Collingwood PowerStream Utility Services Corp.

Consolidated Financial Statements

For the year ended December 31, 2012

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GAVILLER & COMPANY LLP
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of **Collingwood PowerStream Utility Services Corp.**:

Report on the Financial Statements

We have audited the accompanying financial statements of **Collingwood PowerStream Utility Services Corp.**, which comprise the balance sheet as at December 31, 2012, and the statement of operations and retained earnings (deficit) and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Collingwood PowerStream Utility Services Corp.** as at December 31, 2012, 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
April 8, 2013

Collingwood PowerStream Utility Services Corp.
Consolidated Balance Sheet

As at December 31		2012	2011
Assets			
Current			
Cash and bank	(Note 8)	**$ 4,390,146**	$ 1,320,836
Accounts receivable	(Note 9)	**3,562,917**	5,586,152
Unbilled energy revenue		**3,135,280**	3,003,699
Inventory		**309,984**	321,799
Payments in lieu of corporate taxes receivable	(Note 10)	**171,602**	-
Prepaid expenses		**223,422**	119,820
		11,793,351	10,352,306
Future taxes recoverable	(Note 11)	**849,295**	274,938
Long-term investments	(Note 12)	**100**	100
Property, plant and equipment	(Note 13)	**15,180,302**	13,136,811
Computer software	(Note 14)	**100,440**	187,564
Regulatory assets	(Note 15)	**1,144,339**	2,192,723
Deferred charges	(Note 16)	**113,105**	97,860
Goodwill		**276,704**	276,704
		$ 29,457,636	$ 26,519,006
Liabilities and Shareholder's Equity			
Current			
Accounts payable and accrued liabilities	(Note 17)	**$ 7,160,980**	$ 6,164,871
Payments in lieu of corporate taxes payable	(Note 10)	**-**	66,325
Customer deposits and credit balances		**650,516**	799,191
Current portion of long-term debt	(Note 18)	**354,628**	200,000
		8,166,124	7,230,387
Long-term customer deposits		**253,862**	259,649
Long-term debt	(Note 18)	**10,117,802**	4,210,170
Employee future benefits	(Note 19)	**743,179**	719,411
Regulatory liabilities	(Note 15)	**2,764,077**	2,476,581
Deferred program funding		**361,897**	158,238
		22,406,941	15,054,436
Contingencies	(Note 20)		
Shareholder's equity			
Share capital	(Note 22)	**5,101,640**	5,101,640
Miscellaneous paid in capital		**2,966,014**	2,966,014
Retained earnings (deficit)		**(1,016,959)**	3,396,916
		7,050,695	11,464,570
		$ 29,457,636	$ 26,519,006

On behalf of the Board:

________________ Director ________________ Director

The accompanying notes are an integral part of these consolidated financial statements.

Collingwood PowerStream Utility Services Corp.
Consolidated Statement of Operations and Retained Earnings (Deficit)

For the year ended December 31		2012	2011
Revenues			
Sale of energy		**$ 29,120,278**	$ 29,031,935
Distribution revenue		**5,456,009**	5,592,608
Smart meter distribution revenue	(Note 28)	**1,402,131**	-
Other revenue		**465,569**	423,378
Administrative service and miscellaneous revenue		**1,294,738**	1,055,595
		37,738,725	36,103,516
Cost of power purchased		**29,120,278**	29,031,935
		8,618,447	7,071,581
Operating expenses			
Amortization	(Note 29)	**1,739,853**	1,053,169
Billing and collecting	(Note 30)	**1,218,737**	876,620
Distribution and transmission		**2,100,012**	2,099,480
General and administrative		**2,741,274**	2,123,603
Interest on long-term debt		**330,323**	255,131
Interest - other		**104,044**	40,751
Other deductions		**32,918**	10,360
		8,267,161	6,459,114
Income before taxes		**351,286**	612,467
Provision for payments in lieu of corporate taxes	(Note 10)	**(6,488)**	162,967
Future income tax	(Note 11)	**173,260**	(31,115)
		166,772	131,852
Net income for the year		**184,514**	480,615
Retained earnings, beginning of year		**3,396,916**	2,916,301
Dividends	(Note 23)	**4,598,389**	-
Retained earnings (deficit), end of year		**$ (1,016,959)**	$ 3,396,916

The accompanying notes are an integral part of these consolidated financial statements.

Collingwood PowerStream Utility Services Corp.
Consolidated Statement of Cash Flows

For the year ended December 31		2012	2011
Cash flows from operating activities			
Net income for the year		**$ 184,514**	$ 480,615
Adjustments for items not affecting cash:			
Amortization	(Note 29)	**1,739,853**	1,053,169
Vehicle amortization, charged to other accts	(Note 29)	**179,188**	152,929
Employee future benefits		**23,768**	64,079
Future income taxes		**173,260**	(31,115)
		2,300,583	1,719,677
Changes in non-cash working capital:			
Accounts receivable		**2,023,235**	(639,631)
Unbilled energy revenue		**(131,581)**	339,867
Inventory		**11,815**	(4,043)
Prepaid expenses		**(103,600)**	11,029
Accounts payable and accrued liabilities		**996,109**	(644,866)
Payments in lieu of corporate taxes		**(237,927)**	119,738
Customer deposits and credit balances		**(148,675)**	(610)
		4,709,959	901,161
Cash flows from investing activities			
Purchase of property, plant and equipment	(Note 13)	**(2,100,521)**	(2,074,625)
Proceeds from contributed capital	(Note 13)	**339,434**	595,011
Purchase of computer software		**(4,225)**	(1,050)
Net decrease in regulatory assets/liabilities, after transfers		**(1,513,680)**	(1,234,144)
Net decrease from deferred charges		**(23,400)**	-
		(3,302,392)	(2,714,808)
Cash flows from financing activities			
Deferred program funding		**203,659**	158,238
Increase (decrease) in long-term customer deposits		**(5,787)**	44,456
Proceeds of long-term debt		**6,300,000**	-
Repayments of long-term debt		**(237,740)**	(200,000)
Dividends paid	(Note 23)	**(4,598,389)**	-
		1,661,743	2,694
Increase (decrease) in cash during the year		**3,069,310**	(1,810,953)
Cash and bank, beginning of year		**1,320,836**	3,131,789
Cash and bank, end of year		**$ 4,390,146**	$ 1,320,836

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of Business

Collingwood PowerStream Utility Services Corp. (the "corporation") (fomerly known as Collingwood Utility Services Corp.) and its subsidiaries were incorporated on April 13, 2000, under the Business Corporations Act (Ontario). The corportion is owned 50% by the Town of Collingwood and 50% by PowerStream Inc. The corporation is a holding company for the following three wholly-owned subsidiaries:

(i) Collus PowerStream Corp. distributes electricity in the service area of Collingwood, Thornbury, Stayner, and Creemore in the Province of Ontario, under licences issued by the Ontario Energy Board ("OEB"). The subsidiary is regulated under the OEB and adjustments to the distribution rates require OEB approval.

