

West Perth Power Inc.

Financial Statements

For the year ended December 31, 2008

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BDO Dunwoody LLP
Chartered Accountants
and Advisors

380 Hibernia Street
Stratford Ontario Canada N5A 5W3
Telephone: (519) 271-2491
Fax: (519) 271-4013
www.bdo.ca

Auditors' Report

To the Shareholder of West Perth Power Inc.

We have audited the balance sheet of West Perth Power Inc. as at December 31, 2008 and the statements of (loss) income and other comprehensive (loss) income, equity (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

BDO Dunwoody LLP

Chartered Accountants, Licensed Public Accountants

Stratford, Ontario
June 18, 2009

**West Perth Power Inc.
Balance Sheet**

<u>December 31</u>	<u>2008</u>	<u>2007</u>
Assets		
Current		
Cash and bank	\$ 1,474,968	\$ 1,019,300
Investments (Note 1)	10,978	21,504
Accounts receivable	346,032	607,151
Inventory	5,620	5,992
Unbilled revenue	574,477	652,678
Prepaid expenses	13,167	19,591
	<u>2,425,242</u>	<u>2,326,216</u>
Capital assets (Note 2)	<u>1,712,444</u>	<u>1,717,202</u>
	<u>\$ 4,137,686</u>	<u>\$ 4,043,418</u>
Liabilities and Shareholder's Equity		
Current		
Accounts payable and accruals	\$ 877,238	\$ 877,095
Demand note payable (Note 5)	1,183,391	1,183,391
Customer deposits	67,227	81,634
	<u>2,127,856</u>	<u>2,142,120</u>
Regulatory liabilities (Note 3)	<u>199,271</u>	<u>16,506</u>
	<u>2,327,127</u>	<u>2,158,626</u>
Shareholder's equity		
Share capital (Note 6)	2,118,274	2,118,274
Deficit	(318,693)	(254,986)
Accumulated other comprehensive income (AOCI)	10,978	21,504
	<u>1,810,559</u>	<u>1,884,792</u>
	<u>\$ 4,137,686</u>	<u>\$ 4,043,418</u>

**West Perth Power Inc.
Statement of Equity (Deficit)**

For the year ended December 31	Deficit	AOCI	2008	2007
Balance , beginning of year	\$ (254,986)	\$ 21,504	\$ (233,482)	\$ (270,956)
Change in accounting policy (Note 11)	-	-	-	19,038
	(254,986)	21,504	(233,482)	(251,918)
Net (loss) income	(63,707)	-	(63,707)	55,970
Other comprehensive (loss) income	-	(10,526)	(10,526)	2,466
Dividends	-	-	-	(40,000)
Balance , end of year	\$ (318,693)	\$ 10,978	\$ (307,715)	\$ (233,482)

West Perth Power Inc.
Statement of (Loss) Income and
Other Comprehensive (Loss) Income

For the year ended December 31	2008	2007
Revenue		
Distribution revenue	\$ 736,511	\$ 737,724
Interest	56,650	54,928
Rentals	15,385	12,898
Miscellaneous	50,049	72,052
	<u>858,595</u>	<u>877,602</u>
Expenses		
Amortization	185,168	195,751
Billing, data processing and collection	196,898	155,556
Bad debts	10,940	20,798
General administration	71,001	51,220
Operating and maintenance	372,291	312,303
	<u>836,298</u>	<u>735,628</u>
Income before interest expense	22,297	141,974
Interest expense	86,004	86,004
Net (loss) income for the year	(63,707)	55,970
Other comprehensive (loss) income		
Change in unrealized (loss) gain on investments classified as available for sale	<u>(10,526)</u>	<u>2,466</u>
Comprehensive (loss) income	\$ (74,233)	\$ 58,436

