDGMENT

2.1 Certification and Acknowledgment

I certify that the information contained in this application and in documents provided are true and accurate.

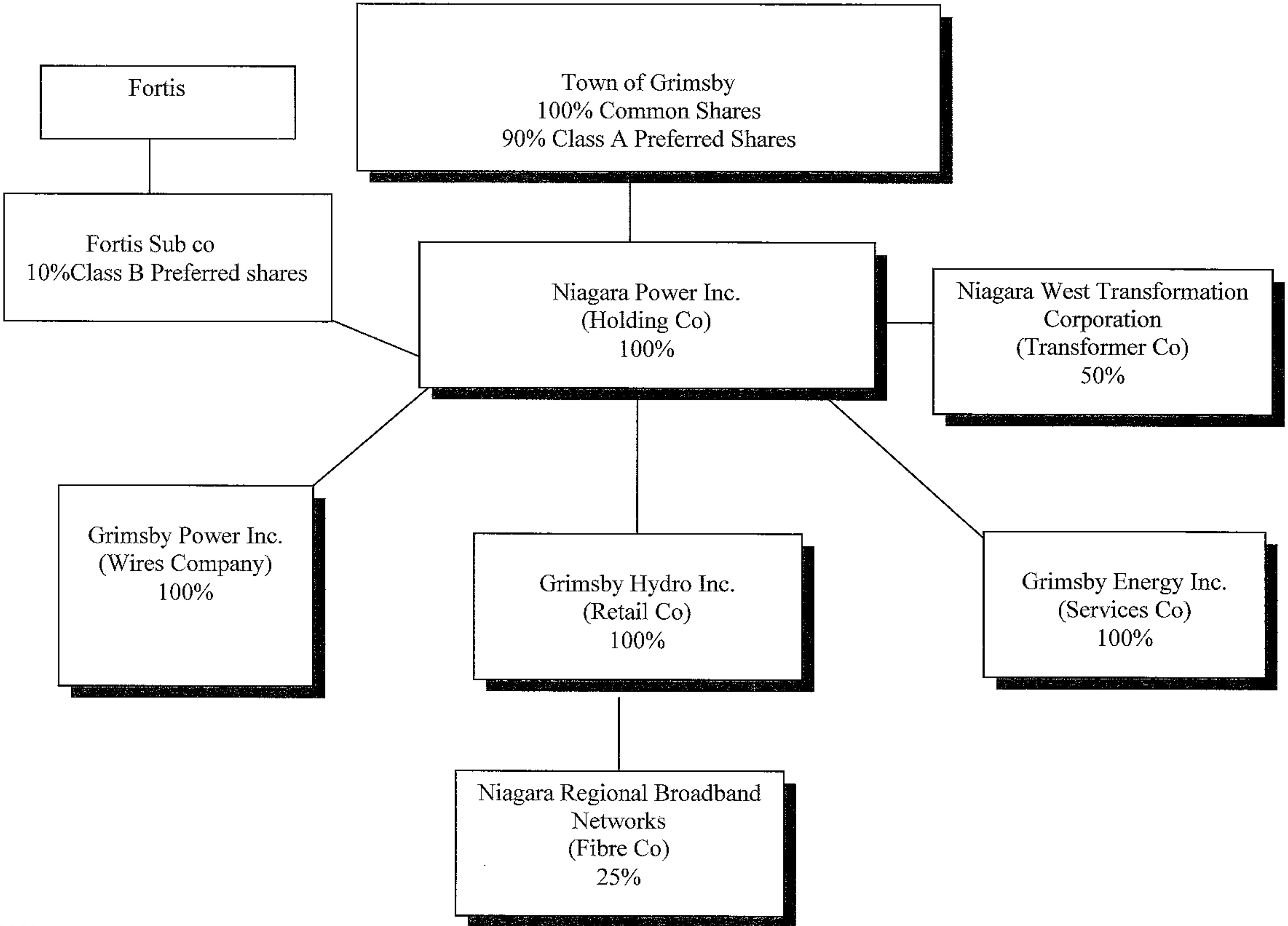
Signature of Key Individual	Print Name of Key Individual	Title/Position
	James Detenbeck	Chair
	Date August 13, 2012	Company Niagara Power Incorporated

(Must be signed by a key individual. A key individual is one that is responsible for executing the following functions for the applicant: matters related to regulatory requirements and conduct, financial matters and technical matters. These key individuals may include the Chief Executive Officer, the Chief Financial Officer, other officers, directors or proprietors.)

TOR01: 4931921: v2

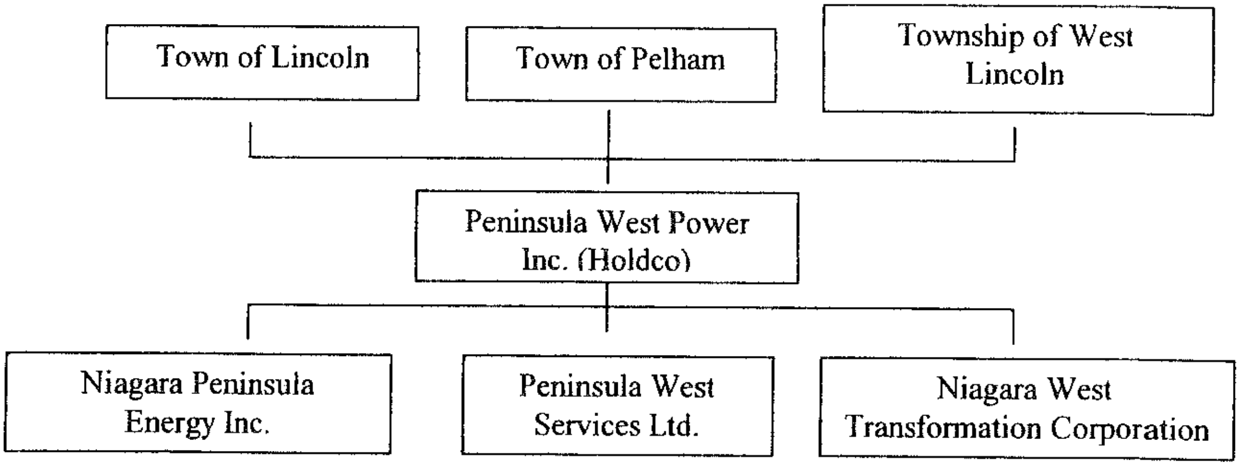
Attachment 1.3.5

CORPORATE STRUCTURE OF NIAGARA POWER INC.



Corporate Structure

Shareholders



The Town of Lincoln, the Town of Pelham, and the Township of West Lincoln are the sole shareholders of Peninsula West Power Inc.(PWPI), the Holding Company, as prescribed by the Energy Competition Act 1998. Of the one hundred shares issued, Lincoln owns fifty-nine, Pelham seventeen, and West Lincoln twenty-four.
In accordance with the Unanimous Shareholders Agreement, executed by the respective Municipalities on October 2, 2000 and amended in December, 2007, each shareholder appoints two(2) directors to sit on the Holding Company board.

The Holding Company is the sole shareholder of Peninsula West Services Ltd. and provides management services to this affiliate for a fee. The president of PWPI is the sole director of the services company.
Peninsula West Services Ltd. provides rentals of water heaters and sentinel lights and administers the maintenance and repair of streetlights for the owner municipalities. All services are contracted.

The Holding Company owns two hundred fifty-five shares of the one thousand shares issued by Niagara Peninsula Energy Inc., an electricity distribution company, whose service territory includes Niagara Falls, Lincoln, West Lincoln, and the former village of Fonthill in Pelham. Seven hundred forty-five shares are owned by Niagara Falls Hydro Holding Corporation.
The Holding Company appoints four directors to the board of Niagara Peninsula Energy.

The Holding Company also holds 50% of the shares in Niagara West Transformation Corporation(NWTC), which owns a municipal transformation station in West Lincoln. Niagara Power Incorporated(Grimsby's Holding Company) holds the other 50% of the shares in NWTC. Three directors are appointed by each Holding Company.

Attachment 1.4.3

Consolidated Financial Statements of

NIAGARA POWER INCORPORATED

Year ended December 31, 2009

SOUTHCOTT DAVOLI
PROFESSIONAL CORPORATION

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders

We have audited the consolidated balance sheet of Niagara Power Incorporated as at December 31, 2009 and the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Southcott Davoli
Professional Corporation

Chartered Accountants

Authorized to practise public accounting by
The Institute of Chartered Accountants of Ontario

Grimsby, Ontario

June 30, 2010

P.O. BOX 68, 76 MAIN STREET WEST, GRIMSBY ON L3M 4G1
TEL. 905.945.4942 FAX.905.945.0306 EMAIL: contactus@southdav.com

NIAGARA POWER INCORPORATED

Consolidated Balance Sheet

December 31, 2009, with comparative figures for 2008

	2009	2008	% Change
Assets			
Current assets:			
Cash	$ 6,023,854	$ 5,199,662	15.9
Accounts receivable:			
Service revenue	676,558	613,228	10.3
Other	309,229	161,492	91.5
Unbilled revenue	1,530,845	1,669,759	(8.3)
Inventory	181,884	185,209	(1.8)
Prepaid expenses	36,107	93,671	(61.5)
Payment in lieu of taxes	190,874	–	100.0
	8,949,351	7,923,021	13.0
Long-term investment (note 4)	375,020	375,020	0.0
Capital assets (note 5)	14,664,540	14,368,666	2.1
Deposit on long term asset	94,500	–	–
Future payment in lieu of taxes	1,032,859	420,500	145.6
	$ 25,116,270	$ 23,087,207	8.8
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	$ 2,745,322	$ 2,728,945	0.6
Payment in lieu of taxes	–	21,641	–
Current portion of term loan	99,000	91,500	8.2
	2,844,322	2,842,086	–
Long-term liabilities:			
Customers' and developers' deposits	353,898	320,162	10.5
Promissory note (note 6)	5,782,746	5,782,746	–
Regulatory liabilities (note 7)	2,006,213	1,362,813	47.2
Term loan (note 8)	2,508,000	2,607,000	(3.8)
	10,650,857	10,072,721	5.7
Shareholders' equity:			
Share capital (note 9)	9,087,417	7,987,327	13.8
Retained earnings	2,533,674	2,185,073	16.0
	11,621,091	10,172,400	14.2
Commitments and contingent liabilities (note 10)			
Subsequent events (note 11)			
	$ 25,116,270	$23,087,207	8.8

See accompanying notes to consolidated financial statements.

Approved by the Board:

______________________________, Director ______________________________, Director

NIAGARA POWER INCORPORATED

Consolidated Statement of Earnings and Retained Earnings

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008	% Change
Power revenue	$ 16,898,566	$16,600,997	1.8
Cost of power	13,267,609	12,952,453	2.4
	3,630,957	3,648,544	(0.5)
Other revenue:			
Investment	178,845	294,664	(39.3)
Miscellaneous	321,178	264,045	21.6
Loss on sale of capital assets	(2,281)	(1,598)	42.7
	497,742	557,111	(10.7)
	4,128,699	4,205,655	(1.8)
Expenses:			
Operations	228,090	200,473	13.8
Maintenance	380,246	409,936	(7.2)
Administration	757,180	763,421	(0.8)
Billing and collecting	447,268	470,688	(5.0)
Marketing	11,428	33,426	(65.8)
Property taxes	30,314	27,150	11.7
Capital taxes	–	416	–
Amortization	1,057,938	933,359	13.3
Interest on long-term liabilities	499,430	643,494	(22.4)
	3,411,894	3,482,363	(2.0)
Earnings for the year before payment in lieu of taxes	716,805	723,292	(0.9)
Payment in lieu of taxes (note 12):			
Current	(625)	223,056	(99.7)
Future	158,623	(151,700)	4.7
	157,998	71,356	(321.4)
Net earnings	558,807	651,936	(14.3)
Retained earnings, beginning of year	2,185,073	1,533,137	42.5
Adjustment for change in accounting policy (note 2)	(210,206)	–	–
Retained earnings, end of year	$ 2,533,674	$ 2,185,073	16.0

See accompanying notes to consolidated financial statements.

NIAGARA POWER INCORPORATED

Consolidated Statement of Cash Flows

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Net earnings	$ 558,807	$ 651,936
Items not involving cash:		
Amortization (including amounts charged to operating accounts)	1,057,938	965,706
Loss on sale of capital assets	2,281	1,598
Future payment in lieu of taxes	158,623	(148,000)
Change in fair value of interest rate swap	(108,465)	3,500
Change in non-cash working capital (note 13)	(65,201)	(83,422)
	1,603,983	1,391,318
Financing:		
Capital contributions received	87,808	82,200
Repayment of term loan	(91,500)	(87,000)
	(3,692)	(4,800)
Investments:		
Proceeds on sale of capital assets	3,010	110
Increase (decrease) in regulatory liabilities	(337,788)	107,056
Additions to capital assets	(1,446,911)	(1,047,176)
Deposit on long term asset	(94,500)	–
Increase in share capital	1,100,090	–
	(776,099)	(940,010)
Increase in cash	824,192	446,508
Cash, beginning of year	5,199,662	4,753,154
Cash, end of year	$ 6,023,854	$ 5,199,662

See accompanying notes to consolidated financial statements.

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements

Year ended December 31, 2009

The company is incorporated under the laws of Ontario and its principal business activities are to distribute power, retail electricity and provide telecommunication services and hydro transformation services.

1. Accounting policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the company's 100% owned subsidiaries, Grimsby Energy Incorporated, Grimsby Hydro Incorporated and Grimsby Power Incorporated. The company owns 50% of a joint venture, Niagara West Transformation Corporation, and records its investment using the proportionate consolidation method of accounting. Under this method the company includes its proportionate share of the joint venture's revenues, expenses, assets and liabilities in the financial statements.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand and balances with the bank.

(c) Unbilled revenue:

Unbilled revenue is accrued from the last meter reading date to the end of the period.

(d) Inventory:

Inventory is valued at the lower of cost and net realizable value. Cost is determined on the average basis.

(e) Investments:

Long-term investments are recorded at cost. Interest and dividends from these investments are included in income when received. When there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to reflect the loss.

(f) Capital assets:

Capital assets are stated at cost. The cost and related accumulated amortization of capital assets are removed from the accounts at the end of their estimated service lives except in those instances where specific identification permits their removal at retirement or disposition. Gains and losses at retirement or disposition are credited or charged to income. Contributions in aid of capital assets are recorded as deferred credits and amortized to income over the life of the related assets.

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 2

Year ended December 31, 2009

1. Accounting policies (continued):

(f) Capital assets (continued):

Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Buildings	Straight-line	25-50 years
Distribution stations	Straight-line	25 years
Distribution plant	Straight-line	25 years
General equipment	Straight-line	3-40 years
Capital contributions	Straight-line	25 years

Contributions in aid of construction consist of third party contributions toward the cost of constructing company assets. Contributed capital has been charged to capital assets and recorded as an offset to capital assets. Amortization is on a straight-line basis over 25 years.

(g) Impairment of long-lived assets:

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

(h) Asset retirement obligations:

The company recognizes the liability for an asset retirement that results from acquisition, construction, development, or through normal operations. The liability for an asset retirement is initially recorded at its fair value in the year in which it is incurred and when a reasonable estimate of fair value can be made. The corresponding cost is capitalized as part of the related asset and is amortized over the asset's useful life. In subsequent years the liability is adjusted for changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of the undiscounted cash flows. The accretion of the liability to its fair value as a result of the passage of time is charged to earnings.

(i) Payments in lieu of taxes (PILs):

The company is currently exempt from taxes under the Income Tax Act (Canada) (ITA) and the Ontario Corporations Tax Act (OCTA).

Pursuant to the Electricity Act (EA), the company is required to compute taxes under the ITA and OCTA and remit such amounts thereunder computed to the Ministry of Finance (Ontario).

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 3

Year ended December 31, 2009

1. Accounting policies (continued):

(i) Payments in lieu of taxes (PILs) (continued):

The company provides for PILs using the asset and liability method. Under this method, future tax assets and liabilities are recognized, to the extent such are determined likely to be realized, for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Future 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 tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the Ontario Energy Board (OEB) and recovered from the customers of the company at that time.

PILs recoverable from loss carryforwards are recorded in future payments in lieu of taxes on the balance sheet at the current enacted statutory tax rates expected to apply when recovery of the loss carryforwards are expected to be recovered.

(j) Customers' and developers' deposits:

Customers' and developers' deposits are recorded when received or paid. Deposits earn interest at a rate of prime less 2%.

(k) Regulatory assets and liabilities:

Regulatory assets and liabilities represent differences between amounts collected through rates (OEB approved) and actual costs incurred by the distributor. Regulatory assets and liabilities on the balance sheet at year-end consist of settlement variances on the cost of power, deferred charges, and the associated regulated interest.

(l) Revenue recognition:

Power revenue is recognized on the accrual basis, which includes an estimate of unbilled revenue. Service revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis on power used. Any discrepancies in the revenue collected and the associated cost of power to distribute are charged to regulatory assets.

Transformation revenue is recorded from the transformation of electricity on the basis of peak demand for the month. Revenue is recognized when the peak demand has occurred.

Other revenue is recognized as earned.

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 4

Year ended December 31, 2009

1. Accounting policies (continued):

(m) Financial instruments:

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the company's designation of such instruments. Settlement date accounting is used.

The company has classified its financial instruments as follows:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Unbilled revenue	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Customers' and developers' deposits	Other liabilities
Promissory note	Other liabilities
Term loan	Other liabilities

(i) Held-for-trading:

Held-for-trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held-for-trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other income.

Financial liabilities designated as held-for-trading are those non-derivative financial liabilities that the company elects to designate on initial recognition as instruments that it will measure at fair value through other interest expense. These are accounted for in the same manner as held-for-trading assets. The company has not designated any non-derivative financial liabilities as held-for-trading.

(ii) Loans and receivables:

Loans and receivables are accounted for at amortized cost using the effective interest method.

(iii) Other liabilities:

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 5

Year ended December 31, 2009

1. Accounting policies (continued):

(m) Financial instruments (continued):

In December 2006, the CICA issued Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation. Originally these sections were applicable to financial statements relating to fiscal years beginning on or after October 1, 2007. Accordingly, the company had planned to adopt the new standards for its fiscal year beginning January 1, 2008. However, in October 2008, the Accounting Standards Board ("AcSB") of the CICA decided that rate-regulated enterprises that are not public enterprises as defined in Section 1300, Differential Reporting, will not be required to apply Sections 3862 and 3863 and would continue to apply Section 3861, Financial Instruments – Disclosure and Presentation. Therefore, in accordance with this decision, the company continues to apply Section 3861.

Derivatives:

The company does not have derivatives and does not engage in derivative trading or speculative activities. Hedge accounting has not been used in the presentation of these financial statements.

(n) Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and note disclosures related thereto. Due to the inherent uncertainty in making estimates, actual results could differ from these estimates recorded in preparing these financial statements including changes as a result of future regulatory decisions.

Accounts receivable, unbilled revenue and regulatory assets are stated after evaluation of amounts expected to be collected and an appropriate allowance for doubtful accounts. Inventory is recorded net of provisions for obsolescence. Amounts recorded for amortization of capital assets are based on estimates of useful service life. Other significant estimates and assumptions were used when accounting for items such as the determination of the fair market value of the interest rate swap, revenue recognition and future payment in lieu of taxes.

2. Changes in accounting policies:

Effective January 1, 2009, the company adopted the following new Canadian Institute of Chartered Accountants' (CICA) Handbook sections:

- 1100, Generally Accepted Accounting Principles
- 3064, Goodwill and Intangible Assets

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 6

Year ended December 31, 2009

2. Changes in accounting policies (continued):

(a) Rate regulated accounting:

CICA Handbook Section 1100 was amended to remove the temporary exemption that provided relief to entities subject to rate regulation from the requirement to apply Section 1100 to the recognition and measurement of assets and liabilities arising from rate regulation. In accordance with Section 1100, the company determined all of its regulatory assets and liabilities qualified for recognition under Canadian GAAP.

The implementation of this standard did not have any impact on the company's results of operations or financial position.

(b) Goodwill and intangible assets:

On January 1, 2009, the company adopted CICA section 3064, Goodwill and Intangible Assets, which replaced Section 3062, Goodwill and Other Intangible Assets, and which resulted in the withdrawal of Section 3450, Research and Development Costs and of Emerging Issues Committee ("EIC") Abstract 27, Revenues and Expenditures During the Pre-operating Period, and the amendment of Accounting Guideline ("AcG") 11, Enterprises in the Development Stage. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. In particular, the new standard sets out specific criteria for the recognition of intangible assets and clarifies the application of the concept of matching costs with revenues, so as to eliminate the practice of recognizing as assets items that do not meet the definition of an asset or satisfy the recognition criteria for an asset. The adoption of this section had no impact on the financial statements.

(c) Regulatory liabilities:

Effective January 1, 2009, the company changed its accounting policy with respect to the recoverability of future payments in lieu of taxes from ratepayers. This change was made to conform with current year modification of industry standards with regards to the accounting treatment of future payments in lieu of taxes. This accounting policy was applied retrospectively without restatement of prior year balances. Consequently, opening retained earnings as at January 1, 2009 has been decreased by $210,206, with a corresponding decrease in the future payments in lieu of taxes asset by $210,206.

3. Future changes in accounting policies:

(a) International financial reporting standards (IFRS):

In July 2010, the Canadian Accounting Standards Board (AcSB) proposed that rate-regulated enterprises be required to adopt IFRS in place of Canadian GAAP effective January 1, 2013. The company is currently evaluating the impact of the adoption of IFRS on its financial statements. At this time, the impact on the company's future financial position and results of operations is not reasonably determinable or estimable.

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 7

Year ended December 31, 2009

4. Long-term investment:

The investment consists of 2,000 common shares of Niagara Regional Broadband Network Limited (NRBN).

5. Capital assets:

	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
Land	$ 186,552	$ –	$ 186,552	$ 186,552
Buildings	1,296,716	402,443	894,273	922,324
Distribution plant	25,324,324	11,670,950	13,653,374	13,389,681
General equipment and intangibles	4,786,412	1,752,593	3,033,819	3,047,724
Capital contributions	(4,109,851)	(1,006,373)	(3,103,478)	(3,177,615)
	$27,484,153	$ 12,819,613	$14,664,540	$14,368,666

Contributions are received from third parties to finance necessary capital additions. During the year the company received $130,482 (2008 - $162,160) of capital contributions in aid of construction.

6. Promissory note:

The promissory note payable to the Town of Grimsby bears interest at the rate of 7.25% per annum and matures on February 1, 2020. Included in interest on long-term liabilities is $419,249 (2008- $419,249) related to this note. Accounts payable and accrued liabilities include $419,249 (2008 - $419,249) owing to the Town of Grimsby.

7. Regulatory assets (liabilities):

	2009	2008
Regulatory assets (liabilities)		
Settlement variances	$(2,140,038)	$(1,324,084)
Smart meters	114,496	(57,900)
Regulatory assets recovery amount	19,329	19,171
	$(2,006,213)	$(1,362,813)

7. Regulatory assets (liabilities) (continued):

Net regulatory assets (liabilities) represent costs incurred by the company in excess of amounts billed to the consumer (amounts recovered from customers in excess of cost incurred) at OEB approved rates less recoveries. These amounts have been accumulated pursuant to the Electricity Act and deferred in anticipation of their future recovery in electricity distribution rates. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

Regulatory assets (liabilities) earn (incur) interest at the prescribed rates. In 2009, the rates ranged from 0.55% to 2.45% (2008 – 3.35% to 5.14%).

Settlement variances represent amounts that have accumulated since Market Opening and comprise:

(a) variances between amounts charged by the Independent Electricity System Operator (IESO) 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

(b) variances between the amounts charged by the IESO for energy commodity costs and the amounts billed to customers by the company based on OEB approved rates.

Smart meters:

The Province of Ontario has committed to have “Smart Meter” electricity meters installed in 800,000 homes and small businesses by the end of 2008 and throughout Ontario by the end of 2010. Smart meters permit consumption to be recorded within specific time intervals and specific tariffs to be levied within such intervals. The company has installed 235 Smart Meters as of the end of 2009 and anticipates having installed a total of 9,885 Smart Meters upon completion of its mass deployment. Bill 21, Energy Conservation and Responsibility Act, provides the legislative framework and regulations to support this initiative.

Included in distribution rates, effective May 1, 2006, is a charge for smart meters of $0.27 (2008 - $0.27) per metered customer per month. Consistent with the OEB’s direction and pending further guidance, all smart meter related expenditures and recoveries are currently being deferred in regulatory accounts.

Regulatory assets recovery amount represents costs incurred by the company as of December 31, 2004 which have been approved for recovery through rates net of amounts recovered from customers.

The continuing restructuring of Ontario’s electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders, may affect the distribution rates that the company may charge and the costs that the company may recover, including the balance of its regulatory assets.

7. Regulatory assets (liabilities) (continued):

In the absence of rate regulation, Canadian generally accepted accounting principles would require the company to record the costs and recoveries described above in the operating results of the year in which they are incurred and reported earnings before income taxes would be $528,270 lower (2008 - $107,056 higher) than reported.

Rate regulation:

The company is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act (1998). The OEB has the power and responsibility to approve or fix rates for the transmission and distribution of electricity and transformer connection fees providing continued rate protection for rural and remote electricity customers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

In January 2000, the OEB established that distribution rates would be subject to Performance Based Regulation ("PBR"), a method of regulation whereby distribution rates are reduced annually to reflect productivity improvements required of the company. Under this rate methodology, rates also include regulated amounts for return on company equity and debt, which were initially determined by the OEB to be 9.88% and 7.25%, respectively. While the initial PBR regulatory framework provided for those regulatory rates of return, subsequent regulations and Provincial Government initiatives prevented distribution companies from fully achieving the theoretical rate of return on equity.

In 2005, the company filed rate applications to adjust its distribution charges to provide for the full theoretical regulatory rate of return of 9.88% and continued recovery of its regulatory assets. As mandated by the OEB, the rate increase is subject to a financial commitment by the company to invest $221,745 in conservation and demand management activities over the period July 1, 2004 to April 30, 2008. Spending on this program was completed in 2008.

In 2006, the OEB approved the company's 2006 distribution rates providing for a revised rate of return of 9.0% effective May 1, 2006.

The company has an interim rate order from the OEB establishing the transformer connection fees which the company is allowed to charge. The rate order was renewed March 18, 2009 and expires March 17, 2011, at which time, the company may become subject to a rate application process. Historically, all transformer costs and connection fees in the province have been pooled, with the same rate in effect for all transformers in that pool.

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 10

Year ended December 31, 2008

8. Term loan:

The term loan is a variable rate loan issued as bankers acceptances and is due March 9, 2012. The loan is secured by a general security agreement, assignment of fire insurance and guarantees by the company and Niagara Peninsula Energy Inc. in the amount of $6,500,000.