(ii) Collus PowerStream Solutions Corp. provides shared employee services in the areas of management, billing, collecting, and customer service to Collus PowerStream Corp. for electricity billings and The Town of Collingwood for water and sewer billings.

(iii) Collus PowerStream Energy Corp. has remained an inactive company since incorporation.

2. Basis of Consolidation

The consolidated financial statements include the accounts of Collingwood PowerStream Utility Services Corp. and its wholly-owned operating subsidiaries, including Collus PowerStream Corp., Collus PowerStream Solutions Corp., and Collus PowerStream Energy Corp. All intercompany transactions and balances are eliminated upon consolidation.

3. Basis of Presentation

The corporation's consolidated financial statements are prepared by management in accordance with Canadian generally accepted accounting principles ("CGAAP") and accounting policies provided by its regulator, the OEB, as contained in the Accounting Procedures Handbook for Electric Distribution Utilities ("AP Handbook"), issued under the authority of the Ontario Energy Board Act, 1998.

In its capacity to approve or set rates, the OEB has the authority to specify regulatory treatments that may result in accounting treatments that differ from CGAAP. Due to the regulatory framework, the timing of recognition of revenues and expenses and the measurement of certain assets and liabilities may differ from that otherwise expected under CGAAP for non-rate regulated enterprises. The corporation has determined that its assets and liabilities arising from rate-regulated activities qualify for recognition under CGAAP and this recognition is consistent with the U.S. Statement of Financial Accounting Standards No. 71 - “Accounting for the Effects of Certain Types of Regulation”.

4. Regulation and Rate Setting

The corporation is regulated by the OEB under authority of the Electricity Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and ensuring the fulfillment of obligations to connect and service customers. The OEB sets the corporation's rates on an annual basis with rates becoming effective on May 1st through April 30th of the following year. The regulation and monitoring of Ontario's Energy Sector is completed by the OEB through the application of codes, rules and guidelines, licensing of market participants, assisting firms with the management of regulatory requirements, monitoring and enforcing compliance and adjudication.

5. Significant Accounting Policies

The preparation and presentation of financial statements can be significantly affected by the accounting policies selected by a corporation. The consolidated financial statements reflect the following significant accounting policies, which are an integral part of understanding them.

(a) Inventory

Inventory consists of parts and supplies valued at the lower of cost and net realizable value. The cost of the corporation's inventory is valued using the moving average cost method.

(b) Long-term Investments

The corporation records its long-term investments using the cost method.

(c) Property, Plant and Equipment

Property, plant and equipment ("PP&E") is recorded at cost less accumulated amortization. Costs include materials, labour, contracted services, vehicle and equipment usage, and engineering costs. Certain PP&E assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers. Such contributions, whether in cash or in-kind, are offset against the related PP&E asset cost. Contributions in-kind are valued at their fair value at the date of their contribution.

When identifiable assets, such as buildings, distribution station equipment, equipment and furniture are retired or otherwise disposed of, their original cost and related accumulated amortization are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period.

Amortization of PP&E is provided for on a straight-line basis over the estimated service life of the assets. Amortization of contributions from developers or customers is provided for at the rates corresponding with the useful lives of the related PP&E. The estimated service lives of the various assets used in calculating amortization are summarized below:

Buildings	30 - 60 years
Distribution stations	30 years
Distribution lines	25 years
Distribution transformers	25 years
Distribution services	25 years
Distribution meters	15 years
Smart meters	15 years
Office equipment	10 years
Tools and equipment	10 years
Vehicles	5 - 8 years
Communication equipment	10 years
System supervisory equipment	15 years
Construction in progress	none
Contributed capital	25 years

Spare meters and transformers and all other major spare parts and equipment specifically designated as standby for field service are capitalized in PP&E and amortized when they are put into service.

Construction in progress is included in property, plant and equipment and not amortized until the project is complete.

5. Significant Accounting Policies Continued

(d) Computer Software

Computer software is stated at cost and amortized on a straight-line basis over the estimated useful life.

Computer software...................... 5 years

(e) Goodwill

Goodwill represents the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill impairment is assessed based on a comparison of the fair value of the reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill. When the carrying amount of goodwill exceeds the implied fair value of goodwill an impairment loss is recognized in an amount equal to the excess.

(f) Regulatory Assets and Liabilities

Regulatory assets and liabilities represent costs and revenues that have been deferred and that are expected to be disposed of through future rates. Retail Settlement Variance Accounts (“RSVA”) are required to be recorded by the OEB and arise from differences in amounts billed to customers and retailers and the cost to the corporation, for electricity, wholesale market services and transmission services. The corporation accrues interest on regulatory assets and liabilities as permitted by the OEB.

The corporation assesses the likelihood of recovery of these regulatory assets and liabilities and records a provision when necessary. The corporation believes that it is probable that its regulatory assets and liability balances will be factored into the setting of future rates.

In the absence of rate regulation the regulatory assets and liabilities would be recognized in income in the period to which they relate.

(g) Impairment of Long-Lived Assets

The corporation reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amount is not recoverable. Any resulting impairment loss is recorded in the period in which the impairment occurs.

(h) Deposits

Customer deposits are collections from customers to guarantee the payment of energy bills and fulfillment of construction obligations. Deposits estimated to be refundable to customers within the next fiscal year are classified as a current liability. Interest is paid on customer deposits.

(i) Payments in Lieu (PIL) of Corporate Taxes

The corporation is a municipal electricity utility ("MEU") for purposes of the PIL's regime contained in the Electricity Act, 1998. As a MEU the corporation is exempt from tax under the Income Tax Act (Canada) (“ITA”), the Taxation Act, 2007 (Ontario) (“TA”), and the Corporations Tax Act (Ontario) (“CTA”). The corporation is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount equal to the tax that it would be liable to pay under the ITA and the TA. The corporation uses the liability method of accounting for income taxes.

5. Significant Accounting Policies Continued

(j) Future Income Taxes

The corporation follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the substantively enacted income tax rates for the years in which the differences are expected to reverse. Where the corporation expects the future income taxes to be recovered from or refunded to the customers as part of the rate setting process, the future income tax assets and liabilities result in an off-setting regulatory liability or asset account, otherwise the future income tax assets and liabilities result in a future provision that is charged to the statement of operations and retained earnings.

(k) Pension Plan

The corporation offers a pension plan for its full-time employees through the Ontario Municipal Employee Retirement System ("OMERS"). OMERS is a multi-employer, contributory, public sector pension fund established for employees of municipalities, local boards and school boards in Ontario. Participating employers and employees are required to make plan contributions based on participating employees' contributory earnings. The corporation accounts for its participation in OMERS as a defined benefit plan and recognizes the expense related to this plan as contributions are made.

(l) Other Post-Employment Benefits

Employee future benefits other than pension provided by the corporation include medical, dental and life insurance benefits. These plans provide benefits to employees when they are no longer providing active service. Employee future benefit expense is recognized in the period in which the employees render services on an accrual basis.

