AIRD & BERLIS LLP
Barristers and Solicitors

Scott A. Stoll
Direct: 416.865.4703
E-mail: sstoll@airdberlis.com

March 9, 2012

BY COURIER AND EMAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th Floor, Box 2329
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Town of Collingwood and PowerStream Inc.**
**Sale of interest of Collingwood Utilities Services Corp.**
**Board File No.: EB-2012-0056**

We are counsel to the Town of Collingwood (the "**Town**") and Collingwood Utilities Services Corp. ("**Holdco**") in the above referenced matter.

Attached to this letter is the Application, see Exhibit A, Tab 2, to the Ontario Energy Board in respect of the proposed transaction and the pre-filed evidence in support of the Application. Included in the Application, is a Notice of Motion, Exhibit A, Tab 3, Schedule 2, as to the necessity of Board Approval to complete the proposed transaction. We have outlined the rationale for the filing of the motion below. A copy of these materials have been filed on the Board's RESS and will be delivered in hard copy to the Board's office.

***Background***

Holdco owns 100% of the shares of Collus Power Corp., a licensed electricity distributor ("**Collus Power**"), Collus Solutions Corp. ("**Solutions**") and Collus Energy Corp. ("**Energy**"). Each of Holdco, Collus Power, Solutions and Energy were formed at the time the electricity industry was reorganized under the *Energy Competition Act, 1998* which is sometimes referred to as Bill 35.

In the fall of 2011 the Town embarked upon a public process to seek a partner for its utilities activities. As a result of that process, the Town selected PowerStream Inc. ("**PowerStream**"), a licensed electricity distributor, as its prospective partner. The purpose of this letter is to provide an overview of the transaction to the Ontario Energy Board ("**OEB**") and to explain why the Applicants are of the view there may be no requirement for a filing under the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B (the "***Act***").

***The Proposed Transaction***

The following points describe the transaction and the impact of the transaction on ratepayers:

1) The Town is intending to sell a 50% non-controlling interest in Holdco to PowerStream through a sale of common shares in Holdco.

2) The Town and PowerStream will each have the ability to elect 50% of the Board of Directors of Holdco and neither party will have a controlling interest.

3) Each utility will maintain its existing distribution license.

4) There will be no rate increase for the customers of Collus Power resulting from the transaction. Also, there is no intention to harmonize rates.

5) Collus Power will have access to PowerStream's expertise and financial resources which will provide benefits to the Collus Power ratepayers.

6) Holdco has been in existence for over 10 years and the transaction was not structured to evade Board scrutiny, rather it was intended to form a strategic partnership of equal interest between the Town and PowerStream.

***MAADs Application Not Required***

We have reviewed the transaction under both section 86 and 81 of the Act and provide an overview below.

***a) Section 86(2)***

Section 86(2), reproduced below, of the Act deals with the acquisition of shares in a distributor or transmitter by an entity that is not a generator. Where the proposed acquisition is of an indirect interest in the distributor, the Act, section 86(2)(b), only requires a MAADs filing where the purchaser is acquiring a controlling interest in the parent corporation to the distributor. For the reasons discussed below, PowerStream is not acquiring a controlling interest.

> 86(2) No person, without first obtaining an order from the Board granting leave, shall,

(a) acquire such number of voting securities of a transmitter or distributor that together with voting securities already held by such person and one or more affiliates or associates of that person, will in the aggregate exceed 20 per cent of the voting securities of the transmitter or distributor; or

(b) **acquire control of any corporation** that holds, directly or indirectly, more than 20 per cent of the voting securities of a transmitter or distributor if such voting securities constitute a significant asset of that corporation.

Control is further defined in the Act to mean the same as the definition provided in the *Business Corporations Act (Ontario)*, section 1(5).

86(3) For the purposes of subsection (2),

........(b) "control", with respect to a corporation, has the same meaning as in the *Business Corporations Act*.

The *Business Corporations Act* (the "**OBCA**") provides the following definition:

1(5) For the purposes of this Act, a body corporate shall be deemed to be controlled by another person or by two or more bodies' corporate if, but only if,

(a) voting securities of the first-mentioned body corporate carrying **more than 50 per cent** of the votes for the election of directors are held, other than by way of security only, by or for the benefit of such other person or by or for the benefit of such other bodies corporate; and

(b) the votes carried by such securities are sufficient, if exercised, **to elect a majority of the board of directors of the first-mentioned body corporate**.

As noted above, the interest purchased is 50% and there is no ability to control the Board of Directors as each party will only be able to appoint 50% of the directors. A copy of the Share Purchase Agreement and Shareholder Agreement are included in the pre-filed evidence. After reviewing the various transaction documents, the transaction does not provide PowerStream with control as contemplated by either paragraph 1(5)(a) or (b) of the OBCA. Of note, the Act does not speak to a loss of control. As such, the Applicants and Co-Applicant are of the view that section 86(2)(b) of the Act does not require approval of the Board.

***b) Section 81***

Section 81 deals, below, with the purchase of an interest in a distributor by a generator. As PowerStream owns generating facilities, it technically meets the definition of generator in section 56 the Act even though it is not a licensed generator.

> 81.No generator or affiliate of a generator shall acquire an interest in a transmission or distribution system in Ontario, construct a transmission or distribution system in Ontario or **purchase shares of a corporation that owns a transmission or distribution system** in Ontario unless it has first given notice of its proposal to do so to the Board and the Board,
>
> (a) has not issued a notice of review of the proposal within 60 days of the filing of the notice; or
>
> (b) has approved the proposal under section 82.

The specific words in question, "*purchase of shares of a corporation that owns a ...distribution system*" refer to a specific type of share purchase – the direct purchase of the distributor. It does not refer to the parent or affiliate of a corporation that owns a distribution system.

The rule of effectivity, a principle of statutory interpretation, requires that every word used in a statute be given meaning. Further, the words are to be given their plain meaning. In order for the words "*purchase of shares of a corporation that owns a ...distribution system*" to be given meaning only the purchase of shares of a distributor would trigger the requirement to make a filing with the OEB. It does not refer to the purchase of a shareholder in such a corporation or an affiliate of the distributor. The present transaction is the acquisition of Holdco, not the distributor and so a filing is not required.

As noted above, the Act, section 86(2) distinguishes between direct and indirect acquisition and the interpretation of section 81 is consistent with that approach. Further, we do not view the transaction as offending any of the normal concerns of a utility regulator regarding the relationship between regulated and unregulated activities, the financial wherewithal of the parties or technical/operational competence.

***Conclusion***

Given the fact that the transaction does not appear to trigger the operative sections of the Act and does not require approval of the OEB, the Applicants and Co-Applicant, however, values the relationship with the OEB and wanted the OEB to be aware of the proposed transaction and to render a decision regarding the necessity of Board approval, and if required, the granting of Board approval for the completion of the transaction.

Please contact me if you have any questions or require further information regarding this matter.

Yours truly,

AIRD & BERLIS LLP

Scott A. Stoll

SAS:ct

cc: E. Houghton, Collingwood Utility,
C. Macdonald, PowerStream

12017027.1

# Collingwood Utility Services Corp.

# MAAD Application

# EB-2012-0056

12030305.1

# COLLINGWOOD UTILITY SERVICES CORP. / COLLUS

## INDEX

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| | | B.1 | PowerStream – Service Maps |
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| | | B | PowerStream – Board Resolution re Collus RFP |

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

**AND IN THE MATTER** an application under section 86(2)(b) of the *Ontario Energy Board Act, 1998* for an Order or Orders for granting approval to the Town of Collingwood to sell, and to PowerStream Inc. to purchase, an interest in Collingwood Utility Services Corp.

# APPLICATION

1. The Corporation of the Town of Collingwood is the municipal sole shareholder of Collingwood Utility Services Corp., a holding company, that currently owns 100% of the shares of COLLUS Power Corp. ("**COLLUS Power**"), COLLUS Energy Corp. and COLLUS Solutions Corp. A corporate organization chart is found at section 1.3.5. of the Application form. The Collingwood group of companies will be referred to as the Applicants. COLLUS Power is a licensed electricity distributor, license number ED-2002-0518, regulated by the Ontario Energy Board ("**OEB**").

2. PowerStream Inc. ("**PowerStream**") is a licensed electricity distributor owned by Markham Enterprises Inc., Vaughan Holdings Inc. and Barrie Hydro Holdings Inc. These companies are owned by the Town of Markham, the City of Vaughan and the City of Barrie respectively. A corporate organization chart is found at section 1.3.5. of the

Application form. PowerStream is a licensed electricity distributor, license number ED-2004-0420, regulated by the OEB.

3. The Town of Collingwood intends to enter into a strategic partnership with PowerStream through the sale of 50% of the common shares of Collingwood Utility Services Corp. The transaction is described in more detail in the form and supporting evidence.

4. The *Ontario Energy Board Act, 1998*, section 86(2)(b), see below, obligates distributors to obtain leave from the Board to complete certain acquisitions.

   86.(1) No transmitter or distributor, without first obtaining from the Board an order granting leave, shall,

   (a) sell, lease or otherwise dispose of its transmission or distribution system as an entirety or substantially as an entirety;

   (b) sell, lease or otherwise dispose of that part of its transmission or distribution system that is necessary in serving the public; or

   (c) amalgamate with any other corporation

5. In previous applications of this nature, the Board has used a "no-harm" test to determine whether the transaction should be permitted to proceed. The Applicants submit the proposed transaction meets the "no harm" test as there will be no increase in rates or degradation of the quality or reliability of the service provided to the ratepayers of COLLUS Power.

6. This transaction provides a strategic partnership between Collingwood Utility Services Corp. and PowerStream which will assist COLLUS Power in meeting the additional complexities of the industry.

7. It is expected the residents of the Town of Collingwood and the ratepayers of COLLUS Power may have an interest in these proceedings. The list of such persons is too numerous to include in this Application.

8. The Applicants request that notice be given by publication in the newspaper, The Enterprise-Bulletin, and on the website of the Applicants and the Co-Applicants and by serving each of the registered intervenors in the last rate application of the Applicants and Co-Applicant.

9. The Application is supported by written evidence which is pre-filed and may be amended and updated from time to time prior to the Board's final decision on this Application. The Applicants may seek meetings with Board Staff and other interested parties in an attempt to identify and reach agreement on issues arising out of this Application.

10. The Applicant requests a written proceeding with a decision at the earliest practical time.

11. All communications pertaining to this proceeding shall be in English and all correspondence shall be directed to:

    a. Applicants:

| | |
|---|---|
| Address: Mailing and Service | Collingwood Utility Services Corp.<br>43 Stewart Street<br>P.O. Box 189<br>Collingwood ON L9Y 3Z5 |
| Attention: | Mr. Ed. Houghton |
| Telephone: | (705) 445-1800 x222 |
| Fax: | (705) 445-0791 |
| Email: | ehoughton@collus.com |

    b. Applicant Counsel

| | |
|---|---|
| Address: Mailing and Service | Aird & Berlis LLP<br>Suite 1800, Box 754<br>181 Bay Street<br>Toronto, ON M5J 2T9 |
| Attention: | Scott Stoll |
| Telephone: | (416) 865-4703 |
| Fax: | (416) 863-1515 |

| | |
|---|---|
| Email: | sstoll@airdberlis.com |

c. PowerStream Inc.

| | |
|---|---|
| Address: Mailing and Service | PowerStream Inc.<br>161 Cityview Boulevard<br>Vaughan ON L4H 0A9 |
| Attention: | Colin A. Macdonald |
| Telephone: | (905) 532-4649 |
| Fax: | (905) 532-4404 |
| Email: | colin.macdonald@powerstream.ca |

12. Therefore, the Applicants and the Co-Applicant respectfully requests:

a. The Board grant leave for the completion of the sale of the interest in Collingwood Utility Services Corp. to PowerStream Inc.; and
b. Such order(s) as may be necessary or appropriate for the conduct of this proceeding and the resolution of this matter.

**DATED** March 9, 2012 at Toronto, Ontario.

**TOWN OF COLLINGWOOD,**
**COLLINGWOOD UTILITY SERVICES INC.**
**COLLUS POWER CORP**.
By its Counsel

Scott Stoll.

Scott A. Stoll
Aird & Berlis LLP

**Ontario Energy Board**
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto ON M4P 1E4
Telephone: 1-888-632-6273
Facsimile: (416) 440-7656

**Commission de l'energie l'Ontario**
C.P. 2319
2300, rue Yonge
27e etage
Toronto ON M4P 1E4
Telephone: 1-888-632-6273
Telecopieur: (416) 440-7656

# Application Form for Applications under Section 86 of the *Ontario Energy Board Act, 1998*

## PART I : GENERAL INFORMATION

### 1.1 Nature of Application

1.1.1 Application Type

- [ ] For leave for a transmitter or distributor to sell, lease or otherwise dispose of its transmission or distribution system as an entirety or substantially as an entirety (section 86(1)(a))
- [ ] For leave for a transmitter or distributor to sell, lease or otherwise dispose of that part of its transmission or distribution system that is necessary in serving the public (section 86(1)(b))
- [ ] For leave for a transmitter or distributor to amalgamate with any other corporation (section 86(1)(c))
- [ ] For leave for a person to acquire voting securities that will exceed 20% of a distributor or transmitter (section 86(2)(a))
- [x] For leave for a person to acquire control of a company that holds more than 20% of the voting securities of a transmitter or distributor if such voting securities constitute a significant asset of the corporation (section 86(2)(b))

### 1.1.2 Notice under section 80 or 81 of the Act

Is a notice of proposal required under section 80 or 81 of the Act?

- [ ] Yes
- [x] No

If yes, the applicant must also file a completed "Preliminary Filing Requirements for a Notice of Proposal Under Sections 80 and 81 of the Ontario Energy Board Act, 1998" with the Board.

## 1.2 Identification of the Parties

### 1.2.1 Name of Applicant

Legal name of the applicant: Collingwood Utility Services Corporation, Town of Collingwood

Name of Primary Contact:

| | |
|---|---|
| Mr. ● Mrs. ○ Miss ○ Ms. ○ Other ○ ______ | |
| Last Name | Houghton |
| First Name | Ed |
| Initial | |
| Title/Postion | President and CEO |

Address of Head Office

| City | Province/State | Country | Postal/Zip Code |
|---|---|---|---|
| Collingwood | Ontario | Canada | L9Y 1Z8 |

| Phone Number | Fax Number | E-mail Address |
|---|---|---|
| (705) 445-1800 ext 222 | (705) 445-0791 | ehoughton@collus.com |

### 1.2.2 Other Party to the Transaction (if more than one attach a list)

Name of the other party: PowerStream Inc.

Name of Primary Contact:

| | |
|---|---|
| Mr. ● Mrs. ○ Miss ○ Ms. ○ Other ○ ______ | |
| Last Name | Macdonald |
| First Name | Colin |
| Initial | A. |
| Title/Postion | V.P. Rates and Regulatory Affairs |

Address of Head Office

| City | Province/State | Country | Postal/Zip Code |
|---|---|---|---|
| Vaughan | Ontario | Canada | L4H 0A9 |

| Phone Number | Fax Number | E-mail Address |
|---|---|---|
| (905) 532-4649 | (905) 532-4404 | colin.macdonald@powerstream.ca |

# Application Form for Applications under Section 86 of the *Ontario Energy Board Act, 1998*

### Application Instructions

1. Purpose of this Form

This form is to be used by parties applying under section 86 of the *Ontario Energy Board Act, 1998* (the "Act"). Please note that the Board may require information that is additional or supplementary to the information filed in this form and that the filing of the form does not preclude the applicant from filing additional or supplementary information.

For applications made under section 86(1)(b) of the Act that involve the sale of assets between licensed distributors or transmitters, the applicant must use the application form for Applications Under Section 86(1)(b) of the *Ontario Energy Board Act, 1998.* For transactions involving a non–licensed entity, please contact Market Operations at market.operations@oeb.gov. on.ca for further guidance.

Persons required to provide a Notice of Proposal under section 80 or 81 of the Act must also complete the "Preliminary Filing Requirements for a Notice of Proposal Under Sections 80 and 81 of the *Ontario Energy Board Act, 1998"* form in addition to this form.

Depending on the nature of the proposed transaction, the parties to the proposed transaction may be required to apply for the cancellation of an existing licence, an amendment to an existing licence, the issuance of a new licence or any combination thereof. Such applications are to be made under separate cover; however, parties may apply for the cancellation of an existing licence, an amendment to an existing licence, the issuance of a new licence or any combination thereof at the same time the parties apply for approval of the proposed transaction.

2. Completion Instructions

The applicant must:
(a) provide responses to all questions; and
(b) print and sign two copies of the form.

Please send both copies of the completed form and two copies of the responses and attachments to:

Board Secretary
Ontario Energy Board
P.O Box 2319
2300 Yonge Street, 27th Floor Toronto, ON M4P 1E4

If you have any questions regarding the completion of this application, please contact the Market Operations Hotline by telephone at 416-440-7604 or 1-888-632-6273 or e-mail at market.operations@oeb.gov.on.ca .

The Board's "Performance Standards for Processing Applications" are indicated on the "Corporate Information and Reports" section of the Board's website at www.oeb.aov.on.ca . Applicants are encouraged to consider the timelines required to process applications to avoid submitting applications too late, If the submitted application is incomplete, it may be returned by the Board or there may be a delay in processing the application.

## 1.3 Description of the Business of Each of the Parties

1.3.1 Please provide a description of the business of each of the parties to the proposed transaction, including each of their affiliates engaged in, or providing goods or services to anyone engaged in, the generation, transmission, distribution or retailing of electricity ("Electricity Sector Affiliates").

<u>**Collingwood**</u>

Collingwood Utility Services Corp. ("**Collingwood Utility**") is wholly owned by the Town of Collingwood ("**Collingwood**") and Collingwood Utility owns 100% of the common shares of COLLUS Power Corp., COLLUS Energy Corp. and COLLUS Solutions Corp. Collingwood Utility is a holding company for the municipality that was created in 2000 as a result of the *Energy Competition Act, 1998*.

COLLUS Power Corp. is the licenced electricity distribution company that owns and operates the assets associated with the distribution of electric power within the Town of Collingwood, and the communities of Thornbury, Stayner and Creemore, as outlined in its Electricity Distribution Licence ED-2002-0518 (see attachment 1.5.3). COLLUS Power was incorporated in 2000 in response to the Ontario Government legislation restructuring the electricity industry. Collus Power Corp. will continue to be owned by Collingwood Utility Services Corp.

COLLUS Solutions Corp. provides supervisory, operational, engineering, finance, administrative and other services pursuant to a Services Agreement which has been filed with the Board (EB-2009-0226). Collingwood Utility Services Corp. will continue to own 100% of COLLUS Solutions Corp. after the completion of the transaction.

COLLUS Energy Corp is a non-operating retail company that was established during the corporatization of the public utilities. Collingwood Utility Services Corp. will continue to own 100% of COLLUS Energy Corp. after the completion of the transaction. This corporation is inactive.

<u>**PowerStream Inc.**</u>

PowerStream Inc. **("PowerStream")** is the licenced electricity distribution company that owns and operates the assets associated with the distribution of electric power outlined in its Electricity Distribution Licence ED-2004-0420 (see attachment 1.5.3). PowerStream Inc. is wholly owned by the City of Vaughan, the Town of Markham and the City of Barrie. PowerStream is purchasing 50% of the shares of Collingwood Utility for cash consideration.

Vaughan Holdings Inc. is wholly owned by the City of Vaughan and holds 45.3% of the shares of the subsidiary company, PowerStream, the distribution company.

Markham Enterprises Corporation is wholly owned by the Town of Markham and holds 34.2% of the shares of the subsidiary company, PowerStream, the distribution company.

Barrie Hydro Holdings Inc. is wholly owned by the City of Barrie and holds 20.5% of the shares of the subsidiary company, PowerStream, the distribution company.

1.3.2 Please provide a description of the geographic territory served by each of the parties to the proposed transaction, including each of their Electricity Sector Affiliates, if applicable.

Collingwood Utility is a holding company and only holds the shares of the other corporations: COLLUS Power, COLLUS Energy and COLLUS Solutions.

**COLLUS Power** serves the geographic territory of:

1) Town of Collingwood
2) Community of Stayner (the boundaries of the former town of Stayner)
3) Town of Thornbury
4) Community of Creemore (the boundaries of the former Village of Creemore)

as described in Schedule 1 of Electricity Distribution Licence ED-2002-0518 and provided in Attachment 1.5.3.(a) Service Area maps are provided in Attachment (1.5.3(a.1)).

**PowerStream Inc.** serves the geographic territory of:

1) City of Vaughan
2) Town of Markham
3) Town of Richmond Hill
4) Town of Aurora
5) City of Barrie
6) Community of Bradford West Gwillimbury
7) Community of Thornton
8) Community of Alliston
9) Community of Beeton
10) Community of Penetanguishene

as described in Schedule 1 of Electricity Distribution Licence ED-2004-0420 and provided in Attachment 1.5.3.(b) Service Area maps are provided in Attachment (1.5.3(b.1)).

1.3.3 Please provide a description of the customers, including the number of customers in each class, served by each of the parties to the proposed transaction.

Collingwood Utility does not have any customers. As of December 31, 2011 the following are the customer counts for the licensed distribution utilities:

**COLLUS Power Corp.**

| | |
|---|---|
| Residential | 14,000 |
| General Service < 50 kW | 1,700 |
| General Service > 50 kW | 120 |
| USL | 37 |
| Large User | |
| Street Light Customers | 3 |
| Sentinel Lighting | |
| **Total** | **15,860** |
| FIT | 1 |
| MicroFIT | 23 |
| RESOP | |

**PowerStream Inc.**

| | |
|---|---|
| Residential | 297,962 |
| General Service < 50 kW | 30,416 |
| General Service > 50 kW | 4,614 |
| Large User | 1 |
| Un-metered scattered load | 2,779 |
| Street Light Customers | 43 |
| Sentinel Light | 120 |
| **Total** | **335,935** |
| FIT | 20 |
| MicroFIT | 143 |
| RESOP | 3 |

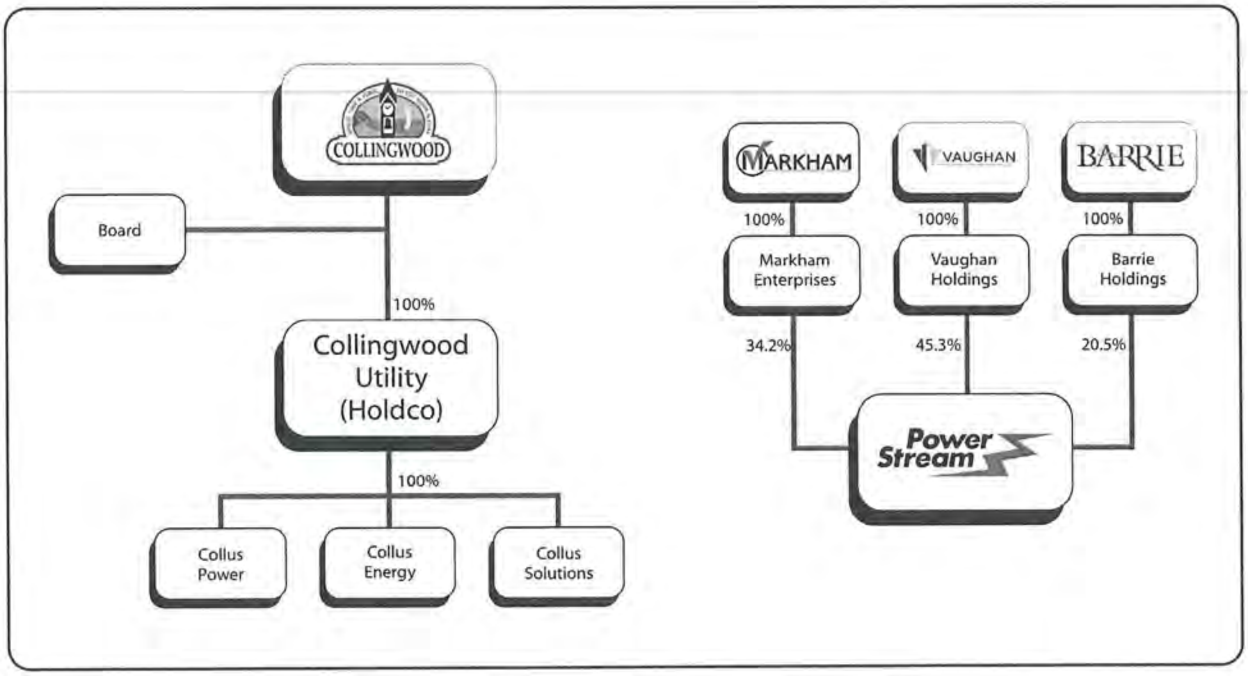
1.3.4 Please provide a description of the proposed geographic service area of each of the parties after completion of the proposed transaction.

PowerStream is purchasing 50% of the common shares of Collingwood Utility, the non-regulated holding company.

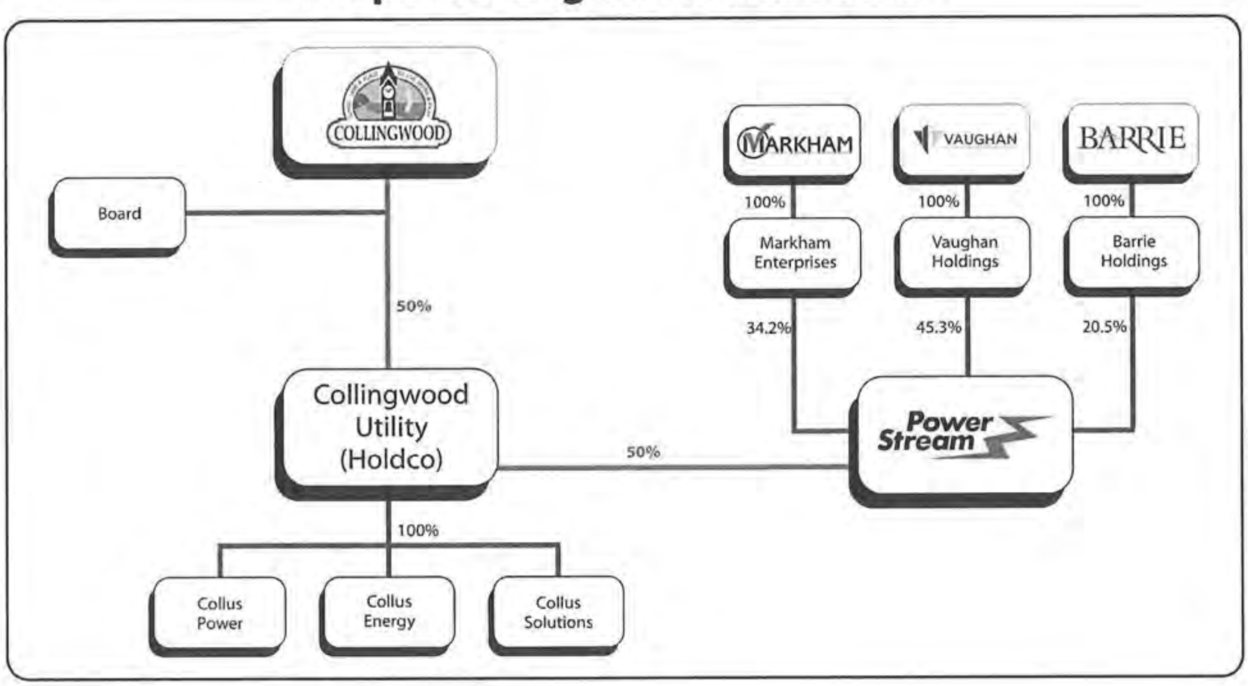
COLLUS Power Corp and PowerStream Inc. will continue to operate under their own Electricity Distribution Licences (ED-2002-0518 and ED-2004-0420 respectively). There will be no change to the geographic service areas of COLLUS Power or PowerStream resulting from the transaction.

1.3.5 Please attach a corporate chart describing the relationship between each of the parties to the proposed transaction and each of their respective affiliates.

## Existing Organizational Chart



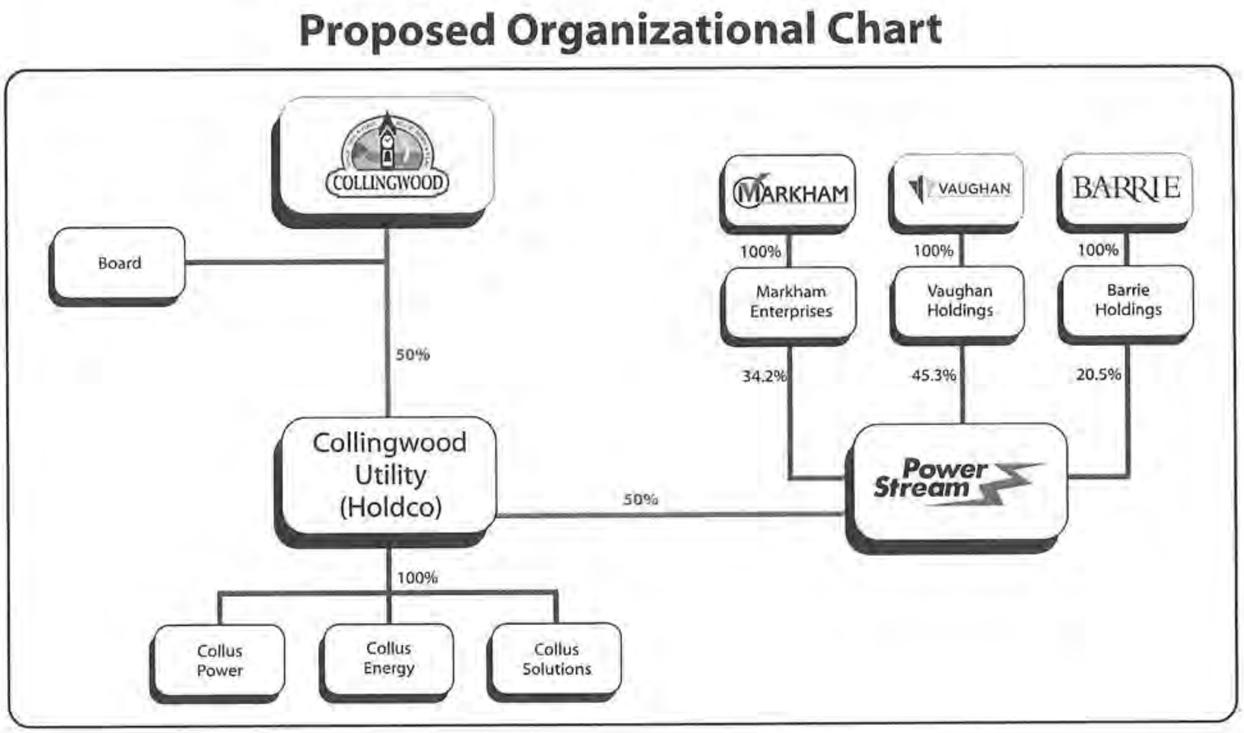

## Proposed Organizational Chart



## 1.4 Description of the Proposed Transaction

1.4.1 Please provide a detailed description of the proposed transaction.

On March 6, 2012, Collingwood and PowerStream signed a Share Purchase Agreement in which PowerStream agreed to purchase and Collingwood agreed to sell 50% of the common shares of Collingwood Utility for cash consideration. Following the transaction, Collingwood and PowerStream will each appoint 50% of the Board of Directors of Collingwood Utility. The proposed transaction will close following receipt of Ontario Energy Board approval. COLLUS Power and PowerStream Inc. will continue to operate as individual corporations under the current distribution licences. The Applicant's governance plans for Collingwood Utility are outlined in Section 1.6.2.



1.4.2 Please provide the details of the consideration (e.g. cash, assets, shares) to be given and received by each of the parties to the proposed transaction.

As set out in the Shareholder Agreement provided in Attachment 1.4.1(b), PowerStream will purchase 2,550,820 (50%) of the common shares of Collingwood Utility from Collingwood and Collingwood will receive $8,000,000 in cash from PowerStream.

1.4.3 Please attach the financial statements (including balance sheet, income statement, and cash flow statement) of the parties to the proposed transaction for the past two most recent years.

| Company | Document | Reference |
|---|---|---|
| PowerStream Inc. | 2009 Audited Financial Statements | 1.4.3 (a) |
| | 2010 Audited Financial Statements | 1.4.3 (b) |
| Collingwood Utility Services Inc. | 2009 Audited Financial Statements (Consolidated) | 1.4.3 (c) |
| | 2010 Audited Financial Statements (Consolidated) | 1.4.3 (d) |
| Collingwood Utility Services Inc. | 2009 Audited Financial Statements (Non-consolidated) | 1.4.3 (e) |
| | 2010 Audited Financial Statements (Non-Consolidated) | 1.4.3 (f) |
| COLLUS Power Corp | 2009 Audited Financial Statements | 1.4.3 (g) |
| | 2010 Audited Financial Statements | 1.4.3 (h) |
| COLLUS Energy Corp. | 2009 Audited Financial Statements | 1.4.3 (i) |
| | 2010 Audited Financial Statements | 1.4.3 (j) |
| COLLUS Solutions Corp. | 2009 Audited Financial Statements | 1.4.3 (k) |
| | 2010 Audited Financial Statements | 1.4.3 (l) |

2011 Audited Statements are not yet available.

1.4.4 Please attach the pro forma financial statements for each of the parties (or if amalgamation, the one party) for the first full year following the completion of the proposed transaction.

Please refer to Attachment 1.4.4 for a copy of the pro forma financial statements for COLLUS Power, and for a copy of the pro forma financial statements for PowerStream for the year ended December 31, 2012. Please note these statements are not Modified International Financial Reporting Standards. As per the Board's letter of January 26th, 2012, both COLLUS Power and PowerStream are to file 2013 Cost Service Rate applications. As such the 2013 Test Year financial information is currently being prepared for those applications.

## 1.5 Documentation

1.5.1 Please provide copies of all annual reports, proxy circulars, prospectuses or other information filed with securities commissions or similar authorities or sent to shareholders for each of the parties to the proposed transaction and their affiliates within the past 2 years.

To date neither party to the proposed transaction has publicly filed annual reports, proxy circulars, prospectuses or other information with securities commissions or such similar authorities.

Collingwood Utility files an Annual Report and Business Plan with their shareholder each year. Copies of the Annual Reports for 2009 and 2010 are provided as Attachment 1.5.1.

PowerStream files an Annual Report with its shareholders each year. Copies of the Annual Reports for 2009 and 2010 are provided as Attachment 1.5.1.

1.5.2 Please list all legal documents (including those currently in draft form if not yet executed) to be used to implement the proposed transaction.

