

COLLUS POWER CORP.

**FINANCIAL STATEMENTS
DECEMBER 31, 2000**

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GAVILLER & COMPANY LLP
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of **COLLUS Power Corp.**:

We have audited the balance sheet of **COLLUS Power Corp.** as at December 31, 2000, and the statements of operations and deficit and cash flows for the period 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 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 COLLUS Power Corporation as at December 31, 2000 and the results of its operations and cash flows for the period then ended in accordance with the accounting principles disclosed in Note 1 to the financial statements.



Gaviller & Company LLP

Chartered Accountants
Collingwood, Ontario
March 23, 2001

COLLUS POWER CORP.

BALANCE SHEET AS AT DECEMBER 31

	2000 \$
ASSETS	
CAPITAL	
Lands	87,333
Buildings	80,668
Distribution stations	1,274,472
Distribution lines - overhead	5,795,191
Distribution lines - underground	2,493,259
Distribution transformers	1,435,193
Distribution meters	768,898
Other capital assets	1,033,890
Load control	844,681
Load management control (customer premises)	<u>169,296</u>
	13,982,881
Less accumulated depreciation	<u>(6,553,709)</u>
	<u>7,429,172</u>
CURRENT	
Cash	2,126,381
Accounts receivable	1,975,497
Unbilled revenue	1,174,170
Inventory	<u>659,550</u>
	<u>5,935,598</u>
OTHER (Note 2)	<u>611,617</u>
	<u><u>13,976,387</u></u>
APPROVED BY DIRECTORS	
_____ Director	
_____ Director	

See accompanying notes to the financial statements

COLLUS POWER CORP.

BALANCE SHEET AS AT DECEMBER 31

	2000 \$
LIABILITIES	
CURRENT	
Accounts payable and accruals (Note 3)	4,152,906
Current portion of customer deposits	123,125
Employee future benefits	<u>136,919</u>
	<u>4,412,950</u>
LONG TERM	
Customer deposits	184,687
Note payable (Note 6)	1,710,169
Other	<u>18,065</u>
	<u>1,912,921</u>
Total liabilities	<u>6,325,871</u>
SHAREHOLDER'S EQUITY	
CAPITAL STOCK	
Authorized	
Unlimited common shares	
Issued	
5,101,340 common shares (Note 6)	5,101,340
MISCELLANEOUS PAID IN CAPITAL (Note 6)	2,928,013
DEFICIT	<u>(378,837)</u>
Total shareholder's equity	<u>7,650,516</u>
	<u>13,976,387</u>

See accompanying notes to the financial statements

COLLUS POWER CORP.

STATEMENT OF OPERATIONS AND DEFICIT FOR THE PERIOD APRIL 13 TO DECEMBER 31 (Note 6)

	2000
	\$
SALE OF POWER	
Residential	872,129
General	2,357,857
Unbilled revenue adjustment	453,264
Street lighting	<u>6,598</u>
	3,689,848
COST OF POWER	
Power purchased	<u>3,653,714</u>
DISTRIBUTION INCOME	36,134
Other operating revenue	<u>39,400</u>
	<u>75,534</u>
OPERATING AND MAINTENANCE EXPENSES	
Distribution and transmission	163,649
Billing and collecting	46,495
General administration	174,999
Depreciation	<u>86,611</u>
	<u>471,754</u>
Operating loss	<u>(396,220)</u>
OTHER REVENUE	
Interest	17,098
Miscellaneous	<u>285</u>
	<u>17,383</u>
NET LOSS FOR THE PERIOD AND DEFICIT, AT END OF PERIOD	<u><u>(378,837)</u></u>

See accompanying notes to the financial statements

COLLUS POWER CORP.

