COLLUS POWER CORP.

FINANCIAL STATEMENTS
DECEMBER 31, 2005

CONTENTS

GAVILLER & COMPANY LLP

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

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

We have audited the balance sheet of **COLLUS Power Corp.** as at December 31, 2005, and the statements of operations and retained income and cash flows for the year then ended. These financial statements are the responsibility of the company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of COLLUS Power Corp. as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Gaviller & Company LLP

Chartered Accountants
Collingwood, Ontario
March 20, 2006

COLLUS POWER CORP.

BALANCE SHEET
AS AT DECEMBER 31

	2005	2004
	$	$
Assets		
Current		
Cash	**4,219,335**	3,737,219
Taxes recoverable	**-**	96,512
Accounts receivable (Note 5)	**1,774,124**	1,730,261
Unbilled revenue	**3,651,025**	3,785,105
Inventory	**215,531**	217,560
	9,860,015	9,566,657
Capital		
Lands	**90,439**	90,439
Buildings	**80,668**	80,668
Distribution stations	**1,998,839**	1,941,972
Distribution lines	**14,857,827**	14,005,916
Distribution transformers	**3,572,611**	3,489,050
Distribution meters	**1,267,872**	1,215,128
Other capital assets	**1,437,597**	1,366,305
Load control (customer premises)	**878,887**	878,887
Load management control	**378,276**	327,387
Contributions in aid of construction (Note 2)	**(5,293,818)**	(4,973,654)
	19,269,198	18,422,098
Less accumulated depreciation	**(10,131,429)**	(9,399,526)
	9,137,769	9,022,572
Goodwill	**276,704**	276,704
	19,274,488	18,865,933

Approved by directors:

_______________________________ Director

_______________________________ Director

See accompanying notes to the financial statements

COLLUS POWER CORP.

BALANCE SHEET
AS AT DECEMBER 31

	2005	2004
	$	$
Liabilities		
Current		
Accounts payable and accruals (Notes 2, 3 and 5)	**5,556,254**	5,603,189
Taxes payable	**24,768**	-
Customer deposits	**355,970**	331,114
Current portion of long-term	**2,067,876**	2,341,645
Future taxes payable	**25,000**	-
	8,029,868	8,275,948
Long-term (Note 4)	**1,742,170**	1,768,584
Employee future benefits (Note 10)	**168,239**	154,989
Other (Note 3)	**686,246**	381,485
	2,596,655	2,305,058
Total liabilities	**10,626,523**	10,581,006
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	**580,611**	217,573
Total shareholder's equity	**8,647,965**	8,284,927
	19,274,488	18,865,933

See accompanying notes to the financial statements

COLLUS POWER CORP.

STATEMENT OF OPERATIONS AND RETAINED INCOME
FOR THE YEAR ENDING DECEMBER 31

	2005	2004
	$	$
Revenue		
Sale of power	**28,376,183**	25,430,304
Distribution services	**3,784,679**	3,514,227
	32,160,862	28,944,531
Cost of power		
Power purchased	**28,376,183**	25,430,304
Distribution income (11.8%, 2004 - 12.1%)	**3,784,679**	3,514,227
Other revenue	**608,233**	585,337
	4,392,912	4,099,564
Operating and maintenance expenses		
Distribution and transmission	**1,115,667**	1,190,458
Billing and collecting	**700,465**	624,297
General administration (Notes 4 and 5)	**1,288,261**	1,142,343
Depreciation and amortization	**788,853**	840,793
	3,893,246	3,797,891
Net income before taxes	**499,666**	301,673
Provision for taxes		
Current	**111,628**	89,924
Future	**25,000**	-
	136,628	89,924
Net income for the year	**363,038**	211,749
Retained income, beginning of year	**217,573**	5,824
Retained income, end of year	**580,611**	217,573

See accompanying notes to the financial statements

COLLUS POWER CORP.

STATEMENT OF CASH FLOW
FOR THE YEAR ENDING DECEMBER 31

	2005	2004
	$	$
Cash flows from (for):		
Operating activities		
Net income	**363,038**	211,749
Items not requiring funds		
Depreciation	**816,436**	743,840
Amortization of deferred charges	**8,155**	96,953
Future taxes payable	**25,000**	-
	1,212,629	1,052,542
Changes in		
Accounts receivable	**(43,863)**	231,892
Unbilled revenue	**134,080**	(561,495)
Inventory	**2,029**	127,999
Accounts payable and accruals	**(46,935)**	682,208
Taxes payable	**121,280**	(256,167)
Customer deposits	**24,856**	(163,164)
Employee future benefits	**13,250**	(28,840)
	1,417,326	1,084,975
Investing activities		
Net additions to capital assets	**(1,251,796)**	(1,070,673)
Net change to other assets/liabilities	**296,605**	637,487
Proceeds from disposal of capital assets	**-**	19,468
	(955,191)	(413,718)
Financing activities		
Repayment of long-term liabilities	**(300,183)**	(305,435)
Contributions in aid of construction	**320,164**	410,430
	19,981	104,995
Change in cash	**482,116**	776,252
Cash position, beginning of year	**3,737,219**	2,960,967
Cash position, end of year	**4,219,335**	3,737,219