**West Perth Power Inc.
Statement of Cash Flows**

For the year ended December 31	2008	2007
Cash flows from operating activities		
Net (loss) income for the year	\$ (63,707)	\$ 55,970
Adjustments for:		
Amortization	<u>185,168</u>	<u>195,751</u>
	121,461	251,721
 Changes in non-cash working capital balances		
Accounts receivable	261,119	(134,219)
Inventory	372	907
Unbilled revenue	78,201	(101,863)
Prepaid expenses	6,424	(9,210)
Accounts payable and accruals	144	156,252
Customer deposits	<u>(14,407)</u>	<u>15,713</u>
	453,314	179,301
 Cash flows from investing activities		
Purchase of capital assets	(180,411)	(118,966)
Decrease (increase) in regulatory assets/liabilities	<u>182,765</u>	<u>372,581</u>
	2,354	253,615
 Cash flows from financing activities		
Dividends	<u>-</u>	<u>(40,000)</u>
 Increase in cash and cash equivalents for the year	455,668	392,916
 Cash and cash equivalents, beginning of year	<u>1,019,300</u>	<u>626,384</u>
 Cash and cash equivalents, end of year	<u>\$ 1,474,968</u>	<u>\$ 1,019,300</u>

West Perth Power Inc.
Summary of Significant Accounting Policies

December 31, 2008

Nature of Business	West Perth Power Inc. was incorporated under the Business Corporations Act (Ontario) pursuant to Section 142 of the Electricity Act 1998 on January 21, 2000, and is wholly owned by the Corporation of the Municipality of West Perth. The principal businesses of West Perth Power Inc. are the transmission and distribution of electricity to customers within Ontario. These businesses are regulated by the Ontario Energy Board (OEB).
Rate Setting	<p>The rates of the Company's electricity transmission and distribution businesses are subject to regulation by the OEB. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing gives rise to the recognition of regulatory assets. The Company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. Specific regulatory assets and liabilities are disclosed in Note 3.</p> <p>The company continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe it is probable that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If, at some future date, the company judges that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be reflected in results of operations in the period that the assessment is made.</p>

West Perth Power Inc.
Summary of Significant Accounting Policies

December 31, 2008

Inventory Effective January 1, 2008, the company adopted CICA Handbook Section 3031 - Inventories, which is based on the International Accounting Standards Board's International Accounting Standard 2 and replaced existing CICA Handbook Section 3030. Under this new standard, inventories are required to be measured at the lower of cost and net realizable value. Any items considered to be major future components of property, plant and equipment are to be transferred to property, plant and equipment. The new standard also provides updated guidance on the appropriate methods of determining cost and the impact of any write-downs of net realizable value. The implementation of this standard resulted in transferring certain inventory items such as poles and wire into property, plant and equipment. The implementation of this standard did not have any impact on the company's statement of income.

Inventory is valued at the lower of cost and net realizable value. Cost is based upon the FIFO basis.

Investments Investments are recorded at fair value.

Capital Assets Capital assets are recorded in the accounts on a fully allocated cost basis and are amortized on the straight-line basis at varying rates estimated to write off the cost of each asset over its useful life. The rates are as follows:

<u>Life in Estimated Years</u>	
Transmission - underground	25
Distribution lines - overhead	25
Distribution lines - underground	25
Transformers	25
Meters	25
Transportation equipment	4
Miscellaneous assets	10
Computer equipment	5

Amounts received in aid of construction are deducted from the cost of the related capital assets. The Corporation retains ownership of the related assets.

West Perth Power Inc.
Summary of Significant Accounting Policies

December 31, 2008

Revenue Recognition	<p>Transmission revenues are collected through OEB approved rates, which are based on an approved revenue requirement that includes a rate of return. Such revenue is recognized as power is transmitted and delivered to customers. Distribution revenues attributable to the delivery of electricity are based on OEB approved distribution tariff rates and are recognized as electricity is delivered to customers.</p> <p>Billings from the last meter reading date are adjusted based on a number of historical factors to reflect estimated usage to the year-end date. These estimates are reflected on the statement of financial position as unbilled revenue. Unbilled revenue is the amount of electricity that has been used by customers, but not billed, by the end of the year.</p> <p>Distribution revenue also includes an amount relating to rate protection for rural residential and remote customers, which is received from the Independent Electricity System Operator (IESO) based on a standardized customer rate that is approved by the OEB. The current legislation provides rate protection for prescribed classes of rural residential and remote customers by reducing the electricity rates that would otherwise apply.</p>
Corporate Income Taxes	<p>Accounting for payments in lieu of corporate income taxes is on a taxes payable basis as disclosed in Note 4.</p>
Power Purchases	<p>The power bill received from the Independent Electricity System Operator is recorded in the period to which it refers and not in the period in which it is received.</p>
Financial Instruments	<p>The company's financial instruments include cash, accounts receivable, unbilled revenue, accounts payable and accruals, demand note payable and customer deposits. Due to their nature or capacity for prompt liquidation, the fair values of these financial instruments approximate their carrying value. It is management's opinion that the company is not exposed to significant interest rate, currency or credit risks arising from these financial instruments.</p> <p>Disclosure related to other financial instruments is found in note 1 - Investments.</p>

