

CLINTON POWER CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2008

VODDEN, BENDER & SEEBACH LLP
Chartered Accountants

AUDITOR'S REPORT

To the Shareholder:

We have examined the balance sheet for Clinton Power Corporation as at December 31, 2008 and the statements of operations and retained earnings and of cash flow for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of Clinton Power Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants

Clinton, Ontario

July 10, 2009

CLINTON POWER CORPORATION

BALANCE SHEET

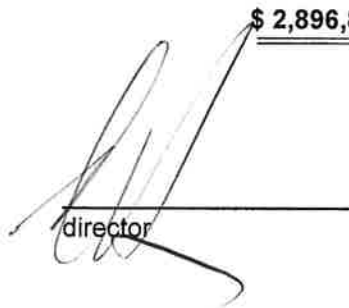
see accompanying notes to financial statements

As at December 31	2008	2007
ASSETS		
Current assets		
Cash	292,135	272,571
Accounts receivable	650,119	653,288
Accrued unbilled revenue	201,956	181,237
Due from Municipality of Central Huron	277,546	215,730
Inventories	80,277	55,642
Deferred charges	10,760	21,520
	<u>1,512,793</u>	<u>1,399,988</u>
Regulatory assets	note 3 200,913	257,922
Property, plant and equipment	note 4 1,183,125	<u>1,052,285</u>
	<u>\$ 2,896,831</u>	<u>\$ 2,710,195</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	714,452	497,358
Due to Municipality of Central Huron	634,356	392,097
Due to Clinton Hydro Electric Retail Affiliate Inc.	31,719	27,530
Hydro One regulatory assets payable	38,857	186,469
Note payable - Erie Thames Services	note 5 21,867	40,668
Notes payable - Municipality of Central Huron	note 6 770,958	770,958
Customer deposits	52,490	41,940
	<u>2,264,699</u>	<u>1,957,020</u>
Shareholder's equity		
Common shares	698,786	698,786
Retained earnings (deficit)	(66,654)	54,389
	<u>632,132</u>	<u>753,175</u>
	<u>\$ 2,896,831</u>	<u>\$ 2,710,195</u>

On behalf of the Board:



 director



 director

CLINTON POWER CORPORATION**STATEMENT OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)**

see accompanying notes to financial statements

For the year ended December 31	2008	2007
Service revenue	2,608,519	2,810,243
Energy cost	2,184,360	2,291,937
Distribution revenue	424,159	518,306
Other revenue		
Interest and late payment charges	41,009	44,546
Other rentals, materials and charges	19,781	17,684
	484,949	580,536
Expenditure		
Distribution system	147,758	123,165
Billing and collecting	118,521	108,369
Bad debt expense	42,455	31,286
Administration	62,822	82,582
Regulatory and professional	107,866	145,314
Building operation	5,235	34,078
Amortization of capital assets	59,186	56,026
Interest on long-term debt	42,920	47,061
Other interest	19,229	11,045
	605,992	638,926
Net earnings (loss) for year	(121,043)	(58,390)
Retained earnings beginning of year	\$ 54,389	\$ 112,779
Retained earnings (deficit) end of year	(\$ 66,654)	\$ 54,389

CLINTON POWER CORPORATION**STATEMENT OF CASH FLOW**

see accompanying notes to financial statements

For the year ended December 31	2008	2007
Operating activities		
Net earnings (loss) for year	(121,043)	(58,390)
Add: Amortization of capital assets	<u>59,186</u>	<u>56,026</u>
Working capital provided by (used for) operations	(61,857)	(2,364)
Cash provided by (used for) changes in working capital		
Accounts receivable	(58,647)	(295,353)
Unbilled revenue	(20,719)	377,063
Inventories	(24,635)	(14,224)
Prepaid expenses	-	4,200
Deferred charges	10,760	10,760
Regulatory amounts recoverable	57,009	209,212
Hydro One regulatory assets payable	(147,612)	(147,612)
Accounts payable	459,353	360,500
Consumer deposits	10,550	(8,154)
Due to Clinton Hydro Electric Retail Affiliate Inc.	4,189	(4,760)
Cash provided by (used for) operations	<u>228,391</u>	<u>489,268</u>
Investment activities		
Additions to capital assets	(190,026)	(82,831)
Cash used for investments	<u>(190,026)</u>	<u>(82,831)</u>
Financing activities		
Change in notes payable	(18,801)	(13,132)
Cash provided by financing	<u>(18,801)</u>	<u>(13,132)</u>
Increase (decrease) in cash	19,564	393,305
Net cash (bank overdraft) beginning of year	<u>272,571</u>	<u>(120,734)</u>
Net cash (bank overdraft) end of year	<u>\$ 292,135</u>	<u>\$ 272,571</u>
Supplementary cash flow information		
Interest paid	-	40,600
Payments in lieu of corporate taxes	-	-

CLINTON POWER CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2008

1. Business operations

The Clinton Power Corporation is a wholly owned subsidiary company of the Municipality of Central Huron providing electrical distribution services to inhabitants of the Town of Clinton as regulated by the Ontario Energy Board.

