COLLUS POWER CORP.

FINANCIAL STATEMENTS
DECEMBER 31, 2010

CONTENTS

GAVILLER & COMPANY LLP
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Shareholder of **COLLUS Power Corp.**:

Report on the Financial Statements

We have audited the accompanying financial statements of **COLLUS Power Corp.**, which comprise the balance sheet as at December 31, 2010, and the income and retained income statement 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 auditor considers internal control relevant to the Company'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 Company'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 **COLLUS Power Corp.** as at December 31, 2010, 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
May 13, 2011

COLLUS POWER CORP.

BALANCE SHEET
AS AT DECEMBER 31

	2010	2009
	$	$
Assets		
Current		
Cash	2,922,832	1,388,603
Accounts receivable	4,690,260	3,480,409
Unbilled revenue	3,343,566	3,024,852
Taxes recoverable	46,486	102,231
Prepaid expenses	130,846	74,050
Inventory	317,756	297,789
	11,451,746	8,367,934
Property, plant and equipment (Note 6)		
Lands	90,439	90,439
Buildings	494,142	255,668
Distribution stations	5,219,952	3,857,578
Distribution lines	20,475,695	19,596,227
Distribution transformers	5,184,349	5,020,605
Distribution meters and services	1,767,391	1,565,562
Load control	1,521,439	1,459,235
Other	1,991,042	2,838,992
Contributions in aid of construction (Note 3)	(9,636,769)	(9,354,806)
	27,107,680	25,329,500
Less accumulated amortization	(14,344,099)	(13,405,294)
	12,763,581	11,924,206
Other		
Goodwill	276,704	276,704
Intangible asset - computer software (net of accumulated amortization of $232,256 (2009 - $130,189))	278,072	338,117
Investment in Utility Collaborative Services Inc. - at cost	100	100
Future taxes recoverable	156,997	178,811
	711,873	793,732
	24,927,200	21,085,872

Approved by directors:

.... Director

______________________________ Director

See accompanying notes to the financial statements

COLLUS POWER CORP.

BALANCE SHEET
AS AT DECEMBER 31

	2010	2009
	$	$
Liabilities		
Current		
Accounts payable and accruals (Notes 3 and 9)	**7,384,308**	7,350,989
Customer deposits	**430,736**	355,081
Current portion of long-term (Note 5)	**200,000**	-
	8,015,044	7,706,070
Long-term (Note 5)	**4,410,170**	1,710,170
Employee future benefits (Note 12)	**308,029**	281,085
Other (Note 4)	**1,411,987**	1,005,314
Total liabilities	**14,145,230**	10,702,639
Shareholder's equity		
Capital stock		
Authorized		
Unlimited common shares		
Issued		
5,101,340 common shares	**5,101,340**	5,101,340
Miscellaneous paid in capital	**2,966,014**	2,966,014
Retained income	**2,714,616**	2,315,879
Total shareholder's equity	**10,781,970**	10,383,233
	24,927,200	21,085,872

See accompanying notes to the financial statements

COLLUS POWER CORP.

INCOME AND RETAINED INCOME STATEMENT
FOR THE YEAR ENDING DECEMBER 31

	2010	2009
	$	$
Revenue		
Sale of power	25,971,849	24,064,556
Distribution services	5,437,389	5,126,519
	31,409,238	29,191,075
Cost of power		
Power purchased	25,971,849	24,064,556
Distribution income (17.3%, 2009 - 17.6%)	5,437,389	5,126,519
Other revenue	556,865	488,295
	5,994,254	5,614,814
Operating and maintenance expenses (Note 9)		
Distribution and transmission	1,883,667	1,903,185
Billing and collecting	1,154,122	821,070
General administration	1,244,511	1,190,578
Amortization	967,205	1,004,161
	5,249,505	4,918,994
Operating income	744,749	695,820
Other expense		
Interest (Note 5)	249,634	179,149
Net income before taxes	495,115	516,671
Provision for (recovery of) taxes		
Current	74,564	100,906
Future	21,814	(32,937)
	96,378	67,969
Net income for the year	398,737	448,702
Retained income, beginning of year	2,315,879	1,867,177
Retained income, end of year	2,714,616	2,315,879

See accompanying notes to the financial statements

COLLUS POWER CORP.

