

# **COLLUS POWER CORP.**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2003**

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**GAVILLER & COMPANY LLP**  
**CHARTERED ACCOUNTANTS**

**AUDITORS' REPORT**

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

We have audited the balance sheet of **COLLUS Power Corp.** as at December 31, 2003, and the statements of operations and retained income 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 COLLUS Power Corp. as at December 31, 2003 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Gaviller & Company LLP*

Chartered Accountants  
Collingwood, Ontario  
March 2, 2004

# COLLUS POWER CORP.

## BALANCE SHEET AS AT DECEMBER 31

	2003	2002
	\$	\$
<b>Assets</b>		
Current		
Cash	2,960,967	1,235,682
Accounts receivable (Note 5)	1,962,153	949,295
Unbilled revenue	3,856,788	4,257,312
Inventory	457,946	451,241
	9,237,854	6,893,530
Capital		
Lands	90,439	90,439
Buildings	80,668	80,668
Distribution stations	1,541,768	1,541,768
Distribution lines - overhead	7,662,636	7,300,118
Distribution lines - underground	3,798,260	3,595,464
Distribution transformers	2,200,763	2,142,836
Distribution meters	1,080,777	1,014,822
Other capital assets	1,141,882	1,121,303
Load control (customer premises)	878,887	878,887
Load management control	251,882	251,882
Contributions in aid of construction (Note 3)	(1,063,225)	(819,242)
	17,664,737	17,198,945
Less accumulated depreciation	(8,651,488)	(7,935,405)
	9,013,249	9,263,540
Goodwill	276,704	276,704
Other (Note 2)	352,954	1,086,644
	18,880,761	17,520,418

Approved by directors:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

See accompanying notes to the financial statements

# COLLUS POWER CORP.

## BALANCE SHEET AS AT DECEMBER 31

	2003	2002
	\$	\$
<b>Liabilities</b>		
Current		
Accounts payable and accruals (Notes 3 and 5)	5,554,157	4,394,090
Payments in lieu of taxes	159,655	5,199
Current portion of customer deposits (Note 4)	494,278	181,303
Current portion of long-term liabilities	305,435	268,564
Employee future benefits (Note 9)	183,829	154,105
	6,697,354	5,003,261
Long-term (Note 4)	4,110,229	4,709,406
Total liabilities	10,807,583	9,712,667
<b>Shareholder's equity</b>		
Capital stock		
Authorized		
Unlimited common shares		
Issued		
5,101,340 common shares	5,101,340	5,101,340
Miscellaneous paid in capital	2,966,014	2,966,014
Retained income (deficit)	5,824	(259,603)
Total shareholder's equity	8,073,178	7,807,751
	18,880,761	17,520,418

See accompanying notes to the financial statements

# COLLUS POWER CORP.

## STATEMENT OF OPERATIONS AND RETAINED INCOME FOR THE YEAR ENDING DECEMBER 31

	2003	2002
	\$	\$
Revenue		
Sale of power	26,259,176	25,366,826
Distribution services	3,743,330	3,567,463
	<b>30,002,506</b>	28,934,289
Cost of power		
Power purchased	26,259,176	25,366,826
Distribution income (12.5%, 2002 - 12.3%)	3,743,330	3,567,463
Other operating revenue	226,126	184,594
	<b>3,969,456</b>	3,752,057
Operating and maintenance expenses		
Distribution and transmission	1,131,266	1,065,177
Billing and collecting	753,715	568,807
General administration (Notes 4 and 5)	1,128,971	1,224,568
Depreciation and amortization	779,535	786,450
	<b>3,793,487</b>	3,645,002
Operating income	<b>175,969</b>	107,055
Other revenue (expense)		
Interest	263,438	34,622
Miscellaneous	(2,125)	(32,837)
Gain on disposition of capital assets	2,000	2,375
	<b>263,313</b>	4,160
Net income before income taxes	<b>439,282</b>	111,215
Provision for payments in lieu of taxes		
Current	173,855	1,679
Future	-	31,628
	<b>173,855</b>	33,307
<b>Net income for the year</b>	<b>265,427</b>	77,908
Deficit, beginning of year	(259,603)	(337,511)
<b>Retained income (deficit), end of year</b>	<b>5,824</b>	(259,603)

