

COLLINGWOOD UTILITY SERVICES CORP.

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008**

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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, 2008, 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, 2008 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, 2009

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2008	2007
	\$	\$
Assets		
Current		
Cash	5,392,535	4,034,996
Taxes recoverable	189,156	-
Accounts receivable (Note 7)	4,192,842	5,424,157
Unbilled revenue	3,470,384	3,329,616
Inventory	255,131	282,493
	13,500,048	13,071,262
Capital		
Lands	90,439	90,439
Buildings	80,668	80,668
Distribution stations	3,150,296	3,126,647
Distribution lines	17,864,725	16,259,805
Distribution transformers	4,647,854	4,067,170
Distribution meters	1,478,408	1,377,576
Other capital assets	2,210,039	1,539,550
Load control	878,887	878,887
Load management control (customer premises)	538,744	470,252
Contributions in aid of construction (Note 8)	(6,738,873)	(6,129,230)
	24,201,187	21,761,764
Less accumulated depreciation	(12,509,150)	(11,754,666)
	11,692,037	10,007,098
Goodwill	276,704	276,704
Future taxes	208,344	136,351
	25,677,133	23,491,415

Approved by directors:

_____ Director

_____ Director

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2008	2007
	\$	\$
Liabilities		
Current		
Accounts payable and accruals (Notes 7, 8 and 9)	8,817,294	7,296,705
Customer deposits	355,272	358,776
Taxes	-	22,123
Current portion of long-term (Note 10)	1,117,353	1,441,597
	10,289,919	9,119,201
Long-term (Note 10)	1,710,170	1,710,170
Employee future benefits (Note 11)	539,064	455,064
Other (Note 9)	3,012,396	2,370,472
	5,261,630	4,535,706
Total liabilities	15,551,549	13,654,907
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	2,057,930	1,768,854
	10,125,584	9,836,508
	25,677,133	23,491,415

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

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

	2008	2007
	\$	\$
Revenues		
Sale of power	23,782,787	23,678,032
Distribution services	4,517,599	4,656,270
	28,300,386	28,334,302
Cost of power		
Power purchased	23,782,787	23,678,032
	4,517,599	4,656,270
Distribution income (16.0%; 2007 - 16.4%)	4,517,599	4,656,270
Other operating income (Note 7)		
Accounting and administrative services	783,917	754,299
Miscellaneous	613,467	638,941
	5,914,983	6,049,510
Operating expenses (Note 7)		
Distribution and transmission	1,660,992	1,375,894
Billing and collecting	478,850	510,441
General administration (Notes 7 and 10)	2,558,945	2,515,665
Depreciation and amortization	854,329	782,359
	5,553,116	5,184,359
Net income before taxes	361,867	865,151
Provision for (recovery) of taxes		
Current	144,784	344,717
Future	(71,993)	(66,569)
	72,791	278,148
Net income for the year	289,076	587,003
Retained income, beginning of year	1,768,854	1,181,851
Retained income, end of year	2,057,930	1,768,854

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31

	2008	2007
	\$	\$
Cash flows from (for):		
Operating activities		
Net income for the year	289,076	587,003
Items not requiring funds		
Depreciation	925,191	811,043
Amortization of deferred charges	8,155	8,155
Future taxes	(71,993)	(66,569)
	1,150,429	1,339,632
Changes in:		
Accounts receivable	1,231,315	(1,405,974)
Unbilled revenue	(140,768)	(510,142)
Inventory	27,362	(37,275)
Accounts payable and accruals	1,520,589	213,962
Taxes	(211,279)	(109,694)
Customer deposits	(3,504)	26,378
Employee future benefits	84,000	(8,324)
Net change to other assets/liabilities	633,769	1,113,281
	4,291,913	621,844
Investing activities		
Net additions to capital assets	(3,219,774)	(2,423,597)
Financing activities		
Repayment of long-term liabilities	(324,244)	(339,208)
Contributions in aid of construction	609,644	480,990
	285,400	141,782
Change in cash	1,357,539	(1,659,971)
Cash position, beginning of year	4,034,996	5,694,967
Cash position, end of year	5,392,535	4,034,996

