

# **COLLUS POWER CORP.**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

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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, 2004, 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Gaviller & Company LLP*

Chartered Accountants  
Collingwood, Ontario  
February 22, 2005

# COLLUS POWER CORP.

## BALANCE SHEET AS AT DECEMBER 31

	2004	2003
	\$	\$
<b>Assets</b>		
Current		
Cash	3,737,219	2,960,967
Taxes recoverable	96,512	-
Accounts receivable (Note 6)	1,730,261	1,962,153
Unbilled revenue	3,785,105	3,223,610
Inventory	329,947	457,946
	<b>9,679,044</b>	8,604,676
Capital		
Lands	90,439	90,439
Buildings	80,668	80,668
Distribution stations	1,941,972	1,541,768
Distribution lines	14,005,916	11,460,896
Distribution transformers	3,489,050	2,200,763
Distribution meters	1,102,741	1,080,777
Other capital assets	1,366,305	1,141,882
Load control (customer premises)	878,887	878,887
Load management control	327,387	251,882
Contributions in aid of construction (Notes 3 & 4)	(4,973,654)	(1,063,225)
	<b>18,309,711</b>	17,664,737
Less accumulated depreciation	<b>(9,399,526)</b>	(8,651,488)
	<b>8,910,185</b>	9,013,249
Goodwill	<b>276,704</b>	276,704
Other (Note 2)	-	352,954
	<b>18,865,933</b>	18,247,583

Approved by directors:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

See accompanying notes to the financial statements

# COLLUS POWER CORP.

## BALANCE SHEET AS AT DECEMBER 31

	2004	2003
	\$	\$
<b>Liabilities</b>		
Current		
Accounts payable and accruals (Notes 4 and 6)	5,603,188	4,920,979
Payments in lieu of taxes	-	159,655
Customer deposits	331,114	494,278
Current portion of long-term liabilities	301,779	305,435
	<b>6,236,081</b>	5,880,347
Long-term (Note 5)	3,808,450	4,110,229
Employee future benefits (Note 10)	154,989	183,829
Other (Note 2)	381,486	-
	<b>4,344,925</b>	4,294,058
Total liabilities	<b>10,581,006</b>	10,174,405
<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	217,573	5,824
Total shareholder's equity	<b>8,284,927</b>	8,073,178
	<b>18,865,933</b>	18,247,583

See accompanying notes to the financial statements

# COLLUS POWER CORP.

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

	2004	2003
	\$	\$
Revenue		
Sale of power	26,570,304	26,259,176
Distribution services	3,514,227	3,507,670
	<b>30,084,531</b>	29,766,846
Cost of power		
Power purchased	26,570,304	26,259,176
Distribution income (11.7%, 2003 - 11.8%)	3,514,227	3,507,670
Other revenue	585,337	489,439
	<b>4,099,564</b>	3,997,109
Operating and maintenance expenses		
Distribution and transmission	1,190,458	895,606
Billing and collecting	624,297	753,715
General administration (Notes 5 and 6)	1,142,343	1,128,971
Depreciation and amortization (Note 2)	840,793	779,535
	<b>3,797,891</b>	3,557,827
Net income before income taxes	<b>301,673</b>	439,282
Provision for payments in lieu of taxes		
Current	89,924	173,855
<b>Net income for the year</b>	<b>211,749</b>	265,427
Retained income (deficit), beginning of year	5,824	(259,603)
<b>Retained income, end of year</b>	<b>217,573</b>	5,824

See accompanying notes to the financial statements

# COLLUS POWER CORP.

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

	2004	2003
	\$	\$
<b>Cash flows from (for):</b>		
<b>Operating activities</b>		
Net income	211,749	265,427
Items not requiring funds		
Depreciation	743,840	750,727
Amortization of deferred charges	96,953	55,193
	<b>1,052,542</b>	1,071,347
Changes in		
Accounts receivable	231,892	(1,012,858)
Unbilled revenue	(561,495)	1,033,702
Inventory	127,999	(6,705)
Accounts payable and accruals	682,208	716,886
Payments in lieu of taxes	(256,167)	154,456
Customer deposits	(163,164)	(1,911)
Employee future benefits	(28,840)	29,724
	<b>1,084,975</b>	1,984,641
<b>Investing activities</b>		
Net additions to capital assets	(1,070,673)	(744,418)
Net change to other assets/liabilities	637,487	678,499
Proceeds from disposal of capital assets	19,468	-
Advance to COLLUS Solutions Corp.	-	(190,000)
	<b>(413,718)</b>	(255,919)
<b>Financing activities</b>		
Repayment of long-term liabilities	(305,435)	(247,420)
Contributions in aid of construction	410,430	243,983
	<b>104,995</b>	(3,437)
<b>Change in cash</b>	<b>776,252</b>	<b>1,725,285</b>
Cash position, beginning of year	2,960,967	1,235,682
<b>Cash position, end of year</b>	<b>3,737,219</b>	<b>2,960,967</b>

See accompanying notes to the financial statements

# COLLUS POWER CORP.

## NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2004

### 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) The company recognizes revenue on an accrual basis, which includes unbilled revenue, which is an estimate of electricity consumed by customers to the end of year but not yet billed by the company.
- (c) 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.
- (d) 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%