The company has entered into a swap transaction for the full amount of the debt, the effect of which is to fix the interest rate of the loan at 5.6% until January 31, 2025.

The fair value of the interest rate swap agreement is based on future discounted cash flows of amounts estimated by the company's bank of the cost or benefit of the swap contracts until the end of the term of the loan. At December 31, 2009, the interest rate swap agreement was in a net unfavourable position of $223,975 (2008 - $440,904), which has been classified as held-for-trading. This unfavourable amount has been included in accounts payable and accrued liabilities. The current year impact of the change in the fair value of the interest rate swap amounted to $216,929 and is included in interest on long-term liabilities.

	2009	2008
Term loan	$ 2,607,000	$ 2,698,500
Less principal due within one year	99,000	91,500
	$ 2,508,000	$ 2,607,000

The principal amounts over the next five years assuming the term loan is renewed under similar terms and conditions are as follows:

2010	$ 198,000
2011	214,000
2012	228,000
2013	246,000
2014	265,000
	$ 1,151,000

9. Share capital:

	2009	2008
Authorized:		
Unlimited common shares		
90 Class A cumulative, non-voting, redeemable, preferred shares		
10 Class B cumulative, non-voting, redeemable, preferred shares		
Issued:		
2,001 common shares	$ 7,987,327	$ 7,987,327
90 Class A preferred shares	90	–
10 Class B preferred shares	1,100,000	–
	$ 9,087,417	$ 7,987,327

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 11

Year ended December 31, 2008

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9. Share capital (continued):

During the year, the company entered into an amalgamation with Fortis Ontario. In accordance with the agreement, 10 Class B preferred shares were issued to Fortis Ontario for consideration of $1,100,000 and 90 class A preferred shares were issued to the Town of Grimsby for consideration of $90.

10. Commitments and contingent liabilities:

(a) A letter of credit in the amount of $964,845 has been issued in favour of the Independent Electricity System Operator (IESO) as security for the company's purchase of electricity through the IESO. No amounts were drawn down on the letter of credit at year end.

(b) The company has entered into a contract to purchase computer software for $175,000 to be implemented in 2012.

(c) The company has guaranteed the indebtedness of Niagara West Transformation Corporation, a joint venture, in the amount of $6,500,000. As of December 31, 2009, $5,214,000 (2008 - $5,397,000) of the loan was outstanding and all financial covenants had been met.

In general, liabilities of joint ventures are secured by pledges of the related assets. At times, the joint venture participants may further support these obligations should the realization of joint venture assets not be sufficient. As a 50% participant in a joint venture, the company is contingently liable at December 31, 2009 for the other participant's share of the liabilities of $2,824,521 (2008 - $2,982,668) should they not be able to satisfy them, as well as for its own share.

(d) In June 2009, the company entered into an agreement with Rondar Inc. for the regular maintenance on its equipment from 2009 to 2013. Under this agreement, the company will incur total maintenance costs over the next four years as follows:

2010	$ 3,787
2011	25,917
2012	3,890
2013	3,938
	$ 37,532

(e) A class action claiming $500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario. The action against local distribution companies (LDC) has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceedings brought against Enbridge Gas Distribution Inc. (formerly Consumers Gas).

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 12

Year ended December 31, 2009

10. Commitments and contingent liabilities (continued):

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

In 2008, Enbridge filed an application to the Ontario Energy Board to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008, the OEB approved the recovery of the said amounts from ratepayers over a five year period.

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 LDC's.

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

(f) As a shareholder of the Niagara Regional Broadband Network Limited (NRBN) the company, along with three other shareholders, has guaranteed NRBN's term loan for $2,700,000. The company's maximum liability under this guarantee is 25% of the total guarantee or $675,000.

In 2014, should the NRBN not attain a certain cash position, the company must contribute $675,000 to NRBN.

(g) The company has guaranteed the payment of a penalty in the event of early termination of a fixed rate loan agreement between Niagara West Transformation Corporation and a bank. The company's liability is estimated at 50% of $223,975 (2008 - $440,904) and is recorded in accounts payable and accrued liabilities.

11. Subsequent events:

(a) Subsequent to year end, the company entered into a contract with the Town of Grimsby to design and install a co-generation system for an agreed upon price of $734,000.

(b) Subsequent to year end, the company invested an additional $400,000 in equity of the Niagara Regional Broadband Network Limited (NRBN).

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 13

Year ended December 31, 2009

12. Payments in lieu of taxes:

The provision for PILs varies from amounts which would be computed by applying the corporation's combined statutory income tax rate of 48.7% (2008 – 48.7%) as follows:

	2009	2008
Basic taxes applied to income before PILs	$ 291,255	$ 257,945
Increase (decrease) in PILs resulting from:		
Tax basis of depreciable capital assets in excess of accounting basis	6,613	(87,261)
Change in regulatory liabilities	(111,470)	–
Change in future tax rate	131,123	(13,110)
Prior year adjustments	(32,043)	–
Other	(127,480)	(86,218)
Effective taxes applied to income before PILs	$ 157,998	$ 71,356

13. Change in non-cash working capital:

	2009	2008
Cash provided by (used in):		
Accounts receivable:		
Service revenue	$ (63,330)	$ 320,683
Other	(147,737)	(21,020)
Payment in lieu of taxes	(212,515)	579,641
Unbilled revenue	138,914	(79,671)
Inventory	3,325	481
Prepaid expenses	57,564	15,224
Accounts payable and accrued liabilities	124,842	(885,713)
Customer and developer deposits	33,736	(13,047)
	$ (65,201)	$ (83,422)

The company acquired property and equipment through non-cash capital contributions of $130,482 (2008 - $162,160).

14. Related party transactions:

The Town of Grimsby, the shareholder, was charged $348,991 (2008 - $383,683) to service street lighting in 2009. The Town of Grimsby provided property services, water and vehicle fuel to the company. The costs of these goods and services aggregating $39,930 (2008 -$49,161), was charged to capital assets, property taxes, administration, operations and maintenance. These transactions are in the normal course of operations and are measured at the exchange amount charged to unrelated parties.

NIAGARA POWER INCORPORATED

15. Pension agreements:

The company makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of its full-time staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contributions during the year were 6.5% (2008 – 6.5%) for employee earnings below the year's maximum pensionable earnings and 9.6% (2008 – 9.6%) thereafter.

The amount contributed in 2009 is $63,503 (2008 – $63,085) and is included as an expenditure in the Statement of Earnings and Retained Earnings.

16. 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, 2009, the company has not been made aware of any additional assessments.

Participation in MEARIE covers a three year underwriting period which expires January 1, 2010. Notice to withdraw from MEARIE must be given six months prior to the commencement of the next three year underwriting term.

17. Income taxes:

These financial statements do not take into account a tax benefit resulting from loss carryfowards, available to the company to reduce its income for tax purposes in future periods. These loss carryforwards, in the amounts indicated below, are available until the following dates.

Amount	Available until
$ 45,848	December 31, 2009
110,387	December 31, 2010
1,027	December 31, 2013
111,056	December 31, 2015
78,661	December 31, 2026
70,430	December 31, 2028
161,353	December 31, 2029
$ 578,762	

NIAGARA POWER INCORPORATED
Notes to Consolidated Financial Statements, page 15

Year ended December 31, 2009

18. Supplementary cash flow information:

	2009	2008
Cash paid for:		
Interest	$ 607,895	$ 638,460
Payments in lieu of taxes	234,557	233
Cash received for:		
Interest	200,287	157,163
Payments in lieu of taxes	–	375,556

19. Financial instruments and risk management:

The company carries various forms of financial instruments. Unless otherwise noted, it is management's opinion that the company is not exposed to significant liquidity or credit or interest risks arising from these financial instruments. The company employs risk management strategies with a view to mitigating financial risks on a cost effect basis.

(a) Fair values:

The company's financial instruments comprise cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, customers' and developers' deposits, promissory note and term loan.

The carrying amounts of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities approximate fair values due to their short-term nature.

Customer and developer deposits have a fair value that approximate carrying value. Interest is paid on deposits on a monthly basis at a market rate, as directed by the Ontario Energy Board.

The promissory note is valued at its face value. It is not practical within the constraints of timeliness or cost to reliably measure its fair value.

The carrying amount of the long-term debt approximates its fair value because the interest rates approximate the market rate.

(b) Liquidity risk:

The company's objective is to have sufficient liquidity to meet its liabilities when due. The company monitors its cash balance and cash flows generated from operations to meet its requirements.

NIAGARA POWER INCORPORATED

19. Financial instruments and risk management (continued):

(c) Credit risk:

Financial assets held by the company expose it to credit risk. As at December 31, 2009, the company's financial instruments that are exposed to concentration of credit risk consist primarily of cash. The company maintains cash and investment with Canadian chartered banks in excess of federally insured limits and is exposed to the credit risk from this concentration of cash.

Financial assets are exposed to credit risk as a result of the counter-party defaulting on its obligations. However, the company has a large number of diverse customers minimizing concentration of credit risk. The company requires customers to provide security deposits subject to OEB regulations.

(d) Interest risk:

The company utilizes an interest rate swap contract to manage the risk associated with fluctuations in interest rates. The company's policy is not to utilize financial instruments for trading or speculative purposes. The interest rate swap contract is used to reduce the impact of fluctuating interest rates on the company's long-term debt. The swap agreement requires the periodic exchange of payments without the exchange of the national principal amount on which the payments are based. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt. Gains and losses on forward exchange contracts are recognized into income during the same period as the corresponding revenue and expenses.

20. Capital management:

The company defines capital as its shareholders' equity and promissory note. Management's objective is to optimize the return to the shareholders while supporting and fostering the future growth of the company. There were no changes to the company's approach to capital management during the year.

In order to manage capital, the company regularly identifies and assesses risks that threaten the ability to meet the company's capital management objectives, and determines the appropriate strategy to mitigate these risks.

The company has customary covenants associated with its long-term debt. The company is in compliance with all credit agreement covenants and limitations associated with its debt.

Consolidated Financial Statements of

NIAGARA POWER INCORPORATED

Year ended December 31, 2010

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Niagara Power Incorporated

We have audited the accompanying consolidated financial statements of Niagara Power Incorporated, which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Niagara Power Incorporated as at December 31, 2010 and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

The company is required to maintain a minimum debt service coverage ratio of not less than 1.1:1 and a tangible net worth of not less than $1,000,000. In addition, the company is required to maintain a minimum level of 85% regulated earnings before interest, taxes, depreciation and amortization. The debt service coverage ratio covenant was violated at December 31, 2010 however the bank has issued a waiver of compliance as outlined in Notes 8 and 19.

Southcott Davoli
Professional Corporation

Chartered Accountants
Authorized to practise public accounting by
The Institute of Chartered Accountants of Ontario

Grimsby, Ontario

December 6, 2011

NIAGARA POWER INCORPORATED

Consolidated Balance Sheet

December 31, 2010, with comparative figures for 2009

	2010	2009	% Change
Assets			
Current assets:			
Cash	$ 5,557,376	$ 6,023,854	(7.7)
Accounts receivable:			
Service revenue	815,589	676,558	20.5
Other	233,061	309,229	(24.6)
Unbilled revenue	1,633,329	1,530,845	6.7
Inventory	227,793	181,884	25.2
Prepaid expenses	120,517	36,107	233.8
Payment in lieu of taxes	47,580	190,874	(75.1)
	8,635,245	8,949,351	(3.5)
Long-term investment (note 3)	775,020	375,020	106.7
Capital assets (note 4)	14,504,524	14,664,540	(1.1)
Deposit on long term asset	94,500	94,500	–
Regulatory assets (note 5)	854,127	–	100.0
Future payment in lieu of taxes (note 11)	1,053,766	1,032,859	2.0
	$ 25,917,182	$ 25,116,270	3.2
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank loan (note 6)	$ 1,600,000	$ –	100.0
Accounts payable and accrued liabilities	2,818,536	2,745,322	2.7
Deferred revenue	325,470	–	100.0
Current portion of term loan	107,000	99,000	8.1
	4,851,006	2,844,322	70.6
Long-term liabilities:			
Customers' and developers' deposits	781,782	353,898	120.9
Promissory note (note 7)	5,782,746	5,782,746	–
Regulatory liabilities (note 5)	–	1,025,025	(100.0)
Term loan (note 8)	2,401,000	2,508,000	(4.3)
Future payment in lieu of taxes	1,087,824	981,188	10.9
	10,053,352	10,650,857	(5.6)
Shareholders' equity:			
Share capital (note 9)	9,087,417	9,087,417	–
Retained earnings	1,925,407	2,533,674	(24.0)
	11,012,824	11,621,091	(5.2)
Commitments and contingent liabilities (note 10)			
	$ 25,917,182	$25,116,270	3.2

See accompanying notes to consolidated financial statements.

Approved by the Board:

____________________, Director ____________________, Director

NIAGARA POWER INCORPORATED

Consolidated Statement of Earnings and Retained Earnings

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009	% Change
Revenue	$ 19,376,653	$16,898,566	14.7
Cost of sales	15,691,541	13,267,609	18.3
	3,685,112	3,630,957	1.5
Other revenue (expense):			
Investment	209,332	178,845	17.0
Miscellaneous	265,174	321,178	(17.4)
Loss on sale of capital assets	–	(2,281)	(100.0)
	474,506	497,742	(4.7)
	4,159,618	4,128,699	0.7
Expenses:			
Operations	179,325	228,090	(21.4)
Maintenance	397,850	380,246	4.6
Administration	1,060,054	757,180	40.0
Billing and collecting	487,848	447,268	9.1
Marketing	11,749	11,428	2.8
Property taxes	25,130	30,314	(17.1)
Amortization	1,065,563	1,057,938	0.7
Interest on long-term liabilities	636,635	499,430	27.5
	3,864,154	3,411,894	13.3
Earnings for the year before payment in lieu of taxes	295,464	716,805	(58.8)
Payment in lieu of taxes (note 11):			
Current (recovery)	83,152	(625)	13,204.3
Future	85,729	158,623	(45.9)
	168,881	157,998	6.9
Net earnings	126,583	558,807	(77.3)
Retained earnings, beginning of year	2,533,674	2,185,073	16.0
Dividends	(734,850)	–	100.0
Adjustment for change in accounting policy	–	(210,206)	(100.0)
Retained earnings, end of year	$ 1,925,407	$ 2,533,674	(24.0)

See accompanying notes to consolidated financial statements.

NIAGARA POWER INCORPORATED

Consolidated Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Net earnings	$ 126,583	$ 558,807
Items not involving cash:		
Amortization (including amounts charged to operating accounts)	1,065,563	1,057,938
Loss on sale of capital assets	464	2,281
Loss on disposal of stranded meters	391,841	–
Future payment in lieu of taxes	85,729	158,623
Change in fair value of interest rate swap	12,161	(108,465)
Change in non-cash working capital (note 12)	662,035	(65,201)
	2,344,376	1,603,983
Financing:		
Capital contributions received	867,342	87,808
Proceeds on bank loan	1,600,000	–
Repayment of term loan	(99,000)	(91,500)
Dividends paid	(734,850)	–
	1,633,492	(3,692)
Investments:		
Proceeds on sale of capital assets	300	3,010
Decrease in regulatory liabilities	(1,879,152)	(337,788)
Additions to capital assets	(2,165,494)	(1,446,911)
Deposit on long term asset	–	(94,500)
Increase in share capital	–	1,100,090
Increase in long term investment	(400,000)	–
	(4,444,346)	(776,099)
Increase (decrease) in cash	(466,478)	824,192
Cash, beginning of year	6,023,854	5,199,662
Cash, end of year	$ 5,557,376	$ 6,023,854

See accompanying notes to consolidated financial statements.

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements

Year ended December 31, 2010

The company is incorporated under the laws of Ontario and its principal business activities are to distribute power, retail electricity, provide telecommunication services and hydro transformation services and design, build and operate a green energy generation facility within the Town of Grimsby.

1. Accounting policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the company's 100% owned subsidiaries, Grimsby Energy Incorporated, Grimsby Hydro Incorporated and Grimsby Power Incorporated. The company owns 50% of a joint venture, Niagara West Transformation Corporation, and records its investment using the proportionate consolidation method of accounting. Under this method the company includes its proportionate share of the joint venture's revenues, expenses, assets and liabilities in the financial statements.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand and balances with the bank.

(c) Unbilled revenue:

Unbilled revenue is accrued from the last meter reading date to the end of the period.

(d) Inventory:

Inventory is valued at the lower of cost and net realizable value. Cost is determined on the average basis.

(e) Investments:

Long-term investments are recorded at cost. Interest and dividends from these investments are included in income when received. When there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to reflect the loss.

(f) Capital assets:

Capital assets and intangibles are stated at cost. The cost and related accumulated amortization of capital assets and finite lived intangibles are removed from the accounts at the end of their estimated service lives except in those instances where specific identification permits their removal at retirement or disposition. Gains and losses at retirement or disposition are credited or charged to income. Contributions in aid of capital assets and intangibles are recorded as deferred credits and amortized to income over the life of the related assets.

NIAGARA POWER INCORPORATED

1. Accounting policies (continued):

(f) Capital assets (continued):

Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Buildings	Straight-line	25-50 years
Distribution stations	Straight-line	25 years
Distribution plant	Straight-line	25 years
General equipment and intangibles	Straight-line	3-40 years
Capital contributions	Straight-line	25 years

Contributions in aid of construction consist of third party contributions toward the cost of constructing company assets. Contributed capital has been charged to capital assets and recorded as an offset to capital assets. Amortization is on a straight-line basis over 25 years.

(g) Impairment of long-lived assets:

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

(h) Asset retirement obligations:

The company recognizes the liability for an asset retirement that results from acquisition, construction, development, or through normal operations. The liability for an asset retirement is initially recorded at its fair value in the year in which it is incurred and when a reasonable estimate of fair value can be made. The corresponding cost is capitalized as part of the related asset and is amortized over the asset's useful life. In subsequent years the liability is adjusted for changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of the undiscounted cash flows. The accretion of the liability to its fair value as a result of the passage of time is charged to earnings.

(i) Payments in lieu of taxes (PILs):

The company is currently exempt from taxes under the Income Tax Act (Canada) (ITA) and the Taxation Act, 2007.

Pursuant to the Electricity Act (EA), the company is required to compute taxes under the ITA and Taxation Act, 2007 and remit such amounts computed thereunder to the Ministry of Finance (Ontario).

NIAGARA POWER INCORPORATED

1. Accounting policies (continued):

(i) Payments in lieu of taxes (PILs) (continued):

The company provides for PILs using the asset and liability method. Under this method, future tax assets and liabilities are recognized, to the extent such are determined likely to be realized, for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A future income tax asset recognized shall be limited to the amount that is more likely than not to be realized.

Future 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 tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the Ontario Energy Board (OEB) and recovered from the customers of the company at that time.

PILs recoverable from loss carryforwards are recorded in future payments in lieu of taxes on the balance sheet at the current enacted statutory tax rates expected to apply when recovery of the loss carryforwards are expected to be recovered.

(j) Customers' and developers' deposits:

Customers' and developers' deposits are recorded when received or paid. Deposits earn interest at a rate of prime less 2%.

(k) Regulatory assets and liabilities:

Regulatory assets and liabilities represent differences between amounts collected through rates (OEB approved) and actual costs incurred by the distributor. Regulatory assets and liabilities on the balance sheet at year-end consist of settlement variances on the cost of power, deferred charges, and the associated regulated interest.

(l) Revenue recognition:

Power revenue is recognized on the accrual basis, which includes an estimate of unbilled revenue. Service revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used. Any discrepancies in the revenue collected and the associated cost of power to distribute are charged to regulatory assets.

Transformation revenue is recorded from the transformation of electricity on the basis of peak demand for the month. Revenue is recognized when the peak demand has occurred.

Construction revenue is recognized on a percentage of completion basis whereby income is recorded in relation to the costs incurred. If the estimated total cost on any contract indicates a loss, the total loss is recognized in income. Income billed in advance is recognized as deferred income.

Other revenue is recognized as earned.

1. Accounting policies (continued):

(m) Financial instruments:

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the company's designation of such instruments. Settlement date accounting is used.

The company has classified its financial instruments as follows:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Unbilled revenue	Loans and receivables
Bank loan	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Customers' and developers' deposits	Other liabilities
Promissory note	Other liabilities
Term loan	Other liabilities
Interest rate swap	Held-for-trading

(i) Held-for-trading:

Held-for-trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held-for-trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other income.

Financial liabilities designated as held-for-trading are those non-derivative financial liabilities that the company elects to designate on initial recognition as instruments that it will measure at fair value through other interest expense. These are accounted for in the same manner as held-for-trading assets. The company has not designated any non-derivative financial liabilities as held-for-trading.

(ii) Loans and receivables:

Loans and receivables are accounted for at amortized cost using the effective interest method.

(iii) Other liabilities:

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 5

Year ended December 31, 2010

1. Accounting policies (continued):

(n) Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and note disclosures related thereto. Due to the inherent uncertainty in making estimates, actual results could differ from these estimates recorded in preparing these financial statements including changes as a result of future regulatory decisions.

Accounts receivable, unbilled revenue and regulatory assets are stated after evaluation of amounts expected to be collected and an appropriate allowance for doubtful accounts. Inventory is recorded net of provisions for obsolescence. Amounts recorded for amortization of capital assets are based on estimates of useful service life. Other significant estimates and assumptions were used when accounting for items such as the determination of the fair market value of the interest rate swap, revenue recognition and future payment in lieu of taxes.

(o) Foreign currency transactions:

Monetary assets and liabilities denominated in foreign currencies are translated at the rate prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at the rate prevailing at the dates the assets were acquired or the liabilities incurred. Revenue and expenses are translated at the average exchange rate for the year except for depreciation and amortization which are translated at the rates prevailing at t6he dates the related assets were acquired. The resulting foreign currency translation gains and losses are included in the determination of net income or loss.

(p) Rate regulation:

The company is in the process of applying for a contract through the Ontario Power Authority under its Feed-In Tariff (FIT) program relating to establishing a pricing contract for renewable electricity production.

2. Future changes in accounting policies:

International financial reporting standards (IFRS):

In 2010, the Canadian Accounting Standards Board (AcSB) proposed that rate-regulated enterprises be required to adopt IFRS in place of Canadian GAAP effective January 1, 2012 and for investment companies effective January 1, 2013. The company is currently evaluating the impact of the adoption of IFRS on its financial statements. At this time, the impact on the company’s future financial position and results of operations is not reasonably determinable or estimable.

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 6

Year ended December 31, 2010

3. Long-term investment:

The investment consists of 2,000 common shares of Niagara Regional Broadband Network Limited (NRBN). During the year the company invested an additional $400,000 in the company.

4. Capital assets:

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Land	$ 214,920	$ –	$ 214,920	$ 186,552
Buildings	1,367,890	429,504	938,386	894,273
Distribution plant	26,364,303	12,158,462	14,205,841	13,653,374
General equipment and intangibles	4,879,552	1,962,435	2,917,117	3,033,819
Capital contributions	(4,977,193)	(1,205,453)	(3,771,740)	(3,103,478)
	$27,849,472	$ 13,344,948	$14,504,524	$14,664,540

Intangible assets representing computer software, is included in general equipment and intangibles and has an original cost of $467,221 (2009 - $434,101) and an accumulated amortization of $269,059 (2009 - $196,840). Amortization expense on intangible assets totalled $72,219 (2009 - $6,111).

During the year the company received $153,456 (2009 - $130,482) of capital contributions in aid of construction.

5. Regulatory assets (liabilities):

	2010	2009
Regulatory assets (liabilities)		
Settlement variances	$ (701,049)	$(1,158,850)
Smart meters	1,555,537	114,496
Regulatory assets recovery amount	(361)	19,329
	$ 854,127	$(1,025,025)

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 7

Year ended December 31, 2010

5. Regulatory assets (liabilities) (continued):

Net regulatory assets (liabilities) represent costs incurred by the company in excess of amounts billed to the consumer (amounts recovered from customers in excess of cost incurred) at OEB approved rates less recoveries. These amounts have been accumulated pursuant to the Electricity Act and deferred in anticipation of their future recovery in electricity distribution rates. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

Regulatory assets (liabilities) earn (incur) interest at the prescribed rates. In 2010, the rates ranged from 0.55% to 1.2% (2009 – 0.55% to 2.45%).

Settlement variances represent amounts that have accumulated since Market Opening and comprise:

(a) variances between amounts charged by the Independent Electricity System Operator (IESO) 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

(b) variances between the amounts charged by the IESO for energy commodity costs and the amounts billed to customers by the company based on OEB approved rates.

Smart meters:

The Province of Ontario has committed to have “Smart Meter” electricity meters installed in certain homes and small businesses by the end of 2010. Smart meters permit consumption to be recorded within specific time intervals and specific tariffs to be levied within such intervals. The company has installed 10,035 Smart Meters upon completion of its meter deployment.

Included in distribution rates, effective May 1, 2006, is a charge for smart meters of $1.00 (2009 - $0.27) per metered customer per month. Consistent with the OEB’s direction and pending further guidance, all smart meter related expenditures and recoveries are currently being deferred in regulatory accounts.

Regulatory assets recovery amount represents costs incurred by the company as of December 31, 2004 which have been approved for recovery through rates net of amounts recovered from customers.

The continuing restructuring of Ontario’s electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders, may affect the distribution rates that the company may charge and the costs that the company may recover, including the balance of its regulatory assets.

NIAGARA POWER INCORPORATED

5. Regulatory assets (liabilities) (continued):

In the absence of rate regulation, Canadian generally accepted accounting principles would require the company to record the costs and recoveries described above in the operating results of the year in which they are incurred and reported earnings before income taxes would be $1,825,762 lower (2009 - $337,788 lower) than reported.

Rate regulation:

The company is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act (1998). The OEB has the power and responsibility to approve or fix rates for the transmission and distribution of electricity and transformer connection fees providing continued rate protection for rural and remote electricity customers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

In January 2000, the OEB established that distribution rates would be subject to Performance Based Regulation ("PBR"), a method of regulation whereby distribution rates are reduced annually to reflect productivity improvements required of the company. Under this rate methodology, rates also include regulated amounts for return on company equity and debt, which were initially determined by the OEB to be 9.88% and 7.25%, respectively. While the initial PBR regulatory framework provided for those regulatory rates of return, subsequent regulations and Provincial Government initiatives prevented distribution companies from fully achieving the theoretical rate of return on equity.

In 2005, the company filed rate applications to adjust its distribution charges to provide for the full theoretical regulatory rate of return of 9.88% and continued recovery of its regulatory assets. As mandated by the OEB, the rate increase is subject to a financial commitment by the company to invest $221,745 in conservation and demand management activities over the period July 1, 2004 to April 30, 2008. Spending on this program was completed in 2008.

In 2006, the OEB approved the company's 2006 distribution rates providing for a revised rate of return of 9.0% effective May 1, 2006.