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2005

1. Significant accounting policies

The financial statements of the corporation are the representations of management. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement based on available information. The financial statements have, in the opinion of management, been properly prepared within the framework of the accounting policies summarized below:

(a) The financial statements are prepared in accordance with the Ontario Energy Board (OEB) 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, 2006, the company was authorized to earn 9.88% on equity and 7.25% on debt with a deemed debt to equity ratio of 1:1.

(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) Purchases of reels and poles are normally carried as inventory, 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. Inventory is stated at moving average cost.

(e) Capital assets are stated at cost. Contributions received in aid of construction of capital assets are capitalized and amortized at the same rate as the related asset. Capital assets are depreciated over their estimated useful lives, using the straight-line method. Assets constructed by others and donated to the company are recorded at cost to the developer. Depreciation rates are 4% except as follows:

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

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

(g) Qualifying transition factors are costs that meet the four qualifying criteria established in the Electricity Distribution Rate Handbook related to the restructuring of the electricity industry in Ontario. Qualifying transition factors include annual carrying charges at 7.25%.

(h) The purchased power cost variance represent variances in the purchase and sale of electricity which will be recovered from or returned to customers by increases or decreases to rates in the future. Purchased power cost variance includes annual carrying charges at 7.25%.

The OEB has authorized the recovery of certain December 31, 2002 regulatory asset or liability balances beginning in April 2004 and has put a process in place to address the future recovery or reduction of the remaining asset or liability balances over the following three years.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2005

1. Significant accounting policies (continued)

(i) Future taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future tax liabilities or assets. Future tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

2. Contributions in aid of construction

Under the terms of the Distribution System Code, the corporation cannot charge a developer more than the difference between the present value of the projected capital costs and on-going maintenance costs for the equipment and the present value of the projected revenue for distribution services provided by those facilities. These amounts are determined by an economic evaluation study of the project. The corporation estimates that it will return $104,357 (2004 - $104,357) of the amounts collected. The liability is included in accounts payable. The balance of $5,293,818 (2004 - $4,973,654) is recorded as a reduction of the cost of capital assets.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2005

3. Other assets (liabilities)

Other assets (liabilities) consist of the following:

	2005	2004
	$	$
Deferred charges-service area expansion (net of $58,124 accumulated amortization, 2004 - $49,969)	**146,790**	154,945
Regulatory assets		
Qualifying transition factors	**615,452**	989,003
Other regulatory assets	**111,594**	42,410
Total regulatory assets	**727,046**	1,031,413
Regulatory liabilities		
Hydro One regulatory liability	**(330,589)**	-
Purchased power cost variance	**(1,229,493)**	(1,567,843)
Total regulatory liabilities	**(1,560,082)**	(1,567,843)
Net liability	**(686,246)**	(381,485)

Other regulatory assets consist of the costs of processing $75 rebate cheques and pension costs from OMERS not recovered in rates. The pension cost deferral includes an interest carrying charge at 3.88%.

Hydro One regulatory liability represents 2002-2006 regulatory assets that Hydro One is collecting from embedded distributors over a 5 year period as authorized by the OEB. The current portion of the liability is $170,458 and is included in accounts payable and accruals. Payments to Hydro One are $9,666 per month for 3 years starting May 2005 and at $5,600 a month for 4 years to start in May 2006.

The OEB has allowed the company to recover the third tranche of its market adjusted revenue requirement (MARR) from customers with the requirement that it be spent on conservation and demand management activities. In 2005 the company recovered $313,330 of MARR from customers and expended $122,420 in conservation and demand management activities. The balance of $190,910 will be spent on conservation and demand management activities in future years.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2005

4. Long-term liabilities

Long-term liabilities consist of the following:

	2005	2004
	$	$
5.47% demand installment loan payable to the Canadian Imperial Bank of Commerce, repayable in monthly blended payments of $32,854, due January 2009, secured by a general security agreement and guaranteed by Collingwood Utility Services Corp.	**2,039,876**	2,315,654
9.75% debenture payable, due 2007	**60,000**	86,000
Premium on issue of long-term liabilities	**-**	(1,595)
7.25% note payable to the Town of Collingwood, no set terms of repayment	**1,710,170**	1,710,170
	3,810,046	4,110,229
Current portion	**(2,067,876)**	(2,341,645)
	1,742,170	1,768,584

As the CIBC loan above is a demand loan the full amount is included in the portion due within one year. However there has been no demand for payment and the schedule below depicts the actual repayment terms negotiated by the company.

