

COLLINGWOOD UTILITY SERVICES CORP.

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002**

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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, 2002, 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, 2002 and the results of its operations and its 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
March 7, 2003

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2002	2001
	\$	\$
Assets		
Current		
Cash	1,267,136	1,328,057
Accounts receivable	1,078,775	3,461,511
Unbilled revenue	4,257,312	1,266,386
Inventory	451,241	586,524
	7,054,464	6,642,478
Capital		
Lands	90,439	90,439
Buildings	80,668	80,668
Distribution stations	1,541,768	1,541,768
Distribution lines - overhead	7,300,118	7,166,845
Distribution lines - underground	3,595,464	3,221,396
Distribution transformers	2,142,836	2,082,948
Distribution meters	1,014,822	1,002,081
Other capital assets	1,121,303	1,073,840
Load control	878,887	878,887
Load management control (customer premises)	251,882	227,595
Contributions in aid of construction (Note 3)	(819,242)	(352,410)
	17,198,945	17,014,057
Less accumulated depreciation	(7,935,405)	(7,180,932)
	9,263,540	9,833,125
Goodwill	276,704	288,439
	9,540,244	10,121,564
Other (Note 2)	1,086,644	484,716
Future payments in lieu of taxes recoverable	21,939	78,039
	17,703,291	17,326,797

Approved by directors:

_____ Director

_____ Director

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2002	2001
	\$	\$
Liabilities		
Current		
Accounts payable and accruals	4,341,598	3,993,742
Customer deposits	181,303	172,624
Payments in lieu of taxes	5,199	-
Current portion of long-term liabilities	268,564	287,466
Employee future benefits	268,029	268,029
	5,064,693	4,721,861
Long-term (Note 4)	4,709,405	4,857,976
Total liabilities	9,774,098	9,579,837
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
Deficit	(138,461)	(320,694)
Total shareholder's equity	7,929,193	7,746,960
	17,703,291	17,326,797

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

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

	2002	2001
	\$	\$
Revenues		
Sale of power	25,366,826	23,590,659
Distribution services	3,567,463	-
	28,934,289	23,590,659
Cost of power		
Power purchased	25,366,826	21,113,309
	3,567,463	2,477,350
Distribution income (12.3%; 2001 - 10.5%)		
Other operating income (Note 5)		
Accounting and administrative services	432,295	409,037
Miscellaneous	211,529	266,422
	4,211,287	3,152,809
Operating expenses (Note 5)		
Distribution and transmission	866,862	867,428
Billing and collecting	390,414	397,811
General administration (Note 4)	1,927,163	1,466,202
Depreciation	786,450	682,759
Miscellaneous	4,546	14,705
	3,975,435	3,428,905
Operating Income (Loss)	235,852	(276,096)
Other revenue (expense)		
Interest	34,622	134,986
Miscellaneous	(32,837)	99,744
Gain (loss) on disposition of capital assets	2,375	(1,673)
	4,160	233,057
Net income (loss) before payments in lieu of taxes	240,012	(43,039)
Payments in lieu of taxes		
Current	(1,679)	-
Future	(56,100)	78,039
	182,233	35,000
Net income for the year		
Deficit, beginning of year	(320,694)	(355,694)
Deficit, end of year	(138,461)	(320,694)

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31

	2002	2001
	\$	\$
Cash flows from (for):		
Operating activities		
Net income for the year	182,233	35,000
Items not requiring funds		
Depreciation	754,473	627,225
Amortization of goodwill	11,735	-
Amortization of deferred charges	55,188	55,534
Future payments in lieu of taxes	56,100	(78,039)
Loss on sale of capital assets	-	1,673
Employee future benefits	-	17,186
	1,059,729	658,579
Changes in:		
Accounts receivable	2,382,736	(1,275,490)
Unbilled revenue	(2,990,926)	(92,216)
Inventory	135,283	73,026
Accounts payable and accruals	347,856	(195,428)
Customer deposits	75,697	94,615
Payments in lieu of taxes	5,199	-
	1,015,574	(736,914)
Investing activities		
Net additions to capital assets	(651,720)	(197,854)
Other assets	(657,116)	71,367
Goodwill acquired	-	(288,439)
	(1,308,836)	(414,926)
Financing activities		
Repayment of long-term liabilities	(234,491)	-
Miscellaneous paid in capital	-	38,001
Customer deposits - capital purposes	466,832	352,409
	232,341	390,410
Change in cash	(60,921)	(761,430)
Cash position, beginning of year	1,328,057	2,089,487
Cash position, end of year	1,267,136	1,328,057