The following is a list of material documents for the transaction:

Part I. Pre-Execution:

a) Request for Proposals
b) Response to Request for Proposal
c) Confidentiality Agreement

Part II. Document Through Pre-Closing

a) Director Resolution of Purchaser for entry into Share Purchase Agreement
b) Shareholder Resolutions - Purchaser for entry into Share Purchase Agreement
c) By-law of Collingwood for sale of Shares, transfer of Shares and entry into Share Purchase Agreement
d) Resolutions for filing articles of amendment
e) Resolution Collingwood Utilities for transfer of Shares and entry into Share Purchase Agreement
f) Share Purchase Agreement (see Tab 1.4.1(a))
g) Updated Ministry filings regarding officers and directors
h) Direction regarding payment
i) Notice to Ministry of Finance regarding transfer of "municipal electrical property".
j) Third Party Consents and Comfort Letters
k) Resolutions regarding dividends and promissory note

Closing Matters

a) Officer Certificates
b) Bring Down Certificates
c) Legal Opinion
d) Escrow Agreement
e) Payment and Receipt
f) Filing of Articles of Amendment
g) Resignation of officers and directors
h) Filing Articles of Amendment
i) Shareholders Agreement (see Tab 1.4.1(b))
j) Appointment of Officers
k) Appointment of Directors
l) Updated registers (shareholder, officer, director)

1.5.3 Please list all Board issued licences held by the parties and confirm that the parties will be in compliance with all licence, code and rule requirements both before and after the proposed transaction. If any of the parties will not be in compliance with all applicable licences, codes and rules after completion of the proposed transaction, please explain the reasons for such non–compliance. (Note: any application for an exemption from a provision of a rule or code is subject to a separate application process.)

Collingwood Utility does not possess any licences.

COLLUS Power operates under Electricity Distribution Licence ED-2002-0518. A copy of COLLUS' licence is provided as Attachment 1.5.3(a). COLLUS Power is currently in compliance with its licence and applicable codes.

PowerStream operates under Electricity Distribution Licence ED-2004-0420. A copy of PowerStream's licence is provided in Attachment 1.5.3(b). There are no compliance issues related to this transaction.

## 1.6 Consumer Protection

1.6.1 Please explain whether the proposed transaction will cause a change of control of any of the transmission or distribution system assets, at any time, during or by the end of the transaction.

PowerStream Inc. is acquiring a 50% non-controlling interest in Collingwood Utility. Each party will have the ability to appoint 50% of the Board of Directors and the Chair does not possess a second vote in the event of a tie. As such, after the transaction neither PowerStream nor Collingwood will have control of COLLUS Power. Collingwood is going from a position of having control to not having control of Collingwood Utility.

Collingwood Utility will continue to own 100% of the shares of COLLUS Power and no distribution system assets of COLLUS Power will be sold or transferred.

1.6.2 Please indicate the impact the proposed transaction will have on consumers with respect to prices and the adequacy, reliability and quality of electricity service.

In the Combined Decision by the Board on August 31st, 2005 (RP-2005-0018/EB-2005-0234/EB-2005-0257), in deciding whether or not to grant leave in relation to a "MAAD" Application, the Board must determine whether or not the transactions contemplated in the Application will have an adverse effect on:

(i) the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service; or

(ii) economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity or the maintenance of a financially viable electricity industry. This is known as the "no harms test".

COLLUS Power submits that the proposed transaction meets the "no harms test". The proposed transaction will have no adverse impact on consumers with respect to prices and adequacy of reliability and quality of service or with respect to rates. The proposed transaction will not have an adverse effect relative to the Board's statutory objectives.

1.6.3 Please describe the steps, including details of any capital expenditure plans, that will be taken to ensure that operational safety and system integrity are maintained after completion of the proposed transaction.

Other than those expenditures that form part of COLLUS Power and PowerStream's existing capital programs, there are no specific capital expenditure plans that need to be taken to ensure that operational safety and system integrity for each utility are maintained after completion of the proposed transaction.

1.6.4 Please provide details, including any capital expenditure plans, of how quality and reliability of service will be maintained after completion of the proposed transaction. Indicate where service centres will be located and expected response times.

Other than those expenditures that form part of COLLUS Power and PowerStream's existing capital programs, there are no additional specific capital expenditure plans that need to be taken to ensure that quality and reliability of service for each utility are maintained after completion of the proposed transaction.

Collingwood Utility and COLLUS Power will continue to maintain the leased head office at 43 Stewart Road in Collingwood. The building will continue to house COLLUS Power administrative, engineering, operating and field personnel and rolling stock. Response times will not change.

1.6.5 Please indicate whether the parties to the proposed transaction intend to undertake a rate harmonization process after the proposed transaction is completed. If yes, please provide a description of the plan.

Since COLLUS Power and PowerStream will remain operating under their two separate Electricity Distribution licences as two separate entities, there will not be a rate harmonization process.

1.6.6 If the application is for an amalgamation, please provide a proposal for the time of rebasing the consolidated entity in accordance with the five–year limit set by the Board.

No amalgamations are contemplated as part of the transaction.

1.6.7 Please identify all incremental costs that the parties to the proposed transaction expect to incur. These may include incremental transaction costs, (i.e,, legal), incremental merged costs (i.e,, employee severances), and incremental ongoing costs (i.e., purchase and maintenance of new IT systems). Please explain how the new utility plans to finance these costs.

Collingwood is selling the 50% interest in Collingwood Utility. As such, COLLUS Power will not have any costs from this transaction and no costs will be passed along to the customers of COLLUS Power.

The identified incremental costs with the proposed transaction are not material and will not be recovered from PowerStream's electricity customers.

The transaction will not change the deemed capital structure used to set rates. As noted, the proposed transaction will not require additional capital expenditures.

1.6.8 Please describe the changes, if any, in distribution or transmission rate levels (as applicable) and the impact on the total bill that may result from the proposed transaction.

As noted earlier, the costs of the transaction will not be passed along to the ratepayers of COLLUS Power. The proposed transaction will not result in any changes to the distribution rate levels to be set by a decision by the Board for COLLUS Power in the rate application filed in November 2011 under 3rd Generation IRM for 2012 rates. There will be no adverse impact on the total bill of customers as a result of the proposed transaction.

1.6.9 Please provide details of the costs and benefits of the proposed transaction to the customers of the parties to the proposed transaction.

The Proposed transaction will create a strategic partnership between the PowerStream and Collingwood which will retain significant ownership in this essential asset.

The Proposed Transaction will be cost neutral for the customers of COLLUS Power as there will be no change in distribution rates resulting from this transaction. It is expected that benefits will be realized through the coordination of certain activities, such as procurement. The identified transaction costs will not be recovered from customers (see. s.1.6.7).

There are no costs of the proposed transaction for the customers of PowerStream as there will be no impact on distribution rates nor service levels. The payment for 50% of the shares of Collingwood Utility will be financed through retained earnings.

## 1.7 Economic Efficiency

1.7.1 Please indicate the impact the proposed transaction will have on economic efficiency and cost effectiveness (in the distribution or transmission of electricity). Details on the impacts of the proposed transaction on economic efficiency and cost effectiveness should include, but are not limited to, impacts on administration support functions such as IT, accounting, and customer service.

As outlined in Section 1.6.2 of this application, based on the Combined Decision of the Board on August 31$^{st}$, 2005 the Board must determine whether or not the transactions contemplated in the Application will have an adverse effect on (i) the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service; or (ii) economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity or the maintenance of a financially viable electricity industry. This is known as the "no harms test". As submitted by the Applicant in Section 1.6.2 of this application, the proposed transaction meets the "no harms test".

It is expected that efficiencies will be realized through coordination of certain activities, such as procurement.

## 1.8 Financial Viability

1.8.1 Please provide a valuation of any assets or shares that will be transferred in the proposed transaction. Provide details on how this value was determined, including any assumptions made about future rate levels.

The value of the utility was established through a competitive procurement process. As part of this process KPMG was retained to provide a report to Collingwood regarding the value of the COLLUS Power. PowerStream was selected as the strategic partner for a number of reasons, financial and non-financial.

1.8.2 If the price paid as part of the proposed transaction is significantly more than the book value of the assets of the selling utility, please provide details as to why this price will not have an adverse affect on the economic viability of the acquiring utility.

Based upon PowerStream's relative size as compared to Collingwood Utility and the fact the transaction will be financed entirely from retained earnings there will be no impact on the economic viability of PowerStream.

1.8.3 Please provide details of the financing of the proposed transaction.

PowerStream will use retained earnings to make the cash payment to Collingwood.

1.8.4 If the proposed transaction involves a leasing arrangement , please identify separately any assets in the service area that are owned, from those assets that are encumbered by any means, e.g., subject to a lease or debt covenant.

The proposed transaction does not involve a leasing agreement.

1.8.5 Please outline the capital (debt /equity) structure, on an actual basis, of the parties to the proposed transaction prior to the transaction and on a pro forma basis after completion of the proposed transaction. In order to allow the Board to assess any potential impacts on the utility's financial viability, please include the terms associated with the debt structure of the utility as well as the utility's dividend policy after the completion of the proposed transaction. Please ensure that any debt covenants associated with the debt issue are also disclosed.

Debt and Equity for PowerStream, Collus Power Corp., and Collingwood Utility Services as of December 31, 2010 may be found at Tab 1.8.5.

1.8.6 Please provide details of any potential liabilities associated with the proposed transaction in relation to public health and safety matters or environmental matters. These may be matters that have been identified in the audited financial statements or they may be matters that the parties have become aware of since the release of the most recently audited financial statements. If there are any pre–existing potential liabilities regarding public health and safety matters or environmental matters for any party to the proposed transaction, provide details on how the parties propose to deal with those potential liabilities after the transaction is completed. Specify who will have on–going liability for the pre–existing potential liabilities.

No material liabilities have been identified.

## 1.9 Other Information

1.9.1 If the proposed transaction requires the approval of a parent company, municipal council or any other entity please provide a copy of appropriate resolutions indicating that all such parties have approved the proposed transaction.

Municipal By-law Resolution, see Tab 1.9.1(a)
PowerStream Board Resolution, see Tab 1.9.1(b)

1.9.2 Please list all suits, actions, investigations, inquiries or proceedings by any government body, or other legal or administrative proceeding, except proceedings before the Board, that have been instituted or threatened against each of the parties to the proposed transaction or any of their respective affiliates.

There are no material claims or actions or other similar proceedings involving the parties.

1.9.3 Regarding net metering thresholds, the Board will, absent exceptional circumstances, add together the kW threshold amounts allocated to the individual utilities and assign the sum to the new or remaining utility. Please indicate the current net metering thresholds of the utilities involved in the proposed transaction. Please also indicate if there are any special circumstances that may warrant the Board using a different methodology to determine the net metering threshold for the new or remaining utility.

The net metering thresholds of the parties are:

| | |
|---|---|
| COLLUS Power | 583.49 kW |
| PowerStream | 735.053 kW |

Since COLLUS Power and PowerStream will remain two separate legal entities, their net metering thresholds should not be combined.

1.9.4 Please provide the Board with any other information that is relevant to the application. When providing this additional information, please have due regard to the Board's objectives in relation to electricity.

This transaction provides a strategic partnership between Collingwood Utility and PowerStream and will assist COLLUS Power in meeting the additional complexities of the industry.

## PART II: CERTIFICATION AND ACKNOWLEDGMENT

### 2.1.1 Certification and Acknowledgment

I certify that the information contained in this application and in documents provided are true and accurate.

| Signature of Key Individual | Print Name of Key Individual | Title/Position |
|---|---|---|
| | Mr. E. Houghton | President and CEO |
| | Date | Company |
| | March 7, 2012 | Collingwood Utility Services Corporation |

(Must be signed by a key individual, A key individual is one that is responsible for executing the following functions for the applicant: matters related to regulatory requirements and conduct, financial matters and technical matters. These key individuals may include the Chief Executive Officer, the Chief Financial Officer, other officers, directors or proprietors.)

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

**AND IN THE MATTER** an application under section 86(2)(b) of the *Ontario Energy Board Act, 1998* for an Order or Orders for granting approval to the Town of Collingwood to sell, and to PowerStream Inc. to purchase, an interest in Collingwood Utility Services Corp.

# NOTICE OF MOTION

1) Pursuant to the Ontario Energy Board's Rules of Practice and Procedure (the "**Rules**"), the Applicants, the Town of Collingwood (the "**Town**"), Collingwood Utility Services Corporation ("**Holdco**") and COLLUS Power Corp. ("**COLLUS Power**") and the Co-Applicant, PowerStream Inc. ("**PowerStream**") will make a motion to the Board for the matter described herein on a date to be determined by the Board at the Board's office located at 2300 Yonge Street, Toronto Ontario. The Moving Party prefers that this motion be conducted in writing.

2) The Town and PowerStream have executed certain documents in respect of the sale by the Town and the acquisition by PowerStream of 50% of the common shares of Holdco, as further described in the Application and the Application Form (the "**Proposed Transaction**").

**This Motion is for**:

3) An Order or Orders of the Board:

   a) Providing for the proper notice and hearing of this motion;

   b) A Decision as to whether the Board has jurisdiction to review the Proposed Transaction and whether the Proposed Transaction requires approval of the Board under either section 86 or section 81 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B (the "**Act**"); and

c) In the event Board approval is required an expeditious review of the Proposed Transaction under the appropriate statutory provision(s).

**BASIS FOR THE MOTION:**

4) The basis for the Motion is the following:

a) The Act requires certain transactions to be approved by the Board.

b) Section 86(2), reproduced below, of the Act deals with the acquisition of shares in a distributor or transmitter by an entity that is not a generator. Neither Holdco nor COLLUS Power are generators.

c) Where the proposed acquisition is of an indirect interest in the distributor, the Act, section 86(2)(b), requires a MAADs filing where the purchaser is acquiring a controlling interest in the parent corporation to the distributor.

> 86(2) No person, without first obtaining an order from the Board granting leave, shall,
>
> (a) acquire such number of voting securities of a transmitter or distributor that together with voting securities already held by such person and one or more affiliates or associates of that person, will in the aggregate exceed 20 per cent of the voting securities of the transmitter or distributor; or
>
> (b) **acquire control of any corporation** that holds, directly or indirectly, more than 20 per cent of the voting securities of a transmitter or distributor if such voting securities constitute a significant asset of that corporation.

d) Control is further defined in the Act, section 86(3)(b) to mean the same as the definition provided in the *Business Corporations Act (Ontario)*, section 1(5).

> 86(3) For the purposes of subsection (2),
>
> ........(b) “control”, with respect to a corporation, has the same meaning as in the *Business Corporations Act*.

e) The *Business Corporations Act* (the “**OBCA**”) provides the following definition:

> 1(5) For the purposes of this Act, a body corporate shall be deemed to be controlled by another person or by two or more bodies corporate if, but only if,
>
> (a) voting securities of the first-mentioned body corporate carrying **more than 50 per cent** of the votes for the election of directors are held, other than by way of security only, by or for the benefit of such other person or by or for the benefit of such other bodies corporate; and
>
> (b) the votes carried by such securities are sufficient, if exercised, **to elect a majority of the board of directors of the first-mentioned body corporate**.

f) The Act is concerned about the acquisition of control. If there is no acquisition of control and therefore, the statutory imperative for obtaining Board approval do not exist, does the Board have the jurisdiction to review such a transaction under section 86(2)(b)?

g) Given the nature of the Proposed Transaction, PowerStream is not acquiring control as contemplated by the Act. As such, even if the Board has the jurisdiction to review the Proposed Transaction, there is no requirement under the statute for the Board to review the transaction.

h) The Act, section 81, below, pertains to the purchase of an interest in a distributor by a generator. As PowerStream owns generating facilities, it technically meets the definition of generator in section 56 the Act even though it is not a licensed generator.

> 81.No generator or affiliate of a generator shall acquire an interest in a transmission or distribution system in Ontario, construct a transmission or distribution system in Ontario or **purchase shares of a corporation that owns a transmission or distribution system** in Ontario unless it has first given notice of its proposal to do so to the Board and the Board,
>
> (a) has not issued a notice of review of the proposal within 60 days of the filing of the notice; or
>
> (b) has approved the proposal under section 82.

i) The specific words in question, "*purchase of shares of a corporation that owns a ...distribution system"* refer to a specific type of share purchase – the direct purchase of the distributor. Section 81 does not refer to the parent or affiliate of a corporation that owns a distribution system nor does it refer to the purchase of a shareholder or affiliate of such a corporation.

j) If the statutory requirements for a filing are not met, does the Act provide the Board with the jurisdiction to review the Proposed Transaction under section 81? If the Board does have the jurisdiction, in these circumstances, the present transaction is the acquisition of Holdco, not the distributor, and so it would appear the Act does not require a filing in the circumstances in order for the Proposed Transaction to be completed.

**Materials to be Relied Upon:**

5) The Applicants/Co-Applicant will rely upon the following materials:

   a) The evidentiary record to date of this proceeding;

   b) *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

   c) The *Ontario Energy Board Rules of Practice and Procedure*; and

   d) Such other materials as counsel may be advised and this Board will permit.

6) This motion is for a legal interpretation of the statutory provisions in the context of the Proposed Transaction, and as such, affidavit evidence has not been provided.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED.**

**TOWN OF COLLINGWOOD,**
**COLLINGWOOD UTILITY SERVICES CORPORATION,**
**COLLUS POWER CORP.**

______________________________________
**By its Counsel**
**Scott Stoll**

Aird & Berlis LLP
Suite 1800, Box 754
Brookfield Place
181 Bay Street
Toronto, Ontario M5J 2T9

Tel: (416) 865-4703
Fax: (416) 863-1515
Email: sstoll@airdberlis.com

**Letters of Acknowledgement, Procedural Orders, Notice**

None at time of Application (to be updated)

**POWERSTREAM INC.**

**- and –**

**THE CORPORATION OF THE TOWN OF COLLINGWOOD**

**- and -**

**COLLINGWOOD UTILITY SERVICES CORP.**

**- and –**

**COLLUS POWER CORP.**

**- and –**

**COLLUS SOLUTIONS CORP.**

**- and –**

**COLLUS ENERGY CORP.**

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# SHARE PURCHASE AGREEMENT

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**Dated as of the 6th day of March, 2012**

AIRD & BERLIS LLP

Barristers and Solicitors

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**SCHEDULES**

## SHARE PURCHASE AGREEMENT

**THIS AGREEMENT** made as of the 6th day of March, 2012

**BETWEEN:**

**POWERSTREAM INC.**, a corporation incorporated under the laws of Ontario (the "**Purchaser**")

\- and -

**THE CORPORATION OF THE TOWN OF COLLINGWOOD,** a corporation incorporated under the *Municipal Act* (Ontario) ("**Vendor**")

\- and -

**COLLINGWOOD UTILITY SERVICES CORP.**, a corporation incorporated under the laws of Ontario (the "**Corporation**")

\- and –

**COLLUS POWER CORP.**, a corporation incorporated under the laws of Ontario ("**Collus**")

\- and –

**COLLUS SOLUTIONS CORP.**, a corporation incorporated under the laws of Ontario ("**Solutions**")

\- and –

**COLLUS ENERGY CORP.**, a corporation incorporated under the laws of Ontario ("**Energy**")

**RECITALS:**

(a) All of the issued and outstanding shares of the Corporation are owned by Vendor and all of the issued and outstanding shares of Collus, Solutions and Energy are owned by the Corporation (together Collus, Solutions and Energy are referred to as the "**Subsidiaries**" and "**Subsidiary**" means any of them).

(b) All of the issued and outstanding shares of the Purchaser are indirectly owned by the Corporation of the City of Barrie, the Corporation of the Town of Markham and the Corporation of the City of Vaughan.

(c) Pursuant to a request for proposals issued by Collus on October 4, 2011 (the "**RFP**") , the Vendor wishes to enter into a strategic partnership arrangement with the Purchaser whereby the Purchaser will purchase 50% of the issued and outstanding shares in the capital of the Corporation, being 2,550,820 common shares (the "**Purchased Shares**"), upon the terms and conditions set out in this Agreement, in order to provide the Corporation and its Subsidiaries with cost-effective resources in a range of areas, as agreed to by the Parties, including engineering, construction, call center, regulatory and rates, safety and others to serve the residents and businesses of Collingwood, Thornbury, Stayner and Creemore (the "**Transaction"**).

(d) The Purchaser wishes to purchase from the Vendor the Purchased Shares upon the terms and conditions set out in this Agreement.

**NOW THEREFORE THIS AGREEMENT WITNESSES** that in consideration of the respective covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

## ARTICLE 1
## INTERPRETATION

### 1.1 Defined Terms

All capitalized terms used in the recitals hereto and this Agreement (including the Schedules hereto) and not defined therein shall have the following meanings:

"**2010 Financial Statements**" means the final audited consolidated and non-consolidated financial statements consisting of a balance sheet, a statement of earnings and retained earnings and a statement of cash flows as at and for the period ending December 31, 2010 for each of the Corporation and the Subsidiaries, copies of which 2010 Financial Statements are attached as Schedule 5.2(20);

"**Additional Closing Dividend Amount**" has the meaning given to it in Section 2.1(2)(c);

"**Additional Closing Dividends**" has the meaning given to it in Section 2.1(2)(c);

"**Affiliate**" has the meaning set forth in the OBCA;

"**Affiliate Relationships Code**" means the Affiliate Relationships Code for Electricity Distributors and Transmittors, dated April 1, 1999 and revised May 16, 2008, issued by the OEB;

"**Agreement**" means this Agreement and all Schedules hereto, as amended, supplemented, restated or replaced from time to time in accordance with this Agreement;

"**Applicable Law**" means, collectively, all applicable federal, provincial and municipal laws, statutes, ordinances, decrees, rules, regulations, by-laws, legally enforceable policies, codes, or guidelines, judicial, arbitral, administrative, ministerial, departmental or regulatory judgments, orders, decisions, directives, rulings or awards, and conditions of any grant of approval, permission, certification, consent, registration, authority or licence by any statutory body, self-regulatory authority, stock exchange or other Governmental Authority, including all Employment Law and Environmental Law;

"**Books and Records**" means all books, records, files and papers of the Corporation and the Subsidiaries, as applicable, including computer programs (including source codes and software programs), computer manuals, computer data, financial and Tax working papers, financial and Tax books and records, business reports, business plans and projections, sales and advertising materials, sales and purchases records and correspondence, trade association files, research and development records, lists of present and former customers and suppliers, personnel and employment records, minute and share certificate books, and all copies and recordings of the foregoing;

"**Business**" means the electricity distribution businesses carried on by the Corporation and the Subsidiaries and the provision of ancillary services;

"**Business Day**" means any day other than a day which is a Saturday, a Sunday or a statutory holiday in the Province of Ontario;

"**Claim**" means:

(a) any suit, action, dispute, investigation, claim, arbitration, order, summons, citation, directive, charge, demand or prosecution, whether legal or administrative;

(b) any other proceeding;

(c) any appeal or application for review; or

(d) at law or in equity or before or by any Governmental Authority;

"**Closing**" means the delivery of all documents and instruments required to effect the completion of the Transaction and of the other transactions and entering into of the documents and agreements referred to herein;

"**Closing Date**" means the later of (i) March 31, 2012 and (ii) seven (7) days following the approval of the OEB pursuant to Section 4.3(3), or as may otherwise be agreed upon in writing by the Parties;

"**Closing Date Financial Statements**" means the final audited unconsolidated financial statements of each of the Corporation and the Subsidiaries for the period ending on the Closing Date, prepared consistent with past practice and delivered by the Vendor to the Purchaser within 60 days of Closing;

"**Closing Time**" means the time of the Closing which shall be 10:00 am on the Closing Date or such other time on the Closing Date as may be agreed to by the Parties;

"**Closing Working Capital Statement**" has the meaning set forth in Section 2.1(7)(a)(ii);

"**Collective Agreement**" means the collective agreement between Collus, Collingwood Public Utilities of the Town of Collingwood and Its Employees Through Local #636 of the International Brotherhood of Electrical Workers, dated January 14, 2011;

"**Collingwood Transfer By-law**" means the Transfer By-law Number (2001) - 16584 passed by Collingwood pursuant to the Electricity Act dated June 26, 2001, as amended;

"**Collus**" has the meaning set forth in the recitals hereto;

"**Collus Indemnitee**" has the meaning set forth in Section 7.1(3);

"**Constating Documents**" means, with respect to any Person, its articles or certificate of incorporation, amendment, amalgamation or continuance, by-laws and all unanimous shareholder agreements, other shareholder agreements, voting trusts, pooling agreements and similar Contracts, arrangements and understandings, all as amended, supplemented, restated and replaced from time to time;

"**Contract**" means, in respect of a particular Person, any contract, note, bond, mortgage, agreement, indenture, lease, agreement to lease, licence, personal property lease, commitment, understanding, instrument, option or any other instrument, document or obligation, oral or written, to which such Person is a party or whereby such Person's assets may be bound;

"**Corporation**" has the meaning set forth in the recitals hereto;

"**Current Assets**" means the aggregate of the cash, the accounts receivable, unbilled revenue, inventory (net of any obsolete items of inventory), Taxes receivable in respect of all pre-Closing Tax periods and prepaid expenses of Collus, as calculated in accordance with GAAP, applied consistently with prior periods, as at the Closing Date, but excluding the current portion of Regulatory Assets;

"**Current Liabilities**" means the accounts payable, accrued liabilities and expenses (including, without limitation or duplication, any accrued expenses related to the Transaction), accrued and unpaid Taxes for all pre-Closing Tax periods (including, without limitation any Taxes arising as a result of the Closing), unearned revenue, customer deposits and accounts payable of Collus in respect of which cheques have been issued but have not cleared as at Closing, all as calculated in accordance with GAAP, applied consistently with prior periods, as at the Closing Date, but excludes the current portion of long term debt, the current portion of the Promissory Note and the current portion of Regulatory Liabilities;

"**Direct Claim**" has the meaning set forth in Section 7.2(9);

"**Disputes**" has the meaning set forth in Section 8.2(a);

"**Easements**" means all of the following real property interests enjoyed or used by or for the benefit of the Business: (i) all easements and rights of way, registered and unregistered; (ii) the right to use, transverse, enjoy or have access to, over, in or under any real property, whether public or private; and (iii) all permits, licences and permissions received, used or enjoyed in respect of any of the foregoing and any right or benefit in the nature or character of any of the foregoing;

"**Electricity Act**" means the *Electricity Act, 1998* (Ontario) and the regulations thereto, as amended;

"**Employee Plans**" has the meaning set forth in Section 5.2(12);

"**Employees**" means all full time and part-time, union and non-union employees and contract employees of Collus and Solutions;

"**Employment Law**" means the *Employment Standards Act*, 2000 (Ontario), the *Labour Relations Act, 1995* (Ontario), the *Pay Equity Act* (Ontario), the *Occupational Health and Safety Act* (Ontario), the *Human Rights Code* (Ontario) and the *Workplace Safety and Insurance Act, 1997* (Ontario) and any other applicable statute as it relates to employment matters;

"**Encumbrance**" means any encumbrance, lien, charge, hypothec, pledge, mortgage, title retention agreement, security interest of any nature, adverse claim, exception, reservation, easement, right of occupation, option, right of pre-emption, privilege or any matter capable of registration against title or any Contract to create any of the foregoing;

"**Energy**" has the meaning set forth in the recitals hereto;

"**Environmental Law**" means all applicable statutes, regulations, ordinances, by-laws, Environmental Permits, orders, decisions and rules and any legally enforceable policies, codes or guidelines of a Governmental Authority (whether federal, provincial or municipal) relating to the Environment or the Release, use, transport, disposal or handling of Hazardous Substances, including without limitation the *Environmental Protection Act* (Ontario), *Canadian Environmental Assessment Act, Canadian Environmental Protection Act, Dangerous Goods Transportation Act* (Ontario), *Energy Competition Act* (Ontario), *Environmental Bill of Rights* (Ontario), *Fisheries Act*

(Canada), *Technical Standards and Safety Act* (Ontario), *Ontario Water Resources Act, Pest Control Products Act* (Canada), *Pesticides Act* (Ontario), *Transportation of Dangerous Goods Act* (Canada) and any applicable municipal noise or sewer use by-law;

"**Environmental Permit**" means any Permit required pursuant to Environmental Law;

"**Escrow Agreement**" means the escrow agreement to be entered into between the Parties and Aird & Berlis LLP, in substantially the form of escrow agreement found in Schedule D hereto;

"**Final 2011 Financial Statements**" means the final audited consolidated and non-consolidated financial statements consisting of a balance sheet, a statement of earnings and retained earnings and a statement of cash flows as at and for the period ending December 31, 2011 for each of the Corporation and the Subsidiaries to be prepared consistent with past practice and delivered to the Purchaser prior to Closing;

"**Final Calculation Statement**" has the meaning set forth in Section 2.1(7)(a)(iii);

"**Final Additional Closing Dividend Amount**" has the meaning set forth in Section 2.1(2)(c);

"**Final Dividend Adjustment Amount**" has the meaning set forth in Section 2.1(7)(h);

"**Final Recapitalization Dividend**" has the meaning set forth in Section 2.1(2)(b);

**"GAAP"** has the meaning set forth in Section 1.5;

**"generally accepted accounting principles"** has the meaning set forth in Section 1.5;

"**Governmental Authority**" means any government or political subdivision (including without limitation, any municipality or federal or provincial ministry) or quasi-governmental or regulatory agency, authority, board, commission, department or instrumentality of any government or political subdivision, or any court or tribunal, and specifically includes the OEB, the OPA, the Electrical Safety Authority, the Environmental Review Tribunal and the Independent Electricity System Operator of Ontario;

"**Hazardous Substance**" means:

(a) any petrochemical or petroleum product, oil or coal ash, mercury, radioactive material, radon gas, asbestos in any form that is friable, urea formaldehyde foam insulation or substance that contains or may contain PCBs;

(b) any chemical, material or substance defined as or included in the definition of "hazardous substance", "hazardous waste", "hazardous material", "hazardous constituent", "listed waste", "restricted hazardous material", "extremely hazardous substance", "toxic substance", "deleterious substance", "contaminant", "pollutant", "toxic pollutant" or words of similar meaning and regulatory effect under any applicable Environmental Law; and

(c) any other material or substance, the exposure to which is prohibited, limited or regulated by any applicable Environmental Law;

"**Holdback Amount**" has the meaning set forth in Section 2.1(6);

"**includes**" means "includes, without limitation" and "**including**" means "including without limitation";

"**Income Tax**" means any federal, provincial, territorial, municipal or foreign tax (i) imposed or based upon, measured by or calculated with respect to net income, income as specially defined, earnings, gross or net profits or selected items of income, earnings or profits (including capital gains taxes and minimum taxes); or (ii) based upon, measured by or calculated with respect to multiple bases (including corporate franchise taxes) if one or more of the bases on which such tax may be based, measured by or calculated with respect to, is described in (i), in each case together with any interest, penalties or additions to such tax;

"**Indemnifiable Loss**" has the meaning set forth in Section 7.1(1);

"**Indemnifying Party**" has the meaning set forth in Section 7.1(5);

"**Indemnitee**" means any Collus Indemnitee or Purchaser Indemnitee;

"**Independent Accounting Firm**" has the meaning set forth in Section 2.1(7)(f);

"**Insurance Policies**" has the meaning set forth in Section 5.2(15);

"**Intellectual Property**" means all intellectual property of whatever nature and kind, including patents and patent applications, trademarks and trademark applications, trade names, trading styles, domain names, certification marks, industrial designs and copyrights (whether registered or unregistered and all applications for registration thereof), computer software, information technology, inventions, works, designs, formulae, processes, procedures, know-how, trade secrets, industrial designs and plans, engineering designs and plans, blueprints and as-built plans and specifications, training, operating, safety, maintenance and any other manuals, documentation of procedures and processes, design, user and maintenance information and service records and warranty records;

"**Interim Period**" means the period from and including the date of this Agreement to and including the Closing Date or the earlier termination date of this Agreement;

"**Leased Property**" means all leasehold interests in real property held by the Corporation and the Subsidiaries;

"**MAAD Application**" has the meaning set forth in Section 6.2(3);

"**Material**" means of such a nature or amount as would reasonably be expected to influence or change a decision relating to the business or operations of that Person, and "**Materially**" and "**Materiality**" have corresponding meanings;

"**Material Adverse Change**" or "**Material Adverse Effect**" with respect to any Person means any change or effect that:

(a) individually or when taken together with all other changes or effects that have occurred during any relevant period of time before the determination of the occurrence of that change or effect is or is reasonably likely to be Materially adverse to the business, operations, assets, liabilities, capital, prospects, condition (financial or otherwise) or results of operation of that Person; or

(b) materially and adversely affects the ability of that Person to conduct its business after the Closing Date substantially as its business has been conducted to the date of this Agreement;

"**Material Contract**" means any Contract in respect of the Business, which expires or may expire, if the same is not renewed or extended at the unilateral option of any other Person, more than one (1) years after the date of this Agreement, and which requires payment (including contingent payments) of more than $25,000 in aggregate during the term thereof; or any other Contract, the termination of which would result in a Material Adverse Effect on the Corporation or the Subsidiaries, as applicable;

"**MOF**" means the Ontario Ministry of Finance;

"**Mutual Non-Disclosure Agreement**" means the mutual non-disclosure agreement dated the 19th day of September, 2011 between the Vendor, Collus and the Purchaser;

"**OBCA**" means the *Business Corporations Act* (Ontario) and the regulations thereto, as amended;

"**OEB**" means the Ontario Energy Board or any successor thereto;

"**OPA**" means the Ontario Power Authority and any successor thereto;

"**Ordinary Course**" means, with respect to an action taken by a Person, that the action is consistent with the past practices of the Person and is taken in the normal day-to-day operations of the Person;

"**Parties**" means the parties to this Agreement, and "**Party**" means any one of them;

"**PCBs**" means poly-chlorinated biphenyls;

"**Permits**" mean all permits, licences, certificates, certificates of approval, franchises, registrations, rights, privileges and other consents and approvals of any Governmental Authority;

"**Permitted Encumbrances**" means:

(a) the Encumbrances;

(b) statutory liens for any Taxes not yet due or delinquent or the validity of which is being contested in good faith by appropriate proceedings;

(c) construction, materialmens', carriers', workers', repairers' and other similar liens arising or incurred in the Ordinary Course, as to which there is no default on the part of the Corporation or the Subsidiaries, as applicable, or the validity of which is being contested in good faith by appropriate proceedings;

(d) any Encumbrance evidenced by a *Personal Property Security Act* (Ontario) financing statement filed prior to the date of this Agreement to the extent the Encumbrance does not secure an amount in excess of the amount outstanding and secured at the date of this Agreement unless it is a purchase money security interest incurred in the Ordinary Course; and

(e) such other security interests, liens, imperfections in or failures of title, charges, restrictions, encroachments and defects in title which do not materially, individually or in the aggregate, detract from the value of the Corporation or the Subsidiaries, as the case may be, nor, individually or in the aggregate, result in a Material Adverse Effect;

"**Person**" means any individual, corporation, partnership, firm, joint venture, syndicate, association, trust, Governmental Authority and any other form of entity or organization;

"**PILS**" means payments in lieu of Taxes payable by Collus pursuant to Section 93 of the *Electricity Act*;

"**Promissory Note**" means the promissory note in the amount of $1,710,170.00 dated October 31, 2000 and given by Collus to the Vendor, a copy of which Promissory Note is attached as Schedule A to this Agreement;

"**Promissory Note Repayment**" has the meaning set forth in Section 2.1(2)(d);

"**Public Announcement**" has the meaning set forth in Section 6.3(5);

"**Purchased Shares**" has the meaning set forth in the recital hereto;

"**Purchaser**" has the meaning set forth in the recitals hereto;

"**Purchaser Indemnitee**" has the meaning set forth in Section 7.1(1);

"**Purchaser's Proposed Calculations**" has the meaning set forth in Section 2.1(7)(e);

"**Real Property**" means all real property (excluding Leased Property and Easements) that is owned by the Corporation or the Subsidiaries;

"**Recapitalization Dividends**" has the meaning set forth in Section 2.1(2)(b);

"**Recapitalization Dividend Amount**" has the meaning set forth in Section 2.1(2)(b);

"**Regulatory Assets**" has the meaning set forth in the OEB Accounting Procedures Handbook for Electric Distribution Utilities, dated January 1, 2000 and revised July 31, 2007, or as otherwise disclosed in the 2010 Financial Statements;

"**Regulatory Liabilities**" means have the meaning set forth in the OEB Accounting Procedures Handbook for Electric Distribution Utilities, dated January 1, 2000 and revised July 31, 2007, or as otherwise disclosed in the 2010 Financial Statements;

"**Release**" means any release, spill, leak, emission, discharge, leaching, dumping, escape or other disposal;

"**Remaining Disputed Items**" has the meaning set forth in Section 2.1(7)(f);

"**Representatives**" of a Party means its Affiliates and directors, officers, employees, agents, partners and advisors of the party and/or its Affiliates (including external accountants, lawyers, environmental consultants, financial advisors and other authorized representatives);

"**RFP**" has the meaning set forth in the recitals hereto;

"**Schedule**" means a Schedule to this Agreement as identified in Section 1.2;

"**Service Agreement**" has the meaning given to it in the Affiliate Relationships Code;

"**Shareholders' Agreement**" means the shareholders' agreement to be entered into between the Vendor, the Purchaser and the Corporation dated as of the Closing Date, which is attached as Schedule B hereto;

"**Share Purchase Price**" has the meaning given to it in Section 2.1(2)(a);

"**Solutions**" has the meaning set forth in the recitals hereto;

"**Subsidiaries**" has the meaning given to it in the recitals hereto;

"**Tax Act**" means the *Income Tax Act* (Canada) and the regulations thereto, as amended;

"**Taxes**" means all Income Taxes and all capital taxes, gross receipts taxes, surtaxes, environmental taxes, sales taxes, use taxes, ad valorem taxes, value added taxes, excise taxes, transfer taxes (including land transfer taxes and Transfer Tax), franchise taxes, license taxes, withholding taxes, payroll taxes, health taxes and premiums, employment taxes, Canada Pension Plan premiums, severance, social security premiums, workers' compensation premiums, employment or unemployment insurance or compensation premiums, stamp taxes, occupation taxes, premium taxes, property taxes, windfall profits taxes, alternative or add-on minimum taxes, goods and services taxes (including the Harmonized Sales Tax), customs duties, rates, levies, all special payments and PILS pursuant to Part V.1 and Part VI of the *Electricity Act* and the regulations thereto and all other taxes, fees, imposts, duties, assessments or charges of any kind whatsoever imposed by any Governmental Authority, and any interest, penalties, additions to tax and other additional amounts imposed with respect to the foregoing;

"**Third Party**" has the meaning set forth in Section 7.2(5);

"**Third Party Claim**" has the meaning set forth in Section 7.2(1);

"**Third Party Consents**" means declarations, notices to, or authorizations, consents, waivers, approvals or permissions of, any Person;

"**Transfer Tax**" means the tax payable pursuant to Section 94 of the *Electricity Act* or any similar tax or replacement or substitution thereof;

"**Transaction**" has the meaning set forth in the recitals hereto;

"**Vendor**" has the meaning set forth in the recitals hereto;

"**Vendor's Representative**" means KPMG;

"**Working Capital**" has the meaning set forth in Section 2.1(7);

"**Working Capital Adjustment**" has the meaning set forth in Section 2.1(7)(b);

"**Working Capital Adjustment Documents**" has the meaning set forth in Section 2.1(7)(a);

"**Working Capital Deficiency**" means the amount by which the Working Capital set forth in the Final 2011 Financial Statements of Collus exceeds the Working Capital set forth in the Closing Date Financial Statements of Collus; and

"**Working Capital Surplus**" means the amount by which the Working Capital set forth in the Closing Date Financial Statements of Collus exceeds the Working Capital set forth in the Final 2011 Financial Statements of Collus.