The accrued benefit obligations and the current service costs are calculated using the projected benefit method, prorated on service, and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gains or losses over 10% of the accrued benefit obligation is amortized into expense over the average remaining service period of active employees to full eligibility.

(m) Revenue Recognition

Revenues from the sale and distribution of electricity are recorded on a basis of cyclical billings and also include unbilled revenues accrued in respect of electricity delivered but not yet billed. The unbilled revenue is calculated by prorating the consumption of electricity by customers since their last meter reading date for consumption to December 31, 2012. Actual results could differ from estimates made of electricity usage.

Other revenues, which include revenues from pole attachment, customer demand work, and other miscellaneous revenues are recognized at the time the service is provided.

5. Significant Accounting Policies Continued

(n) Use of Estimates and Measurement Uncertainty

The preparation of financial statements in accordance with CGAAP requires management to make estimates and assumptions which affect the reported amounts of revenue, expenses, assets and liabilities, as well as the disclosure of contingencies at the financial statement date. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances.

Accounts receivable, unbilled revenue, inventory and regulatory assets are reported based on amounts expected to be recovered, which reflect an appropriate allowance for unrecoverable amounts. The useful lives of PP&E have been estimated in order to reflect the appropriate net book value of the assets. The fair value of goodwill is estimated for impairment testing. Other significant areas requiring the use of management estimates include accrued liabilities, regulatory liabilities, employee future benefits, payments in lieu of corporate taxes, and future taxes, which are reported based on expected payments or recoveries.

Due to inherent uncertainty involved in making such estimates, actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Minister of Energy or the Minister of Finance. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies.

(o) Financial Instruments

All financial instruments are included on the balance sheet and are measured either at fair market value or, in limited circumstances, at cost or amortized cost. Fair value is the amount of consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act. The carrying amounts of current instruments approximate fair value because of their short-term maturity. The corporation classifies its financial instruments into one of the following categories:

Held-for-trading: is comprised of cash and bank and is carried at fair value with changes in fair value recognized in the income statement. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.

Loans and receivables: are comprised of accounts receivable and unbilled revenue and are measured at amortized cost, which, upon initial recognition, are considered equivalent to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Other financial liabilities: are comprised of accounts payable and accrued liabilities, customer deposits and credit balances, and long-term debt. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs are netted against the amount initially recognized.

The corporation has classified fair value measurements using a hierarchy that reflects the following three levels of inputs used in making the fair value measurements. Level 1: unadjusted quoted prices in active markets for identical assets or liabilities. Level 2: observable inputs other than quoted prices included in Level 1, such as derived prices for similar assets and liabilities; or quoted prices in inactive markets. Level 3: unobservable inputs for the assets or liabilities that are not based on observable market data.

6. Future Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB”) confirmed that publicly accountable enterprises would be required to adopt IFRS in place of CGAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011.

The AcSB has subsequently deferred the mandatory IFRS changeover date for entities with qualifying rate-regulated activities ("RRA") as follows:

September 2010	one year deferral	effective January 1, 2012
March 2012	one year deferral	effective January 1, 2013
September 2012	one year deferral	effective January 1, 2014
February 2013	one year deferral	effective January 1, 2015

The International Accounting Standards Board ("IASB") decided in December 2012 to develop an interim Standard, to provide temporary guidance on accounting for RRA for first-time adopters of IFRS.

In order for the corporation to have the option to continue using the existing accounting for RRA, the corporation has continued to defer the adoption of IFRS until the interim standard is issued and effective, as it is only expected to be applicable to first-time adopters. Also, given these recent developments and due to the continued uncertainty around the timing, scope and eventual adoption of a RRA standard and the potential material impact on the consolidated financial statements, the corporation has decided to elect for all the optional deferrals. Accordingly, the corporation will continue to prepare its consolidated financial statements in accordance with CGAAP until January 1, 2015.

The corporation has an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its consolidated financial statements. The corporation believes that the impact on its consolidated financial statements could be material. During the deferral period, the corporation will continue to actively monitor IASB developments.

The Ontario Energy Board (OEB) has not yet issued direction with respect to the recent IASB developments. Currently, LDCs are required to adopt Modified IFRS (MIFRS) no later than January 1, 2013 for regulatory accounting and reporting and in filing their cost of service applications.

7. Seasonality

The corporation's operations are seasonal. The corporation’s revenues tend to be higher in the first and third quarters of a year as a result of higher energy consumption for winter heating in the first quarter and air conditioning and cooling in the third quarter. The volume of electricity consumed by customers during any period is governed by events largely outside of the corporation's control (principally, sustained periods of hot or cold weather which increase the consumption of electricity, and sustained periods of moderate weather which decrease the consumption of electricity).

8. Cash and Bank

The corporation's bank account is held at one chartered bank and earns interest based upon its average monthly credit balance. Interest is paid monthly at the bank's monthly average prime rate less 1.70%. As at December 31, 2012 the rate was 1.12% (2011- 1.10%).

9. Accounts Receivable

	2012	2011
Accounts receivable	**$ 2,903,560**	$ 4,384,535
Other accrued and miscellaneous receivable	**67,421**	181,158
Construction and trade receivable	**605,671**	798,370
Unbilled construction work-in-progress	**100,508**	180,414
HST receivable	**-**	-
Town of Collingwood - shareholder receivable	**-**	115,231
	3,677,160	5,659,708
Less: Allowance for bad debts	**114,242**	73,556
	$ 3,562,918	$ 5,586,152

Accounts receivable include $656,709 (2011 - $932,723) for water and sewer billings.

10. Payments in Lieu of Corporate Taxes

	2012	2011
Payments in lieu of corporate taxes receivable (payable)	**$ 171,602**	$ (66,325)

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. Reconciliation between the statutory and effective tax rates is set out below:

	2012	2011
Income before provision for PILs	**$ 351,286**	$ 612,467
Statutory Canadian federal and provincial tax rate	**26.50%**	28.25%
Provision for PILs at statutory rate	**93,091**	173,022
Small business deduction	**(41,619)**	(49,202)
Cumulative eligible capital deduction	**(10,052)**	(11,522)
Recapture of SR&ED expenditures	**28,423**	-
Amortization expense in excess of capital cost allowance	**119,697**	27,566
Change in pension post retirement plan	**6,299**	18,102
Other items	**96**	5,001
Prior year refund	**(202,423)**	-
Total provision	**$ (6,488)**	$ 162,967
Effective tax rate	**(1.85)%**	26.61%

11. Future Income Taxes

The corporation accounts for the differences between the financial statement carrying value and tax basis of its assets and liabilities following the liability method in accordance with CICA Handbook Section 3465.

Significant components of the corporation's future tax assets (liabilities) are as follows:

	2012	2011
Employee future benefits	$ 185,795	$ 179,855
Property, plant and equipment	606,689	311,759
Goodwill	56,811	66,294
Other intangibles / deferred charges	-	(282,970)
Long-term future income tax asset	$ 849,295	$ 274,938

An offsetting entry of $747,617 to this net future income tax asset is a credit to regulatory liabilities in 2012 (See Note 15).

