COLLUS POWER CORP.

FINANCIAL STATEMENTS
DECEMBER 31, 2009

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, 2009, 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, 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

COLLUS POWER CORP.

BALANCE SHEET
AS AT DECEMBER 31

	2009	2008
	$	$
Assets		
Current		
Cash	**1,388,603**	5,113,419
Taxes recoverable	**102,231**	180,719
Accounts receivable	**3,554,460**	3,937,272
Unbilled revenue	**3,024,852**	3,470,384
Inventory	**297,789**	255,131
	8,367,935	12,956,925
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 4)	**(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	**178,811**	145,874
	793,732	456,245
	21,085,872	25,071,540

Approved by directors:

________________________________ Director

________________________________ Director

See accompanying notes to the financial statements

COLLUS POWER CORP.

BALANCE SHEET
AS AT DECEMBER 31

	2009	2008
	$	$
Liabilities		
Current		
Accounts payable and accruals (Notes 4 and 7)	**7,350,989**	8,686,709
Customer deposits	**355,081**	355,272
Current portion of long-term	**-**	1,117,353
	7,706,070	10,159,334
Long-term (Note 6)	**1,710,170**	1,710,170
Employee future benefits (Note 14)	**281,085**	255,109
Other (Note 5)	**1,005,314**	3,012,396
Total liabilities	**10,702,639**	15,137,009
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	**2,315,879**	1,867,177
Total shareholder's equity	**10,383,233**	9,934,531
	21,085,872	25,071,540

See accompanying notes to the financial statements

COLLUS POWER CORP.

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

	2009	2008
	$	$
Revenue		
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
Distribution income (17.6%, 2008 - 16.0%)	**5,126,519**	4,517,599
Other revenue	**488,295**	539,564
	5,614,814	5,057,163
Operating and maintenance expenses (Note 7)		
Distribution and transmission	**1,903,185**	1,839,366
Billing and collecting	**821,070**	632,507
General administration (Notes 6 and 7)	**1,369,727**	1,370,336
Depreciation and amortization	**1,004,161**	854,329
	5,098,143	4,696,538
Net income before taxes	**516,671**	360,625
Provision for (recovery of) taxes		
Current	**100,906**	136,676
Future	**(32,937)**	(55,874)
	67,969	80,802
Net income for the year	**448,702**	279,823
Retained income, beginning of year	**1,867,177**	1,587,354
Retained income, end of year	**2,315,879**	1,867,177

See accompanying notes to the financial statements

COLLUS POWER CORP.

STATEMENT OF CASH FLOW
FOR THE YEAR ENDING DECEMBER 31

	2009	2008
	$	$
Cash flows from (for):		
Operating activities		
Net income	**448,702**	279,823
Items not requiring funds		
Depreciation	**1,036,132**	925,191
Amortization of deferred charges and smart meters	**76,094**	8,155
Future taxes	**(32,937)**	(55,874)
	1,527,991	1,157,295
Changes in		
Accounts receivable	**328,812**	1,341,637
Unbilled revenue	**445,532**	(140,768)
Inventory	**(42,658)**	27,362
Accounts payable and accruals	**(1,335,718)**	1,548,830
Taxes payable	**78,488**	(200,941)
Customer deposits	**(191)**	(3,504)
Employee future benefits	**25,976**	44,000
Other liabilities	**(2,709,369)**	633,769
	(1,681,137)	4,407,680
Investing activities		
Acquisition of property, plant and equipment	**(926,226)**	(2,610,130)
Investment in Utility Collaborative Services Inc.	**(100)**	-
	(926,326)	(2,610,130)
Financing activities		
Repayment of long-term liabilities	**(1,117,353)**	(324,244)
Change in cash	**(3,724,816)**	1,473,306
Cash position, beginning of year	**5,113,419**	3,640,113
Cash position, end of year	**1,388,603**	5,113,419

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2009

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, 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.

(d) 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	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.

(i) 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.

(j) The company accounts for financial instruments using 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. Changes in accounting policies

(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 15.

(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.

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 (IFRS) 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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2009

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 $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 capital assets.

5. 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**	-
Total regulatory assets	**1,993,834**	82,356
Regulatory liabilities		
Purchased power cost variance	**(2,562,776)**	(2,669,912)
Regulatory recoveries	**(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, 2008, smart meter capital expenditures totaled $2,257,264 (2008 - $24,073) which is offset by revenues of $262,021 (2008 - $l17,270) and accumulated depreciation of $67,939 (2008 - $ NIL).

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2009

6. 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 the Town of Collingwood, no set terms of repayment	1,710,170	1,710,170
	1,710,170	2,827,523
Current portion	-	(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 company 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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2009

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 are recorded at their exchange amount and include the following:

	2009	2008
	$	$
Amounts payable to the Collingwood Public Utilities Service Board	**(496,809)**	(322,931)
Amounts payable to COLLUS Solutions Corp.	**(94,769)**	(63,978)
Amounts payable to the Town of Collingwood	**(412,995)**	(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.	**200,000**	194,000
Operating and maintenance expenses include services purchased from COLLUS Solutions Corp.	**1,114,125**	1,068,195
COLLUS Power Corp. is leasing computer equipment from Collingwood Public Utilities Service Board. This amount is included in the above netted expenses.	**117,000**	117,000

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:

	2009	2008
	$	$
Interest paid	**(179,149)**	(188,965)
Interest received	**68,862**	133,513
Taxes paid	**(204,160)**	(337,617)
Taxes refunded	**181,742**	-

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2009

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 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.

11. Financial instruments

The company's financial instruments consist of cash, accounts receivable, unbilled revenue, taxes recoverable/payable, investment in Utility Collaborative Services Inc., 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 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.

13. 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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2009

14. 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 $60,174 (2008 - $49,094).

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, 2009 of $281,085 and the net periodic benefit cost for 2009 was determined by actuarial valuation 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	**255,109**	211,109
Current service cost for the period	**9,582**	29,342
Interest cost for the period	**19,409**	14,116
Actuarial loss	**54,778**	55,468
Prior period cost	**9,063**	13,596
Benefits paid for the period	**(10,090)**	(8,947)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	**337,851**	314,684
Unamortized actuarial loss	**(52,235)**	(50,512)
Unamortized prior service cost	**(4,531)**	(9,063)
Balance at end of period	**281,085**	255,109
Components of net periodic benefit cost		
Current service cost for the period	**9,582**	29,342
Interest cost for the period	**19,409**	14,116
Amortization of actuarial loss	**2,543**	4,956
Amortization of prior service cost	**4,531**	4,533
Net periodic benefit cost	**36,065**	52,947

14. 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.

15. Capital disclosures

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

(a) Ensure ongoing access to funding to maintain and improve the electricity distribution system and to ensure that capital needs are met.

(b) Ensure compliance with covenants related to its credit facilities and the Town of Collingwood promissory note.

(c) 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. The company's debt to equity ratio as defined by the OEB, as at December 31, 2009 is 1:2.98 (2008 - 1:1.80). 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.