- (e) 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. Net regulatory assets and qualifying transition factors include annual carrying charges at 7.25%
- (f) Deferred charges - service area expansion costs are being amortized on a straight-line basis over twenty-five years.
- (g) 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.
- (h) 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, 2004

### 2. Other assets (liabilities)

Other assets (liabilities) consist of the following:

	2004	2003
	\$	\$
Deferred charges-service area expansion (net of \$49,969 accumulated amortization, 2003 - \$41,814)	154,945	163,100
Customer rebate costs	42,410	42,410
Deferred charges-restructuring transition (net of \$160,122 accumulated amortization, 2003 - \$128,098)	-	32,024
Deferred charges-restructuring organization (net of \$81,721 accumulated amortization, 2003 - \$66,708)	-	15,013
Qualifying transition factors	459,145	470,629
Net regulatory liabilities	(1,037,986)	(370,222)
	<b>(381,486)</b>	352,954

In December 2004, Ontario Energy Board determined electrical utilities would only be allowed to recover the lesser of \$60 per customer or 90% of their qualifying transition costs. Since the company's qualifying transition cost per customer is approximately \$30, the company has charged 10% of its costs or \$41,760 to amortization expense.

### 3. Contributed distribution capital assets

During the year, a number of local condominium corporations contributed their distribution capital assets to the company. These capital assets have been recognized in the financial statements at \$3,500,000 of which \$250,000 has been allocated to distribution stations, \$2,150,000 to distribution lines and \$1,100,000 to distribution transformers. An offsetting entry of \$3,500,000 has been made to contributions in aid of construction. The recorded amount of these capital assets was determined by using the average sale price per customer of recent arm's length purchases of customers times the number of customers serviced by these distribution assets.

### 4. 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 (2003 - \$104,357) of the amounts collected. The liability is included in accounts payable. The balance of \$4,973,654 (2003 - \$1,063,225) is recorded as a reduction of the cost of capital assets.



# COLLUS POWER CORP.

## NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2004

### 5. Long-term liabilities

Long-term liabilities consist of the following:

	2004	2003
	\$	\$
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.	2,315,654	2,598,089
9.75% debenture payable, due 2007	86,000	109,000
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
	<b>4,110,229</b>	4,415,664
Current portion	<b>(301,779)</b>	(305,435)
	<b>3,808,450</b>	4,110,229

Principal payments in the next five years are as follows:

	\$
2005	301,779
2006	319,070
2007	339,209
2008	324,244
2009	1,115,758

Included in general administration expense is \$265,836 (2003 - \$290,927) of interest on long-term liabilities.

The corporation is contingently liable for a letter of credit in the amount of \$2,272,370 (2003 - \$2,417,179) to meet the prudential requirements of the Independent Market Operator.

# COLLUS POWER CORP.

## NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2004

### 6. Related party transactions

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

Related party transactions consist of the following:

	2004	2003
	\$	\$
Amounts receivable from the Town of Collingwood	2,321	27,791
Amounts payable to the Collingwood Public Utilities Service Board	663,709	353,812
Amounts payable to COLLUS Solutions Corp.	117,915	33,417
Amounts payable to the Town of Collingwood	712,380	736,457
The company is leasing its operations centre from the Collingwood Public Utilities Service Board. The lease has a one year term and is renewable annually. These costs are included in general administration expense.	137,500	80,000
Operating and maintenance expenses include a commitment to purchase services from COLLUS Solutions Corp.	856,969	838,997

### 7. 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.

### 8. 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.

### 9. 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, 2004

### 10. 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 \$32,249 (2003 - \$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, 2003 of \$183,829 and the net periodic benefit cost for 2003 was determined by actuarial valuations using discount rates of 6% and 5.5%, respectively. No actuarial valuation was prepared in 2004 and the accrued benefit obligation at December 31, 2004 was extrapolated using 2003 amounts as a basis. Actuarial valuations will be prepared every third year or when there are significant changes to the workforce. Current service cost for the period includes an adjustment of \$42,090 to re-allocate a portion of the COLLUS Power Corp.'s accrued benefit obligation to COLLUS Solutions Corp. and Collingwood Public Utilities Service Board based on a revised actuarial report for 2003.

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

	2004	2003
	\$	\$
<b>Accrued benefit obligation</b>		
Balance at the beginning of period	183,829	154,105
Current service cost (recovery) for the period	(35,476)	20,623
Interest cost for the period	10,978	9,333
Actuarial loss/(gain)	25,146	15,333
Prior period cost	36,256	72,000
Benefits paid for the period	(13,406)	(8,232)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	207,327	263,162
Unamortized actuarial (loss)/gain	(25,146)	(15,333)
Unamortized prior service cost	(27,192)	(64,000)
Balance at end of period	154,989	183,829
<b>Components of net periodic benefit cost</b>		
Current service cost for the period	(35,476)	20,623
Interest cost for the period	10,978	9,333
Amortization of prior service cost	4,532	8,000
Net periodic benefit cost	(19,966)	37,956

# COLLUS POWER CORP.

## NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2004

### 10. 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 2004 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2003, of the present value of future liabilities was determined using a discount rate of 5.5%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 3.3%.

(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 2004 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 2004 and thereafter.

### 11. Comparative information

Certain comparative information has been reclassified to conform with the current year's financial statement presentation.