COLLUS POWER CORP.

FINANCIAL STATEMENTS
DECEMBER 31, 2008

CONTENTS

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, 2008, 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 the company as at December 31, 2008 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, 2009

COLLUS POWER CORP.

BALANCE SHEET
AS AT DECEMBER 31

	2008	2007
	$	$
Assets		
Current		
Cash	**5,113,419**	3,640,113
Taxes recoverable	**180,719**	-
Accounts receivable (Note 7)	**3,937,272**	5,278,909
Unbilled revenue	**3,470,384**	3,329,616
Inventory	**255,131**	282,493
	12,956,925	12,531,131
Capital		
Lands	**90,439**	90,439
Buildings	**80,668**	80,668
Distribution stations	**3,150,296**	3,126,647
Distribution lines	**17,864,725**	16,259,805
Distribution transformers	**4,647,854**	4,067,170
Distribution meters	**1,478,408**	1,377,576
Other capital assets	**2,210,039**	1,539,550
Load control (customer premises)	**878,887**	878,887
Load management control	**538,744**	470,252
Contributions in aid of construction (Note 4)	**(6,738,873)**	(6,129,230)
	24,201,187	21,761,764
Less accumulated depreciation	**(12,509,150)**	(11,754,666)
	11,692,037	10,007,098
Goodwill	**276,704**	276,704
Future taxes recoverable	**145,874**	90,000
	25,071,540	22,904,933

Approved by directors:

_________________________________ Director

_________________________________ Director

See accompanying notes to the financial statements

COLLUS POWER CORP.

BALANCE SHEET
AS AT DECEMBER 31

	2008	2007
	$	$
Liabilities		
Current		
Accounts payable and accruals (Notes 4, 5, and 7)	**8,686,709**	7,137,879
Taxes payable	**-**	20,222
Customer deposits	**355,272**	358,776
Current portion of long-term	**1,117,353**	1,441,597
	10,159,334	8,958,474
Long-term (Note 6)	**1,710,170**	1,710,170
Employee future benefits (Note 13)	**255,109**	211,109
Other (Note 5)	**3,012,396**	2,370,472
Total liabilities	**15,137,009**	13,250,225
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	**1,867,177**	1,587,354
Total shareholder's equity	**9,934,531**	9,654,708
	25,071,540	22,904,933

See accompanying notes to the financial statements

COLLUS POWER CORP.

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

	2008	2007
	$	$
Revenue		
Sale of power	**23,782,787**	23,678,032
Distribution services	**4,517,599**	4,656,270
	28,300,386	28,334,302
Cost of power		
Power purchased	**23,782,787**	23,678,032
Distribution income (16.0%, 2007 - 16.4%)	**4,517,599**	4,656,270
Other revenue	**539,564**	573,530
	5,057,163	5,229,800
Operating and maintenance expenses		
Distribution and transmission	**1,839,366**	1,537,496
Billing and collecting	**632,507**	655,645
General administration (Notes 6 and 7)	**1,370,336**	1,438,190
Depreciation and amortization	**854,329**	782,359
	4,696,538	4,413,690
Net income before taxes	**360,625**	816,110
Provision for (recovery of) taxes		
Current	**136,676**	324,037
Future	**(55,874)**	(64,000)
	80,802	260,037
Net income for the year	**279,823**	556,073
Retained income, beginning of year	**1,587,354**	1,031,281
Retained income, end of year	**1,867,177**	1,587,354

See accompanying notes to the financial statements

COLLUS POWER CORP.

STATEMENT OF CASH FLOW
FOR THE YEAR ENDING DECEMBER 31

	2008	2007
	$	$
Cash flows from (for):		
Operating activities		
Net income	**279,823**	556,073
Items not requiring funds		
Depreciation	**925,191**	811,043
Amortization of deferred charges	**8,155**	8,155
Future taxes	**(55,874)**	(64,000)
	1,157,295	1,311,271
Changes in		
Accounts receivable	**1,341,637**	(1,344,700)
Unbilled revenue	**(140,768)**	(510,142)
Inventory	**27,362**	(37,275)
Accounts payable and accruals	**1,548,830**	228,642
Taxes payable	**(200,941)**	(116,189)
Customer deposits	**(3,504)**	26,378
Employee future benefits	**44,000**	(21,846)
Other liabilities	**633,769**	1,113,281
	4,407,680	649,420
Investing activities		
Net additions to capital assets	**(3,219,774)**	(2,423,597)
Financing activities		
Repayment of long-term liabilities	**(324,244)**	(339,208)
Contributions in aid of construction	**609,644**	480,990
	285,400	141,782
Change in cash	**1,473,306**	(1,632,395)
Cash position, beginning of year	**3,640,113**	5,272,508
Cash position, end of year	**5,113,419**	3,640,113

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2008

1. Significant accounting policies

The financial statements of the company 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 of the company have been 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, 2008, 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) 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) Deferred charges - service area expansion costs are being amortized on a straight-line basis over twenty-five years.

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

(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.