## 1.2 Schedules

The following schedules which are attached to this Agreement are incorporated into this Agreement by reference and form hereof:

| **Schedule Number** | **Schedule Title** |
|---|---|
| Schedule A | Promissory Note |
| Schedule B | Shareholders' Agreement |
| Schedule C | Recapitalization Dividends and Working Capital Adjustment Calculations |
| Schedule D | Escrow Agreement |
| Schedule E | Additional Closing Dividends |
| Schedule 4.1(1)(c) | Third Party Consents of Vendor, Corporation and Subsidiaries |
| Schedule 4.2(1)(c) | Third Party Consents of the Purchaser |
| Schedule 5.2(9) | Real Property and Leased Property |
| Schedule 5.2(10) | Intellectual Property |
| Schedule 5.2(11) | Contracts and Commitments |
| Schedule 5.2(12) | Employee Plans |
| Schedule 5.2(13) | Collective Agreements |
| Schedule 5.2(14) | Employees |
| Schedule 5.2(15) | Insurance |
| Schedule 5.2(16) | Environmental |
| Schedule 5.2(17) | Litigation |
| Schedule 5.2(18) | Taxes |
| Schedule 5.2(20) | 2010 Financial Statements |
| Schedule 5.2(21) | Service Agreements |

## 1.3 Interpretation Not Affected by Headings

The division of this Agreement into articles, sections, subsections, paragraphs, subparagraphs and clauses and the insertion of headings are for the convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "herein", "hereunder" and similar expressions refer to this Agreement and the schedules hereto and not to any particular article, section, paragraph, subparagraph, clause or other hereof and include any agreement or instrument supplementary or ancillary hereto. Each Party acknowledges that it and its legal counsel have reviewed and participated in settling the terms of this Agreement.

## 1.4 Number and Gender

In this Agreement, unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders.

## 1.5 Generally Accepted Accounting Principles

Except as otherwise specifically provided in this Agreement, all accounting terms shall be applied and construed in accordance with generally accepted accounting principles consistently applied. References in this Agreement to "**generally accepted accounting**

**principles**" or "**GAAP**" mean, for all principles stated from time to time in the Handbook of the Canadian Institute of Chartered Accountants, the principles as so stated.

### 1.6 Statutes and Agreement

Any reference in this Agreement to an agreement, or to a statute, regulation or rule promulgated under a statute or to any provision of an agreement, a statute, regulation or rule shall be a reference to the agreement, statute, regulation, rule or provision, as amended, restated, re-enacted or replaced from time to time.

### 1.7 Currency

Except where otherwise expressly provided, all amounts in this Agreement are stated and shall be paid in Canadian currency.

## ARTICLE 2
## PURCHASE OF SHARES

### 2.1 Purchase of Shares

(1) All actions to be completed by each Party to give effect to the Transaction, including delivery of all documents required by either Party pursuant to the terms of this Agreement, shall be completed on or before the Closing Date.

(2) Subject to and conditional upon the terms and conditions of this Agreement, including but not limited to Section 6.2(2), the Parties agree that the Vendor shall sell to the Purchaser, and the Purchaser shall purchase from the Vendor, the Purchased Shares for the Share Purchase Price, as defined below, and the Vendor will receive the following payments as a result of the Transaction:

(a) \$8,000,000.00 (the "**Share Purchase Price**") payable to the Vendor on the Closing Date, by wire transfer or as otherwise mutually agreed to by the Parties;

(b) a recapitalization dividend amount (the **"Recapitalization Dividend Amount**") calculated based on the Final 2011 Financial Statements of Collus in accordance with Schedule C, and adjusted in accordance with the Working Capital Adjustment provided for in Section 2.1(7) (the **"Final Recapitalization Dividend Amount**"), as provided for in Section 2.1(5), and, for greater certainty, the Recapitalization Dividend may, on the agreement of the Parties, be paid as dividends and/or a return of share capital resulting in a corresponding reduction in legal stated capital of Collus and the Corporation (the "**Recapitalization Dividends"**);

(c) an additional closing dividend amount (the "**Additional Closing Dividend Amount**") based on the Final 2011 Financial Statements excluding Collus calculated in accordance with Schedule E hereto and adjusted in accordance with the Working Capital Adjustment provided for in Section 2.1(7) (the "**Final Additional Closing Dividend Amount**"), as provided for in Section 2.1(4) (the "**Additional Closing Dividends**"); and

(d) $1,710,170.00, provided in accordance with Section 2.1(3) (the "**Promissory Note Repayment**").

(3) **Promissory Note Repayment:** Either prior to the Closing Time or after the Closing Time, Collus shall, at the sole and absolute discretion of the Vendor, provide to the Vendor the Promissory Note Repayment, either in full or in part, and if in full then in full and final repayment of the Promissory Note, which shall be cancelled by the Vendor upon such full and final repayment, and if in part then in partial repayment of the Promissory Note, the amount owing under which will be adjusted to reflect the partial repayment by Collus in accordance with this Section 2.1(3).

In the event the Promissory Note Repayment is not completed prior to the Closing Time, then Collus shall provide not less than sixty (60) days prior written notice to the Purchaser of its intention to effect the Promissory Note Repayment. The interest rate on the Promissory Note shall, to the extent the Promissory Note Repayment has not been completed in full, be maintained at its current rate through 2012, reducing to 5.58% per annum through to the end of 2013, and thereafter at such other interest rate as is deemed compliant with the OEB Regulations.

(4) **Additional Closing Dividends:** Prior to the Closing Time, Solutions (and Energy, if applicable in accordance with Schedule E hereto) shall declare a dividend in the aggregate amount of the Additional Closing Dividend Amount to the Corporation and, immediately thereafter (also prior to the Closing Time), the Corporation shall declare a dividend in same amount to the Vendor. The Corporation and the Vendor shall do all such things and authorize and execute all such resolutions required to effect the Additional Closing Dividends by Solutions, Energy (if applicable) and the Corporation, as applicable. Such Additional Closing Dividends may be, at the sole and absolute discretion of Solutions, Energy, if applicable, the Corporation and the Vendor, paid to the Corporation and the Vendor, respectively, before or after the Closing Time notwithstanding that it was declared prior to the Closing Time.

(5) **Recapitalization Dividends:** Prior to the Closing Time, Collus shall declare a dividend to the Corporation in the amount of the Recapitalization Dividend Amount to the Corporation and, immediately thereafter (also prior to the Closing Time), the Corporation will declare a dividend to the Vendor in the amount of the Recapitalization Dividend Amount. The Corporation and the Vendor shall do all such things and authorize and execute all such resolutions required to effect the Recapitalization Dividends by Collus and the Corporation, as applicable. Subject to Section 2.1(6), such Recapitalization Dividends, shall be paid to the Corporation and the Vendor, respectively, before or after the Closing Time (but in any event not later than 60 days thereafter), at the discretion of Collus, the Corporation and the Vendor, notwithstanding that it was declared prior to the Closing Time.

(6) **<u>Holdback Amount:</u>** The Parties agree that the Vendor's legal counsel will hold in escrow, in a non-interest bearing account in accordance with the Escrow Agreement, an amount of $1,000,000.00 (the "**Holdback Amount**") which amount will constitute the portion of the Recapitalization Dividend Amount and the Additional Closing Dividend Amount held back from the dividends paid pursuant to Section 2.1(4) and Section 2.1(5), respectively, for the purposes of the Working Capital Adjustment and will be provided to the Vendor's legal counsel by Collus on payment of the Recapitalization Dividends, as provided for in this Section 2.1(6).

(7) **<u>Working Capital Adjustment:</u>**

(a) Within 60 days after Closing, the Vendor shall cause the Corporation's accountants to prepare and deliver to the Purchaser:

(i) the Closing Date Financial Statements;

(ii) a statement of the Working Capital as at Closing based on the Closing Date Financial Statements and in accordance with the provisions of this Agreement (the "**Closing Working Capital Statement**");

(iii) a statement of the calculation of the Working Capital Deficiency or Working Capital Surplus, if any, the Final Recapitalization Dividend Amount, based thereon, and the Final Additional Closing Dividend Amount (collectively, the "**Final Calculation Statement**");

calculated in accordance with Schedule C and Schedule E hereto (collectively, the "**Working Capital Adjustment Documents**").

(b) The Closing Date Financial Statements and the Final Calculation Statement shall be prepared in accordance with GAAP, applied in a manner consistent with past practice. The Final Calculation Statement shall provide a statement (the "**Working Capital Adjustment**") of the Final Recapitalization Dividend Amount, based on the Working Capital Deficiency or Working Capital Surplus, if any, and the Final Additional Closing Dividend Amount consistent with the terms of Schedule E. The Corporation shall fully co-operate and assist in the preparation of the Final Calculation Statement and Closing Date Financial Statements as reasonably requested by the Vendor.

(c) The cost of preparing the Working Capital Adjustment Documents shall be accrued in the Closing Date Financial Statements as a Current Liability.

(d) Within 45 days after its receipt of the Working Capital Adjustment Documents, the Purchaser shall notify the Vendor's Representative in writing of its agreement or disagreement with the Working Capital Adjustment Documents (and during such 45-day period, the Vendor's Representative and the Corporation shall grant to the Purchaser and its accountants reasonable access to all work papers, facilities, schedules and calculations used in the preparation of the Working Capital Adjustment Documents and provide access to the Corporation's accountants who prepared such work papers, schedules and calculations).

(e) If the Purchaser disputes any aspect of the Working Capital Adjustment Documents within such 45-day period, then the Purchaser shall have the right, and shall have the right to direct the Purchaser's accountants, at the Purchaser's expense, to review and verify the accuracy of the Working Capital Adjustment Documents. If the Purchaser does not dispute any aspect of the Working Capital Adjustment Documents within such 45-day period, then the Working Capital Adjustment Documents shall be conclusive and binding upon the Purchaser and the Vendor. In the event of a dispute, the Purchaser and, at its option, the Purchaser's accountants, shall complete their review and verification of the Working Capital Adjustment Documents within 45 days of the Purchaser's receipt thereof and, if the Purchaser or the Purchaser's accountants, after such review and verification, still disagree with the Working Capital Adjustment Documents, the Purchaser shall submit its proposed alternative calculations (the "**Purchaser's Proposed Calculations**") of the Working Capital Adjustment Documents in writing to Vendor within 45 days after the Purchaser's receipt of the Working Capital Adjustment Documents.

(f) If the Vendor's Representative does not reject the Purchaser's Proposed Calculations by written notice given to the Purchaser within 30 days after the Vendor's Representative's receipt of the Purchaser's Proposed Calculations, then the Working Capital Adjustment Documents, as modified by the Purchaser's Proposed Calculations, shall be conclusive and binding upon the Purchaser and the Vendor. If the Vendor's Representative rejects the Purchaser's Proposed Calculations by written notice given to the Purchaser within 30 days after the Vendor's Representative's receipt of the Purchaser's Proposed Calculations, then, within 15 days after the date that the Vendor's Representative delivers its written notice of rejection to the Purchaser, the Parties shall jointly select a mutually acceptable and recognized independent accounting firm (such firm, the "**Independent Accounting Firm**") to resolve the remaining disputed items (the "**Remaining Disputed Items**") by conducting an independent review and verification of the Working Capital Adjustment Documents, and thereafter selecting either the Purchaser's calculations of the Remaining Disputed Items (as reflected in the Final Calculation Statement), or the Vendor's calculations of the Remaining Disputed Items, or an amount in between the two. The Vendor and the Purchaser shall be bound by the determination of the Remaining Disputed Items by the Independent Accounting Firm. Each of the Purchaser and the Vendor agrees to execute, if requested by the Independent Accounting Firm, an engagement letter containing reasonable and customary terms. The Independent Accounting Firm shall act as arbitrator to determine only the Remaining Disputed Items and the determination of each amount of the Remaining Disputed Items shall be made in accordance with the procedures set forth in this Section 2.1(7)(f).

(g) Except as contemplated in Section 2.1(7)(c), the Purchaser and the Vendor shall each pay their own expenses incurred under this Section 2.1(7). The costs and expenses of the Independent Accounting Firm shall be allocated equally between the Purchaser and the Vendor.

(h) Upon the determination, in accordance with this Section 2.1(7), of the Final Calculation Statement and the final calculations of the Closing Working Capital Statement and the Working Capital Deficiency or Working Capital Surplus, if any, the Final Recapitalization Dividend Amount and the Final Additional Closing Dividend Amount, the **"Final Dividend Adjustment Amount"** will be determined by the following equation:

(i) the Final Recapitalization Dividend Amount minus the Recapitalization Dividend Amount; plus

(ii) the Final Additional Dividend Amount minus the Additional Dividend Amount.

(i) If the Final Dividend Adjustment Amount is less than \$0, the Vendor and the Purchaser shall, in accordance with the Escrow Agreement, direct the Vendor's legal counsel to release an amount of the Holdback Amount equal to the Final Dividend Adjustment Amount (or, if the Dividend Adjustment Amount is greater than the Holdback Amount, an amount equal to the Holdback Amount) to the Corporation and Collus (or the applicable Subsidiary in the case of an adjustment of the Additional Closing Dividend), with the balance (or if the Final Dividend Adjustment Amount is negative, then nil) released to the Vendor as the balance of payment on the Recapitalization Dividends (or Additional Closing Dividend, if applicable).

(j) If the Final Dividend Adjustment Amount is greater than or equal to \$0, the Vendor and the Purchaser shall, in the accordance with the Escrow Agreement, direct the Vendor's legal counsel to release the Holdback Amount to the Vendor, and as soon as practicable thereafter Collus shall pay such amount to the Corporation (or the applicable Subsidiary in the case of an adjustment of the Additional Closing Dividend), which will in turn, as soon as practicable, pay such amount to the Vendor as the balance of payment on the Recapitalization Dividends (or Additional Closing Dividend, if applicable).

(k) If the Final Dividend Adjustment Amount is less than negative \$1,000,000.00, then Vendor shall pay the absolute value of such difference to Collus.

(l) Any payments made pursuant to (i) or (j) above by the Vendor's legal counsel shall be made by certified cheque or wire transfer of immediately available funds and shall be deemed to be adjustments to the Recapitalization Dividend Amount and the Additional Closing Dividends, as applicable, for all Tax purposes.

(m) For the purposes of this Article 2, "**Working Capital**" means the amount calculated by subtracting the Current Liabilities from the Current Assets, consistent with the terms of Schedule C and Schedule E.

## ARTICLE 3
## THE CLOSING

### 3.1 Closing

Subject to the terms and conditions of this Agreement, the Closing of the Transaction shall take place at the Closing Time on the Closing Date at the Toronto offices of Aird & Berlis LLP.

### 3.2 Closing Deliveries of the Vendor

At Closing, the Vendor shall deliver, or cause to be delivered, to the Purchaser the following:

(a) new share certificates, representing the Purchased Shares, in the name of the Purchaser;

(b) copies of updated share registers and share transfer ledgers, reflecting the purchase by the Purchaser of the Purchased Shares;

(c) the opinion of counsel contemplated by Section 4.1(1)(d);

(d) copies of any and all Third Party Consents required to be obtained by the Vendor, the Corporation and the Subsidiaries with respect to the Transaction;

(e) a certificate of a senior officer of each of the Vendor, the Corporation, Collus and Solutions, dated as of the Closing Date, certifying that:

   (i) in respect of the certificate of each of the Vendor and the Corporation only, the representations and warranties of each of the Vendor and the Corporation herein are true and correct in all respects as at the Closing, or where any representation and warranty is qualified by Materiality, such representation and warranty is true and correct in all Material respects as at the Closing;

   (ii) the Vendor, the Corporation, Collus and Solutions have complied in all Material respects with the covenants and agreements contained in this Agreement which are required to be performed and complied with by each of them on or prior to the Closing;

(f) copies of the corporate resolutions of the Vendor, the Corporation, Collus and Solutions certified by a respective director or senior officer of the Vendor, the Corporation, Collus and Solutions authorizing the execution, delivery and performance of this Agreement and all other agreements and instruments to be executed and delivered by the Vendor, the Corporation, Collus and Solutions in connection with this Agreement and completion of the Transaction;

(g) a certificate of status for each of the Vendor, the Corporation, Collus and Solutions under the laws of Ontario;

(h) a certificate of incumbency for each of the Vendor, the Corporation, Collus and Solutions;

(i) a copy of the Shareholders' Agreement executed by the Vendor and the Corporation;

(j) updated disclosure schedules hereto to reflect changes arising in the ordinary course of business; provided, however, that the Purchaser shall not be required to accept any such updated which, individually or in the aggregate would result in a Material Adverse Change to the Corporation, acting reasonably;

(k) a copy of the Escrow Agreement executed by the Vendor and the Corporation;

(l) draft articles of amendment to change the name of the Corporation and each of the Subsidiaries to include "Collus PowerStream", or as otherwise agreed to by the Parties, which draft articles of amendment shall be filed with effect as of the Closing Date; and

(m) such other documentation as the Purchaser may reasonably request in order to effect the completion of the Transaction and the taking of all corporate proceedings in connection with the Transaction, in each case in form and substance satisfactory to the Purchaser, acting reasonably.

### 3.3 Purchaser Closing Deliveries

At Closing, the Purchaser shall deliver, or cause to be delivered, to the Vendor and the Corporation the following:

(a) the opinion of counsel contemplated by Section 4.2(1)(d);

(b) copies of any and all Purchaser Third Party Consents required to be obtained by the Purchaser with respect to the Transaction;

(c) a certificate of a senior officer of the Purchaser dated as of the Closing Date certifying that:

(i) the representations and warranties of the Purchaser herein are true and correct in all respects as at the Closing, or where any representation and warranty is qualified by Materiality, such representation and warranty is true and correct in all Material respects at the Closing;

(ii) the Purchaser has complied in all Material respects with the covenants and agreements contained in this Agreement which are required to be performed and complied with by each of them on or prior to the Closing;

(d) copies of the corporate resolutions of the Purchaser, certified by a director or senior officer of the Purchaser, respectively, authorizing the execution, delivery and performance of this Agreement and all other agreements and instruments to be executed and delivered by the Purchaser in connection with this Agreement and completion of the Transaction;

(e) a certificate of status for each of the Purchaser under the laws of Ontario;

(f) a certificate of incumbency of the Purchaser;

(g) a copy of the Shareholders' Agreement executed by the Purchaser;

(h) a copy of the Escrow Agreement executed by the Purchaser; and

(i) such other documentation as the Purchaser may reasonably request in order to effect the completion of the Transaction and the taking of all corporate proceedings in connection with the Transaction, in each case in form and substance satisfactory to the Corporation and Collus, acting reasonably.

## ARTICLE 4
## CONDITIONS OF CLOSING

### 4.1 Conditions in Favour of the Vendor and the Corporation

(1) The Vendor and the Corporation shall be obliged to complete the Transaction only if each of the following conditions precedent has been satisfied in full at or before the Closing Time (each of which conditions precedent is acknowledged to be for the exclusive benefit of the Vendor and the Corporation):

(a) all of the representations and warranties of the Purchaser made in or pursuant to this Agreement shall be true and correct as at the Closing Time with the same effect as if made at and as of the Closing Time (except as those representations and warranties may be affected by events or transactions (i) expressly permitted by this Agreement, or (ii) approved in writing by the Vendor and the Corporation);

(b) the Purchaser shall have complied with or performed all of the obligations, covenants and agreements under this Agreement to be complied with or performed by the Purchaser or any of them at or before the Closing Time, including the Closing deliveries specified in Section 3.3 and the covenants in Section 6.2;

(c) all Third Party Consents described in Schedule 4.1(1)(c) shall have been obtained, in each case in form and substance satisfactory to the Vendor and the Corporation, acting reasonably; and

(d) the Vendor and the Corporation shall have received a favourable opinion from legal counsel to the Purchaser dated the Closing Date, and satisfactory in form and substance to the Vendor and the Corporation, acting reasonably, as to the due authorization, execution, delivery and enforceability of this Agreement, the Shareholders' Agreement and as to the Transaction.

(2) If any of the conditions in Section 4.1(1) shall not be satisfied or fulfilled in full at or before the Closing Time to the satisfaction of the Vendor and the Corporation, acting reasonably, the Vendor and the Corporation in their sole discretion may, without limiting any rights or remedies available to the Vendor and the Corporation at law or in equity, either:

(a) terminate this Agreement by notice in writing to the Purchaser, except with respect to the obligations contained in Sections 6.3(4) and 6.3(5) which shall survive that termination; or

(b) waive compliance with any such condition in whole or in part by notice in writing to the Purchaser, except that no such waiver shall operate as a waiver of any other condition.

**4.2 Conditions in Favour of the Purchaser**

(1) The Purchaser shall be obliged to complete the Transaction only if each of the following conditions precedent has been satisfied in full at or before the Closing Time (each of which conditions precedent is acknowledged to be for the exclusive benefit of the Purchaser):

(a) all of the representations and warranties of the Vendor and the Corporation made in or pursuant to this Agreement shall be true and correct as at the Closing Time with the same effect as if made at and as of the Closing Time (except as those representations and warranties may be affected by events or transactions (i) expressly permitted by this Agreement, or (ii) approved in writing by the Purchaser);

(b) each of the Vendor and the Corporation shall have complied with or performed all of the obligations, covenants and agreements under this Agreement to be complied with or performed by the Vendor and the Corporation or any of them at or before the Closing Time, including the Closing deliveries specified in Section 3.2 and the covenants in Section 6.1;

(c) all the Purchaser Third Party Consents described in Schedule 4.2(1)(c) shall have been obtained, in each case in form and substance satisfactory to the Purchaser, acting reasonably;

(d) the Purchaser shall have received a favourable opinion from legal counsel to the Vendor and the Corporation dated the Closing Date, and satisfactory in form and substance to the Purchaser, acting reasonably, as to the due authorization, execution, delivery, and enforceability of this Agreement, the Shareholders' Agreement and as to the Transaction.

(2) If any of the conditions in Section 4.2(1) shall not be satisfied or fulfilled in full at or before the Closing Time to the satisfaction of the Purchaser, acting reasonably, the Purchaser in its sole discretion may, without limiting any rights or remedies available to the Purchaser at law or in equity, either:

(a) terminate this Agreement by notice in writing to the Vendor and the Corporation, except with respect to the obligations contained in Sections 6.3(4) and 6.3(5) which shall survive that termination; or

(b) waive compliance with any such condition in whole or in part by notice in writing to the Vendor and the Corporation, except that no such waiver shall operate as a waiver of any other condition.

### 4.3 Mutual Conditions

The obligations of each of the Parties to complete the Transaction shall be subject to the fulfilment of all of the following conditions on or before the Closing Date:

(1) there shall be no injunction or restraining order issued preventing, and no pending or threatened Claim, against any Party, for the purpose of enjoining or preventing the completion of the Transaction or otherwise claiming that this Agreement or the completion of the Transaction is improper or would give rise to a Claim under any Applicable Law;

(2) no Applicable Law shall have been enacted, introduced or announced which prohibits the Transaction or has a Material Adverse Effect in respect of the Vendor or the Purchaser or will have a Material Adverse Effect in respect of the Corporation or the Subsidiaries after the Transaction;

(3) the OEB shall have approved the Transaction in accordance with the MAAD Application provided that no terms or conditions required by the OEB in connection therewith shall have a Material Adverse Effect on either the Vendor, the Purchaser, the Corporation or the Subsidiaries;

(4) no Transfer Tax or special payment under Part VI of the Electricity Act as a result of the Transaction is payable by a Party;

(5) the Parties will have reviewed and amended or confirmed the Service Agreements, as provided for in Section 6.3(8).

(6) Collus shall have secured financing for the Transaction satisfactory to the Parties, which funds will be available prior to or at the Closing Date to facilitate the Recapitalization Dividends and the Promissory Note Repayment, as required by Section 2.1.

(7) the Vendor will have prepared and will have caused each of the Corporation and the Subsidiaries to prepare the Final 2011 Financial Statements, in a form satisfactory to Purchaser, acting reasonably.

**4.4 Termination**

(1) This Agreement may be terminated at any time prior to Closing by mutual written consent of the Parties.

(2) This Agreement may be terminated by the Vendor, the Corporation or the Purchaser by written notice to the other Party if the Closing contemplated by this Agreement shall have not occurred on or before December 31, 2012 or such later date as may be mutually agreed by the Parties in writing and thereupon the Parties shall be released from all obligations then remaining under this Agreement, other than the obligations contained in Sections 6.3(4) and 6.3(5), provided that the right to terminate this Agreement under this Section 4.4(2) shall not be available to a Party if the acts or omissions of that Party or any of its Affiliates have been the cause of, or result in, the failure of the Closing to occur on or before such date.

(3) If any condition in Section 4.1 or 4.3 is not satisfied on or before the Closing Date, the Vendor and the Corporation may, by notice to the Purchaser, terminate this Agreement and thereupon the Parties shall be released from all obligations then remaining under this Agreement, other than the obligations contained in Sections 6.3(4) and 6.3(5); provided that the Vendor and the Corporation may also bring a Direct Claim against the Purchaser in accordance with Section 7.2(9) for Indemnifiable Losses asserted against or suffered by the Vendor and the Corporation, or any of them, as a result of the failure to Close the Transaction, where the non-performance or non-conformance of the relevant condition is as a result of a breach of covenant, representation or warranty by the Purchaser, or either of them.

(4) If any condition in Section 4.2 or 4.3 is not satisfied on or before the Closing Date, the Purchaser may, by notice to the Vendor and the Corporation, terminate this Agreement and thereupon the Parties shall be released from all obligations then remaining under this Agreement, other than the obligations contained in Sections 6.3(4), and 6.3(5); provided that the Purchaser may also bring a Direct Claim against the Vendor and the Corporation in accordance with Section 7.1(8) for Indemnifiable Losses asserted against or suffered by the Purchaser, or either of them, as a result of the failure to close the Transaction, where the non-performance or non-conformance of the relevant condition is as a result of

a breach of covenant, representation or warranty by the Vendor and the Corporation, or any of them.

## ARTICLE 5
## REPRESENTATIONS AND WARRANTIES

### 5.1 Representations and Warranties of the Vendor with Respect to the Vendor

The Vendor hereby represents and warrants to the Purchaser as to itself as follows and acknowledges that, except as otherwise expressly provided herein, the Purchaser is relying on these representations and warranties in connection with this Agreement and the Transaction:

(1) Organization and Status. It is a body corporate incorporated under the *Municipal Act, 2001* (Ontario)

(2) Corporate Power. The Vendor is a municipal corporation and has all requisite statutory power, authority and capacity to enter into, and to perform its obligations under, this Agreement and to transfer the legal and beneficial title and ownership of the Purchased Shares to the Purchaser free and clear of all Encumbrances. The Vendor has duly taken, or has caused to be taken, all action required to be taken by the Vendor to authorize the execution and delivery of this Agreement by the Vendor and the performance of its obligations hereunder, in respect of the Vendor and to pass the Transfer By-law.

(3) Enforceability. This Agreement has been duly executed and delivered by it and (assuming due execution and delivery by the other Parties) is a legal, valid and binding obligation of it enforceable against it in accordance with its terms, except as that enforcement may be limited by bankruptcy, insolvency and other similar laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction.

(4) Bankruptcy. It is not an insolvent Person within the meaning of the *Bankruptcy and Insolvency Act* (Canada) and has not made an assignment in favour of its creditors or a proposal in bankruptcy to its creditors or any class thereof, and no petition for a receiving order has been presented in respect of it. It has not initiated proceedings with respect to a compromise or arrangement with its creditors or for its winding up, liquidation or dissolution. No receiver or interim receiver has been appointed in respect of it or any of its undertakings, property or assets and no execution or distress has been levied on any of its undertakings, property or assets, nor have any proceedings been commenced in connection with any of the foregoing.

(5) No Violations. Neither the execution nor delivery of this Agreement nor the completion of the transactions herein contemplated will result in the violation of:

(a) any provision of the by-laws of the Vendor,

(b) any Contract to which the Vendor is a party or by which the Vendor or any of their respective properties or assets is bound, which would have a Material Adverse Effect on the Vendor's ability to perform its obligations under this Agreement; or

(c) subject to obtaining the regulatory approvals set forth in Section 4.3(3), any terms or provisions of any Applicable Law of any Governmental Authority having jurisdiction over the Vendor which would have a Material Adverse Effect on the Vendor's ability to perform its obligations under this Agreement.

**5.2 Representations and Warranties of the Vendor and the Corporation with respect to the Corporation and the Subsidiaries**

Each of the Vendor and the Corporation represents and warrants to the Purchaser, except as expressly provided for herein, on a joint and several basis, as follows and acknowledges that the Purchaser is relying on these representations and warranties in connection with this Agreement and the Transaction:

(1) Organization and Status. The Corporation is a corporation duly incorporated and organized, and is validly subsisting, under the laws of Ontario and has the corporate power to own or lease the property and assets transferred to it pursuant to the Collingwood Transfer By-law and to carry on the Business.

(2) Authorized and Issued Capital of the Corporation. On Closing, the authorized share capital of the Corporation shall be an unlimited number of common shares, of which 5,101,640 common shares are duly issued and outstanding as fully paid non-assessable shares to the Vendor. The Corporation has no outstanding rights, options or warrants to acquire equity capital.

(3) Authorized and Issued Capital of the Subsidiaries. On Closing, the authorized share capital of each of the Subsidiaries is an unlimited number of common shares, of which 5,101,340 common shares in Collus, 100 common shares in Solutions and 100 common shares in Energy are duly issued and outstanding as fully paid non-assessable shares to the to the Corporation. None of the Subsidiaries has outstanding rights, options or warrants to acquire equity capital.

(4) Ownership of Purchased Shares. On Closing, the Vendor shall be the beneficial and registered owner of the Purchased Shares, with good and marketable title thereto, free and clear of all Encumbrances (other than the rights of the Purchaser hereunder) and shall have the exclusive right to dispose of the Purchased Shares as herein provided. Without limiting the generality of the foregoing, none of the Purchased Shares on Closing will be subject to any voting trust, shareholder agreement or voting agreement. On Closing, the Corporation shall be the beneficial and registered owner of the issued and outstanding shares of the Subsidiaries, with good and marketable title thereto, free and clear of all Encumbrances. Without limiting the generality of the foregoing, none of the issued and

outstanding shares of the Subsidiaries on Closing will be subject to any voting trust, shareholder agreement or voting agreement.

(5) No Other Agreements to Purchase. No Person (other than the Purchaser under this Agreement) has any Contract or any right or privilege (whether by law, pre-emptive or contractual) binding upon or which at any time in the future may become binding upon the Vendor to acquire or obtain in any other way an interest in any of the Purchased Shares or to require the Corporation to allot or issue any shares. No Person has any Contract or any right or privilege (whether by law, pre-emptive or contractual) binding upon or which at any time in the future may become binding upon the Corporation to acquire or obtain in any other way an interest in the any of the issued and outstanding shares of the Subsidiaries or to require the Subsidiaries to allot or issue any shares in any of the Subsidiaries.

(6) No Violations. Neither the execution nor delivery of this Agreement nor the completion of the transactions herein contemplated will result in the violation of:

(a) any provision of the by-laws of the Vendor, the Corporation or the Subsidiaries,

(b) any Contract to which the Vendor, the Corporation or any of the Subsidiaries is a party or by which the Vendor, the Corporation or any of their respective properties or assets is bound, which would have a Material Adverse Effect on the Vendor's ability to perform its obligations under this Agreement; or

(c) subject to obtaining the regulatory approvals set forth in Section 4.3(3), any terms or provisions of any Applicable Law of any Governmental Authority having jurisdiction over the Vendor, the Corporation or any Subsidiaries which would have a Material Adverse Effect on the Vendor, the Corporation or any Subsidiary's ability to perform its obligations under this Agreement.