CASH FLOW STATEMENT
FOR THE YEAR ENDING DECEMBER 31

	2010	2009
	$	$
Cash flows from (for):		
Operating activities		
Net income	398,737	448,702
Items not requiring funds		
Amortization	1,150,939	1,112,226
Future taxes	21,814	(32,937)
Gain on disposition of property, plant, and equipment	(8,852)	-
	1,562,638	1,527,991
Changes in		
Accounts receivable	(1,209,851)	347,127
Unbilled revenue	(318,714)	445,532
Inventory	(19,967)	(42,658)
Accounts payable and accruals	33,319	(1,335,717)
Prepaid expenses	(56,795)	(18,316)
Taxes payable	55,745	78,488
Customer deposits	75,655	(191)
Employee future benefits	26,944	25,976
Other liabilities	406,673	(2,709,369)
	555,647	(1,681,137)
Investing activities		
Acquisition of property, plant and equipment	(1,930,270)	(926,226)
Investment in Utility Collaborative Services Inc.	-	(100)
Proceeds from disposal of property, plant, and equipment	8,852	-
	(1,921,418)	(926,326)
Financing activities		
Repayment of long-term liabilities	(100,000)	(1,117,353)
Issuance of long-term liabilities	3,000,000	-
	2,900,000	(1,117,353)
Change in cash	1,534,229	(3,724,816)
Cash position, beginning of year	1,388,603	5,113,419
Cash position, end of year	2,922,832	1,388,603

See accompanying notes to the financial statements

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

1. Significant accounting policies

The financial statements of the company 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 judgment based on available information. The most significant estimates are included in unbilled revenue and economic evaluations. 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 of the company have been 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, 2010, the company was authorized to earn 8.01% 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.

(d) Property, plant and equipment are stated at cost. Contributions received in aid of construction of property, plant and equipment are capitalized and amortized at the same rate as the related asset. Property, plant and equipment are amortized 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. Amortization rates are 4% except as follows:

Buildings	2%
Distribution stations	3.33%
Other	6.67% to 20%

(e) Deferred charges - service area expansion costs are being amortized on a straight-line basis over twenty-five years.

(f) 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.

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

1. Significant accounting policies (continued)

(g) The company's inventory typically consists of poles and wire, 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 and is recorded at the lower of cost and net realizable value.

(h) The company accounts for financial instruments using Canadian Institute of Chartered Accountants (CICA) Handbook Section 3861 - "Financial Instruments - Disclosure and Presentation" which establishes the requirement of disclosure of risks associated with financial instruments and the management of those risks.

(i) Intangible assets

Intangible assets are externally acquired and are stated at cost. Amortization is provided on a straight-line basis over their estimated useful service lives at the following annual rates:

Computer software	20%

2. Future accounting pronouncements

The Accounting Standards Board has decided that rate regulated publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2012. The transition period is expected to begin for fiscal years beginning on or after January 1, 2011. The impact of these changes cannot be estimated at this time.

Phase 1 of the company's IFRS implementation was complete as of October 2009. Phase 1 identified the company's needs with regard to the new standards and set out recommendations to meet those needs. Phase 2 was still in progress as of the 2010 audit report date, which includes reclassifying property, plant, and equipment to comply with IFRS.

3. Contributions in aid of construction

Under the terms of the Distribution System Code, the company 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 company estimates that it will return $365,610 (2009 - $365,610). The liability is included in accounts payable. The balance of $9,636,769 (2009 - $9,354,806) is recorded as a reduction of the cost of property, plant, and equipment.

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

4. Other assets (liabilities)

Other assets (liabilities) consist of the following:

	2010	2009
	$	$
Deferred charges-service area expansion (net of $98,899 accumulated amortization, (2009 - $90,744)	**106,015**	114,170
Regulatory assets		
Other regulatory assets	**225,179**	66,530
Smart meter variance	**1,838,379**	1,927,304
Total regulatory assets	**2,063,558**	1,993,834
Regulatory liabilities		
Purchased power cost variance	**(938,916)**	(2,562,776)
Regulatory recoveries	**(2,562,854)**	(507,194)
Other regulatory liabilities	**(79,790)**	(43,348)
Total regulatory liabilities	**(3,581,560)**	(3,113,318)
Net liability	**(1,411,987)**	(1,005,314)

Other regulatory assets consist of Hydro One incremental capital and pension costs from OMERS not recovered in rates. This account includes annual carrying charges accrued at the OEB quarterly interest rate in effect.

In 2010 the OEB approved the disposition of power variances from December 31, 2008. The liability is being paid back through a reduction of customer's monthly billings over a period of three years, beginning in May 2010.

The purchased power cost variance represents 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.

The smart meters regulatory asset account relates to the Province of Ontario's decision to install smart meters throughout Ontario by 2011. The company launched its project shortly following the Province of Ontario's announcement in 2006. As at December 31, 2010, the company had installed approximately 15,000 smart meters. The company is currently authorized to collect $2.00 per residential customer per month. Carrying charges are accrued on this account for 2007 and later years at the OEB quarterly interest rate in effect. As at December 31, 2010, smart meter capital expenditures totaled $2,414,022 (2009 - $2,257,264) which is offset by revenues of $575,644 (2009 - $262,021) and accumulated amortization of $215,072 (2009 - $67,939).

