

COLLINGWOOD UTILITY SERVICES CORP.

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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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, 2004, 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 consolidated 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, 2004 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

Chartered Accountants
Collingwood, Ontario
February 22, 2005

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2004	2003
	\$	\$
Assets		
Current		
Cash	3,784,087	3,125,719
Taxes Recoverable	92,312	-
Accounts receivable (Note 7)	1,976,444	2,134,604
Unbilled revenue	3,785,105	3,223,610
Inventory	329,947	457,946
	9,967,895	8,941,879
Capital		
Lands	90,439	90,439
Buildings	80,668	80,668
Distribution stations	1,941,972	1,541,768
Distribution lines	14,005,916	11,460,896
Distribution transformers	3,489,050	2,200,763
Distribution meters	1,102,741	1,080,777
Other capital assets	1,366,305	1,141,882
Load control	878,887	878,887
Load management control (customer premises)	327,387	251,882
Contributions in aid of construction (Note 4 & 5)	(4,973,654)	(1,063,225)
	18,309,711	17,664,737
Less accumulated depreciation	(9,399,526)	(8,651,488)
	8,910,185	9,013,249
Goodwill	276,704	276,704
	9,186,889	9,289,953
Other (Note 3)	-	352,954
Future payments in lieu of taxes recoverable	30,363	26,361
	19,185,147	18,611,147

Approved by directors:

_____ Director

_____ Director

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2004	2003
	\$	\$
Liabilities		
Current		
Accounts payable and accruals (Notes 5 and 7)	5,662,554	5,052,649
Customer deposits	331,114	494,278
Payments in lieu of taxes	-	159,655
Current portion of long-term (Note 6)	301,779	305,435
	6,295,447	6,012,017
Long-term (Note 6)	3,808,450	4,110,229
Employee future benefits (Note 10)	339,669	319,477
Other (Note 3)	381,486	-
	4,529,605	4,429,706
Total liabilities	10,825,052	10,441,723
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	292,441	101,770
	8,360,095	8,169,424
Total shareholder's equity	19,185,147	18,611,147

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

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

	2004	2003
	\$	\$
Revenues		
Sale of power	26,570,304	26,259,176
Distribution services	3,514,227	3,507,670
	30,084,531	29,766,846
Cost of power		
Power purchased	26,570,304	26,259,176
Distribution income (11.7%; 2003 - 11.8%)	3,514,227	3,507,670
Other operating income (Note 7)		
Accounting and administrative services	544,442	483,925
Miscellaneous	618,111	522,213
	4,676,780	4,513,808
Operating expenses (Note 7)		
Distribution and transmission	1,014,356	726,823
Billing and collecting	465,400	529,056
General administration (Notes 6 and 7)	2,072,285	2,064,406
Depreciation and amortization (Note 3)	840,793	779,535
Miscellaneous	3,280	4,324
	4,396,114	4,104,144
Net income (loss) before payments in lieu of taxes	280,666	409,664
Provision for (recovery) of payments in lieu of taxes		
Current	93,997	173,855
Future	(4,002)	(4,422)
	89,995	169,433
Net income for the year	190,671	240,231
Retained Income (deficit), beginning of year	101,770	(138,461)
Retained income, end of year	292,441	101,770

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31

	2004	2003
	\$	\$
Cash flows from (for):		
Operating activities		
Net income for the year	190,671	240,231
Items not requiring funds		
Depreciation	743,840	750,727
Amortization of deferred charges	96,953	55,193
Future payments in lieu of taxes	(4,002)	(4,422)
	1,027,462	1,041,729
Changes in:		
Accounts receivable	158,160	(1,055,829)
Unbilled revenue	(561,495)	1,033,702
Inventory	127,999	(6,705)
Accounts payable and accruals	609,904	711,051
Payments in lieu of taxes	(251,967)	154,456
Customer deposits	(163,164)	(1,911)
Employee future benefits	20,192	51,448
	967,091	1,927,941
Investing activities		
Net additions to capital assets	(1,070,673)	(744,418)
Net change to other assets/liabilities	637,487	678,496
Proceeds from disposal of capital assets	19,468	-
	(413,718)	(65,922)
Financing activities		
Repayment of long-term liabilities	(305,435)	(247,420)
Contributions in aid of construction	410,430	243,983
	104,995	(3,437)
Change in cash	658,368	1,858,582
Cash position, beginning of year	3,125,719	1,267,137
Cash position, end of year	3,784,087	3,125,719

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2004

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 judgements 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 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.
- (c) 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.
- (d) 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.
- (e) 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%

- (f) 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. Net regulatory assets and qualifying transition factors include annual carrying charges at 7.25%.
- (g) Deferred charges - 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, 2004

1. Significant accounting policies (continued)

- (i) Net regulatory assets (liabilities) 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.

2. 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.