(7) Consents and Approvals. Except as set out in Schedule 4.1(1)(c), there is no requirement for the Vendor, the Corporation or any Subsidiary to make any filing with, give any notice to or obtain any licence, permit, certificate, registration, authorization, consent or approval of, any governmental or regulatory authority as a condition to the lawful consummation of the transactions contemplated by this Agreement.

(8) Compliance with Applicable Laws. The Corporation and each of the Subsidiaries has complied in all material respects with all Applicable Laws applicable to the Business, the failure to comply with which, either individually or in the aggregate, would have a Material Adverse Effect.

(9) Real Property. Schedule 5.2(9) sets forth a list of Real Property in which the Corporation and any Subsidiaries has an interest including lands owned in fee simple, together with all Leased Property. Schedule 5.2(9) is complete and accurate and the Corporation has good title to such interests in owned Real Property, and all leases for such Leased Property are in good standing, subject only in each case to Permitted Encumbrances;

(10) Intellectual Property. Schedule 5.2(10) sets forth and describes all Intellectual Property used in whole or in part by the Business, and all material trademarks, trade names, service marks, brand names, patents, copyrights, industrial designs and other industrial property rights, and all applications therefor, in each case specifying whether the item is owned by the Corporation or any Subsidiaries or is used by the Corporation or any Subsidiaries under a licence agreement or arrangement from another Person.

(11) Contracts and Commitments. Except as set forth in Schedule 5.2(11), the Corporation and each of the Subsidiaries is not a party to or bound by any of the following:

(a) any employment or consulting Contract or any other written Contract with any officer, employee or consultant other than oral Contracts of indefinite hire terminable by the employer without cause on such notice or such payment as may be required by Applicable Law;

(b) any agreement, contract or commitment limiting the freedom of the Corporation or any Subsidiaries to engage in any line of business or to compete with another Person; or

(c) any other Material Contract.

Except in respect of the indebtedness listed in Schedule 5.2(11), the Corporation the Subsidiaries do not have outstanding any indebtedness in respect of borrowed money or guarantees in respect of same.

(12) Employee Plans. Except as set forth in Schedule 5.2(12), the Corporation and the Subsidiaries are not a party to or bound by or subject to any agreement or arrangement with respect to salaries, wages, bonuses, commissions, fees, retirement, pension, deferred compensation, severance or termination pay, insurance, medical, hospital, dental, vision care, drug, sick leave, disability, salary continuation, legal benefits, unemployment benefits, vacation, incentive or other compensation plan or arrangement or other similar employee benefits (the "**Employee Plans**").

(13) Collective Agreement. Except for the Collective Agreement as set out in Schedule 5.2(13), the Corporation and each of the Subsidiaries has not made, and at Closing will not have, any Contracts with any labour union or employee association nor made commitments to or conducted negotiations with any labour union or employee association with respect to any future agreements.

(14) Employees. Schedule 5.2(14) contains a complete and accurate list of the names of all individuals who are Employees of the Corporation and each of the Subsidiaries specifying unionized Employees, non-unionized Employees, years of service, wages, benefits and title. The Corporation has no unfunded liabilities with respect to its pension plans.

(15) Insurance. Schedule 5.2(15) sets forth all insurance policies (specifying the insurer, the amount of the coverage, the type of insurance, the policy number and any pending claims thereunder) maintained by the Corporation and each of the Subsidiaries on its property and assets or personnel (the "**Insurance Policies**").

(16) Environmental.

(a) There are no active or abandoned underground storage tanks located on any Real Property or Leased Property, except those that comply with applicable Environmental Laws; and

(b) No Release of Hazardous Substances has occurred on or from any Real Property or Leased Property, except those that do not violate applicable Environmental Laws.

(c) The Business and Property have been and are being owned, occupied and operated in substantial compliance with applicable Environmental Laws and there are no breaches thereof and no enforcement actions in respect thereof are threatened or pending which, in any such-case, would, either individually or in the aggregate, have, a Material Adverse Effect.

(17) Litigation. Except as set out in Schedule 5.2(17), there are no actions, suits or proceedings pending or, threatened against or affecting the Corporation or any Subsidiaries at law or in equity, or before or by any federal, provincial, municipal or other governmental department, court, commission, board, bureau, agency or instrumentality, domestic or foreign, or by or before an arbitrator or arbitration board which, either individually or in the aggregate, would have a Material Adverse Effect.

(18) Taxes. The Corporation and each of the Subsidiaries is exempt from tax under the Tax Act and the Corporations Tax Act (Ontario). There are no audits, actions, assessments, suits, proceedings, investigations or claims pending against the Corporation or any Subsidiaries in respect of Taxes, due to any grounds including aggressive treatment of income, expenses, credits or other amounts in filing its tax returns, nor are there any material matters under discussion with any governmental authority relating to Taxes asserted by any such authority. The Corporation and each Subsidiary is not party to any agreement or undertaking with respect to Taxes.

(19) Withholding. The Corporation and each Subsidiary has withheld from each payment made to any of its past or present employees, officers or directors, and to any non-resident of Canada, the amount of all Taxes and other deductions required to be withheld therefrom, including without limitation, all employee and employer portions for Workers' Compensation, Canada Pension Plan, Unemployment Insurance and Employment Insurance and has paid the same to the proper tax or other receiving officers within the time required under any applicable legislation. The Corporation and each Subsidiary has remitted to the appropriate tax authority when required by law to do so all amounts collected by it on account of sales taxes including goods and services tax.

(20) 2010 Financial Statements. The 2010 Financial Statements, copies of which are attached as Schedule 5.2(20) in all material respects, fairly and accurately reflect the financial position, the assets and liabilities of the Corporation and each of the Subsidiaries as they existed on December 31, 2010 and the results of the operation of its business for the twelve (12) month period ended on the date of the 2010 Financial Statements and have been prepared on a basis consistent with the preceding fiscal years, except where noted in the 2010 Financial Statements.

(21) Service Agreements. All Service Agreements entered into between the Corporation and or the Vendor, Collus, Energy and Solutions or any of their respective Affiliates, which Service Agreements are listed in Schedule 5.2(21), comply, in all material respects, with the Affiliate Relationships Code.

### 5.3 Representations and Warranties of the Purchaser Relating to the Purchaser

The Purchaser represents and warrants to the Vendor and the Corporation, except as expressly provided for herein, as to itself as follows and acknowledges that the Vendor and the Corporation are relying on these representations and warranties in connection with this Agreement and the Transaction:

(1) Organization and Status. The Purchaser is a corporation duly incorporated and organized, and is validly subsisting under, the laws of Ontario.

(2) Corporate Power. It has all necessary corporate power and authority to own or lease or dispose of its undertakings, property and assets, to enter into this Agreement and Shareholders Agreement and the contracts, agreements and instruments required by this Agreement to be delivered by it, and to perform its obligations hereunder and thereunder.

(3) Authorization. All necessary corporate action has been taken by it or on its part to authorize its execution and delivery of this Agreement and the contracts, agreements and instruments required by this Agreement to be delivered by it and the performance of its obligations hereunder and thereunder.

(4) Enforceability. This Agreement has been duly executed and delivered by it and (assuming due execution and delivery by the other Parties) is a legal, valid and binding obligation of it enforceable against it in accordance with its terms, except as that enforcement may be limited by bankruptcy, insolvency and other similar laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction. The Shareholders Agreement and each of the contracts, agreements and instruments required by this Agreement to be delivered by it will at the Closing Time have been duly executed and delivered by it and (assuming due execution and delivery by the other parties thereto) will be enforceable against it in accordance with its terms, except as that enforcement may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction.

(5) Bankruptcy. It is not an insolvent Person within the meaning of the *Bankruptcy and Insolvency Act* (Canada) and has not made an assignment in favour of its creditors or a proposal in bankruptcy to its creditors or any class thereof, and no petition for a receiving order has been presented in respect of it. It has not initiated proceedings with respect to a compromise or arrangement with its creditors or for its winding up, liquidation or dissolution. No receiver or interim receiver has been appointed in respect of it or any of its undertakings, property or assets and no execution or distress has been levied on any of its undertakings, property or assets, nor have any proceedings been commenced in connection with any of the foregoing.

(6) Absence of Conflict. The execution, delivery and performance by it of this Agreement, the Shareholders Agreement and the completion of the Transaction will not (whether after the passage of time or notice or both), result in:

(a) the Material breach or violation of any of the provisions of, or constitute a default under, or conflict with or cause the acceleration of any of its obligations, under:

(i) any Contract to which it is a party or by which any of its undertakings, property or assets is bound or affected;

(ii) any provision of its Constating Documents or resolutions of its board of directors (or any committee thereof) or shareholder;

(iii) municipal council; or

(iv) any Applicable Law;

(b) the requirement of any Purchaser Third Party Consents from any of its creditors.

(7) Litigation. There are no Claims (whether or not purportedly on its behalf) pending or outstanding or, to its knowledge, threatened against it which could affect its ability to perform its obligations under this Agreement. To the knowledge of the Purchaser, there is not any factual or legal basis on which any such Claim might be commenced with any reasonable likelihood of success.

(8) Residence. It is not a non-resident of Canada for purposes of the Tax Act.

## ARTICLE 6
## COVENANTS

### 6.1 Covenants of the Vendor and the Corporation

Each of the Vendor and the Corporation covenants and agrees with the Purchaser that each of the Vendor and the Corporation will do or cause to be done the following:

(1) <u>Conduct Prior to Closing</u>. Without in any way limiting any other obligations of each of the Vendor and the Corporation hereunder, except as specifically provided in this Agreement or with the prior written consent of the Purchaser during the Interim Period:

(a) the Vendor shall cause the Corporation to conduct the Business and the operations and affairs of the Corporation only in the Ordinary Course, and each of the Vendor and the Corporation shall not, without the prior written consent of the Purchaser, enter into any transaction or refrain from doing any action that, if effected before the date of this Agreement, would constitute a breach of any representation, warranty, covenant or other obligation of each of the Vendor and the Corporation in this Agreement and, without limiting the generality of the foregoing, the Vendor and the Corporation shall cause the Corporation and the Subsidiaries:

(i) not to amalgamate, merge or consolidate with or acquire or agree to acquire all or substantially all of the shares and assets of any Person, not to acquire or lease or agree to acquire or lease any business operations in any other Person, and not to undertake any distributions or declare any dividends or repay any material loans in respect of the Corporation or any Subsidiaries, other than dividend declarations and repayment of loans contemplated in Article 2 of this Agreement;

(ii) not to enter into any compromise or settlement of any litigation, proceeding or government investigation relating to the Business or any of the assets of the Corporation;

(iii) not to make any Material modification to its usual sales, human resource, accounting, software, or management practices, processes or systems, except that the Parties agree that the Vendor, the Corporation and the Subsidiaries shall transfer certain employees from Solutions and Energy to Collus, or as otherwise mutually agreed to by the Parties;

(iv) to continue to maintain in full force and effect all the Insurance Policies or renewals thereof currently in effect; and

(v) to report all Claims with a value greater than $50,000.00 or known circumstances or events which may give rise to a Claim with a value greater than $50,000.00 to its insurers under the Insurance Policies in a due and timely manner to the Closing Date and to provide copies of those reports to the Purchaser;

(b) each of the Vendor and the Corporation shall use its respective commercially reasonable efforts to give or obtain or cause the Corporation to give or obtain, and the Corporation shall use its commercially reasonable efforts to obtain, the Third Party Consents described in Schedule 4.1(1)(c);

(c) each of the Corporation and the Vendor shall use its respective commercially reasonable efforts to preserve, and cause the Vendor to preserve intact its assets and cause the Corporation to preserve intact, the Business, the assets of the Corporation, and the operations and affairs of the Corporation and to carry on the Business and the affairs of the Corporation as currently conducted, and to promote and preserve the goodwill of suppliers, customers and others having business relations with the Corporation;

(d) each of the Corporation and the Vendor shall cause Corporation and the Vendor to pay and discharge its liabilities in the Ordinary Course in accordance and consistent with the previous practice of the Corporation, except those contested in good faith by the Corporation, or the Vendor, as the case may be;

(e) the Vendor shall in respect of the Corporation, and the Corporation in respect of the Subsidiaries shall use its respective commercially reasonable efforts to take and cause the Corporation to take, all necessary corporate action, steps and proceedings to approve or authorize, validly and effectively, the execution and delivery of this Agreement and the other agreements and documents contemplated hereby and to complete the Transaction and to cause all necessary meetings of directors and shareholders of the Corporation and the Vendor to be held for that purpose;

(f) the Vendor and the Corporation shall use its commercially reasonable efforts to satisfy the conditions contained in Section 4.2.

(2) Rights of Access. During the Interim Period, each of the Vendor and the Corporation shall cause the Corporation to provide:

(a) during ordinary business hours and upon reasonable notice and subject to compliance with all Applicable Laws and confidentiality agreements, Purchaser and its Representatives, with reasonable access to the Corporation and the Subsidiaries' management, Books and Records, Contracts, Intellectual Property, Insurance Policies, premises, properties and other information relating to the Corporation, the Subsidiaries and the Business; and

(b) as the Purchaser may reasonably request, such updated financial and operating data relating to the Corporation as the Corporation provides to the Vendor.

(3) No Amendment to Articles. The Corporation shall not make any amendment to its articles of incorporation or by-laws, and the Vendor shall not require or authorize the same, except to change the minimum and maximum number of directors permitted by the articles of each of the Corporation and the Subsidiaries to reflect the minimum and maximum numbers set out in the Shareholders' Agreement.

(4) MOF Notification. Collus shall, in the manner and within the time prescribed by the Electricity Act, notify the MOF of any transfer of "municipal electricity property" within the meaning of the Electricity Act in connection with the Transaction.

(5) Dividends. Notwithstanding any provision of this Agreement to the contrary, during the Interim Period the Corporation may declare and pay dividends contemplated in Article 2 of this Agreement.

**6.2 Covenants of the Purchaser**

The Purchaser covenants and agrees with the Vendor and the Corporation that Purchaser will do or cause to be done the following:

(1) Commercially Reasonable Efforts.

(a) The Purchaser shall use its commercially reasonable efforts to take all necessary corporate action, steps and proceedings to approve or authorize, validly and effectively, the execution and delivery of this Agreement and the other agreements and documents contemplated hereby and to complete the Transaction and to cause all necessary meetings of directors and shareholders of the Purchaser to be held for that purpose;

(b) The Purchaser shall use its commercially reasonable efforts to satisfy the conditions contained in Section 4.1.

(2) MOF Notification. The Purchaser shall, in the manner and within the time prescribed by the Electricity Act, notify the MOF of any transfer of "municipal electricity property" within the meaning of the Electricity Act in connection with the Transaction.

(3) Cooperation with OEB MAAD Application. The Purchaser shall prepare and submit to the OEB as soon as practicable following execution of this Agreement, with the cooperation and review of the Vendor, the Corporation and Collus, either

(a) an application (the "**MAAD Application**") requesting approval of the Transaction and any corresponding amendment of the electricity distribution licences held by Collus and the Purchaser. Up to $100,000 of external costs incurred in respect of the MAAD Application will be borne by the Purchaser after which (if any) they shall be shared equally; or

(b) if the MAAD Application is determined by the Parties not to be required, an informational filing or submission to be submitted to the OEB prior to the Closing in respect of the Transaction.

## 6.3 Mutual Covenants

(1) Co-operation and Compliance. Subject to the terms and conditions of this Agreement and Applicable Law, each of the Parties shall use commercially reasonable efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective, as soon as reasonably practicable, the Transaction and other transactions contemplated hereby, including using commercially reasonable efforts to ensure satisfaction of the conditions precedent to each Party's obligations under this Agreement.

(2) Shareholders' Agreement. On Closing, each of the Vendor, the Corporation and the Purchaser shall execute and deliver the Shareholders' Agreement.

(3) Cooperation with OEB MAAD Application. Each of the Parties shall cooperate with one another in the preparation and submission to the OEB by the Purchaser, as soon as possible following execution of this Agreement, of the MAAD Application or other submission to the OEB as described in Section 6.2(3).

(4) Confidentiality. The Parties shall treat as confidential this Agreement, the terms and conditions set out herein and all information provided to one another in accordance with this Agreement. All such information shall be kept in the strictest confidence and not divulge to any unrelated third party or used by the Vendor, the Corporation or the Purchaser except for purposes of the Transaction. The Parties acknowledge that Collus and the Purchaser executed the Confidentiality Agreement and that such confidentiality agreement continues in full force and effect for all purposes of this section.

(5) Public Statements. Unless otherwise provided herein or otherwise agreed to by the Parties, prior to Closing, no Party shall issue or make any public announcement or press release (a "**Public Announcement**") with respect to this Agreement or the Transaction or other transactions contemplated hereby without the prior written consent of the Vendor, the Corporation and the Purchaser which consent shall not be unreasonably withheld or delayed, except as may be required by Applicable Law or a Governmental Authority. If such disclosure is required by Applicable Law or a Governmental Authority, the Party required to make such disclosure shall, if practicable, provide prior notice to the other Parties of such requirement, the nature thereof, and the nature of the proposed disclosure, and shall limit the scope of such disclosure to the extent necessary to comply with such requirement. Upon the execution of this Agreement, the Parties shall issue a mutually acceptable press release.

(6) Third Party Consents. Each Party shall have the right to review in advance information which appears in any application, notice, petition or filing made seeking Third Party Consents required in connection with the Transaction and other transactions contemplated hereby.

(7) Future Opportunities. During the Interim Period, each of the Vendor, the Corporation and the Purchaser agree to continue in good faith to negotiate the completion of the

Transaction contemplated by this Agreement and not to directly or indirectly pursue any transaction which would impair the Transaction.

(8) Service Agreements. During the Interim Period, the Vendor, the Purchaser and the Corporation will agree to amend the Service Agreements in respect of ongoing obligations with respect to the Corporation and the Subsidiaries or will have confirmed the acceptability of the Service Agreements in their current form.

## ARTICLE 7
## INDEMNIFICATION

### 7.1 Indemnification

(1) Subject to Sections 7.1(3), 7.1(6), 7.1(8) and 7.1(10), the Vendor shall indemnify, defend and hold harmless, the Purchaser, the Corporation and the Subsidiaries and each of their respective officers, directors, employees, shareholders and agents, (each, a "**Purchaser Indemnitee**") from and against any and all claims, demands, suits, losses, liabilities, damages, obligations, assessments, reassessments, charges, payments, costs and expenses and accrued interest thereon (including the costs and expenses of, and accrued interest in respect of, any and all actions, suits, proceedings, assessments, judgments, settlements and compromises relating thereto and reasonable lawyers' and other professionals' and experts' fees and reasonable disbursements in connection therewith) (each, an "**Indemnifiable Loss**"), asserted against or suffered by any Purchaser Indemnitee relating to, in connection with or resulting from or arising out of any Direct Claim or Third Party Claim in respect of:

(a) any breach by the Vendor or the Corporation, as applicable, of any representation and warranty made by it in respect of itself under Section 5.1;

(b) any breach by the Vendor of any representation and warranty contained in this Agreement, or incorrectness in any certificate furnished by the Vendor or the Corporation in accordance with this Agreement; or

(c) any breach by the Vendor or the Corporation of any covenants or agreements contained in this Agreement provided such breach was not caused by the breach by the Purchaser of its covenants or agreements contained in this Agreement;

provided that in the case of (a), (b) or (c) the Claim is brought within the time limits set out in Section 8.3.

(2) It is the intention of each of the Vendor and the Corporation to constitute the Purchaser as trustee for the Purchaser Indemnitees that are not party to this Agreement of the covenants of the Vendor and the Corporation in this Section 7.1(2) and the Purchaser agrees to accept such trust and to hold and enforce such covenants on behalf of the Purchaser Indemnitees.

(3) Subject to Sections 7.1(1), 7.1(7), 7.1(8) and 7.1(10), the Purchaser shall indemnify, defend and hold harmless the Vendor, the Corporation and the Subsidiaries and each of their respective officers, directors, employees, shareholders, and agents (each, a "**Collus Indemnitee**") from and against any and all Indemnifiable Losses asserted against or suffered by any Collus Indemnitee relating to, in connection with, resulting from or arising out of any Direct Claim or Third Party Claim in respect of:

(a) any breach by the Purchaser of any representations and warranties contained in this Agreement, or incorrectness in any certificate furnished by the Purchaser in accordance with this Agreement; or

(b) any breach by the Purchaser of any covenants or agreements contained in this Agreement provided such breach was not caused by the breach by the Vendor or the Corporation or its covenants or obligations contained in this Agreement;

provided that in the case of (a) or (b) the Claim is brought within the time limits set out in Section 8.3.

(4) It is the intention of the Purchaser to constitute the Vendor and the Corporation as trustees for the Collus Indemnitees that are not party to this Agreement of the covenants of the Purchaser in this Section 7.1(3) and each of the Vendor and the Corporation agrees to accept such trust and to hold and enforce such covenants on behalf of the Collus Indemnitees.

(5) The expiration or termination of any period of indemnification set out in Sections 7.1(10) and shall not affect the Parties' obligations under this Article 7 if the Indemnitee provides to the Person required to provide indemnification under this Agreement (the "**Indemnifying Party**") with proper notice of the claim or event for which indemnification is sought prior to such expiration or termination.

(6) Each of the Vendor and the Corporation obligations under this Article 7 shall be limited as follows:

(a) no Purchaser Indemnitee shall be entitled to claim in respect of an Indemnifiable Loss until the time that the aggregate amount of all Indemnifiable Losses of Purchaser Indemnitees exceeds $100,000.00 and once such threshold is reached the Purchaser Indemnitees shall be entitled to claim for the full amount of Indemnifiable Losses;

(b) in no case shall the aggregate obligations of the Vendor and the Corporation to indemnify the Purchaser Indemnitees exceed the Share Purchase Price.

(7) The Purchaser's obligations under this Article 7 shall be limited as follows:

(a) no Collus Indemnitee shall be entitled to claim in respect of an Indemnifiable Loss until the time that the aggregate amount of all Indemnifiable Losses of

Collus Indemnitees exceeds $100,000.00 and once such threshold is reached, the Collus Indemnitees shall be entitled to claim for the full amount of Indemnifiable Losses;

(b) in respect of all Claims, a maximum aggregate amount equal to the Share Purchase Price.

(8) Notwithstanding anything to the contrary in this Agreement:

(a) no Party (including a non-Party Indemnitee) shall be entitled to recover hereunder any amount in excess of the actual compensatory damages, court costs and reasonable fees and other expenses of lawyers and other professionals and experts suffered by such Party; and

(b) each Party waives any right to recover punitive, special and consequential damages arising in connection with or with respect to this Agreement.

The provisions of this Section 7.1(8) shall not apply to indemnification for a Third Party Claim.

(9) The Parties agree that, from and after Closing, this Article 7 sets out the sole and exclusive manner by which the Parties may seek compensation or other monetary relief hereunder for any breach of representation, warranty or covenant, and is in lieu of any and all other rights and remedies which any Party may have, for any matter in respect of which it may make a claim on account of an Indemnifiable Loss.

(10) The representations and warranties in Article 5 shall survive the Closing Date until the date that is twenty-four (24) months thereafter (unless notice of a Claim has been received by either Party prior to the expiry of such twenty-four month period, in which case it will be deemed to survive in accordance with this Article 7), except (a) the representations and warranties contained in Section 5.2(16) (Environmental) shall survive for a period of five (5) years from the Closing Date, and (b) the representations and warranties contained in 5.2(18) (Tax) shall survive the Closing Date and continue until thirty (30) days following the expiration of the applicable statute of limitations or statutory tax assessment period (including all periods of extension, whether automatic or permissive).

## 7.2 Defence of Claim

(1) If any Indemnitee receives notice of the assertion of any claim or of the commencement of any claim, action or proceeding made or brought by any Person who is not an Indemnitee (a "**Third Party Claim**") with respect to which indemnification is to be sought from an Indemnifying Party, the Indemnitee shall give such Indemnifying Party reasonably prompt written notice thereof, but in any event such notice shall not be given later than twenty (20) calendar days after the Indemnitee's receipt of notice of such Third Party Claim. Such notice shall describe the nature of the Third Party Claim in reasonable

detail and shall indicate the amount or, if the amount is not then determinable, an appropriate and reasonable estimate of the potential amount of the Indemnifiable Loss that has been or may be sustained by the Indemnitee. The Indemnifying Party will have the right to participate in or, by giving written notice to the Indemnitee, to elect to assume the defence of any Third Party Claim at such Indemnifying Party's expense and by such Indemnifying Party's own counsel, provided, however, that:

(a) counsel for the Indemnifying Party shall conduct the defence of such Third Party Claim in a manner reasonably satisfactory to the Indemnitee;

(b) if the defendants to the Third Party Claim include both the Indemnifying Party and the Indemnitee and the Indemnitee shall have reasonably concluded that there may be legal defences available to it which are different from, additional to or inconsistent with those available to the Indemnifying Party, the Indemnitee shall have the right to select separate counsel to participate in the defence of the Third Party Claim and the reasonable fees and disbursements of such counsel shall he considered Indemnifiable Losses for the purpose of this Agreement.

Notwithstanding the provisions of this Section 7.2(1), where a Third Party Claim relates to Taxes, the Indemnifying Party will have the right to participate in or, by giving written notice to the Indemnitee, to elect to assume jointly with the Indemnitee the defence of such a Third Party Claim relating to Taxes and both the Indemnifying Party and the Indemnitee shall act reasonably in connection with the conduct and management of such defence. The provisions of this Section 7.2(1) shall otherwise apply *mutatis mutandis*.

(2) If the Indemnifying Party assumes the defence in accordance with this Section 7.2(2) the Indemnitee shall co-operate in good faith in such defence at such Indemnitee's own expense. If an Indemnifying Party elects not to assume control of the defence of any Third Party Claim, the Indemnitee shall be entitled to assume such control and may compromise or settle such Third Party Claim (in any manner that it determines appropriate, acting reasonably), over the objection of the Indemnifying Party, which settlement or compromise shall conclusively establish the Indemnifying Party's liability pursuant to this Agreement and the Indemnifying Party shall be bound by the results obtained by the Indemnitee with respect to such Third Party Claim.

(3) If, within twenty (20) calendar days after an Indemnitee provides written notice to the Indemnifying Party of any Third Party Claims, the Indemnitee receives written notice from the Indemnifying Party that such Indemnifying Party has elected to assume the defence of such Third Party Claim as provided in Section 7.2(1), the Indemnifying Party will not be liable for any legal expenses subsequently incurred by the Indemnitee in connection with the defence thereof except as expressly provided in Section 7.2(1), provided, however, that if the Indemnifying Party fails to take reasonable steps necessary to defend diligently such Third Party Claim within twenty (20) calendar days after receiving notice from the Indemnitee that the Indemnitee believes the Indemnifying Party has failed to take such steps, the Indemnitee may assume its own defence and the Indemnifying Party shall be liable for all reasonable expenses thereof.

(4) Without the prior written consent of the Indemnitee, the Indemnifying Party shall not enter into any settlement of any Third Party Claim which would lead to liability or create any financial or other obligation on the part of the Indemnitee for which the Indemnitee is not entitled to indemnification under this Agreement. The Indemnifying Party shall not settle any Third Party Claim or conduct any legal or administrative proceeding in a manner which would, in the opinion of the Indemnitee, acting reasonably, have a material adverse impact on the Indemnitee. If a final offer is made to settle a Third Party Claim and the offer creates no liability or financial or other obligation on the part of the Indemnitee for which the Indemnitee is not entitled to indemnification under this Agreement and the Indemnifying Party desires to accept and agree to such offer, the Indemnifying Party shall give written notice to the Indemnitee to that effect. If the Indemnitee fails to consent to such final offer within twenty (20) calendar days after its receipt of such notice, the Indemnifying Party shall be relieved of its obligations to defend such Third Party Claim and the Indemnitee may contest or defend such Third Party Claim. In such event, the maximum liability of the Indemnifying Party as to such Third Party Claim will be the amount of such settlement offer plus reasonable costs and expenses paid or incurred by the Indemnitee up to the date of such notice.

(5) If any Third Party Claim is of a nature such that the Indemnitee is required by Applicable Law to make a payment to any Person (a "**Third Party**") for the purposes of this Section 7.2(5) with respect to such Third Party Claim before the completion of settlement negotiations or related legal proceedings, the Indemnitee may make such payment and the Indemnifying Party shall, forthwith after demand by the Indemnitee, reimburse the Indemnitee for any such payment. If the amount of any liability under the Third Party Claim in respect of which such a payment was made, as finally determined, is less than the amount which was paid by the Indemnifying Party to the Indemnitee, the Indemnitee shall, forthwith after receipt of the difference from the Third Party, pay such difference to the Indemnifying Party.

(6) Except in the circumstances contemplated by Section 7.2(2) or as expressly provided in Section 7.2(5), and whether or not the Indemnifying Party assumes control of the negotiation, settlement or defence of any Third Party Claim, the Indemnitee shall not negotiate, settle, compromise or pay any Third Party Claim except with the prior written consent of the Indemnifying Party (which consent shall not be unreasonably withheld).

(7) The Indemnitee shall not permit any right of appeal in respect of any Third Party Claim to terminate without giving the Indemnifying Party notice thereof and an opportunity to contest such Third Party Claim.

(8) The Parties shall co-operate fully with each other with respect to Third Party Claims, shall keep each other fully advised with respect thereto (including supplying copies of all relevant documentation promptly as it becomes available) and shall each designate a senior officer who will keep himself informed about and be prepared to discuss the Third Party Claim with his counterparts and with counsel at all reasonable times.

(9) Any claim by an Indemnitee on account of an Indemnifiable Loss which does not result from a Third Party Claim (a "**Direct Claim**") shall be asserted by giving the Indemnifying Party reasonably prompt written notice thereof, stating the nature and factual basis of the Claim in reasonable detail and indicating the amount, or if the amount is not then determinable, an approximate and reasonable estimate of the potential amount of the Direct Claim, but in any event such notice shall not be given later than twenty (20) calendar days after the Indemnitee becomes aware of such Direct Claim, and the Indemnifying Party shall have a period of twenty (20) calendar days within which to investigate and respond to such Direct Claim. For the purpose of such investigation, the Indemnitee shall make available to the Indemnifying Party the information relied upon by the Indemnitee to substantiate the Direct Claim. If the Indemnitee and the Indemnifying Party agree, at or prior to the expiration of such twenty (20) calendar day period, to the validity and amount of the Direct Claim, the Indemnifying Party shall immediately pay to the Indemnitee the full agreed upon amount of the Direct Claim. If the Indemnifying Party does not respond within such twenty (20) calendar day period, the Indemnifying Party shall be deemed to have accepted the Direct Claim. If the Indemnifying Party rejects such Direct Claim, the Indemnitee will be free to seek enforcement of its right to indemnification under this Agreement and shall be entitled to submit the Dispute to the Dispute arbitration procedure referred to in Section 8.2.

(10) If the amount of any Indemnifiable Loss, at any time subsequent to the making of an indemnity payment in respect thereof, is reduced by recovery, settlement or otherwise under or pursuant to any insurance coverage, or pursuant to any claim, recovery, settlement or payment by, from or against any other entity (including, without limitation, relating to any increase in distribution rates specifically to allow such recovery or from a reduction in taxes), the amount of such reduction, together with any interest earned on such amount, if applicable, less any deductibles, costs or expenses incurred in connection therewith, shall promptly be repaid by the Indemnitee to the Indemnifying Party.

(11) A failure to give timely notice as provided in this Section 7.2 shall not affect the rights or obligations of any Party under this Agreement except if, and only to the extent that, as a result of such failure, the party which was entitled to receive such notice was actually prejudiced.

## ARTICLE 8
## GENERAL PROVISIONS

### 8.1 Notices

Any notice or other communication required or permitted to be given under this Agreement shall be in writing and shall be given by facsimile or other means of electronic communication or by hand-delivery as provided below. Any such notice or other communication, if sent by facsimile or other means of electronic communication, shall be deemed to have been received on the Business Day following the sending, or if delivered by hand, shall be deemed to have been received at the time it is delivered to the applicable address noted below either to the individual designated below or to an individual at such address having apparent authority to accept deliveries on behalf of the addressee. Notice of change of address shall also be governed by this Section 8.1. Notices and other communications shall be addressed as follows:

(a) in the case of the Corporation and the Subsidiaries:

P.O. Box 189
43 Stewart Road
Collingwood, ON L9Y 3Z5

Attention: Ed Houghton
Fax No.: (705) 445-2549

(b) in the case of the Vendor:

P.O. Box 189
43 Stewart Road
Collingwood, ON L9Y 3Z5

Attention: Clerk
Fax No.: (705) 445-2448

(c) in the case of the Purchaser:

PowerStream Inc.
161 Cityview Boulevard
Vaughan, ON L4H 0A9

Attention: Dennis Nolan, Executive Vice-President, Corporate Services and Secretary
Fax No.: (905) 532-4616

Notwithstanding the foregoing, any notice or other communication required or permitted to be given by any party pursuant to or in connection with any arbitration procedures contained in this Agreement or in any Schedule to this Agreement may only be delivered by hand. The failure to send or deliver a copy of a notice to counsel shall not invalidate any notice given under this Section 8.1.

### 8.2 Arbitration Procedures

(a) **Disputes:** Each Party shall appoint one or more representatives who shall be responsible for administering this Agreement on its behalf and for representing its respective interests in disputes relating to this Agreement ("**Disputes**"). Any Dispute between the Parties relating to this Agreement that is not resolved between such representatives within ten (10) Business Days of the date that one Party notifies the other Party or Parties of such dispute shall be referred by the Parties' representatives in writing to the senior management of each Party for resolution. Such senior management shall use good faith efforts to resolve the Dispute for a period of up to ten (10) Business Days.

(b) **Arbitration:** Any Dispute that is not resolved by the procedure set forth in Section 8.2(a) above may be referred to and resolved by arbitration by a single arbitrator in accordance with the provisions of the *Arbitration Act, 1991* (Ontario), subject to the following modifications and additions:

(i) The arbitration shall take place in Toronto, Ontario, and shall be conducted in English;

(ii) The arbitration shall be conducted by a single arbitrator having no financial, business or personal interest in the outcome of the arbitration. The arbitrator shall be appointed jointly by agreement of the Parties. In the event the Parties are unable to agree on the appointment of the arbitrator within ten (10) days after notice of a demand for arbitration is given by a Party, then the arbitrator shall be selected pursuant to the provisions of the *Arbitration Act, 1991* (Ontario);

(iii) The arbitrator shall have the authority to award any remedy or relief that a court could order or grant in accordance with this Agreement including, without limitation, specific performance of any obligation, the issuance of an interim, interlocutory or permanent injunction, or the imposition of sanctions for abuse or frustration of the arbitration process; and

(iv) The arbitral award shall be in writing, stating the reasons for the award and be final and binding on the Parties with no rights of appeal.

(c) The provisions of this Section 8.2 do not apply to the dispute resolution mechanisms already provided for in Section 2.1(7) in respect of the Working Capital Adjustment.