See accompanying notes to the financial statements

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2008

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 most significant estimates are included in unbilled revenue and economic evaluation. 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 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, 2008, the company was authorized to earn 9% 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. Revenue from accounting and administrative services provided are recognized at the time of invoicing.
- (d) The financial statements of the company's subsidiaries, COLLUS Solutions Corp., COLLUS Power Corp. and COLLUS Energy Corp. have been consolidated. All inter-company transactions have been eliminated.
- (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) Deferred charges - service area expansion costs are being amortized on a straight-line basis over twenty-five years.
- (g) Economic evaluation is an estimate of amounts due to subdivision developers in the future as repayment for the developers installation of hydro infrastructure.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2008

1. Significant accounting policies (continued)

- (h) 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.
- (i) 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.

2. 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 tax calculated on the same basis as the Income Tax Act.

3. Change in accounting policy

Effective January 1, 2008, the company adopted the new accounting standards for inventory issued by the Canadian Institute of Chartered Accountants (CICA). Inventory is now required to be recorded at the lower of cost and net realizable value and any items considered to be major future components of capital assets are to be reclassified as capital assets. The company's inventory typically consists of poles and wires, 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. The prior inventory policy carried inventory at the lower of cost or market. There was no change to financial statement numbers are a result of the policy change.

4. 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 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.

5. Financial instruments

The company's financial instruments consist of cash, accounts receivable, unbilled revenue, 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 market value does not vary significantly from recorded value.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2008

6. Supplemental cash flow information

Cash receipts (payments) were made as follows:

	2008	2007
	\$	\$
Interest received	140,444	260,668
Interest paid	(188,965)	(212,034)
Taxes received	-	3,586
Taxes paid	(356,062)	(462,667)

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:

	2008	2007
	\$	\$
Amounts receivable from Collingwood Public Utilities Service Board	142,223	47,498
Amounts receivable from the Town of Collingwood	83,014	1,315,875
Amounts payable to the Collingwood Public Utilities Service Board	(322,931)	(446,317)
Amounts payable to the Town of Collingwood	(2,229,140)	(5,320)
Revenues include amounts charged to the following parties:		
Town of Collingwood	58,087	47,662
Collingwood Public Utilities Service Board	783,917	754,299
Expenses include information technology assistance to the Town of Collingwood	18,326	18,506
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.	311,000	267,000

8. 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 \$633,711 (2007 - \$372,435) or 30% of the amounts collected. The liability is included in accounts payable. The balance of \$6,738,873 (2007 - \$6,129,230) 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, 2008

9. Other assets (liabilities)

Other assets (liabilities) consist of the following:

	2008	2007
	\$	\$
Deferred charges-service area expansion (net of \$82,589 accumulated amortization, 2007 - \$74,434)	122,325	130,480
Regulatory assets		
Other regulatory assets	82,356	89,521
Regulatory liabilities		
Hydro One regulatory liability	-	(80,711)
Purchased power cost variance	(2,669,912)	(2,245,724)
Regulatory assets recovered	(184,311)	(114,357)
Smart meter variance	(29,521)	(16,348)
Other regulatory liabilities	(333,333)	(133,333)
Total regulatory liabilities	(3,217,077)	(2,590,473)
Net liability	(3,012,396)	(2,370,472)

Other regulatory assets consist of the costs of processing \$75 rebate cheques and pension costs from OMERS not recovered in rates. The pension cost deferral includes annual carrying charges accrued at the OEB quarterly interest rate in effect.

Hydro One regulatory liability represents 2002-2006 regulatory assets that Hydro One is collecting from embedded distributors over a 5 year period as authorized by the OEB. The current portion of the liability is \$19,078 (2007 - \$105,864) and is included in accounts payable and accruals. Payments to Hydro One are \$9,666 per month for 3 years starting May 2005 and at \$5,600 a month for 4 years starting in May 2006. In 2008 Hydro One billed the company seven extra payments of \$9,666 in error resulting in a lower year end liability than was anticipated.

Purchased power cost variance includes the variances, including carrying costs accrued at the OEB quarterly rate in effect, that have occurred since the 2006 authorized recovery referred to in the following paragraph.

The OEB has authorized the recovery of regulatory asset or liability balances including the power purchase cost variance, qualifying transition factors and the pre-market opening energy variance which are accumulated in the regulatory recovery account.