The company has a transmission licence from the OEB stating that the company owns a transmission station connected to Hydro One Networks Inc. that provides power to the service areas of licensed distributors. The decision and order are dated December 24, 2010 and expire December 23, 2030..

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 9

Year ended December 31, 2010

6. Bank loan:

The company has available the following credit facilities with the bank:

(a) $1,000,000 operating loan to finance working capital, bearing interest at the prime rate, due on demand

(b) $964,845 letter of credit to satisfy IESO Prudential requirement, bearing interest at 0.6%, due on demand

(c) $1,600,000 operating demand loan to assist with 2010 capital expenditures, bearing interest at the prime rate, due on demand

(d) $1,600,000 committed reducing term loan by way of fixed rate term loan and floating rate term loan, fixed rate loan bearing interest at market rate as determined by the bank, floating rate loan bearing interest at prime rate plus 0.5%, fixed rate loan term up to 5 years, floating rate loan term up to 1 year.

The credit facilities are secured by a General Security Agreement, assignment of fire insurance on inventory and equipment, assignment of liability insurance, and Postponement Agreement executed by the bank, the Company and the Town of Grimsby.

At December 31, 2010, the amount drawn on the credit facilities totalled $1,600,000 (2009 - $Nil).

7. Promissory note:

The promissory note payable to the Town of Grimsby bears interest at the rate of 7.25% per annum and matures on February 1, 2020. Included in interest on long-term liabilities is $419,249 (2009- $419,249) related to this note. Accounts payable and accrued liabilities include $419,249 (2009 - $419,249) owing to the Town of Grimsby.

8. Term loan:

The term loan is a variable rate loan issued as bankers acceptances and is due March 9, 2012. The loan is secured by a general security agreement, assignment of fire insurance and guarantees by the company and Niagara Peninsula Energy Inc. in the amount of $6,500,000.

The company has entered into a swap transaction for the full amount of the debt, the effect of which is to fix the interest rate of the loan at 5.6% until January 31, 2025.

The fair value of the interest rate swap agreement is based on future discounted cash flows of amounts estimated by the company's bank of the cost or benefit of the swap contracts until the end of the term of the loan. At December 31, 2010, the interest rate swap agreement was in a net unfavourable position of $248,926 (2009 - $223,975), which has been classified as held-for-trading. This unfavourable amount has been included in accounts payable and accrued liabilities. The current year impact of the change in the fair value of the interest rate swap amounted to $24,321 and is included in interest on long-term liabilities.

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 10

Year ended December 31, 2009

8. Term loan (continued):

	2010	2009
Term loan	$ 2,508,000	$ 2,607,000
Less principal due within one year	107,000	99,000
	$ 2,401,000	$ 2,508,000

The company has agreed to certain covenants with respect to this loan, including a minimum debt service coverage ratio. As at December 31, 2010, the company was not in compliance with this particular covenant. Subsequent to year end, the bank waived its compliance of the covenant violation and indicated its intention to not demand or accelerate payment of the loan during 2011.

The principal amounts over the next five years assuming the term loan is renewed under similar terms and conditions are as follows:

2011	$	107,000
2012		114,000
2013		123,000
2014		132,500
2015		140,500
	$	617,000

9. Share capital:

	2010	2009
Authorized:		
Unlimited common shares		
90 Class A cumulative, non-voting, redeemable, preferred shares		
10 Class B cumulative, non-voting, redeemable, preferred shares		
Issued:		
2,001 common shares	$ 7,987,327	$ 7,987,327
90 Class A preferred shares	90	90
10 Class B preferred shares	1,100,000	1,100,000
	$ 9,087,417	$ 9,087,417

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 11

Year ended December 31, 2009

10. Commitments and contingent liabilities:

(a) A letter of credit in the amount of $1,464,704 has been issued in favour of the Independent Electricity System Operator (IESO) as security for the company's purchase of electricity through the IESO. No amounts were drawn down on the letter of credit at year end.

(b) Effective September 3, 2009, the company entered into a service contract to perform regular monthly inspections, maintenance and building and yard cleaning. The estimate annual cost of these services if $6,050. The term of the agreement expires September 3, 2011.

(c) The company has guaranteed the indebtedness of Niagara West Transformation Corporation, a joint venture, in the amount of $6,500,000. As of December 31, 2010, $5,016,000 (2009 - $5,214,000) of the loan was outstanding and all financial covenants had been met.

In general, liabilities of joint ventures are secured by pledges of the related assets. At times, the joint venture participants may further support these obligations should the realization of joint venture assets not be sufficient. As a 50% participant in a joint venture, the company is contingently liable at December 31, 2010 for the other participant's share of the liabilities of $2,737,015 (2009 - $2,854,521) should they not be able to satisfy them, as well as for its own share.

(d) In June 2009, the company entered into an agreement for the regular maintenance on its equipment from 2009 to 2013. Under this agreement, the company will incur total maintenance costs over the next three years as follows:

2011	$	12,959
2012		1,945
2013		1,969
	$	16,873

(e) In September 2010, the company entered into a contract for the design and planning of a bio-digester for a total contract cost of 55,000 Euros. Of this amount 13,570 Euros were paid prior to December 31, 2010 and is included as part of land

(f) As a shareholder of the Niagara Regional Broadband Network Limited (NRBN) the company, along with three other shareholders, has guaranteed NRBN's term loan for $2,700,000. The company's maximum liability under this guarantee is 25% of the total guarantee or $675,000.

In 2014, should the NRBN not attain a certain cash position, the company must contribute $675,000 to NRBN.

(g) The company has guaranteed the payment of a penalty in the event of early termination of a fixed rate loan agreement between Niagara West Transformation Corporation and a bank. The company's liability is estimated at 50% of $248,296 (2009 - 223,975) and is recorded in accounts payable and accrued liabilities.

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 12

Year ended December 31, 2010

10. Commitments and contingent liabilities (continued):

(h) The company entered into a lease agreement to rent office space for a 6 month term at a rate of $508 per month plus additional common area costs. The lease commences on January 1, 2011 and the company is entitled to renew this lease for 2 additional terms of 3 months each.

(i) The company has a commitment to pay $3,500 per month for system administration and non-system related support related to a new SAP platform to a minority shareholder.

(j) The company has entered into an agreement to purchase land at a cost of $200,000 with a closing date of June 10, 2011. A deposit of $1,000 has been paid at December 31, 2010. The land will be used to build a bio-digester to generate renewable energy from bio-waste.

11. Payments in lieu of taxes:

The company's income tax expense for the year ended December 31, 2010 consists of the following:

Temporary differences which give rise to future payments in lieu of tax assets and liabilities are as follows:

	2010	2009
Allowance for doubtful accounts	$ 2,382	$ 2,167
Capital assets	1,010,942	892,021
Regulatory liabilities	40,442	138,671
Future payments in lieu of taxes	$ 1,053,766	$ 1,032,859

The provision for PILs varies from amounts which would be computed by applying the corporation's combined statutory income tax rate of 47.7% (2009 – 48.7%) as follows:

	2010	2009
Basic taxes applied to income before PILs	$ 127,994	$ 291,255
Increase (decrease) in PILs resulting from:		
Tax basis of depreciable capital assets in excess of accounting basis	–	6,613
Change in regulatory liabilities	(32,136)	(111,470)
Change in future tax rate	11,019	131,123)
Prior year adjustments	58,563	(32,043)
Other	3,441	(127,480)
Effective taxes applied to income before PILs	$ 168,881	$ 157,998

NIAGARA POWER INCORPORATED

12. Change in non-cash working capital:

	2010	2009
Cash provided by (used in):		
Accounts receivable:		
Service revenue	$ (139,031)	$ (63,330)
Other	76,168	(147,737)
Payment in lieu of taxes	143,294	(212,515)
Unbilled revenue	(102,484)	138,914
Inventory	(45,909)	3,325
Prepaid expenses	(84,410)	57,564
Accounts payable and accrued liabilities	61,053	124,842
Deferred revenue	325,470	–
Customer and developer deposits	427,884	33,736
	$ 662,035	$ (65,201)

The company acquired property and equipment through non-cash capital contributions of $713,887 (2009 - $42,674).

13. Related party transactions:

The Town of Grimsby, the shareholder, was charged $389,702 (2009 - $348,991) to service street lighting in 2010. The Town of Grimsby provided property services, water and vehicle fuel to the company. The costs of these goods and services aggregating $48,409 (2009 -$39,930), was charged to capital assets, property taxes, administration, operations and maintenance. The company received from the Town of Grimsby $804,112 in connection with the Town Hall turbine project in 2010. $478,642 of this amount has been recognized in revenue, the remaining $325,470 has been deferred to future years. These transactions are in the normal course of operations and are measured at the exchange amount established and agreed to by the related parties.

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 14

Year ended December 31, 2010

14. Pension agreements:

The company makes contributions to the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer plan, on behalf of its full-time staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contributions during the year were 6.4% (2009 – 6.5%) for employee earnings below the year's maximum pensionable earnings and 9.7% (2009 – 9.6%) thereafter.

The amount contributed in 2010 is $76,319 (2009 – $63,503) and is included as an expenditure in the Statement of Earnings and Retained Earnings.

The OMERS plan has a deficit as at December 31, 2010. If actuarial surpluses are not available to offset the existing deficit, increases in contributions may be required in the future.

15. 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, 2010, the company has not been made aware of any additional assessments.

Participation in MEARIE covers a three year underwriting period which expires January 1, 2011. Notice to withdraw from MEARIE must be given six months prior to the commencement of the next three year underwriting term.

16. Income taxes:

These financial statements do not take into account a tax benefit resulting from loss carryforwards, available to the company to reduce its income for tax purposes in future periods. These loss carryforwards, in the amounts indicated below, are available until the following dates.

Available until		Amount
December 31, 2013	$	1,000
December 31, 2015		111,000
December 31, 2026		79,000
December 31, 2028		70,000
December 31, 2029		161,000
December 31, 2030		360,000
	$	782,000

NIAGARA POWER INCORPORATED

Notes to Consolidated Financial Statements, page 15

Year ended December 31, 2010

17. Supplementary cash flow information:

	2010	2009
Cash paid for:		
Interest	$ 624,475	$ 607,895
Payments in lieu of taxes	3,885	234,557
Cash received for:		
Interest	24,524	200,287
Payments in lieu of taxes	63,731	–

18. Financial instruments and risk management:

The company carries various forms of financial instruments. Unless otherwise noted, it is management's opinion that the company is not exposed to significant liquidity or credit or interest risks arising from these financial instruments. The company employs risk management strategies with a view to mitigating financial risks on a cost effect basis.

(a) Fair values:

The company's financial instruments comprise cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, customers' and developers' deposits, promissory note and term loan.

The carrying amounts of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities approximate fair values due to their short-term nature.

Customer and developer deposits have a fair value that approximate carrying value. Interest is paid on deposits on a monthly basis at a market rate, as directed by the Ontario Energy Board.

The promissory note is valued at its face value. It is not practical within the constraints of timeliness or cost to reliably measure its fair value.

The carrying amount of the long-term debt approximates its fair value because the interest rates approximate the market rate.

(b) Liquidity risk:

The company's objective is to have sufficient liquidity to meet its liabilities when due. The company monitors its cash balance and cash flows generated from operations to meet its requirements.

18. Financial instruments and risk management (continued):

(c) Credit risk:

Financial assets held by the company expose it to credit risk. As at December 31, 2010, the company's financial instruments that are exposed to concentration of credit risk consist primarily of cash. The company maintains cash and investment with Canadian chartered banks in excess of federally insured limits and is exposed to the credit risk from this concentration of cash.

Financial assets are exposed to credit risk as a result of the counter-party defaulting on its obligations. However, the company has a large number of diverse customers minimizing concentration of credit risk. The company requires customers to provide security deposits subject to OEB regulations.

(d) Interest risk:

The company utilizes an interest rate swap contract to manage the risk associated with fluctuations in interest rates. The company's policy is not to utilize financial instruments for trading or speculative purposes. The interest rate swap contract is used to reduce the impact of fluctuating interest rates on the company's long-term debt. The swap agreement requires the periodic exchange of payments without the exchange of the national principal amount on which the payments are based. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt

19. Capital management:

The company defines capital as its shareholders' equity and promissory note. Management's objective is to optimize the return to the shareholders while supporting and fostering the future growth of the company. There were no changes to the company's approach to capital management during the year.

In order to manage capital, the company regularly identifies and assesses risks that threaten the ability to meet the company's capital management objectives, and determines the appropriate strategy to mitigate these risks.

The company has customary covenants associated with its long-term debt. The company is not in compliance with its TD Commercial Banking credit facility covenants.

The company is required to maintain a minimum debt service coverage ratio of not less that 1.1:1 and a tangible net worth of not less than $1,000,000. This ratio was violated at December 31, 2010, however the bank has issued a waiver of compliance as outlined in Note 8.

20. Comparative figures:

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

NIAGARA WEST TRANSFORMATION CORPORATION

Financial Statements
for the Year Ended December 31, 2010
and Auditors' Report to the Board of Directors

DURWARD JONES BARKWELL & COMPANY LLP Chartered Accountants

NIAGARA WEST TRANSFORMATION CORPORATION

FINANCIAL STATEMENTS
DECEMBER 31, 2010

CONTENTS

DJB CHARTERED ACCOUNTANTS

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& COMPANY LLP

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Niagara West Transformation Corporation:

We have audited the accompanying financial statements of Niagara West Transformation Corporation, which comprise the balance sheet as at December 31, 2010 and the statements of loss and deficit and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2010 and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Durward Jones Barkwell & Company LLP

Durward Jones Barkwell & Company LLP
Licensed Public Accountants

May 30, 2011

NIAGARA WEST TRANSFORMATION CORPORATION

STATEMENT OF LOSS AND DEFICIT
YEAR ENDED DECEMBER 31, 2010

	2010	2009
REVENUE		
Transformer connection charges	$ 681,252	$ 634,964
Other revenue	3,099	3,405
	684,351	638,369
EXPENSES		
Administration	238,396	131,686
Depreciation	180,794	180,794
Interest	353,996	117,116
	773,186	429,596
INCOME (LOSS) BEFORE PAYMENT IN LIEU OF TAXES	(88,835)	208,773
FUTURE PAYMENT IN LIEU OF TAXES (RECOVERED) (Note 5)	(25,000)	55,000
NET INCOME (LOSS)	(63,835)	153,773
DEFICIT, BEGINNING OF YEAR	(1,146,348)	(1,300,121)
DEFICIT, END OF YEAR	$(1,210,183)	$(1,146,348)

NIAGARA WEST TRANSFORMATION CORPORATION

BALANCE SHEET
DECEMBER 31, 2010

	2010	2009
ASSETS		
Current assets		
Cash	**$ 158,287**	$ 326,468
Accounts receivable	**124,755**	57,715
Prepaid expenses	**43,182**	94
	326,224	384,277
Property and equipment (Note 2)	**6,337,722**	6,518,516
	$ 6,663,946	$ 6,902,793
LIABILITIES		
Current liabilities		
Accounts payable and accrued charges (Note 3)	**$ 309,029**	$ 261,041
Current portion of term loan	**214,000**	198,000
	523,029	459,041
Term loan (Note 4)	**4,802,000**	5,016,000
Future payment in lieu of taxes (Note 5)	**149,000**	174,000
Commitments (Note 6)		
	5,474,029	5,649,041
SHAREHOLDERS' EQUITY		
Share capital		
Authorized		
Unlimited common shares		
Unlimited Class A special shares, non-voting, redeemable at $10,000 per share		
Issued		
100 common shares	**100**	100
240 Class A special shares	**2,400,000**	2,400,000
	2,400,100	2,400,100
Deficit	**(1,210,183)**	(1,146,348)
	1,189,917	1,253,752
	$ 6,663,946	$ 6,902,793

Approved by the Board:

.... Director .... Director

NIAGARA WEST TRANSFORMATION CORPORATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010

	2010	2009
OPERATING ACTIVITIES		
Net income (loss)	**$ (63,835)**	$ 153,773
Items not affecting cash		
Depreciation	**180,794**	180,794
Change in unrealized difference on fair market value adjustment of interest rate swap	**24,321**	(216,929)
Future payment in lieu of taxes	**(25,000)**	55,000
	116,280	172,638
Changes in non-cash operating assets and liabilities		
Accounts receivable	**(67,040)**	10,199
Prepaid expenses	**(43,088)**	1,484
Accounts payable and accrued charges	**23,667**	28,635
	29,819	212,956
FINANCING ACTIVITY		
Repayment of term loan	**(198,000)**	(183,000)
INCREASE (DECREASE) IN CASH	**(168,181)**	29,956
CASH, BEGINNING OF YEAR	**326,468**	296,512
CASH, END OF YEAR	**$ 158,287**	$ 326,468

During the year, interest in the amount of $329,675 (2009 - $334,045) was paid.

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Nature of business
The Company is subject to the provisions of the Ontario Business Corporations Act and provides hydro transformation services to Grimsby Power Inc. and Niagara Peninsula Energy Inc.

Property and equipment
Property and equipment are stated at cost. Depreciation is recorded on a straight-line basis over the estimated life of the assets as stated in Note 2. Depreciation is recorded at one half of the normal rates in the year of acquisition.

Revenue recognition
Revenue from the transformation of electricity is recorded on the basis of peak demand for the month and is recognized when the peak demand has occurred. Other revenue is recognized as earned.

Rate regulation
The Company is regulated by the Ontario Energy Board ("OEB"), under the security granted by the Ontario Energy Board Act (1998). The OEB has the power and responsibility to approve or fix rates for the transformer connection fees that the Company charges. The OEB may also prescribe license requirements and conditions of service which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

The Company has a Transmission Licence from the OEB stating that the Company owns a transmission station connected to Hydro One Networks Inc. that provides power to the service areas of licensed distributors Niagara Peninsula Energy Inc. and Grimsby Power Inc. The Decision and Order are dated December 24, 2010 and expire December 23, 2030.

Financial instruments
The Company has classified its financial instruments as follows:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued charges	Other liabilities
Interest rate swap	Held-for-trading
Term loan	Other liabilities

Financial assets and liabilities classified as held-for-trading are measured at fair value with the change in fair value recorded in the statement of income or loss and deficit. At December 31, 2010, the Company reported a loss of $24,321 as a result of the change in value of its interest rate swap which has been included in interest on long-term debt. Financial assets classified as loans and receivables and financial liabilities classified as other liabilities are measured at amortized costs using the effective interest method.

NIAGARA WEST TRANSFORMATION CORPORATION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (continued)

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates, as additional information becomes available in the future. Significant estimates and assumptions are used when accounting for items such as the determination of an impairment of long-lived assets, useful lives of building and equipment, fair market value of the interest rate swap, revenue recognition and future payment in lieu of taxes.

2. PROPERTY AND EQUIPMENT

			2010		2009
	Annual Depreciation Rates	**Assets at Cost**	**Accumulated Depreciation**	**Net Book Value**	Net Book Value
Land	-	**$ 149,992**	**$ -**	**$ 149,992**	$ 149,992
Building	S.L. 50 yrs.	**1,224,419**	**171,419**	**1,053,000**	1,077,488
Machinery and equipment	S.L. 40 yrs.	**6,252,217**	**1,117,487**	**5,134,730**	5,291,036
		$ 7,626,628	**$ 1,288,906**	**$ 6,337,722**	$ 6,518,516

3. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	2010	2009
Trade accounts payable	**$ 36,522**	$ 31,424
Goods and Services Tax	**-**	5,642
Harmonized Sales Tax	**23,692**	-
Employee payroll deductions payable	**519**	-
Unrealized difference on fair market value adjustment of interest rate swap	**248,296**	223,975
	$ 309,029	$ 261,041

4. TERM LOAN

The term loan is a variable rate loan issued as bankers acceptances and is due March 9, 2012. The loan is secured by a general security agreement, an assignment of fire and liability insurance and by general security agreements and limited guarantees from the shareholders, Peninsula West Power Inc. and Niagara Power Inc., in the amount of $3,250,000 each. The Company has entered into a swap transaction for the full amount of the debt, the effect of which is to fix the interest rate of the loan at 5.6% until January 31, 2025.

The fair value of the interest rate swap agreement is based on discounted future cash flows of amounts estimated by the Company's bank of the cost or benefit of the swap contracts until the end of the term of the loan . At December 31, 2010, the interest rate swap agreement was in a net unfavourable position of $248,296 (2009 - $223,975). This unfavourable amount has been included in accounts payable and accrued charges as noted above. The current year impact of the change in the fair value of the interest rate swap amounted to $24,321 and is included in interest on long-term debt expense.

	2010	2009
Term loan - as described above	**$ 5,016,000**	$ 5,214,000
Less principal due within one year	**214,000**	198,000
	$ 4,802,000	$ 5,016,000

The Company has agreed to certain covenants with respect to this loan, including a minimum debt service coverage ratio. As at December 31, 2010, the Company was not in compliance with this particular covenant. Subsequent to year end, the bank waived its compliance of the covenant violation and indicated its intention to not demand or accelerate payment of the loan during 2011.

The principal amounts due over the next five years assuming the term loan is renewed under similar terms and conditions are as follows:

2011	$ 214,000
2012	228,000
2013	246,000
2014	265,000
2015	281,000
	$ 1,234,000

5. FUTURE PAYMENT IN LIEU OF TAXES

The Company is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act. Pursuant to the Electricity Act, 1998 (Ontario), the Company is required to compute taxes under the Income Tax Act and Ontario Corporations Tax Act and remit such amounts computed thereunder to the Ministry of Finance (Ontario).

Future payment in lieu of taxes relate to claiming capital cost allowance for tax purposes in excess of depreciation charged in the financial statements less the benefit of non-capital losses carried forward. The Company has Provincial non-capital losses in the amount of approximately $625,947 available for carry forward to reduce future years' payments in lieu of taxes which begin to expire as follows:

December 31,	2015	$ 222,111
	2026	157,321
	2028	128,090
	2030	118,425
		$ 625,947

6. COMMITMENTS

(i) Maintenance agreement

In June 2009, the Company entered into an agreement with Rondar Inc. for the regular maintenance on its equipment from 2009 to 2013. Under this agreement, the Company will incur total maintenance costs over the next three years as follows:

2011	$ 25,917
2012	3,890
2013	3,938
	$ 33,745

(ii) Service agreement

Effective September 3, 2009, the Company entered into a service contract with Niagara Peninsula Energy Inc., a related party as described in Note 7, to perform regular monthly inspections, maintenance and building and yard cleaning. The estimated annual cost of these services is approximately $12,100. The term of the agreement expires September 3, 2011.

7. RELATED PARTIES

The Company is controlled under common ownership by Peninsula West Power Inc. and Niagara Power Inc. Peninsula West Power Inc. holds an investment in Niagara Peninsula Energy Inc. and Niagara Power Inc. is the parent company of Grimsby Power Inc.

During the year, the Company recorded transformer connection charges of $300,740 (2009 - $265,409) and $380,512 (2009 - $369,555) from Niagara Peninsula Energy Inc. and Grimsby Power Inc. respectively.

At December 31, 2010, included in accounts receivable were amounts due from Niagara Peninsula Energy Inc. and Grimsby Power Inc. in the amounts of $53,938 (2009 - $24,415) and $69,667 (2009 - $32,149) respectively.

During the year, the Company incurred $14,303 in maintenance costs related to its service agreement with Niagara Peninsula Energy Inc. At December 31, 2010 trade accounts payable included $9,080 due to Niagara Peninsula Energy Inc.

All transactions are measured at the exchange amount, are under similar terms with non-related parties and are in the normal course of business.

8. CAPITAL MANAGEMENT

The Company defines capital as the aggregate of its share capital and deficit. Management's objective is to optimize the return to the shareholders while supporting and fostering the future growth of the Company. During the 2010 fiscal year the Company's strategy, which was unchanged from the 2009 fiscal year, was to meet or exceed its TD Commercial Banking credit facility covenants. The Company is required to maintain a minimum debt service coverage ratio of not less than 1.1:1 and a tangible net worth of not less than $1,000,000. In addition, the guarantors are required to maintain a minimum level of 85% regulated earnings before interest, taxes, depreciation and amortization. The debt service coverage ratio covenant was violated at December 31, 2010 however the bank has indicated its intention to issue a waiver of compliance as outlined in Note 4.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) *Fair values*

The fair values of cash, accounts receivable, and accounts payable and accrued charges are assumed to approximate their carrying amounts because of their short term to maturity. The carrying amount of the term loan approximates its fair value because the interest rate approximates the market rate.

b) *Derivative financial instrument*

The Company utilizes an interest rate swap contract to manage the risk associated with fluctuations in interest rates. The Company's policy is not to utilize financial instruments for trading or speculative purposes. The interest rate swap contract is used to reduce the impact of fluctuating interest rates on the Company's long-term debt. The swap agreement requires the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt.

c) *Risk management*

In the normal course of business, the Company is exposed to financial risks that may potentially impact its operating results. The Company employs risk management strategies with a view to mitigating these risks on a cost effective basis.

i) Liquidity risk

Liquidity is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors collection efforts to ensure sufficient cash flows are generated from operations to meet the current debt obligations. The Company expects that cash flow from operations in fiscal 2011 will be adequate to fund on-going investment in working capital and capital expenditures.

ii) Credit risk

The Company had a significant exposure of sales to two customers during the year. As at December 31, 2010 the Company had accounts receivable totaling $124,755 of which $123,605 or 99% related to two customers. This amount is current and management monitors collections on a regular basis and is not aware of any collection issues related to these accounts.

iii) Other risks

The Company is not exposed to significant currency risk on its financial instruments.