**8.3 Survival of Representations and Warranties, Covenants and Obligations**

Subject to the *Limitations Act, 2002* (Ontario):

(a) the representations and warranties given or made by any Party in this Agreement or in any certificate or other writing furnished in connection with this Agreement shall survive the Closing for a period of twenty-four (24) months after the Closing Date and shall thereafter terminate and be of no further force or effect, except that (i) any Claim based on fraud or fraudulent misrepresentation, may be brought at any time; and (ii) any representation and warranty as to which a Claim (including a contingent Claim) shall have been asserted during the survival period shall continue in effect with respect to such Claim until such Claim shall have been finally resolved or settled. Each Party shall be entitled to rely upon the representations and warranties of the other Parties set forth in this Agreement, notwithstanding any investigation or audit conducted before or after the Closing Date or the decision of any party to complete the Closing;

(b) the covenants and obligations of the Parties set forth in this Agreement, including the indemnification obligations of the Vendor, the Corporation and the Purchaser under Article 7, shall survive the Closing indefinitely, unless such covenants and obligations by their terms expire on or before the Closing, and each Party shall be entitled to the full performance thereof by the other Parties without limitation as to time or amount (except as otherwise specifically set forth in this Agreement); and

(c) subject to Sections 8.3(a) and (b), all of the provisions upon which a claim is made under this Agreement shall survive until such claim has been disposed of in accordance with this Agreement.

### 8.4 No Personal Liability Re: Certificates

All certificates delivered by a corporate officer or director of the Vendor, the Corporation or the Purchaser, in accordance with this Agreement, shall be delivered in such official capacity without personal liability to any such individual.

### 8.5 Entire Agreement

This Agreement, the agreements, declarations and instruments contemplated hereby and the Confidentiality Agreement constitute the entire agreement between the Parties pertaining to the subject matter hereof and supersedes all prior negotiations, understandings and agreements between the Parties, written or oral, in respect thereof.

### 8.6 Further Assurances

Each Party hereby covenants and agrees that at any time and from time to time after the Closing Date it will, upon the request of the other Parties, or any one of them, do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered all such further acts, deeds, assignments, transfers, conveyances and assurances as may be required for the better carrying out and performance of all the terms of this Agreement.

### 8.7 Remedies Cumulative

The rights and remedies of the parties under this Agreement are cumulative and in addition to and not in substitution for any rights or remedies provided by law. Any single or partial exercise by any Party hereto of any right or remedy for default or breach of any term, covenant or condition of this Agreement does not waive, alter, affect or prejudice any other right or remedy to which such Party may be lawfully entitled for the same default or breach.

### 8.8 Waiver, Amendment

No modification of or amendment to this Agreement shall be valid or binding unless set forth in writing and duly executed by each of the Parties. No waiver of any provision of this Agreement shall be effective or binding unless made in writing and signed by the Party purporting to give the same and, unless otherwise provided, no such waiver shall constitute a waiver of any other provision of this Agreement nor constitute a continuing waiver, or operate as a waiver of, or estoppel with respect to, any subsequent failure to comply.

### 8.9 Counterparts

This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original and all of which taken together will be deemed to constitute one and the same agreement.

### 8.10 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of Ontario and the laws of Canada applicable therein. The Parties agree that the courts of Ontario shall have exclusive jurisdiction to determine all disputes and claims arising under or pursuant to this Agreement.

### 8.11 Commercially Reasonable Efforts

The Parties acknowledge and agree that, for all purposes of this Agreement, an obligation on the part of any party to use commercially reasonable efforts to obtain any waiver, consent, approval, permit, licence or other document shall not require such party to make any payment to any person for the purpose of procuring the same, other than payments for amounts otherwise due and payable to such person, payments for incidental expenses incurred by such person and payments required by any applicable law or regulation.

### 8.12 Time of Essence

Time shall be of the essence hereof.

### 8.13 Severability

Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall not invalidate the remaining provisions hereof and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. In respect of any provision so determined to be unenforceable or invalid, the Parties agree to negotiate in good faith to replace the unenforceable or invalid provision with a new provision that is enforceable and valid in order to give effect to the business intent of the original provision to the extent permitted by law and in accordance with the intent of this Agreement.

### 8.14 No Partnership

Nothing contained in this Agreement nor any acts of the Parties hereunder shall be deemed to constitute any Party as a partner of any other Party.

## 8.15 Assignment

The rights of the Parties hereunder shall not be assignable.

## 8.16 Successors and Assigns

This Agreement shall be binding upon and enure to the benefit of the Parties hereto and their respective successors. Nothing herein, express or implied, is intended to confer upon any person, other than the Parties hereto and their respective successors, any rights remedies, obligations or liabilities under or by reason of this Agreement.

## 8.17 Expenses of the Parties

Except as set out in Section 6.2(3) and as otherwise set out in this Agreement, all costs and expenses (including the fees and disbursements of accountants, legal counsel and other professional advisors) incurred in connection with this Agreement and completion of the transactions contemplated by this Agreement should be paid by the party incurring those costs and expenses, except that the Vendor shall be responsible for all costs and expenses incurred by it, the Corporation and the Subsidiaries prior to the Closing Time as a direct result of the Transaction, unless otherwise agreed to by the Parties. If this Agreement is terminated, the obligation of each Party to pay its own costs and expenses is subject to each Party's respective rights arising from a breach or termination.

## 8.18 Covenant of the Vendor, the Corporation and the Purchaser

Each of the Vendor, the Corporation and the Purchaser is entering into this Agreement to confirm its undertaking and agreement to be bound by all of the provisions of this Agreement and that it will act to give effect to the terms and conditions of this Agreement.

**[EXECUTION PAGE FOLLOWS]**

**IN WITNESS WHEREOF** the parties hereto have duly authorized and executed this Agreement as of the day and year first above written.

**THE CORPORATION OF THE TOWN OF COLLINGWOOD**

Sandra Cooper

Name: Sandra Cooper
Title: Mayor

Name: Sara Almas
Title: Clerk

**COLLINGWOOD UTILITY SERVICES CORP.**

By: Sandra Cooper
Name:
Title:

By:
Name:
Title:

**COLLUS POWER CORP.**

By: Sandra Cooper
Name:
Title:

By:
Name:
Title:

**IN WITNESS WHEREOF** the parties hereto have duly authorized and executed this Agreement as of the day and year first above written.

**THE CORPORATION OF THE TOWN OF COLLINGWOOD**

Name: Sandra Cooper
Title: Mayor

Name: Sara Almas
Title: Clerk

**COLLINGWOOD UTILITY SERVICES CORP.**

By:

Name: Dean Muncaster
Title: Chair

By:

Name: Ed Houghton
Title: President & CEO

**COLLUS POWER CORP.**

By:

Name: Dean Muncaster
Title: Chair

By:

Name: Ed Houghton
Title: President & CEO

**COLLUS SOLUTIONS CORP.**

By: ______________________________
Name: Joan Pajunen
Title: Chair

By: ______________________________
Name: Ed Houghton
Title: President & CEO

**COLLUS ENERGY CORP.**

By: ______________________________
Name: Doug Garbutt
Title: Chair

By: ______________________________
Name: Ed Houghton
Title: President & CEO

**POWERSTREAM INC.**

By: ______________________________
Name:
Title:

By: ______________________________
Name:
Title:

**IN WITNESS WHEREOF** the parties hereto have duly authorized and executed this Agreement as of the day and year first above written.

**THE CORPORATION OF THE TOWN OF COLLINGWOOD**

Name: Sandra Cooper
Title: Mayor

Name: Sara Almas
Title: Clerk

**COLLINGWOOD UTILITY SERVICES CORP.**

By:
Name: Dean Muncaster
Title: Chair

By:
Name: Ed Houghton
Title: President & CEO

**COLLUS POWER CORP.**

By:
Name: Dean Muncaster
Title: Chair

By:
Name: Ed Houghton
Title: President & CEO

**COLLUS SOLUTIONS CORP.**

By: ______________________________
Name:
Title:

By: ______________________________
Name:
Title:

**COLLUS ENERGY CORP.**

By: ______________________________
Name:
Title:

By: ______________________________
Name:
Title:

**POWERSTREAM INC.**

By: ______________________________
Name: Brian Bentz
Title: President & CEO

By: ______________________________
Name: Dennis Nolan
Title: EVP Corporate Services & Secretary

**UNANIMOUS SHAREHOLDERS AGREEMENT**

**Dated as of the ____ day of ___________, 2012**

**THE CORPORATION OF THE TOWN OF COLLINGWOOD**

**- and –**

**POWERSTREAM INC.**

**- and -**

**COLLINGWOOD UTILITY SERVICES CORP.**

AIRD & BERLIS LLP

Barristers and Solicitors

**UNANIMOUS SHAREHOLDERS AGREEMENT**

**THIS AGREEMENT** made as of the ____day of _____________, 20_____,

**BETWEEN:**

**THE CORPORATION OF THE TOWN OF COLLINGWOOD**, a corporation duly incorporated under the *Municipal Act* (Ontario) (hereinafter referred to as **"Collingwood"**)

- and -

**POWERSTREAM INC.,** a corporation duly incorporated under the *Business Corporations Act* (Ontario) (hereinafter referred to as **"PowerStream"**)

- and –

**COLLINGWOOD UTILITY SERVICES CORP.**, a corporation duly incorporated under the *Business Corporations Act* (Ontario) (hereinafter referred to as the "**Corporation**")

**RECITALS:**

(a) The Corporation is the owner of all of the issued and outstanding shares in Collus PowerStream Power Corp. ("**Collus**"), Collus PowerStream Solutions Corp. ("**Solutions**") and Collus PowerStream Energy Corp. ("**Energy**");

(b) On the 25th day of October, 2000, Collingwood issued a shareholder declaration with respect to the shares it held in the Corporation (the "**Shareholder Declaration**"), which Shareholder Declaration was terminated on the _____ day of ___________, 20___;

(c) On or about the date hereof, PowerStream purchased 2,550,820 common shares in the capital of the Corporation pursuant to a share purchase agreement, dated the ___ day of __________, 2012, between Collingwood, the Corporation and PowerStream (the "**Share Purchase Agreement**");

(d) As of the date hereof, Collingwood and PowerStream are the only Shareholders of the Corporation;

(e) The authorized capital of the Corporation consists of unlimited common shares, of which 5,101,640 common shares are issued and outstanding;

(f) At the date hereof all of the issued and outstanding shares of the Corporation are registered and beneficially owned as follows:

| Shareholder | Shares |
|---|---|
| Collingwood | 2,550,820 common shares |
| PowerStream | 2,550,820 common shares |

(g) The issued and outstanding shares of Collus, Solutions and Energy are registered and beneficially owned as follows:

| Entity | Shareholder | Shares |
|---|---|---|
| Collus | the Corporation | 5,101,340 common shares |
| Solutions | the Corporation | 100 common shares |
| Energy | the Corporation | 100 common shares |

(h) The operation and management of the Corporation and its Subsidiaries shall be based upon the general objectives and business principles set out in Section 2.1 of this Agreement; and

(i) It is the intent and understanding of each of the Corporation, Collingwood and PowerStream to transition the corporate governance structure of the Corporation and its Subsidiaries as set out herein.

**NOW THEREFORE IN CONSIDERATION OF THE FOREGOING AND OF THE MUTUAL COVENANTS HEREIN CONTAINED, THE PARTIES HERETO AGREE AS FOLLOWS:**

## ARTICLE 1
## INTERPRETATION

**1.1 Definitions**. Whenever used in this Agreement unless there is something in the subject matter or context inconsistent therewith, the following terms shall have these respective meanings:

"**Adjourned Meeting**" has the meaning set forth in Section 4.9.

"**Affiliate**" means any Person that: (i) Controls a Party; (ii) is Controlled by a Party; or (iii) is Controlled by the same Person that Controls a Party.

"**Agreement**" means this Shareholders Agreement, and includes any agreement which is supplementary to or an amendment or confirmation of this agreement (and which is entered into in accordance with this Agreement) and any schedules hereto or thereto.

"**Applicable Law**" means, collectively, all applicable federal, provincial and municipal laws, statutes, ordinances, decrees, rules, regulations, by-laws, legally enforceable policies, codes, or guidelines, judicial, arbitral, administrative, ministerial, departmental or regulatory judgments, orders, decisions, directives, rulings or awards, and conditions of any grant of approval, permission, certification, consent, registration, authority or licence by any statutory body, self-regulatory authority or other Governmental Authority.

"**Arm's Length**" means the same as the term "arm's length" as used in the *Income Tax Act* (Canada), as amended from time to time.

"**Articles**" means the articles of incorporation of the Corporation in effect on the date hereof.

"**Board**" means the board of directors of the Corporation, or of a Subsidiary.

"**Business Day**" means any day except Saturday, Sunday or any day which is a statutory holiday in the Province of Ontario.

"**Business Plan**" has the meaning forth in Section 5.2(a).

"**Buy/Sell Notice**" has the meaning set forth in Section 9.1.

"**Chair**" means the director who is appointed chair of the Board from time to time as provided in this Agreement.

"**Collingwood**" has the meaning set forth in the recitals hereto.

"**Collus"** has the meaning set forth in the recitals hereto.

"**Control**" means, with respect to any Person at any time, (i) holding, as owner or other beneficiary, other than solely as the beneficiary of an unrealized security interest, directly or indirectly, securities or ownership interests of that Person carrying votes or ownership interests sufficient to elect or appoint the majority of individuals who are responsible for the supervision or management of that Person, or (ii) the exercise of de facto control of that Person whether direct or indirect and whether through the ownership of securities or ownership interests, by contract or trust or otherwise and "**Controlled by**", "**Controlling**" and similar words have corresponding meanings.

"**Controlling Shareholder**" means a Person who Controls a Shareholder if that Shareholder is a company or corporation. If a Controlling Shareholder of a Shareholder is itself a company or corporation, "**Controlling Shareholder**" shall mean the Person(s) who ultimately Control such Shareholder.

"**Corporation**" has the meaning set forth in the recitals hereto.

"**Date of Closing**" has the meaning set forth in Section 9.3.

"**Dividend Policy**" has the meaning set forth in Section 5.2(c).

“**Electricity Act**” means the *Electricity Act, 1998* (Ontario), as amended from time to time and any replacement or successor legislation.

“**Energy**” has the meaning set forth in the recitals hereto.

“**Enforcing Shareholder**” has the meaning set forth in Section 9.3.

“**Fair Market Value”** has the meaning set forth in Section 8.4.

“**Former Director**” has the meaning set forth in Section 4.10.

“**Governmental Authority**” means any government or political subdivision (including without limitation, any municipality or federal or provincial ministry) or quasi-governmental or regulatory agency, authority, board, commission, department or instrumentality of any government or political subdivision, or any court or tribunal including the IESO, OEB and OPA.

“**HoldCo**” has the meaning set forth in Section 14.10(a).

“**IESO**” means the Ontario Independent Electricity System Operator and any successor.

“**includes**” means “includes, without limitation” and “**including**” means “including, without limitation”.

“**Information**” has the meaning set forth in Section 11.1.

“**New Date of Closing**” has the meaning set forth in Section 9.3.

“**New Purchase Price**” has the meaning set forth in Section 9.3.

“**Non-Selling Shareholder**” has the meaning set forth in Section 10.5(b).

“**OBCA**” means the *Business Corporations Act* (Ontario), as amended from time to time.

“**OEB**” means the Ontario Energy Board and any successor.

“**OEB Act**” means the *Ontario Energy Board Act*, *1998*, as amended from time to time and any replacement or successor or legislation.

“**Offered Shares**” has the meaning set forth in Section 7.1 and 9.3, as applicable.

“**Offeree**” has the meaning set forth in Section 9.1.

“**Offeror**” has the meaning set forth in Section 9.1.

“**OPA**” means the Ontario Power Authority and any successor.

"**Ordinary Course of Business**" means, for the Corporation or any Subsidiary, the conduct of the business of the Corporation or the applicable Subsidiary in the ordinary and usual course and in a manner consistent with the manner in which the business is carried on as of the date hereof, if applicable, or as may be permitted pursuant to Section 2.3 hereof as to the nature and scope of the business.

"**Parties**" means the Shareholders and the Corporation and "**Party**" means any one of them.

"**Permitted Transferee**" has the meaning set forth in Section 6.3(a).

"**Person**" means any individual, corporation, partnership, firm, joint venture, syndicate, association, trust, Governmental Authority and any other form of entity or organization.

"**PowerStream**" has the meaning set forth in the recitals hereto.

"**Pro Rata**" means in the same proportion that the number of Shares owned by a Shareholder is to all of the then issued and outstanding Shares of all classes of the Corporation.

"**Prospective Purchaser**" has the meaning set forth in Section 7.3.

"**Purchase Notice**" has the meaning set forth in Section 7.2.

"**Purchase Price**" has the meaning set forth in Section 7.1(a).

"**Purchaser**" has the meaning set forth in Schedule A hereto.

"**Refusing Shareholder**" has the meaning set forth in Section 9.3.

"**Right of First Refusal Period**" has the meaning set forth in Section 7.2.

"**Remaining Shareholders**" has the meaning set forth term in Section 7.1(b).

"**Sale Notice**" has the meaning set forth in Section 7.1(a).

"**Second Adjourned Meeting**" has the meaning set forth in Section 4.9.

"**Selling Shareholder**" has the meaning set forth in Section 7.1(a).

"**Shareholder**" means individually any, and "**Shareholders**" means collectively all, of Collingwood and PowerStream and any Person to whom any Shares are transferred, or issued, in accordance with the terms of this Agreement, at any time subsequent to the date of this Agreement.

"**Shareholder Declaration**" has the meaning set forth in the recitals hereto.

"**Share Purchase Agreement**" has the meaning set forth in the recitals hereto.

"**Shares**" means any authorized class of shares, voting or non-voting, of the Corporation.

"**Share Purchase Price**" has the meaning set forth in Section 8.3(a).

"**Solutions**" has the meaning set forth in the recitals hereto.

"**Standstill Period**" means the period that is thirty (30) months from the date hereof.

"**Strategic Plan**" has the meaning set forth in Section 2.2(d).

**"Subsidiaries"** means the subsidiary corporations (as defined in the OBCA) of the Corporation and **"Subsidiary"** means any one of such Subsidiaries and includes Collus, Solutions and Energy as at the date hereof.

"**Subsidiary Board**" means the board of directors of each Subsidiary of the Corporation, as elected by the Corporation as sole shareholder, comprised of nominees determined from time to time in accordance with the provisions of this Agreement.

"**Third Adjourned Meeting**" has the meaning set forth in Section 4.9.

**"Time of Closing"** means 10:00 am Toronto time.

**"Transfer Tax"** means the tax payable pursuant to Section 94 of the *Electricity Act, 1998* (Ontario) or any similar tax or replacement or substitution thereof.

"**Valuator**" has the meaning set forth in Schedule A hereto.

"**Vendor**" has the meaning set forth in Schedule A hereto.

"**Vice-Chair**" means the director who is appointed vice-chair of the Board from time to time as provided in this Agreement.

"**Withdrawal Date**" has the meaning set forth in Section 8.4.

"**Withdrawing Shareholder**" has the meaning set forth in Section 8.2.

**1.2** **Interpretation Not Affected by Headings.** The division of this Agreement into articles, sections, subsections, paragraphs, subparagraphs and clauses and the insertion of headings are for the convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "herein", "hereunder" and similar expressions refer to this Agreement and not to any particular article, section, subsection, paragraph, subparagraph or clause or other portion hereof and include any agreement or instrument supplemental or ancillary hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to articles and sections are to articles and sections of this Agreement.

1.3 **Number and Gender.** Words importing the singular number only shall include the plural and vice versa, words importing the masculine gender shall include the feminine and neuter genders and vice versa.

1.4 **Accounting Principles.** Wherever in this Agreement reference is made to generally accepted accounting principles, such reference shall be deemed to be the generally accepted accounting principles from time to time approved by the Canadian Institute of Chartered Accountants, or any successor institute, applicable as at the date on which such calculation is made or required to be made in accordance with generally accepted accounting principles. For greater clarity, the International Financial Reporting Standards shall apply for the periods on and after December 31, 2012.

1.5 **Effect of this Agreement.** To the extent that this Agreement specifies that any matters relating to the Corporation or its Subsidiaries may only be or shall be dealt with or approved by, or shall require action by the Shareholders, the discretion and powers of the directors of the Corporation or a Subsidiary to manage and to supervise the management of the business and affairs of the Corporation or a Subsidiary with respect to such matters are correspondingly restricted. For greater certainty, the Parties agree that Sections 5.1 of this Agreement are intended to operate as a unanimous shareholders agreement with respect to the Corporation and its Subsidiaries, within the provisions of Section 108(2) of the OBCA.

1.6 **Statutes and Amendments.** Any reference in this Agreement to an agreement, or to a statute, regulation or rule promulgated under a statute or to any provision of an agreement, a statute, regulation or rule shall be a reference to the agreement, statute, regulation, rule or provision, as amended, restated, re-enacted or replaced from time to time.

1.7 **Schedules.** The following schedule is incorporated herein and forms part of this Agreement:

| | |
|---|---|
| Schedule A | Valuation Method |
| Schedule B | Corporation and Subsidiaries Dividend Policy |
| Schedule C | Charter Documents of Corporation and each Subsidiary |

## ARTICLE 2
## OBJECTIVES, GUIDING PRINCIPLES AND PERMITTED BUSINESS ACTIVITIES

2.1 **Guiding Principles and Objectives.** The Parties acknowledge and recognize the following guiding principles and objectives of the Corporation and its Subsidiaries and the intention of the Shareholders that the Corporation and its Subsidiaries be managed on an ongoing basis in a manner consistent with these guiding principles and objectives:

(a) enhance Shareholder and investor value;

(b) strengthened voice with the public, regulator and governments;

(c) enhanced community leadership in energy conservation and environment protection;

(d) continued high level of safety;

(e) the Corporation and the Subsidiaries shall each be governed by a board of directors with proportional representation of the Shareholders;

(f) policies shall be established to maintain and sustain infrastructure through adequate investments consistent with good utility practice;

(g) service reliability levels in all service areas are to be maintained at or better than the levels which were maintained prior to the date hereof, subject in all cases to good utility practice and the requirements and/or approval of the OEB;

(h) cost savings shall be obtained through suitable economies of scale;

(i) customer service levels are to be maintained or improved as allowed by electricity distribution rates consistent with good utility practice and sound commercial principles;

(j) utilize suitable human resource programs to avoid, if possible, lay offs including deployment, re-training, early retirement, separation incentives and attrition;

(k) treat all employees in a fair and equitable manner, and develop with its employees a shared commitment towards high customer service, improved productivity and workplace safety, as well as ensuring that all staff understand the Business Plan and direction, and they have the skill required to fulfill their part in achieving those goals;

(l) mutually seek to grow the Corporation's business both organically and through acquisition or merger;

(m) provide a continued and substantial presence in the communities that the Corporation services;

(n) provide continued and enhanced support for the interests of the communities that the Corporation serves;

(o) with due consideration to the optimization of the rate of return and Shareholder value, be an integral participant and play a significant role in the local communities in which they operate. The Corporation and Subsidiaries will strive to be good corporate citizens and the facilitator of economic development throughout the service area, and not facilitate economic development in any way that would favour one community over another, nor discriminate against any community within the applicable service area; and

(p) whenever possible and practicable, best utility practices of the industry are to be adopted.

**2.2 Financial Policies, Risk Management and Strategic Plan.** The Board and any Subsidiary Board shall establish policies to:

(a) Capital Structure – develop and maintain a prudent financial and capitalization structure consistent with industry norms, OEB requirements applicable to licensed electricity distributors and sound financial principles;

(b) Returns – have the objective of optimizing its rate of return and Shareholder value. Subject to OEB approval, the maximum rate of return sought by Collus from time to time will be achieved as soon as practical;

(c) Risk Management – manage all risks related to the business conducted by Collus through the adoption of appropriate risk management strategies and internal controls consistent with industry norms; and

(d) Strategic Plan – within six (6) months and not less than every three (3) years thereafter, update and revise the current strategic plan of the Corporation (the "**Strategic Plan**") to reflect business opportunities available, consistent with the *Ontario Energy Board Act* and all other regulatory requirements which builds upon its excellence in electricity distribution.

**2.3 Permitted Business Activities.** The Corporation and its Subsidiaries may engage in any business activities which are permitted by Applicable Law, including the Electricity Act and OEB Act, applicable to the Corporation and its Subsidiaries from time to time. In so doing, the Corporation and its Subsidiaries shall conform to all requirements of all applicable Governmental Authorities, including the OEB, the IESO and the OPA.

## ARTICLE 3
## IMPLEMENTATION OF THIS AGREEMENT

**3.1 Carrying out of the Agreement.**

(a) The Shareholders shall at all times act and vote their Shares to carry out and cause the Corporation to carry out the provisions of this Agreement.

(b) The Corporation confirms its knowledge of this Agreement and will carry out and be bound by the provisions of this Agreement to the full extent that it has the capacity and power at law to do so.

**3.2 Endorsement on Share Certificates.** Share certificates of the Corporation and its Subsidiaries shall bear the following language either as an endorsement or on the face thereof:

"The shares represented by this certificate are subject to all the terms and conditions of an agreement made as of the ___ day of _______, 20____, a copy of which is on file at the registered office of the Corporation."

## ARTICLE 4
## DIRECTORS OF THE CORPORATION AND SUBSIDIARIES

**4.1 Number and Identity of Directors.**

(a) Each Shareholder shall be entitled to nominate and elect that number of directors to the Board and any Subsidiary Board (rounding up or down to the nearest whole number) which is in the same proportion to the total number of directors of the Corporation as the number of Shares owned by that Shareholder is to the total number of Shares issued and outstanding from time to time.

(b) The Articles of the Corporation and each Subsidiary shall provide for the Board and each Subsidiary Board to consist of a minimum of 1 director and a maximum of 10 directors.

(c) The Board and each Subsidiary Board as at the date of this Agreement shall consist of 6 directors. In accordance with Section 4.1(a), Collingwood shall be entitled to nominate 3 directors and PowerStream shall be entitled to nominate 3 directors. The majority of the Directors nominated by each Shareholder shall be independent from such Shareholder. Directors shall hold office until such time as their successors are elected by the Shareholders.

**4.2 Election of Directors.** The Shareholders shall elect the members of the Corporation and any Subsidiary Board. The Shareholders shall at all times act and vote their Shares to elect as directors of the Corporation or a Subsidiary the individuals nominated as directors, and, if required by a Shareholder, as contemplated in Section 4.6, to remove such director(s).

**4.3 Qualification of Directors.** The Board and any Subsidiary Board should reflect a cross-section of skills and experience. In addition to sound judgment and personal integrity, the qualifications of candidates for the Board and any Subsidiary Board may include:

(a) industry knowledge concerning electricity distribution specifically and regulated industries generally;

(b) business experience with businesses comparable to the Corporation or the Subsidiary, as applicable;

(c) financial, legal, accounting and/or marketing experience;

(d) experience on boards of public companies or major corporations;

(e) awareness of public policy issues related to the Corporation or the Subsidiary, as applicable, and the electricity distribution business generally; and

(f) knowledge and experience with corporate governance principles and/or risk management strategies.

**4.4 Chair.**

(a) For two years from the date hereof, the Board shall have two co-Chairs, one nominated by each of the current Shareholders from among the directors. The co-Chairs shall preside at each meeting of the Board. In the absence of the co-Chairs, the chair of the meeting shall be selected by the directors in attendance at such meeting.

(b) After the period contemplated by paragraph (a), and each year thereafter, the Board will have a Chair and a Vice-Chair, each representing one of the Shareholders and appointed by such Shareholder from the directors, with the right to appoint the Chair and Vice-Chair alternating between the Shareholders every second year.

**4.5 Term of Directors.**

(a) Directors of a Board shall each be appointed for a term of three (3) years as provided in the by-laws of Corporation or the applicable Subsidiary.

(b) A director may be appointed for successive terms at the discretion of the Shareholder appointing such director.

**4.6 Removal of Directors.** Subject to the provisions of the OBCA, each Shareholder shall be entitled in its discretion to cause any of the directors nominated by it to any Board to be removed and to nominate and have an individual elected a successor or successors, as required, by providing a direction in writing to the Corporation or the applicable Subsidiary and to the other Shareholders who shall elect such replacement director or directors. Upon the resignation or removal of a director from a Board, the Shareholder that nominated such director shall use reasonable efforts to obtain and deliver to the Corporation or the applicable Subsidiary a resignation and a release from such director in a form satisfactory to the Corporation or the applicable Subsidiary.

**4.7 Voting.** All matters to be determined by a Board shall be determined by a majority vote of directors at a duly convened meeting of that Board and, in case of an equality of votes, the chairperson of the meeting shall not be entitled to a second or casting vote.

**4.8 Meeting of Directors.**

(a) The Board shall meet at least once each financial quarter at a time and place to be determined by the Chair. Additional meetings of the Board may be called by the Chair or any other director by notice in writing to every other director of the time, place and purpose of the meeting of the Board and the matters to be considered.

(b) All meetings of the Board shall, unless held by telephone or video conference, be held within the Province of Ontario.

(c) Any one or more of the directors may participate in a meeting of the Board by any telephonic or video device which permits all participants in the meeting to communicate with each other simultaneously and instantaneously, and such participation shall be deemed to constitute attendance at the meeting of the Board for the purpose of this Section 4.8. The Chair may determine that any meeting of the Board may be held by telephone or video conference.

(d) At least seven (7) Business Days prior to each meeting, each director shall be notified in writing of the time, place and purpose of the meeting of the Board and the matters to be considered.

(e) A director may waive notice of any meeting of the Board by an instrument in writing delivered to the Secretary of the Corporation or the applicable Subsidiary.

(f) Notwithstanding Section 4.7, in lieu of a meeting of the directors, the consent of the directors with respect to any matter may be evidenced by a resolution in writing (which may be in counterparts) signed by all of the directors.

**4.9 Quorum – Meetings of Directors of the Corporation and Subsidiaries.**

(a) A quorum for a meeting of the Board of the Corporation or applicable Subsidiary, as the case may be, shall consist of a majority of the total number of elected directors (rounded up to the next whole number) provided that, so long as Collingwood and PowerStream are the only Shareholders of the Corporation, at least one (1) director who is a nominee of Collingwood, and at least one (1) director who is a nominee of PowerStream must be present at all meetings of the Board of the Corporation or any Subsidiary, as the case may be.

(b) If a quorum of directors is not present within thirty (30) minutes after the time appointed for a meeting of a Board of the Corporation or applicable Subsidiary, such meeting shall be adjourned to a date not less than five (5) and not more than fifteen (15) Business Days subsequent to the date originally set for the meeting, as the directors present at the meeting may determine.

(c) At least two (2) Business Days prior written notice shall be provided to all of the directors of the date for the meeting of a Board of the Corporation or applicable Subsidiary, as the case may be, adjourned pursuant to Section 4.9(b) (the "**Adjourned Meeting**").

(d) If a quorum is not present at such adjourned meeting, the Secretary of the Corporation or of the applicable Subsidiary, as the case may be, shall forthwith call a further adjourned meeting (the "**Second Adjourned Meeting**") of the Board, to be held not later than five (5) Business Days after the previously Adjourned Meeting was to be held and shall provide at least two (2) Business Days prior written notice thereof to the Shareholders. The Shareholders may:

(i) cause their respective nominee directors to attend, (or may remove their nominee directors and nominate directors to be elected as replacement directors in accordance with Section 4.6 and may cause such replacement directors to attend) the Second Adjourned Meeting; or

(ii) waive their right to have their nominee director or replacement director attend the Second Adjourned Meeting, however for greater certainty, the Second Adjourned Meeting may not proceed if the quorum requirements set forth in Section 4.9(a) are not met.

(e) If a quorum is not present at the Second Adjourned Meeting, the Secretary of the Corporation or of the applicable Subsidiary, as the case may be, shall forthwith call a further adjourned meeting (the "**Third Adjourned Meeting**") of the Board, to be held not later than five (5) Business Days after the Second Adjourned Meeting was to be held and shall provide at least two (2) Business Days prior written notice thereof to the Shareholders. The Shareholders may:

(i) cause their respective nominee directors to attend, (or may remove their nominee directors and nominate directors to be elected as replacement directors in accordance with Section 4.6 and may cause such replacement directors to attend), the Third Adjourned Meeting; or

(ii) failing such attendance pursuant to Section 4.9(e)(i), the Third Adjourned Meeting shall be validly constituted if nominee directors or replacement directors of at least two Shareholders are present at the Third Adjourned Meeting, notwithstanding the quorum requirements set forth in Section 4.9(a).

**4.10** **Vacancies.** In the event of any vacancy occurring on a Board by reason of the death, disqualification, inability to act or resignation of any director (the "**Former Director**"), the Shareholder entitled to nominate the Former Director shall nominate another individual to replace the Former Director in order to fill such vacancy as soon as reasonably possible, and the Shareholders shall vote their Shares to elect such nominee accordingly.

**4.11** **Insurance.** The Corporation or applicable Subsidiary shall acquire and maintain insurance coverage for the directors and officers of the Corporation as the Board may determine from time to time. In the event that such insurance coverage ceases to be available to the directors for any reason, each Shareholder shall be responsible for insuring its own nominees.

**4.12** **Auditor.** ______________________ shall be appointed as the initial auditor of the Corporation and shall hold office until such time as the Shareholders select a replacement.

**4.13** **Corporate Governance Matters.** The Board shall supervise the management of the business and affairs of the Corporation or applicable Subsidiary and, in so doing, shall act honestly and in good faith with a view to the best interests of the Corporation or Subsidiary and each director shall exercise the same degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

4.14 **Board Committees.** The Board and each Subsidiary Board may establish committees at its discretion. The Shareholders anticipate that the Board will establish at least the following committees:

(a) Audit and Finance Committee to review financial results and establish risk management policies; and

(b) Human Resources and Governance Committee to determine and review human resources policies and corporate governance matters including senior management compensation.