See accompanying notes to the financial statements

# COLLUS POWER CORP.

## STATEMENT OF CASH FLOW FOR THE YEAR ENDING DECEMBER 31

	2003	2002
	\$	\$
<b>Cash flows from (for):</b>		
<b>Operating activities</b>		
Net income	265,427	77,908
Items not requiring funds		
Depreciation	750,727	754,473
Amortization of goodwill	-	11,735
Amortization of deferred charges	55,193	55,188
Future payments in lieu of taxes	-	31,628
	1,071,347	930,932
Changes in		
Accounts receivable	(1,012,858)	2,167,540
Unbilled revenue	400,524	(2,990,926)
Inventory	(6,705)	135,283
Accounts payable and accruals	1,350,064	586,287
Payments in lieu of taxes	154,456	5,199
Customer deposits	(1,911)	75,697
Employee future benefits	29,724	-
	1,984,641	910,012
<b>Investing activities</b>		
Net additions to capital assets	(744,418)	(651,720)
Net decreases (additions) to other assets	678,499	(657,115)
Advance to COLLUS Solutions Corp.	(190,000)	150,000
	(255,919)	(1,158,835)
<b>Financing activities</b>		
Repayment of long-term liabilities	(247,420)	(234,491)
Customer deposits - capital purposes	243,983	466,832
	(3,437)	232,341
<b>Change in cash</b>	<b>1,725,285</b>	<b>(16,482)</b>
Cash position, beginning of year	1,235,682	1,252,164
<b>Cash position, end of year</b>	<b>2,960,967</b>	<b>1,235,682</b>

See accompanying notes to the financial statements

# COLLUS POWER CORP.

## NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2003

### 1. Significant accounting policies

The financial statements of the corporation are the representations of management. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement based on available information. The financial statements have, in the opinion of management, been properly prepared within the framework of the accounting policies summarized below:

- (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 are recorded as capital assets. Inventory is stated at moving average cost.
- (c) Capital assets are stated at cost. Contributions received in aid of construction of capital assets are capitalized and amortized at the same rate as the related asset. 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%
Goodwill	2.5%

- (d) Significant restructuring costs related to qualifying transition factors are being amortized as allowed by the Ontario Energy Board for rate setting purposes. Transition costs related to industry restructuring that do not qualify for recapture through the rate setting process are recorded as Deferred charges - restructuring transition and are being amortized on a straight-line basis over five years. Costs related to the reorganization of the corporate structure that were caused by industry restructuring are recorded as Deferred charges - restructuring organization and are being amortized on a straight-line basis over five years.
- (e) Deferred charges - service area expansion costs are being amortized on a straight-line basis over twenty-five years.
- (f) Payments in lieu of taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.
- (g) Regulatory assets represents variances in the purchase and sale of electricity which will be recovered from rates. Ontario Energy Board has authorized the recovery of 25% of the December 31, 2002 regulatory asset balances beginning in April 2004 and has put a process in place to address the future recovery of remaining asset balances over the following three years.

# COLLUS POWER CORP.

## NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2003

### 2. Other assets

Other assets consist of the following:

	2003	2002
	\$	\$
Deferred charges-service area expansion (net of \$41,814 accumulated amortization, 2002 - \$33,659)	163,100	171,255
Customer rebate costs	42,410	-
Deferred charges-restructuring transition (net of \$128,098 accumulated amortization, 2002 - \$96,073)	32,024	64,049
Deferred charges-restructuring organization (net of \$66,708 accumulated amortization, 2002 - \$51,694)	15,013	30,027
Qualifying transition factors	470,629	417,600
Net regulatory assets (liabilities)	(370,222)	403,713
	352,954	1,086,644

### 3. Contributions in aid of construction

Under the terms of the Distribution System Code, the corporation cannot charge a developer more than the difference between the present value of the projected capital costs and on-going maintenance costs for the equipment and the present value of the projected revenue for distribution services provided by those facilities. These amounts are determined by an economic evaluation study of the project. The corporation estimates that it will return \$104,357 (2002 - \$221,340) of the amounts collected. The liability is included in accounts payable. The balance of \$1,063,225 (2002 - \$819,242) is recorded as a reduction of the cost of capital assets .