NIAGARA WEST TRANSFORMATION CORPORATION

Financial Statements
for the Year Ended December 31, 2011
and Independent Auditors' Report to the Board of Directors

NIAGARA WEST TRANSFORMATION CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2011

CONTENTS

DJB
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Niagara West Transformation Corporation:

We have audited the accompanying financial statements of Niagara West Transformation Corporation, which comprise the balance sheet as at December 31, 2011 and the statements of loss and deficit for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Niagara West Transformation Corporation as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Durward Jones Barkwell & Company LLP

Durward Jones Barkwell & Company LLP
Licensed Public Accountants
May 31, 2012

NIAGARA WEST TRANSFORMATION CORPORATION
STATEMENT OF LOSS AND DEFICIT
YEAR ENDED DECEMBER 31, 2011

	2011	2010 (Restated) (Note 2)
REVENUE		
Transformer connection charges	$ 740,984	$ 681,252
Other revenue	1,615	3,099
	742,599	684,351
EXPENSES		
Administration	262,288	238,396
Depreciation	180,891	180,794
Interest	312,126	329,675
	755,305	748,865
LOSS FROM OPERATIONS	(12,706)	(64,514)
LOSS ON CHANGE IN FAIR VALUE OF INTEREST RATE SWAP AGREEMENT	(348,672)	(127,407)
NET LOSS	(361,378)	(191,921)
DEFICIT, BEGINNING OF YEAR		
As previously stated	(1,210,183)	(1,146,348)
Adjustment to fair value of interest rate swap agreement (Note 2)	(428,519)	(300,433)
	(1,638,702)	(1,446,781)
DEFICIT, END OF YEAR	$(2,000,080)	$(1,638,702)

NIAGARA WEST TRANSFORMATION CORPORATION

BALANCE SHEET
DECEMBER 31, 2011

	2011	2010 (Restated) (Note 2)
ASSETS		
Current assets		
Cash	**$ 117,101**	$ 158,287
Accounts receivable	**97,379**	124,755
Prepaid expenses	**20,847**	43,182
	235,327	326,224
Property and equipment (Note 3)	**6,188,597**	6,337,723
	$ 6,423,924	$ 6,663,947
LIABILITIES		
Current liabilities		
Accounts payable and accrued charges (Note 4)	**$ 47,417**	$ 60,734
Unrealized loss on fair value of interest rate swap agreement	**1,174,487**	825,815
Current portion of term loan	**228,000**	214,000
	1,449,904	1,100,549
Term loan (Note 5)	**4,574,000**	4,802,000
	6,023,904	5,902,549
SHAREHOLDERS' EQUITY		
Share capital		
Authorized		
Unlimited common shares		
Unlimited Class A special shares, non-voting, redeemable at $10,000 per share		
Issued		
100 common shares	**100**	100
240 Class A special shares	**2,400,000**	2,400,000
	2,400,100	2,400,100
Deficit	**(2,000,080)**	(1,638,702)
	400,020	761,398
	$ 6,423,924	$ 6,663,947

Approved by the Board:

.... Director .... Director

NIAGARA WEST TRANSFORMATION CORPORATION

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

	2011	2010 (Restated) (Note2)
OPERATING ACTIVITIES		
Net loss	$ (361,378)	$ (191,921)
Items not affecting cash		
Depreciation	180,891	180,794
Loss on change in fair value of interest rate swap agreement	348,672	127,407
	168,185	116,280
Changes in non-cash operating assets and liabilities		
Accounts receivable	27,376	(67,040)
Prepaid expenses	22,335	(43,088)
Accounts payable and accrued charges	(13,317)	23,667
	204,579	29,819
INVESTING ACTIVITY		
Purchase of property and equipment	(31,765)	-
FINANCING ACTIVITY		
Repayment of term loan	(214,000)	(198,000)
DECREASE IN CASH	(41,186)	(168,181)
CASH, BEGINNING OF YEAR	158,287	326,468
CASH, END OF YEAR	$ 117,101	$ 158,287

During the year, interest in the amount of $312,126 (2010 - $329,675) was paid.

NIAGARA WEST TRANSFORMATION CORPORATION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Nature of business
The Company is subject to the provisions of the Ontario Business Corporations Act and provides hydro transformation services to Grimsby Power Inc. and Niagara Peninsula Energy Inc.

Property and equipment
Property and equipment are stated at cost. Depreciation is recorded on a straight-line basis over the estimated life of the assets as stated in Note 3. Depreciation is recorded at one half of the normal rates in the year of acquisition.

Revenue recognition
Revenue from the transformation of electricity is recorded on the basis of peak demand for the month and is recognized when the peak demand has occurred. Other revenue is recognized as earned.

Rate regulation
The Company is regulated by the Ontario Energy Board ("OEB"), under the security granted by the Ontario Energy Board Act (1998). The OEB has the power and responsibility to approve or fix rates for the transformer connection fees that the Company charges. The OEB may also prescribe license requirements and conditions of service which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

The Company has a Transmission Licence from the OEB stating that the Company owns a transmission station connected to Hydro One Networks Inc. that provides power to the service areas of licensed distributors Niagara Peninsula Energy Inc. and Grimsby Power Inc. The Decision and Order are dated December 24, 2010 and expire December 23, 2030.

Financial instruments
The Company has classified its financial instruments as follows:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued charges	Other liabilities
Interest rate swap agreement	Held-for-trading
Term loan	Other liabilities

Financial assets and liabilities classified as held-for-trading are measured at fair value with the change in fair value recorded in the statement of income or loss. Financial assets classified as loans and receivables and financial liabilities classified as other liabilities are measured at amortized costs using the effective interest method.

Use of estimates
The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates, as additional information becomes available in the future. Significant estimates and assumptions are used when accounting for items such as the determination of an impairment of long-lived assets, useful lives of building and equipment, fair value of the interest rate swap agreement and revenue recognition.

NIAGARA WEST TRANSFORMATION CORPORATION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

2. ADJUSTMENT TO FAIR VALUE OF INTEREST RATE SWAP AGREEMENT

During the year, it was determined that the unrealized loss on fair value of the interest rate swap agreement had been understated in prior years and therefore the comparative figures have been restated for this difference along with the related effect on the future payment in lieu of taxes. As a result, the 2010 opening deficit has been increased by $300,433 relating to an increase in the unrealized loss on fair value of the interest rate swap agreement in the amount of $474,433 and a decrease in the future payment in lieu of taxes liability in the amount of $174,000. The 2010 comparative statement of loss reflects an increase in the loss on change in fair value of the interest rate swap agreement in the amount of $103,086 and a reduction to the recovery of future payment in lieu of taxes in the amount of $25,000 for a net effect on net loss of $128,086. The 2010 comparative balance sheet has been adjusted to increase the unrealized loss on fair value of the interest rate swap agreement in the amount of $577,519 and to remove the future payment in lieu of taxes liability in the amount of $149,000.

3. PROPERTY AND EQUIPMENT

			2011		2010
	Annual Depreciation Rates	**Assets at Cost**	**Accumulated Depreciation**	**Net Book Value**	Net Book Value
Land	-	**$ 149,992**	**$ -**	**$ 149,992**	$ 149,992
Building	S.L. 50 yrs.	**1,256,185**	**196,225**	**1,059,960**	1,053,000
Machinery and equipment	S.L. 40 yrs.	**6,252,217**	**1,273,572**	**4,978,645**	5,134,731
		$ 7,658,394	**$ 1,469,797**	**$ 6,188,597**	$ 6,337,723

4. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	2011	2010
Trade accounts payable	**$ 12,734**	$ 27,042
Harmonized Sales Tax	**24,683**	23,692
Accrued charges	**10,000**	10,000
	$ 47,417	$ 60,734

NIAGARA WEST TRANSFORMATION CORPORATION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

5. TERM LOAN

The term loan is a variable rate loan issued as bankers acceptances and is due March 9, 2012. The loan is secured by a general security agreement, an assignment of fire and liability insurance and by general security agreements and limited guarantees from the shareholders, Peninsula West Power Inc. and Niagara Power Inc., in the amount of $3,250,000 each. The Company has entered into a swap transaction for the full amount of the debt, the effect of which is to fix the interest rate of the loan at 5.6% until January 31, 2025.

The fair value of the interest rate swap agreement is based on discounted future cash flows of amounts estimated by the Company's bank of the cost or benefit of the swap contracts until the end of the term of the loan. At December 31, 2011, the interest rate swap agreement was in a net unfavourable position of $1,174,487 (2010 - $825,815). This unfavourable amount has been included as a current liability and the impact of the change in the fair value of the interest rate swap agreement, in the amount of $348,672, is included in net loss.

	2011	2010
Term loan - as described above	**$ 4,802,000**	$ 5,016,000
Less principal due within one year	**228,000**	214,000
	$ 4,574,000	$ 4,802,000

The Company has agreed to certain covenants with respect to this loan and as at December 31, 2011 was not in compliance with certain covenants. Subsequent to year end, the bank renewed the loan under the same terms for an additional five year term thus indicating its intention to not demand or accelerate payment of the loan during 2012.

The principal amounts due over the next five years are as follows:

2012	$ 228,000
2013	246,000
2014	265,000
2015	281,000
2016	303,000
	$ 1,323,000

NIAGARA WEST TRANSFORMATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

6. FUTURE PAYMENT IN LIEU OF TAXES

The Company is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act. Pursuant to the Electricity Act, 1998 (Ontario), the Company is required to compute taxes under the Income Tax Act and Ontario Corporations Tax Act and remit such amounts computed thereunder to the Ministry of Finance (Ontario).

The Company has Provincial non-capital losses in the amount of approximately $661,318 available for carry forward to reduce future years' payments in lieu of taxes which expire as follows:

December 31, 2015	$ 222,111
2026	157,321
2028	128,090
2030	118,425
2031	35,371
	$ 661,318

The benefit of these losses carried forward have not been reflected in these financial statements.

7. RELATED PARTIES

The Company is controlled under common ownership by Peninsula West Power Inc. and Niagara Power Inc. Peninsula West Power Inc. holds an investment in Niagara Peninsula Energy Inc. and Niagara Power Inc. is the parent company of Grimsby Power Inc.

During the year, the Company recorded transformer connection charges of $325,908 (2010 - $300,740) and $415,076 (2010 - $380,512) from Niagara Peninsula Energy Inc. and Grimsby Power Inc. respectively.

At December 31, 2011, included in accounts receivable were amounts due from Niagara Peninsula Energy Inc. and Grimsby Power Inc. in the amounts of $59,862 (2010 - $53,938) and $36,367 (2010 - $69,667) respectively.

During the year, the Company incurred $9,727 (2010 - $14,303) in maintenance costs related to a service agreement with Niagara Peninsula Energy Inc. At December 31, 2011 trade accounts payable included $2,689 (2010 - $9,080) due to Niagara Peninsula Energy Inc.

All transactions are measured at the exchange amount, are under similar terms with non-related parties and are in the normal course of business.

8. CAPITAL MANAGEMENT

The Company defines capital as the aggregate of its share capital and deficit. Management's objective is to optimize the return to the shareholders while supporting and fostering the future growth of the Company. During the 2011 fiscal year the Company's strategy, which was unchanged from the 2010 fiscal year, was to meet or exceed its TD Commercial Banking credit facility covenants. The Company is required to maintain a minimum debt service coverage ratio of not less than 1.1:1 and a tangible net worth of not less than $1,000,000. In addition, the guarantors are required to maintain a minimum level of 85% regulated earnings before interest, taxes, depreciation and amortization. At December 31, 2011 certain of these covenants were violated.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) *Fair values*

The fair values of cash, accounts receivable, and accounts payable and accrued charges are assumed to approximate their carrying amounts because of their short term to maturity. The carrying amount of the term loan approximates its fair value because the interest rate approximates the market rate.

b) *Derivative financial instrument*

The Company utilizes an interest rate swap contract to manage the risk associated with fluctuations in interest rates. The Company's policy is not to utilize financial instruments for trading or speculative purposes. The interest rate swap contract is used to reduce the impact of fluctuating interest rates on the Company's long-term debt. The swap agreement requires the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt.

c) *Risk management*

In the normal course of business, the Company is exposed to financial risks that may potentially impact its operating results. The Company employs risk management strategies with a view to mitigating these risks on a cost effective basis.

i) Liquidity risk

Liquidity is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors collection efforts to ensure sufficient cash flows are generated from operations to meet the current debt obligations. The Company expects that cash flow from operations in fiscal 2012 will be adequate to fund on-going investment in working capital and capital expenditures.

ii) Credit risk

The Company had a significant exposure of sales to two customers during the year. As at December 31, 2011, all of the Company's accounts receivable related to two customers. This amount is current and management monitors collections on a regular basis and is not aware of any collection issues related to these accounts.

iii) Other risks

The Company is not exposed to significant currency risk on its financial instruments.

PENINSULA WEST POWER INC.

Consolidated Financial Statements

December 31, 2010

Crawford, Smith and Swallow
Chartered Accountants LLP

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Peninsula West Power Inc.

We have audited the accompanying consolidated financial statements of Peninsula West Power Inc. and its subsidiary, which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of operations, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Peninsula West Power Inc. and its subsidiary as at December 31, 2010, and the results of their operations and their cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Niagara Falls, Ontario
June 16, 2011

CRAWFORD, SMITH AND SWALLOW
CHARTERED ACCOUNTANTS LLP

LICENSED PUBLIC ACCOUNTANTS

PENINSULA WEST POWER INC.

CONSOLIDATED BALANCE SHEET
December 31, 2010

Assets - notes 4 and 10	2010 $	2009 $
Current Assets		
Cash	762,030	725,296
Accounts receivable	120,216	104,251
Unbilled revenue	11,762	12,414
Payment in lieu of income taxes recoverable	21,268	1,372
Inventory	980	784
Prepaid expenses	22,671	1,127
	938,927	845,244
Property and Equipment - note 3	3,226,888	3,316,380
Investment - note 2	32,706,338	32,187,719
	36,872,153	**36,349,343**

Liabilities and Shareholders' Equity

Current Liabilities		
Accounts payable and accrued liabilities	182,553	154,595
Current portion of long-term debt - note 4	107,000	99,000
	289,553	253,595
Long-Term Debt - note 4	2,401,000	2,508,000
Future Payments in Lieu of Taxes	4,603,949	4,502,504
	7,294,502	7,264,099
Contingent Liability - note 10		
Shareholders' Equity		
Share capital - note 5	12,515,708	12,515,708
Retained earnings	17,061,943	16,569,536
	29,577,651	29,085,244
	36,872,153	**36,349,343**

Signed on behalf of the Board:

____________________ Director

____________________ Director

See accompanying notes

PENINSULA WEST POWER INC.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
for the year ended December 31, 2010

	2010 $	2009 $
Retained Earnings, Beginning of Year	16,569,536	15,489,327
Net Income for the Year	616,543	1,154,060
Dividends	(78,259)	0
Refundable Payments-in-lieu of Income Taxes	23,255	0
Future Payments-in-lieu of Income Taxes Refundable	(69,132)	(73,851)
Retained Earnings, End of Year	**17,061,943**	**16,569,536**

See accompanying notes

PENINSULA WEST POWER INC.

CONSOLIDATED STATEMENT OF OPERATIONS

for the year ended December 31, 2010

	2010	2009
	$	$
Revenue		
Service revenue	544,612	585,950
Other Revenue	13,527	27,850
	558,139	613,800
Expenses		
Operation and maintenance	105,495	170,895
Administration and general	155,215	105,980
Depreciation	104,663	101,767
Interest on long-term debt	176,998	58,558
	542,371	437,200
Net Income before Undernoted Items	15,768	176,600
Other Items		
Soil remediation expense	(6,330)	0
Gain on disposal of Enerconnect Inc.	5,535	0
Gain on investment - Niagara Peninsula Energy Inc.	646,119	681,519
	645,324	681,519
Net Income before Payments in Lieu of Income Taxes	661,092	858,119
Payments in Lieu of Income Taxes		
Current	12,237	13,199
Future	32,312	(309,140)
	44,549	(295,941)
Net Income for the Year	**616,543**	**1,154,060**

See accompanying notes

PENINSULA WEST POWER INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2010

	2010 $	2009 $
Cash Provided By (Used In):		
Operations		
Net Income for the year	616,543	1,154,060
Items not involving cash		
Depreciation	104,663	101,767
Future payments in lieu of taxes	32,312	(309,140)
Change in fair value of interest swap rate	12,160	(108,465)
Gain on Investment - Niagara Peninsula Energy Inc.	(646,119)	(681,519)
Gain on disposal of Enerconnect Inc.	(5,535)	0
	114,024	156,703
Changes in non-cash working capital components - note 6 (a)	(41,150)	10,111
	72,874	166,814
Investments		
Dividend from investment	127,500	127,500
Additions to property and equipment - net	(15,171)	(13,826)
Proceeds on sale of Enerconnect Investment	5,535	0
	117,864	113,674
Financing		
Dividends paid	(78,259)	0
Refundable Payments-in-lieu of Corporate Income Taxes	23,255	0
Long-term bank loan	(99,000)	(91,500)
	(154,004)	(91,500)
Increase in Cash Position	36,734	188,988
Cash Position, Beginning of Year	725,296	536,308
Cash Position, End of Year	**762,030**	**725,296**

See accompanying notes

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2010

On October 25, 2000, Peninsula West Power Inc. (the "Corporation") was incorporated under the Business Corporations Act with net assets contributed from the predecessor hydro-electric commissions, in accordance with the Electricity Act, 1998 (Ontario) ("the EA"). The Corporation provides transformation services as well as water heaters, sentinel lights and related services to its customers.

1. Significant Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are as follows:

Basis of consolidation

The consolidated financial statements reflect the accounts of Peninsula West Power Inc. its wholly owned subsidiary, Peninsula West Services Ltd. and its 50% share of the joint venture Niagara West Transformation Corporation. The Corporation also has a 25.5% share in Niagara Peninsula Energy Inc. which is accounted for using the equity method. All significant inter-company balances and transactions have been eliminated.

Revenue

Transformer connection charges are recorded monthly on the basis of peak demand for the month. Revenue is recognized when the peak demand for the month has occurred. Other revenue is recognized as earned.

Equipment rental revenue is recorded in the period to which it relates. Revenue is accrued from the last billing date to the end of the year.

Rate regulation

The Company is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act (1998). The OEB has the power and responsibility to approve or fix rates for the transformation and distribution of electricity, providing continued rate protection for electricity consumers, and ensuring the transformation and distribution companies fulfill obligations to connect and service customers. The OEB may prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

The joint venture, Niagara West Transformation Corporation has a Transformation License from the OEB stating that Niagara West Transformation Corporation owns a transmission station connected to Hydro One Networks Inc. that provides power to the service areas of licensed distributors Niagara Peninsula Energy Inc. and Grimsby Power Inc. The Decision and Order are dated December 24, 2010 and expire December 23, 2030.

Inventory

Inventory is valued at the lower of weighted average cost and net realizable value.

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2010

1. Significant Accounting Policies - continued

Fixed assets and depreciation

Fixed assets are stated at acquisition cost. Depreciation is recorded on a straight-line basis over the estimated life of the assets as stated below. Depreciation is recorded at one half of the normal rates in the year of acquisition.

Asset	Amortization Period
Building	50 years
Machinery and equipment	10 - 40 years

Payments in lieu of income taxes and capital taxes

Under the Electricity Act, 1998, the company is required to make payments in lieu of corporate taxes to Ontario Electricity Financial Corporation (OEFC), commencing October 1, 2001. 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.

Financial instruments

The CICA Handbook section 3855, provides accounting guidelines for the recognition and measurement of financial assets and financial liabilities and related disclosures.

Under these standards, all financial assets are classified as held-for-trading, held-to-maturity, loans and receivables or available-for-sale and all financial liabilities must be classified as held-for-trading or other financial liabilities.

All financial instruments are carried on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other liabilities, which are measured at amortized cost.

The Corporation has classified its financial instruments as follows:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Interest rate swap	Held-for-trading
Long-term liabilities	Other liabilities

The Corporation is required to classify fair value measurements using a fair value hierarchy, which includes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities;

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2010

1. Significant Accounting Policies - continued

Financial instruments - continued

Level 2 - Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets or quoted prices that are derived principally from or corroborated by observable market data or other means;

Level 3 - Unobservable inputs that are supported by little or no market activity.

Future payment in lieu of income taxes (PILS)

The corporation uses the liability method of accounting for PILS. Under this method, current PILS are recognized for the estimated PILS payable for the current year. Future PILS assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and note disclosures related thereto. Due to the inherent uncertainty in making estimates, actual results could differ from these estimates recorded in preparing these financial statements, including changes as a of future regulatory decisions.

Accounts receivable and unbilled revenue are stated after evaluation of amounts expected to be collected and an appropriate allowance for doubtful accounts. Inventories are recorded net of provisions for obsolescence. Amounts recorded for depreciation and amortization of equipment are based on estimates of useful service life.

2. Investment

	2010	2009
	$	$
Niagara Peninsula Energy Inc.		
255 common shares - 25.5% interest	**32,706,338**	**32,187,719**

3. Property and Equipment:

			2010	2009
	Cost	Accumulated amortization	Net Book Value	Net Book Value
	$	$	$	$
Land	74,996	0	74,996	74,996
Building	612,210	85,710	526,500	538,744
Machinery and equipment	3,712,825	1,087,433	2,625,392	2,702,640
	4,400,031	**1,173,143**	**3,226,888**	**3,316,380**

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2010

4. Long-term debt:

	2010	2009
	$	$
Term loan	2,508,000	2,607,000
Less current portion of long-tem debt.	107,000	99,000
	2,401,000	**2,508,000**

The term loan is a variable rate loan issued as bankers acceptances and is due March 9, 2012. The loan is secured by a general security agreement, covering the assets of the joint venture Niagara West Transformation Corporation. The joint venture has entered into a swap transaction for the full amount of the debt, the effect of which is to fix the interest rate of the loan at 5.6% until January 31, 2025.

The fair value of the interest rate swap agreement is based on future discounted cash flows of amounts estimated by the lender of the cost or benefit of the swap contracts until the end of the term of the loan. At December 31, 2010, the interest rate swap agreement was in a net unfavorable position of $ 124,148 (2009 - $111,988), which has been classified as held for trading. This unfavorable amount has been included in accounts payable and accrued liabilities. The current year impact of the change in the fair value of the interest rate swap amounted to $12,160 and is included in interest on long-term debt expense.

The principal amounts over the next five years assuming the term loan is renewed under similar terms and conditions are as follows:

	$
2011	107,000
2012	114,000
2013	123,000
2014	132,500
2015	140,500
	617,000

The joint venture, Niagara West Transformation Corporation, has agreed to certain covenants with respect to this loan, including a minimum debt service coverage ratio. The corporation, in support of its guarantee, described in note 10, has agreed to maintain a minimum level of 85% regulated earnings before interest, taxes, depreciation and amortization with respect to this loan. As at December 31, 2010, the joint venture and the corporation were not in compliance with these particular covenants. Subsequent to the year end, the bank verbally indicated its intention not to demand or accelerate payment of the loan during 2011 and to issue a waiver of compliance following its financial review of the joint venture and the corporation.

5. Share Capital

Authorized
Unlimited number of common shares

	2010	2009
	$	$
Issued		
100 common shares	**12,515,708**	**12,515,708**

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2010

6. Statement of Cash Flows

(a) Changes in non-cash working capital components

	2010 $	2009 $
Accounts receivable	(15,965)	(26,747)
Unbilled revenue	652	3,880
Inventory	(196)	(201)
Prepaid expenses	(21,544)	(338)
Accounts payable and accrued liabilities	15,799	18,268
Payments in lieu of corporate income taxes (payable)/refundable	(19,896)	15,249
	(41,150)	**10,111**

(b) Supplementary cash flow information:

	2010 $	2009 $
Cash paid for:		
Interest	164,920	167,101
PILS	10,961	233
Cash received for:		
Interest	2,416	1,384
PILS	0	2,283

7. Commitments

(i) The joint venture, Niagara West Transformation Corporation, has entered into an agreement with Rondar Inc. for the maintenance of its equipment. Under this agreement, the joint venture will incur total maintenance costs over the next three years of which the corporation's 50% share is as follows:

	$
2011	12,958
2012	1,945
2013	1,969
	16,872

(ii) The joint venture, Niagara West Transformation Corporation, has entered into a service contract with Niagara Peninsula Energy Inc. to perform regular monthly inspections, maintenance and building and yard cleaning. The corporation's 50% share of the estimated annual cost of these services is approximately $6,050. The term of the agreement expires September 3, 2011.

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2010

8. Related Party Transactions

During the year, the corporation had the following related party transactions:

Included in service revenue is the corporation's share of Niagara West Transformation Corporation's sales to Niagara Peninsula Energy Inc. which amounts to $150,370 ($132,705 - 2009).

The corporation incurred $7,152 ($nil - 2009) in maintenance costs related to its service agreement with Niagara Peninsula Energy Inc.

The corporation received streetlight revenue from its shareholders; the Town of Lincoln of $28,381 (2009 - $65,177), the Township of West Lincoln of $11,387 (2009 - $13,638) and the Town of Pelham of $25,497 (2009 - $43,581).

The corporation received administration revenue from its shareholders; the Town of Lincoln of $4,208 (2009 - $9,560), the Township of West Lincoln of $1,659 (2009 - $1,962) and the Town of Pelham of $3,776 (2009 - $6,409).

The corporation sold its Quarry Road property to its shareholder, the Town of Lincoln, for the property's carrying value of $1.

These transactions have been reflected in net income for the current year and were measured at the exchange amount of consideration established and agreed to by the related parties.

As at December 31, 2010, accounts receivable included $ 26,969 ($30,594 - 2009) from Niagara Peninsula Energy Inc.

As at December 31, 2010, trade accounts payable included $6,525 ($nil - 2009) due to Niagara Peninsula Energy Inc.

9. Financial Instruments

a) Recognition and measurement
Level 1 - The fair value of cash, receivables, accounts payable and accrued liabilities corresponds to their carrying value due to their short-term maturity.

Level 2 - The carrying value of the term loan approximates its fair value because the interest rate approximates the market rate. The fair value of the interest rate swap is based on the future discounted cash flows of amounts estimated by the lender of the cost or benefit of the swap contracts until the end of the term.

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2010

9. Financial Instruments - continued

b) Derivative financial instrument
An interest rate swap contract is used to manage the risk associated with fluctuations in interest rates related to the long-term debt held by Niagara West Transformation Corporation. The swap agreement requires the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt.

c) Credit risk
Financial assets held by the corporation, such as accounts receivable expose it to credit risk. Management monitors collections on a regular basis and does not believe the corporation has significant exposure to credit risk.

10. Contingent Liability

Guarantee
The corporation guarantees $3,250,000 of the debt of Niagara West Transformation Corporation of which the corporation's 50% share is $2,508,000 and is included on the balance sheet. The guarantee is secured by a general security agreement covering all assets of the corporation. The corporation is contingently liable for the difference of $ 742,000.

11. Capital Management

The corporation's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, ensure ongoing access to funding and to meet any capital needs of its other related companies should the need arise, and ensure affiliated companies and investees comply with covenants related to their credit facility agreements. In accordance with the terms of the term loan described in note 4, the joint venture, Niagara West Transformation Corporation is required to maintain a minimum debt service coverage ratio of not less than 1.1:1 and a tangible net worth of not less than $ 1,000,000. In addition, the corporation, in support of its guarantee, described in note 10, is required to maintain a minimum level of 85% regulated earnings before interest, taxes, depreciation and amortization (EBITDA). The debt service coverage ratio covenant and the minimum 85% regulated EBITDA covenant were violated at December 31, 2010, however, as described in note 4, the bank has verbally indicated its intention not to demand or accelerate payment of the loan during 2011 and to issue a waiver of compliance following its financial review of the joint venture and the corporation.