## ARTICLE 5
## APPROVAL OF CERTAIN CORPORATE ACTIONS

### 5.1 Shareholder Approval.

No action shall be taken by the Corporation or any Subsidiary with respect to any of the matters set out below unless first approved by all the Shareholders:

(a) to acquire by way of purchase of, or merger or amalgamation with, any one or more electricity distribution businesses;

(b) in any financial year, enter into one or more transactions which individually or in the aggregate result in the disposition, lease or sale of any part of the business of the Corporation or a Subsidiary outside of the Ordinary Course of Business;

(c) entering into any partnership, joint venture or other business venture that would involve the expenditure or investments of funds by the Corporation or any Subsidiary outside of the Ordinary Course of Business or that would change the status of the Corporation or any subsidiary for taxation purposes, under the Electricity Act or the *Income Tax Act* (Canada), *Corporations Tax Act* (Ontario) or other Applicable Law;

(d) any change in the nature of the business of the Corporation or any Subsidiary, that would involve directly or indirectly any business activity that is not specifically authorized by the OEB Act or other Applicable Law;

(e) the borrowing of funds outside of the Ordinary Course of Business;

(f) any one or more expenditures by the Corporation or the Subsidiary outside of the Ordinary Course of Business exceeding the amount of $500,000.00 in aggregate in any financial year of the Corporation or applicable Subsidiary;

(g) any sale, transfer or other disposition by the Corporation of any of the shares of any Subsidiary, other than for the purposes of an internal reorganization of the Corporation or Subsidiary in which the proportionate interests of the Shareholders are maintained;

(h) make, amend or repeal any by-law of the Corporation or any Subsidiary;

(i) changing or removing any restriction on the business of the Corporation or any Subsidiary;

(j) creating new classes of shares of the Corporation or any Subsidiary other than for the purposes of an internal reorganization of the Corporation or Subsidiary in which the proportionate interests of the Shareholders are maintained, or in any other manner to amend the Articles to reduce the number of directors;

(k) the institution of proceedings for any winding up, arrangement or dissolution of the Corporation or any Subsidiary;

(l) an application to continue the Corporation or any Subsidiary as a corporation under the laws of another jurisdiction;

(m) issue, or enter into any agreement to issue, any shares of any class, or any securities convertible into any shares of any class of the Corporation or any Subsidiary, including in connection with any transaction pursuant to subsections 5.1(a) and 5.1(c), other than for the purposes of an internal reorganization of the Corporation or Subsidiary in which the proportionate interests of the Shareholders are maintained;

(n) redeem or purchase any outstanding Shares of the Corporation or any Subsidiary;

(o) any change in the Dividend Policy of the Corporation approved by the Shareholders pursuant to Section 5.2(c) of this Agreement; and

(p) any sale, transfer or other disposition by the Corporation of any of the shares of any Subsidiary, other than for the purposes of an internal reorganization of the Corporation in which the proportionate interests of the Shareholders are maintained.

**5.2 Business Plan and Dividend Policy.**

(a) Within 90 days from the date of this Agreement, the Shareholders shall use their in best good faith efforts to have approved the business plan for the Corporation (the "**Business Plan**") which is a one year business plan and includes capitalization and financing policies for the Corporation.

(b) The Corporation shall, in each financial year, present an updated business plan for the Corporation, approved by the Board, to the Shareholders for informational purposes.

(c) As at the date of this Agreement, the Shareholders have approved a policy (a copy of which is attached as Schedule B to this Agreement) (the "**Dividend Policy**") concerning the declaration and payment of dividends by the Corporation on its issued and outstanding Shares from time to time.

## ARTICLE 6
## RESTRICTIONS ON SHARE TRANSFERS

**6.1** **Standstill Period - Restricted Sales of Shares.** No Shareholder may sell all or any portion of its Shares without the prior written consent of all of the other Shareholders during the Standstill Period. After the Standstill Period has expired, a Shareholder may only sell, transfer, assign or otherwise dispose of the whole or any part of its Shares in accordance with this Agreement.

**6.2** **Agreement Binding on Transferees.** No Shares of the Corporation or any Subsidiary shall be effectively issued, sold, assigned, transferred, disposed of, or conveyed by a Shareholder to any Person except in accordance with this Agreement and until the proposed transferee or purchaser executes and delivers to the Parties hereto an agreement to the same effect as this Agreement and any further agreement with respect to the Corporation or Subsidiary to which the Shareholders are then, or are then required to be, a party. Upon the proposed transferee or purchaser so doing, such agreements shall enure to the benefit of and be binding upon all of the Parties to them as if all had executed and delivered the same agreements at the same time.

**6.3** **Permitted Transferees.**

(a) Subject to the restrictions on transfer or sale in Section 10.5 hereof, a Shareholder may, without the consent of the other Shareholders, transfer any or all of the Shares owned by it to any Person (hereinafter in this Section 6.3 referred to as a "**Permitted Transferee**") provided that the Permitted Transferee is wholly-owned by such Shareholder or, if such Shareholder is a corporation, the Permitted Transferee is wholly-owned by the Controlling Shareholder of such Shareholder and provided that prior to any such transfer:

(i) the Permitted Transferee shall undertake in writing, by signing a counterpart of this Agreement, to be bound by the terms and conditions of this Agreement; and

(ii) the Controlling Shareholder of such Permitted Transferee represents, warrants, and undertakes in writing that it shall wholly own such Permitted Transferee for as long as such Permitted Transferee holds Shares of the Corporation.

(b) In the event that the transferee of the Shares ceases to be a Permitted Transferee for the purposes of this Section 6.3 then the Shares shall be promptly transferred back to the Shareholder.

## ARTICLE 7
## RIGHT OF FIRST REFUSAL

**7.1** **First Right of Refusal.**

(a) Any Shareholder (hereinafter in this Article 7 referred to as the "**Selling Shareholder**") who desires to transfer or sell all or any portion of its Shares (hereinafter in this Article 7 referred to as the "**Offered Shares**") after the Standstill Period other than to a Permitted Transferee, shall give notice of such proposed sale (hereinafter in this Article 7 referred to as the "**Sale Notice**") to the Corporation and to the other Shareholders and shall set out in the Sale Notice the terms upon which and the price at which it desires to sell the Offered Shares (such price being hereinafter in this Article 7 referred to as the "**Purchase Price**"). A Shareholder selling Shares under this Section 7.1 must sell all, and not less than all, of its Offered Shares, unless the other Shareholders otherwise agree.

(b) Upon the Notice being given, the other Shareholders (hereinafter in this Article 7 referred to as the "**Remaining Shareholders**") shall have the right to purchase all, but not less than all, of the Offered Shares for the Purchase Price on a Pro Rata basis.

**7.2** **Exercise of Right of First Refusal.** The Remaining Shareholders shall have the option, exercisable by giving written notice of the exercise of such option (hereinafter in this Article 7 referred to as the "**Purchase Notice**") to the Selling Shareholder and the Corporation within thirty (30) days (hereinafter in this Article 7 referred to as the "**Right of First Refusal Period**") subsequent to the date of deemed receipt, pursuant to Section 12.1 hereof, by the Remaining Shareholders of the Sale Notice, to purchase all but not less than all of the Offered Shares, on a Pro Rata basis, determined on the basis of the ratio of the number of Shares owned by each Remaining Shareholder to the number of Shares owned by all Remaining Shareholders at the Purchase Price and the terms set forth in the Sale Notice. If all the Offered Shares have not been purchased by the Remaining Shareholders then the remaining Offered Shares shall be offered to those Remaining Shareholders which have purchased Offered Shares on a Pro Rata basis until all of the Offered Shares have been purchased. The closing of the sale of the Offered Shares shall occur on the first Business Day following the expiry of the sixty (60) day period following the date of deemed receipt, pursuant to Section 12.1 hereof, by the Remaining Shareholders and the Corporation of the Purchase Notice or, if the completion of such sale requires the prior approval of or notice to a third Person or Governmental Authority under Applicable Law or any instrument or agreement, within thirty (30) days after receipt of such approval or required period of notice or on such later date as may be agreed by the Parties.

**7.3** **Sale of Shares.** In the event that the Remaining Shareholders do not exercise their right of first refusal pursuant to Section 7.2, the rights of the Remaining Shareholders, subject as hereinafter provided, to purchase the Offered Shares shall forthwith terminate and the Selling Shareholder, subject to the restrictions on transfer or sale specified in Section 10.5 hereof, may sell the Offered Shares to any Person (the "**Prospective Purchaser**") within ninety (90) days after the termination of the Right of First Refusal Period, for a price not less than the Purchase Price and on other terms no more favourable to the Prospective Purchaser than those set forth in the Sale Notice, provided that the Prospective Purchaser agrees prior to such transaction to be bound by this Agreement and to become a party hereto in place of the Selling Shareholder with respect to the Offered

Shares. If the Offered Shares are not sold within such ninety (90) day period, or, if the completion of such sale requires the prior approval of or notice to a third Person or Governmental Authority under Applicable Law or any instrument or agreement, within thirty (30) days after receipt of such approval or any required period of notice, on such terms, the rights of the Remaining Shareholders pursuant to Sections 7.1 and 7.2 shall again take effect and so on from time to time.

7.4 **Moratorium on Sales While Purchase Offer Outstanding.** Once a Shareholder gives a Sale Notice pursuant to Section 7.1 hereof, no other Shareholder shall be entitled to give a Sale Notice with respect to Shares until such time as the Offered Shares are either sold to the Remaining Shareholders, or a Prospective Purchaser, as the case may be, in accordance with the terms of this Article 7 or the sale of such Shares to the Prospective Purchaser does not occur within the time limits prescribed in Section 7.3. No Shareholder may proceed with any sale of any of the Shares owned by it without complying with the relevant provisions of this Agreement.

## ARTICLE 8
## PURCHASE OF SHARES ON DEEMED WITHDRAWAL

8.1 **Deemed Withdrawal from the Corporation.**

(a) Subject to Section 8.1(b), for the purposes of this Article 8, a Shareholder shall be deemed to withdraw from the Corporation on that date when such Shareholder,

(i) or its Controlling Shareholder: (i) files a petition or otherwise commences, authorizes or acquiesces in the commencement of a proceeding or cause of action under any bankruptcy or similar Applicable Law for the protection of creditors, including, the *Bankruptcy and Insolvency Act* (Canada) and the *Companies Creditors Arrangement Act* (Canada), the *Municipal Affairs Act* (Ontario) or other statute applicable to insolvent municipalities or has such petition filed against it and such petition is not withdrawn or dismissed for sixty (60) days after such filing; (ii) otherwise becomes bankrupt or insolvent (however evidenced); or (iii) is unable to pay its debts as they fall due;

(ii) fails, refuses or neglects to conform to any of the material terms and conditions of this Agreement, and fails to remedy any such material default within thirty (30) days of the deemed receipt, pursuant to Section 12.1 hereof, of a written notice from any other Shareholder giving details of such material default; or

(iii) has all or any portion of its Shares of the Corporation realized upon by an encumbrancer.

(b) The Shareholders may unanimously agree to waive the provisions of this Article 8 with respect to any Shareholder that would otherwise have been deemed to withdraw from the Corporation pursuant to Section 8.1(a).

8.2 **Purchase of Shares on a Shareholder's Withdrawal from the Corporation.** In the event that a Shareholder is deemed to have withdrawn from the Corporation pursuant to the provisions of Section 8.1(a) hereof and the Shareholders have not agreed to waive the application of this Article 8 in accordance with Section 8.1(b), the Corporation irrevocably agrees to purchase, on the expiry of the one hundred and fifty (150) day period following the occurrence of such event, all and not less than all of the Shares of the Shareholder which is deemed to have withdrawn from the Corporation (hereinafter in this Section 8.2 referred to as the "**Withdrawing Shareholder**") at the Share Purchase Price. The closing of the sale of the Shares of the Withdrawing Shareholder to the Corporation shall take place at the offices of the Corporation at the address designated in Section 12.1 hereof at 10:00 in the morning (Toronto time) on the first Business Day following the expiry of the aforesaid one hundred and fifty (150) day period. The Share Purchase Price, determined pursuant to Section 8.4 hereof, shall be paid at such closing in Canadian dollars. In the event that the Corporation is not, at the time of such purchase of Shares, capable of fulfilling its obligations to pay for such Shares, either because it cannot do so in compliance with the OBCA, or other Applicable Law to the same effect, the sale of such Shares to the Corporation shall be completed with the balance of the Share Purchase Price for such Shares to be paid by the Corporation as soon as it is lawfully able to do so.

8.3 **Sale of Shares on Deemed Withdrawal from the Corporation.**

(a) Upon a Shareholder being deemed to have withdrawn from the Corporation pursuant to the provisions of Section 8.1(a) hereof, such Shareholder hereby irrevocably offers to sell all of its Shares to the Corporation at a price per Share (hereinafter in this Article 8 the "**Share Purchase Price**") determined in the manner provided in Section 8.4 hereof and Schedule A hereto.

(b) In all of the circumstances provided in Section 8.1(a), the remaining Shareholders shall have the right to require that the Corporation assign to them the right or obligation of the Corporation to purchase any or all of the Shares of a Shareholder deemed to have withdrawn from the Corporation as aforesaid and, pursuant to such assignment, the remaining Shareholders shall have the right to purchase such Shares, provided that in the opinion of tax counsel to the Corporation, the Withdrawing Shareholder will suffer no significant prejudice from an income tax perspective as a result of such Shares being purchased by the remaining Shareholders rather than by the Corporation.

(c) In the event that the remaining Shareholders purchase such Shares, they shall be entitled to purchase them on a Pro Rata basis in proportion to their respective holdings of Shares or in any other proportion as they may choose, and the provisions of Section 8.2 of this Agreement shall apply *mutatis mutandis* provided however, that no Shareholder shall be obliged to purchase any such Shares.

8.4 **Share Purchase Price Determination.** The Share Purchase Price for the purposes of this Article 8 shall mean the fair market value (the "**Fair Market Value**") of each Share as at the financial year end of the Corporation immediately preceding the date (hereinafter in this Article 8 (the "**Withdrawal Date**") on which a Shareholder is deemed to withdraw from the Corporation as provided in Section 8.1(a). Such Share Purchase Price shall be determined in the manner provided in Schedule A hereto within the one hundred and twenty (120) days immediately following the Withdrawal Date. Fair Market Value per share shall be calculated on a pro-rata basis using "en bloc" Fair Market Value, without any premium or discount.

**8.5** **Cancellation of Shares.** Upon the acquisition of any Shares by the Corporation pursuant to this Article 8 of this Agreement, such Shares shall be cancelled and shall not be reissued.

## ARTICLE 9
## BUY-SELL PROVISIONS

**9.1** **Buy/Sell Notice.**

(a) Subject to paragraph (b), either of the Shareholders (the "**Offeror**") shall be entitled to give notice (the "**Buy/Sell Notice**") to the other Shareholder (the "**Offeree**"), which Buy/Sell Notice shall be signed by the Offeror and shall contain the following:

(i) the price at which the Offeror will purchase or sell each Share;

(ii) an unconditional offer, irrevocable without the written consent of the Offeree, to purchase all of common shares beneficially owned by the Offeree at the said prices and upon and subject to the terms set forth in the Buy/Sell Notice; and

(iii) an unconditional offer, irrevocable without the written consent of the Offeree, to sell all of the Shares beneficially owned by the Offeror at the said prices and upon and subject to the terms set forth in the Buy/Sell Notice.

(b) No Shareholder is entitled to exercise the rights provided for in paragraph (a) until the expiry of the Standstill Period.

**9.2** **Acceptance.** The Offeree shall be entitled to accept either of the offers contained in the Buy/Sell Notice by notice in writing delivered to the Offeror within 20 days of receipt by the Offeree of the Buy/Sell Notice.

**9.3** **Purchase and Sale.** If the Offeree accepts the offer referred to in Subsection 9.1(a)(ii), the Offeree shall sell to the Offeror and the Offeror shall purchase from the Offeree all of the Shares beneficially owned by the Offeror (the "**Offered Shares**") at the prices and, subject to the provisions of this Agreement, upon the terms set forth in the Buy/Sell Notice. If the Offeree accepts the offer referred to in Subsection 9.1(a)(iii), the Offeree shall purchase from the Offeror and the Offeror shall sell to the Offeree all of the shares of the Corporation beneficially owned by the Offeror at the prices and, subject to the provisions of this agreement, upon the terms set forth in the Buy/Sell Notice. If the

Offeree does not accept either of the said offers within the said 20 day period, the Offeree shall be deemed to have accepted the offer referred to in Subsection 9.1(a)(ii), on the last day of the said 20 day period and the Offeree shall sell to the Offeror and the Offeror shall purchase from the Offeree all of the Offered Shares beneficially owned by the Offeree at the prices set forth in the Buy/Sell Notice. Notwithstanding anything in the Buy/Sell Notice to the contrary, the aggregate purchase price for the Offered Shares shall be paid in full at the Time of Closing. The closing of a transaction of purchase and sale contemplated in this Article shall take place at the on the date (the "**Date of Closing**") which is 15 days following the acceptance by the Offeree of one of the offers contained in the Buy/Sell Notice. If, at the Time of Closing, a Shareholder (the "**Refusing Shareholder**") neglects or refuses to complete the transaction of purchase and sale herein contemplated, the other Shareholder (the "**Enforcing Shareholder**") shall have the right, without prejudice to any other rights which the Enforcing Shareholder may have, to give to the Refusing Shareholder, within five days of the Date of Closing, a notice that the Enforcing Shareholder intends to purchase from the Refusing Shareholder all of the Shares beneficially owned by the Refusing Shareholder at a purchase price for each share equal to 90% of the price for shares set forth in the Buy/Sell Notice (the "**New Purchase Price**"). The resulting transaction of purchase and sale shall take place on the date (the "**New Date of Closing**") which is 15 days following the receipt or deemed receipt of the aforesaid notice. On the New Date of Closing, the Refusing Shareholder shall sell all of the Shares beneficially owned by it to the Enforcing Shareholder who shall purchase the same for the New Purchase Price, which shall be payable in accordance with the terms contained in this Article for the payment of the purchase price of the Offered Shares.

## ARTICLE 10
## PROVISIONS APPLICABLE TO SALES OF SHARES

**10.1** **Application to All Sales.** Except as, or in addition to what, may otherwise be provided in this Agreement, this Article 10 shall apply to any sale of Shares effected pursuant to the provisions of this Agreement.

**10.2** **Closing.** The closing of all sales of Shares effected pursuant to this Agreement shall take place at the offices of the Corporation at the address designated in Section 12.1 hereof, at the Time of Closing on the date stipulated, either pursuant to the provisions hereof or pursuant to any agreement executed in connection with any such sale, as the date on which such closing is to occur.

**10.3** **Cancellation of Share Certificates.** The President of the Corporation, or such other officer as may be designated by resolution of the directors of the Corporation shall attend all closings of any such sale of Shares and shall deliver to the Corporation for cancellation share certificates evidencing Shares which are to be sold and shall take custody of new share certificates, if any, issued in replacement of such cancelled share certificates so that at all times the Corporation shall have custody of share certificates representing all of the Shares.

**10.4** **Resignation of Seller's Nominees.** At the closing of any sale of Shares, the Shareholder selling its Shares shall cause to be delivered to the Corporation signed resignations of its nominees as directors of the Corporation and any Subsidiary, and shall assign and transfer to the purchaser of such Shares, all of its right, title and interest in such Shares.

**10.5 Transfer Taxes and Other Tax Impacts of a Proposed Sale.**

(a) A Shareholder selling Shares to any Person agrees that, if permitted by the Electricity Act and any other Applicable Law to claim any credit against transfer tax payable by it pursuant to Subsection 94(1) of the Electricity Act, such Shareholder will claim only such proportion of the credits available in respect of any taxation year of the Corporation pursuant to Subsection 94(4) that is pro rata to: (i) the number of Shares it holds at such time in the Corporation to all outstanding Shares of the Corporation; and (ii) the number of days in such taxation year in which it holds such Shares.

(b) In the event that any proposed sale or transfer of Shares would result or results in tax or an amount in respect of payments in lieu of tax being exigible from the Corporation or any Shareholder other than the Shareholder selling its Shares (the "**Non-Selling Shareholder(s)**"), whether transfer tax, income tax, capital tax or other tax (and including any taxes or related expenses resulting from the Corporation no longer being tax exempt pursuant to Section 149(1)(d.6) of the *Income Tax Act* (Canada)), all such tax and expenses shall be an expense to the selling Shareholder which shall indemnify the Corporation with respect thereto, and notwithstanding any other provision of this Agreement to the contrary, the proposed sale or transfer shall not be completed unless all such tax and expenses of the Corporation or any Non-Selling Shareholder are first paid in full by the Shareholder which wishes to sell its Shares.

(c) A Shareholder selling Shares to any Person shall, as required by the Electricity Act or any other Applicable Law, pay all transfer taxes payable under the Electricity Act in respect of such sale such that the sale shall not be void.

**10.6 Additional Provisions: Loans, Guarantees.** In conjunction with any sale of all Shares:

(a) if the Shareholder selling all of its Shares is indebted to the Corporation, the Corporation may, at its option, require such Shareholder to repay in full all indebtedness which it owes to the Corporation on or before the closing of such sale of Shares;

(b) if the Corporation is indebted to the Shareholder selling all of its Shares, the Shareholder selling Shares may, at its option, require the Corporation to repay in full all indebtedness which it owes to such Shareholder on or before the closing of such sale of Shares; and

(c) if the Shareholder selling all of its Shares has provided a guarantee, letter of credit, security or other financial assistance to the Corporation, the Corporation shall use its commercially reasonable efforts to replace or release such guarantee, letter of credit, security or other financial assistance within ninety (90) days after the closing of such sale of Shares.

**10.7** **<u>Priority of Liquidity Provisions</u>.** In the event that any initiating notice has been delivered by any Party pursuant to Article 7, Article 8 or Article 9 of this Agreement, then no additional notice may be given by a Party under any such other Articles of this Agreement until such time as the process and procedures commenced by the first initiating notice have been completed in accordance with this Agreement.

## ARTICLE 11
## CONFIDENTIALITY

**11.1** **<u>Confidential Information</u>.** The Shareholders hereby acknowledge that they have had and will have access to confidential information and trade secrets concerning the business of the Corporation and the Corporation's Affiliates, if any, and their customers and suppliers (hereinafter in this Article 11 referred to as the "**Information**") and they each undertake and agree that they shall not, and their Controlling Shareholder shall not, directly or indirectly, use, disclose or divulge to any Person or other entity any of the Information otherwise than in the ordinary course of business of the Corporation, and its Affiliates and as may be required by Applicable Law or order of any Governmental Authority.

**11.2** **<u>Survival of Obligations</u>.** The obligations and covenants in this Article 11 shall survive the termination of this Agreement.

## ARTICLE 12
## NOTICES

**12.1** **<u>Notices</u>.** Any notice or other communication required or permitted to be given under this Agreement shall be in writing and shall be given by facsimile or other means of electronic communication or by hand-delivery as provided below. Any such notice or other communication, if sent by facsimile or other means of electronic communication, shall be deemed to have been received on the Business Day following the sending, or if delivered by hand, shall be deemed to have been received at the time it is delivered to the applicable address noted below either to the individual designated below or to an individual at such address having apparent authority to accept deliveries on behalf of the addressee. Notice of change of address shall also be governed by this Section 12.1. Notices and other communications shall be addressed as follows:

(a) in the case of Collingwood:

P.O. Box 189
43 Stewart Road
Collingwood, ON L9Y 3Z5

Attention: Clerk
Fax No.: (705) 445-2448

(b) in the case of PowerStream:

161 Cityview Boulevard

Vaughan, ON L4H 0A9

Attention: Dennis Nolan, Executive Vice-President, Corporate Services and Secretary
Fax No.: (905) 532-4616

(c) in the case of Corporation and the Subsidiaries:

c/o the Corporation
P.O. Box 189
43 Stewart Road
Collingwood, ON L9Y 3Z5

Attention: Ed Houghton
Fax No.: (705) 445-2549

With a copy to:

PowerStream
161 City View Boulevard
Vaughan, ON L4H 0A9

Attention: Dennis Nolan, Executive Vice-President, Corporate Services and Secretary
Fax No.: (905) 532-4616

Notwithstanding the foregoing, any notice or other communication required or permitted to be given by any party pursuant to or in connection with any arbitration procedures contained in this Agreement or in any Schedule to this Agreement may only be delivered by hand.

## ARTICLE 13
## DISPUTE RESOLUTION

13.1 **Disputes.** Each Shareholder shall appoint one or more representatives who shall be responsible for administering this Agreement on its behalf and for representing its respective interests in disputes relating to this Agreement. Any dispute between Shareholders relating to this Agreement that is not resolved between such representatives within ten (10) Business Days of a date that a Party notifies the other Party of such dispute shall be referred by the Parties' representatives in writing to the senior management of each Shareholder for resolution. Such senior management shall use good faith efforts to resolve the dispute for a period of up to ten (10) Business Days.

13.2 **Arbitration.** If agreed to by all parties to a dispute that is not resolved by the procedure set forth in Section 13.1 above, such dispute may be referred to and resolved by arbitration by a single arbitrator in accordance with the provisions of the *Arbitration Act, 1991* (Ontario), subject to the following modifications and additions:

(a) The arbitration shall take place in the Province of Ontario, and shall be conducted in English;

(b) The arbitration shall be conducted by a single arbitrator having no financial, business or personal interest in the outcome of the arbitration. The arbitrator shall be appointed jointly by agreement of the parties to such dispute. In the event the parties to such dispute are unable to agree on the appointment of the arbitrator within ten (10) days after notice of a demand for arbitration is given by a party and agreed to by the other parties to such dispute, then the arbitrator shall be selected pursuant to the provisions of the *Arbitration Act, 1991* (Ontario).

(c) The arbitrator shall have the authority to award any remedy or relief that a court could order or grant in accordance with this Agreement including, without limitation, specific performance of any obligation, the issuance of an interim, interlocutory or permanent injunction, or the imposition of sanctions for abuse or frustration of the arbitration process.

(d) The arbitral award shall be in writing, stating the reasons for the award and be final and binding on the parties to such dispute with no rights of appeal.

## ARTICLE 14
## MISCELLANEOUS

**14.1** **Termination.** This Agreement shall terminate upon (a) the written agreement of all the Parties hereto to this effect, (b) the bankruptcy, receivership, or dissolution of the Corporation, or (c) the ownership of all the Shares of the Corporation, excluding any Subsidiary, by one Shareholder.

**14.2** **Successors and Assigns.** This Agreement shall be binding upon, and enure to the benefit of, the Parties hereto and their respective successors and permitted assigns.

**14.3** **Assignment.** Except as specifically provided in this Agreement, none of the Parties hereto may assign its rights or obligations under this Agreement without the prior written consent of all of the other Parties hereto.

**14.4** **Time is of the Essence.** Time shall be the essence of this Agreement in all respects.

**14.5** **Further Assurances.** Each Party hereto shall promptly do, execute, deliver or cause to be done, executed and delivered all further acts, documents and matters in connection with this Agreement that the other Parties may reasonably require, for the purposes of giving effect to this Agreement.

**14.6** **Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same instrument. Counterparts may be executed either in original or telecopied form and the Parties shall accept any signatures received by a receiving telecopy machine as original signatures of the Parties; provided, however, that any Party providing its signature in such manner shall promptly forward to the other Parties an original of the signed copy of this Agreement which was so telecopied.

**14.7** **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable herein.

**14.8** **Amendments and Waivers.**

(a) No amendment to this Agreement shall be valid or binding unless set forth in writing and duly executed by all of the Parties hereto.

(b) No waiver of any breach of any provision of this Agreement shall be effective or binding unless made in writing and signed by the Party purporting to give the same and, unless otherwise provided in the written waiver, shall be limited to the specific breach waived.

**14.9** **Severability.** If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision or part thereof and the remaining part of such provision and all other provisions hereof shall continue in full force and effect.

**14.10** **Collingwood HoldCo.** Notwithstanding any other provision of this Agreement, Collingwood shall have the right in its sole and absolute discretion without the consent of PowerStream, following written notice to PowerStream:

(a) to assign this Agreement and all benefits and obligations hereunder to its wholly-owned subsidiary (the "**HoldCo**"), which shall assume the obligations and liabilities of Collingwood under this Agreement and be novated into this Agreement in the place and stead of Collingwood (except as expressly provided in this Section 14.10), and this Agreement shall thereafter apply to HoldCo *mutatis mutandis*; and

(b) to transfer to HoldCo all of its shares in the capital of the Corporation;

provided that:

(c) the assignment described in (a) above may not take place unless and until the transfer described in (b) above; and

(d) HoldCo agrees in writing with Collingwood and PowerStream to assume and be bound by the terms and conditions of this Agreement.

The transfer described in (b) above shall be deemed not to be a transfer of or sale of Shares pursuant to Article 6 or Article 7 of this Agreement nor shall it give rise to any rights of PowerStream thereunder of consent, first refusal or otherwise. Notwithstanding the foregoing, Collingwood shall remain liable to PowerStream for any obligations and liabilities of HoldCo under this Agreement.

**14.11** **<u>Certain Transactions</u>.** PowerStream shall be entitled to merge with, become affiliated with, acquire any equity in, enter into any outsourcing, consulting, service or management agreement or other business arrangements with, directly or indirectly, any Distributor (as defined in the *Electricity Act, 1988* (Ontario), except for the restrictions on such business arrangements as have been mutually agreed upon in writing by the Parties.

**[NEXT PAGE IS THE EXECUTION PAGE]**

**IN WITNESS WHEREOF** the Parties hereto have executed this Agreement as of the day first above written.

**THE CORPORATION OF THE TOWN OF COLLINGWOOD**

By: ______________________________
Name: Sandra Cooper
Title: Mayor

By: ______________________________
Name: Sara Almas
Title: Clerk

**POWERSTREAM INC.**

By: ______________________________
Name:
Title:

By: ______________________________
Name:
Title:

**COLLINGWOOD UTILITY SERVICES CORP.**

By: ______________________________
Name:
Title:

By: ______________________________
Name:
Title:

# SCHEDULE A
# VALUATION METHOD

In this Schedule, the vendor and the purchaser of the Shares being sold pursuant to Article 8 of this Agreement are called the "**Vendor**" and the "**Purchaser**", respectively.

**Negotiation.** If the value of the Shares must be established pursuant to any provision of this Agreement, then the Vendor and the Purchaser shall negotiate honestly and in good faith to agree upon the fair market value of the Shares.

**Failure to Agree.** If the Vendor and the Purchaser do not agree upon the fair market value of the Shares on or before the 20th Business Day after the date on which the obligation to sell or purchase Shares arises under this Agreement, then the fair market value of the Shares shall be determined in accordance with the following provisions:

(a) the Purchaser shall by notice to the Vendor nominate three independent business valuators each of whom deals at Arm's Length with the Purchaser and has experience in valuing businesses similar to the business carried on by the Corporation; the notice must be accompanied by a *curriculum vitae* of each business valuator containing the following information concerning the nominee's:

   (i) educational background and professional qualifications;

   (ii) prior business valuation experience, including details of the nature of the business valued and the methodology used; and

   (iii) the business valuation principles that the valuator proposes to use to determine the fair value of the Shares.

(b) The Vendor shall select one of the three business valuators nominated by the Purchaser by notice to be given to the Purchaser within two Business Days after the day on which the Vendor receives the nomination notice, failing which, the Purchaser may select one of the business valuators. The business valuator so selected shall be the "**Valuator**" for the purposes of this Agreement and shall proceed to determine the fair market value of all of the Shares being sold in accordance with the provisions of this Schedule A and Article 8.

**Valuation by Valuator.** The Valuator agreed upon or selected in accordance with this Schedule A to determine the fair market value of the Shares being sold shall act as a business valuator and not as an arbitrator or umpire. The Valuator shall apply such business valuation principles as the Valuator deems appropriate. The Vendor and the Purchaser shall provide guidance to the Valuator in respect of the valuation methodologies and approaches to be used, which would include a discounted cash flow approach. Subject to this guidance, the Valuator may consult such other expert valuators as it considers advisable. The fair market value of the Shares shall be determined without regard for any restrictions applying to the transfer of Shares. The fees and disbursements of the Valuator shall be borne equally by the Vendor and the Purchaser.

**Valuation Conclusive.** The determination of the fair market value of the Shares being sold pursuant to this Agreement in accordance with this Schedule A, whether based upon the agreement of the Vendor and the Purchaser or the determination by the Valuator, shall be conclusive and binding upon the Vendor and the Purchaser, and there shall be no appeal from the determination.

**SCHEDULE B**
**CORPORATION AND SUBSIDIARIES DIVIDEND POLICY**

The Dividend Policy for the Corporation and its Subsidiaries is based on the philosophy that the purpose of the dividend policy is to provide the Shareholders with a steady income stream from dividends while providing Collus with an appropriate capital structure and working capital level in order to operate as a viable business. The Dividend Policy philosophy would be consistent with the objectives and guiding principles of Collus.

Dividend amounts will be determined as follows:

Each entity shall normally pay a minimum of 50% of annual net income, as dividends, with consideration given to the following:

(a) cash position at the beginning of the year;

(b) working capital requirements for the current year;

(c) net capital expenditures required for the current year; and

(d) other cash requirements of the Corporation and the Subsidiaries, as applicable.

**SCHEDULE C**
**CHARTER DOCUMENTS OF CORPORATION AND EACH SUBSIDIARY**

11368862.16

Financial statements of

# PowerStream Inc.

December 31, 2009

# PowerStream Inc.
December 31, 2009

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Deloitte.

Deloitte & Touche LLP
5140 Yonge Street
Suite 1700
Toronto ON M2N 6L7
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

## Auditors' Report

To the Shareholders of
PowerStream Inc.

We have audited the balance sheet of PowerStream Inc. as at December 31, 2009 and the statements of earnings and comprehensive income and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 31, 2010

# PowerStream Inc.
## Balance sheet
## as at December 31, 2009
(in thousands of dollars)

| | $ |
|---|---|
| **Assets** | |
| Current | |
| Cash | **42,612** |
| Accounts receivable, net of allowance (Note 21(b)(i)) | **73,633** |
| Unbilled revenue | **88,160** |
| Income taxes recoverable | **1,525** |
| Inventories | **3,869** |
| Prepaids and other | **2,581** |
| | **212,380** |
| Property, plant and equipment (Note 6) | **601,764** |
| Regulatory assets (Note 8(a)) | **26,433** |
| Deferred charges, net of amortization of $31 | **644** |
| Intangibles (Note 7) | **3,614** |
| Future income tax assets (Note 8(b)(ii) and 23(b)) | **61,665** |
| Goodwill | **42,543** |
| | **949,043** |
| **Liabilities** | |
| Current | |
| Accounts payable and accrued liabilities (Note 10) | **111,405** |
| Income taxes payable | **5,034** |
| Due to related parties (Note 11) | **12,049** |
| Short-term debt (Note 13) | **40,000** |
| Liability for subdivision development | **3,375** |
| | **171,863** |
| Long-term liabilities | |
| Bank term loan (Note 12(a)) | **50,000** |
| Debentures payable (Note 12(b)) | **123,091** |
| Notes payable (Note 12(c)) | **182,430** |
| Regulatory liabilities (Note 8(b)) | **91,140** |
| Customers' deposits (Note 14) | **16,726** |
| Employee future benefits (Note 15) | **12,036** |
| Liability for subdivision development | **4,917** |
| Construction deposits | **23,172** |
| Other liabilities | **5,421** |
| | **508,933** |
| **Shareholders' equity** | |
| Share capital (Note 17) | **247,183** |
| Retained earnings | **21,064** |
| | **268,247** |
| | **949,043** |

Approved on behalf of the Board

_______________ Director

_______________ Director

# PowerStream Inc.

Statement of earnings and comprehensive income and retained earnings
year ended December 31, 2009
(in thousands of dollars)

| | $ |
|---|---|
| **Revenue** | |
| Sale of energy | **621,719** |
| Distribution revenue | **146,076** |
| Other revenue | **9,889** |
| Total revenue | **777,684** |
| Cost of power purchased | **621,719** |
| | **155,965** |
| Operating expenses | **62,601** |
| Earnings before amortization, interest and income taxes | **93,364** |
| Amortization of property,plant and equipment and intangibles (net of $2,582 charged to other accounts) | **42,125** |
| Net interest expense (Note 26) | **21,614** |
| Income before income taxes | **29,625** |
| Income tax expense (Note 23(a)) | **8,561** |
| **Net earnings and comprehensive income for the year** | **21,064** |

# PowerStream Inc.

Statement of cash flows
year ended December 31, 2009
(in thousands of dollars)

| | $ |
|---|---|
| **Operating activities** | |
| Net earnings for the year | **21,064** |
| Adjustments to determine cash provided by operating activities | |
| Amortization of property, plant and equipment | **42,006** |
| Accretion of debentures payable | **629** |
| Amortization of intangibles | **2,701** |
| Amortization of deferred charges | **31** |
| Employee future benefits | **923** |
| Future income taxes | **6,759** |
| Decrease in regulatory assets/liabilities | **(23,280)** |
| Gain on disposal of property, plant and equipment | **(218)** |
| Net change in non-cash operating working capital (Note 24) | **(25,478)** |
| | **25,137** |
| **Financing activities** | |
| Decrease in liability for subdivisions development | **(3,164)** |
| Increase in due to related parties | **2,150** |
| Increase in long-term customers' deposits | **1,223** |
| Decrease in other liabilities | **(47)** |
| Obligations to predecessor shareholders (Note 18) | **(31,082)** |
| Increase in short-term debt | **15,000** |
| Construction deposits | **23,172** |
| | **7,252** |
| **Investing activities** | |
| Proceeds on disposal of property, plant and equipment | **248** |
| Purchase of intangibles | **(6,314)** |
| Expenditure on property, plant and equipment, net of contribution of capital construction | **(67,419)** |
| | **(73,485)** |
| Net decrease in cash during the year | **(41,096)** |
| Cash, beginning of year | **83,708** |
| **Cash, end of year** | **42,612** |

Supplementary cash flow information (Note 25)

(in thousands of dollars)

## 1. Amalgamation

The City of Vaughan through its wholly owned subsidiary Vaughan Holdings Inc.; the Town of Markham through its wholly owned subsidiary, Markham Enterprises Corporation; and the City of Barrie, through its wholly owned subsidiary Barrie Hydro Holdings Inc; agreed to amalgamate PowerStream Inc. and Barrie Hydro Distribution Inc. on January 1, 2009 and continue as a corporation amalgamated under the laws of Ontario.

