

COLLINGWOOD UTILITY SERVICES CORP.

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003**

CONTENTS

| | Page |
|--|-------------|
| Auditors' Report | 1 |
| Consolidated Balance Sheet | 2 |
| Consolidated Statement of Operations and Retained Income | 4 |
| Consolidated Statement of Cash Flow | 5 |
| Notes to the Consolidated Financial Statements | 6 |

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, 2003, and the consolidated statements of operations and retained income 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 financial statements present fairly, in all material respects, the financial position of Collingwood Utility Services Corp. as at December 31, 2003 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Gaviller & Company LLP
Chartered Accountants
Collingwood, Ontario
March 2, 2004

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

| | 2003 | 2002 |
|---|--------------------|-------------|
| | \$ | \$ |
| Assets | | |
| Current | | |
| Cash | 3,125,719 | 1,267,136 |
| Accounts receivable (Note 5) | 2,134,604 | 1,078,775 |
| Unbilled revenue | 3,856,788 | 4,257,312 |
| Inventory | 457,946 | 451,241 |
| | 9,575,057 | 7,054,464 |
| Capital | | |
| Lands | 90,439 | 90,439 |
| Buildings | 80,668 | 80,668 |
| Distribution stations | 1,541,768 | 1,541,768 |
| Distribution lines - overhead | 7,662,636 | 7,300,118 |
| Distribution lines - underground | 3,798,260 | 3,595,464 |
| Distribution transformers | 2,200,763 | 2,142,836 |
| Distribution meters | 1,080,777 | 1,014,822 |
| Other capital assets | 1,141,882 | 1,121,303 |
| Load control | 878,887 | 878,887 |
| Load management control (customer premises) | 251,882 | 251,882 |
| Contributions in aid of construction (Note 3) | (1,063,225) | (819,242) |
| | 17,664,737 | 17,198,945 |
| Less accumulated depreciation | (8,651,488) | (7,935,405) |
| | 9,013,249 | 9,263,540 |
| Goodwill | 276,704 | 276,704 |
| | 9,289,953 | 9,540,244 |
| Other (Note 2) | 352,954 | 1,086,644 |
| Future payments in lieu of taxes recoverable | 26,361 | 21,939 |
| | 19,244,325 | 17,703,291 |

Approved by directors:

_____ Director

_____ Director

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

| | 2003 | 2002 |
|---|------------|------------|
| | \$ | \$ |
| Liabilities | | |
| Current | | |
| Accounts payable and accruals (Notes 3 and 5) | 5,685,827 | 4,341,597 |
| Customer deposits | 494,278 | 181,303 |
| Payments in lieu of taxes | 159,655 | 5,199 |
| Current portion of long-term liabilities (Note 4) | 305,435 | 268,564 |
| Employee future benefits (Note 10) | 319,477 | 268,029 |
| | 6,964,672 | 5,064,692 |
| Long-term (Note 4) | 4,110,229 | 4,709,406 |
| Total liabilities | 11,074,901 | 9,774,098 |
| 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 |
| Retained income (deficit) | 101,770 | (138,461) |
| Total shareholder's equity | 8,169,424 | 7,929,193 |
| | 19,244,325 | 17,703,291 |

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED INCOME FOR THE YEAR ENDED DECEMBER 31

| | 2003 | 2002 |
|--|------------|------------|
| | \$ | \$ |
| Revenues | | |
| Sale of power | 26,259,176 | 25,366,826 |
| Distribution services | 3,743,330 | 3,567,463 |
| | 30,002,506 | 28,934,289 |
| Cost of power | | |
| Power purchased | 26,259,176 | 25,366,826 |
| | 3,743,330 | 3,567,463 |
| Distribution income (12.5%; 2002 - 12.3%) | 3,743,330 | 3,567,463 |
| Other operating income (Note 5) | | |
| Accounting and administrative services | 483,925 | 432,295 |
| Miscellaneous | 258,900 | 211,529 |
| | 4,486,155 | 4,211,287 |
| Operating expenses (Note 5) | | |
| Distribution and transmission | 962,483 | 866,862 |
| Billing and collecting | 529,056 | 390,414 |
| General administration (Notes 4 and 5) | 2,064,406 | 1,927,163 |
| Depreciation | 779,535 | 786,450 |
| Miscellaneous | 4,324 | 4,546 |
| | 4,339,804 | 3,975,435 |
| Operating Income | 146,351 | 235,852 |
| Other revenue (expense) | | |
| Interest | 263,438 | 34,622 |
| Miscellaneous | (2,125) | (32,837) |
| Gain on disposition of capital assets | 2,000 | 2,375 |
| | 263,313 | 4,160 |
| Net income (loss) before payments in lieu of taxes | 409,664 | 240,012 |
| Payments in lieu of taxes | | |
| Current | (173,855) | (1,679) |
| Future | 4,422 | (56,100) |
| | 240,231 | 182,233 |
| Net income for the year | 240,231 | 182,233 |
| Deficit, beginning of year | (138,461) | (320,694) |
| Retained income (deficit), end of year | 101,770 | (138,461) |