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2010

12. Investment in Joint Venture

The consolidated financial statements include the Corporation's 50% share of the following total assets, liabilities, revenues and expenses of Niagara West Transformation Corporation:

	2010	2009
Assets:	$	$
Current assets	326,224	384,277
Property and equipment	6,337,722	6,518,516
	6,663,946	6,902,793
Liabilities and equity:		
Accounts payable and accrued liabilities	309,029	261,041
Term loan	5,016,000	5,214,000
Future payment in lieu of taxes	149,000	174,000
Share capital	2,400,100	2,400,100
Deficit	(1,210,183)	(1,146,348)
	6,663,946	6,902,793
Revenue	684,351	638,369
Expenses	(773,186)	(429,596)
Future Payments in lieu of taxes	25,000	(55,000)
Net earnings (loss) for the year	(63,835)	153,773
Deficit, beginning of year	(1,146,348)	(1,300,121)
Deficit, end of year	(1,210,183)	(1,146,348)
Cash provided by (used in):		
Operations	29,819	212,956
Financing	(198,000)	(183,000)
Increase (decrease) in cash	(168,181)	29,956

PENINSULA WEST POWER INC.

Consolidated Financial Statements

December 31, 2011

Crawford, Smith and Swallow
Chartered Accountants LLP

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crawford smith & swallow

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Peninsula West Power Inc.

We have audited the accompanying consolidated financial statements of Peninsula West Power Inc. and its subsidiary, which comprise the consolidated balance sheet as at December 31, 2011, and the consolidated statements of operations, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Peninsula West Power Inc. and its subsidiary as at December 31, 2011, and the results of their operations and their cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Niagara Falls, Ontario
July 5, 2012

CRAWFORD, SMITH AND SWALLOW
CHARTERED ACCOUNTANTS LLP

LICENSED PUBLIC ACCOUNTANTS

PENINSULA WEST POWER INC.

CONSOLIDATED BALANCE SHEET
December 31, 2011

Assets - notes 5 and 11	2011 $	2010 $ (Restated) (Note 2)
Current Assets		
Cash	832,998	762,030
Accounts receivable	138,350	120,216
Unbilled revenue	12,187	11,762
Payment in lieu of corporate income taxes recoverable	1,671	21,268
Inventory	2,155	980
Prepaid expenses	11,504	22,671
	998,865	938,927
Property and Equipment - note 4	3,156,151	3,226,888
Investment - note 3	33,168,370	32,706,338
	37,323,386	**36,872,153**

Liabilities and Shareholders' Equity

Current Liabilities		
Accounts payable and accrued liabilities	83,360	58,409
Unrealized loss on fair value of interest rate swap agreement	587,244	412,908
Due to related company	4,721	0
Current portion of long-term debt - note 5	114,000	107,000
	789,325	578,317
Long-Term Debt - note 5	2,287,000	2,401,000
Future Payments In Lieu of Taxes	4,625,616	4,529,446
Contingent Liability - note 11		
	7,701,941	7,508,763
Shareholders' Equity		
Share capital - note 6	12,515,708	12,515,708
Retained earnings	17,105,737	16,847,682
	29,621,445	29,363,390
	37,323,386	**36,872,153**

Signed on behalf of the Board:

_________________________ Director

_________________________ Director

See accompanying notes

PENINSULA WEST POWER INC.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
for the year ended December 31, 2011

	2011 $	2010 $ (Restated) (Note 2)
Retained Earnings, Beginning of Year		
As previously stated	17,061,943	16,569,536
Adjustment to fair value of interest rate swap agreement (Note 2)	(214,261)	(150,216)
	16,847,682	16,419,320
Net Income for the Year	349,178	552,499
Dividends on common shares	(91,123)	(78,259)
Refundable Payments-in-lieu of Income Taxes	0	23,255
Future Payments-in-lieu of Income Taxes Refundable	0	(69,132)
Retained Earnings, End of Year	**17,105,737**	**16,847,682**

See accompanying notes

PENINSULA WEST POWER INC.

CONSOLIDATED STATEMENT OF OPERATIONS

for the year ended December 31, 2011

	2011 $	2010 $ Restated (Note 2)
Revenue		
Service revenue	630,954	544,612
Other Revenue	22,845	13,527
	653,799	558,139
Expenses		
Operation and maintenance	173,863	105,495
Administration and general	181,426	155,215
Depreciation	106,707	104,663
Interest on long-term debt	156,063	164,838
	618,059	530,211
Net Income before Undernoted Items	35,740	27,928
Other Items		
Soil remediation expense	0	(6,330)
Gain on disposal of Enerconnect Inc.	5,490	5,535
Loss on change in fair value of interest rate swap agreement	(174,336)	(63,704)
Gain on investment - Niagara Peninsula Energy Inc.	589,532	646,119
	420,686	581,620
Net Income before Payments in Lieu of Income Taxes	456,426	609,548
Payments in Lieu of Income Taxes		
Current	11,079	12,237
Future	96,169	44,812
	107,248	57,049
Net Income for the Year	**349,178**	**552,499**

See accompanying notes

PENINSULA WEST POWER INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2011

	2011 $	2010 $ (Restated) (Note 2)
Cash Provided By (Used In):		
Operations		
Net Income for the year	349,178	552,499
Items not involving cash		
Depreciation	106,707	104,663
Future payments in lieu of taxes	96,169	44,812
Loss on change in fair value of interest rate swap agreement	174,336	63,704
Gain on Investment - Niagara Peninsula Energy Inc.	(589,532)	(646,119)
Gain on disposal of Enerconnect Inc.	(5,490)	(5,535)
	131,368	114,024
Changes in non-cash working capital components - note 7(a)	40,703	(41,150)
	172,071	72,874
Investments		
Dividend from investment	127,500	127,500
Additions to property and equipment - net	(35,970)	(15,171)
Proceeds on sale of Enerconnect Investment	5,490	5,535
	97,020	117,864
Financing		
Dividends paid	(91,123)	(78,259)
Refundable Payments-in-lieu of Corporate Income Taxes	0	23,255
Repayment of term loan	(107,000)	(99,000)
	(198,123)	(154,004)
Increase in Cash Position	70,968	36,734
Cash Position, Beginning of Year	762,030	725,296
Cash Position, End of Year	**832,998**	**762,030**

See accompanying notes

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2011

On October 25, 2000, Peninsula West Power Inc. (the "Corporation") was incorporated under the Business Corporations Act with net assets contributed from the predecessor hydro-electric commissions, in accordance with the Electricity Act, 1998 (Ontario) ("the EA"). The Corporation provides transformation services as well as water heaters, sentinel lights and related services to its customers.

1. Significant Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are as follows:

Basis of consolidation

The consolidated financial statements reflect the accounts of Peninsula West Power Inc. its wholly owned subsidiary, Peninsula West Services Ltd. and its 50% share of the joint venture Niagara West Transformation Corporation. The Corporation also has a 25.5% share in Niagara Peninsula Energy Inc. which is accounted for using the equity method. All significant inter-company balances and transactions have been eliminated.

Revenue

Transformer connection charges are recorded monthly on the basis of peak demand for the month. Revenue is recognized when the peak demand for the month has occurred. Other revenue is recognized as earned.

Equipment rental revenue is recorded in the period to which it relates. Revenue is accrued from the last billing date to the end of the year.

Rate regulation

The Company is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act (1998). The OEB has the power and responsibility to approve or fix rates for the transformation and distribution of electricity, providing continued rate protection for electricity consumers, and ensuring the transformation and distribution companies fulfill obligations to connect and service customers. The OEB may prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

The Corporation has a Transformation License from the OEB stating that the Corporation owns a transmission station connected to Hydro One Networks Inc. that provides power to the service areas of licensed distributors Niagara Peninsula Energy Inc. and Grimsby Power Inc. The Decision and Order are dated December 24, 2010 and expire December 23, 2030.

Inventory

Inventory is valued at the lower of weighted average cost and net realizable value.

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2011

1. Significant Accounting Policies - continued

Fixed assets and depreciation

Fixed assets are stated at acquisition cost. Depreciation is recorded on a straight-line basis over the estimated life of the assets as stated below. Depreciation is recorded at one half of the normal rates in the year of acquisition.

Asset	Amortization Period
Building	50 years
Machinery and equipment	10 - 40 years

Payments in lieu of income taxes and capital taxes

Under the Electricity Act, 1998, the company is required to make payments in lieu of corporate taxes to Ontario Electricity Financial Corporation (OEFC), commencing October 1, 2001. 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.

Financial instruments

The CICA Handbook section 3855, provides accounting guidelines for the recognition and measurement of financial assets and financial liabilities and related disclosures.

Under these standards, all financial assets are classified as held-for-trading, held-to-maturity, loans and receivables or available-for-sale and all financial liabilities must be classified as held-for-trading or other financial liabilities.

All financial instruments are carried on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other liabilities, which are measured at amortized cost.

The Corporation has classified its financial instruments as follows:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Interest rate swap agreement	Held-for-trading
Long-term liabilities	Other liabilities

The Corporation is required to classify fair value measurements using a fair value hierarchy, which includes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities;

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2011

1. Significant Accounting Policies - continued

Level 2 - Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets or quoted prices that are derived principally from or corroborated by observable market data or other means;

Level 3 - Unobservable inputs that are supported by little or no market activity.

Future payment in lieu of income taxes (PILS)
The corporation uses the liability method of accounting for PILS. Under this method, current PILS are recognized for the estimated PILS payable for the current year. Future PILS assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

Measurement uncertainty
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and note disclosures related thereto. Due to the inherent uncertainty in making estimates, actual results could differ from these estimates recorded in preparing these financial statements, including changes as a of future regulatory decisions.

Accounts receivable and unbilled revenue are stated after evaluation of amounts expected to be collected and an appropriate allowance for doubtful accounts. Inventories are recorded net of provisions for obsolescence. Amounts recorded for depreciation and amortization of equipment are based on estimates of useful service life.

2. Adjustment to Fair Value of Interest Rate Swap Agreement

During the year, it was determined that the unrealized loss on fair value of the interest rate swap agreement had been understated in prior years and therefore the comparative figures have been restated for this difference along with the related effect on the future payment in lieu of taxes. As a result, the 2010 opening retained earnings has been decreased by $150,216 relating to an increase in the unrealized loss on fair value of the interest rate swap agreement in the amount of $237,217 and a decrease in the future payment in lieu of taxes liability in the amount of $87,000. The 2010 comparative statement of operations reflects an increase in the loss on change in fair value of the interest rate swap agreement in the amount of $63,704, a decrease in interest on long term debt in the amount of $12,160, and a reduction to the recovery of future payment in lieu of taxes in the amount of $12,500, for a net effect on net loss of $64,044. The 2010 comparative balance sheet has been adjusted to increase the unrealized loss on fair value of the interest rate swap agreement in the amount of $288,760 and to remove the future payment in lieu of taxes liability in the amount of $74,503.

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2011

3. Investment

	2011 $	2010 $
Niagara Peninsula Energy Inc. 255 common shares - 25.5% interest	**33,168,370**	**32,706,338**

4. Property and equipment:

	Cost $	Accumulated amortization $	2011 Net Book Value $	2010 Net Book Value $
Land	74,996	0	74,996	74,996
Building	628,093	98,113	529,980	526,500
Machinery and equipment	3,730,847	1,179,672	2,551,175	2,625,392
	4,433,936	**1,277,785**	**3,156,151**	**3,226,888**

5. Long-term debt:

	2011 $	2010 $
Term loan	2,401,000	2,508,000
Less current portion of long-tem debt.	114,000	107,000
	2,287,000	**2,401,000**

The term loan is a variable rate loan issued as bankers acceptances and is due March 9, 2012. The loan is secured by a general security agreement, covering the assets of the joint venture Niagara West Transformation Corporation.
The Company has entered into a swap transaction for the full amount of the debt, the effect of which is to fix the interest rate of the loan at 5.6% until January 31, 2025.

The fair value of the interest rate swap agreement is based on future discounted cash flows of amounts estimated by the lender of the cost or benefit of the swap contracts until the end of the term of the Loan. At December 31, 2011, the interest rate swap agreement was in a net unfavorable position of $ 587,244 (2010 - $412,908), which has been classified as held for trading. This unfavorable amount has been included as a current liability. The current year impact of the change in the fair value of the interest rate swap in the amount of $174,336 has been included in the statement of operations.

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2011

5. Long-term debt: continued

The principal amounts over the next five years are as follows:

	$
2012	114,000
2013	123,000
2014	132,500
2015	140,500
2016	153,000
	663,000

The joint venture, Niagara West Transformation Corporation, has agreed to certain covenants with respect to this loan, including a minimum debt service coverage ratio. The corporation, in support of its guarantee, described in note 11, has agreed to maintain a minimum level of 85% regulated earnings before interest, taxes, depreciation and amortization with respect to this loan. As at December 31, 2011, the joint venture and the corporation were not in compliance with these particular covenants. Subsequent to the year end, the bank renewed the loan under the same terms for an additional five year term thus indicating its intention to not demand or accelerate payment of the loan during 2012.

6. Share Capital

Authorized
Unlimited number of common shares

	2011 $	2010 $
Issued 100 common shares	**12,515,708**	**12,515,708**

7. Statement of Cash Flows

(a) Changes in non-cash working capital components include:

	2011 $	2010 $
Accounts receivable	(18,134)	(15,965)
Due to/from related company	4,721	0
Unbilled revenue	(425)	652
Inventory	(1,175)	(196)
Prepaid expenses	11,168	(21,544)
Accounts payable and accrued liabilities	24,951	15,799
Payments in lieu of corporate income taxes (payable)/refundable	19,597	(19,896)
	40,703	**(41,150)**

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2011

7. Statement of Cash Flows - continued

(b) Supplementary cash flow information:

	2011 $	2010 $
Cash paid for:		
Interest	156,412	164,920
PILS	14,737	10,961
Cash received for:		
Interest	4,020	2,416
PILS	23,255	0

8. Commitments

(i) The joint venture, Niagara West Transformation Corporation, has entered into an agreement with Rondar Inc. for the maintenance of its equipment. Under this agreement, the corporation will incur total maintenance costs over the next two years as follows:

	$
2012	1,945
2013	1,969
	3,914

9. Related Party Transactions

During the year, the corporation had the following related party transactions:

The corporation incurred $20,129 ($7,152 - 2010) in maintenance costs related to its service agreement with Niagara Peninsula Energy Inc.

The corporation received streetlight revenue from its shareholders; the Town of Lincoln of $51,548 (2010 - $28,381), the Township of West Lincoln of $20,510 (2010 - $11,387) and the Town of Pelham of $51,562 (2010 - $25,497).

The corporation received administration revenue from its shareholders; the Town of Lincoln of $7,669 (2010 - $4,208), the Township of West Lincoln of $3,013 (2010- $1,659) and the Town of Pelham of $7,684 (2010 - $3,776).

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2011

9. Related Party Transactions - continued

These transactions have been reflected in net income for the current year and were measured at the exchange amount of consideration established and agreed to by the related parties.

As at December 31, 2011, accounts receivable included $29,931 ($26,969 - 2010) from Niagara Peninsula Energy Inc.

As at December 31, 2011, trade accounts payable included $ 33,308 ($6,525 - 2010) due to Niagara Peninsula Energy Inc.

10. Financial Instruments

a) Recognition and Measurement
Level 1 - The fair value of cash, receivables, accounts payable and accrued liabilities corresponds to their carrying value due to their short-term maturity.

Level 2 - The carrying value of the term loan approximates its fair value because the interest rate approximates the market rate. The fair value of the interest rate swap is based on the future discounted cash flows of amounts estimated by the lender of the cost or benefit of the swap contracts until the end of the term.

b) Derivative financial instrument
An interest rate swap contract is used to manage the risk associated with fluctuations in interest rates related to the long-term debt held by Niagara West Transformation Corporation. The swap agreement requires the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt.

c) Credit Risk
Financial assets held by the Corporation, such as accounts receivable expose it to credit risk. Management monitors collections on a regular basis and does not believe the Corporation has significant exposure to credit risk.

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2011

11. Contingent Liability

Guarantee

The corporation guarantees to a maximum of $3,250,000 the debt of Niagara West Transformation Corporation of which the corporation's 50% share is $2,401,000 and is included on the balance sheet. The guarantee is secured by a general security agreement covering all assets of the corporation. The corporation is contingently liable for the difference of $ 849,000.

12. Capital Management

The corporation's objective when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, ensure ongoing access to funding and to meet any capital needs of its other related companies should the need arise, and ensure affiliated companies and investees comply with covenants related to their credit facility agreements. In accordance with the terms of the term loan described in note 5, the joint venture, Niagara West Transformation Corporation is required to maintain a minimum debt service coverage ratio of not less than 1.1:1 and a tangible net worth of not less than $ 1,000,000. In addition, the corporation, in support of its guarantee, described in note 11, is required to maintain a minimum level of 85% regulated earnings before interest, taxes, depreciation and amortization (EBITDA). The debt service coverage ratio covenant and the minimum 85% regulated EBITDA covenant were violated at December 31, 2011, however, as described in note 5, the bank renewed the loan for an additional five year term thus indicating its intention to not demand or accelerate payment of the loan during 2012.

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2011

13. Investment in joint venture

The consolidated financial statements include the Corporation's 50% share of the following total assets, liabilities, revenues and expenses of Niagara West Transformation Corporation:

	2011 $	2010 $
Assets:		
Current assets	235,327	326,224
Property and equipment	6,188,596	6,337,722
	6,423,923	6,663,946
Liabilities and equity:		
Accounts payable and accrued liabilities	1,221,903	886,548
Term loan	4,802,000	5,016,000
Share capital	2,400,100	2,400,100
Deficit	(2,000,080)	(1,638,702)
	6,423,923	6,663,946
Revenue	742,599	684,351
Expenses	(755,305)	(748,865)
Net loss from operations for the year	(12,706)	(64,514)
Loss on change in fair value of interest rate swap agreement	(348,672)	(127,407)
Net loss	(361,378)	(191,921)
Deficit, beginning of year		
As previously stated	(1,210,183)	(1,146,348)
Adjustment to fair value of interest rate swap agreement (Note 2)	(428,519)	(300,433)
Deficit, end of year	(2,000,080)	(1,638,702)
Cash provided by (used in):		
Operations	204,578	29,819
Investing	(31,764)	0
Financing	(214,000)	(198,000)
Decrease in cash	(41,186)	(168,181)

PENINSULA WEST POWER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2011

14. International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") had originally required publicly accountable enterprises to adopt International Financial Reporting Standards ("IFRS") in place of Canadian generally accepted accounting principles for reporting purposes for fiscal years beginning on or after January 1, 2011. In October 2010, the AcSB approved a one year optional deferral for qualifying entities with activities subject to rate regulation. In March 2012, the AcSB approved an additional one year optional deferral for qualifying entities with activities subject to rate regulation. The Company has decided to defer its implementation of IFRS until January 1, 2013.

Attachment 1.4.4

Proforma Income Statement
On the amalgamation of Niagara West Transformation Corporation (NWTC)
and Niagara Power Inc. (NPI)
December 31, 2013

	NWTC	NPI	Related Transactions	Amalgamated
Transformer Connection Charges	840,000			840,000
Other income				
Interest Income		182,500		182,500
Other Income	1,750	-		1,750
	1,750	182,500		184,250
TOTAL REVENUE	**841,750**	**182,500**	**-**	**1,024,250**
Administration	320,000	7,500		327,500
Director's Fees and Expenses		57,500		57,500
Professional Fees		25,000		25,000
Insurance		1,100		1,100
Amortization	175,000			175,000
Interest	266,000			266,000
TOTAL EXPENSE	**761,000**	**91,100**	**-**	**852,100**
NET INCOME	**80,750**	**91,400**	**-**	**172,150**
Retained Earnings, January 1st	(1,947,431)	2,493,279		545,848
Net Income	80,750	91,400	-	172,150
Dividends Paid		(35,000)		(35,000)
Retained earnings, end of period	**(1,866,681)**	**2,549,679**	**-**	**682,998**

Proforma Balance Sheet
On the amalgamation of Niagara West Transformation Corporation (NWTC)
and NIagara Power Inc. (NPI)
December 31, 2013

	NWTC	**NPI**	**Related Transactions**	**Amalgamated**
ASSETS				
Current assets				
Cash	226,209	390,163		616,372
Accounts Receivable	102,000			102,000
Loans Receivable from Related Parties		2,154,789		2,154,789
Income Taxes Recoverable				-
Prepaid Expenses	22,100	5,500		27,600
	350,309	2,550,452	-	2,900,761
Capital Assets	6,013,597			6,013,597
Long-Term Investment		9,107,644	(2,200,050)	6,907,594
TOTAL ASSETS	6,363,906	11,658,096	(2,200,050)	15,821,952
LIABILITIES				
Current Liabilities				
Accounts Payable and Accrued Charges	45,000	21,000		66,000
Unrealized loss on Fair Value of Interest Rate Swap Agreemei	1,174,487			1,174,487
Current Portion of Term Loan	265,000			265,000
	1,484,487	21,000	-	1,505,487
Long-Term Liabilities				
Term loan	4,346,000	-		4,346,000
	5,830,487	21,000	-	5,851,487
SHAREHOLDERS' EQUITY				
Share capital	2,400,100	9,087,417	(2,200,050)	9,287,467
Retained earnings (deficit)	(1,866,681)	2,549,679		682,998
	533,419	11,637,096	(2,200,050)	9,970,465
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	6,363,906	11,658,096	(2,200,050)	15,821,952

Proforma Income Statement
On the amalgamation of Niagara West Transformation Corporation (NWTC)
and Niagara Power Inc. (NPI)
December 31, 2012

	NWTC	NPI	Related Transactions	Amalgamated
Transformer Connection Charges	838,000			838,000
Other income				
Interest Income	1,250	161,830		163,080
Other Income	1,040	-		1,040
	2,290	161,830		164,120
TOTAL REVENUE	**840,290**	**161,830**	**-**	**1,002,120**
Administration	314,785	17,660		332,445
Director's Fees and Expenses		54,800		54,800
Professional Fees		70,000		70,000
Insurance		1,080		1,080
Amortization	175,000			175,000
Interest	297,856			297,856
TOTAL EXPENSE	**787,641**	**143,540**	**-**	**931,181**
NET INCOME	**52,649**	**18,290**	**-**	**70,939**
Retained Earnings, January 1st	(2,000,080)	2,504,989		504,909
Net Income	52,649	18,290	-	70,939
Dividends Paid		(30,000)		(30,000)
Retained earnings, end of period	**(1,947,431)**	**2,493,279**	**-**	**545,848**

Proforma Balance Sheet
On the amalgamation of Niagara West Transformation Corporation (NWTC)
and NIagara Power Inc. (NPI)
December 31, 2012

	NWTC	NPI	Related Transactions	Amalgamated
ASSETS				
Current assets				
Cash	116,459	318,500		434,959
Accounts Receivable	102,000	300		102,300
Loans Receivable from Related Parties		2,154,789		2,154,789
Income Taxes Recoverable				-
Prepaid Expenses	22,100	5,440		27,540
	240,559	2,479,029	-	2,719,588
Capital Assets	6,013,597			6,013,597
Long-Term Investment		9,107,644	(2,200,050)	6,907,594
TOTAL ASSETS	6,254,156	11,586,673	(2,200,050)	15,640,779
LIABILITIES				
Current Liabilities				
Accounts Payable and Accrued Charges	35,000	5,977		40,977
Unrealized loss on Fair Value of Interest Rate Swap Agreemei	1,174,487			1,174,487
Current Portion of Term Loan	246,000			246,000
	1,455,487	5,977	-	1,461,464
Long-Term Liabilities				
Term loan	4,346,000	-		4,346,000
	5,801,487	5,977	-	5,807,464
SHAREHOLDERS' EQUITY				
Share capital	2,400,100	9,087,417	(2,200,050)	9,287,467
Retained earnings (deficit)	(1,947,431)	2,493,279		545,848
	452,669	11,580,696	(2,200,050)	9,833,315
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	6,254,156	11,586,673	(2,200,050)	15,640,779

Proforma Income Statement
On the amalgamation of Niagara West Transformation Corporation (NWTC)
and Niagara Power Inc. (NPI)
December 31, 2011

	NWTC	NPI	Related Transactions	Amalgamated
Transformer Connection Charges	740,984			740,984
Other income				
Interest Income		151,979		151,979
Other Income	1,615	-		1,615
	1,615	151,979		153,594
TOTAL REVENUE	**742,599**	**151,979**	**-**	**894,578**
Administration	262,288	6,431		268,719
Director's Fees and Expenses		45,866		45,866
Professional Fees		23,229		23,229
Insurance		1,080		1,080
Amortization	180,891			180,891
Interest	312,126			312,126
TOTAL EXPENSE	**755,305**	**76,606**	**-**	**831,911**
NET INCOME BEFORE TAXES	(12,706)	75,373	-	62,667
Loss on Change in Fair Value of Interest Rate Swap Agreement	(348,672)			(348,672)
NET INCOME	**(361,378)**	**75,373**	**-**	**(286,005)**
Retained Earnings, January 1st	(1,210,183)	2,443,189		1,233,006
Adjustment to Fair Value of Interest Rate Swap Agreement	(428,519)			(428,519)
Net Income	(361,378)	75,373	-	(286,005)
Dividends Paid		(13,573)		(13,573)
Retained earnings, end of period	**(2,000,080)**	**2,504,989**	**-**	**504,909**

Proforma Balance Sheet
On the amalgamation of Niagara West Transformation Corporation (NWTC)
and NIagara Power Inc. (NPI)
December 31, 2011

	NWTC	NPI	Related Transactions	Amalgamated
ASSETS				
Current assets				
Cash	117,101	344,220		461,321
Accounts Receivable	97,379	316		97,695
Loans Receivable from Related Parties		3,154,789		3,154,789
Income Taxes Recoverable		3,885		3,885
Prepaid Expenses	20,847	5,716		26,563
	235,327	3,508,926	-	3,744,253
Capital Assets	6,188,596			6,188,596
Long-Term Investment		8,107,644	(1,200,050)	6,907,594
TOTAL ASSETS	6,423,923	11,616,570	(1,200,050)	16,840,443
LIABILITIES				
Current Liabilities				
Accounts Payable and Accrued Charges	47,416	20,625		68,041
Unrealized loss on Fair Value of Interest Rate Swap Agreemei	1,174,487			1,174,487
Loans Payable to Related Parties		3,539		3,539
Current Portion of Term Loan	228,000			228,000
	1,449,903	24,164	-	1,474,067
Long-Term Liabilities				
Term loan	4,574,000	-		4,574,000
	6,023,903	24,164	-	6,048,067
SHAREHOLDERS' EQUITY				
Share capital	2,400,100	9,087,417	(1,200,050)	10,287,467
Retained earnings (deficit)	(2,000,080)	2,504,989		504,909
	400,020	11,592,406	(1,200,050)	10,792,376
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	6,423,923	11,616,570	(1,200,050)	16,840,443

Attachment 1.5.1

NIAGARA
POWER

Niagara Power Incorporated

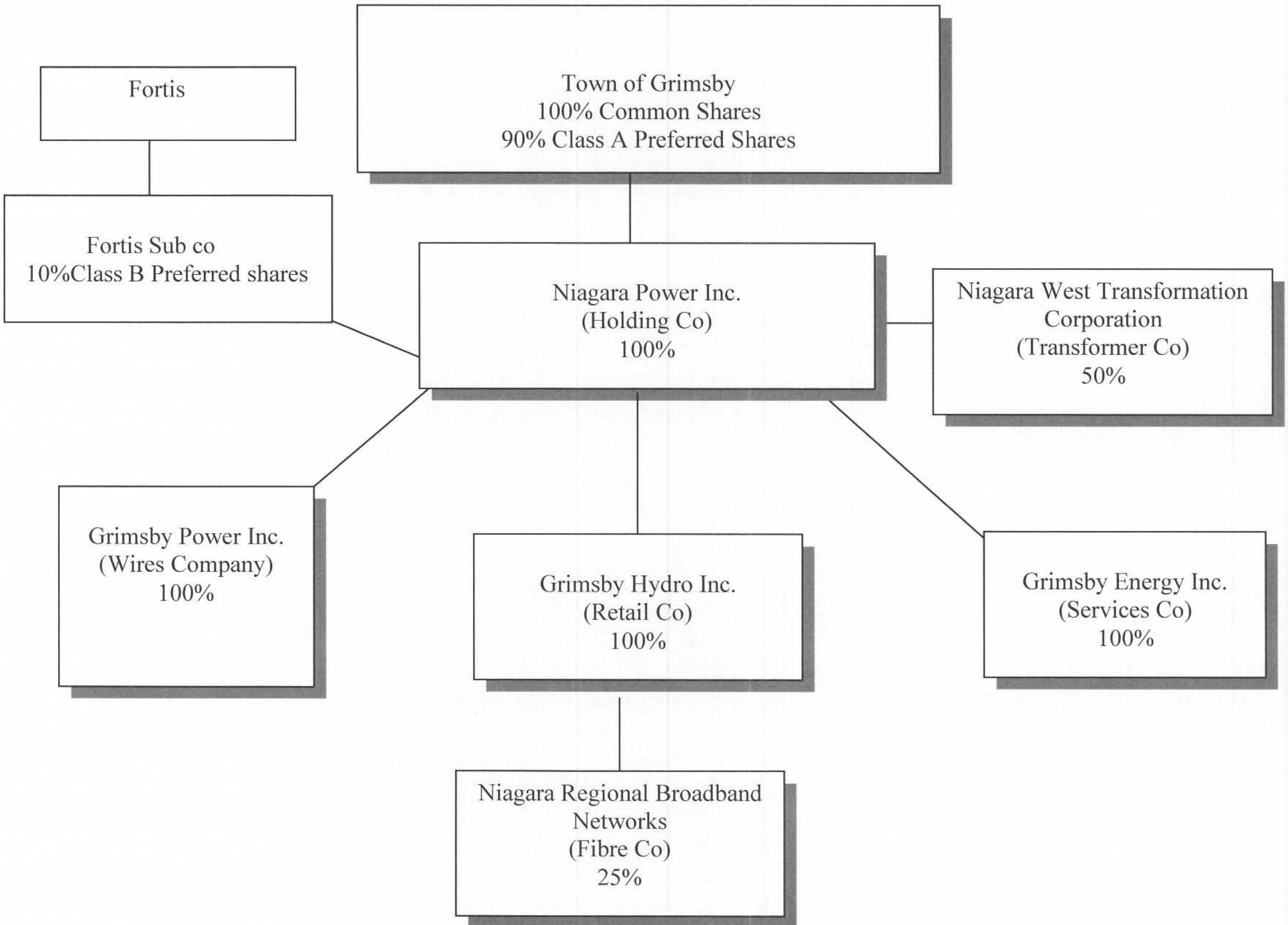
Annual Report

2009

NIAGARA
POWER

Table of Contents

CORPORATE STRUCTURE OF NIAGARA POWER INC.