STATEMENT OF CASH FLOW FOR THE PERIOD APRIL 13 TO DECEMBER 31

	2000
	\$
CASH FLOWS FROM (FOR):	
OPERATING ACTIVITIES	
Net loss	(378,837)
Items not requiring funds	
Depreciation	86,611
Unbilled revenue adjustment	(453,264)
Customer deposits	28,050
Write off of deferred charges	<u>5,000</u>
	(712,440)
Changes in	
Accounts receivable	70,363
Inventory	(25,504)
Accounts payable and accruals	1,336,822
Employee future benefits	<u>(68,354)</u>
	<u>600,887</u>
INVESTING ACTIVITIES	
Net additions to capital assets	(78,837)
Deferred charges	<u>(5,925)</u>
	<u>(84,762)</u>
FINANCING ACTIVITIES	
Transfer from the Town of Collingwood	<u>1,610,256</u>
CASH POSITION, END OF PERIOD	<u><u>2,126,381</u></u>

See accompanying notes to the financial statements

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2000

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of certain significant accounting policies followed in the preparation of the financial statements:

- (a) The financial statements are prepared in accordance with the Ontario Energy Board Accounting Procedures Handbook and directives.
- (b) Purchases of reels, poles, meters and transformers are normally carried as inventory, unless purchased for specific capital projects in process or as spare units. Items for specific capital projects are carried as construction in progress under capital assets and spare transformers and meters are recorded as capital assets. Inventories are stated at moving average cost.
- (c) Revenues from subdividers and others with respect to capital work performed, for which the company retains ownership, are credited to Developer Contributions Received After 1999. These contributions are amortized to revenue at a rate of 4% using the straight line method.
- (d) Capital assets are stated at cost. Capital assets are depreciated over their estimated useful lives, using the straight-line method. Assets constructed by others and donated to the company are recorded at cost to the developer. Depreciation rates are 4% except as follows:

Buildings	2%
Distribution stations	3.33%
Other capital assets	6.67% to 20%

- (e) ENERconnect costs are being amortized on a straight-line basis over five years. Restructuring costs related to transition factors and the reorganization of the corporations are being amortized on a straight-line basis over five years.
- (f) Service area expansion costs are being amortized on a straight-line basis over twenty-five years.

2. OTHER ASSETS

	2000
	\$
Deferred charges-ENERconnect (net of amortization of \$14,400)	21,600
Deferred charges-service area expansion (net of amortization of \$38,679)	195,408
Deposit-acquisition of utilities (Note 5)	170,000
Deferred charges-restructuring transition (Note 6) (net of amortization of \$30,319)	121,276
Deferred charges-restructuring organization (Note 6) (net of amortization of \$21,667)	103,333
	<u>611,617</u>

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2000

3. RELATED PARTY TRANSACTIONS

Accounts payable include \$1,213,213 due to the Collingwood Public Utilities Commission and \$94,719 due to COLLUS Solutions Corp.

The company is leasing its operations centre from the Collingwood Public Utilities Commission for \$80,000 per annum. The lease expires December 31, 2001 and is renewable at that time. The company has also committed to purchase administrative services from COLLUS Solutions Corp. for an administrative fee of 20% (\$33,010 in 2000).

Collingwood Public Utilities Commission, COLLUS Solutions Corp. and the company are controlled by the Town of Collingwood.

4. CONTINGENCIES

- (a) A class action claiming \$500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Municipal Electric Association is undertaking the defense of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the company. The company formerly carried on business as a department of the Collingwood Public Utilities Commission.

- (b) On March 5, 2001, the Municipal Electric Association advised of a proposed settlement to resolve the Class Action Suit against the former Ontario Hydro now operating as Ontario Power Generation Inc. (OPGI). The tentative settlement from OPGI proposes a payment of \$29 million dollars in satisfaction of all claims in the Class Proceeding as well as legal fees and disbursements up to a maximum of \$500,000. If the Court approves the settlement, a mechanism will be put in place to distribute the \$29 million dollars, pro rata, based on Class Members cost of power purchased from OPGI prior to the commencement of the proceeding. At this time it is not possible to quantify the effect, if any, on the financial statements of the company.

Due to the uncertainty of the outcome, no receivable has been recorded. The company will treat the amount as current year income when receipt is reasonably assured and the amount can be reasonably estimated.