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31

| | 2003 | 2002 |
|---|------------------|-------------|
| | \$ | \$ |
| Cash flows from (for): | | |
| Operating activities | | |
| Net income for the year | 240,231 | 182,233 |
| Items not requiring funds | | |
| Depreciation | 750,727 | 754,473 |
| Amortization of goodwill | - | 11,735 |
| Amortization of deferred charges | 55,193 | 55,188 |
| Future payments in lieu of taxes | (4,422) | 56,100 |
| | 1,041,729 | 1,059,729 |
| Changes in: | | |
| Accounts receivable | (1,055,724) | 2,382,736 |
| Unbilled revenue | 400,524 | (2,990,926) |
| Inventory | (6,705) | 135,283 |
| Accounts payable and accruals | 1,344,122 | 347,856 |
| Payments in lieu of taxes | 154,456 | 5,199 |
| Customer deposits | (1,911) | 75,697 |
| Employee future benefits | 51,448 | - |
| | 1,927,939 | 1,015,574 |
| Investing activities | | |
| Net additions to capital assets | (744,418) | (651,720) |
| Net decreases (additions) to other assets | 678,499 | (657,116) |
| | (65,919) | (1,308,836) |
| Financing activities | | |
| Repayment of long-term liabilities | (247,420) | (234,491) |
| Customer deposits - capital purposes | 243,983 | 466,832 |
| | (3,437) | 232,341 |
| Change in cash | 1,858,583 | (60,921) |
| Cash position, beginning of year | 1,267,136 | 1,328,057 |
| Cash position, end of year | 3,125,719 | 1,267,136 |

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2003

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) Significant 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) Regulatory assets represents variances in the purchase and sale of electricity which will be recovered from rates. Ontario Energy Board has authorized the recovery of 25% of the December 31, 2002 regulatory asset balances beginning in April 2004 and has put a process in place to address the future recovery of remaining asset balances over the following three years.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2003

2. Other assets

Other assets consist of the following:

| | 2003 | 2002 |
|--|-----------|-----------|
| | \$ | \$ |
| Deferred charges-service area expansion (net of \$41,814 accumulated amortization, 2002 - \$33,659) | 163,100 | 171,255 |
| Customer rebate costs | 42,410 | - |
| Deferred charges-restructuring transition (net of \$128,098 accumulated amortization, 2002 - \$96,073) | 32,024 | 64,049 |
| Deferred charges-restructuring organization (net of \$66,708 accumulated amortization, 2002 - \$51,694) | 15,013 | 30,027 |
| Qualifying transition factors | 470,629 | 417,600 |
| Net regulatory assets | (370,222) | 403,713 |
| | 352,954 | 1,086,644 |

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 \$104,357 (2002 - \$221,340) of the amounts collected. The liability is included in accounts payable. The balance of \$1,063,225 (2002 - \$819,242) 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, 2003

4. Long-term liabilities

Long-term liabilities consist of the following:

| | 2003 | 2002 |
|--|------------------|------------------|
| | \$ | \$ |
| Customer deposits | - | 314,886 |
| 5.47% demand instalment loan payable to the Canadian Imperial Bank of Commerce, repayable in monthly blended payments of \$32,854, due January 2009, secured by a general security agreement over the assets of Collus Power Corp. | 2,598,089 | 2,824,509 |
| 9.5% debenture payable, due 2007. | 109,000 | 130,000 |
| Premium on acquisition of long-term liabilities | (1,595) | (1,595) |
| 7.25% note payable to Town of Collingwood, no set terms of repayment | 1,710,170 | 1,710,170 |
| | 4,415,664 | 4,977,970 |
| Current portion of long-term liabilities | (305,435) | (268,564) |
| | 4,110,229 | 4,709,406 |

