

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001

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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, 2001, and the consolidated statements of operations and deficit 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 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, 2001 and the results of its operations and cash flows for the year then ended in accordance with the accounting principles disclosed in Note 1 to the consolidated financial statements.


Gaviller & Company LLP

Chartered Accountants
Collingwood, Ontario
April 2, 2002

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2001 \$	2000 \$
ASSETS		
CURRENT		
Cash	1,328,057	2,089,487
Accounts receivable	3,461,511	2,186,021
Unbilled revenue	1,266,386	1,174,170
Inventory	586,524	659,550
	6,642,478	6,109,228
CAPITAL		
Lands	90,439	87,333
Buildings	80,668	80,668
Distribution stations	1,541,768	1,274,472
Distribution lines - overhead	7,166,845	5,795,191
Distribution lines - underground	3,221,396	2,493,259
Distribution transformers	2,082,948	1,435,193
Distribution meters	1,002,081	768,898
Other capital assets	1,073,840	1,033,890
Load control	878,887	844,681
Load management control (customer premises)	227,595	169,296
Developer contributions received after 1999	(352,410)	-
	17,014,057	13,982,881
Less accumulated depreciation	(7,180,932)	(6,553,709)
	9,833,125	7,429,172
Goodwill	288,439	-
	10,121,564	7,429,172
OTHER (Note 2)	484,716	611,617
FUTURE PAYMENTS IN LIEU OF TAXES RECOVERABLE	78,039	-
	17,326,797	14,150,017

APPROVED BY DIRECTORS

_____ Director

_____ Director

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2001 \$	2000 \$
LIABILITIES		
CURRENT		
Accounts payable and accruals	3,993,742	4,189,169
Customer deposits	172,624	123,125
Current portion of long term liabilities	287,466	-
Employee future benefits	268,029	250,843
	<u>4,721,861</u>	<u>4,563,137</u>
LONG TERM (Note 3)	<u>4,857,976</u>	<u>1,912,921</u>
Total liabilities	<u>9,579,837</u>	<u>6,476,058</u>
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	2,928,013
DEFICIT	<u>(320,694)</u>	<u>(355,694)</u>
Total shareholder's equity	<u>7,746,960</u>	<u>7,673,959</u>
	<u>17,326,797</u>	<u>14,150,017</u>

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT FOR THE YEAR ENDING DECEMBER 31

	2001 \$
REVENUES	
Sale of power	<u>23,590,659</u>
COST OF POWER	
Power purchased	<u>21,113,309</u>
DISTRIBUTION INCOME (10.5%)	<u>2,477,350</u>
OTHER OPERATING INCOME (Note 4)	
Accounting and administrative services	409,037
Miscellaneous	<u>266,422</u>
	<u>675,459</u>
	<u>3,152,809</u>
OPERATING EXPENSES (Note 4)	
Distribution and transmission	867,428
Billing and collecting	397,811
General administration	1,466,202
Depreciation	682,759
Miscellaneous	<u>14,705</u>
	<u>3,428,905</u>
Operating loss	<u>(276,096)</u>
OTHER REVENUE	
Interest	134,986
Miscellaneous	<u>98,071</u>
	<u>233,057</u>
Net loss before payments in lieu of taxes	(43,039)
Future payments in lieu of taxes recoverable	<u>78,039</u>
NET INCOME FOR THE YEAR	<u>35,000</u>
Deficit, beginning of year	<u>(355,694)</u>
DEFICIT, END OF YEAR	<u>(320,694)</u>

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDING DECEMBER 31

	2001
	\$
CASH FLOWS FROM (FOR):	
OPERATING ACTIVITIES	
Net income	35,000
Items not requiring funds	
Depreciation	627,225
Unbilled revenue adjustment	(92,216)
Amortization of deferred charges	55,534
Future payments in lieu of taxes	(78,039)
Loss on sale of capital assets	1,673
Employee future benefits	17,186
	<u>566,363</u>
Changes in:	
Accounts receivable	(1,275,490)
Inventory	73,026
Accounts payable and accruals	(195,428)
Customer deposits	94,615
	<u>(736,914)</u>
INVESTING ACTIVITIES	
Net additions to capital assets	(197,854)
Deferred charges	71,367
Goodwill acquired	(288,439)
	<u>(414,926)</u>
FINANCING ACTIVITIES	
Miscellaneous paid in capital	38,001
Customer deposits - capital purposes	352,409
	<u>390,410</u>
DECREASE IN CASH	(761,430)
Cash position, beginning of year	<u>2,089,487</u>
CASH POSITION, END OF YEAR	<u><u>1,328,057</u></u>

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2001

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of certain significant accounting policies followed in the preparation of the financial statements:

