

COLLUS POWER CORP.

**FINANCIAL STATEMENTS
DECEMBER 31, 2006**

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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, 2006, 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, 2006 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

Licensed Public Accountants

Collingwood, Ontario

March 28, 2007

COLLUS POWER CORP.

BALANCE SHEET AS AT DECEMBER 31

	2006	2005
	\$	\$
Assets		
Current		
Cash	5,272,508	4,219,335
Accounts receivable (Note 5)	3,934,210	1,774,124
Unbilled revenue	2,819,474	3,651,025
Inventory	245,218	215,531
	12,271,410	9,860,015
Capital		
Lands	90,439	90,439
Buildings	80,668	80,668
Distribution stations	2,051,269	1,998,839
Distribution lines	15,441,219	14,857,827
Distribution transformers	3,751,092	3,572,611
Distribution meters	1,343,478	1,267,872
Other capital assets	1,423,450	1,437,597
Load control (customer premises)	878,887	878,887
Load management control	406,595	378,276
Contributions in aid of construction (Note 2)	(5,648,240)	(5,293,818)
	19,818,857	19,269,198
Less accumulated depreciation	(10,943,323)	(10,131,429)
	8,875,534	9,137,769
Goodwill	276,704	276,704
Future taxes recoverable	26,000	-
	21,449,648	19,274,488

Approved by directors:

_____ Director

_____ Director

See accompanying notes to the financial statements

COLLUS POWER CORP.

BALANCE SHEET AS AT DECEMBER 31

	2006	2005
	\$	\$
Liabilities		
Current		
Accounts payable and accruals (Notes 2, 3 and 5)	6,119,790	5,556,254
Taxes payable	136,411	24,768
Customer deposits	332,398	355,970
Current portion of long-term	1,780,805	2,067,876
Future taxes	-	25,000
	8,369,404	8,029,868
Long-term (Note 4)	1,710,170	1,742,170
Employee future benefits (Note 10)	232,955	168,239
Other (Note 3)	2,038,484	686,246
	3,981,609	2,596,655
Total liabilities	12,351,013	10,626,523
Shareholder's equity		
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	1,031,281	580,611
Total shareholder's equity	9,098,635	8,647,965
	21,449,648	19,274,488

See accompanying notes to the financial statements

COLLUS POWER CORP.

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

	2006	2005
	\$	\$
Revenue		
Sale of power	23,554,168	28,376,183
Distribution services	4,447,191	3,784,679
	28,001,359	32,160,862
Cost of power		
Power purchased	23,554,168	28,376,183
Distribution income (15.9%, 2005 - 11.8%)	4,447,191	3,784,679
Other revenue	488,279	608,233
	4,935,470	4,392,912
Operating and maintenance expenses		
Distribution and transmission	1,521,568	1,115,667
Billing and collecting	592,333	700,465
General administration (Notes 4 and 5)	1,379,817	1,288,261
Depreciation and amortization	767,646	788,853
	4,261,364	3,893,246
Net income before taxes	674,106	499,666
Provision for (recovery of) taxes		
Current	274,436	111,628
Future	(51,000)	25,000
	223,436	136,628
Net income for the year	450,670	363,038
Retained income, beginning of year	580,611	217,573
Retained income, end of year	1,031,281	580,611

See accompanying notes to the financial statements

COLLUS POWER CORP.

STATEMENT OF CASH FLOW FOR THE YEAR ENDING DECEMBER 31

	2006	2005
	\$	\$
Cash flows from (for):		
Operating activities		
Net income	450,670	363,038
Items not requiring funds		
Depreciation	811,895	816,436
Amortization of deferred charges	8,155	8,155
Future taxes	(51,000)	25,000
	1,219,720	1,212,629
Changes in		
Accounts receivable	(2,160,086)	(43,863)
Unbilled revenue	831,551	134,080
Inventory	(29,687)	2,029
Accounts payable and accruals	563,536	(46,935)
Taxes payable	111,643	121,280
Customer deposits	(23,572)	24,856
Employee future benefits	64,716	13,250
Other liabilities	1,344,083	296,605
	1,921,904	1,713,931
Investing activities		
Net additions to capital assets	(904,082)	(1,251,796)
Financing activities		
Repayment of long-term liabilities	(319,071)	(300,183)
Contributions in aid of construction	354,422	320,164
	35,351	19,981
Change in cash	1,053,173	482,116
Cash position, beginning of year	4,219,335	3,737,219
Cash position, end of year	5,272,508	4,219,335

See accompanying notes to the financial statements

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

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 (OEB) Accounting Procedures Handbook and directives.
- (b) The company's distribution of electricity is subject to rate regulation by the OEB. This rate regulation results in the company accounting for specific transactions differently than it would if it was not rate-regulated. The differences in accounting treatment give rise to regulatory assets or liabilities. These balances will be recovered from or returned to customers by increases or decreases to rates in the future.