3. Other assets (liabilities)

Other assets (liabilities) consist of the following:

	2004	2003
	\$	\$
Deferred charges-service area expansion (net of \$49,969 accumulated amortization, 2003 - \$41,814)	154,945	163,100
Customer rebate costs	42,410	42,410
Deferred charges-restructuring transition (net of \$160,122 accumulated amortization, 2003 - \$128,098)	-	32,024
Deferred charges-restructuring organization (net of \$81,721 accumulated amortization, 2003 - \$66,708)	-	15,013
Qualifying transition factors	459,145	470,629
Net regulatory liabilities	(1,037,986)	(370,222)
	(381,486)	352,954

In December 2004, Ontario Energy Board determined electrical utilities would only be allowed to recover the lesser of \$60 per customer or 90% of their qualifying transition costs. Since the company's qualifying transition cost per customer is approximately \$30, the company has charged 10% of its costs or \$41,760 to amortization expense.

4. Contributed distribution capital assets

During the year, a number of local condominium corporations contributed their distribution capital assets to the company. These capital assets have been recognized in the financial statements at \$3,500,000 of which \$250,000 has been allocated to distribution stations, \$2,150,000 to distribution lines and \$1,100,000 to distribution transformers. An offsetting entry of \$3,500,000 has been made to contributions in aid of construction. The recorded amount of these capital assets was determined by using the average sale price per customer of recent arm's length purchases of customers times the number of customers serviced by these distribution assets.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2004

5. 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 (2003 - \$104,357) of the amounts collected. The liability is included in accounts payable. The balance of \$4,973,654 (2003 - \$1,063,225) is recorded as a reduction of the cost of capital assets.

6. Long-term liabilities

Long-term liabilities consist of the following:

	2004	2003
	\$	\$
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.	2,315,654	2,598,089
9.5% debenture payable, due 2007.	86,000	109,000
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
	4,110,229	4,415,664
Current portion of long-term liabilities	(301,779)	(305,435)
	3,808,450	4,110,229

Principal payments for the next five years are as follows:

	\$
2005	301,779
2006	319,070
2007	339,209
2008	324,244
2009	1,115,758

Included in General administration expense is \$265,836 (2003- \$290,927) of interest on long-term liabilities.

The corporation is contingently liable for a letter of credit in the amount of \$2,272,370 (2003 - \$2,417,179) to meet the prudential requirements of the Independent Market Operator.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2004

7. Related party transactions

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

Related party transactions consist of the following:

	2004	2003
	\$	\$
Amounts receivable from Collingwood Public Utilities Service Board	169,483	137,903
Amounts receivable from the Town of Collingwood	48,071	51,582
Amounts payable to the Collingwood Public Utilities Service Board	663,709	353,812
Amounts payable to the Town of Collingwood	727,456	751,818
Revenues include amounts charged to the following parties:		
Town of Collingwood	24,228	29,405
Collingwood Public Utilities Service Board	544,442	483,925
Revenue noted above is shown net of expenses:		
Collingwood Public Utilities Service Board	236,925	159,940
Expenses include information technology assistance to the Town of Collingwood	16,778	15,905
The company is leasing its operations centre and computers 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.	233,500	164,000

8. 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.

9. 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, 2004

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 \$113,869 (2003 - \$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, 2003 of \$319,477 and the net periodic benefit cost for 2003 was determined by actuarial valuations using discount rates of 6% and 5.5%, respectively. No actuarial valuation was prepared in 2004 and the accrued benefit obligation at December 31, 2004 was extrapolated using 2003 amounts as a basis. Actuarial valuations will be prepared every third year or when there are significant changes to the workforce. Current service cost for the period includes an adjustment of \$23,346 related to the company's accrued benefit obligation based on a revised 2003 actuarial report.

Information about the company's defined benefit plan is as follows:

	2004	2003
	\$	\$
Accrued benefit obligation		
Balance at the beginning of period	319,477	268,029
Current service cost (recovery) for the period	5,204	41,246
Interest cost for the period	19,801	18,666
Actuarial loss/(gain)	24,388	30,666
Prior period cost	51,473	72,000
Benefits paid for the period	(17,681)	(16,464)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	402,662	414,143
Unamortized actuarial (loss)/gain	(24,388)	(30,666)
Unamortized prior service cost	(38,605)	(64,000)
Balance at end of period	339,669	319,477
Components of net periodic benefit cost		
Current service cost for the period	5,204	20,623
Interest cost for the period	19,801	9,333
Amortization of prior service cost	8,336	8,000
Net periodic benefit cost	33,341	37,956

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2004

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 2004 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2003, of the present value of future liabilities was determined using a discount rate of 5.5%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 3.3%.

(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 2004 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 2004 and thereafter.

11. Comparative information

Certain comparative information has been reclassified to conform with the current year's financial statement presentation.