12. Long-term Investments

	2012	2011
Cornerstone Hydro Electric Concepts Association Inc. (CHEC), incorporated without share capital. The cost for the investment was $Nil	$ -	$ -
Utility Collaborative Services Inc. (UCS), recorded using the cost method, 1 common share, 10% interest	100	100
	$ 100	$ 100

Cornerstone Hydro Electric Concepts Association Inc. ("CHEC") is an association of thirteen LDCs modelled after a co-operative to share resources and proficiencies. (See Note 33)

Utility Collaborative Services Inc. ("UCS") offers standards-based back office services. The collaboration of nine LDCs plus the managment services of Util-Assist Inc. allows leverage in the reduction of costs for items such as information technology hosting and software licensing. (See Note 33)

13. Property, Plant and Equipment

	2012			2011		
	Cost	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Land	**$ 456,548**	**$ -**	**$ 456,548**	$ 95,439	$ -	$ 95,439
Buildings	**602,877**	**85,234**	**517,643**	494,142	74,374	419,768
Distribution stations	**5,221,210**	**1,900,761**	**3,320,449**	5,219,952	1,735,518	3,484,434
Distribution lines	**21,717,997**	**11,790,222**	**9,927,775**	20,575,348	10,960,954	9,614,394
Distribution transformers	**5,691,653**	**2,993,927**	**2,697,726**	5,578,931	2,783,086	2,795,845
Distribution services	**1,093,865**	**227,719**	**866,146**	954,481	183,956	770,525
Distribution meters	**491,705**	**86,723**	**404,982**	441,653	53,946	387,707
Smart meters	**2,606,507**	**644,030**	**1,962,477**	-	-	-
Stranded meters	**-**	**-**	**-**	1,529,891	970,627	559,264
Office equipment	**226,023**	**154,566**	**71,457**	209,492	136,792	72,700
Tools and equipment	**340,234**	**306,292**	**33,942**	340,234	297,830	42,404
Vehicles	**1,874,847**	**1,006,149**	**868,698**	1,611,428	826,961	784,467
Communication equip	**71,751**	**63,271**	**8,480**	71,751	60,171	11,580
System supervisory equip	**672,850**	**391,830**	**281,020**	672,850	349,440	323,410
Construction in progress	**26,533**	**-**	**26,533**	121,872	-	121,872
Contributed capital	**(10,571,214)**	**(4,307,640)**	**(6,263,574)**	(10,231,780)	(3,884,782)	(6,346,998)
	$ 30,523,386	**$ 15,343,084**	**$ 15,180,302**	$ 27,685,684	$ 14,548,873	$ 13,136,811

During the year the corporation purchased PP&E totalling $2,100,521 (2011 - $2,074,625). Proceeds from contributed capital of $339,434 (2011 - $595,011) were used to make the capital purchases and the remainder was paid with cash.

In 2009 smart meters were deployed resulting in the disposal of stranded meters. A net book value of $NIL (2011 - $559,264) for stranded meters is included in PP&E. In 2012 stranded meters were transferred from PP&E to a regulatory deferral account. Amortization expense of $54,698 (2011 - $61,082) continued to be accumulated on these meters. (See Note 29) In the absence of this regulatory treatment the net book value of stranded meters would have been recorded as a loss on disposal in 2009.

In 2012 the corporation received approval from the OEB for the recovery of costs associated with smart meters installed. During the year the corporation transferred the net book value of smart meters from regulatory deferral accounts to PP&E. Amortization expense of $644,030 was posted during the year, with $448,130 of this amount relating to the years 2008 to 2011. In the absence of regulatory accounting amortization expense on smart meters would be $195,900 (2011 - $184,765). (See Note 29)

14. Computer Software

	2012			2011		
	Cost	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Computer Software	**$ 515,603**	**$ 415,163**	**$ 100,440**	$ 511,378	$ 323,814	$ 187,564

15. Regulatory Assets and Liabilities

	2012	2011
Regulatory assets:		
OMERS pension accrual	**$ 60,387**	$ 59,647
Hydro One incremental costs	**11,526**	11,363
IFRS transition costs	**152,743**	114,470
Green Energy Renewable Connection	**74,033**	55,796
Smart Grid	**19,764**	19,486
Late payment penalty settlement	**(2,217)**	18,228
Payments in lieu of taxes variance	**11,882**	-
Low voltage variance	**311,655**	73,233
Stranded meters	**504,566**	-
Smart meters	**-**	1,840,500
	$ 1,144,339	$ 2,192,723
Regulatory liabilities:		
Retail settlement variance accounts	**$ 152,224**	$ 673,028
RARA tier 2 adj, two yr recovery, beginning May 1, 2009	**107,952**	107,132
RARA Dec 2008, four yr recovery, beginning May 1, 2010	**951,708**	1,601,928
RARA Dec 2010, two yr recovery, beginning May 1, 2012	**724,786**	-
Special purpose charge variance	**-**	14,703
Other deferred credits	**79,790**	79,790
Future income taxes (See Note 11)	**747,617**	-
	$ 2,764,077	$ 2,476,581
Net Regulatory asset (liability)	**$ (1,619,738)**	$ (283,858)

The following impacts would be recognized in the financial statements in the absence of regulatory treatment:

	2012	2011
Statement of Operations:		
Decrease (increase) in the sale of energy	**$ 696,643**	$ 1,201,474
Decrease (increase) in smart meter distribution revenue	**942,204**	(378,052)
(Decrease) increase in amortization	**(448,130)**	184,765
(Decrease) increase in operating expenses	**(71,456)**	200,785
(Decrease) increase in interest expense	**(82,351)**	(20,577)
(Decrease) increase in future taxes	**(747,617)**	-
Balance Sheet:		
Increase in property, plant and equipment	**11,112**	2,169,489
Increase in retained earnings	**(1,920,143)**	(3,641,742)
	$ (1,619,738)	$ (283,858)

15. Regulatory Assets and Liabilities Continued

OMERS Pension Accrual

The OEB recognized that distributors were affected by the cessation of the OMERS pension contribution holiday and allowed distributors to record cash pension costs and associated carrying charges relating to amounts not recovered in rates.

Hydro One Incremental Costs

This deferral account is used to record the incremental capital charges arising from the capital rate relief rider and the associated carrying charges.

IFRS Transition Costs

The corporation uses this deferral account to record one-time administrative incremental IFRS transition costs, which are not already approved and included for recovery in distribution rates and the associated carrying charges.

Green Energy Renewable Connection

Under the Green Energy and Green Economy Act, electricity distributors are required to facilitate the connection of renewable energy sources to their systems and to undertake activities that will lead to a smart grid. The OEB has authorized deferral accounts to record the associated costs and related carrying charges.

Smart Grid

Investments related to smart grid demonstration projects and investments undertaken as part of a project to accommodate renewable generation are recorded in the capital deferral account. Operating expenses directly related to smart grid development activities are recorded in the operating deferral account. Both these deferral accounts attract applicable carrying charges.