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

5. Long-term liabilities

Long-term liabilities consist of the following:

	2010	2009
	$	$
4.67% loan payable to the Ontario Infrastructure Projects Corporation, secured by a General Security Agreement over all of the assets of the company. Payments are to be made semi-annually to April 15, 2025.	**2,900,000**	-
7.25% note payable to the Town of Collingwood, no set terms of repayment	**1,710,170**	1,710,170
	4,610,170	1,710,170
Current portion	**(200,000)**	-
	4,410,170	1,710,170

Principal payments in the next year are as follows:

	$
2011	200,000
2012	200,000
2013	200,000
2014	200,000
2015	200,000

Included in interest expense is $176,802 (2009 - $129,020) of interest on long-term liabilities.

The company is contingently liable for a letter of credit in the amount of $2,046,656 (2009 - $1,631,702) to meet the prudential requirements of the Independent Electricity System Operator.

6. Property, plant, and equipment

Effective in 2010 and under the direction of the OEB, the company had the option of moving stranded meter costs into the regulatory asset accounts or leave them in property, plant, and equipment. The company decided to keep them in property, plant, and equipment and continue to amortize the stranded meter costs. The balance of stranded meters in property, plant, and equipment is $1,529,891 and the accumulated amortization is $909,545 (2009 - $863,275).

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

7. Financial instruments

The company's financial instruments consist of cash, accounts receivable, unbilled revenue, taxes recoverable, investment in Utility Collaborative Services Inc., accounts payable and accruals, 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 value does not vary significantly from recorded value.

8. 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 taxes calculated on the same basis as the Income Tax Act.

9. Related party transactions

Collingwood Public Utilities Service Board, COLLUS Solutions Corp., and the company are controlled by the council of the Town of Collingwood.

Related party transactions are recorded at their exchange amount and include the following:

	2010	2009
	$	$
Amounts payable to the Collingwood Public Utilities Service Board	(93,479)	(496,809)
Amounts payable to COLLUS Solutions Corp.	(135,797)	(94,769)
Amounts payable to the Town of Collingwood	(1,831,697)	(412,995)
The company is leasing its operations centre 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.	200,000	200,000
Operating and maintenance expenses include services purchased from COLLUS Solutions Corp.	1,174,677	1,114,125
COLLUS Power Corp. is leasing computer equipment from Collingwood Public Utilities Service Board. This amount is included in the above netted expenses.	117,000	117,000

10. Supplemental cash flow information

Cash receipts and (payments) were as follows:

	2010	2009
	$	$
Interest paid	(221,064)	(179,149)
Interest received	49,997	68,862
Taxes paid	(121,050)	(204,160)
Taxes refunded	102,231	181,742

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
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11. Line of credit

The company has a revolving line of credit with CIBC with a credit limit of $500,000. The interest rate is set at prime minus 0.75% per annum. During 2010 the company did not draw on their line of credit.

12. Employee future benefits

The employees of COLLUS Power 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 company 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 $50,626 (2009 - $60,174).

In addition, COLLUS Power Corp. pays certain benefits on behalf of its retired employees. The company recognizes these post-retirement costs in the period in which the employees rendered the services. The accrued benefit obligation at December 31, 2010 of $308,029 and the net periodic benefit cost for 2010 was determined by actuarial valuation using discount rates of 6.0% and was adjusted by management based on new information available. Actuarial valuations will be prepared every second year or when there are significant changes to the workforce.

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

	2010	2009
	$	$
Accrued benefit obligation		
Balance at the beginning of period	281,085	255,109
Current service cost for the period	10,157	9,582
Interest cost for the period	20,555	19,409
Actuarial loss	52,235	54,778
Prior period cost	4,531	9,063
Benefits paid for the period	(10,842)	(10,090)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	357,721	337,851
Unamortized actuarial loss	(49,692)	(52,235)
Unamortized prior service cost	-	(4,531)
Balance at end of period	308,029	281,085
Components of net periodic benefit cost		
Current service cost for the period	10,157	9,582
Interest cost for the period	20,555	19,409
Amortization of actuarial loss	2,543	2,543
Amortization of prior service cost	4,531	4,531
Net periodic benefit cost	37,786	36,065

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
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12. 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 2.0% in 2010 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2010, of the present value of future liabilities was determined using a discount rate of 6.0%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 4.0%.

(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 be 9.0% in 2010 and graded down 0.67% a year until 2015 after which the rate is assumed to increase 5.0% annually.

(e) Dental costs

Dental costs were assumed to increase at 5.0% in 2010 and thereafter.

13. Capital disclosures

The company's main objectives when managing capital are to:

(a) Ensure ongoing access to funding to maintain and improve the electricity distribution system and to ensure that capital needs are met.

(b) Ensure compliance with covenants related to its credit facilities and the Town of Collingwood promissory note.

(c) Ensure that the capital structure is such that the debt to equity structure deemed by the OEB is not exceeded.

As at December 31, 2010, the company's definition of capital includes shareholder's equity and long-term debt. The company's debt to equity ratio as defined by the OEB, as at December 31, 2010 is 1:2.98 (2009 - 1:2.98). There have been no changes in the company's approach to capital management during the year.

The company has met all covenants related to its credit facilities.

14. Comparative information

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