- (a) The financial statements are prepared in accordance with the Ontario Energy Board Accounting Procedures Handbook and directives.
- (b) The financial statements of the company's subsidiaries, COLLUS Solutions Corp., COLLUS Power Corp. and COLLUS Energy Corp. have been consolidated. All intercompany transactions have been eliminated.
- (c) Purchases of reels, poles, meters and transformers are normally carried as inventory, unless purchased for specific capital projects in process or as spare units. Items for specific capital projects are carried as construction in progress under capital assets and spare transformers are recorded as capital assets. Inventories are stated at moving average cost.
- (d) Revenues from subdividers and others with respect to capital work performed, for which the company retains ownership, are credited to Developer Contributions Received after 1999. These contributions are amortized to revenue at a rate of 4% using the straight line method.
- (e) Capital assets are stated at cost. 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%
Goodwill	2.5%

- (f) Restructuring costs related to qualifying transition factors are being amortized as allowed by the Ontario Energy Board for rate setting purposes. Transition costs related to industry restructuring that do not qualify for recapture through the rate setting process are recorded as Deferred charges - restructuring and are being amortized on a straight-line basis over five years. Costs related to the reorganization of the corporate structure that were caused by industry restructuring are recorded as Deferred charges - restructuring organization and are being amortized on a straight-line basis over five years.
- (g) Service area expansion costs are being amortized on a straight-line basis over twenty-five years.
- (h) Payments in lieu of 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 income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2001

2. OTHER ASSETS

	2001	2000
	\$	\$
Deferred charges-ENERconnect (net of \$NIL accumulated amortization, 2000 - \$14,400)	-	21,600
Deferred charges-service area expansion (net of \$87,531 accumulated amortization, 2000 - \$38,679)	186,912	195,408
Deposit-acquisition of utilities	-	170,000
Deferred charges-restructuring transition (net of \$62,343 accumulated amortization, 2000 - \$30,319)	96,073	121,276
Deferred charges-restructuring organization (net of \$36,681 accumulated amortization, 2000 - \$21,667)	45,040	103,333
Qualifying transition factors	156,691	-
	484,716	611,617

3. LONG TERM LIABILITIES

	2001	2000
	\$	\$
Customer deposits (includes accrued interest of \$21,870, 2000 - \$18,065) - net of current portion	247,868	202,752
5.47% demand instalment loan, monthly blended payments of \$32,854, due January 7, 2009.	3,040,000	-
9.5% Debenture payable, due 2007.	149,000	-
Premium on acquisition of long term liabilities	(1,595)	-
5% Note payable to Town of Collingwood, no set terms of repayment	1,710,169	1,710,169
	5,145,442	1,912,921
Current portion of long term liabilities	(287,466)	-
	4,857,976	1,912,921

Principal payments for the next five years are as follows:

	\$
2002	287,466
2003	301,272
2004	315,596
2005	331,462
2006	346,894

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2001

4. RELATED PARTY TRANSACTIONS

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

Accounts receivable include \$307,407 (2000 - \$162,627) due from the Collingwood Public Utilities Commission and \$40,064 (2000 - \$33,615) due from the Town of Collingwood.

Accounts payable include \$71,761 (2000 - \$1,213,213) due to the Collingwood Public Utilities Commission and \$702,608 (2000 - \$NIL) due to the Town of Collingwood.

Other operating income includes \$18,000 for charges to the Town of Collingwood and \$409,037 for charges to the Collingwood Public Utilities Commission.

General administration expense includes \$50,000 for services rendered paid to the Town of Collingwood. The company is leasing its operations centre and computer equipment from the Collingwood Public Utilities Commission for \$80,000 and \$84,000 per annum respectively. The lease has a one year term and is renewable annually.

During the year management services worth approximately \$60,000 were provided to the Town of Collingwood at no charge.

5. FINANCIAL INSTRUMENTS

The company's financial instruments consist of cash, accounts receivable, accounts payable and accruals, 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.

6. TAX STATUS

The company is exempt from 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 income on taxable income earned after September 30, 2001 and capital taxes.

7. PAYMENTS IN LIEU OF TAXES

The company has a loss carryforward of \$251,106 to reduce future taxable income. The loss will expire in 2008.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2001

8. EMPLOYEE FUTURE BENEFITS

The employees of COLLUS Power Corp. participate in the Ontario Municipal Employees Retirement Savings Plan ("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. Currently the participants in the OMERS plan have a contribution holiday and no amounts were paid during the year.

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 liability at December 31, 2000 of \$250,843 was determined by actuarial valuation prepared at December 31, 2000, using a discount rate of 6.0%. In management's opinion the assumptions and workforce have not changed significantly since December 31, 2000. An actuarial valuation will be prepared every third year and also when there are significant changes in the workforce.

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 3.0% in 2001 and thereafter.
- (b) Interest (discount) rate
The obligation as at December 31, 2000, 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 3.0%.
- (c) Salary levels
Future general salary and wage levels were assumed to increase at 2.0% per annum.
- (d) Medical costs
Medical costs were assumed to increase at the CPI rate plus a further increase of 4.0% in 2001 graded down to 1.0% in 2003 and thereafter.
- (e) Dental costs
Dental costs were assumed to increase at the CPI rate plus a further increase of 1.0% in 2001 and thereafter.

9. PRIOR YEAR COMPARATIVE BALANCES

The consolidated statements of operations and deficit and cash flows do not include comparative balances. These balances would not provide meaningful information as they covered a two month operating period.