West Perth Power Inc.
Summary of Significant Accounting Policies

December 31, 2008

Use of Estimates	<p>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.</p>
New Accounting Pronouncements	<p>Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the company, are as follows:</p> <p>International financial reporting standards</p> <p>The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the company's financial statements has yet to be determined.</p>

West Perth Power Inc.
Notes to Financial Statements

December 31, 2008

3. Regulatory Liabilities

Regulatory assets and liabilities arise as a result of the rate-setting process. West Perth Power Inc. has recorded the following assets and liabilities.

	<u>2008</u>	<u>2007</u>
Retail settlement variance accounts	\$ (446,191)	\$ (208,172)
Asset recovered through rates	(16,488)	43,761
Other	<u>263,408</u>	<u>147,905</u>
	<u>\$ (199,271)</u>	<u>\$ (16,506)</u>

Retail settlement variance accounts are included in allowed rates on a forecast basis. For rate-setting purposes, differences between forecast and actual purchased power and retail settlement costs in the rate year are held until the following year, when their final disposition is decided. West Perth Power Inc. recognizes retail settlement variances as a regulatory asset, based on the expectation that amounts held from one year to the next for rate-setting purposes will be approved for collection from, or refund to, future customers. In the absence of rate regulation, Canadian generally accepted accounting principles would require that actual purchased power costs be recognized as an expense when incurred. In this case, operating results for 2008 would have been \$182,765 higher (2007 - \$372,581 higher).

For the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to ultimate authority of the regulator in determining the item's treatment for rate-setting purposes. For example, West Perth Power Inc.'s treatment of retail settlement variance accounts is dependent on the continued use of an automatic adjustment mechanism for regulatory purposes, and would require reconsideration if the regulator decided to discontinue the use of this mechanism or require the Company to absorb cost variances in a particular year.

West Perth Power Inc.
Notes to Financial Statements

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4. Corporate Income and Capital Taxes

Under the *Electricity Act 1998*, West Perth Power Inc. is required to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation (OEFC). 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.

The company follows the asset/liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. As well, future income tax assets that are likely to be realized and future income tax liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities.

Future tax amounts are measured at enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

The company has losses carried forward for tax purposes of \$119,634, which will expire in 2015.

5. Demand Note Payable

The Corporation issued a promissory note to its sole shareholder the Corporation of Municipality of West Perth on January 1, 2002 in the amount of \$1,183,391. This note bears an interest rate of 7.25% and is payable on demand.

Interest paid on the note during the year amounted to \$86,004 (2007 - \$86,004).

6. Share Capital

Authorized

Unlimited number of common shares

Issued

	<u>2008</u>	<u>2007</u>
550 Common shares	<u>\$ 2,118,274</u>	<u>\$ 2,118,274</u>

West Perth Power Inc.
Notes to Financial Statements

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7. Reciprocal Insurance Exchange

West Perth Power Inc. is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). The exchange is a separate entity managed directly by the Electricity Distributors Association (EDA).

The members' share in both the payment of claims and the operational costs associated with the exchange. The maximum limit of liability of the Exchange will be twenty million dollars per incident and is not to exceed 1/2 of 1% of the total annual revenue of the members.

8. Commitment - Prudential Support

As a purchaser of electricity through the Independent Electricity Market Operator (IMO), West Perth Power Inc. is required to provide security to minimize the risk of default, based on its expected activity in the market. The IMO may draw on this security if the Corporation fails to make a payment required by a default notice issued by the IMO. In October 2006, to satisfy this requirement, the Corporation provided the IMO with a letter of credit in the amount of \$382,227. This prudential support continued to be held by the IMO at December 31, 2008.

