

COLLINGWOOD UTILITY SERVICES CORP.

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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GAVILLER & COMPANY LLP
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholder of **Collingwood Utility Services Corp.**:

We have audited the consolidated balance sheet of **Collingwood Utility Services Corp.** as at December 31, 2009, and the consolidated statements of operations and retained income and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Collingwood Utility Services Corp. as at December 31, 2009 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 5, 2010

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2009	2008
	\$	\$
Assets		
Current		
Cash	1,572,425	5,392,535
Taxes recoverable	104,404	189,156
Accounts receivable (Note 9)	3,809,997	4,192,842
Unbilled revenue	3,024,852	3,470,384
Inventory	297,789	255,131
	8,809,467	13,500,048
Property, plant and equipment		
Lands	90,439	90,439
Buildings	255,668	80,668
Distribution stations	3,857,578	3,150,296
Distribution lines	19,596,227	17,864,725
Distribution transformers	5,020,605	4,647,854
Distribution meters	1,565,562	1,478,408
Other	2,838,992	2,139,843
Load control	1,459,235	1,417,631
Contributions in aid of construction (Note 7)	(9,354,806)	(6,738,873)
	25,329,500	24,130,991
Less accumulated depreciation	(13,405,295)	(12,472,621)
	11,924,205	11,658,370
Other		
Goodwill	276,704	276,704
Intangible assets (net of accumulated amortization of \$130,189)	338,117	33,667
Investment in Utility Collaborative Services Inc. - at cost	100	-
Future taxes recoverable	255,837	208,344
	870,758	518,715
	21,604,430	25,677,133

Approved by directors:

_____ Director

_____ Director

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2009	2008
	\$	\$
Liabilities		
Current		
Accounts payable and accruals (Notes 7, and 9)	7,342,070	8,817,294
Customer deposits	355,081	355,272
Current portion of long-term (Note 10)	-	1,117,353
	7,697,151	10,289,919
Long-term (Note 10)	1,710,170	1,710,170
Employee future benefits (Note 12)	595,475	539,064
Other (Note 11)	1,005,314	3,012,396
Total liabilities	11,008,110	15,551,549
Shareholder's equity		
Capital stock		
Authorized		
Unlimited common shares		
Issued		
5,101,640 common shares	5,101,640	5,101,640
Miscellaneous paid in capital	2,966,014	2,966,014
Retained income	2,528,666	2,057,930
Total shareholder's equity	10,596,320	10,125,584
	21,604,430	25,677,133

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED INCOME FOR THE YEAR ENDED DECEMBER 31

	2009	2008
	\$	\$
Revenues		
Sale of power	24,064,556	23,782,787
Distribution services	5,126,519	4,517,599
	29,191,075	28,300,386
Cost of power		
Power purchased	24,064,556	23,782,787
	5,126,519	4,517,599
Distribution income (17.6%; 2008 - 16.0%)	5,126,519	4,517,599
Other operating income (Note 9)		
Accounting and administrative services	811,881	783,917
Miscellaneous	557,971	613,467
	6,496,371	5,914,983
Operating expenses (Note 9)		
Distribution and transmission	1,732,891	1,660,992
Billing and collecting	631,522	478,850
General administration (Notes 9 and 10)	2,593,799	2,558,945
Depreciation and amortization	1,004,161	854,329
	5,962,373	5,553,116
Net income before taxes	533,998	361,867
Provision for (recovery) of taxes		
Current	110,755	144,784
Future	(47,493)	(71,993)
	63,262	72,791
Net income for the year	470,736	289,076
Retained income, beginning of year	2,057,930	1,768,854
Retained income, end of year	2,528,666	2,057,930

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31

	2009	2008
	\$	\$
Cash flows from (for):		
Operating activities		
Net income for the year	470,736	289,076
Items not requiring funds		
Depreciation	1,036,132	925,191
Amortization of deferred charges and smart meters	76,094	8,155
Future taxes	(47,493)	(71,993)
	1,535,469	1,150,429
Changes in:		
Accounts receivable	382,845	1,231,315
Unbilled revenue	445,532	(140,768)
Inventory	(42,658)	27,362
Accounts payable and accruals	(1,475,224)	1,520,589
Income taxes	84,752	(211,279)
Customer deposits	(191)	(3,504)
Employee future benefits	56,411	84,000
Other liabilities	(2,709,369)	633,769
	(1,722,433)	4,291,913
Investing activities		
Acquisition of property, plant and equipment	(980,224)	(2,610,130)
Investment in Utility Collaborative Services Inc.	(100)	-
	(980,324)	(2,610,130)
Financing activities		
Repayment of long-term liabilities	(1,117,353)	(324,244)
	(1,117,353)	(324,244)
Change in cash	(3,820,110)	1,357,539
Cash position, beginning of year	5,392,535	4,034,996
Cash position, end of year	1,572,425	5,392,535

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2009

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 judgements based on available information. The most significant estimates are included in unbilled revenue and economic evaluation. 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 of the company are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), including accounting principles prescribed by the Ontario Energy Board (OEB) through the 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, 2009, the company was authorized to earn 9.85% on equity and 6.25% on debt with a deemed debt to equity ratio of 1:0.89.