June 2009

NIAGARA
POWER

2009 Board of Directors

Niagara Power

J. (James) Detenbeck
Chair

S. R. (Shafee) Bacchus

R. N. (Bob) Bentley

J. (Joe) Panetta

D. B. (David) Wilson

2009 Board of Directors

Grimsby Power

J. (Joe) Panetta
Chair

S. R. (Shafee) Bacchus

R. N. (Bob) Bentley

J. (James) Detenbeck

Wm J. (Bill) Daley

2009 Board of Directors

Grimsby Hydro

J. (James) Detenbeck
Chair & President

and
NRBN Representative

2009 Board of Directors

Grimsby Energy

J. (James) Detenbeck
President & Chair

R. N. (Bob) Bentley

J. (Joe) Panetta

S. R. (Shafee) Bacchus

A. (Tony) Quirk

2009 Board of Directors

Niagara West Transformation Corporation

S. R. (Shafee) Bacchus
Chair

J. (Joe) Panetta

D.B. (David) Wilson

Plus Three (3) Representatives from Peninsula West Power

NIAGARA POWER

Annual General Meeting Chairs Report

OUR MISSION –

NIAGARA POWER'S MISSION IS TO MAXIMIZE SHAREHOLDER VALUE ACROSS ALL OF OUR HOLDINGS.

James Detenbeck

Chairman of Niagara Power Inc.

2009 and the first half of 2010 has been a very active and successful time for the Niagara Power Board and its subsidiaries.

Niagara Power has maintained its goal to increase shareholder value by driving new and innovative initiatives on behalf of the Town of Grimsby, and securing relationships with partners and vendors to enable long term growth and short term financial gains.

Grimsby Power

2009 saw the completion of the 10% investment into Grimsby Power by Fortis. Our team has adapted well to this investment, with new procedures at the Grimsby Board level, and a fresh set of perspectives at our meetings.

Continuing to add strength, our new CEO, Mr. Doug Curtiss, has enhanced our leadership team at Grimsby Power and shown tremendous value in his first six months.

2009 has seen the first of our smart meters installed in the Town, and as 2010 continues to unfold, we will see the completion of the installation and a move towards a more integrated set of tools to monitor power usage at the home level. All of these automation tools come at a heavy cost, and our work in 2010 will demand time and money spent to support Ontario mandated change towards these new devices.

As in past years, Grimsby Power continues to provide the fixed interest payment, and in addition to this 2009 saw the extraction of approximately 2.1 Million dollars from the retained earnings of Grimsby Power and the cash investment of 1.1 Million dollars from Fortis.

Niagara West Transformation Corporation

2008 led our team in 2009 to focus on stabilization of the organization. To that end, the Niagara Power Board asked Shafee Bacchus to join the Board at NWTC. Shafee provided a strong leadership and now sits as Chair of NWTC .

2009 was spent in stabilizing after the fire damage, and part of the recovery was the development of strong vendor management procedures and continuing to remove reliance of NWTC from the investing utilities, and looking to outsourced vendors for the support and maintenance of the station.

NWTC`s financial modeling continues and even through the adversity of 2008, the company has posted modest numbers in line with original financial plans, remaining a sound future investment as originally intended.

Niagara Region Broadband Network (NRBN)

NRBN has had a very tumultuous 2009. There have been many negatives related to its primary contractor Connex. The Board made a very aggressive decision late in 2009 to purchase the assets of the primary vendor to guarantee our collective futures. As 2010 has unfolded, we are pleased to report that the move has not only been successful, it has provided double the revenue for the company, and will allow us to be in full control of our future.

As reported at the NRBN AGM, the last dividend received by Grimsby Hydro (Holdco for NRBN), fully repaid the initial cash investment by the Town of Grimsby. Our subsequent investment of $400,000 is anticipated to return within two years, however will depend on corporate performance over the next 12 months.

As it is common knowledge, the Region is the largest consumer of services from NRBN, and as such was the main financial driver for the business case originally designed. We have renewed contract with the Region for a minimum of 5 years with an option for 10 years. This coupled with our current renewal rate of 100% of our customers, ensures that the debt will continue to be paid down and strengthens the investment. Our anticipated debt free date in 2015 is on track.

Board Appointments

Through 2009 and into 2010, the Board has sought out two additional appointments. One to serve in Grimsby Power, and a second at Niagara Power. Our search was brought about to further enhance the experience at the Board, and to enable a strength of succession. As 2010 is an election year, coupled with our normal rotation of board members, we believe that the increased number of board members provides the ability to continue governance with minimal impact to the experience base as directors come on and off the respective subsidiary boards.

Outlook for 2010 and 2011

2009 has seen a strong push by the Board towards green energy initiatives. Our work has brought life to green initiatives in the Town that is only talk in other communities. We continue to innovate and lead in green initiatives in Ontario, and through our holdings, will strive for excellence in these projects and others as they present themselves.

Our assets within NRBN continue to push at the boarders of Niagara both towards Toronto and Buffalo, and with increased opportunity, we will see a push through the upcoming year towards services being offered for internet and private networks through these two points on our network. All of these opportunities mean increased sales for NRBN and for the shareholders.

It is Niagara Power's continued goal to see stability and strength of service in Grimsby Power. Our strong management team has proven over the last 6 months its ability to deliver, and over the upcoming year complicated roll-out of new services like smart meters and the associated technology to support them will need their skilled guidance.

Thank you,

James Detenbeck

NIAGARA
POWER

Niagara Power Incorporated

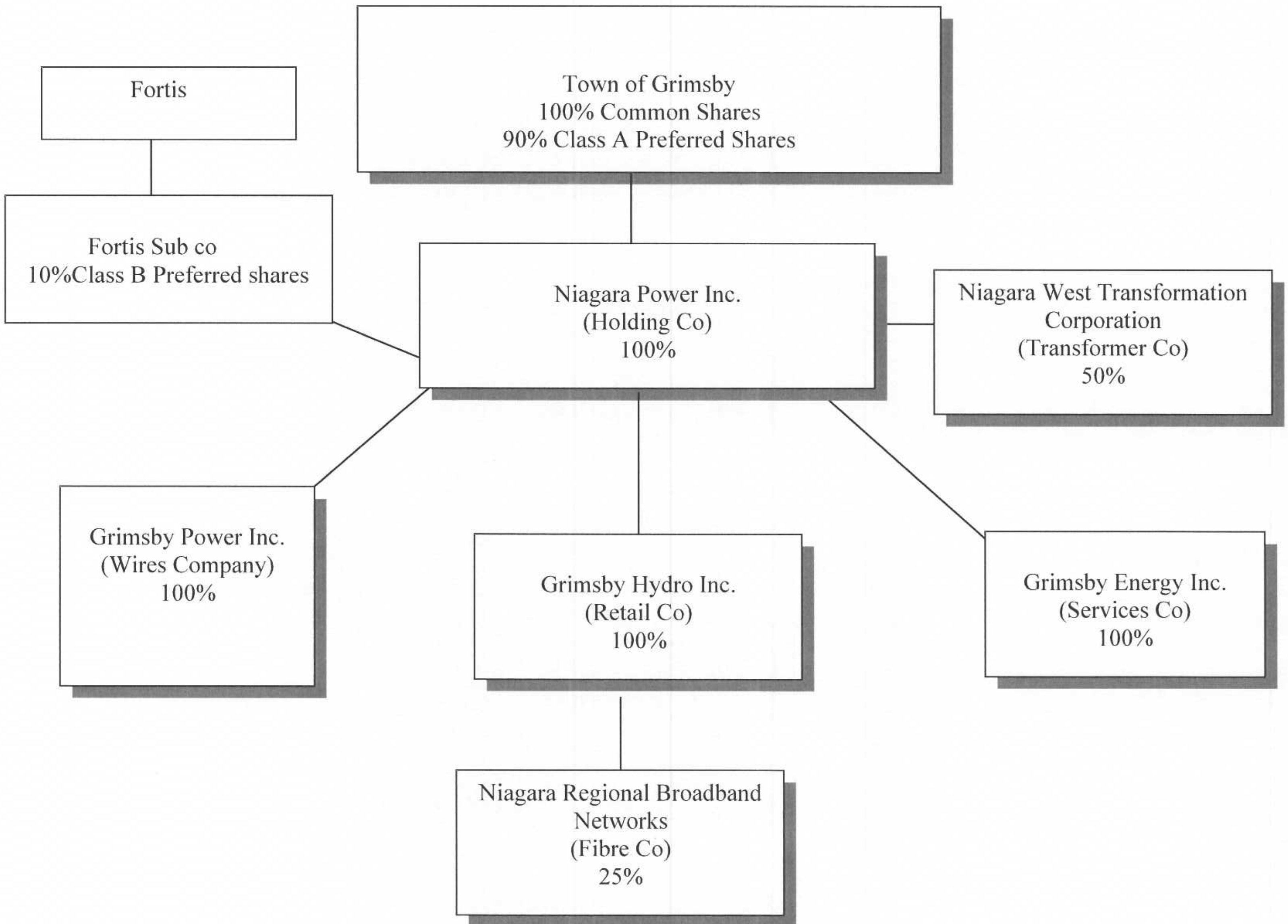
Annual Report

2010

NIAGARA
POWER

Table of Contents

CORPORATE STRUCTURE OF NIAGARA POWER INC.



June 2009

NIAGARA
POWER

2010 Board of Directors

Niagara Power

J. (James) Detenbeck Chair	S. R. (Shafee) Bacchus
R. N. (Bob) Bentley	J. (Joe) Panetta
D. B. (David) Wilson	A. B. Goddard (Alan)

2010 Board of Directors

Grimsby Power

J. (Joe) Panetta
Chair

S. A. (Sean) Straughan

R. N. (Bob) Bentley

J. (James) Detenbeck

Wm J. (Bill) Daley

2010 Board of Directors

Grimsby Hydro

J. (James) Detenbeck
Chair & President

and
NRBN Representative

2010 Board of Directors

Grimsby Energy

J. (James) Detenbeck
President & Chair

R. N. (Bob) Bentley

J. (Joe) Panetta

S. R. (Shafee) Bacchus

S. (Sean) Straughan

2010 Board of Directors

Niagara West Transformation Corporation

S. R. (Shafee) Bacchus
Chair

J. (Joe) Panetta

D.B. (David) Wilson

Plus Three (3) Representatives from Peninsula West Power

Annual General Meeting Chairs Report

NIAGARA
POWER

OUR MISSION –

NIAGARA POWER'S MISSION IS TO

MAXIMIZE SHAREHOLDER VALUE

ACROSS ALL OF OUR HOLDINGS.

James Detenbeck

Chairman of Niagara Power Inc.

2010 has been a strong performance year for Niagara Power's holdings.

Amidst the excellent work of many talented board members and staff, we have suffered many trials with provincial and federal bodies. Despite the challenges, our corporations continue to meet or exceed expectations.

We are pleased to report that we are truly meeting our mission to maximize the shareholder value.

Grimsby Power

2010 was our first full year in partnership with Fortis, and as expected provided strong support for both process and administrative support.

Our smart meter initiative has been well underway, and is fully deployed throughout the community. The rate application in 2011 will allow GPI to recover the capital invested in smart meters from the rate payer over the upcoming years. In early 2012, the rates in the town will reflect the increase and we can begin to recover monies that we have spent in the implementation.

In addition to the recovery of the smart meter capital, the new rates will include additional revenue to offset increased costs over the last 5 years. The new rates will provide additional revenue to bring our rate of return back in line with previous years.

Grimsby Power has provided its interest payment to the Town in 2010, and 2011. The payment for 2012 is secure and will be forthcoming.

Major infrastructure enhancements across the town included the upgrade of the distribution lines from 8KV to 27.6 kV. This update is anticipated to complete in 2012, and will result in a more efficient distribution system for the town.

Grimsby Energy

In 2010 our team secured the Feed-In-Tariff contract from the Ontario Power Authority for our Bio-Digester Project. Effort in 2011 has involved the engineering and beginning the Provincial approval process. This process will continue into 2012, and is consistent with the experienced timeline delays introduced by various Provincial Ministries as the government struggles to understand how to handle the public demand for renewable energy generation.

2010 also saw the construction begin for the Town Hall Combined Heat and Power Project. The work introduced in 2010 saw completion in 2011, and will be brought on-line in 2011 once Grimsby Power authorizes the units to begin generation.

Niagara West Transformation Corporation

Our team at NWTC has had a busy year in 2010. The team suffered yet another theft of product from the station and has taken steps to ensure that future security is of prime importance.

NWTC has showed a consistent and strong level of service to the people of Grimsby and the people of West Niagara.

NWTC also demonstrates strong leadership and technical knowledge, operating on a very thin budget. The corporation has posted a loss for the 2010 year, however continues to maintain itself as a viable entity. The corporation actively sought a revised rate from the OEB and received approval for an increase retroactive to March 2011.

Niagara Region Broadband Network (NRBN)

2010 saw the purchase of Connex assets by NRBN.

This purchase has provided NRBN with a doubling of the annual revenue, and dramatically improved short term cash flow.

The corporation has also secured sales and marketing contracts with Activo as well as bringing on a full time General Manager position.

The Corporation continues to grow its customer base and now has nearly 300 commercial customers and as reported in the last AGM has secured fully renewed contracts with the MUSH group.

As reported at the NRBN AGM, the last dividend received by Grimsby Hydro (Holdco for NRBN), fully offset the initial cash investment by the Town of Grimsby. Our subsequent investment of $400,000 is anticipated to return within two years, however will depend on corporate performance over the next 12 months. This December 1st (2011) has seen yet another substantial dividend of $125,000 provided by NRBN.

This is a direct result of strong corporate performance and controlled spending practice.

Board Appointments

In 2010, we added to our strength at the board with the addition of Sean Straughan (GPI) and Alan Goddard (NPI).

Our team in 2011 has sought out two additional team members to further diversify the skills at Niagara Power and its subsidiaries.

For our upcoming year of 2012, the board has some realignment ahead with directors within the subsidiaries. At the time of writing, we are scheduled to interview new candidates for NPI and GPI and are optimistic that we may have the additional resources that we need.

In 2012, our representation at NRBN will be changed. Starting January 1st, Sean Straughan starts his tenure as the new shareholder representative at NRBN. Sean has proven to the team at NPI that his skill and financial background will provide engaging support for the NRBN team, as well, his professionalism in reporting and communications will provide NPI with timely information flow.

Outlook for 2012

Continued effort to bring to fruition our green energy initiatives will continue in 2012 as they have in 2011.

Our challenges in GPI will include the roll-out of time-of-use rates and initiatives for a new accounting and enterprise resource planning (ERP) software are on our radar. Each of these is substantial work packages and will continue to build on the solid operations within GPI.

2011 and 2012 are planned to be big years with NWTC. Our rate application has been approved; financially securing the flow within NWTC, yet our partner in Pen-West Utilities has identified their desire to leave the transmission business. There will be continued effort to support both operations and to seek stability from our partner.

NRBN forecasts work within the disaster recovery industry to further enhance its service offerings, and work will continue in 2011/2012 around this service area.

Thank you,

James Detenbeck

Chair's Remarks

2010 was a very eventful year for the NWTC Corporation. The Board began the year with an approved budget which anticipated gross income of $ 644.2 thousand and an expenditure level of $ 512.1 thousand that would have resulted in a net income of $132.2 thousand.

In actuality, income from transformer charges was lower than anticipated because of a reduction in demand. At the same time expenditures for unforeseen maintenance and repairs rose sharply. For example there were several one time expenses for necessary up-grades to alarms, batteries, sump pumps and insurance premiums including the replacement of ground wiring due to a theft at the station. All of which resulted in a budget deficit of $108.2 thousand.

The Board took several steps to counteract what was seen as unavoidable operating costs without having to approach the holding companies for an infusion of cash while at the same time recognizing that available cash in the bank could eventually be depleted.

A decision was made to apply to the O.E.B. for an increase in the rate currently being charged to the two L.D.C's namely N.P.E.I and G.P.I.. In this regard a consultant was engaged to assist the Board in filing the application which is presently under consideration. The Board remains hopeful that the application will be successful and consequently will improve the revenue stream.

The Corporation did have some good news in that its operating license was renewed for a further term without any conditions.

The Board was made aware of several FIT and Micro fit proposals that were being considered for approval under the Green Energy Act. Some of these, depending on the embedded generation would have the potential to affect the station's load current, short circuit currents, relay settings and station grounding. All of these would prove to be extremely expensive to safely accommodate without financial participation from the developers. A process for connection impact assessment is available to address these concerns with the participation of the L.D.C.'s.

The Board for the first time approved a safety Manual that was developed to address potential safety issues which may occur from of the station's operations. This manual it is hoped would mitigate against potential legal liabilities.

Going forward there are concerns about the Corporation's financial sustainability as well as its ability to accommodate the new green energy models. Without a successful application for a new rate the Holding companies will need to consider their options to ensure continued functionality of the Station and the future benefits to their consumers.

Shafee Bacchus (Chair)

NWTC Annual Report - 2011

Chair’s Remarks

In my concluding remarks at the 2010 annual general meeting I indicated that going forward would be challenging for NWTC primarily because we were facing a shortfall in revenues to meet operating expenses and the station’s inability to accommodate green energy projects.

I am pleased to note that in terms of boosting revenues for 2011 the Board was successful in convincing the Ontario Energy Board to increase the allowable monthly transmission rate to $1.77 per kilo watt effective March 1, 2011. That change in the rate resulted in revenues increasing by approximately 9% by year end. It also meant that the the NWTC Board no longer contemplated approaching the holding companies for an infusion of cash to avoid depleting our cash position at the bank and for the Board to meet a budgetary expenditure of some $548 thousand.

Of significance as well, the OEB was informed by Hydro One Networks that NWTC would have no remaining financial obligations in relationship to the cost recovery agreements between NWTC, Hydro One, Grimsby Power, and the former Peninsula West Utilities.

Through the efforts Peter Wicks our Board Member and our contract with Rondar we continue to undertake not only regular maintenance of the station on a timely basis but also to replace equipment such as the batteries and to ensure protection of the station with new intruder and upgraded fire alarms.

The other significant issue facing the station currently and going forward into the future is its obligation under the Green Energy Act to connect FIT and Micro Fit projects. As the station is presently configured its fault rating is operating at around 98% capacity. Consequently, it is unable to accommodate additional power coming into the station from green energy projects.

To correct for this problem would require new switch gears that would be very expensive and outside the financial capability of the station’s current operating budget. The only other alternative would be for either the station’s shareholders or a proponent to make the financial commitment for the upgrade. To this end, there are ongoing discussions between one Proponent for a wind energy project and Grimsby Power to determine the most appropriate method. At this juncture, connection to the station is not recommended and the Board has so informed all known potential proponents.

In terms of its administration, the Board accepted the resignation of Karen Bubish who acted as a Vice President Administration. The Board designated me to assume the duties of that position. The vacancy of that position has since been refilled with a new member

The Board was made aware that discussions were initiated between the shareholders Niagara Power Inc. and Penn West Power Inc. regarding the acquisition of shares in the company. If successful, this may result in NWTC being wholly owned by NPI.

In view of this eventuality, the Board made a decision to request Grimsby Power through its CEO to lead the discussions relating to the upgrade of the station to accommodate green energy projects.

In closing I would like to thank the members of the Board and those who have assisted the Board for their support in concluding another successful year of operations.

Peninsula West Power Inc.

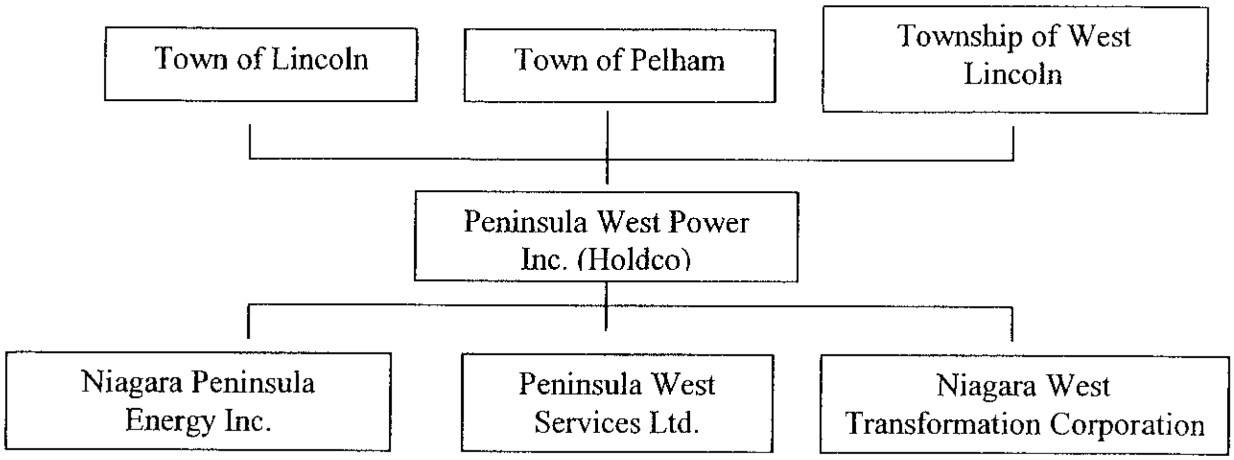
Annual Report
2010

Peninsula West Power Inc.
2010 Annual Report

Table of Contents

Corporate Structure

Shareholders



The Town of Lincoln, the Town of Pelham, and the Township of West Lincoln are the sole shareholders of Peninsula West Power Inc.(PWPI), the Holding Company, as prescribed by the Energy Competition Act 1998. Of the one hundred shares issued, Lincoln owns fifty-nine, Pelham seventeen, and West Lincoln twenty-four.
In accordance with the Unanimous Shareholders Agreement, executed by the respective Municipalities on October 2, 2000 and amended in December, 2007, each shareholder appoints two(2) directors to sit on the Holding Company board.

The Holding Company is the sole shareholder of Peninsula West Services Ltd. and provides management services to this affiliate for a fee. The president of PWPI is the sole director of the services company.
Peninsula West Services Ltd. provides rentals of water heaters and sentinel lights and administers the maintenance and repair of streetlights for the owner municipalities. All services are contracted.

The Holding Company owns two hundred fifty-five shares of the one thousand shares issued by Niagara Peninsula Energy Inc., an electricity distribution company, whose service territory includes Niagara Falls, Lincoln, West Lincoln, and the former village of Fonthill in Pelham. Seven hundred forty-five shares are owned by Niagara Falls Hydro Holding Corporation.
The Holding Company appoints four directors to the board of Niagara Peninsula Energy.

The Holding Company also holds 50% of the shares in Niagara West Transformation Corporation(NWTC), which owns a municipal transformation station in West Lincoln. Niagara Power Incorporated(Grimsby's Holding Company) holds the other 50% of the shares in NWTC. Three directors are appointed by each Holding Company.

2010 Board of Directors

Peninsula West Power Inc.

Mayor Dave Augustyn -- Chair	Pelham
Mayor Bill Hodgson	Lincoln
Mayor Katie Trombetta	West Lincoln
John Bald	Lincoln
Mike Rehner	West Lincoln
John Nicol	Pelham

Peninsula West Services Ltd.