9. Related Party Transactions

West Perth Power Inc. is related to the following entities:

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

The company, through the regular course of its operations, supplies power to its parent the Corporation of the Municipality of West Perth at the company's standard rates.

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

	<u>2008</u>	<u>2007</u>
Corporation of the Municipality of West Perth	<u>\$ 1,434,865</u>	<u>\$ 1,429,926</u>

These balances are interest free and payable on demand, except for the amount disclosed in note 5, which is included in these balances.

West Perth Power Inc. Notes to Financial Statements

December 31, 2008

10. Commitments

West Perth Power Inc. has entered into contractual agreements for the provision of billing and management services. These commitments are as follows:

Billing services

2009	\$	88,354
2010		88,354
2011		<u>88,354</u>
	\$	<u>265,062</u>

The above amounts can be adjusted to reflect additional billing services provided to West Perth Power Inc. and a reasonable annual increase.

11. Change in Accounting Policy

In April 2005, the Accounting Standards Board issued new Handbook standards on financial instruments, Section 3855 and Section 3861. Section 3855 Financial Instruments - Recognition and Measurement addresses when financial instruments should be recognized and how they should be measured. Section 3861 Financial Instruments - Disclosure and Presentation provides standards for how financial instruments should be classified on financial statements and the disclosure requirements. The company adopted both of the standards for the fiscal year ended December 31, 2007. As a result of adopting these new standards, the company recorded a non-cash credit of \$19,038 to accumulated other comprehensive income for the change in accounting for financial assets classified as available for sale and measured at fair value rather than cost at the commencement of the 2007 fiscal year.

12. Pension Agreements

West Perth Power Inc. contributes to the Ontario Municipal Employees Retirement System (O.M.E.R.S.) which is a multi-employer plan, on behalf of 6 members of its staff. The plan is a defined benefit plan which specifies the amount of retirement benefit to be received by the employees based on their length of service and rates of pay.

The contribution for current services for the year ended December 31, 2008 was \$21,972 (2007 - \$17,970). This amount is included as an expenditure on the statement of operations.

West Perth Power Inc. Notes to Financial Statements

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13. Capital Disclosures

The company's main objectives when managing capital are to:

- a) Ensure ongoing access to funding to maintain and improve the electricity distribution system of West Perth Power Inc. and to meet capital needs as they arise; and
- b) Ensure compliance with covenants related to its credit facilities.

As at December 31, 2008, the company's definition of capital includes shareholders' equity \$1,810,559 (2007 - \$1,884,792) and the demand note payable \$1,183,391 (2007 - \$1,183,391). There have been no changes in the company's approach to capital management during the year.

The company's covenants require the current ratio to be greater than 0.8:1 and the debt to equity ratio to be less than 0.5:1. At December 31, 2008, the company is in compliance with these covenants.

14. Contingent Liabilities

An action has been brought under the Class Proceedings Act, 1992. The plaintiff class seeks \$500 million in restitution for amount paid to Toronto Hydro and to other Ontario local distribution companies ("LDCs") who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to section 347 of the Criminal Code. Pleadings have closed in this action. The action has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceedings brought against Enbridge Gas Distribution. The Electricity Distributors Association is undertaking the defence of this class action.

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 the Enbridge Gas, although the Court did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of damages payable by Enbridge.

After the release by the Supreme Court of Canada of its 2004 decision in the Enbridge Gas case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs. To date, no formal steps have been taken to move the action forward. The electric utilities intend to respond to the action if and when it proceeds on the basis that the LDCs' situation may be distinguishable from that of Enbridge Gas.

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

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15. Merger with EARTH Corporation

On March 6, 2008, The Municipality of West Perth signed a term sheet with EARTH Corporation (formerly Erie Thames Power Corporation). This term sheet proposes that EARTH Corporation would acquire all of the issued and outstanding shares of West Perth Power Inc. from The Municipality of West Perth in exchange for shares of EARTH Corporation.

16. Comparative Information

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