The OEB, commencing in May 2006, authorized the collection of \$.26 per residential customer per month towards the recovery of smart meter costs which are combined in the smart meter variance account. Carrying charges are accrued on this account for 2007 and later years at the OEB quarterly interest rate in effect.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2008

9. Other assets (liabilities) (continued)

The OEB has allowed the company to recover the third tranche of its market adjusted revenue requirement (MARR) from customers with the requirement that it be spent on conservation and demand management activities. During the year the company expended \$74,049 (2007 - \$71,280) in conservation and demand management activities. The balance of \$7,605 (2007 - \$81,654) will be spent on conservation and demand management activities in 2009 and potentially future years.

Other regulator liabilities consist of 2006 Tier II rate rider variances. The other regulatory liabilities include annual carrying charges accrued at the OEB quarterly interest rate in effect.

10. Long-term liabilities

Long-term liabilities consist of the following:

	2008	2007
	\$	\$
5.47% demand installment loan payable to the CIBC, repayable in monthly blended payments of \$32,854, due January 2009, secured by a general security agreement over the assets of COLLUS Power Corp and guaranteed by the Company	1,117,353	1,441,597
7.25% note payable to Town of Collingwood, no set terms of repayment	1,710,170	1,710,170
	2,827,523	3,151,767
Current portion of long-term liabilities	(1,117,353)	(1,441,597)
	1,710,170	1,710,170

Included in general administration expense is \$188,965 (2007 - \$211,925) of interest on long-term liabilities.

The corporation is contingently liable for a letter of credit in the amount of \$1,631,702 (2007 - \$1,631,702) to meet the prudential requirements of the Independent Electricity System Operator.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2008

11. Employee future benefits

The employees of Collingwood Utility Services 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 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 \$170,942 (2007 - \$153,014).

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, 2008 of \$539,064 and the net periodic benefit cost for 2008 was determined by actuarial valuations using discount rates of 5%. 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:

	2008	2007
	\$	\$
Accrued benefit obligation		
Balance at the beginning of period	455,064	463,388
Current service cost for the period	58,887	18,655
Interest cost for the period	28,305	26,699
Actuarial loss	79,478	33,016
Prior period cost	19,303	25,737
Benefits paid for the period	(14,677)	(13,650)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	626,360	553,845
Unamortized actuarial loss	(74,428)	(79,478)
Unamortized prior service cost	(12,868)	(19,303)
Balance at end of period	539,064	455,064
Components of net periodic benefit cost		
Current service cost for the period	58,887	18,655
Interest cost for the period	28,305	26,699
Amortization of actuarial losses	5,050	5,049
Amortization of prior service cost	6,435	6,434
Net periodic benefit cost	98,677	56,837

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2008

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 2.1% in 2008 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2008, of the present value of future liabilities was determined using a discount rate of 5%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 2.9%.

(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% in 2008 graded down 1% a year until 2011 after which the rate is assumed to increase 5% annually.

(e) Dental costs

Dental costs were assumed to increase at 5% in 2008 and thereafter.

COLLINGWOOD UTILITY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2008

12. 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 the 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 Consumers Gas case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs. To date, no formal steps have been taken to move the action forward. The electric utilities intend to respond to the action if and when it proceeds on the basis that the LDCs situation may be distinguishable from that of Consumers Gas.

COLLUS Power Corp. (formerly a department of Collingwood Public Utilities Commission) collected total late payment penalties of approximately \$666,000 from and after 1994. No determination of the portion of these payments which may have constituted interest at an impermissible rate has been made.

13. Commitments

The corporation committed to the purchase and installation of smart meters for the majority of its customers. The amount budgeted cost for this project is \$2,430,942. To date costs in the amount of \$490,794 have been incurred. It is estimated that an additional \$1,940,148 will be spent during 2009 and future years until project completion. The residential component will be performed by Olameter, an outside contractor and the remainder of the work will be completed internally by the corporation.

The corporation committed to the installation of a new billing system by Harris Computer Services in 2009 at Utility Collaborative Systems (an external data centre provider). The total cost of the new systems is expected to be \$400,000. During 2008, costs of \$60,560 were incurred, and the remaining estimated costs of \$339,440 will be expended in 2009.