# COLLUS POWER CORP.

## NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2003

### 4. Long-term liabilities

Long-term liabilities consist of the following:

	2003	2002
Customer deposits	\$ -	\$ 314,886
5.47% demand installment loan payable to the Canadian Imperial Bank of Commerce, repayable in monthly blended payments of \$32,854, due January 2009, secured by a general security agreement and guaranteed by Collingwood Utility Services Corp.	2,598,089	2,824,509
9.75% debenture payable, due 2007	109,000	130,000
Premium on issue of long-term liabilities	(1,595)	(1,595)
7.25% note payable to the Town of Collingwood, no set terms of repayment	1,710,170	1,710,170
Current portion	4,415,664 (305,435)	4,977,970 (268,564)
	<b>4,110,229</b>	<b>4,709,406</b>

Principal payments in the next five years are as follows:

	\$
2004	305,435
2005	301,778
2006	319,070
2007	339,209
2008	324,244

Included in General administration expense is \$290,927 (2002 - \$317,018) of interest on long-term liabilities.

The corporation is contingently liable for a letter of credit in the amount of \$2,417,179 to meet the prudential requirements of the Independent Market Operator.

All customer deposits have been re-classified as current due to new Ontario Energy Board regulations effective February 2004.

# COLLUS POWER CORP.

## NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2003

### 5. Related party transactions

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

Accounts receivable include \$27,791 (2002 - \$24,385) due from the Town of Collingwood.

Accounts payable include \$779,461 (2002 - \$305,600) due to the Collingwood Public Utilities Commission, \$33,417 (2002 - \$223,521) due to COLLUS Solutions Corp. and \$944,067 (2002 - \$275,770) due to the Town of Collingwood.

The company is leasing its operations centre and computer equipment from the Collingwood Public Utilities Commission for \$80,000 and \$84,000 per annum respectively. The lease has a one year term and is renewable annually. These costs are included in general administration expenses.

The company has also committed to purchase services from COLLUS Solutions Corp. Operating and maintenance expenses includes fees of \$838,997 (2002 - \$967,244) to COLLUS Solutions Corp.

### 6. Contingencies

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 Electricity Distributors Association is undertaking the defence 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.

### 7. Financial instruments

The company's financial instruments consist of cash, accounts receivable, unbilled revenue, accounts payable and accruals, payments in lieu of taxes, customer deposits, and long-term liabilities. It is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments. Fair value does not vary significantly from recorded value.

### 8. Tax status

The company is exempt from tax under section 149 of the Income Tax Act. The company is required to make payments in lieu of taxes calculated on the same basis as the Income Tax Act.

# COLLUS POWER CORP.

## NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2003

### 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. Amounts paid to OMERS during the year totaled \$10,626.

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 obligation at December 31, 2002 of \$154,105 and the net periodic benefit cost for the year ended December 31, 2003 was determined by actuarial valuations using discount rates of 6% and 5.5%, respectively. Actuarial valuations will be prepared every third year or when there are significant changes to the workforce.

Information about the company's defined benefit plan is as follows:

	<b>2003</b>
	\$
<b>Accrued benefit obligation</b>	
Balance at the beginning of period	154,105
Current service cost for the period	20,623
Interest cost for the period	9,333
Actuarial loss/(gain)	15,333
Prior period cost	72,000
Benefits paid for the period	(8,232)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	263,162
Unamortized actuarial (loss)/gain	(15,333)
Unamortized prior service cost	(64,000)
Balance at end of period	183,829
<b>Components of net periodic benefit cost</b>	
Current service cost for the period	20,623
Interest cost for the period	9,333
Amortization of prior service cost	8,000
Net periodic benefit cost	37,956

# COLLUS POWER CORP.

## NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2003

### 9. Employee future benefits (continued)

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

- (a) General inflation  
Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.2% in 2003 and thereafter.
- (b) Interest (discount) rate  
The obligation as at December 31, 2002, of the present value of future liabilities and the expense for year ended December 31, 2003, were determined using discount rates of 6.0%, and 5.5% respectively. This corresponds to the assumed CPI rate plus an assumed real rate of return of 3.8% and 3.3%, respectively.
- (c) Salary levels  
Future general salary and wage levels were assumed to increase at 3.5% per annum.
- (d) Medical costs  
Medical costs were assumed to increase at the CPI rate plus a further increase of 6.3% in 2003 graded down to 2.3% in 2007 and thereafter.
- (e) Dental costs  
Dental costs were assumed to increase at the CPI rate plus a further increase of 2.3% in 2003 and thereafter.