- (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. Revenue from accounting and administrative services provided are recognized at the time in which the services were provided.
- (d) The financial statements of the company's subsidiaries, COLLUS Solutions Corp., COLLUS Power Corp. and COLLUS Energy Corp. have been consolidated. All inter-company transactions have been eliminated.
- (e) Property, plant and equipment are stated at cost. Contributions received in aid of construction of property, plant and equipment are capitalized and amortized at the same rate as the related asset. Property, plant and equipment 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) Economic evaluation is an estimate of amounts due to subdivision developers in the future as repayment for the developers installation of hydro infrastructure.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2009

1. Significant accounting policies (continued)

- (h) 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.
- (i) 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.
- (j) The company's inventory typically consists of poles and wire, 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. The company's inventory is valued using the moving average cost method and is recorded at the lower of cost and net realizable value.
- (k) The company has adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3861 - "Financial Instruments - Disclosure and Presentation" which establishes the requirement of disclosure of risks associated with financial instruments and the management of those risks.

2. 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 tax calculated on the same basis as the Income Tax Act.

3. Change in accounting policy

- (a) Capital disclosures

Effective December 1, 2009, the company adopted CICA Handbook Section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed. Adoption of these recommendations had no effect on the financial statements for the year ending December 31, 2009 except for additional disclosure found in Note 13.

- (b) Intangible assets

Effective January 1, 2009, the company adopted CICA Handbook Section 3064 - "Goodwill and Intangible Assets" which replaced CICA Handbook Section 3062 - "Goodwill and Other Intangible Assets". Existing assets were examined to determine if they met the new criteria for an intangible asset. It was determined that the company's computer software met the new criteria and was re-classified as an intangible asset from property, plant and equipment. The historical cost of the computer software is \$468,306 (2008 - \$70,196) and the accumulated depreciation is \$130,189 (2008 - \$36,529). Computer software is being amortized over its useful life on a straight line basis over 5 years.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2009

4. Future Accounting Pronouncements

On February 13, 2008, the Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2011. The transition period is expected to begin for fiscal years beginning on or after January 1, 2010. The impact of these changes cannot be estimated at this time. Phase 1 of the company's IFRS implementation was complete as of October 2009. Phase 1 identified the company's needs with regard to the new standards and set out recommendations to meet those needs.

5. Financial instruments

The company's financial instruments consist of cash, accounts receivable, unbilled revenue, accounts 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 market value does not vary significantly from recorded value.

6. Supplemental cash flow information

Cash receipts (payments) were made as follows:

	2009	2008
	\$	\$
Interest received	70,417	140,444
Interest paid	(179,149)	(188,963)
Taxes refunded	190,118	-
Taxes paid	(216,120)	(356,062)

7. 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 \$365,610 (2008 - \$633,711). The liability is included in accounts payable. The balance of \$9,354,806 (2008 - \$6,738,873) is recorded as a reduction of the cost of property, plant and equipment.

8. Subsequent events

Subsequent to year end, a \$3 million loan was approved by Infrastructure Ontario and will be activated upon notice from the Board. This loan is to be paid back over 15 years. The loan interest rate is expected to be 4.67% and the loan will likely be advanced in May 2010.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2009

9. Related party transactions

Collingwood Public Utilities Commission and the company are controlled by the council of the Town of Collingwood.

Related party transactions are recorded at their exchange value and include the following:

	2009	2008
	\$	\$
Amounts receivable from Collingwood Public Utilities Service Board	162,324	142,223
Amounts receivable from the Town of Collingwood	75,536	83,014
Amounts payable to the Collingwood Public Utilities Service Board	(496,809)	(322,931)
Amounts payable to the Town of Collingwood	(412,995)	(2,229,140)
Revenues include amounts charged to the following parties:		
Town of Collingwood	62,517	58,087
Collingwood Public Utilities Service Board	811,881	783,917
Expenses include information technology assistance to the Town of Collingwood	20,029	18,326
The company is leasing its operations centre and computers 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.	317,000	311,000

10. Long-term liabilities

Long-term liabilities consist of the following:

	2009	2008
	\$	\$
5.47% demand installment loan payable to the CIBC, repaid on January 7, 2009	-	1,117,353
7.25% note payable to Town of Collingwood, no set terms of repayment	1,710,170	1,710,170
	1,710,170	2,827,523
Current portion of long-term liabilities	-	(1,117,353)
	1,710,170	1,710,170

Included in general administration expense is \$129,020 (2008 - \$188,965) of interest on long-term liabilities.