Late Payment Penalty ("LPP") Settlement

On July 22, 2010, the Ontario Superior Court of Justice approved a settlement of the LPP Class Action. As its share of this settlement, the corporation was required to pay $46,486 on June 30, 2011 to charity to assist low income electricity users. The corporation received approval from the OEB to recover this amount from ratepayers over a one-year period, starting May 1, 2011.

Payments in Lieu of Taxes ("PILs") Variances

The PILs variance relates to the differences that have resulted from a legislative or regulatory change to the tax rates or rules assumed in the rate adjustment model. The OEB approved the disposition of a credit balance of $250,601 representing principal and interest to April 30, 2012, over a two year period from May 1, 2012 to April 30, 2014.

Low Voltage Variance

This account is used to record the variances arising from low voltage transactions which are not part of the electricity wholesale market.

15. Regulatory Assets and Liabilities Continued

Stranded Meters

This account includes the NBV of stranded mechanical meters, which have been replaced by smart meters. Stranded meters have been transferred from PP&E to regulatory assets (See Note 13). Amortization expense of $54,698 (2011 - $61,082) continued to be accumulated on these meters. In the absence of this regulatory treatment replaced meters would have been recorded as a loss on disposal of PP&E in 2009.

	2012			2011		
	Cost	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Stranded meters	**$ 1,529,891**	**$ 1,025,325**	**$ 504,566**	$ -	$ -	$

Smart Meter Initiatives

The OEB established variance accounts to track revenues collected with respect to smart meters and associated costs of the initiatives. The majority of the installation of all smart meters was completed in 2009. The OEB approved a rate rider of $2.00 ($1.00 prior to May 1, 2009) per customer per month to fund smart meter activities.

In 2012, the corporation submitted a final application and received approval from the OEB for the recovery of costs associated with smart meters installed. This resulted in new rate riders effective May 1, 2012. The rate riders allow the smart meter revenue requirement to be reflected in the corporation's rates. In addition the approval resulted in the recognition of the following amounts: smart meter funding amounts collected in the amount of $1,102,425 as distribution revenue, operating costs of $209,487, PP&E of $2,606,507, amortization of $448,130, and net carrying charge expense of $64,007. In the absence of this regulatory treatment, revenues would have decreased by $942,204 (2011 increased by $378,052), operating expenses would have decreased by $124,897 (2011 increased by $124,897), and interest expense would have decreased $51,299 (2011 increased $24,762).

Retail Settlement Variance Accounts ("RSVA")

RSVAs are comprised of the variances between amounts charged by the corporation to its customers, based on regulated rates, and the corresponding cost of non-competitive electricity service incurred by the corporation. The settlement variances relate primarily to service charges, non-competitive electricity charges and the global adjustment. Accordingly, the corporation has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. The balance for settlement variances continues to be calculated and attracts carrying charges in accordance with the OEB's direction.

Regulatory Asset Recovery Accounts ("RARA")

The RARA is comprised of the cumulative balances of regulatory assets and regulatory liabilities approved for disposition by the OEB, reduced by amounts settled with customers through billing of approved disposition rate riders. The RARA is subject to carrying charges following the OEB prescribed methodology and rates.

15. Regulatory Assets and Liabilities Continued

Special Purpose Charge ("SPC") Variance

In April 2010, the OEB informed LDCs of a SPC for conservation and renewable energy program costs. The OEB assessed the corporation $124,120 for its apportioned share of the total provincial amount and the corporation recovered this balance over a one-year period, starting May 1, 2010. This variance account relates to the difference between the amount remitted to the Ministry of Finance and the amounts recovered from customers.

Other Deferred Credits

A review motion was ruled on by the OEB in August 2009 and established that the corporation use this deferral account for the interest rate differential on a Vulnerable Energy Consumers Coalition intervenor appeal to track the difference of the 0226 ruling and the 0130 ruling. The corporation tracked $85,200 in overpaid interest recovery within the 2009 distribution service rates which was offset by legal charges of $5,410 that were solely applicable to the review motion.

Future Income Tax Regulatory Liability

This regulatory liability account relates to the expected future electricity distribution rate adjustments for customers arising from timing differences in the recognition of future taxes.

16. Deferred Charges

	2012	2011
Misc deferred debits - regulatory expenses	**$ 23,400**	$ -
Misc deferred debits - deferred expansion charges	**89,705**	97,860
	$ 113,105	$ 97,860

Misc Deferred Debits - Regulatory Expenses

This account includes cost of service application expenses, which will have recoveries in future periods and are carried forward and charged to expense over the four year term of the application. Under non-regulated reporting, the amount paid in 2012 of $23,400 would have to be recorded as an operating expense.

Misc Deferred Debits - Deferred Expansion Charges

This account includes expenses incurred in the expansion of the service area, which will benefit future periods and are carried forward and charged to expense over a twenty-five year period. Under non-regulated reporting, amortization would have decreased by $8,155 (2011 - $8,155) and retained earnings would have decreased by the NBV of the deferred charges.

	2012			2011		
	Cost	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Expansion charges	**$ 204,914**	**$ 115,209**	**$ 89,705**	$ 204,914	$ 107,054	$ 97,860

17. Accounts Payable and Accrued Liabilities

	2012	2011
Independent Electricity System Operator	**$ 2,446,322**	$ 2,636,912
Hydro One	**527,030**	602,439
Trade payables	**627,891**	573,613
Town of Collingwood - Sewer	**934,867**	1,164,022
Town of Collingwood - Interest Payable	**123,987**	123,987
Collingwood Public Utilities Service Board - Water	**1,699,474**	351,008
Economic evaluations	**365,610**	365,610
Debt retirement charge payable	**134,796**	216,173
Other accounts payable and accrued liabilities	**245,182**	70,742
HST payable	**55,821**	60,365
	$ 7,160,980	$ 6,164,871

18. Long-term Debt

	2012	2011
Infrastructure Ontario Debenture - 4.67% fixed rate, $100,000 principal repayable semi-annually plus interest on October 15th and April 15th, secured by a general security agreement covering a second charge on all assets and real property, due April 15, 2025	**$ 2,500,000**	$ 2,700,000
Infrastructure Ontario Debenture - 3.84% fixed rate, $32,700 principal and interest repayable monthly, secured by a general security agreement covering a second charge on all assets and real property, due September 17, 2037	**6,262,260**	-
Town of Collingwood - 7.25% fixed rate, no set terms of repayment, waived the right to demand repayment until August 1, 2013, rate decreased to 5.58% January 1, 2013	**1,710,170**	1,710,170
	10,472,430	4,410,170
Current portion of long-term debt	**354,628**	200,000
	$ 10,117,802	$ 4,210,170

The agreement governing these credit facilities contains certain covenants as described in Note 35.

Total advances of $9,300,000 have been approved by Infrastructure Ontario. At December 31, 2012, the corporation had undrawn credit capacity under this facility of $1,700,000.

The Town of Collingwood has contemplated demanding repayment of the full balance of their promissory note for $1,710,170 sometime after August 1, 2013. This is not classified as current debt because the corporation intends to immediately replace the promissory note with advances from Infrastructure Ontario.