The amalgamated corporation retained the PowerStream Inc. corporate name.

Upon the amalgamation, shares of PowerStream Inc. held by Vaughan Holdings Inc. and Markham Enterprises Corporation, and shares of Barrie Hydro Distribution Inc. held by Barrie Hydro Holdings Inc. were exchanged for shares of the newly amalgamated Corporation, PowerStream Inc., as follows:

(a) the common shares of PowerStream Inc. held by Vaughan Holdings Inc. were converted into 45,315 issued and fully-paid common shares of the amalgamated corporation;

(b) the common shares of PowerStream Inc. held by Markham Enterprises Corporation were converted into 34,185 issued and fully-paid common shares of the amalgamated corporation; and

(c) the common shares of Barrie Hydro Distribution Inc. held by Barrie Hydro Holdings Inc. were converted into 20,500 issued and fully-paid common shares of the amalgamated corporation.

The ultimate shareholders of the amalgamated PowerStream Inc., being the Corporation of the City of Vaughan, the Corporation of the Town of Markham, and the Corporation of the City of Barrie entered into a shareholders' agreement effective January 1, 2009.

The contribution of the net assets of the amalgamated corporation has been recorded at the carrying value of the predecessor Corporations as at January 1, 2009 in the balance sheet as follows:

| | $ |
|---|---|
| Net assets contributed | |
| Current assets (including cash $ 83,708) | **234,816** |
| Current liabilities | **(155,350)** |
| | **79,466** |
| Property, plant and equipment | **566,180** |
| Goodwill | **42,543** |
| Other assets | **26,171** |
| Long-term liabilities | **(436,095)** |
| Obligations to predecessor shareholders | **(31,082)** |
| | **247,183** |
| Consideration | |
| Shareholders' contributions | **247,183** |
| | **247,183** |

## 2. Description of the business

In these financial statements, PowerStream Inc. (the "Corporation") refers to both the newly amalgamated entity PowerStream Inc. and the predecessor corporation. The Corporation is owned by the Corporation of the City of Vaughan, through its wholly owned subsidiary, Vaughan Holdings Inc.; the Corporation of the Town of Markham, through its wholly owned subsidiary, Markham Enterprises Corporation; and City of Barrie, through its wholly owned subsidiary, Barrie Hydro Holdings Inc.

The principal activity of the Corporation is to distribute electricity in the service area of Alliston, Aurora, Barrie, Beeton, Bradford West Gwillimbury, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham and Vaughan in the Province of Ontario, under licenses issued by the Ontario Energy Board ("OEB"). The Corporation is regulated under the OEB and adjustments to the distribution rates require OEB approval.

## 3. Electricity industry regulation

The Ontario Energy Board Act, 1998 gave the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may prescribe license requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, and filing process requirements for rate-setting purposes.

The Corporation is required to charge its customers for the following amounts (all of which, other than the distribution rate, essentially represent a pass through of amounts payable to third parties):

(i) Electricity Price and Related Rebates: The electricity price and related rebates represent a pass through of the commodity cost of electricity.

(ii) Distribution Rate: The distribution rate is designed to recover the costs incurred by the Corporation in delivering electricity to customers, as well as earn the OEB allowed rate of return. Distribution charges are regulated by the OEB and typically comprise a fixed charge and a usage-based (consumption) charge.

The volume of electricity consumed by the Corporation's customers during any period is governed by events largely outside 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).

(iii) Retail Transmission Rate: The retail transmission rate represents a pass through of costs charged to the Corporation for the transmission of electricity from generating stations to the Corporation's service area. Retail transmission rates are regulated by the OEB.

(iv) Wholesale Market Service Charge: The wholesale market service charge represents a pass through of various wholesale market support costs charged by the Independent Electricity System Operator (IESO).

Any differences between the actual cost of electricity, transmission and wholesale market services and the amounts charged to customers are recorded in retail settlement variance accounts ("RSVA amounts"). These RSVA amounts are reviewed by the OEB and periodically rate adjustments are requested and approved by the OEB to "true up" the amounts charged to customers for these services.

Electricity distribution rates as described above are approved by the OEB and allow the Corporation to recover its reasonable costs and the OEB allowed market based rate of return.

**3. Electricity industry regulation (continued)**

In its 2009 rate application, the Corporation received approval to repay the net regulatory liabilities accrued from January 1, 2005 to December 31, 2007 plus interest thereon to April 30, 2009 over the period September 1, 2009 to April 30, 2011, for the former PowerStream Inc. rate zone. In its 2010 rate application, for the former Barrie Hydro Distribution Inc. rate zone, the Corporation has applied to refund the net regulatory liabilities accrued from January 1, 2005 to December 31, 2008 plus interest thereon to April 30, 2010 over the period May 1, 2010 to April 30, 2011.

In 2008, the OEB approved distribution rates for the former Barrie Hydro Distribution Inc. rate zone for the period May 1, 2008 to April 30, 2009 based on updated values for assets and costs, a deemed debt equity ratio of 60:40 and an allowed return on deemed equity of 8.57%. In 2009, the OEB approved distribution rates for the former PowerStream Inc. rate zone effective for the period May 1, 2009 to April 30, 2010 based on updated values for assets and costs, a deemed debt equity ratio of 60:40 and an allowed return on deemed equity of 8.01%.

The OEB has established a multi-year electricity distribution rate-setting plan for distributors to streamline the process for approving distribution rates and charges. The OEB issued guidelines along with an Incentive Regulation Models ("IRM") to be used to calculate annual rate adjustments. The guidelines effectively adjusted Base Distribution Rates for inflation less a productivity factor. Following the rebasing, both rate zones are on the 3rd Generation IRM method for setting rates for 2010.

The Corporation has filed 3rd Generation IRM rate filings for its 2010 distribution rates for both rate zones. New rates are expected to be approved effective May 1, 2010.

Under the Green Energy and Green Economy Act, 2009, the Corporation and other Ontario electricity distributors have new responsibilities for enabling renewable generation, including investing in a smart grid, to accommodate any changes this may have on the local distribution of electricity. The OEB has approved several new deferral accounts to capture incremental costs related to these new initiatives for recovery in future periods.

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders may affect the distribution rates and other permitted recoveries.

**4. Significant accounting policies**

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

The financial statements reflect the following significant accounting policies:

*(a) Rate setting*

The Corporation is regulated by the OEB under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB also has the authority to provide rate protection for certain electricity customers.

**4. Significant accounting policies (continued)**

*(a) Rate setting (continued)*

As the Corporation is regulated by the OEB, the timing of accounting recognition and measurement of assets and liabilities arising from rate regulation may differ from that otherwise expected under Canadian generally accepted accounting principles for non-rate regulated enterprises. The Corporation has determined that its assets and liabilities arising from rate-regulated activities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Statement of Financial Accounting Standards No. 71 – "Accounting for the Effects of Certain Types of Regulation".

*(b) Revenue recognition*

(i) Electricity distribution and sale

Revenue from the sale and distribution of electricity is recorded on the basis of cyclical billings based on electricity usage and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed.

(ii) Other revenue

Other revenue related to sales of other services is recognized as services are rendered. Contract revenue is accounted for using the percentage of completion method, whereby revenue is recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident.

*(c) Financial instruments*

The Corporation has made the following balance sheet classifications in connection with its financial assets and financial liabilities:

- Cash is classified as financial assets "Held-for-Trading" and is measured at fair value.
- Accounts receivable are classified as "Loans and Receivables" and are measured at amortized cost using the effective interest method.
- Other non-current assets are classified as "Held-to-Maturity Investments" and are measured at amortized cost, which, after initial recognition, is considered equivalent to fair value.
- Accounts payable, accrued liabilities, amounts due to related parties, short-term debt, bank term loan, debentures payable and notes payable are classified as "Other Financial Liabilities" and are measured at amortized cost using the effective interest method.

Financial assets and liabilities are initially recorded at fair value. The fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Subsequent measurement depends on how each financial instrument is classified on the balance sheet.

**4. Significant accounting policies (continued)**

*(c) Financial instruments (continued)*

In accordance with the amendments to CICA Handbook Section 3862, the Corporation has classified fair value measurements using a fair value hierarchy that reflects the three levels of the inputs used in making the fair value measurements. The fair value hierarchy has the following levels:

(i) Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

(ii) 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; and

(iii) Level 3: Unobservable inputs for the assets or liabilities that are not based on observable market data.

*(d) Inventories*

Inventories, which consists of parts and supplies acquired for internal construction or consumption, is stated at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis. Any impairment losses taken on inventories are reversed if and when net realizable value subsequently recovers. Major spare parts and standby equipment are recorded as part of property, plant and equipment and amortized once they are put into use.

*(e) Property, plant and equipment and amortization*

Property, plant and equipment are recorded at cost and includes contracted services, materials, labour, engineering costs, interest and overheads. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers and in some instances a portion may be refunded by the Corporation based on economic evaluation (discounted cash flow), in accordance with the OEB Distribution System Code. Such contributions, whether in cash or in-kind, are offset against the related 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 property, plant and equipment is provided for on the straight-line basis over the estimated service life of the assets. Amortization of contributions from developers or customers is amortized at the rates corresponding with the useful lives of the related property, plant and equipment. The estimated service lives of the various assets used in calculating amortization are summarized below:

| | |
|---|---|
| Buildings | 10 to 60 years |
| Transformer stations | 40 years |
| Transformers and meters | 25 to 40 years |
| Plant and equipment | 10 to 30 years |
| Other | 3 to 8 years |

**4. Significant accounting policies (continued)**

*(e) Property, plant and equipment and amortization (continued)*

Construction in progress comprises property, plant and equipment under construction; property, plant and equipment not yet placed into service; and pre-construction activities related to specific projects expected to be constructed. An allowance for the outlay of funds employed during the construction period has been applied to the related property, plant and equipment as allowed by the OEB.

*(f) Impairment of long-lived assets*

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

*(g) Intangibles*

Intangibles includes computer software and land rights. Computer software is stated at cost and amortized on a straight-line basis over three years while land rights are stated at cost, are not amortized and have an estimated indefinite useful life.

*(h) Regulatory assets and liabilities*

Regulatory assets/liabilities represent costs/revenue that have been deferred and that are expected to be disposed of through future rates. Retail Settlement Variances (RSVA) amounts 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.

As at December 31, 2009, regulatory assets and liabilities are comprised principally of deferred Smart Meter costs and retail settlement variances.

As at December 31, 2009, management has provided a provision against certain regulatory assets and liabilities. Management continues to assess the likelihood of recovery of its regulatory assets and believes that it is probable that its regulatory assets, net of the valuation allowance, and liability balances will be factored into the setting of future rates.

*(i) Goodwill*

Goodwill represents the excess of the purchase price over the fair value assigned to the Corporation's interest of the net identifiable assets acquired on the acquisition, by predecessor corporations of the former Richmond Hill Hydro Inc., Penetanguishene Hydro, Essa Hydro, New Techusmestch Hydro and Bradford Hydro. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. 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.

## 4. Significant accounting policies (continued)

*(j) Pension and other post-employment benefits*

The Corporation accounts for its participation in the Ontario Municipal Employees Retirement Fund ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan.

The Corporation actuarially determines the cost of other employment and post-employment benefits offered to employees using the projected benefit method prorated on service and based on management's best estimate assumptions. Under this method, the projected post-retirement benefit is deemed to be earned on a pro-rata basis over the years of service in the attribution period commencing at the date of hire, and ended at the earliest age the employee could retire and qualify for benefits. Compensated absences and termination benefits that do not vest or accumulate are recognized as an expense when the event occurs. This accounting policy for future employee benefits was applied on the prospective basis. The transitional obligation resulting from this treatment is being amortized over the average remaining service period of employees.

*(k) Customers' deposits*

Customer's deposits are cash 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 customers' deposits.

*(l) Payment in lieu of corporate income taxes*

Effective January 1, 2009, the Corporation adopted amendments to the Canadian Institute of Chartered Accountants (CICA) Handbook section 3465, Income Taxes and CICA Handbook Section 1100, Generally Accepted Accounting Principles. These amendments established new standards for the recognition, measurement, presentation and disclosure of future income tax assets and liabilities.

The requirement for rate-regulated enterprises to recognize future income taxes, as well as a separate asset or liability for the future revenue or reduction in future revenue expected as a result of regulator's action in respect of future income taxes, applies for fiscal years beginning on or after January 1, 2009.

*(m) Measurement uncertainty*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, as well as the disclosure of contingent assets and liabilities at the financial statement date. Accounts receivable, unbilled revenue, inventories, regulatory assets and liabilities, goodwill, employee future benefits and income taxes payable are reported based on amounts expected to be recovered/refunded and an appropriate allowance has been provided based on managements' best estimate of unrecoverable amounts. Due to the inherent uncertainty involved in making such estimates, actual results could differ from amounts recorded in these financial statements, including changes as a result of future decisions made by the OEB, the Minister of Energy and Infrastructure and the Minister of Finance.

## 5. Changes in accounting policies

*Current changes*

(a) Rate-regulated operations

Effective January 1, 2009, the temporary exemption from CICA Handbook Section 1100, "Generally Accepted Accounting Principles", which permits the recognition and measurement of assets and liabilities arising from rate regulation, was withdrawn.

The Corporation has determined that its assets and liabilities arising from rate-regulated activities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Statement of Financial Accounting Standards No. 71 – "Accounting for the Effects of Certain Types of Regulation".

As a result, the removal of the temporary exemption has no effect on the Corporation's results of operation as of December 31, 2009. The financial impact of the rate regulation continues to be disclosed in accordance with Accounting Guideline 19 – "Disclosures by Entities Subject to Rate Regulation".

In addition, CICA Handbook Section 3465, Income Taxes was amended to require the recognition of future income tax liabilities and assets. On January 1, 2009, the Corporation began to account for the differences between its financial statement carrying value and tax basis of assets and liabilities in accordance with CICA Handbook Section 3465, Income Taxes. As at January 1, 2009, the Corporation has recognized a future income tax asset of $68,424 and a corresponding regulatory liability of $68,424.

(b) Goodwill and intangible assets

Effective January 1, 2009, the Corporation adopted CICA Handbook Section 3064, Goodwill and Intangible Assets. This standard augments existing Handbook Section 3061, Property, Plant and Equipment and replaces Section 3062 Goodwill and Other Intangible Assets.

As accounting for Goodwill under CICA Handbook Section 3064 remains unchanged from CICA 3062, there was no effect on the Goodwill calculations.

As a result of adopting this new accounting standard, the Corporation reclassified computer application software and land rights at its net book value from property, plant and equipment to intangible assets (Note 7).

(c) Financial Instruments recognition, measurement and disclosure

In July 2009, the CICA amended Handbook Section 3855 on financial instruments recognition and measurement to incorporate certain changes to Canadian GAAP in order to reduce differences with International Financial Reporting Standards (IFRSs) and to ease the requirements regarding impairment of certain investment in debt instruments. The application of these amendments did not have any impact on the Corporation's financial statements since there are no investments in debt instruments for reclassification nor impairment losses to report on other than the allowance for doubtful accounts.

(i) Credit risk and fair value of financial assets and financial liabilities

In January 2009, the CICA issued an Emerging Issues Committee Abstract (EIC) 173 on credit risk and fair value of financial assets and financial liabilities which is applicable to all entities that have adopted Section 3855 on financial instruments recognition and measurement. It reached a consensus that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities including derivative instruments.

(in thousands of dollars)

## 5. Changes in accounting policies (continued)

*Current changes (continued)*

(c) Financial Instruments recognition, measurement and disclosure (continued)

(ii) Financial Instrument Disclosures

CICA Handbook Section 3862 on Financial Instrument Disclosures was amended and effective from fiscal years ending after September 30, 2009. These amendments include additional disclosure requirements in respect of fair valuation measurement and liquidity risk management disclosures. The amendments require an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The adoption of CICA Handbook Sections 3855, 3862 and EIC 173 resulted in additional disclosures of the fair market value of Financial Instruments as described in Note 21(b).

*Future accounting changes*

(d) International Financial Reporting Standards ("IFRSs")

The Corporation is required to prepare their financial statements effective January 1, 2011 in accordance with IFRSs requirements.

The Corporation has an internal initiative to govern the conversion process to IFRSs and is currently in the process of evaluating the potential impact of IFRSs on its consolidated financial statements. The Corporation will continue to monitor the progress made by the International Accounting Standards Board (IASB) on the rate-regulated activities standard in consultation with other LDCs and its professional advisers.

## 6. Property, plant and equipment

| | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| | $ | $ | $ |
| Land | 8,923 | - | 8,923 |
| Buildings | 71,183 | 16,051 | 55,132 |
| Transformer stations | 107,429 | 33,742 | 73,687 |
| Transformers and meters | 310,368 | 153,188 | 157,180 |
| Plant and equipment | 843,257 | 405,670 | 437,587 |
| Other | 39,188 | 26,481 | 12,707 |
| Construction in progress | 59,227 | - | 59,227 |
| | 1,439,575 | 635,132 | 804,443 |
| Capital contributions | 253,973 | 51,294 | 202,679 |
| | 1,185,602 | 583,838 | 601,764 |

Included in property, plant and equipment costs is an amount of $5,683 related to an "allowance for the outlay of funds" employed during the construction period as allowed by the OEB. In the absence of rate regulation, interest expense in the current year would have been higher by $1,433. Further, transformers and meters amounting to $1,061 were considered to be impaired and an impairment loss was recorded.

(in thousands of dollars)

## 7. Intangibles

The Corporation reclassified land rights and computer software from property, plant and equipment to Intangibles in accordance with CICA Handbook Section 3064, Goodwill and Intangible Assets.

| | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| | **$** | **$** | **$** |
| Land rights | **729** | **-** | **729** |
| Computer software | **15,580** | **(12,695)** | **2,885** |
| | **16,309** | **(12,695)** | **3,614** |

## 8. Regulatory assets and liabilities

Regulatory assets and liabilities arise as a result of the rate-making process and consist of the following:

| | |
|---|---|
| | **$** |
| **Regulatory assets** | |
| Deferred smart meter costs | **25,713** |
| Other regulatory assets | **720** |
| **Regulatory assets** | **26,433** |
| **Regulatory liabilities** | |
| Retail settlement variance accounts | **(1,010)** |
| Future income taxes | **(61,665)** |
| Regulatory assets recovery account | **(22,915)** |
| PILs variance | **(4,008)** |
| **Regulatory liabilities** | **(89,598)** |
| Provision for regulatory assets and liabilities | **(1,542)** |
| **Regulatory liabilities, net** | **(91,140)** |

*(a) Regulatory assets*

(i) Deferred smart meter costs

As part of the Ontario Government's initiative, the Corporation had installed 225,000 smart meters as at December 31, 2009 (2008 - 135,000). The Corporation has recorded the capital spending and incremental expenses incurred in connection with smart meters along with related funding collected from customer in the deferral accounts established by the OEB.

The Corporation applied and received approval for recovery of smart meter costs up to December 31, 2007 in its 2009 Cost of Service rate application. The approved amount of $8,863 which has been reallocated consists of $8,909 of property, plant and equipment, $2,002 of revenue and $1,956 of operating expense.

In the absence of this regulatory treatment, property, plant and equipment would be increased by $19,883 with related amortization expense of $878. Operating expenses would be increased by $814. Other revenue would be increased by $4,093 and interest revenue would be lower by $164.

**8. Regulatory assets and liabilities (continued)**

*(a) Regulatory assets (continued)*

(i) Deferred smart meter costs (continued)

This regulatory asset balance also includes the net book value less proceeds of stranded mechanical meters, which have been replaced by smart meters, in the amount of $10,184. In the absence of this regulatory treatment, current year replaced meters with a net book value of $3,747 would have been recorded as a loss on disposal of property, plant and equipment.

(ii) Other regulatory assets

This consists mainly of the costs related to the transition to IFRSs less the related amounts included in rates. It also includes costs related to the Green Energy and Green Economy Act, 2009 initiatives that are allowed to be deferred.

Under OEB regulations, these expenses are allowed to be deferred, which under Canadian GAAP would be recorded as expense for an unregulated business. Under non regulated reporting, expenses would have been $661 higher in 2009 and interest income would have been lower in 2009 by $36.

*(b) Regulatory liabilities*

(i) Retail settlement variance accounts

Retail settlement variances are variances that have occurred since May 1, 2002 when the competitive electricity market was declared open, to December 31, 2009, and have accumulated pursuant to direction from the OEB. Current balances represent variances from January 1, 2005 to December 31, 2009; balances up to December 31, 2004 were approved for settlement with customers in 2006 rates. Specifically, these amounts include:

(a) Variances between the amount charged by the Independent Electricity System Operator ("IESO") for the operation of the markets and grid, the purchase of imported power by the IESO to augment Ontario's power supply and charged by the IESO as an uplift charge that is part of the wholesale market service charges, as well as various wholesale market settlement charges and transmission charges, as compared to the amount billed to consumers based on the OEB-approved wholesale market service rate and transmission rates; and

(b) Differences between the amounts charged by the IESO and billed to consumers for energy costs. Energy charges by the IESO consist of the hourly price of electricity, global adjustment charges related to the Ontario Power Authority's long term contracted supply of electricity including renewables, and adjustments for electricity billed to customers at regulated price plan rates.

Under OEB regulations, the retail settlement variances are allowed to be deferred which under Canadian GAAP would be recorded as costs for an unregulated business. Under non regulated reporting, cost of power would have been $4,484 higher in 2009 and interest expense would have been lower in 2009 by $360.

**8. Regulatory assets and liabilities (continued)**

*(b) Regulatory liabilities (continued)*

(ii) Future income taxes

Effective January 1, 2009, the Corporation adopted CICA handbook Section 3465, Income Taxes and accounted for future income taxes by taking into account the differences between the tax basis of assets and liabilities and their financial statement carrying value. The OEB allows the Corporation to recover amounts in rates for payments in lieu of corporate income taxes ("PILs") using the taxes payable method. No allowance is made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. This regulatory liability account is related to the expected future distribution rate reduction for customers arising from the recognition of future income tax assets. Accordingly, a regulatory liability has been recorded to offset the future income tax asset.

(iii) Regulatory assets recovery account

The regulatory asset recovery account is comprised of the final balances of regulatory assets and regulatory liabilities approved for disposition by the OEB.

As at December 31, 2009, the balances include the following:

(a) Former Barrie Hydro Distribution Inc. rate zone

On May 1, 2008, the Corporation began recovery of regulatory asset balances in the amount of $910 over a period of 36 months through rate riders. These recoveries are based on final balances approved by the OEB reflecting costs to December 31, 2006 and carrying interest accrued to April 30, 2008. In 2008 the approved amounts were netted with the recoveries account in accordance with OEB direction.

(b) Former PowerStream Inc. rate zone

On September 1, 2009, the Corporation began refunding net regulatory liabilities in the amount of $28,089 over a period of twenty months through rate riders. These recoveries are based on final balances approved by the OEB reflecting costs to December 31, 2007 and carrying interest accrued to April 30, 2009. In 2009 the approved amounts were netted with the recoveries account in accordance with OEB direction.

The billed amounts are recorded in the regulatory assets recovery account and interest is applied at the OEB prescribed interest rate for carrying charges. Under non regulated reporting, revenues would be decreased by $5,036 and interest expense in 2009 would have been $573 lower.

(iv) Payments in lieu of corporate income taxes ("PILs") variance

PILs are recorded based on the OEB PILs methodology of PILs billed amount versus PILs proxy amount variance and an annual Spreadsheet Implementation Model for PILs ("SIMPILs") filing with specified true-ups. Under non regulated reporting, revenues would have been $241 higher and interest expense would have been $51 lower.

## 8. Regulatory assets and liabilities (continued)

*(b) Regulatory liabilities (continued)*

(iv) Payments in lieu of corporate income taxes ("PILs") variance (continued)

The OEB has undertaken a combined proceeding (EB-2008-0381) to review the balances set up in this account, for a group of utilities (the former Barrie Hydro Distribution Inc., ENWIN Utilities Ltd. and Halton Hills Hydro Inc.) and determine the amounts to be recovered from or repaid to customers.

The Corporation has used the SIMPIL model and followed instructions provided by the OEB in setting up the balances in this account for the period October 2001 to April 30, 2006 and a revised model as directed by the OEB thereafter.

As an outcome of this proceeding, the OEB will provide clarification of the existing rules and interpretations as to how these rules should have been applied. It is the OEB's stated intention that these clarifications and interpretations will be used as a reference in determining the amounts for disposition by other utilities.

This proceeding is in the early stages and the outcome is indeterminable at this time. Any adjustments will be recorded when known.

(v) Provision for regulatory assets and liabilities

Management has determined that there is uncertainty concerning the future recovery of certain regulatory assets and liabilities. Based on this uncertainty, a provision in the amount of $1,542 has been recorded.

Under the OEB's new guidelines for disposition of variance and deferral accounts, the Corporation has applied for disposal of most regulatory asset and liability balances as at December 31, 2008 in its 2010 incentive rate mechanism service rate application for the former Barrie Hydro Distribution Inc. rate zone. Under the same guidelines, former PowerStream Inc. rate zone did not meet the threshold and did not apply for disposition of variance and deferral accounts.

Management will continue to assess the likelihood of recovery of the regulatory assets and liabilities amount recorded. In the event that Management determines the recovery for these amounts is no longer probable, these amounts will be expensed in the period for which the determination is made.

## 9. Credit facilities

The Corporation executed an unsecured credit facility with a Canadian chartered bank on December 17, 2008 which is renewable annually. This credit facility agreement provides an extendible 364-day committed revolving credit facility of $75,000, an uncommitted demand facility of $25,000 for a specific purpose, an uncommitted Letter of Guarantee facility of $15,000 and a committed term facility of $50,000.

As at December 31, 2009, the Corporation had utilized $12,000 of the Letter of Guarantee facility to provide the IESO with a letter of credit for prudential support. With the opening of Ontario's electricity market to wholesale and retail competition on May 1, 2002 ("Open Access"), the IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the letter of credit if the Corporation defaults on its payment.

(in thousands of dollars)

## 9. Credit facilities (continued)

The 364-day committed revolving credit facility can be drawn upon by direct advances, bearing interest at prime plus 0.25% or Bankers' Acceptances of a stamping fee plus 137 basis points (1.37%) per annum. The uncommitted demand facility bears an interest rate of prime plus 0.00%, or Bankers' Acceptance of a stamping fee plus 100 basis points (1.00%) per annum. The Letter of Guarantee facility bears a charge of 50 basis points (0.50%) per annum.

The committed term facility was fully drawn by the Corporation in February 2008 (Note 12(a)). The $25,000 uncommitted demand facility was drawn by the Corporation in December 2008 and remains outstanding as at December 31, 2009. As of December 2009, the Corporation has utilized $15,000 of the committed revolving credit facility (Note 13).

## 10. Accounts payable and accrued liabilities

| | $ |
|---|---|
| Accounts payable - energy purchases | **57,581** |
| Current portion of customers' deposits | **1,000** |
| Other accounts payable and accrued liabilities (including construction deposits of $129 to be refunded in a year) | **52,824** |
| | **111,405** |

## 11. Related party balances and transactions

The amount due to the Corporation of the City of Vaughan ("Vaughan"), the Corporation of the City of Barrie ("Barrie") and the Corporation of the Town of Markham ("Markham") is comprised of amounts payable to Vaughan, Markham and Barrie and their wholly-owned subsidiaries.

Components of the amounts due to related parties are as follows:

| | $ |
|---|---|
| The Corporation of the City of Vaughan | |
| Net balance payable of inter entity transactions, without interest | **5,523** |
| The Corporation of the Town of Markham | |
| Net balance payable of inter entity transactions, without interest | **4,951** |
| The Corporation of the City of Barrie | |
| Net balance payable of inter entity transactions, without interest | **1,575** |
| | **12,049** |

(in thousands of dollars)

## 11. Related party balances and transactions (continued)

Other significant related party transactions not otherwise disclosed separately in the financial statements, are summarized below:

| | City of Vaughan | Town of Markham | City of Barrie |
|---|---|---|---|
| | $ | $ | $ |
| Revenue | | | |
| Energy and distribution | **4,094** | **3,903** | **3,726** |
| Shared services | **1,916** | **1,401** | **1,620** |
| Expenses | | | |
| Facilities rental | **732** | **120** | **-** |
| Realty taxes | **530** | **158** | **303** |
| Operations | **482** | **95** | **-** |

## 12. Long-term debt

(a) *Bank term loan*

The bank term loan is a 5 year fixed rate term loan with a Canadian Chartered Bank which bears interest at an annual rate of 5.08%. It is a non-amortizing loan with repayment at the end of the contracted term, February 26, 2013. The financial covenants require a Total Debt to Capitalization Ratio of no greater than 0.60:1, and to maintain an Interest Coverage Ratio of no less than 1.25:1.

Interest expense relating to the bank term loan for the year ended December 31, 2009 was $2,540.

(b) *Debentures payable*

| | |
|---|---|
| | $ |
| 6.45% unsecured debentures due August 15, 2012, interest payable in arrears semi-annually on August 15 and February 15 | **123,091** |

In August 2002, the four predecessor corporations (Hydro Vaughan Distribution Inc., Markham Hydro Distribution Inc., Richmond Hill Hydro Inc. and Barrie Hydro Distribution Inc.) raised gross proceeds of $125,000 through a private placement offering. These predecessor corporations were four of five local distribution companies ("LDC") that participated in the Electricity Distributors Finance Corporation ("EDFIN") 10 Year Debentures Issued (Series 2002-1) that was offered on a private placement. EDFIN is a specific purpose corporation managed by MEARIE Management Inc., for the purpose of providing the LDCs with efficient access to the debt capital markets. Each LDC has executed a debenture which is a direct and unsecured obligation of the LDC. The LDC's obligations are several and not joint, and each LDC is liable for its own obligation and not that of any other LDC.

(in thousands of dollars)

## 12. Long-term debt (continued)

*(b) Debentures payable (continued)*

The debentures are recorded at amortized cost, using the effective interest method. Interest expense relating to debentures payable was $8,691 which included $629 of accretion.

The debentures are subject to the financial covenant that the consolidated funded obligation does not exceed 75% of the total consolidated capitalization of the Corporation.

*(c) Notes payable*

| | $ |
|---|---|
| Promissory note issued to the City of Vaughan | **78,236** |
| Deferred interest on promissory note issued to the City of Vaughan | **8,743** |
| Promissory note issued to the Town of Markham | **67,866** |
| Deferred interest on promissory note issued to the Town of Markham | **7,585** |
| Promissory note issued to the City of Barrie | **20,000** |
| | **182,430** |

On June 1, 2004, an unsecured 20 year term promissory note was issued to the Corporation of the City of Vaughan ("Vaughan") in the amount of $78,236. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On June 1, 2004, an unsecured 20 year term promissory note was issued to the Corporation of the Town of Markham ("Markham") in the amount of $67,866. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On December 31, 2008, an unsecured 16 year term promissory note was issued to the Corporation of the City of Barrie ("Barrie") in the sum of $20,000. Interest for 2009 is at an annual rate of 6.50%, and will change to 5.58% in 2010 and after.

The three promissory notes are repayable 90 days following demand by Vaughan, Markham and Barrie, with subordination and conditions. These notes have been classified as long-term as it is not the intent of Vaughan, Markham or Barrie to demand repayment within the next year.

At the request of the City of Vaughan and the Town of Markham, eight quarters of interest have been deferred commencing October 1, 2006. This deferred interest will be repayable in full on October 31, 2013 and is subject to the same interest rate and conditions as the original note.

Interest of $4,853 on the note payable to the City of Vaughan, $4,210 on the note payable to the Town of Markham and interest of $1,300 to the City of Barrie was charged to interest expense during the year. This includes interest on the related deferred interest balance for the City of Vaughan and the Town of Markham.

(in thousands of dollars)

## 13. Short-term debt

| | $ |
|---|---|
| Short-term demand facility with a Canadian Bank with an interest rate at prime rate or Banker's Acceptance plus 100 basis points per annum, whichever is lower. The terms of this facility are renewable annually. | **25,000** |
| Drawn down on the Corporation's $75,000 364-day committed revolving credit facility with a Canadian Bank. The interest rate for this facility is at prime rate plus 0.25% per annum, or Banker's Acceptance plus 137 basis points per annum, whichever is lower. The terms of this facility are renewable annually. | **15,000** |
| | **40,000** |

## 14. Customers' deposits

| | $ |
|---|---|
| Service deposits | **17,726** |
| Less amounts expected to be refunded within one year, included in accounts payable and accrued liabilities (Note 10) | **1,000** |
| Non-current portion of customers' deposits | **16,726** |

## 15. Employee future benefits

The Corporation pays certain health, dental and life insurance benefits under unfunded benefit plans on behalf of its retired employees.

The Corporation measures its accrued benefit obligation for accounting purposes every three years. The latest actuarial valuation was performed as at December 31, 2009.