The electricity rates charged by the company are approved on an annual basis using performance-based regulation. For the rate year ending April 30, 2007, the company was authorized to earn 9% on equity and 6.25% on debt with a deemed debt to equity ratio of 1:1.

- (c) 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.
- (d) Purchases of wire and poles are normally carried as inventory, unless purchased for specific capital projects in process or as spare units. Items for specific capital projects, spare transformers and meters are recorded as capital assets. Inventory is stated at moving average cost.
- (e) 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%

- (f) Deferred charges - service area expansion costs are being amortized on a straight-line basis over twenty-five years.
- (g) The purchased power cost variance represent variances in the purchase and sale of electricity which will be recovered from or returned to customers by increases or decreases to rates in the future. Purchased power cost variance includes annual carrying charges accrued at the OEB quarterly interest rate in effect.

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

1. Significant accounting policies (continued)

- (h) 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 tax liabilities or assets. Future tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

2. 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 \$72,435 (2005 - \$104,357) of the amounts collected. The liability is included in accounts payable. The balance of \$5,648,240 (2005 - \$5,293,818) is recorded as a reduction of the cost of capital assets.

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

3. Other assets (liabilities)

Other assets (liabilities) consist of the following:

	2006	2005
	\$	\$
Deferred charges-service area expansion (net of \$66,279 accumulated amortization, 2005 - \$58,124)	138,635	146,790
Regulatory assets		
Other regulatory assets	88,686	69,184
Regulatory liabilities		
Hydro One regulatory liability	(186,575)	(330,589)
Purchased power cost variance	(2,053,484)	(83,314)
Regulatory recoveries	(2,524)	(488,317)
Smart meter variance	(23,222)	-
Total regulatory liabilities	(2,265,805)	(902,220)
Net liability	(2,038,484)	(686,246)

Other regulatory assets consist of the costs of processing \$75 rebate cheques and pension costs from OMERS not recovered in rates. The pension cost deferral includes annual carrying charges accrued at the OEB quarterly interest rate in effect.

During the year, the balances in qualifying transition factors account and pre-market opening energy variance account, power purchased cost variance and related interest balances arising before 2005 were transferred to the regulatory recovery account. Comparative balances have been re-classified to conform with the current year's presentation.

The OEB has authorized the recovery of regulatory asset or liability balances including the power purchase cost variance, qualifying transition factors and the pre-market opening energy variance which are accumulated in the regulatory recovery account.

Hydro One regulatory liability represents 2002-2006 regulatory assets that Hydro One is collecting from embedded distributors over a 5 year period as authorized by the OEB. The current portion of the liability is \$198,458 (2005 - \$170,458) and is included in accounts payable and accruals. Payments to Hydro One are \$9,666 per month for 3 years starting May 2005 and at \$5,600 a month for 4 years starting in May 2006.

The OEB, commencing in May 2006, authorized the collection of \$.26 per residential customer per month to cover Smart Meter costs. Carrying charges will be accrued on this account beginning in 2007.

The OEB has allowed the company to recover the third tranche of its market adjusted revenue requirement (MARR) from customers with the requirement that it be spent on conservation and demand management activities. During the year the company recovered \$62,670 (2005 - \$313,330) of MARR from customers and expended \$100,646 (2005 - \$122,420) in conservation and demand management activities. The balance of \$152,934 (2005 - \$190,910) will be spent on conservation and demand management activities in 2007.

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

4. Long-term liabilities

Long-term liabilities consist of the following:

	2006	2005
	\$	\$
5.47% demand installment loan payable to the CIBC, repayable in monthly blended payments of \$32,854, due January 2009, secured by a general security agreement and guaranteed by Collingwood Utility Services Corp.	1,748,805	2,039,876
9.75% debenture payable, due 2007	32,000	60,000
7.25% note payable to the Town of Collingwood, no set terms of repayment	1,710,170	1,710,170
	3,490,975	3,810,046
Current portion	(1,780,805)	(2,067,876)
	1,710,170	1,742,170

As the CIBC loan above is a demand loan the full amount is included in the portion due within one year. However there has been no demand for payment and the schedule below depicts the actual repayment terms negotiated by the company.

