

CLINTON POWER CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2002

VODDEN, BENDER & SEEBACH
Chartered Accountants

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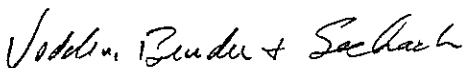
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AUDITOR'S REPORT

We have audited the balance sheet for the Clinton Power Corporation as at December 31, 2002 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 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 Clinton Power Corporation as at December 31, 2002 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Clinton, Ontario

March 12, 2003

CLINTON POWER CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2002

1. Significant accounting policies

The financial statements of the Clinton Power Corporation are the representation of management prepared in accordance with 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 cost.

Deferred charges

Costs incurred, but expected to be recovered from future revenues, are, by OEB regulatory authority, recorded as deferred assets. Costs deferred are those relating to the transition to a competitive electricity market as mandated by the Electricity Act, 1998, and variances between the cost of energy purchased 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

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

Since the corporation is 100% municipally owned, it is not taxable under paragraph 149(1)(d.5) of the Income Tax Act. Under the Electricity Act, 1998, the corporation is required to make payments in lieu of taxes to the Ontario Electricity Financial Corporation equivalent to federal and provincial income taxes calculated in accordance with the Income Tax Act (Canada) and Corporations Tax Act (Ontario).

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.

2. Deferred charges

In compliance with OEB regulations, transition costs required to prepare for the competitive electricity market and the retail service and settlement variances are deferred. Recovery through future rate application procedures is dependent on ultimate OEB authorization. At present, the recovery and timing are uncertain. In the period in which an OEB order is made, deferred costs not authorized for inclusion in future rates will be included in operating expenses.

3. Capital assets

	Cost	Accumulated Amortization	Net Book Value
Distribution stations	150,791	10,890	139,901
Overhead distribution lines	268,539	22,850	245,689
Underground distribution system	446,930	37,680	409,250
Distribution transformers	116,851	9,637	107,214
Distribution meters	82,474	7,037	75,437
Transportation equipment	2,169	939	1,230
Tools and equipment	<u>32,761</u>	<u>9,655</u>	<u>23,106</u>
	<u>1,100,515</u>	<u>98,688</u>	<u>1,001,827</u>

4. Note payable - Municipality of Central Huron

The note payable to the municipality, the sole shareholder of Clinton Power Corporation, has no specified maturity date and bears interest at the municipality's prime borrowing rate.

5. Lease commitment

The Clinton Power Corporation has contracted for use of computer software until August 2006. Lease costs are approximately \$6,200. per month of which 40% is recovered from other users.

CLINTON POWER CORPORATION

STATEMENT OF CASH FLOW

See Notes to Financial Statements

For the year ended December 31	2002	2001
Operating activities		
Net earnings for year	899	66,408
Add: Amortization of capital assets	<u>47,842</u>	<u>44,636</u>
Working capital provided by (used for) operations	48,741	111,044
Cash provided by (used for) changes in working capital		
Accounts receivable	165,690	(183,227)
Unbilled revenue	(216,700)	(29,100)
Inventories	9,047	(9,410)
Prepaid expenses	2,905	1,701
Deferred charges	(93,620)	(48,563)
Accounts payable	16,748	(67,078)
Consumer deposits	5,418	(251)
Due to Clinton Hydro Electric Retail Affiliate Inc.	(3,439)	1,863
Cash provided by (used for) operations	<u>(65,210)</u>	<u>(223,021)</u>
Investment activities		
Additions to capital assets	(25,192)	(49,470)
Cash used for investments	<u>(25,192)</u>	<u>(49,470)</u>
Increase (decrease) in cash	(90,402)	(272,491)
Cash and cash equivalents beginning of year	<u>146,872</u>	<u>419,363</u>
Cash and cash equivalents end of year	<u>\$ 56,470</u>	<u>\$ 146,872</u>

CLINTON POWER CORPORATION

BALANCE SHEET

See Notes to Financial Statements

As at December 31	2002	2001
ASSETS		
Current assets		
Cash	56,470	146,872
Accounts receivable	237,485	403,175
Unbilled revenue	391,700	175,000
Inventories	32,415	41,462
Prepaid expenses	3,245	6,150
	<u>721,315</u>	<u>772,659</u>
Other assets and deferred charges (note 2)		
Deferred transition costs	108,362	48,563
Retail service and settlement variances	45,346	-
	<u>153,708</u>	<u>48,563</u>
Capital assets (note 3)		
Distribution system	977,491	994,919
Trucks and equipment	24,336	29,558
	<u>1,001,827</u>	<u>1,024,477</u>
	<u>\$ 1,876,850</u>	<u>\$ 1,845,699</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable	268,160	248,649
Due to Municipality of Central Huron	98,410	101,173
Due to Clinton Hydro Electric Retail Affiliate Inc.	23,550	26,989
	<u>390,120</u>	<u>376,811</u>
Other liabilities		
Consumers deposits	45,200	39,782
Provision for non-recoverable regulatory amounts	11,525	-
Note payable - Municipality of Central Huron (note 4)	698,786	698,786
	<u>755,511</u>	<u>738,568</u>
Shareholder's equity		
Common shares (1,000 issued)	698,786	698,786
Retained earnings	32,433	31,534
	<u>731,219</u>	<u>730,320</u>
	<u>\$ 1,876,850</u>	<u>\$ 1,845,699</u>

CLINTON POWER CORPORATION**STATEMENT OF OPERATIONS AND RETAINED EARNINGS**

See Notes to Financial Statements

For the year ended December 31	2002	2001
Revenue		
Energy sales and distribution	2,327,613	2,479,520
Unbilled revenue adjustment	216,700	29,100
	<u>2,544,313</u>	<u>2,508,620</u>
Interest and late payment charges	42,695	27,074
Other rentals, materials and charges	10,145	19,145
Settlement of OPGI lawsuit	-	9,237
	<u>2,597,153</u>	<u>2,564,076</u>
Expenditure		
Energy cost	2,187,004	2,153,595
Distribution	109,660	94,425
Billing and collecting	69,306	66,848
Administration	138,339	88,141
Building operation	16,108	15,714
Amortization of capital assets	46,139	44,006
Interest on long-term debt	29,698	34,939
	<u>2,596,254</u>	<u>2,497,668</u>
Net earnings for year	899	66,408
Retained earnings (deficit) beginning of year	<u>\$ 31,534</u>	<u>(\$ 34,874)</u>
Retained earnings end of year	<u><u>\$ 32,433</u></u>	<u><u>\$ 31,534</u></u>