Brian Walker

Peninsula West Management

Brian Walker — President, Secretary and Treasurer

Niagara West Transformation Corporation

Directors from Pen West

Karen Bubish
Roger Hayes
Peter Wicks

Niagara Peninsula Energy Inc.

Directors from Pen West

Russell Lowden
George Mitges
Brian Walker
Peter Wicks

PRESIDENT'S 2010 REPORT

2010 marked the completion of the first decade of Peninsula West Power Inc.

For the first seven years, the company was relatively inactive, with the main focus on its holding in its distribution company, Peninsula West Utilities Limited, and a secondary focus on the services company, Peninsula West Services Ltd., and the holding company's fifty per cent interest in Niagara West Transformation Corporation.

In the 2008 merger with Niagara Falls Hydro, the distribution company ceased to exist and was replaced with a 25.5% holding of the shares in the new distribution company, Niagara Peninsula Energy Inc. The former service centre on Quarry Road was transferred to the holding company. The holding company deemed the property surplus and in 2010 completed a transaction transferring the property to the Town of Lincoln.

In 2010, Katie Trombetta and Mike Rehner completed their terms on the Board of Directors. Katie had been a director of the company since its inception, and Mike served for three years: their work is much appreciated.

In 2010, a dividend policy was developed and the first dividend was declared.

Peninsula West Services Ltd. continued to provide, through contracts, rentals of water heaters and sentinel lights, and street light maintenance services.

The Board began to acquire information to determine the value and viability of its interest in the Niagara West Transformation Corporation.

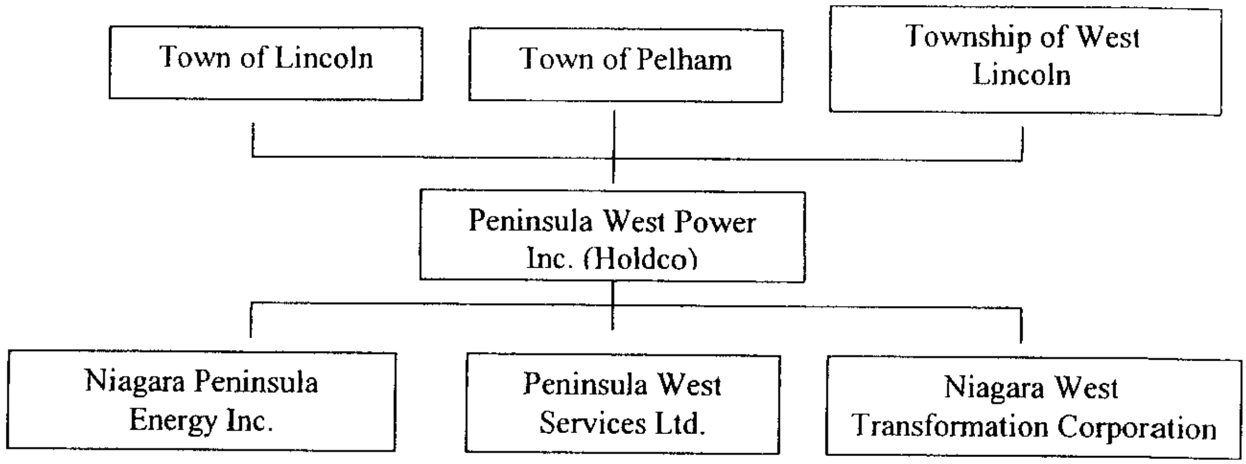
Peninsula West Power Inc.

Annual Report 2011

Peninsula West Power Inc.
2010 Annual Report

Table of Contents

Shareholders



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The Holding Company is the sole shareholder of Peninsula West Services Ltd. and provides management services to this affiliate for a fee. The president of PWPI is the sole director of the services company.
Peninsula West Services Ltd. provides rentals of water heaters and sentinel lights and administers the maintenance and repair of streetlights for the owner municipalities. All services are contracted.

The Holding Company owns two hundred fifty-five shares of the one thousand shares issued by Niagara Peninsula Energy Inc., an electricity distribution company, whose service territory includes Niagara Falls, Lincoln, West Lincoln, and the former village of Fonthill in Pelham. Seven hundred forty-five shares are owned by Niagara Falls Hydro Holding Corporation.
The Holding Company appoints four directors to the board of Niagara Peninsula Energy.

The Holding Company also holds 50% of the shares in Niagara West Transformation Corporation(NWTC), which owns a municipal transformation station in West Lincoln. Niagara Power Incorporated(Grimsby's Holding Company) holds the other 50% of the shares in NWTC. Three directors are appointed by each Holding Company.

2011 Board of Directors

Peninsula West Power Inc.

Mayor Dave Augustyn -- Chair	Pelham
Mayor Bill Hodgson	Lincoln
Mayor Doug Joyner	West Lincoln
Dave Thompson	Lincoln
Sue-Ellen Merritt	West Lincoln
John Nicol	Pelham

Peninsula West Services Ltd.

Brian Walker

Peninsula West Management

Brian Walker — President, Secretary and Treasurer

Niagara West Transformation Corporation

Directors from Pen West

Karen Bubish
Roger Hayes
Peter Wicks

Niagara Peninsula Energy Inc.

Directors from Pen West

Russell Lowden
George Mitges
Brian Walker
JoAnn Chechalk

PRESIDENT'S 2011 REPORT

Much of my time in 2011 was devoted to the attempt to negotiate a share purchase agreement by which the shares held by Peninsula West Power Inc. in the Niagara West Transformation Corporation would be sold to Niagara Power Inc. NPI would then own 100% of NWTC. Negotiations were still ongoing at the end of the year.
Our major asset, a 25.5% interest in Niagara Peninsula Energy Inc., had a very successful year and the value of our holding continued to increase. We received a dividend of $127,500.00
Under the director rotation policy, it was West Lincoln's turn to appoint two Directors to the Board of NPEI for the period of 2011-2013, and JoAnn Chechalk was added to the Board.
At the end of December, John Bald completed his three year term on the PWPI Board and was then nominated to be a Director of Niagara West Transformation Corporation to replace Karen Bubish who resigned from that Board in October.
John Nicol was re-appointed by the Town of Pelham for a three year term.
Peninsula West Services Ltd. continued to provide, through contracts, rentals of water heaters and sentinel lights, as well as street light maintenance for our shareholders.

ATTACHMENT 1.5.2(a)

NIAGARA POWER

Niagara Power Incorporated
231 Roberts Road
Grimsby, ON
L3M 5N2
PH: 905.945.5437
FX: 905.945.9933

Confidential

February 10, 2012

Peninsula West Power Inc. c/o B. Walker, 57 Canboro Road,
~~2676 Clifford Street,~~
~~SMITHVILLE, ON L0R 2A0~~ PO Box 55, Fonthill, Ontario L0S1E0 DMA

Attention: ***Dave Augustyn, Chairman***

Dear Sirs:

Re: Niagara West Transformation Corporation ("NWTC")

Further to our recent discussions and communications, we acknowledge receipt of your notice to us of your interest in selling your investment in Niagara West Transformation Corporation ("NWTC").

together DMA and 120 Class A shares, DMA

This letter of intent ("LOI") confirms that we are prepared to purchase your 50 common shares in NWTC (the "Shares"), subject to certain conditions set out below. Upon signing of this LOI by both of us, this document shall comprise both a written amendment of the Unanimous Shareholders Agreement (the "USA") made August 29, 2003, and a written waiver of the requirements thereof, to the extent required to effect the transaction as contemplated hereby.

Offer Amount	$1,000,000 CDN
Closing Date:	On ~~or before March 30, 2012~~ a date to be agreed to by the parties DMA
Share Purchase Agreement:	The terms of this transaction will be formalized in a share purchase agreement ("SPA"), and subject to usual due diligence with respect to the Shares and legal, accounting and such other advice as each of us may require.
OEB Compliance:	Completion of the transaction will be subject to any applicable Ontario Energy Board review or approval
Non-Disclosure:	By signing this LOI, you agree to treat all communications of any kind, howsoever pertaining

to the proposed share purchase transaction, including but not limited to the terms and existence of this LOI , (collectively the "Confidential Information"), as strictly confidential and will not disclose all or any part thereof to any third party. Disclosure of the Confidential Information to your directors, shareholders and advisors is permitted only on the condition that such recipients shall be bound by the same duty of confidentiality. You specifically acknowledge that unauthorized disclosure of any of the Confidential Information may cause irreparable detriment and harm to us, and such disclosure will result in your liability to us for the consequences, financial and otherwise, of such detriment and harm, and we may commence proceedings to enjoin you from such disclosure, at your expense.

This is a letter of intent only, and the provisions hereof do not create a legally binding commitment by us to purchase, or by you to sell, the Shares, but we each acknowledge and agree that the Non-Disclosure provisions of this LOI are binding upon each of us and shall survive the expiry or termination of this LOI.

DMA

If the foregoing is acceptable to you, kindly acknowledge in the space indicated below. ~~If we have not received your acknowledgment on or before 5:00 pm on February 24, 2012, the terms hereof shall be retracted and void.~~

Yours truly,

NIAGARA POWER INCORPORATED

James Detenbeck, Chairman
Niagara Power Incorporated

Accepted by,

Mayor David Augustyn, Chairman
Penninsula West Power Incorporated

ATTACHMENT 1.5.2(b)

SHARE PURCHASE AGREEMENT

THIS AGREEMENT made as of the 18th day of June 2012

B E T W E E N

NIAGARA POWER INCORPORATED
An Ontario corporation having its head office at 231 Roberts Road, Grimsby, Ontario.

(hereinafter called "NPI")

-- and --

PENINSULA WEST POWER INC.
An Ontario corporation having a registered office at 57 Canboro Road, Fonthill, Ontario

(hereinafter called "PWP")

-- and --

NIAGARA WEST TRANSFORMATION CORPORATION
An Ontario corporation having its head office at 231 Roberts Road, Grimsby, Ontario

(hereinafter called the "Corporation")

WHEREAS:

(1) the Corporation was incorporated on September 5, 2003 as Ontario corporation no. 1586499;

(2) the issued and outstanding shares in the capital of the Corporation consist of 100 common shares, of which NPI and PWP each own 50 and 240 Class A shares, of which NPI and PWP each own 120 (those shares owned by PWP being herein referred to as the "Shares");

(3) NPI and PWP have entered into a Shareholder's Agreement dated the 29th day of August, 2003 (the "SHA") with respect to the Corporation;

(4) All capitalized terms used in this Agreement, unless specifically defined herein, shall have the same meaning as defined in the SHA;

(5) PWP has, pursuant to section 7.6 of the SHA, given notice of its intent to sell its Investment, including the Shares to NPI;

(6) NPI has exercised its rights of first offer, as provided for in s.7.6 of the SHA, and agreed to purchase the Investment of PWP; and

(7) The Corporation hereby consents to the transaction of purchase and sale contemplated herein;

NOW THEREFORE THIS AGREEMENT WITNESSES that, in consideration of the mutual covenants and agreements contained herein, and of other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto covenant and agree each with the other as follows:

ARTICLE 1. PURCHASE OF INVESTMENT

1.1 Subject to the terms and conditions hereof, PWP agrees to sell all, and not less than all, of its Investment, and NPI agrees to purchase all of the same.

ARTICLE 2. PURCHASE PRICE.

2.1 The purchase price ("Purchase Price") payable by NPI to PWP for the Investment shall be ONE MILLION-----XX/00 DOLLARS of lawful currency of Canada (CAD$1,000,000.00).

2.2 PWP and NPI agree that the Purchase Price represents the Fair Market Value of PWP's Investment in the Corporation, within the meaning of section 7.5 of the SHA;

2.3 In the event Canada Revenue Agency, or a similar government authority having jurisdiction, determines the value of the Investment to be other than as agreed to by the parties herein (such determined value being herein the "Adjusted Value") the parties agree that they shall be bound by the Adjusted Value and shall adjust their books and records to reflect same, and re-file all necessary or advantageous elections with respect to same.

2.4 The parties agree that there shall be no adjustment to the Purchase Price.

2.5 The Purchase Price shall be satisfied by NPI on Closing by certified cheque payable to PWP, or as it may otherwise direct.

ARTICLE 3. CLOSING ARRANGEMENTS.

3.1 *Closing.* Time shall be of the essence of this Agreement. The closing of this transaction shall take place at the offices of NPI on the later of (i) June 28, 2012; and (ii) three days following receipt of the approval of the Ontario Energy Board to the transfer of the Investment. ("Closing Date" or "Time of Closing").

3.2 *Extension* The parties agree that the Closing date may be delayed, by mutual written agreement, to a later date.

3.3 *Advanced Date* The parties agree that the Closing Date maybe advanced, by mutual written agreement, to an earlier date if all conditions of the transaction have been met and the parties are each in a position to complete the transaction contemplated hereby.

ARTICLE 4. REPRESENTATIONS & WARRANTIES OF PWP

PWP represents and warrants to NPI as follows, and acknowledges that NPI is relying on such representations and warranties in connection with its purchase of PWP's Investment:

4.1 *Organization* PWP is a corporation duly incorporated and organized and validly subsisting under the laws of the Province of Ontario, and has the corporate power to:

(a) own the Investment;
(b) enter into this Agreement; and
(c) perform the obligations imposed upon it hereunder.

4.2 *Authorization* All steps taken by PWP pursuant to its notice under the SHA and pursuant to this Agreement have been duly authorized, executed and delivered by PWP, and each is a legal, valid and binding obligation of PWP, enforceable against it by NPI, in accordance with its terms, except to the extent that enforcement of such obligations may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally, and subject always to the discretionary application of equitable remedies by a court of competent jurisdiction.

4.3 *No Other Agreements to Purchase* No other person, other than NPI, has any written or oral agreement, option or any right or privilege capable of becoming an option or agreement, whether under law, by contract or in equity, for the purchase or acquisition of the Shares.

4.4 *Ownership of Investment* PWP shall have good and marketable title to all components of its Investment, including, but not limited to, the Shares, free and clear of:

(a) all liens, encumbrances and security interests, whether created by PWP or the

Corporation; and

(b) all voting trusts or agreements.

Upon completion of the purchase contemplated herein, NPI will be the beneficial owner of record of the Investment, with good and marketable title thereto.

4.5 *No Violation* The execution and delivery of the notice under the SHA and of this Agreement, and the completion of the transaction contemplated hereunder will not result in:

(a) the creation or imposition of any encumbrance upon the Investment or any part thereof; or

(b) the breach or violation of any provisions of the terms, conditions or provisions of, or constitute default under, or conflict with or cause the acceleration of any obligation of PWP under:

i) the articles and by-laws, as amended, of PWP and any resolution passed by either the directors or the shareholders of PWP;

ii) any material agreement or instrument to which PWP is a party, or by which the Investment is bound;

iii) any judgment, decree, order or award of any decision-making entity of competent jurisdiction

iv) any licence, permit, approval, consent or authorization held by PWP and necessary to the ownership of the Investment; or

v) any applicable law, statute, ordinance, regulation or rule.

4.6 *Residency* PWP is not a non-resident within the meaning of the *Income Tax Act*

4.7 *Full Disclosure* No document delivered by PWP in furtherance of this transaction neither contains, or will contain, any untrue statement of a material fact, nor has omitted, or will omit, a material fact necessary to make such statements not misleading.

ARTICLE 5. REPRESENTATIONS & WARRANTIES OF NPI

NPI represents and warrants to PWP as follows, and acknowledges that PWP is relying on such representations and warranties in connection with its sale of PWP's Investment:

5.1 *Organization* NPI is a corporation duly incorporated and organized and validly subsisting under the laws of the Province of Ontario, and has the corporate power to:

(a) purchase the Investment;

(b) enter into this Agreement; and

(c) perform the obligations imposed upon it hereunder.

5.2 *Authorization* All steps taken by NPI pursuant to the transaction contemplated by this Agreement have been duly authorized, executed and delivered by NPI, and each is a legal, valid and binding obligation of NPI, enforceable against it by PWP, in accordance with its terms, except to the extent that enforcement of such obligations may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally, and subject always to the discretionary application of equitable remedies by a court of competent jurisdiction.

5.3 *No Violation* The execution and delivery of this Agreement, and the completion of the transaction contemplated hereunder will not result in the breach or violation of any provisions of the terms, conditions or provisions of, or constitute default under, or conflict with or cause the acceleration of any obligation of NPI under:

(a) the articles and by-laws, as amended, of NPI and any resolution passed by either the directors or the shareholders of NPI;
(b) any material agreement or instrument to which NPI is a party;
(c) any judgment, decree, order or award of any decision-making entity of competent jurisdiction; or
(d) any applicable law, statute, ordinance, regulation or rule.

5.4 *Full Disclosure* No document delivered by NPI in furtherance of this transaction neither contains, or will contain, any untrue statement of a material fact, nor has omitted, or will omit, a material fact necessary to make such statements not misleading.

ARTICLE 6. CONDITIONS OF CLOSING.

6.1 *Conditions for NPI's Benefit.* NPI shall not be obligated to complete the purchase provided for herein unless, on the Closing Date, each of the following conditions shall have been satisfied, it being understood that the conditions are included for the exclusive benefit of NPI and may be waived in writing in whole or in part by NPI at any time; and PWP shall use commercially reasonable best efforts to ensure that the conditions are fulfilled on or before the closing date:

(a) **Good Title** PWP shall have good and marketable title to all components of its Investment, including, but not limited to, the Shares, free and clear of:
   i) all liens, encumbrances and security interests, whether created by PWP or the Corporation; and
   ii) agreements or options in favour of any third party to purchase the Investment.
(b) **Status of PWP** PWP shall have delivered to NPI reasonable and satisfactory evidence that:

i) PWP is, at the Date of Closing, a resident of Canada within the meaning of the *Income Tax Act* (Canada); or failing such evidence shall deliver the requisite certificate with a certificate limit in proper amount as provided for by the *Income Tax Act* (Canada).

ii) PWP is not an undischarged bankrupt, and has not made a voluntary assignment into bankruptcy, been petitioned into bankruptcy or delivered its assets and property to a trustee for the general benefit of its creditors;

iii) in all other respects, PWP has full capacity, power, authority and right to sell the Investment in accordance with the terms of the SHA and this Agreement.

(c) **Approval of OEB** NPI must have received evidence to its satisfaction that the approval of the Ontario Energy Board and all other regulatory bodies having jurisdiction over the subject matter hereof, to the transaction of purchase and sale contemplated herein has been obtained, or is not required.

(d) **Representations and Warranties** All of the representations and warranties of PWP set forth in Article 4 above, are true as at the Closing Date.

(e) **Legal Opinion** PWP shall have delivered to NPI the favourable opinion of PWP's counsel in the form attached hereto as schedule "A".

6.2 *Conditions for PWP's Benefit.* PWP shall not be obligated to complete the sale provided for herein unless, on the Closing Date, each of the following conditions shall have been satisfied, it being understood that the conditions are included for the exclusive benefit of PWP and may be waived in writing in whole or in part by PWP at any time; and NPI shall use its best efforts to ensure that the conditions are fulfilled on or before the closing date:

(a) **Status of NPI** NPI shall have delivered to PWP reasonable and satisfactory evidence that

i) NPI is not an undischarged bankrupt, and has not made a voluntary assignment into bankruptcy, been petitioned into bankruptcy or delivered its assets and property to a trustee for the general benefit of its creditors;

ii) In all other respects, NPI has full capacity, power, authority and right to purchase the Investment in accordance with the terms of the SHA and this Agreement.

(b) **Approval of OEB** PWP must have received evidence to its satisfaction that the approval of the Ontario Energy Board and all other regulatory bodies having jurisdiction over the subject matter hereof, to the transaction of purchase and sale contemplated herein has been obtained, or is not required; and

(c) **Representations and Warranties** All of the representations and warranties of NPI set forth in Article 5 above, are true as at the Closing Date.

(d) **Consent of Toronto-Dominion Bank & Removal as Guarantor** PWP must have received evidence to its satisfaction, acting reasonably, that the

Toronto-Dominion Bank has approved the purchase and sale contemplated herein and the release of PWP's guarantee of the indebtedness of NWTC, including the discharge of all registrations under the *Personal Property Security Act* (Ontario) against PWP in respect thereof.

6.3 *Non-Fulfilment* If any of the foregoing conditions shall not have been fulfilled on or before the Closing Date, the party for whose benefit the condition has been provided (the "Terminating Party") may terminate this Agreement by notice in writing to the other, in which event both parties shall be released from all obligations under this Agreement and all interim steps taken pursuant to it and the SHA, unless the Terminating Party can show that the condition relied upon could reasonably have been performed by the other, in which case the other party shall not be released from all obligations hereunder, but held accountable for the reasonable consequences of non-performance; PROVIDED HOWEVER that either party shall be entitled to waive compliance with any condition provided for its benefit, in whole or in part, if it shall see fit to do so, without prejudice to its rights of termination in the event of non-fulfilment of any other condition in whole or in part.

ARTICLE 7 - INDEMNIFICATION AND SET-OFF

7.1 *Mutual Indemnity* Each of NPI and PWP (each being sometimes referred to as the "Indemnifier", as the case may be) hereby agrees to defend, indemnify and save the other (herein the "Indemnified Party) harmless from and against any claims, demands, actions, causes of action, damage, loss, deficiency, cost, liability and expense which may be made or brought within a period of three (3) years of the Closing Date, against the Indemnified Party, or which the Indemnified Party may suffer or incur as a result of, in respect of or arising out of:

(a) any non-performance or non-fulfilment of any covenant or agreement on the part of the Indemnifier contained in this Agreement;
(b) any misrepresentation, inaccuracy, incorrectness or breach of any representation or warranty made by the Indemnifier contained in this Agreement;
(c) any and all debts, payables, obligations, taxes, contracts, commitments, or liabilities of any nature whatsoever of PWP affecting the Investment; and
(d) all costs and expenses including, without limitation, legal fees on a substantial indemnity basis, incidental to or in respect of the foregoing.

7.2 *Provisions Relating To Indemnity Claims* The following provisions will apply to any claim by and Indemnified Party for indemnification by the Indemnifier pursuant to section 7.1 hereof (hereinafter, in this section, called an "Indemnity Claim"):

(a) **Notice** Promptly after becoming aware of any matter that may give rise to an Indemnity Claim, the Indemnified Party will provide to the Indemnifier written notice, at the address set out herein, of the Indemnity Claim specifying (to the extent that information is available) the factual basis for the Indemnity Claim and the amount of the Indemnity Claim or, if an amount is not then determinable, an estimate of the amount of the Indemnity Claim, if an estimate is feasible in the circumstances;

(b) **Third Party Liability** If an Indemnity Claim relates to an alleged liability to any other person (hereinafter, in this section, called a "Third Party Liability"), including without limitation any governmental or regulatory body or any taxing authority, which is of a nature such that the Indemnified Party is required by applicable law to make a payment to a third party before the relevant procedure for challenging the existence or quantum of the alleged liability can be implemented or completed, then the Indemnified Party may, notwithstanding the provisions of subsections 7.2(c) and 7.2 (d) below, make such payment and forthwith demand reimbursement for such payment from the Indemnifier in accordance with this Agreement. Provided further, however, that, if the alleged liability to the third party as finally determined upon completion of settlement negotiations or related legal proceedings is less than the amount which is paid by the Indemnifier in respect of the related Indemnity Claim, then the Indemnified Party shall forthwith following the final determination pay to the Indemnifier the amount by which the amount of the liability as finally determined is less than the amount which is so paid by the Indemnifier;

(c) **Indemnifier to Resolve** The Indemnified Party shall not negotiate, settle, compromise or pay (except in the case of payment of a judgment) any Third Party Liability as to which it proposes to assert an Indemnity Claim, except with the prior consent of the Indemnifier (which consent shall not be unreasonably withheld or delayed);

(d) **Third Party Liability Procedures** With respect to any Third Party Liability, provided the Indemnifier first admits the Indemnified Party's right to indemnification for the amount of such Third Party Liability which may at any time be determined or settled, then in any legal, administrative or other proceedings in connection with the matters forming the basis of the Third Party Liability, the following procedures will apply:

(i) the Indemnifier will have the right to assume carriage of the compromise or settlement of the Third Party Liability and the conduct of any related legal, administrative or other proceedings, but the Indemnified Party shall have the right and shall be given the opportunity to participate in the defence of the Third Party Liability, to consult with the Indemnifier in the settlement of the Third Party Liability and the conduct of related legal, administrative and other proceedings (including consultation with counsel) and to disagree on reasonable grounds with the selection and retention of counsel, in which case counsel satisfactory to the Indemnifier, and the

Indemnified Party shall be retained by the Indemnifier; and

(ii) the Indemnifier will co-operate with the Indemnified Party in relation to the Third Party Liability, will keep it fully advised with respect thereto, will provide it with copies of all relevant documentation as it becomes available, will provide it with access to all records and files relating to the defence of the Third Party Liability and will meet with representatives of the Indemnified Party at all reasonable times to discuss the Third Party Liability.

(iii) if, with respect to any Third Party Liability, the Indemnifier does not admit the Indemnified Party's right to indemnification or declines to assume carriage of the settlement or of any legal, administrative or other proceedings relating to the Third Party Liability, or if the Indemnified Party so elects in its sole discretion, then the following provisions will apply:

a. The Indemnified Party, at its discretion, may assume carriage of the settlement or of any legal, administrative or other proceedings relating to the Third Party Liability and may defend or settle the Third Party Liability on such terms as the Indemnified Party, acting in good faith, considers advisable; and

b. any cost, lost, damage or expense incurred or suffered by the Indemnified Party in the settlement of such Third Party Liability or the conduct of any legal, administrative or other proceedings shall be added to the amount of the Indemnity Claim;

(e) **Monetary Limit** The Indmnifier shall have no obligation to indemnify the Indemnified Party in an amount that exceeds the Purchase Price.

ARTICLE 8 GENERAL.

8.1 *Interpretation.*

(a) *Schedules.* Schedules and other documents attached or referred to in this Agreement are an integral part of this Agreement.

(b) *Sections and Headings.* The division of this Agreement into Articles, sections and subsections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation hereof.

(c) *Extended meanings.* Words importing the singular number include the plural and vice-versa; words importing the masculine gender include the feminine and neuter genders.

(d) *Funds.* All dollar amounts referred to in this Agreement are in lawful money of

Canada.

8.2 *Expenses.* Each party shall be responsible for its own legal and audit fees and other charges incurred in connection with the preparation of this Agreement, all negotiations between the parties and the consummation of the transactions contemplated hereby.

8.3 *Further Assurances.* Each of the parties hereto will from time to time at the other's request and expense and without further consideration, execute and deliver such other instruments of transfer, conveyance and assignment and take such further action as the other may reasonably require to more effectively complete any matter provided for herein.

8.4 *Entire Agreement.* This Agreement constitutes the entire agreement among the parties and except as herein stated and in the instruments and documents to be executed and delivered pursuant hereto, contains all of the representations and warranties of the respective parties. There are no oral representations or warranties among the parties of any kind. This Agreement may not be amended or modified in any respect except by written instrument signed by both parties.