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2000

5. COMMITMENTS

- (a) The company has signed an agreement to purchase the assets of a neighbouring utility for an estimated cost of \$2,390,000.
- (b) The Collingwood Public Utilities Commission and the Town of Collingwood have entered into an agreement with the Town of the Blue Mountains to purchase the shares of its utility for \$1,700,000. Upon completion of the sale it is anticipated that the purchased utility will be amalgamated with the company.

The agreements are expected to be finalized in 2001 when approval is obtained from the Ontario Energy Board. Deposits of \$85,000 have been made on each of these purchases. The purchases will be financed by long term borrowings.

6. INDUSTRY RESTRUCTURING

The Ontario Government enacted the Energy Competition Act, 1998 to introduce competition to the Ontario electricity market by the year 2000. Under the terms of this legislation, the Ontario Energy Board (the "OEB") will regulate industry participants by issuing licences for the right to generate, transmit, distribute or retail electricity. These licences will require compliance with established market rules and codes.

Pursuant to this legislation, the Corporation of the Town of Collingwood, as owners of the Commission, enacted a By-Law to authorize the incorporation of four companies created for the purpose of continuing the current distributing and related activities of the Commission. This By-Law authorized the transfer of all or part of the assets and liabilities of the Commission to the appropriate newly created corporations on November 1, 2000. As a result of this action, COLLUS Power Corp. was incorporated on April 13, 2000 at which time 1 common share was issued for \$1 cash. Net assets and liabilities of \$9,739,522 were transferred to the company at their carrying value in the records of the former commission. Common shares with a paid up capital of \$5,101,339, a 5% demand note for \$1,709,868 with no set terms of repayment and the assumption of miscellaneous paid in capital of \$2,928,013 were given as consideration. The statement of operations and deficit includes the business operations from the date of the transfer bylaw.

Deferred charges - restructuring transition represent costs associated with industry restructuring that are deemed to be recoverable through consumer rates in future years as "z" factors as defined and approved by the Ontario Energy Board in future rate applications (Note 3).

Deferred charges - restructuring organization represents costs associated with establishing the new corporate structure (Note 3).

7. FINANCIAL INSTRUMENTS

The company's financial instruments consist of cash, accounts receivable, accounts payable and accruals, and long term note payable. It is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2000

8. TAX STATUS

The company is exempt from corporate income taxes until the electricity market is opened for competition. When this occurs the company will be required to make payments in lieu of tax calculated on the same basis as corporate income taxes.

9. EMPLOYEE FUTURE BENEFITS

The employees of COLLUS Power Corp. participate in the Ontario Municipal Employees Retirement Savings Plan ("OMERS"). Although the plan has a defined retirement benefit for employees the related obligation of the Corporation cannot be identified. The OMERS plan has several unrelated participating municipalities and costs are not specifically attributed to each participant. Currently the participants in the OMERS plan have a contribution holiday and no amounts were paid during the year.

In addition, COLLUS Power Corp. pays certain benefits on behalf of its retired employees. The Corporation recognizes these post-retirement costs in the period in which the employees rendered the services. The accrued benefit liability at December 31, 2000 of \$136,919 was determined by actuarial valuation using a discount rate of 6.0%. This liability was transferred as part of the corporate reorganization related to the Hydro industry restructuring.

The main actuarial assumptions employed for the valuations are as follows:

- (c) General inflation
Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 3.0% in 2000 and thereafter.
- (d) Interest (discount) rate
The obligation as at December 31, 2000, of the present value of future liabilities was determined using a discount rate of 6.0%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 3.0%.
- (e) Salary levels
Future general salary and wage levels were assumed to increase at 2.0% per annum.
- (f) Medical costs
Medical costs were assumed to increase at the CPI rate plus a further increase of 5.0% in 2000 graded down to 1.0% in 2004 and thereafter.
- (g) Dental costs
Dental costs were assumed to increase at the CPI rate plus a further increase of 1.0% in 2000 and thereafter.