

CLINTON POWER CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2004

VODDEN, BENDER & SEEBACH LLP
Chartered Accountants

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AUDITOR'S REPORT

To the Shareholder:

We have examined the balance sheet for Clinton Power Corporation as at December 31, 2004 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Vodden, Bender & Seebach LLP

Chartered Accountants
Clinton, Ontario
May 25, 2005

CLINTON POWER CORPORATION**BALANCE SHEET**

see accompanying notes to financial statements

As at December 31		2004	2003
ASSETS			
Current assets			
Cash		408,002	391,682
Accounts receivable		166,173	154,447
Accrued unbilled revenue		414,940	361,400
Inventories		36,250	33,310
		1,025,365	940,839
Regulatory amounts recoverable	(note 3)	36,525	124,290
Capital assets			
	(note 4)		
Distribution system		938,862	932,594
Trucks and equipment		14,666	19,114
		953,528	951,708
		\$ 2,015,418	\$ 2,016,837
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Accounts payable and accrued liabilities			
Due to Independent Electricity Market Operator		242,778	190,143
Other		36,780	43,615
Due to Municipality of Central Huron			
Water and sewer rate billings		96,006	207,828
Other		58,177	23,720
Due to Clinton Hydro Electric Retail Affiliate Inc.		26,881	25,642
Deferred regulatory payment in lieu variance		31,210	26,239
		491,832	517,187
Other liabilities			
Consumers deposits		46,671	43,523
Note payable - Municipality of Central Huron	(note 5)	698,786	698,786
		745,457	742,309
Shareholder's equity			
Common shares		698,786	698,786
Retained earnings		79,343	58,555
		778,129	757,341
		\$ 2,015,418	\$ 2,016,837

On behalf of the Board:

director_____
director

CLINTON POWER CORPORATION

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

see accompanying notes to financial statements

For the year ended December 31	2004	2003
Service revenue	2,477,498	2,285,889
Energy cost	2,032,608	1,838,942
Distribution revenue	444,890	446,947
Other revenue		
Interest and late payment charges	34,524	26,143
Other rentals, materials and charges	8,885	11,020
	<u>488,299</u>	<u>484,110</u>
Expenditure		
Distribution system	131,532	153,122
Billing and collecting	76,295	77,337
Administration	111,652	99,446
Outside services	57,838	35,172
Building operation	13,849	13,399
Amortization of capital assets	48,394	46,756
Interest on long-term debt	27,951	32,756
	<u>467,511</u>	<u>457,988</u>
Net earnings for year	20,788	26,122
Retained earnings beginning of year	\$ 58,555	\$ 32,433
Retained earnings end of year	<u>\$ 79,343</u>	<u>\$ 58,555</u>

CLINTON POWER CORPORATION**STATEMENT OF CASH FLOW**

see accompanying notes to financial statements

For the year ended December 31	2004	2003
Operating activities		
Net earnings for year	20,788	26,122
Add: Amortization of capital assets	48,394	48,459
Working capital provided by (used for) operations	69,182	74,581
Cash provided by (used for) changes in working capital		
Accounts receivable	(11,726)	71,513
Unbilled revenue	(53,540)	30,300
Inventories	(2,940)	(895)
Prepaid expenses	-	3,245
Regulatory amounts recoverable	87,765	29,418
Accounts payable	(31,565)	98,736
Consumer deposits	3,148	(1,677)
Due to Clinton Hydro Electric Retail Affiliate Inc.	1,239	2,092
Payments in lieu variance	4,971	26,239
Cash provided by (used for) operations	66,534	333,552
Investment activities		
Additions to capital assets	(50,214)	(70,512)
Cash used for investments	(50,214)	(70,512)
Financing activities		
Contributed capital	-	72,172
Cash provided by financing	-	72,172
Increase (decrease) in cash	16,320	335,212
Cash and cash equivalents beginning of year	391,682	56,470
Cash and cash equivalents end of year	\$ 408,002	\$ 391,682
Supplementary cash flow information		
Interest paid	-	64,637
Income taxes paid	-	-

CLINTON POWER CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

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 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 amounts recoverable

Costs incurred, but expected to be recovered from future revenues, are, by OEB regulatory authority, recorded as regulatory amounts recoverable. 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

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 amounts recoverable

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.

Retail service and settlement variances comprise 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 by the company based on the Ontario Energy Board approved rates. Ontario Energy Board policy indicates that such variances will be recovered in future rates.

4. Capital assets	Cost	Accumulated Amortization	Net Book Value	2003
Distribution stations	171,165	21,282	149,883	134,875
Overhead distribution lines	264,341	44,057	220,284	230,559
Underground distribution system	452,501	73,659	378,842	391,372
Distribution transformers	132,185	19,598	112,587	102,540
Distribution meters	91,276	14,010	77,266	73,248
Transportation equipment	2,169	1,807	362	796
Tools and equipment	<u>33,729</u>	<u>19,425</u>	<u>14,304</u>	<u>18,318</u>
	<u>1,147,366</u>	<u>193,838</u>	<u>953,528</u>	<u>951,708</u>

The Municipality of Central Huron has contributed \$72,172. to the cost of distribution system line construction. That amount has been deducted from the cost of the related capital assets.

5. Due to Municipality of Central Huron

The note payable to the municipality, the sole shareholder of Clinton Power Corporation, issued November 2000 has no specified maturity date and bears interest at the municipality's prime borrowing rate.

6. 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.

7. 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.

8. Credit arrangement

Electricity for resale and certain administrative and customer billing services are purchased from EnWin Utilities. The Clinton Power Corporation has approved a \$500,000. line of credit through its banker in favour of EnWin Utilities.