Principal payments for the next five years are as follows:

| | \$ |
|------|---------|
| 2004 | 305,435 |
| 2005 | 301,778 |
| 2006 | 319,070 |
| 2007 | 339,209 |
| 2008 | 324,244 |

Included in General administration expense is \$290,927 (2002- \$317,078) of interest on long-term liabilities.

The corporation is contingently liable for a letter of credit in the amount of \$2,417,179 to meet the prudential requirements of the Independent Market Operator.

All customer deposits have been re-classified as current due to new Ontario Energy Board regulations effective February 2004.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2003

5. Related party transactions

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

Accounts receivable include \$137,302 (2002 - \$80,710) due from the Collingwood Public Utilities Commission and \$51,582 (2002 - \$49,753) due from the Town of Collingwood.

Accounts payable include \$779,461 (2002 - \$305,600) due to the Collingwood Public Utilities Commission and \$959,428 (2002 - \$279,806) due to the Town of Collingwood.

Other operating income includes \$29,405 (2002 - \$22,628) for charges to the Town of Collingwood and \$483,925 (2002 - \$432,295) for charges to the Collingwood Public Utilities Commission. The revenue noted with regard to Collingwood Public Utilities Commission is net of expenses of \$159,940 (2002 - \$192,286).

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. These costs are included in general administration expenses.

Expenses include \$15,905 (2002 - \$NIL) of information technology assistance to the Town of Collingwood.

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 Electricity Distributors 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, payments in lieu of taxes, 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 market value does not vary significantly from recorded value.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2003

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 losses carryforward totaling \$9,284 to use against future taxable income. These losses will expire as follows:

| | |
|------|-------|
| | \$ |
| 2008 | 1,549 |
| 2009 | 7,735 |

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2003

10. Employee future benefits

The employees of Collingwood Utility Services 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. Amounts paid to OMERS during the year totaled \$34,394.

In addition, Collingwood Utility Services 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, 2002 of \$268,029 and the net periodic benefit cost for the year ended December 31, 2003 was determined by actuarial valuations using discount rates of 6% and 5.5%, respectively. 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:

| | 2003 |
|---|----------|
| | \$ |
| Accrued benefit obligation | |
| Balance at the beginning of period | 268,029 |
| Current service cost for the period | 41,246 |
| Interest cost for the period | 18,666 |
| Actuarial loss/(gain) | 30,666 |
| Prior period cost | 72,000 |
| Benefits paid for the period | (16,464) |
| <hr/> | |
| Projected accrued benefit obligation at end of period as determined by actuarial valuation. | 414,143 |
| Unamortized actuarial (loss)/gain | (30,666) |
| Unamortized prior service cost | (64,000) |
| <hr/> | |
| Balance at end of period | 319,477 |
| <hr/> | |
| Components of net periodic benefit cost | |
| Current service cost for the period | 41,246 |
| Interest cost for the period | 18,666 |
| Amortization of prior service cost | 8,000 |
| <hr/> | |
| Net periodic benefit cost | 67,912 |

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2003

10. 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 2.2% in 2003 and thereafter.
- (b) Interest (discount) rate
The obligation as at December 31, 2002, of the present value of future liabilities and the expense for year ended December 31, 2003, were determined using discount rates of 6.0%, and 5.5% respectively. This corresponds to the assumed CPI rate plus an assumed real rate of return of 3.8% and 3.3%, respectively.
- (c) Salary levels
Future general salary and wage levels were assumed to increase at 3.5% per annum.
- (d) Medical costs
Medical costs were assumed to increase at the CPI rate plus a further increase of 6.3% in 2003 graded down to 2.3% in 2007 and thereafter.
- (e) Dental costs
Dental costs were assumed to increase at the CPI rate plus a further increase of 2.3% in 2003 and thereafter.