Principal repayments for each of the five subsequent years and thereafter are as follows:

2013	$ 354,628
2014	360,671
2015	366,951
2016	373,476
2017	380,256
Thereafter	8,636,448
	$ 10,472,430

19. Employee Future Benefits

The corporation provides certain health, dental and life insurance under unfunded benefit plans on behalf of its retired employees. The corporation measures its accrued benefit obligation ("ABO") for accounting purposes every three years. The latest actuarial valuation was performed as at December 31, 2012.

	2012	2011
Accrued benefit obligation	**$ 799,642**	$ 825,922
Unrecognized loss	**(11,508)**	(106,511)
Unrecognized past service costs	**(44,955)**	-
Accrued benefit liability, end of the year	**$ 743,179**	$ 719,411

	2012	2011
Accrued benefit obligation, beginning of the year	**$ 825,922**	$ 769,185
Current service cost	**23,115**	28,859
Interest cost on obligation	**32,927**	39,609
Benefit payments	**(32,549)**	(11,731)
Actuarial loss	**51,267**	-
Past service cost	**49,041**	-
Actuarial gain	**(150,081)**	-
Accrued benefit obligation, end of the year	**$ 799,642**	$ 825,922

	2012	2011
Current service cost	**$ 23,115**	$ 28,859
Interest cost on obligation	**32,927**	39,609
Prior service costs	**4,087**	-
Actuarial (gain) loss	**(3,812)**	7,342
Unrecognized loss	**11,509**	106,511
Plan expense	**$ 67,826**	$ 182,321

Significant actuarial assumptions are as follows:

	2012	2011
Discount rate	**4.50 %**	5.00 %
Consumer price index	**2.50 %**	2.00 %
Rate of compensation increase	**3.50 %**	3.30 %
Health benefits costs escalation	**4.80 %** to **8.00 %**	5.00 % to 7.00 %
Dental benefits costs escalation	**4.80 %**	5.00 %

Assumed health care cost trend rates have an effect on the amounts reported for the health care plans. A 1% change would have the following effects for 2012:

	Increase	Decrease
Service and interest cost	$ 6,000	$ (5,000)
Accrued benefit obligation	36,000	(32,000)

20. Contingencies

Ministry of Finance Tax Audits

In accordance with OEB regulations, the corporation has recorded the variance between amounts charged by the corporation to its customers (at the OEB prescribed rates) and the costs charged to the corporation for electricity, market services and transmission services, namely retail settlement variances, as regulatory assets or liabilities on the consolidated financial statements. Similar treatment has been followed for tax purposes.

The Ministry was questioning this treatment of the RSVA for tax purposes and suggesting that RSVA liabilities may be considered income for tax purposes. The impact of such a tax ruling would have resulted in a reassessment of taxes payable and effect results, financial position and cash flows.

Subsequent to year-end the corporation received communication that the Ministry has completed its review of the treatment of RSVA for tax purposes on a province wide basis and indicated they will no longer be pursuing this issue any longer.

21. Commitments

Cornerstone Hydro Electric Concepts ("CHEC")

The corporation may terminate its membership at any time upon the following terms:

(a) giving written notice 60 days in advance of termination;

(b) and by making a pre-payment in full of the balance of its contract service costs to CHEC. The amount of the pre-payment cost shall be the total cost which the corporation would have paid over the three year term of the agreement less amounts already paid by it to the date of the termination. The current three year term for the CHEC commitment goes to December 31, 2014. The pre-payment cost of termination is a settlement of the corporation's obligation under the agreement by reason of termination of its membership before the expiry of the term. The amount is liquidated damages and not a penalty for early termination and is intended to leave the remaining members in the same position as if the corporation had not terminated the agreement. At at December 31, 2012 the obligation to CHEC includes 2013 and 2014 membership dues of approximately $45,000 per year, $90,000 total.

Utility Collaborative Services Inc. ("UCS")

The corporation has the right to redeem its shares in UCS by retraction upon the following terms:

(a) notice of such retraction shall be given 120 days prior to the effective date;

(b) and a retraction fee shall be paid equal the to previous three years worth of the average purchases from UCS for services or products; or in alternative to paying such fees, the corporation may elect in writing to provide three year's written notice of the retraction, provided that the corporation continues to receive services at the same or greater average volume as those received at the time the notice was given. At at December 31, 2012 the obligation to UCS includes 2013-2015 fees of approximately $160,000 per year, $480,000 total.

22. Share Capital

The authorized share capital of the corporation is an unlimited number of common shares. The issued share capital is as follows:

		2012	2011
5,101,640	Common shares	**$ 5,101,640**	$ 5,101,640

23. Dividends

During 2012 dividends in the amount of $4,598,389 (2011 - $NIL) were declared and paid to the Town of Collingwood. (See Note 33)

The amount of dividends declared in any given year is at the discretion of the Board of Directors of the corporation. The board of directors is currently working to establish a dividend policy for the distribution of a minimum dividend of the prior year net income with consideration to be given to the cash position, working capital requirements, and net capital expenditures required.

24. Statement of Cash Flows

	2012	2011
Interest paid	**$ 322,552**	$ 257,950
Interest received	**$ 40,121**	$ 33,201
PILs paid	**$ 231,439**	$ 95,810
PILs received	**$ -**	$ 52,578

25. Liability Insurance

The corporation belongs to the Municipal Electrical Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a self-insurance plan that pools the risks of all of its members. Any losses experienced by MEARIE are shared amongst its members. As at December 31, 2012, the corporation has not been made aware of any assessments for losses. Insurance premiums charged to each member consist of a levy per thousand of dollars of service revenue subject to a credit or surcharge based on each member's claims experience. The maximum coverage in a joint policy with Collingwood Public Utilities Service Board is $24,000,000 for liability insurance, 56,730,146 for property insurance, and 15,000,000 for vehicle insurance.

26. Credit Facilities

The credit facility agreement contains certain covenants as described in Note 35.

Line of Credit

The corporation has a line of credit, secured by a general security agreement, with an authorized limit of $750,000 available under a credit facility agreement with a Canadian chartered bank. Interest on advances is calculated using the bank's prime rate less 0.75% per annum, calculated and payable monthly. As at December 31, 2012 the balance was $NIL on this credit facility.

Letter of Credit ("LOC")

As at December 31, 2012, the corporation had utilized $2,326,160 (2011 - $2,046,656) of the $2,417,179 uncommitted Letter of Guarantee facility for a letter of credit that was provided to the IESO to mitigate the risk of default on energy payments. The IESO could draw on the LOC if the corporation defaults on its payment. The standby LOC fee is charged annually at a rate of 0.50% (2011 - 0.50%). For the year ended December 31, 2012 the fee incurred was $11,393 (2011- $10,233).

Credit Card

The corporation has a VISA credit card, secured by a general security agreement, with an authorized limit of $25,000 available under a credit facility agreement with a Canadian chartered bank. Interest on purchases is calculated at 18.50%, calculated and payable monthly.

