

COLLUS POWER CORP.

**FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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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, 2007, 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, 2007 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 3, 2008

COLLUS POWER CORP.

BALANCE SHEET AS AT DECEMBER 31

	2007	2006
	\$	\$
Assets		
Current		
Cash	3,640,113	5,272,508
Accounts receivable (Note 6)	5,278,910	3,934,210
Unbilled revenue	3,329,616	2,819,474
Inventory	282,493	245,218
	12,531,132	12,271,410
Capital		
Lands	90,439	90,439
Buildings	80,668	80,668
Distribution stations	3,126,647	2,051,269
Distribution lines	16,259,805	15,441,219
Distribution transformers	4,067,170	3,751,092
Distribution meters	1,377,576	1,343,478
Other capital assets	1,539,550	1,423,450
Load control (customer premises)	878,887	878,887
Load management control	470,252	406,595
Contributions in aid of construction (Note 2)	(6,129,230)	(5,648,240)
	21,761,764	19,818,857
Less accumulated depreciation	(11,754,666)	(10,943,323)
	10,007,098	8,875,534
Goodwill	276,704	276,704
Future taxes recoverable	90,000	26,000
	22,904,934	21,449,648

Approved by directors:

_____ Director

_____ Director

See accompanying notes to the financial statements

COLLUS POWER CORP.

BALANCE SHEET AS AT DECEMBER 31

	2007	2006
	\$	\$ Restated (Note 4)
Liabilities		
Current		
Accounts payable and accruals (Notes 2, 3, 4 and 6)	7,137,880	6,909,238
Taxes payable	20,222	136,411
Customer deposits	358,776	332,398
Current portion of long-term	1,441,597	1,780,805
	8,958,475	9,158,852
Long-term (Note 5)	1,710,170	1,710,170
Employee future benefits (Note 11)	211,109	232,955
Other (Note 3 and 4)	2,370,472	1,249,036
Total liabilities	13,250,226	12,351,013
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	1,587,354	1,031,281
Total shareholder's equity	9,654,708	9,098,635
	22,904,934	21,449,648

See accompanying notes to the financial statements

COLLUS POWER CORP.

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

	2007	2006
	\$	\$
Revenue		
Sale of power	23,678,032	23,554,168
Distribution services	4,656,270	4,447,191
	28,334,302	28,001,359
Cost of power		
Power purchased	23,678,032	23,554,168
Distribution income (16.4%, 2006 - 15.9%)	4,656,270	4,447,191
Other revenue	573,530	488,279
	5,229,800	4,935,470
Operating and maintenance expenses		
Distribution and transmission	1,537,496	1,521,568
Billing and collecting	655,645	592,333
General administration (Notes 5 and 6)	1,438,190	1,379,817
Depreciation and amortization	782,359	767,646
	4,413,690	4,261,364
Net income before taxes	816,110	674,106
Provision for (recovery of) taxes		
Current	324,037	274,436
Future	(64,000)	(51,000)
	260,037	223,436
Net income for the year	556,073	450,670
Retained income, beginning of year	1,031,281	580,611
Retained income, end of year	1,587,354	1,031,281

See accompanying notes to the financial statements

COLLUS POWER CORP.

STATEMENT OF CASH FLOW FOR THE YEAR ENDING DECEMBER 31

	2007	2006
	\$	\$ Restated (Note 4)
Cash flows from (for):		
Operating activities		
Net income	556,073	450,670
Items not requiring funds		
Depreciation	811,043	811,895
Amortization of deferred charges	8,155	8,155
Future taxes	(64,000)	(51,000)
	1,311,271	1,219,720
Changes in		
Accounts receivable	(1,344,700)	(2,160,086)
Unbilled revenue	(510,142)	831,551
Inventory	(37,275)	(29,687)
Accounts payable and accruals	228,642	1,352,984
Taxes payable	(116,189)	111,643
Customer deposits	26,378	(23,572)
Employee future benefits	(21,846)	64,716
Other liabilities	1,113,281	554,635
	649,420	1,921,904
Investing activities		
Net additions to capital assets	(2,423,597)	(904,082)
Financing activities		
Repayment of long-term liabilities	(339,208)	(319,071)
Contributions in aid of construction	480,990	354,422
	141,782	35,351
Change in cash	(1,632,395)	1,053,173
Cash position, beginning of year	5,272,508	4,219,335
Cash position, end of year	3,640,113	5,272,508

See accompanying notes to the financial statements

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

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 judgment based on available information. The most significant estimates are included in unbilled revenue and economic evaluations. 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 1:0.89.

- (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.
- (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) Economic evaluation is an estimate of amounts due to subdivision developers in the future as repayment for the developers installation of hydro infrastructure.
- (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.

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

1. Significant accounting policies (continued)

- (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.