Principal payments in the next four years are as follows:

	$
2006	319,070
2007	339,209
2008	324,244
2009	1,117,353

Included in general administration expense is $262,923 (2004 - $265,836) of interest on long-term liabilities.

The corporation is contingently liable for a letter of credit in the amount of $2,272,370 (2004 - $2,272,370) to meet the prudential requirements of the Independent Market Operator.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2005

5. 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 consist of the following:

	2005	2004
	$	$
Amounts receivable from the Collingwood Public Utilities Service Board	**81,724**	-
Amounts payable to the Collingwood Public Utilities Service Board	**-**	663,709
Amounts receivable from COLLUS Solutions Corp.	**5,184**	-
Amounts payable to COLLUS Solutions Corp.	**58,164**	117,915
Amounts receivable from the Town of Collingwood	**40,842**	2,321
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.	**137,500**	137,500
Operating and maintenance expenses include services purchased from COLLUS Solutions Corp.	**910,719**	856,969

6. Contingencies

A class action claiming $500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Electricity Distributors Association is undertaking the defence of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the company. The company formerly carried on business as a department of the Collingwood Public Utilities Commission.

7. Financial instruments

The company's financial instruments consist of cash, accounts receivable, unbilled revenue, accounts payable and accruals, payments in lieu of taxes, customer deposits, and long-term liabilities. It is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments. Fair value does not vary significantly from recorded value.

8. Supplemental cash flow information

Cash payments and (receipts) were made as follows:

	2005	2004
	$	$
Interest	**282,018**	320,792
Taxes paid	**102,280**	361,114
Taxes refunded	**(103,174)**	-

9. Tax status

The company is exempt from tax under section 149 of the Income Tax Act. The company is required to make payments in lieu of taxes calculated on the same basis as the Income Tax Act.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2005

10. Employee future benefits

The employees of COLLUS Power Corp. participate in the Ontario Municipal Employees Retirement Savings Plan ("OMERS"). Although the plan has a defined retirement benefit for employees, the related obligation of the corporation cannot be identified. The OMERS plan has several unrelated participating municipalities and costs are not specifically attributed to each participant. Amounts paid to OMERS during the year totaled $37,909 (2004 - $32,249).

In addition, COLLUS Power Corp. pays certain benefits on behalf of its retired employees. The corporation recognizes these post-retirement costs in the period in which the employees rendered the services. The accrued benefit obligation at December 31, 2003 of $183,829 and the net periodic benefit cost for 2003 was determined by actuarial valuations using discount rates of 6% and 5.5%, respectively. No actuarial valuation was prepared in 2004 or 2005 and the accrued benefit obligation at December 31, 2004 and December 31, 2005 was extrapolated using 2003 amounts as a basis. Actuarial valuations will be prepared every third year or when there are significant changes to the workforce.

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

	2005	2004
	$	$
Accrued benefit obligation		
Balance at the beginning of period	**154,989**	183,829
Current service cost (recovery) for the period	**9,241**	(35,476)
Interest cost for the period	**10,978**	10,978
Actuarial loss/(gain)	**25,146**	25,146
Prior period cost	**27,192**	36,256
Benefits paid for the period	**(10,397)**	(13,406)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	**217,149**	207,327
Unamortized actuarial (loss)/gain	**(25,146)**	(25,146)
Unamortized prior service cost	**(22,660)**	(27,192)
Balance at end of period	**169,343**	154,989
Components of net periodic benefit cost		
Current service cost (recovery) for the period	**9,241**	(35,476)
Interest cost for the period	**10,978**	10,978
Amortization of prior service cost	**4,532**	9,064
Net periodic benefit cost (recovery)	**24,751**	(15,434)

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2005

10. Employee future benefits (continued)

The main actuarial assumptions employed for the valuations are as follows:

(a) General inflation

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.2% in 2004 and thereafter.

(b) Interest (discount) rate

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

(c) Salary levels

Future general salary and wage levels were assumed to increase at 3.5% per annum.

(d) Medical costs

Medical costs were assumed to increase at the CPI rate plus a further increase of 6.3% in 2004 graded down to 2.3% in 2007 and thereafter.

(e) Dental costs

Dental costs were assumed to increase at the CPI rate plus a further increase of 2.3% in 2004 and thereafter.

11. Change in accounting policy

During the year, the company changed its accounting policy to record meters on hand in capital assets. In previous years, these meters were recorded as inventory. This change was recorded retroactively with the effect that the prior year inventory was decreased and capital assets increased by $112,387. Meter additions included in the current years' capital assets were $51,034. Reclassified meters on hand had $6,337 of depreciation recorded against them in the current year.

12. Comparative information

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