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2002

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 judgement based on available information. 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 Accounting Procedures Handbook and directives and the Canadian Institute of Chartered Accountants handbook.
- (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) 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%
Goodwill	2.5%

- (e) 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.
- (f) Deferred charges - service area expansion costs are being amortized on a straight-line basis over twenty-five years.
- (g) 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.
- (h) Net regulatory assets represents variances in the purchase and sale of electricity which will be recovered from rates beginning in 2006.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2002

2. Other assets

Other assets consist of the following:

	2002	2001
	\$	\$
Deferred charges-service area expansion (net of \$33,659 accumulated amortization, 2001 - \$25,508)	171,255	186,912
Deferred charges-restructuring transition (net of \$96,073 accumulated amortization, 2001 - \$64,049)	64,049	96,073
Deferred charges-restructuring organization (net of \$51,694 accumulated amortization, 2001 - \$36,681)	30,027	45,040
Qualifying transition factors	417,600	156,691
Net regulatory assets	403,713	-
	1,086,644	484,716

3. 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 \$221,340 (2001 - \$NIL) of the amounts collected. The liability is included in accounts payable. The balance of \$819,242 (2001 - \$352,409) is recorded as a reduction of the cost of capital assets.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2002

4. Long-term liabilities

Long-term liabilities consist of the following:

	2002	2001
	\$	\$
Customer deposits (includes accrued interest of \$26,206, 2001 - \$21,870) - net of current portion	314,886	247,868
5.47% demand instalment loan, monthly blended payments of \$32,854, due January 7, 2009, secured by a general security agreement over the assets of Collus Power Corp.	2,824,509	3,040,000
9.5% Debenture payable, due 2007.	130,000	149,000
Premium on acquisition of long-term liabilities	(1,595)	(1,595)
7.25% Note payable to Town of Collingwood, no set terms of repayment	1,710,169	1,710,169
	4,977,969	5,145,442
Current portion of long-term liabilities	(268,564)	(287,466)
	4,709,405	4,857,976

Principal payments for the next five years are as follows:

	\$
2003	268,564
2004	284,291
2005	301,779
2006	319,070
2007	339,209

Included in General administration expense is \$317,078 (2001 - \$93,841) of interest on long-term liabilities.

The corporation is contingently liable for a letter of credit in the amount of \$2,750,000 to meet the prudential requirements of the Independent Market Operator.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2002

5. Related party transactions

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

Accounts receivable include \$80,710 (2001 - \$307,407) due from the Collingwood Public Utilities Commission and \$49,753 (2001 - \$40,064) due from the Town of Collingwood.

Accounts payable include \$305,600 (2001 - \$71,761) due to the Collingwood Public Utilities Commission and \$279,806 (2001 - \$602,858) due to the Town of Collingwood.

Other operating income includes \$22,628 (2001 - \$18,000) for charges to the Town of Collingwood and \$432,295 (2001 - \$409,037) for charges to the Collingwood Public Utilities Commission.

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. These costs are included in operating expenses. The lease has a one year term and is renewable annually.

6. Contingencies

A class action claiming \$500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Municipal Electric Association is undertaking the defence of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the company. The company formerly carried on business as a department of the Collingwood Public Utilities Commission.

7. Financial instruments

The company's financial instruments consist of cash, accounts receivable, unbilled revenue, 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.

8. 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 the Income Tax Act.

9. Payments in lieu of taxes

The company has a loss carryforward of \$1,548 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, 2002

10. 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, 2001 of \$268,029 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 2002 and thereafter.
- (b) Interest (discount) rate
The obligation as at December 31, 2001, 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 5.0% in 2002 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 2002 and thereafter.