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 \$372,435 (2006 - \$72,435) of the amounts collected. The liability is included in accounts payable. The balance of \$6,129,230 (2006 - \$5,648,240) is recorded as a reduction of the cost of capital assets.

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

3. Other assets (liabilities)

Other assets (liabilities) consist of the following:

	2007	2006
	\$	\$
		Restated (Note 4)
Deferred charges-service area expansion (net of \$74,434 accumulated amortization, 2006 - \$66,279)	130,480	138,635
Regulatory assets		
Other regulatory assets	89,521	88,686
Regulatory liabilities		
Hydro One regulatory liability	(80,711)	(186,575)
Purchased power cost variance	(2,245,724)	(1,264,036)
Regulatory recoveries	(114,357)	(2,524)
Smart meter variance	(16,348)	(23,222)
Other regulatory liabilities	(133,333)	-
Total regulatory liabilities	(2,590,473)	(1,476,357)
Net liability	(2,370,472)	(1,249,036)

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.

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 \$105,864 (2006 - \$198,458) 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.

Purchased power cost variance includes the variances, including carrying costs accrued at the OEB quarterly rate in effect, that have occurred since the 2006 authorized recovery referred to in the following paragraph.

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.

The OEB, commencing in May 2006, authorized the collection of \$.26 per residential customer per month towards the recovery of Smart Meter costs. Carrying charges are accrued on this account for 2007 and later years at the OEB quarterly interest rate in effect.

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NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 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 \$NIL (2006 - \$62,670) of MARR from customers and expended \$71,280 (2006 - \$100,646) in conservation and demand management activities. The balance of \$81,654 (2006 - \$152,934) will be spent on conservation and demand management activities in 2008.

Other regulatory liabilities consist of 2006 Tier II rate rider variances. The other regulatory liabilities include annual carrying charges accrued at the OEB quarterly interest rate in effect.

4. Prior period adjustment

The 2006 Purchased power cost variance (a component part of other liabilities) and accounts payable balances have been restated to adjust for an error in the calculation of the Independent Electricity System Operator's 2006 power invoices for Regulated Price Plan variance reimbursement as follows:

	Originally Stated	Restated	Change
	\$	\$	\$
Other Liabilities	2,038,484	1,249,036	(789,448)
Accounts Payable	6,119,790	6,909,238	789,448

5. Long-term liabilities

Long-term liabilities consist of the following:

	2007	2006
	\$	\$
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.	1,441,597	1,748,805
9.75% debenture payable, due 2007	-	32,000
7.25% note payable to the Town of Collingwood, no set terms of repayment	1,710,170	1,710,170
Current portion	(1,441,597)	(1,780,805)
	1,710,170	1,710,170

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

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 two years are as follows:

	\$
2008	324,244
2009	1,117,352

Included in general administration expense is \$211,925 (2006 - \$221,858) of interest on long-term liabilities.

The corporation is contingently liable for a letter of credit in the amount of \$1,631,702 (2006 - \$2,272,370) to meet the prudential requirements of the Independent Electricity System Operator.

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:

	2007	2006
	\$	\$
Amounts payable to the Collingwood Public Utilities Service Board	446,317	842,040
Amounts receivable from COLLUS Solutions Corp.	-	219,512
Amounts payable to COLLUS Solutions Corp.	13,942	-
Amounts receivable from the Town of Collingwood	1,250,369	113,193
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.	150,000	143,000
Operating and maintenance expenses include services purchased from COLLUS Solutions Corp.	1,045,937	967,635

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

7. 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 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.

8. 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 value does not vary significantly from recorded value.

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

9. Supplemental cash flow information

Cash receipts and (payments) were made as follows:

	2007	2006
	\$	\$
Interest paid	(211,925)	(221,858)
Interest received	247,182	206,535
Taxes paid	(448,482)	(166,115)

10. 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, 2007

11. 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 \$42,058 (2006 - \$37,373).

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, 2007 of \$211,109 and the net periodic benefit cost for 2007 was determined by actuarial valuation 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:

	2007	2006
	\$	\$
Accrued benefit obligation		
Balance at the beginning of period	232,955	169,343
Current service cost for the period	6,304	53,809
Interest cost for the period	13,540	12,977
Actuarial loss	17,571	17,571
Prior period cost	18,128	22,660
Benefits paid for the period	(8,325)	(7,706)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	280,173	268,654
Unamortized actuarial loss	(55,468)	(17,571)
Unamortized prior service cost	(13,596)	(18,128)
Balance at end of period	211,109	232,955
Components of net periodic benefit cost		
Current service cost (recovery) for the period	6,303	53,809
Interest cost for the period	13,540	12,977
Amortization of actuarial losses	4,955	-
Amortization of prior service cost	4,532	4,532
Net periodic benefit cost	29,330	71,318

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

11. 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 2007 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2007, 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 2007 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.