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. Change in accounting policy

Effective January 1, 2008, the company adopted the new accounting standards for inventory issued by the Canadian Institute of Chartered Accountants (CICA). Inventory is now required to be recorded at the lower of cost and net realizable value and any items considered to be major future components of capital assets are to be reclassified as capital assets. 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. The prior inventory policy carried inventory at the lower of cost or market. There was no change to financial statement numbers as a result of the policy change.

3. 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.

4. Contributions in aid of construction

Under the terms of the Distribution System Code, the company 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 company estimates that it will return $633,711 (2007 - $372,435) or 30% of the amounts collected. The liability is included in accounts payable. The balance of $6,738,873 (2007 - $6,129,230) is recorded as a reduction of the cost of capital assets.

5. Other assets (liabilities)

Other assets (liabilities) consist of the following:

	2008	2007
	$	$
Deferred charges-service area expansion (net of $82,589 accumulated amortization, 2007 - $74,434)	**122,325**	130,480
Regulatory assets		
Other regulatory assets	**82,356**	89,521
Regulatory liabilities		
Hydro One regulatory liability	**-**	(80,711)
Purchased power cost variance	**(2,669,912)**	(2,245,724)
Regulatory recoveries	**(184,311)**	(114,357)
Smart meter variance	**(29,521)**	(16,348)
Other regulatory liabilities	**(333,333)**	(133,333)
Total regulatory liabilities	**(3,217,077)**	(2,590,473)
Net liability	**(3,012,396)**	(2,370,472)

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 $19,078 (2007 - $105,864) 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. In 2008 Hydro One billed the company seven extra payments of $9,666 in error resulting in a lower year end liability than was anticipated.

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 which are combined in the smart meter variance account. Carrying charges are accrued on this account for 2007 and later years at the OEB quarterly interest rate in effect.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2008

5. Other assets (liabilities) (continued)

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 expended $74,049 (2007 - $71,280) in conservation and demand management activities. The balance of $7,605 (2007 - $81,654) will be spent on conservation and demand management activities in 2009 and potentially future years.

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.

6. Long-term liabilities

Long-term liabilities consist of the following:

	2008	2007
	$	$
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.	**1,117,353**	1,441,597
7.25% note payable to the Town of Collingwood, no set terms of repayment	**1,710,170**	1,710,170
	2,827,523	3,151,767
Current portion	**(1,117,353)**	(1,441,597)
	1,710,170	1,710,170

Included in general administration expense is $188,965 (2007 - $211,925) of interest on long-term liabilities.

The company is contingently liable for a letter of credit in the amount of $1,631,702 (2007 - $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, 2008

7. 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:

	2008	2007
	$	$
Amounts payable to the Collingwood Public Utilities Service Board	**(322,931)**	(446,317)
Amounts payable to COLLUS Solutions Corp.	**(63,978)**	(13,942)
Amounts receivable from the Town of Collingwood	**-**	1,250,369
Amounts payable to the Town of Collingwood	**(2,221,671)**	-
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.	**194,000**	150,000
Operating and maintenance expenses include services purchased from COLLUS Solutions Corp.	**1,068,195**	1,045,937

8. 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.

9. Supplemental cash flow information

Cash receipts and (payments) were made as follows:

	2008	2007
	$	$
Interest paid	**(188,965)**	(211,925)
Interest received	**133,513**	247,182
Taxes paid	**(337,617)**	(448,482)

10. 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.

11. 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.

12. Commitments

The company committed to the purchase and installation of smart meters for the majority of its customers. The amount budgeted cost for this project is $2,430,942. To date costs in the amount of $490,794 have been incurred. It is estimated that an additional $1,940,148 will be spent during 2009 and future years until project completion. The residential component will be performed by Olameter, an outside contractor and the remainder of the work will be completed internally by the company.

The company committed to the installation of a new billing system by Harris Computer Systems in 2009 at Utility Collaborative Systems (an external data centre provider). The total cost of the new system is expected to be $400,000. During 2008 costs of $60,560 were incurred, and the remaining estimated costs of $339,440 will be expended in 2009.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2008

13. 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 company 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 $49,094 (2007 - $42,057).

In addition, COLLUS Power Corp. pays certain benefits on behalf of its retired employees. The company recognizes these post-retirement costs in the period in which the employees rendered the services. The accrued benefit obligation at December 31, 2008 of $255,109 and the net periodic benefit cost for 2008 was determined by actuarial valuation using discount rates of 5.0% 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:

	2008	2007
	$	$
Accrued benefit obligation		
Balance at the beginning of period	**211,109**	232,955
Current service cost for the period	**29,342**	6,304
Interest cost for the period	**14,116**	13,540
Actuarial loss	**55,468**	17,571
Prior period cost	**13,596**	18,128
Benefits paid for the period	**(8,947)**	(8,325)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	**314,684**	280,173
Unamortized actuarial loss	**(50,512)**	(55,468)
Unamortized prior service cost	**(9,063)**	(13,596)
Balance at end of period	**255,109**	211,109
Components of net periodic benefit cost		
Current service cost (recovery) for the period	**29,342**	6,304
Interest cost for the period	**14,116**	13,540
Amortization of actuarial loss	**4,956**	4,955
Amortization of prior service cost	**4,533**	4,532
Net periodic benefit cost	**52,947**	29,331

13. 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 2008 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2008, 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 2008 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 2008 and thereafter.