27. Pension Agreements

The corporation makes contributions to the Ontario Municipal Employee Retirement System ("OMERS"), which is a multi-employer plan, on behalf of members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The plan is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund.

Each year, an independent actuary determines the funding status of OMERS Primary Pension Plan by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2011. The results of this valuation disclosed total actuarial liabilities of $64.5 (2010 - $60.0) million in respect of benefits accrued for service with actuarial assets at that date of $57.2 (2010 - $55.5) million, indicating an actuarial deficit of $7.3 (2010 - $4.5) million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the corporation does not recognize any share of the OMERS pension surplus or deficit.

The contribution rates for normal retirement age 65 members were 8.3% (2011 - 7.4%) for employees earning up to $50,100 (2011 - 48,300) and 12.8% (2011 - 10.7%) thereafter. The amount contributed to OMERS for 2012 was $353,984 (2011 - $290,562).

28. Smart Meter Revenue and Expense

The disposal of smart meter regulatory deferral accounts plus on-going revenues and expenses since disposition have had a material impact on the income statement during the year. The impact has been summarized as follows:

	2012	2011
Revenues		
Smart meter distribution revenue	**$ 1,402,131**	$ -
Operating expenses		
Amortization	**644,030**	-
Billing and collecting	**324,044**	-
Interest - other	**51,299**	(24,762)
	1,019,373	(24,762)
	$ 382,758	$ (24,762)

29. Amortization

	2012	2011
Property, plant and equipment (excluding meters below)	**$ 941,621**	$ 892,374
Stranded meters	**54,698**	61,082
Smart meters	**644,030**	-
Software	**91,349**	91,558
Deferred charges	**8,155**	8,155
	1,739,853	1,053,169
Vehicles, allocated to other accounts	**179,188**	152,929
	$ 1,919,041	$ 1,206,098

Stranded meters were transferred from PP&E to regulatory assets during the year and amortization expense continued to accumulate.

Smart meters were transferred from regulatory assets to PP&E during the year. The amortization on smart meters was tracked in a regulatory account from 2008 to 2012 and the entire accumulated balance was charged to amortization expense during the year. The accumulated amortization on smart meters relates to the following years:

2008	$ 17,864
2009	88,275
2010	157,226
2011	184,765
2012	195,900
	$ 644,030

30. Bad Debt Expense (Included in Billing and Collecting)

	2012	2011
Electric Receivables:		
Write-offs during the year	**$ 69,623**	$ 150,632
Recoveries during the year	**(26,875)**	(36,470)
Opening allowance	**(51,044)**	(106,800)
Closing allowance	**90,619**	51,044
	$ 82,323	$ 58,406

31. Material Event

On March 6, 2012, the Town of Collingwood ("the Town"), Collingwood Utility Services Corp. ("the Parent"), Collus Power Corp. ("the corporation"), Collus Solutions Corp. ("Solutions") and Collus Energy Corp. ("Energy") entered into an agreement with PowerStream Inc. for the sale of 50% of the Town's outstanding common shares in the Parent company.

As part of this agreement, the corporation and Solutions were required to declare recapitalization and closing dividends to the Parent prior to the finalization of the agreement. (See Note 23)

The impact on the corporation's balance sheet was a significant decrease in retained earnings and a significant increase in cash and long-term liabilities.

The sale transaction was approved by the OEB on July 12, 2012. The sale of the shares closed July 31, 2012.

32. Change of Corporate Name

Subsequent to PowerStream Inc.'s purchase of 50% of the shares in the corporation's parent company, articles of amendment were approved by the Ministry of Ontario on August 20, 2012 changing the corporate names of the related group of companies as follows:

Collingwood Utility Services Corp.	Collingwood PowerStream Utility Services Corp.
Collus Power Corp.	Collus PowerStream Corp.
Collus Solutions Corp.	Collus PowerStream Solutions Corp.
Collus Energy Corp.	Collus PowerStream Energy Corp.

33. Related Party Transactions

The corporation is 50% owned by The Town of Collingwood and 50% by PowerStream Inc. The following summarizes the corporation's related party transactions for the year. These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product or provision of service.

	2012		
	50% Share-holder	50% Share-holder	Water service board of Collingwood
	Town of Collingwood	PowerStream Inc.	Collingwood Public Utilities Service Board
Revenue:			
Energy and distribution	$ 622,919	$ -	$ 603,238
Streetlight maintenance	67,104	-	-
Service fee	-	-	210,000
Shared employee charge	145,367	-	847,925
Expenses:			
Property taxes	14,230	-	-
Property maintenance	3,375	-	-
Vehicle fuel	57,963	-	-
Interest	123,987	-	-
Shared employee charge	-	-	64,629
Computer lease	-	-	80,000
Building lease	-	-	216,000
Dividends paid	4,598,389	-	-

	2011		
Revenue:			
Energy and distribution	$ 602,684	$ -	$ 703,772
Streetlight maintenance	51,190	-	-
Service fee	-	-	177,000
Shared employee charge	111,273	-	760,020
Expenses:			
Property taxes	14,112	-	-
Property maintenance	3,375	-	-
Vehicle fuel	50,611	-	-
Interest	123,987	-	-
Shared employee charge	-	-	217,569
Computer lease	-	-	80,000
Building lease	-	-	216,000
Dividends paid	-	-	-

33. Related Party Transactions Continued

At the end of the year, the amounts due from and due (to) related parties are as follows:

	2012		
	50% Share-holder	50% Share-holder	Water service board of Collingwood
	Town of Collingwood	PowerStream Inc.	Collingwood Public Utilities Service Board
Energy receivable	94,920	-	43,396
Trade receivable	152,771	43,238	51,211
Trade payable	(16,129)	-	(1,699,474)
Interest payable	(123,987)	-	-
Sewer payable	(934,867)	-	-
Long-term debt	(1,710,170)	-	-
	(2,537,462)	43,238	(1,604,867)

	2011		
Energy receivable	88,857	-	41,913
Trade receivable	360,204	-	106,874
Trade payable	(12,022)	-	(351,008)
Interest payable	(123,987)	-	-
Sewer payable	(1,164,022)	-	-
Long-term debt	(1,710,170)	-	-
	(2,561,140)	-	(202,221)

Compensation and expenses for the board of directors were incurred during the year in the amount of $111,395 (2011 - $51,388).

The corporation paid $54,407 (2011 - $54,196) in fees to Cornerstone Hydro Electric Concepts Association Inc. (CHEC) (See Note 12).

The corporation paid $159,583 (2011 - $166,907) in fees to Utility Collaborative Services Inc. (UCS) for items such as information technology hosting and software licensing (See Note 12).