8.5 *Non-Merger.* Each party hereby agrees that all provisions of this Agreement shall forever survive the execution and delivery of this Agreement and any and all documents delivered in connection herewith.

8.6 *Applicable Law.* This Agreement shall be interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and shall be treated in all respects as an Ontario contract.

8.7 *Notices.* Any notice required or permitted to be given hereunder shall be in writing and shall be effectively given if (i) delivered personally, (ii) sent by prepaid courier service or mail, or (iii) sent prepaid by telecopier, telex or other similar means of electronic communication) confirmed on the same or following day by prepaid mail) addressed, in the case of notice to the PWP, as follows:

Peninsula West Power Inc.
c/o B. Walker
57 Canboro Road
P.O. Box 55
FONTHILL, ON L0S 1E0

and in the case of notice to NPI, as follows:

Niagara Power Incorporated
231 Roberts Road
GRIMSBY, ON L3M 5N2

Attention: *James Detenbeck*

Facsimile: (905) 945 9933

Any notice so given shall be deemed conclusively to have been given and received when so personally delivered or sent by telex, telecopier or other electronic communication or on the second day following the sending thereof by private courier or mail. Any party hereto or others mentioned above may change any particulars of its address for notice by notice to the others in the manner aforesaid.

8.8 *Non Disclosure:* Each of the parties acknowledges that each will treat as strictly confidential all information received by it in connection with this transaction, and not to disclose it to any third party or to use it for any purpose, at any time, whether during the term of the discussions, the term of the business relationship, if any, arising therefrom, and after termination, except as may be required by law. Notwithstanding the foregoing, the parties agree that disclosure to a party's directors, shareholders and advisors is permitted but only on the condition that such recipients shall be bound by the same duty of confidentiality.

8.9 *Successors and Assigns.* This Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

IN WITNESS WHEREOF this Agreement has been executed by the parties hereto.

NIAGARA POWER INCORPORATED	PENINSULA WEST POWER INC.
Per: James Detenbeck	Per: Dave Augustyn
I have authority to bind the Corporation	I have authority to bind the Corporation

Attachment 1.5.2 (c)

NIAGARA POWER INCORPORATED
(the "Corporation")
RESOLUTIONS OF DIRECTORS

MOVED BY: Joe Panetta

SECONDED BY: Dave Wilson

Potential Sale of NWTC

RESOLVED that the Board of Directors authorizes the moving forward of the purchase of NWTC from PWPI.

DATED the 20th of December 2011

PENINSULA WEST POWER INC.
MEETING 12-01 MINUTES
March 21, 2012

The Peninsula West Power Inc. Board of Directors
met on Wednesday, March 21, 2012
at the Pelham Town Hall
Fonthill, Ontario

Present:

Chair	Mayor Dave Augustyn
Director	Mayor Bill Hodgson
Director	Mayor Doug Joyner
Director	Sue-Ellen Merritt
Director	John Nicol
Director	Dave Thompson
President and Secretary-Treasurer	Brian Walker

Guest: Peter Wicks, a Director of NWTC

1. Chair Augustyn called the meeting to order.

2. The Chair called for any conflicts of interest. None were declared.

3. **MEETING MINUTES**
RESOLUTION NO.: 12-01
Moved by: J. Nicol
Seconded by: D. Joyner
That the minutes of the November 29, 2011 meeting be approved as printed.
Carried

4. **Business arising**
None, not covered elsewhere

5. **Correspondence**
---letter from Niagara Peninsula Energy Inc. requesting Special Resolution
---Letter of Intent from Niagara Power Inc.

6. **RESOLUTION NO.: 12-02**
Moved by: S. Merritt
Seconded by: B. Hodgson
That the correspondence from Niagara Peninsula Energy Inc. and from Niagara Power Inc. be received and acted upon by specific motions.
Carried

7. President Report NO:01-12

The President highlighted the activities of the Services company and advised that he is monitoring the revenue and expenses of the sentinel light component, as the system is getting older.

RESOLUTION NO:12-03
Moved by: D. Thompson
Seconded by: J. Nicol
That President Report NO:01-12 be received as information.

Carried

8. Request for Increased Borrowing by Niagara Peninsula Energy Inc.

RESOLUTION NO:12-04
Moved by: B. Hodgson
Seconded by: D. Thompson
That, whereas Niagara Peninsula Energy Inc. is desirous of borrowing up to $10 million dollars in the year 2012, and,
Whereas under the terms of the Shareholders Agreement dated January 1, 2008, Article 5 – Approval of Certain Corporate Actions, section 5.2 – Special resolution by Shareholders, part(k) Borrowing of money in excess of $5 million dollars, Niagara Peninsula Energy Inc. requires a Special Resolution approved by its shareholders Niagara Falls Hydro Holding Corporation and Peninsula West Power Inc.,

Therefore, the Board of Directors of Peninsula West Power Inc. hereby approves the borrowing of money By Niagara Peninsula Energy Inc. in excess of $5 million dollars up to $10 million dollars in 2012.

Carried

9. Discussion of NWTC Operational Questions

The Chair invited Peter Wicks, a director of the Niagara West Transformation Corporation, to provide information on the connectivity issue faced by NWTC, especially in regards to wind energy. Mr. Wicks described the process and handed out an information sheet which is given to all prospective connectors. He also spoke about the IPC proposal to pay for required changes to the station. When asked about the comments made by IPC representatives at a public meeting in Smithville, he said he was surprised because the project has not received environmental approval and their proposal had only received approval in principle.
Mr. Wicks also explained that the connection of alternate energy sources would lead to a reduction in revenue for NWTC, because the two customers would require less energy. Energy conservation is also lowering the demand.
The Chair thanked Mr. Wicks for his input and he departed.

10. Intent to Sell Shares in Niagara West Transformation Corporation

In February of 2012, Chair Augustyn received from Niagara Power Inc. a revised Letter of Intent for the purchase of the shares held by Peninsula West Power Inc. in the Niagara West Transformation Corporation. The Letter of Intent removed the condition in the previous letter of October, 2011.

Chair Augustyn also received a Share Purchase Agreement.

The two documents were sent to our legal counsel, Jill Sexsmith, for her review. She sent back a series of corrections and changes to the documents. These were distributed to directors at the meeting.

The directors agreed with her comments and decided that the documents should be revised, signed, and sent to Niagara Power Inc.

RESOLUTION NO: 12-05

Moved by: B. Hodgson
Seconded by: J. Nicol

That, whereas Niagara Power Inc. has submitted a Letter of Intent regarding their purchase of the shares held by Peninsula West Power Inc. in the Niagara West Transformation Corporation, and,

Whereas our legal counsel has advised a clarification amendment,

Therefore the Directors of Peninsula West Power Inc. approve the amended Letter of Intent and authorize Chair Augustyn to sign said document.

Carried

RESOLUTION NO: 12-06

Moved by: D. Joyner
Seconded by: D. Thompson

That, whereas Niagara Power Inc. has submitted a Share Purchase Agreement regarding their purchase of the shares held by Peninsula West Power Inc. in the Niagara West Transformation Corporation, and,

Whereas our legal counsel has advised corrections and amendments,

Therefore the Directors of Peninsula West Power Inc. approve the amended Share Purchase Agreement and authorize Chair Dave Augustyn to forward the amended Share Purchase Agreement to Niagara Power Inc.for its approval and signing.

Carried

11. Adjournment

Moved By: J. Nicol
Seconded by: S. Merritt

That Meeting 12-01 be adjourned, with the next meeting being at the Chair's call.

Carried

Secretary **Chair**

Exhibit 1.5.3(a)

Ontario

Electricity Transmission Licence

ET-2010-0294

Niagara West Transformation Corporation

Valid Until

December 23, 2030

Jennifer Lea
Counsel, Special Projects
Ontario Energy Board
Date of Issuance: December 24, 2010

Ontario Energy Board	Commission de l'énergie de l'Ontario
P.O. Box 2319	C.P. 2319
2300 Yonge Street	2300, rue Yonge
27th. Floor	27e étage
Toronto, ON M4P 1E4	Toronto ON M4P 1E4

Table of Contents **Page No.**

1 Definitions

In this Licence:

"**Accounting Procedures Handbook**" means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

"**Act**" means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

"**Affiliate Relationships Code for Electricity Distributors and Transmitters**" means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

"**Board**" means the Ontario Energy Board;

"**Electricity Act**" means the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A;

"**Licensee**" means Niagara West Transformation Corporation

"**Market Rules**" means the rules made under section 32 of the Electricity Act;

"**Performance Standards**" means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act;

"**Rate Order**" means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

"**transmission services**" means services related to the transmission of electricity and the services the Board has required transmitters to carry out for which a charge or rate has been established in the Rate Order;

"**Transmission System Code**" means the code approved by the Board and in effect at the relevant time, which, among other things, establishes the obligations of a transmitter with respect to the services and terms of service to be offered to customers and provides minimum technical operating standards of transmission systems;

"**wholesaler**" means a person that purchases electricity or ancillary services in the IESO administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IESO-administered markets or directly to another person other than a consumer.

2 Interpretation

2.1 In this Licence, words and phrases shall have the meaning ascribed to them in the Act or the Electricity Act. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the Licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this licence, where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens. Where the time for doing an act expires on a holiday, the act may be done on the next day that is not a holiday.

3 Authorization

3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this Licence to own and operate a transmission system consisting of the facilities described in Schedule 1 of this Licence, including all associated transmission equipment.

4 Obligation to Comply with Legislation, Regulations and Market Rules

4.1 The Licensee shall comply with all applicable provisions of the Act and the Electricity Act and regulations under these Acts, except where the Licensee has been exempted from such compliance by regulation.

4.2 The Licensee shall comply with all applicable Market Rules.

5 Obligation to Comply with Codes

5.1 The Licensee shall at all times comply with the following Codes (collectively the "Codes") approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the Licensee are set out in Schedule 2 of this Licence. The following Codes apply to this Licence:

a) the Affiliate Relationships Code for Electricity Distributors and Transmitters; and

b) the Transmission System Code.

5.2 The Licensee shall:

a) make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours; and

b) provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

6 Requirement to Enter into an Operating Agreement

6.1 The Licensee shall enter into an agreement ("Operating Agreement") with the IESO providing for the direction by the IESO of the operation of the Licensee's transmission system. Following a request made by the IESO, the Licensee and the IESO shall enter into an Operating Agreement within a period of 90 business days, unless extended with leave of the Board. The Operating Agreement shall be filed with the Board within ten (10) business days of its completion.

6.2 Where there is a dispute that cannot be resolved between the parties with respect to any of the terms and conditions of the Operating Agreement, the IESO or the Licensee may apply to the Board to determine the matter.

7 Obligation to Provide Non-discriminatory Access

7.1 The Licensee shall, upon the request of a consumer, generator, distributor or retailer, provide such consumer, generator, distributor or retailer, as the case may be, with access to the Licensee's transmission system and shall convey electricity on behalf of such consumer, generator, distributor or retailer in accordance with the terms of this Licence, the Transmission System Code and the Market Rules.

8 Obligation to Connect

8.1 If a request is made for connection to the Licensee's transmission system or for a change in the capacity of an existing connection, the Licensee shall respond to the request within 30 business days.

8.2 The Licensee shall process connection requests in accordance with published connection procedures and participate with the customer in the IESO's Connection Assessment and approval process in accordance with the Market Rules, its Rate Order(s) and the Transmission System Code.

8.3 An offer of connection shall be consistent with the terms of this Licence, the Market Rules, the Rate Order, and the Transmission System Code.

8.4 The terms of such offer to connect shall be fair and reasonable.

8.5 The Licensee shall not refuse to make an offer to connect unless it is permitted to do so by the Act or any Codes, standards or rules to which the Licensee is obligated to comply with as a condition of this Licence.

9 Obligation to Maintain System Integrity

9.1 The Licensee shall maintain its transmission system to the standards established in the Transmission System Code and Market Rules, and have regard to any other recognized industry operating or planning standards required by the Board.

10 Transmission Rates and Charges

10.1 The Licensee shall not charge for the connection of customers or the transmission of electricity except in accordance with the Licensee's Rate Order(s) as approved by the Board and the Transmission System Code

11 Separation of Business Activities

11.1 The Licensee shall keep financial records associated with transmitting electricity separate from its financial records associated with distributing electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board.

12 Expansion of Transmission System

12.1 The Licensee shall not construct, expand or reinforce an electricity transmission system or make an interconnection except in accordance with the Act and Regulations, the Transmission System Code and the Market Rules.

13 Provision of Information to the Board

13.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time.

13.2 Without limiting the generality of paragraph 13.1, the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) business days past the date upon which such change occurs.

14 Restrictions on Provision of Information

14.1 The Licensee shall not use information regarding a consumer, retailer, wholesaler or generator, obtained for one purpose for any other purpose without the written consent of the consumer, retailer, wholesaler or generator.

14.2 The Licensee shall not disclose information regarding a consumer, retailer, wholesaler or generator to any other party without the written consent of the consumer, retailer, wholesaler or generator, except where such information is required to be disclosed:

a) to comply with any legislative or regulatory requirements, including the conditions of this Licence;

b) for billing, settlement or market operations purposes;

c) for law enforcement purposes; or

d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator.

14.3 Information regarding consumers, retailers, wholesalers or generators may be disclosed where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified.

14.4 The Licensee shall inform consumers, retailers, wholesalers and generators of the conditions under which their information may be released to a third party without their consent.

14.5 If the Licensee discloses information under this section, the Licensee shall ensure that the information is not be used for any other purpose except the purpose for which it was disclosed.

15 Term of Licence

15.1 This Licence shall take effect on December 24, 2010 and expire on December 23, 2030. The term of this Licence may be extended by the Board.

16 Transfer of Licence

16.1 In accordance with subsection 18(2) of the Act, this Licence is not transferable or assignable without leave of the Board.

17 Amendment of Licence

17.1 The Board may amend this Licence in accordance with section 74 of the Act or section 38 of the Electricity Act.

18 Fees and Assessments

18.1 The Licensee shall pay all fees charged and amounts assessed by the Board.

19 Communication

19.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.

19.2 All official communication relating to this Licence shall be in writing.

19.3 All written communication is to be regarded as having been given by the sender and received by the addressee:

a) when delivered in person to the addressee by hand, by registered mail or by courier;

b) ten (10) business days after the date of posting if the communication is sent by regular mail; and

c) when received by facsimile transmission by the addressee, according to the sender=s transmission report.

20 Copies of the Licence

20.1 The Licensee shall:

a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and

b) provide a copy of this Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

SCHEDULE 1 SPECIFICATION OF TRANSMISSION FACILITIES

This Schedule specifies the facilities over which the Licensee is authorized to transmit electricity in accordance with paragraph 3 of this Licence.

1. A transformer station and connection to Hydro One Networks Inc. transmission lines Q23 and Q25 to supply electricity to the former Peninsula West Utilities Limited (now known as Niagara Peninsula Energy Inc.) and Grimsby service areas, located at 3021 Regional Road #12, Grassie, Ontario.

SCHEDULE 2 LIST OF CODE EXEMPTIONS

This Schedule specifies any specific Code requirements from which the licensee has been exempted.

Attachment 1.8.1

	2006	2007	2008	2009	2010	2011
YTD Deficit	958,311	1,060,633	875,752	778,355	624,582	688,417
Deficit	102,322	- 184,881	- 97,397	- 153,773	63,835	12,705
	1,060,633	875,752	778,355	624,582	688,417	701,122
Interest swap		521,767	521,767	521,767	521,767	1,298,958
	1,060,633	1,397,519	1,300,122	1,146,349	1,210,184	2,000,080
Share Capital	2,400,100					
YTD Deficit from Operations	- 701,122					
	1,698,978	849,489				
	1,000,000					
	- 849,489.00					
	150,511.00					

Attachment 1.8.5

Proforma Balance Sheet
On the amalgamation of Niagara West Transformation Corporation (NWTC)
and NIagara Power Inc. (NPI)
December 31, 2013

	NWTC	NPI	Related Transactions	Amalgamated
ASSETS				
Current assets				
Cash	226,209	390,163		616,372
Accounts Receivable	102,000			102,000
Loans Receivable from Related Parties		2,154,789		2,154,789
Income Taxes Recoverable				-
Prepaid Expenses	22,100	5,500		27,600
	350,309	2,550,452	-	2,900,761
Capital Assets	6,013,597			6,013,597
Long-Term Investment		9,107,644	(2,200,050)	6,907,594
TOTAL ASSETS	6,363,906	11,658,096	(2,200,050)	15,821,952
LIABILITIES				
Current Liabilities				
Accounts Payable and Accrued Charges	45,000	21,000		66,000
Unrealized loss on Fair Value of Interest Rate Swap Agreemer	1,174,487			1,174,487
Current Portion of Term Loan	265,000			265,000
	1,484,487	21,000	-	1,505,487
Long-Term Liabilities				
Term loan	4,346,000	-		4,346,000
	5,830,487	21,000	-	5,851,487
SHAREHOLDERS' EQUITY				
Share capital	2,400,100	9,087,417	(2,200,050)	9,287,467
Retained earnings (deficit)	(1,866,681)	2,549,679		682,998
	533,419	11,637,096	(2,200,050)	9,970,465
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	6,363,906	11,658,096	(2,200,050)	15,821,952

Attachment 1.9.1

NIAGARA POWER INCORPORATED

(the "Corporation")

RESOLUTIONS OF DIRECTORS

MOVED BY: Joe Panetta

SECONDED BY: Dave Wilson

Potential Sale of NWTC

RESOLVED that the Board of Directors authorizes the moving forward of the purchase of NWTC from PWPI.

DATED the 20th of December 2011

PENINSULA WEST POWER INC.
MEETING 12-01 MINUTES
March 21, 2012

The Peninsula West Power Inc. Board of Directors
met on Wednesday, March 21, 2012
at the Pelham Town Hall
Fonthill, Ontario

Present:

Chair	Mayor Dave Augustyn
Director	Mayor Bill Hodgson
Director	Mayor Doug Joyner
Director	Sue-Ellen Merritt
Director	John Nicol
Director	Dave Thompson
President and Secretary-Treasurer	Brian Walker

Guest: Peter Wicks, a Director of NWTC

1. Chair Augustyn called the meeting to order.

2. The Chair called for any conflicts of interest. None were declared.

3. **MEETING MINUTES**
   RESOLUTION NO.: 12-01
   Moved by: J. Nicol
   Seconded by: D. Joyner
   That the minutes of the November 29, 2011 meeting be approved as printed.
   Carried

4. **Business arising**
   None, not covered elsewhere

5. **Correspondence**
   ---letter from Niagara Peninsula Energy Inc. requesting Special Resolution
   ---Letter of Intent from Niagara Power Inc.

6. **RESOLUTION NO.: 12-02**
   Moved by: S. Merritt
   Seconded by: B. Hodgson
   That the correspondence from Niagara Peninsula Energy Inc. and from Niagara Power Inc. be received and acted upon by specific motions.
   Carried

7. President Report NO:01-12

The President highlighted the activities of the Services company and advised that he is monitoring the revenue and expenses of the sentinel light component, as the system is getting older.

RESOLUTION NO:12-03

Moved by: D. Thompson
Seconded by: J. Nicol
That President Report NO:01-12 be received as information.

Carried

8. Request for Increased Borrowing by Niagara Peninsula Energy Inc.

RESOLUTION NO:12-04

Moved by: B. Hodgson
Seconded by: D. Thompson
That, whereas Niagara Peninsula Energy Inc. is desirous of borrowing up to $10 million dollars in the year 2012, and,
Whereas under the terms of the Shareholders Agreement dated January 1, 2008, Article 5 – Approval of Certain Corporate Actions, section 5.2 – Special resolution by Shareholders, part(k) Borrowing of money in excess of $5 million dollars, Niagara Peninsula Energy Inc. requires a Special Resolution approved by its shareholders Niagara Falls Hydro Holding Corporation and Peninsula West Power Inc.,

Therefore, the Board of Directors of Peninsula West Power Inc. hereby approves the borrowing of money By Niagara Peninsula Energy Inc. in excess of $5 million dollars up to $10 million dollars in 2012.

Carried

9. Discussion of NWTC Operational Questions

The Chair invited Peter Wicks, a director of the Niagara West Transformation Corporation, to provide information on the connectivity issue faced by NWTC, especially in regards to wind energy. Mr. Wicks described the process and handed out an information sheet which is given to all prospective connectors. He also spoke about the IPC proposal to pay for required changes to the station. When asked about the comments made by IPC representatives at a public meeting in Smithville, he said he was surprised because the project has not received environmental approval and their proposal had only received approval in principle.
Mr. Wicks also explained that the connection of alternate energy sources would lead to a reduction in revenue for NWTC, because the two customers would require less energy. Energy conservation is also lowering the demand.
The Chair thanked Mr. Wicks for his input and he departed.

10. Intent to Sell Shares in Niagara West Transformation Corporation

In February of 2012, Chair Augustyn received from Niagara Power Inc. a revised Letter of Intent for the purchase of the shares held by Peninsula West Power Inc. in the Niagara West Transformation Corporation. The Letter of Intent removed the condition in the previous letter of October, 2011.

Chair Augustyn also received a Share Purchase Agreement.

The two documents were sent to our legal counsel, Jill Sexsmith, for her review. She sent back a series of corrections and changes to the documents. These were distributed to directors at the meeting.

The directors agreed with her comments and decided that the documents should be revised, signed, and sent to Niagara Power Inc.

RESOLUTION NO: 12-05

Moved by: B. Hodgson

Seconded by: J. Nicol

That, whereas Niagara Power Inc. has submitted a Letter of Intent regarding their purchase of the shares held by Peninsula West Power Inc. in the Niagara West Transformation Corporation, and,

Whereas our legal counsel has advised a clarification amendment,

Therefore the Directors of Peninsula West Power Inc. approve the amended Letter of Intent and authorize Chair Augustyn to sign said document.

Carried

RESOLUTION NO: 12-06

Moved by: D. Joyner

Seconded by: D. Thompson

That, whereas Niagara Power Inc. has submitted a Share Purchase Agreement regarding their purchase of the shares held by Peninsula West Power Inc. in the Niagara West Transformation Corporation, and,

Whereas our legal counsel has advised corrections and amendments,

Therefore the Directors of Peninsula West Power Inc. approve the amended Share Purchase Agreement and authorize Chair Dave Augustyn to forward the amended Share Purchase Agreement to Niagara Power Inc.for its approval and signing.

Carried

11. Adjournment

Moved By: J. Nicol

Seconded by: S. Merritt

That Meeting 12-01 be adjourned, with the next meeting being at the Chair's call.

Carried

Brian Walker

Secretary

Dave Augustyn

Chair

7MINUTES of a special meeting of the Shareholder of Niagara Power Incorporated held in the Grimsby Power Boardroom, 231 Roberts Road, Grimsby, Ontario on Thursday, January 26, 2012 at 6:05 p.m.

Present:	Bob Bentley
	David Wilson
	Dave Kadwell
	Joanne Johnston
	Nick DiFlavio
	David Finch
	Michelle Seaborne
	Carolyn Mullins
Invited Guests:	James Detenbeck
	Joe Panetta
	Shafee Bacchus
	Doug Curtiss
	Barbara Lattimer

Constitution of Meeting

The Chair noted that a quorum of the Shareholder was present and that notice of the meeting had been given in accordance with the by-laws of the Corporation.

Declaration of Conflicts of Interest

There were none.

Welcome

James Detenbeck, Chair of Niagara Power welcomed the Shareholder to the meeting and turned the meeting over to Joe Panetta as he was the individual at the forefront of the discussion and drove the dialogue on the tentative deal to purchase PWP's 50% share of NWTC.

Presentation

Joe Panetta provided a review of the station from its inception. The why's and how's around deciding to build the $8 million asset was provided as well as an overview of the financial status from 2007 to present and the issues that contributed to each years' bottom line. Also identified for the Shareholder was the rate increase granted by the OEB effective March 2011.

As information the Shareholder was provided a copy of a Proforma which recognized the positive aspect of placing the transformer asset inside of Grimsby Power.

Action: In order to compare the difference of not having the asset included, two proformas are to be distributed to the Shareholder as information.

The tentative deal details were discussed including the offer price of $1Million as well as having to assume PWP's debt of $2.4million.

Joe Panetta outlined the reasons why NPI should buy the asset and in turn place into GPI which included

- guaranteeing GPI's own future
- GPI as the LDC would be able to obtain approximately $220,000 for each of the next 4 years with placing the asset inside GPI.
- By having the transformer housed under GPI there is no risk to the LDC
- NPEI gave its guarantee that they would not build a new TS to "strand" the existing Smithville location
- should NPEI choose not to buy their power through the station, again no issue as the LDC's is "paid on the asset" on the rate of return allowed by the OEB- around the 9% just by holding the asset
- The corporation sells power and makes $, and if transforming also makes $ on that activity.
- LDC is paid on total assets, so by moving the asset into GPI the number would look like $24M versus $16M GPI.
- NWTC is a virtual company and needs professionals
- NWTC is currently managed under the NWTC Board of Directors – multiple persons/confusion
- GPI has the right professional people
- Good piece of paper business, proper shuffle makes $
- NWTC has losses which GPI can apply (losses cannot be used at NPI)
- Doing nothing is not an option as our partner PWP does not wish to participate - they are a holding company only and not a market participant
- Risks are the same for each owner - need rate application - in end no difference
- We pay ourselves versus paying someone else
- GPI would be raising profit which is what the Shareholder had previously made comment
- Economics make sense

The Shareholder was advised that the debt of the station is paid off in 2025. GPI would then save the interest payments of the loan estimated at $335,000 per year. It was noted that the rate of return will go down when interest is paid as that is part of the mathematical equation in determining the rate of return %. Other savings to moving the asset into the LDC are various cost savings on synergies. ie regulatory and board fees

The Shareholder was advised that discussion with Fortis as a possible partner has taken place and that Fortis would be allowed to invest 10% only. Final details on any financial transaction would have to be agreed to. Should Fortis decide they do not wish to participate, there are still options available to NPI/GPI.

The Shareholder was advised that NWTC is in compliance with the TD Bank's Tangible Net Worth Test and not in compliance with Debt Service Test. This is the explanation for the "offside"…not that NWTC couldn't pay their bills.

The Shareholder was advised that Niagara Power is looking for a resolution from the Shareholder. The Shareholder asked to go in camera to discuss. Upon completing their discussion, the following resolution was brought forward to a vote.

Moved by: Bob Bentley

Seconded by: David Wilson

RESOLVED that the municipal shareholder of Niagara Power Incorporated authorizes the Board of Directors of Niagara Power to purchase the shares currently held by Peninsula West Power Holdings in NWTC for $1,000.000. ($1Million) excluding closing costs.

Only opposed – Dave Kadwell.

Termination

On motion, the meeting then terminated at 9:00 p.m.

Chair