2. Significant accounting policies

The financial statements of the corporation are the representation of management prepared in accordance with Canadian generally accepted accounting principles including accounting principles prescribed by the Ontario Energy Board ("OEB") in the handbook "Accounting Procedures Handbook for Electric Distribution Utilities".

Inventories

Inventories are stated at lower of cost and net realizable value.

Regulatory assets

Costs incurred, but expected to be recovered from future revenues, are, by OEB regulatory authority, recorded as regulatory assets. Costs deferred are mainly those relating to variances between the cost of energy purchased, transmission and connection and energy sales. Disposition of these deferred charges will be determined by the OEB.

Capital assets

Capital assets are stated at cost less accumulated amortization. The cost is amortized on the straight line basis over the estimated useful lives of the assets as follows:

Distribution system	25-30 years
Trucks and equipment	10 years

Contributions to capital assets are included as a reduction to the cost of the related asset.

Revenue recognition

Service revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year.

Income taxes

As a wholly owned subsidiary company of the Municipality of Central Huron, the company is exempt from income taxes under the Income Tax Act (Canada). Under the Electricity Act (1998) (Ontario), the company is required to make payments in lieu of taxes to the Ontario Electricity Financial Corporation equivalent to taxes that would be payable if the company was a taxable corporation under the Income Tax Act (Canada). The corporation provides for payments in lieu of taxes using the taxes payable method as permitted by the OEB and CICA. Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers of the regulated business at that time.

Measurement of uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Due to these uncertainties, actual results might differ from those estimates. The impact will be reported in the period that the results become known.

3. Regulatory assets

Regulatory assets consist mainly of settlement variances between amounts charged by the Independent Market Operator for the operation of the wholesale electricity market and the supply and transmission of energy commodities and the amounts billed to customers based on the OEB approved rates.

4. Property, plant and equipment	Cost	Accumulated Amortization	Net Book Value	2007
Distribution stations	197,858	47,663	150,195	156,790
Overhead distribution lines	502,196	104,062	398,134	303,867
Underground distribution system	548,773	154,398	394,375	396,444
Distribution transformers	146,629	38,468	108,161	97,936
Distribution meters	137,720	29,578	108,142	68,237
Transportation equipment	28,565	10,053	18,512	23,791
Tools and equipment	<u>31,308</u>	<u>25,702</u>	<u>5,606</u>	<u>2,220</u>
	<u>1,593,049</u>	<u>409,924</u>	<u>1,183,125</u>	<u>1,052,285</u>

5. Note payable to Erie Thames Services Corporation

Under a contract in effect until December 2009, the Clinton Power Corporation has incurred costs for conversion to and operation of a software application system. Unless terminated, the balance as at December 31, 2008 will be payable in monthly payments of \$1,709 including interest at 5% maturing December 2009. The corporation also pays certain software operation costs of approximately \$8,500 per month. Of the conversion and operating costs 40% is recovered from other users.

6. Payments in lieu of taxes

Amortization of property, plant and equipment reported in the financial statements has exceeded that claimed for taxation purposes. The company incurred a loss for tax purposes which may be carried forward to deduct from taxable income of subsequent years. The net future income tax asset related to temporary differences, which would have been recognized using the liability method rather than the taxes payable method, is approximately \$11,900. No amount is included in the financial statements for future income taxes.

7. Notes payable to Municipality of Central Huron

698,786 issued November 2000 with no specified maturity date, bearing interest at the municipality's prime borrowing rate.

72,172 demand note issued February 2006, bearing interest at the annually averaged prime rate, as consideration for contributions in 2003 for distribution system line construction.

8. Related party transactions

The Municipality of Central Huron supplies management, labour and certain facilities for the operation of Clinton Power Corporation power distribution business on a cost recovery basis.

9. Financial instruments and Credit risk

Financial instruments

Management estimates that the fair values of all financial assets and liabilities are not materially different from their carrying values.

Credit risk

Credit risk is the risk that a counter party will fail to discharge its obligation to the company reducing the expected cash inflow from the company assets recorded at the balance sheet date. The company has assessed that there are no significant concentrations of credit risk other than the present uncertainty relating to collection of regulatory amounts recoverable which are subject to regulatory approval and disposition.

10. Credit arrangement

The Clinton Power Corporation has approved a \$189,900 line of credit through its banker in favour of the Independent Electricity System Operator.

11. Subsequent events

The shareholder of the corporation has signed an agreement to sell its shares the consideration for which would be shares of the purchasing corporation.

12. Adjustments re: prior periods

The current years reported service revenue includes a write down of \$45,993 in regulatory assets to the amount approved for recovery by the Ontario Energy Board. Expenditures include an adjustment for costs of property, plant and equipment previously included in expenditure. The net effect on total assets, shareholder's equity and net income (loss) for the year is not material.