34. Financial Instruments

The Corporation's carrying value and fair value of financial instruments consist of the following:

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and bank	**4,390,146**	**4,390,146**	1,320,836	1,320,836
Accounts receivable	**3,562,917**	**3,562,917**	5,586,152	5,586,152
Unbilled energy revenue	**3,135,280**	**3,135,280**	3,003,699	3,003,699
Long-term investments	**100**	**undeterminable**	100	undeterminable
Liabilities				
Accounts payable	**7,160,980**	**7,160,980**	6,164,871	6,164,871
Customer deposits	**904,378**	**904,378**	1,058,840	1,058,840
Long-term debt	**10,472,430**	**10,472,430**	4,410,170	4,410,170

The estimated fair values of financial instruments as at December 31, 2012 and December 31, 2011 are based on relevant market prices and information available at the time. The fair value estimates are not necessarily indicative of the amounts that the corporation may receive or incur in actual market transactions. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Determination of fair values

(a) The fair values of cash and bank, accounts receivable, unbilled revenue, current customer deposits and credit balances, and accounts payable and accrued liabilities approximate their carrying values because of the short-term nature of these instruments.

(b) Long-term investments include common shares of private companies accounted for by the cost method. These investments are not publicly traded and, therefore, fair values are not practicable to determine.

(c) The fair value of each of the corporation's long-term debt instruments is based on the amount of future cash flows associated with each instrument discounted using an estimate of what the corporation's current borrowing rate for similar debt instruments of comparable maturity would be.

It is management's intention not to renew the long-term debt until its maturity.

35. Capital Disclosures

The corporation considers its capital to be its share capital, miscellaneous paid in capital, and retained earnings. The corporation's main objectives when managing capital are to: i) ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans, ii) minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions, iii) maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial covenants, and iv) provide an adequate return to its shareholders.

The corporation relies predominately on its cash flow from operations to fund its dividend distributions to its shareholders. This cash flow is supplemented, when necessary, through the borrowing of additional debt.

As part of existing debt agreements, financial covenants are monitored and communicated, as required by the terms of credit agreements, on an annual basis by management to ensure compliance with the agreements.

The bank indebtedness covenants require the corporation to maintain a debt to effective equity ratio of 1.50 to 1 or less, a current ratio of 1.25 to 1 or more, and a debt service coverage ratio of at least 1.25 to 1.

The Infrastructure Ontario 4.67% smart meter loan covenants require the corporation to provide notification prior to any new debt issuance and to seek approval where the debt service coverage ratio falls below 1 to 1 at any time; such ratio is otherwise tested and calculated as of the end of each fiscal year. The corporation is also required to maintain a maximum debt to capital ratio of 0.60 to 1 and a minimum current ratio of 1.1 to 1 to be tested and calculated as of the end of each fiscal year.

The Infrastructure Ontario 3.84% recapitalization and working capital loan covenants require the corporation to provide notification prior to any new debt issuance and to seek approval where the debt service coverage ratio falls below 1.15 to 1 at any time; such ratio is otherwise tested and calculated as of the end of each fiscal year. The corporation is also required to maintain a maximum debt to capital ratio of 0.65 to 1 and a minimum current ratio of 1.1 to 1 to be tested and calculated as of the end of each fiscal year.

The corporation is in compliance with these covenants as at December 31, 2012. Management monitors the following key ratios to effectively manage capital:

	2012	2011
a) Debt Service Coverage Ratio:	1.38:1	1.32:1
b) Debt to Capital:	0.61:1	0.28:1
c) Current ratio:	1.44:1	1.43:1

The 2012 recapitalization and closing dividend of $4,598,389 was excluded from the debt service coverage ratio calculation because it was extraordinary in nature and related to the sale of shares and corporate restructuring of debt and equity. The loan received from Infrastructure Ontario was for the purpose of this dividend.

36. Financial Risk Management

As part of its operations, the corporation carries out transactions that expose it to financial risks such as credit, liquidity and market risks.

The following is a discussion of risks and related mitigation strategies that have been identified by the company for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks identified.

Credit risk

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms of the financial instrument. The maximum credit exposure is limited to the carrying amount of cash, receivables, and unbilled revenue presented on the balance sheet.

Financial instruments that potentially subject the corporation to a significant concentration of credit risk consist primarily of cash. The corporation limits its exposure to credit loss by placing its cash with a high credit quality financial institution. The corporation maintains cash with only one major financial institution. Eligible deposits per financial institution are insured to a maximum basic insurance level of $100,000, including principal and interest by the Canada Deposit Insurance Corporation.

The corporation is exposed to credit risk related to accounts receivable and unbilled revenue arising from its day-to-day electricity and service revenue. Exposure to credit risk is limited due to the corporation's large and diverse customer base. The corporation limits its credit risk by collecting deposits, purchasing commercial account credit insurance, following collection policies, monitoring accounts receivable aging, and utilizing collection agencies. The Ontario Energy Board has prescribed certain rules for the payment of deposits by customers. Although these rules limit the risk of the corporation, no deposits are required by customers who have shown good payment history for the previous 24 month period. The corporation does not have any material accounts receivable balances greater than 90 days outstanding. As a result, the corporation believes that its accounts receivable represent a low credit risk.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the income statement. The provision is based on account age and customer standing. Subsequent recoveries of receivables previously provisioned are credited to the income statement.

The value of accounts receivable, by age, and the related bad debt provision are presented in the following table. Unbilled revenue outstanding is considered current.

	2012	2011
Under 30 days	**$ 3,305,164**	$ 4,877,889
30 to 60 days	**194,000**	351,368
61 to 90 days	**29,227**	38,719
Over 90 days	**148,768**	391,732
	3,677,159	5,659,708
Provision	**114,242**	73,556
Total accounts receivable	**$ 3,562,917**	$ 5,586,152

36. Financial Risk Management Continued

Liquidity risk

Liquidity risk is the risk that the corporation will encounter difficulty in meeting obligations associated with financial liabilities. The corporation’s approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the corporation’s reputation. The corporation's exposure is reduced by cash generated from operations and undrawn credit facilities. The corporation engages in borrowing to meet financing needs that exceed cash from operations. Exposure to such risks is significantly reduced through close monitoring of cash flows and budgeting. Liquidity risks associated with financial commitments are as follows:

	0 - 3 mo	3 mo - 1 yr	1 - 5 yr	Thereafter
Accounts payable	6,795,370	365,610	-	-
Customer deposits	-	650,516	253,862	-
Long-term debt	38,103	316,525	2,281,354	7,836,448
Employee future benefits	-	28,310	113,240	601,629
Regulatory liabilities	574,519	943,028	498,913	747,617
Deferred program funding	45,237	135,711	180,949	-
Total	$ 7,453,229	$ 2,439,700	$ 3,328,318	$ 9,185,694

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the corporation's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits.

The corporation does not have any direct exposure to foreign currency exchange rate risk or commodity price risk. The corporation had no forward exchange rate contracts or commodity price contracts in place as at or during the year ended December 31, 2012.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The corporation is exposed to interest rate fluctuations on its cash and bank and undrawn bank credit facilities. The corporation is protected from interest rate fluctuations on long-term debt for the Town of Collingwood and Infrastructure Ontario which bear a fixed rate of interest. As at December 31, 2012, if interest rates had been 1% lower or higher with all other variables held constant, net income for the year would not have been impacted materially.

37. Financial Statement Presentation

Certain comparative figures have been reclassified to conform with current financial statement presentation.