The corporation is contingently liable for a letter of credit in the amount of \$1,631,702 (2008 - \$1,631,702) to meet the prudential requirements of the Independent Electricity System Operator.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2009

11. Other assets (liabilities)

Other assets (liabilities) consist of the following:

	2009	2008
	\$	\$
Deferred charges-service area expansion (net of \$90,744 accumulated amortization, 2008 - \$82,589)	114,170	122,325
Regulatory assets		
Other regulatory assets	66,530	82,356
Smart meter variance	1,927,304	-
Regulatory liabilities		
Purchased power cost variance	(2,562,776)	(2,669,912)
Regulatory assets recovered	(507,194)	(184,311)
Smart meter variance	-	(29,521)
Other regulatory liabilities	(43,348)	(333,333)
Total regulatory liabilities	(3,113,318)	(3,217,077)
Net liability	(1,005,314)	(3,012,396)

Other regulatory assets consist of Hydro One incremental capital and pension costs from OMERS not recovered in rates. This account includes annual carrying charges accrued at the OEB quarterly interest rate in effect.

The purchased power cost variance represents 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.

The smart meters regulatory asset account relates to the Province of Ontario's decision to install smart meters throughout Ontario by 2010. The company launched its project shortly following the Province of Ontario's announcement in 2006. As at December 31, 2009, the company had installed approximately 15,000 smart meters. In 2008, in connection with this initiative, the OEB approved the disposition of the balances incurred in 2006 and 2007. As at December 31, 2009, smart meter capital expenditures totaled \$2,257,264 (2008 - \$24,073) which is offset by revenues of \$262,021 (2008 - \$117,270) and accumulated depreciation of \$67,939 (2008 - \$NIL).

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2009

12. Employee future benefits

The employees of Collingwood Utility Services 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 \$227,922 (2008 - \$170,942).

In addition, Collingwood Utility Services 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, 2009 of \$595,475 and the net periodic benefit cost for 2009 was determined by actuarial valuations using discount rates of 6.0% and was adjusted by management based on new information available. 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:

	2009	2008
	\$	\$
Accrued benefit obligation		
Balance at the beginning of period	539,064	455,064
Current service cost for the period	21,715	58,887
Interest cost for the period	35,914	28,305
Actuarial loss	30,014	79,478
Prior period cost	12,868	19,303
Benefits paid for the period	(10,195)	(14,677)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	629,380	626,360
Unamortized actuarial loss	(27,471)	(74,428)
Unamortized prior service cost	(6,434)	(12,868)
Balance at end of period	595,475	539,064
Components of net periodic benefit cost		
Current service cost for the period	21,715	58,887
Interest cost for the period	35,914	28,305
Amortization of actuarial losses	2,543	5,050
Amortization of prior service cost	6,433	6,435
Net periodic benefit cost	66,605	98,677

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2009

12. 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 2.0% in 2009 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2009, 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 4.0%.

(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 9.0% in 2009 graded down 0.67% a year until 2015 after which the rate is assumed to increase 5.0% annually.

(e) Dental costs

Dental costs were assumed to increase at 5.0% in 2009 and thereafter.

13. Capital disclosures

The company's main objectives when managing capital are to:

- (a) Ensure ongoing access to funds that will allow the ongoing operation of the service company.
- (b) Ensure ongoing access to funding to maintain and improve the electricity distribution system and to ensure that capital needs are met.
- (c) Ensure compliance with covenants related to its credit facilities and the Town of Collingwood promissory note.
- (d) Ensure that the capital structure is such that the debt to equity structure deemed by the OEB is not exceeded.

As at December 31, 2009, the company's definition of capital includes shareholder's equity and long-term debt. There have been no changes in the Company's approach to capital management during the year.

The company has met all covenants related to its credit facilities.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2009

14. 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 and that settlement was approved by the Ontario Superior Court.

In 2007, Enbridge filed an application to the OEB to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008 the OEB approved recovery of the said amounts from ratepayers over a five year period.

After the release by the Supreme Court of Canada of its 2004 decision in the Enbridge case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs. In 2010 the parties reached a tentative settlement and it was determined that the company's portion of the settlement will be \$47,000, which has been accrued. The settlement is contingent on all LDCs agreeing to the terms of the settlement.

15. Commitments

The company committed to the construction of the Sixth Street substation. The work began during 2009 and is set to be completed in 2010 by Tilltran. As of December 31, 2009 total costs of \$1,050,192 had been incurred. During 2010 additional costs of \$177,115 are expected to complete this project.