

CLINTON POWER CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2005

VODDEN, BENDER & SEEBACH LLP
Chartered Accountants

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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, 2005 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, 2005 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

April 21, 2006

CLINTON POWER CORPORATION

BALANCE SHEET

see accompanying notes to financial statements

As at December 31	2005	2004
ASSETS		
Current assets		
Cash	561,573	408,002
Accounts receivable	74,589	166,173
Accrued unbilled revenue	396,120	414,940
Inventories	33,210	36,250
	<u>1,065,492</u>	<u>1,025,365</u>
Regulatory assets note 3	<u>50,566</u>	<u>36,525</u>
Capital assets note 4		
Distribution system	990,332	938,862
Trucks and equipment	9,694	14,666
	<u>1,000,026</u>	<u>953,528</u>
	<u>\$ 2,116,084</u>	<u>\$ 2,015,418</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities		
Electricity	263,758	242,778
Other	42,138	36,780
Due to Municipality of Central Huron		
Water and sewer rate billings	91,736	96,006
Other	16,780	58,177
Due to Clinton Hydro Electric Retail Affiliate Inc.	30,331	26,881
Deferred credits note 5	50,764	31,210
Notes payable - Municipality of Central Huron note 7	770,958	698,786
	<u>1,266,465</u>	<u>1,190,618</u>
Other liabilities		
Consumers deposits	<u>47,079</u>	<u>46,671</u>
Shareholder's equity		
Common shares	698,786	698,786
Retained earnings	103,754	79,343
	<u>802,540</u>	<u>778,129</u>
	<u>\$ 2,116,084</u>	<u>\$ 2,015,418</u>

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	2005	2004
Service revenue	2,541,274	2,477,498
Energy cost	2,097,774	<u>2,032,608</u>
Distribution revenue	443,500	444,890
Other revenue		
Interest and late payment charges	31,442	34,524
Other rentals, materials and charges	11,971	<u>8,885</u>
	486,913	<u>488,299</u>
Expenditure		
Distribution system	125,593	131,532
Billing and collecting	75,692	76,295
Administration	110,776	111,652
Outside services	50,667	57,838
Building operation	16,835	13,849
Amortization of capital assets	52,053	48,394
Interest on long-term debt	30,886	<u>27,951</u>
	462,502	<u>467,511</u>
Net earnings for year	24,411	20,788
Retained earnings beginning of year	\$ 79,343	<u>\$ 58,555</u>
Retained earnings end of year	<u>\$ 103,754</u>	<u>\$ 79,343</u>

CLINTON POWER CORPORATION**STATEMENT OF CASH FLOW**

see accompanying notes to financial statements

For the year ended December 31	2005	2004
Operating activities		
Net earnings for year	24,411	20,788
Add: Amortization of capital assets	52,053	48,394
Working capital provided by (used for) operations	76,464	69,182
Cash provided by (used for) changes in working capital		
Accounts receivable	91,584	(11,726)
Unbilled revenue	18,820	(53,540)
Inventories	3,040	(2,940)
Regulatory amounts recoverable	(14,041)	87,765
Accounts payable	(19,329)	(31,565)
Consumer deposits	408	3,148
Due to Clinton Hydro Electric Retail Affiliate Inc.	3,450	1,239
Payments in lieu variance	19,554	4,971
Cash provided by (used for) operations	179,950	66,534
Investment activities		
Additions to capital assets	(26,379)	(50,214)
Cash used for investments	(26,379)	(50,214)
Increase (decrease) in cash	153,571	16,320
Cash and cash equivalents beginning of year	408,002	391,682
Cash and cash equivalents end of year	\$ 561,573	\$ 408,002
Supplementary cash flow information		
Interest paid	69,507	-
Payments in lieu of corporate taxes	-	-

CLINTON POWER CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2005

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 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 assets

In compliance with OEB regulations, transition costs required to prepare for the competitive electricity market and the retail service and settlement variances are deferred until their recovery through rates is authorized by OEB. 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.

Settlement variances included in regulatory assets 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 OEB approved rates.

4. Capital assets	Cost	Accumulated Amortization	Net Book Value	2004
Distribution stations	197,858	27,878	169,980	149,883
Overhead distribution lines	339,164	57,623	281,541	220,284
Underground distribution system	453,047	91,782	361,265	378,842
Distribution transformers	128,665	24,744	103,921	112,587
Distribution meters	91,286	17,661	73,625	77,266
Transportation equipment	2,169	2,169	-	362
Tools and equipment	<u>33,729</u>	<u>24,035</u>	<u>9,694</u>	<u>14,304</u>
	<u>1,245,918</u>	<u>245,892</u>	<u>1,000,026</u>	<u>953,528</u>

In prior years, an amount of \$72,172. transferred from the Municipality of Central Huron for distribution system line construction was deducted from the cost of the related capital assets. A promissory note has been issued to the municipality for the amount of the transfer and, for 2005, the carrying value of the capital assets has been increased by \$72,172.

5. Deferred credits

The Ontario Energy Board has approved rates which include recovery of anticipated payments in lieu of taxation to the Ontario Electricity Financial Corporation. \$50,764. which has been included in billings to customers but not yet paid is reported on the balance sheet as a liability.

6. Payments in lieu of taxes

Certain amounts reported on the balance sheet which relate to regulatory assets have been deducted from income for purposes of calculating payments in lieu of taxes. The net of these amounts is expected to be recovered in future rates and the recoveries will be subject to payment in lieu of taxes. The liability for future payments in lieu of taxes related to temporary differences in reporting these amounts in financial statements and for taxation purposes is approximately \$9,000. No amount is included in the financial statements for this future liability.

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. In prior years, this contribution was deducted from the cost of the related capital assets.

8. 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.

9. Related party transactions

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

10. 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.

11. 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.