Principal payments in the next three years are as follows:

	\$
2007	339,209
2008	324,244
2009	1,089,534

Included in general administration expense is \$221,858 (2005 - \$262,923) of interest on long-term liabilities.

The corporation is contingently liable for a letter of credit in the amount of \$2,272,370 (2005 - \$2,272,370) to meet the prudential requirements of the Independent Electricity System Operator.

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

5. 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:

	2006	2005
	\$	\$
Amounts receivable from the Collingwood Public Utilities Service Board	-	81,724
Amounts payable to the Collingwood Public Utilities Service Board	842,040	-
Amounts receivable from COLLUS Solutions Corp.	219,512	5,184
Amounts payable to COLLUS Solutions Corp.	-	58,164
Amounts receivable from the Town of Collingwood	113,193	40,842
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.	143,000	137,500
Operating and maintenance expenses include services purchased from COLLUS Solutions Corp.	967,635	910,719

6. Contingencies

A class action has been brought under the Class Proceedings Act, 1992. The plaintiff class seeks \$500 million in restitution for amounts paid to Toronto Hydro and to other municipal electric utilities (LDCs) who received late payment penalties which constitute interest at 60% per year, contrary to section 347 of the Criminal Code. Pleadings have closed in this action. The action has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceedings brought against Enbridge Gas Distribution Inc. (formerly Consumers Gas).

On April 22, 2004, the Supreme Court of Canada released a decision in the Consumers Gas case rejecting all of the defences which had been raised by Enbridge, although the court did not permit the plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Supreme Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by Enbridge.

After the release by the Supreme Court of Canada of its 2004 decision in the Consumers Gas case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs. To date, no formal steps have been taken to move the action forward. The electric utilities intend to respond to the action if and when it proceeds on the basis that the LDCs situation may be distinguishable from that of Consumers Gas.

COLLUS Power Corp. (formerly a department of Collingwood Public Utilities Commission) collected total late payment penalties of approximately \$666,000 from and after 1994. No determination of the portion of these payments which may have constituted interest at an impermissible rate has been made.

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

7. Financial instruments

The company's financial instruments consist of cash, accounts receivable, unbilled revenue, accounts payable and accruals, taxes payable, 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. Supplemental cash flow information

Cash receipts and (payments) were made as follows:

	2006	2005
	\$	\$
Interest paid	(221,858)	(282,018)
Interest received	206,535	143,925
Taxes paid	(166,115)	(102,280)
Taxes refunded	-	103,174

9. Tax status

The company is exempt from income 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, 2006

10. Employee future benefits

The employees of COLLUS Power Corp. participate in the Ontario Municipal Employees Retirement System ("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 \$37,373 (2005 - \$37,909).

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, 2005 of \$169,343 and the net periodic benefit cost for 2006 was determined by actuarial valuations using discount rates of 5.0%. 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:

	2006	2005
	\$	\$
Accrued benefit obligation		
Balance at the beginning of period	169,343	154,989
Current service cost for the period	53,809	9,241
Interest cost for the period	12,977	10,978
Actuarial loss/(gain)	17,571	25,146
Prior period cost	22,660	27,192
Benefits paid for the period	(7,706)	(10,397)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	268,654	217,149
Unamortized actuarial (loss)/gain	(17,571)	(25,146)
Unamortized prior service cost	(18,128)	(22,660)
Balance at end of period	232,955	169,343
Components of net periodic benefit cost		
Current service cost (recovery) for the period	53,809	9,241
Interest cost for the period	12,977	10,978
Amortization of prior service cost	4,532	4,532
Net periodic benefit cost (recovery)	71,318	24,751

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

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 2.1% in 2006 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2006, of the present value of future liabilities was determined using a discount rate of 5.0%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 2.9%.

(c) Salary levels

Future general salary and wage levels were assumed to increase at 3.3% per annum.

(d) Medical costs

Medical costs were assumed to increase at 10.0% in 2006 graded down 1.0% a year until 2011 after which the rate is assumed to increase 5.0% annually.

(e) Dental costs

Dental costs were assumed to increase at 5.0% in 2006 and thereafter.