A reconciliation of the Corporation's accrued benefit obligation to the amounts recorded in the financial statements is as follows:

| | $ |
|---|---|
| Accrued benefit obligation | **16,490** |
| Unamortized transitional obligation | **(482)** |
| Unamortized net actuarial losses | **(3,972)** |
| Accrued benefit liability | **12,036** |

(in thousands of dollars)

## 15. Employee future benefits (continued)

Details of the accrued benefit obligation are as follows:

| | $ |
|---|---|
| Accrued benefit obligation, beginning of the year | 13,441 |
| Current service cost | 260 |
| Interest cost on obligation | 878 |
| Benefit payments | (393) |
| Actuarial losses | 2,304 |
| Accrued benefit obligation, end of the year | 16,490 |

The plan expense for the year is determined as follows:

| | $ |
|---|---|
| Current service cost | 260 |
| Interest cost on obligation | 878 |
| Amortization of transitional obligation | 70 |
| Amortization of net actuarial losses | 108 |
| Plan expense | 1,316 |

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation are as follows:

| | % |
|---|---|
| Discount rate | 5.50-6.50 |
| Rate of compensation increase | 3.50 |
| Medical benefits costs escalation - hospitalization | 5.00-9.00 |
| Medical benefits costs escalation - extended health care | 5.00-9.00 |
| Dental benefits costs escalation | 5.00 |

*Sensitivity analysis*

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2009:

| | Increase | Decrease |
|---|---|---|
| | $ | $ |
| Total service and interest cost | 152 | (130) |
| Accrued benefit obligation | 2,229 | (1,802) |

(in thousands of dollars)

## 16. Pension

The Corporation participates in the Ontario Municipal Employees Retirement System ("OMERS") for its full time employees, as a *'Defined Contribution Plan'*. OMERS is a multi-employer defined benefit pension plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The fund is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund. The Corporation incurred $2,536 of contribution expense during the year ended December 31, 2009.

## 17. Share capital

The Corporation's authorized share capital is made up of an unlimited number of common shares. The issued share capital is as follows:

| | $ |
|---|---|
| 100,000 common shares | **247,183** |

Of the total 100,000 common shares issued 45,315 common shares are registered under Vaughan Holdings Inc. (wholly owned by The Corporation of the City of Vaughan), 34,185 common shares are registered under Markham Enterprises Corporation (wholly owned by The Corporation of the Town of Markham) and 20,500 common shares are registered under Barrie Hydro Holdings Inc. (wholly owned by The Corporation of the City of Barrie).

## 18. Dividends

During 2009, the Corporation established a dividend policy to distribute a minimum dividend of 50% of net income with consideration given to the:

(a) Cash position at the beginning of the year;

(b) Working capital requirements for the current year; and

(c) Net capital expenditures required for the current year.

During 2009, the Corporation paid $11,274 to the shareholders based on the combined net income of the predecessor corporations. In addition, the Corporation made a special payment of $19,808 to the shareholders as the final closing adjustment for the amalgamation of PowerStream Inc. and Barrie Hydro Distribution Inc..

## 19. Commitments

*(a) Town of Markham*

The Corporation retained cashiering services from the Town of Markham to facilitate customers paying electricity bills. The total commitment for these services is $84 for the year 2010.

*(b) City of Vaughan*

The Corporation rents certain outdoor and indoor facilities from the City of Vaughan. The total commitment for these services to 2012 is $529.

(in thousands of dollars)

## 19. Commitments (continued)

*(c) Leases for the operation centres*

(i) Cochrane Operation Centre

In November 2007, the Corporation entered into a lease agreement with a third party for an operations centre and warehouse. The lease term is from December 1, 2007 to March 31, 2010. The agreement also provided the Corporation with the ability to exercise two 3-month extension terms and accordingly the final terminating date of the agreement is September 30, 2010. The extension terms were not exercised and accordingly the lease contract ended on March 31, 2010. The total commitment for this lease from January 1, 2010 to March 31, 2010 is $134.

(ii) Operation Centre

On October 9, 2008, the Corporation entered into a 25 year lease agreement relating to a new operation centre. The lease term commenced January 1, 2010 and occupancy occurred in March 2010. Therefore, the leased building asset valued at $18,280 and the corresponding liability will be recorded at commencement of the lease. Upon entering into this lease arrangement, the Corporation evaluated whether substantially all of the benefits and risks of ownership related to this operation centre have been transferred to the Corporation (the lessee) in order to determine if the lease is classified and recorded as capital or operating. The component of the annual basic rent related to the land is classified and recorded as an operating lease and the component related to the building is classified as a capital lease.

The annual basic rent as per the lease agreement is as follows:

| Fiscal year | Annual basic rent |
|---|---|
| | $ |
| 2010-2019 | 2,286 |
| 2020-2029 | 2,457 |
| 2030-2034 | 2,621 |

*(d) Contractual commitments*

Markham TS#4

In 2007, the Corporation engaged third parties to construct a new 230KV to 28KV Transformer Station in the Markham area - Markham TS#4 to serve the north side of Hwy 407 west of Warden. The transformer station is expected to be energized by April 28, 2010 and the commitment from January 1, 2010 to April 28, 2010 is approximately $3,000.

## 20. Contingencies

*(a) Legal claims*

The Corporation has been named as a defendant in several actions. No provision has been recorded in the financial statements for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

*(b) Other claims - Late Payment Charges Class Action*

This action has been brought under the Class Proceedings Act, 1992. The plaintiff class seeks $500 million in restitution for amounts paid to Toronto Hydro and to other Ontario municipal electric utilities ("LDCs") who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to section 347 of the Criminal Code. Pleadings have closed in this action. The action has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceeding brought against Enbridge Gas Distribution Inc. (formerly Consumers Gas).

On April 22, 2004, the Supreme Court of Canada released a decision in the Consumers Gas case rejecting all of the defenses which had been raised by Enbridge, although the Court did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by Enbridge and that settlement was approved by the Ontario Superior Court.

In 2007, Enbridge filed an application to the OEB to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008, the OEB approved recovery of the said amounts from ratepayers over a five year period.

After the release by the Supreme Court of Canada of its 2004 decision in the Consumers Gas case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs. The parties are in settlement discussions but no settlement has been reached. At this time, it is not possible to quantify the effect, if any, on the financial statements.

## 20. Contingencies (continued)

(c) *Ministry of Finance Tax audits*

The Ministry of Finance (the "Ministry") conducted PILs audits in 2008 on the three predecessor utilities, namely Richmond Hill Hydro Inc., Markham Hydro Distribution Inc. and Hydro Vaughan Distribution Inc. for the period January 1, 2004 through to May 31, 2004 and for PowerStream Inc. in 2009 for the periods June 1, 2004 through to December 31, 2004 and January 1, 2005 through to October 31, 2005. There is still an outstanding matter regarding the treatment of the retail settlement variance accounts (RSVA) for tax purposes.

There has been inconsistent practice of tax treatment of certain regulatory asset/liability accounts among LDCs across Ontario.

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 financial statements. Similar treatment has been followed for tax purposes. The Ministry is questioning this treatment of the RSVA for tax purposes and is suggesting that RSVA liabilities may be considered income for tax purposes.

The Ministry is currently reviewing the treatment of RSVA for tax purposes on a province wide basis. The impact of a tax ruling may result in a reassessment of taxes payable which could have an impact on results, financial position and cash flows in the future. The outcome of the Ministry's review is not determinable and as such, no provision has been made in the financial statements.

(in thousands of dollars)

## 21. Financial instruments and risk management

*(a) Recognition and measurement*

CICA Handbook Section 3855 established the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The Corporation's accounting policies relating to the recognition and measurement of financial instruments are disclosed in Note 4(c).

*(b) Risk management*

The Corporation's carrying value and fair value of financial instruments are as follows:

| Description | Carrying value | Fair value |
|---|---|---|
| | $ | $ |
| Assets | | |
| Cash | 42,612 | 42,612 |
| Accounts receivable (net of allowance for doubtful accounts) | 73,633 | 73,633 |
| | 116,245 | 116,245 |
| Liabilities | | |
| Accounts payable and accrued liabilities | 111,405 | 111,405 |
| Due to related parties | 12,049 | 12,049 |
| Short-term debt | 40,000 | 40,000 |
| Bank term loan | 50,000 | 53,686 |
| Debentures payable | 123,091 | 135,391 |
| Notes payable | 182,430 | 198,901 |
| | 518,975 | 551,432 |

(in thousands of dollars)

## 21. Financial instruments and risk management (continued)

*(b) Risk management (continued)*

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk and liquidity risk as well as related mitigation strategies have been discussed below. However, the risks described below are not exhaustive of all the risks nor will the mitigation strategies eliminate the Corporation's exposure to all risks listed.

(i) Credit risk

The Corporation's primary source of credit risks to its accounts receivable result from customer's failing to discharge their dues for electricity consumed and billed. The Corporation has approximately 321,000 residential and commercial customers. In order to mitigate such potential credit risks, the Corporation has taken various measures in respect of its Energy customers such as collecting security deposits amounting to $21,872 in accordance with OEB guidelines, reviewing Dun & Bradstreet (D&B) reports for the top 3000 commercial customers with an outstanding balance of $5 or more, in-house collection department as well as external collection agencies and a bad debt insurance policy for $4,500 related to energy receivables. Thus, the Corporation monitors and limits its exposure to such credit risks on an ongoing basis.

Pursuant to their respective terms, accounts receivable are aged as follows at December 31:

| | Total | % |
|---|---|---|
| | $ | |
| Outstanding | 75,808 | 100 |
| Less than 30 days | 55,965 | 73 |
| 30 - 60 days | 4,346 | 6 |
| 61 - 90 days | 4,336 | 6 |
| Greater than 91 days | 11,161 | 15 |
| Less: Allowance for doubtful accounts | (2,175) | (3) |
| | 73,633 | |

As at December 31, 2009, there was no significant concentration of credit risk with respect to any class of financial assets.

(in thousands of dollars)

**21. Financial instruments and risk management (continued)**

*(b) Risk management (continued)*

(ii) Interest rate risk

The Corporation limits its exposure to interest rate risk by issuing long term fixed rate debt in the form of debentures, promissory notes and bank loans. It also ensures that all payment obligations are met by adopting proper capital planning.

During fiscal 2009, the Board of Directors approved a swap and derivative transaction policy to enable the Corporation to enter into agreements such as interest rate swaps, and foreign exchange swaps where 100% of the floating rate risk is hedged into fixed rate for prudent risk management purposes and not speculative purposes. The Corporation has not entered into any such transactions.

As part of the Corporations' revolving demand operating credit facility, the Corporation may utilize the line of credit for working capital and/or capital expenditure purposes. Such short term borrowing may expose the Corporation to short term interest rate fluctuations as follows:

Interest rate and fees

| | |
|---|---|
| 364 Day Revolving Facility | |
| Prime Based Loans | **PR*+0.25% p.a.** |
| Bankers Acceptances | **SF*+1.37% p.a.** |
| Demand Facility | |
| Prime Based Loans | **PR*+0.00% p.a.** |
| Bankers Acceptances | **SF*+1.00% p.a.** |
| Letter of Guarantee Facility | **0.50% p.a.** |
| Committed Term Facility (Fixed Rate for 5 Years) | **5.08%** |

*Note:*
***PR**** *- Prime Rate,* ***SF**** *- Stamping Fee*

Cash balances that are not required for day to day obligations earn an interest of Prime minus 1.7% per annum. These interest rate fluctuations could impact the level of interest income earned by the Corporation.

(in thousands of dollars)

## 21. Financial instruments and risk management (continued)

*(b) Risk management (continued)*

(iii) Liquidity risk

Liquidity risks are those risks associated with the Corporation's inability to meet obligations associated with financial liabilities such as repayment of principal or interest payments on debts. The Corporation monitors its liquidity risks on a regular basis to ensure there is sufficient cash flow to meet the obligations as they fall due as well as minimize the interest expense. Cash flow forecasts are prepared to monitor liquidity risks. Liquidity risks associated with financial liabilities are as follows:

| Maturity period | Principal * | Interest | Total |
|---|---|---|---|
| | $ | $ | $ |
| Less than 1 year | 123,454 | - | 123,454 |
| 1-5 years | 231,327 | 33,673 | 265,000 |
| 6-10 years | - | - | - |
| Over 10 years | 166,102 | 133,621 | 299,723 |
| | 520,883 | 167,294 | 688,177 |

* *The principal includes $1,908 of deferred issuing cost amortization*

(iv) Hedging and derivatives risk

The Corporation has not entered into hedging and derivative financial instruments and hence the Corporation is not exposed to risks of this nature. The Corporation does not have commodity price risk.

(v) Foreign exchange risk

The Corporation has minimal exposure to fluctuations in foreign currencies. The Corporation purchases goods and services from the US which are payable in US dollars, however the impact of these transactions to the financial statement are minimal.

In addition to the above, the Corporation maintains appropriate types and levels of insurance with major insurers. With respect to liability insurance, the Corporation is a member of the Municipal Electricity Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousands of dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Coverage is provided to a level of $24,000 per incident.

(in thousands of dollars)

## 22. Capital disclosures

The Corporation's main objectives in the management of capital are to:

(i) Ensure that there is access to various funding options at the lowest possible rates for the various capital initiatives and working capital requirements necessary for the distribution business.

(ii) Ensure compliance with various covenants related to its long-term/short-term debt, promissory notes and debentures.

(iii) Consistently maintain a high credit rating for the Corporation.

(iv) Maintain a split of 60% debt, 40% equity as recommended by the OEB.

(v) Ensure interest rate fluctuations are mitigated primarily by long term borrowings as well as capital planning.

(vi) Deliver appropriate financial returns to shareholders.

The Corporation considers shareholders' equity, long-term debt and certain short-term debt as its Capital. The capital structure as at December 31, 2009 is as follows:

| | $ |
|---|---|
| **Shareholders' equity** | |
| Share capital | **247,183** |
| Retained earnings | **21,064** |
| Total | **268,247** |
| **Short-term debt (Note 13)** | **40,000** |
| **Long-term debt (Note 12)** | |
| Bank term loan | **50,000** |
| Debenture payable | **123,091** |
| Notes payable | **182,430** |
| Total | **395,521** |
| **Total capital** | **663,768** |

As at December 31, 2009, the Corporation was in compliance with all covenants included in its short-term debt, bank term loan, debentures payable and notes payable. Details relating to debt covenants are disclosed in Note 12.

The Corporation is within the debt and equity requirements of the OEB.

The Corporation's dividend policy is disclosed in Note 18.

(in thousands of dollars)

## 23. Corporate income taxes

(a) Current taxes

The provision for payments in lieu of corporate income taxes (PILs) differs from the amount that would have been recorded using the combined Canadian federal and provincial statutory income tax rates. The reconciliation between the statutory and effective tax rates is provided as follows:

| | $ |
|---|---|
| Income from operations before PILs | 29,625 |
| Statutory Canadian federal and provincial income tax rates | 33.00% |
| Expected tax provision on income at statutory rates | 9,776 |
| Increase (decrease) in income taxes resulting from timing differences: | |
| Amortization/CCA differences | (2,755) |
| Post employment benefits | 305 |
| Eligible capital expenditures | (227) |
| Other reserves | 590 |
| Revenue and overheads related to smart meters recognized for tax purposes but capitalized for accounting purposes | 401 |
| Other | 577 |
| Permanent differences | (106) |
| Provision for PILs | 8,561 |

(b) Future income tax assets and liabilities

As per CICA Handbook Section 3465, a future income tax asset or future income tax liability would be recognized for the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount. Future income tax assets of $61,665, and a corresponding regulatory liability of $61,665 was recorded as at December 31, 2009.

## 24. Net change in non-cash operating working capital

| | $ |
|---|---|
| Accounts receivable | (9,586) |
| Unbilled revenue | (11,501) |
| Income taxes recoverable | 2,206 |
| Inventories | 126 |
| Prepaid and other | 96 |
| Accounts payable, accrued liabilities and customers' deposits | (11,853) |
| Income taxes payable | 5,034 |
| | (25,478) |

## 25. Supplementary cash flow information

| | $ |
|---|---|
| Cash paid during the year for: | |
| Interest | **21,298** |
| Payments in lieu of corporate income taxes | **10,026** |

## 26. Net interest expense

| | $ |
|---|---|
| Interest expense - notes payable, bank term loan, short-term debt and debentures payable | **21,886** |
| Interest income | **(272)** |
| | **21,614** |

## 27. Guarantees

In the normal course of business, the Corporation enters into agreements that meet the definition of a guarantee as follows:

(a) The Corporation has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Corporation agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Indemnity has been provided to all directors and/or officers of the Corporation for various items including, but not limited to, all costs to settle suits or actions due to association with the Corporation, subject to certain restrictions. The Corporation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Corporation. The maximum amount of any potential future payment cannot be reasonably estimated.

(c) In the normal course of business, the Corporation has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Corporation to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Corporation has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

## 28. Subsequent event

On March 16, 2010 Ontario Regulations 66/10 and 67/10 were filed for the purpose of creating a means for the Province of Ontario to recover $53,695 from electricity distributors and the IESO relating to the period from April 1, 2009 to March 31, 2010 in order to partially fund conservation programs delivered by the Ministry of Energy and Infrastructure. Ontario Regulation 67/10 is an amendment to existing regulation 275/04, under the Ontario Energy Board Act, which deals with bill presentment for low volume consumers.

The Corporation is required to remit $3,100, representing its apportioned amount to the Minister of Finance by July 30, 2010. The Corporation will be allowed to recover this apportioned amount through a uniform provincial kWh charge. A preliminary analysis estimates the charge to be about 0.037cents/kWh.

Financial statements of

# PowerStream Inc.

December 31, 2009

# PowerStream Inc.
December 31, 2009

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Deloitte

Deloitte & Touche LLP
5140 Yonge Street
Suite 1700
Toronto ON M2N 6L7
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

## Auditors' Report

To the Shareholders of
PowerStream Inc.

We have audited the balance sheet of PowerStream Inc. as at December 31, 2009 and the statements of earnings and comprehensive income and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 31, 2010

# PowerStream Inc.

Balance sheet
as at December 31, 2009
(in thousands of dollars)

| | $ |
|---|---|
| **Assets** | |
| Current | |
| Cash | **42,612** |
| Accounts receivable, net of allowance (Note 21(b)(i)) | **73,633** |
| Unbilled revenue | **88,160** |
| Income taxes recoverable | **1,525** |
| Inventories | **3,869** |
| Prepaids and other | **2,581** |
| | **212,380** |
| Property, plant and equipment (Note 6) | **601,764** |
| Regulatory assets (Note 8(a)) | **26,433** |
| Deferred charges, net of amortization of $31 | **644** |
| Intangibles (Note 7) | **3,614** |
| Future income tax assets (Note 8(b)(ii) and 23(b)) | **61,665** |
| Goodwill | **42,543** |
| | **949,043** |
| **Liabilities** | |
| Current | |
| Accounts payable and accrued liabilities (Note 10) | **111,405** |
| Income taxes payable | **5,034** |
| Due to related parties (Note 11) | **12,049** |
| Short-term debt (Note 13) | **40,000** |
| Liability for subdivision development | **3,375** |
| | **171,863** |
| Long-term liabilities | |
| Bank term loan (Note 12(a)) | **50,000** |
| Debentures payable (Note 12(b)) | **123,091** |
| Notes payable (Note 12(c)) | **182,430** |
| Regulatory liabilities (Note 8(b)) | **91,140** |
| Customers' deposits (Note 14) | **16,726** |
| Employee future benefits (Note 15) | **12,036** |
| Liability for subdivision development | **4,917** |
| Construction deposits | **23,172** |
| Other liabilities | **5,421** |
| | **508,933** |
| **Shareholders' equity** | |
| Share capital (Note 17) | **247,183** |
| Retained earnings | **21,064** |
| | **268,247** |
| | **949,043** |

Approved on behalf of the Board

_______________ Director

_______________ Director

# PowerStream Inc.

Statement of earnings and comprehensive income and retained earnings
year ended December 31, 2009
(in thousands of dollars)

| | $ |
|---|---|
| **Revenue** | |
| Sale of energy | 621,719 |
| Distribution revenue | 146,076 |
| Other revenue | 9,889 |
| Total revenue | 777,684 |
| Cost of power purchased | 621,719 |
| | 155,965 |
| Operating expenses | 62,601 |
| Earnings before amortization, interest and income taxes | 93,364 |
| Amortization of property,plant and equipment and intangibles (net of $2,582 charged to other accounts) | 42,125 |
| Net interest expense (Note 26) | 21,614 |
| Income before income taxes | 29,625 |
| Income tax expense (Note 23(a)) | 8,561 |
| **Net earnings and comprehensive income for the year** | 21,064 |

# PowerStream Inc.

Statement of cash flows
year ended December 31, 2009
(in thousands of dollars)

| | $ |
|---|---|
| **Operating activities** | |
| Net earnings for the year | 21,064 |
| Adjustments to determine cash provided by operating activities | |
| Amortization of property, plant and equipment | 42,006 |
| Accretion of debentures payable | 629 |
| Amortization of intangibles | 2,701 |
| Amortization of deferred charges | 31 |
| Employee future benefits | 923 |
| Future income taxes | 6,759 |
| Decrease in regulatory assets/liabilities | (23,280) |
| Gain on disposal of property, plant and equipment | (218) |
| Net change in non-cash operating working capital (Note 24) | (25,478) |
| | 25,137 |
| **Financing activities** | |
| Decrease in liability for subdivisions development | (3,164) |
| Increase in due to related parties | 2,150 |
| Increase in long-term customers' deposits | 1,223 |
| Decrease in other liabilities | (47) |
| Obligations to predecessor shareholders (Note 18) | (31,082) |
| Increase in short-term debt | 15,000 |
| Construction deposits | 23,172 |
| | 7,252 |
| **Investing activities** | |
| Proceeds on disposal of property, plant and equipment | 248 |
| Purchase of intangibles | (6,314) |
| Expenditure on property, plant and equipment, net of contribution of capital construction | (67,419) |
| | (73,485) |
| Net decrease in cash during the year | (41,096) |
| Cash, beginning of year | 83,708 |
| **Cash, end of year** | 42,612 |

Supplementary cash flow information (Note 25)

(in thousands of dollars)

## 1. Amalgamation

The City of Vaughan through its wholly owned subsidiary Vaughan Holdings Inc.; the Town of Markham through its wholly owned subsidiary, Markham Enterprises Corporation; and the City of Barrie, through its wholly owned subsidiary Barrie Hydro Holdings Inc; agreed to amalgamate PowerStream Inc. and Barrie Hydro Distribution Inc. on January 1, 2009 and continue as a corporation amalgamated under the laws of Ontario.

The amalgamated corporation retained the PowerStream Inc. corporate name.

Upon the amalgamation, shares of PowerStream Inc. held by Vaughan Holdings Inc. and Markham Enterprises Corporation, and shares of Barrie Hydro Distribution Inc. held by Barrie Hydro Holdings Inc. were exchanged for shares of the newly amalgamated Corporation, PowerStream Inc., as follows:

(a) the common shares of PowerStream Inc. held by Vaughan Holdings Inc. were converted into 45,315 issued and fully-paid common shares of the amalgamated corporation;

(b) the common shares of PowerStream Inc. held by Markham Enterprises Corporation were converted into 34,185 issued and fully-paid common shares of the amalgamated corporation; and

(c) the common shares of Barrie Hydro Distribution Inc. held by Barrie Hydro Holdings Inc. were converted into 20,500 issued and fully-paid common shares of the amalgamated corporation.

The ultimate shareholders of the amalgamated PowerStream Inc., being the Corporation of the City of Vaughan, the Corporation of the Town of Markham, and the Corporation of the City of Barrie entered into a shareholders' agreement effective January 1, 2009.

The contribution of the net assets of the amalgamated corporation has been recorded at the carrying value of the predecessor Corporations as at January 1, 2009 in the balance sheet as follows:

| | $ |
|---|---|
| Net assets contributed | |
| Current assets (including cash $ 83,708) | **234,816** |
| Current liabilities | **(155,350)** |
| | **79,466** |
| Property, plant and equipment | **566,180** |
| Goodwill | **42,543** |
| Other assets | **26,171** |
| Long-term liabilities | **(436,095)** |
| Obligations to predecessor shareholders | **(31,082)** |
| | **247,183** |
| Consideration | |
| Shareholders' contributions | **247,183** |
| | **247,183** |

## 2. Description of the business

In these financial statements, PowerStream Inc. (the "Corporation") refers to both the newly amalgamated entity PowerStream Inc. and the predecessor corporation. The Corporation is owned by the Corporation of the City of Vaughan, through its wholly owned subsidiary, Vaughan Holdings Inc.; the Corporation of the Town of Markham, through its wholly owned subsidiary, Markham Enterprises Corporation; and City of Barrie, through its wholly owned subsidiary, Barrie Hydro Holdings Inc.

The principal activity of the Corporation is to distribute electricity in the service area of Alliston, Aurora, Barrie, Beeton, Bradford West Gwillimbury, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham and Vaughan in the Province of Ontario, under licenses issued by the Ontario Energy Board ("OEB"). The Corporation is regulated under the OEB and adjustments to the distribution rates require OEB approval.

## 3. Electricity industry regulation

The Ontario Energy Board Act, 1998 gave the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may prescribe license requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, and filing process requirements for rate-setting purposes.

The Corporation is required to charge its customers for the following amounts (all of which, other than the distribution rate, essentially represent a pass through of amounts payable to third parties):

(i) Electricity Price and Related Rebates: The electricity price and related rebates represent a pass through of the commodity cost of electricity.

(ii) Distribution Rate: The distribution rate is designed to recover the costs incurred by the Corporation in delivering electricity to customers, as well as earn the OEB allowed rate of return. Distribution charges are regulated by the OEB and typically comprise a fixed charge and a usage-based (consumption) charge.

The volume of electricity consumed by the Corporation's customers during any period is governed by events largely outside 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).

(iii) Retail Transmission Rate: The retail transmission rate represents a pass through of costs charged to the Corporation for the transmission of electricity from generating stations to the Corporation's service area. Retail transmission rates are regulated by the OEB.

(iv) Wholesale Market Service Charge: The wholesale market service charge represents a pass through of various wholesale market support costs charged by the Independent Electricity System Operator (IESO).

Any differences between the actual cost of electricity, transmission and wholesale market services and the amounts charged to customers are recorded in retail settlement variance accounts ("RSVA amounts"). These RSVA amounts are reviewed by the OEB and periodically rate adjustments are requested and approved by the OEB to "true up" the amounts charged to customers for these services.

Electricity distribution rates as described above are approved by the OEB and allow the Corporation to recover its reasonable costs and the OEB allowed market based rate of return.

## 3. Electricity industry regulation (continued)

In its 2009 rate application, the Corporation received approval to repay the net regulatory liabilities accrued from January 1, 2005 to December 31, 2007 plus interest thereon to April 30, 2009 over the period September 1, 2009 to April 30, 2011, for the former PowerStream Inc. rate zone. In its 2010 rate application, for the former Barrie Hydro Distribution Inc. rate zone, the Corporation has applied to refund the net regulatory liabilities accrued from January 1, 2005 to December 31, 2008 plus interest thereon to April 30, 2010 over the period May 1, 2010 to April 30, 2011.

In 2008, the OEB approved distribution rates for the former Barrie Hydro Distribution Inc. rate zone for the period May 1, 2008 to April 30, 2009 based on updated values for assets and costs, a deemed debt equity ratio of 60:40 and an allowed return on deemed equity of 8.57%. In 2009, the OEB approved distribution rates for the former PowerStream Inc. rate zone effective for the period May 1, 2009 to April 30, 2010 based on updated values for assets and costs, a deemed debt equity ratio of 60:40 and an allowed return on deemed equity of 8.01%.

The OEB has established a multi-year electricity distribution rate-setting plan for distributors to streamline the process for approving distribution rates and charges. The OEB issued guidelines along with an Incentive Regulation Models ("IRM") to be used to calculate annual rate adjustments. The guidelines effectively adjusted Base Distribution Rates for inflation less a productivity factor. Following the rebasing, both rate zones are on the 3rd Generation IRM method for setting rates for 2010.

The Corporation has filed 3rd Generation IRM rate filings for its 2010 distribution rates for both rate zones. New rates are expected to be approved effective May 1, 2010.

Under the Green Energy and Green Economy Act, 2009, the Corporation and other Ontario electricity distributors have new responsibilities for enabling renewable generation, including investing in a smart grid, to accommodate any changes this may have on the local distribution of electricity. The OEB has approved several new deferral accounts to capture incremental costs related to these new initiatives for recovery in future periods.

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders may affect the distribution rates and other permitted recoveries.

## 4. Significant accounting policies

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

The financial statements reflect the following significant accounting policies:

*(a) Rate setting*

The Corporation is regulated by the OEB under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB also has the authority to provide rate protection for certain electricity customers.

**4. Significant accounting policies (continued)**

*(a) Rate setting (continued)*

As the Corporation is regulated by the OEB, the timing of accounting recognition and measurement of assets and liabilities arising from rate regulation may differ from that otherwise expected under Canadian generally accepted accounting principles for non-rate regulated enterprises. The Corporation has determined that its assets and liabilities arising from rate-regulated activities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Statement of Financial Accounting Standards No. 71 – "Accounting for the Effects of Certain Types of Regulation".

*(b) Revenue recognition*

(i) Electricity distribution and sale

Revenue from the sale and distribution of electricity is recorded on the basis of cyclical billings based on electricity usage and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed.

(ii) Other revenue

Other revenue related to sales of other services is recognized as services are rendered. Contract revenue is accounted for using the percentage of completion method, whereby revenue is recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident.

*(c) Financial instruments*

The Corporation has made the following balance sheet classifications in connection with its financial assets and financial liabilities:

- Cash is classified as financial assets "Held-for-Trading" and is measured at fair value.
- Accounts receivable are classified as "Loans and Receivables" and are measured at amortized cost using the effective interest method.
- Other non-current assets are classified as "Held-to-Maturity Investments" and are measured at amortized cost, which, after initial recognition, is considered equivalent to fair value.
- Accounts payable, accrued liabilities, amounts due to related parties, short-term debt, bank term loan, debentures payable and notes payable are classified as "Other Financial Liabilities" and are measured at amortized cost using the effective interest method.

Financial assets and liabilities are initially recorded at fair value. The fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Subsequent measurement depends on how each financial instrument is classified on the balance sheet.

## 4. Significant accounting policies (continued)

*(c) Financial instruments (continued)*

In accordance with the amendments to CICA Handbook Section 3862, the Corporation has classified fair value measurements using a fair value hierarchy that reflects the three levels of the inputs used in making the fair value measurements. The fair value hierarchy has the following levels:

(i) Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

(ii) 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; and

(iii) Level 3: Unobservable inputs for the assets or liabilities that are not based on observable market data.

*(d) Inventories*

Inventories, which consists of parts and supplies acquired for internal construction or consumption, is stated at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis. Any impairment losses taken on inventories are reversed if and when net realizable value subsequently recovers. Major spare parts and standby equipment are recorded as part of property, plant and equipment and amortized once they are put into use.

*(e) Property, plant and equipment and amortization*

Property, plant and equipment are recorded at cost and includes contracted services, materials, labour, engineering costs, interest and overheads. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers and in some instances a portion may be refunded by the Corporation based on economic evaluation (discounted cash flow), in accordance with the OEB Distribution System Code. Such contributions, whether in cash or in-kind, are offset against the related 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 property, plant and equipment is provided for on the straight-line basis over the estimated service life of the assets. Amortization of contributions from developers or customers is amortized at the rates corresponding with the useful lives of the related property, plant and equipment. The estimated service lives of the various assets used in calculating amortization are summarized below:

| | |
|---|---|
| Buildings | 10 to 60 years |
| Transformer stations | 40 years |
| Transformers and meters | 25 to 40 years |
| Plant and equipment | 10 to 30 years |
| Other | 3 to 8 years |

## 4. Significant accounting policies (continued)

*(e) Property, plant and equipment and amortization (continued)*

Construction in progress comprises property, plant and equipment under construction; property, plant and equipment not yet placed into service; and pre-construction activities related to specific projects expected to be constructed. An allowance for the outlay of funds employed during the construction period has been applied to the related property, plant and equipment as allowed by the OEB.

*(f) Impairment of long-lived assets*

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

*(g) Intangibles*

Intangibles includes computer software and land rights. Computer software is stated at cost and amortized on a straight-line basis over three years while land rights are stated at cost, are not amortized and have an estimated indefinite useful life.

*(h) Regulatory assets and liabilities*

Regulatory assets/liabilities represent costs/revenue that have been deferred and that are expected to be disposed of through future rates. Retail Settlement Variances (RSVA) amounts 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.

As at December 31, 2009, regulatory assets and liabilities are comprised principally of deferred Smart Meter costs and retail settlement variances.

As at December 31, 2009, management has provided a provision against certain regulatory assets and liabilities. Management continues to assess the likelihood of recovery of its regulatory assets and believes that it is probable that its regulatory assets, net of the valuation allowance, and liability balances will be factored into the setting of future rates.

*(i) Goodwill*

Goodwill represents the excess of the purchase price over the fair value assigned to the Corporation's interest of the net identifiable assets acquired on the acquisition, by predecessor corporations of the former Richmond Hill Hydro Inc., Penetanguishene Hydro, Essa Hydro, New Techusmestch Hydro and Bradford Hydro. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. 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.

## 4. Significant accounting policies (continued)

*(j) Pension and other post-employment benefits*

The Corporation accounts for its participation in the Ontario Municipal Employees Retirement Fund ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan.

The Corporation actuarially determines the cost of other employment and post-employment benefits offered to employees using the projected benefit method prorated on service and based on management's best estimate assumptions. Under this method, the projected post-retirement benefit is deemed to be earned on a pro-rata basis over the years of service in the attribution period commencing at the date of hire, and ended at the earliest age the employee could retire and qualify for benefits. Compensated absences and termination benefits that do not vest or accumulate are recognized as an expense when the event occurs. This accounting policy for future employee benefits was applied on the prospective basis. The transitional obligation resulting from this treatment is being amortized over the average remaining service period of employees.

*(k) Customers' deposits*

Customer's deposits are cash 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 customers' deposits.

*(l) Payment in lieu of corporate income taxes*

Effective January 1, 2009, the Corporation adopted amendments to the Canadian Institute of Chartered Accountants (CICA) Handbook section 3465, Income Taxes and CICA Handbook Section 1100, Generally Accepted Accounting Principles. These amendments established new standards for the recognition, measurement, presentation and disclosure of future income tax assets and liabilities.

The requirement for rate-regulated enterprises to recognize future income taxes, as well as a separate asset or liability for the future revenue or reduction in future revenue expected as a result of regulator's action in respect of future income taxes, applies for fiscal years beginning on or after January 1, 2009.

*(m) Measurement uncertainty*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, as well as the disclosure of contingent assets and liabilities at the financial statement date. Accounts receivable, unbilled revenue, inventories, regulatory assets and liabilities, goodwill, employee future benefits and income taxes payable are reported based on amounts expected to be recovered/refunded and an appropriate allowance has been provided based on managements' best estimate of unrecoverable amounts. Due to the inherent uncertainty involved in making such estimates, actual results could differ from amounts recorded in these financial statements, including changes as a result of future decisions made by the OEB, the Minister of Energy and Infrastructure and the Minister of Finance.

## 5. Changes in accounting policies

*Current changes*

(a) Rate-regulated operations

Effective January 1, 2009, the temporary exemption from CICA Handbook Section 1100, "Generally Accepted Accounting Principles", which permits the recognition and measurement of assets and liabilities arising from rate regulation, was withdrawn.

The Corporation has determined that its assets and liabilities arising from rate-regulated activities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Statement of Financial Accounting Standards No. 71 – "Accounting for the Effects of Certain Types of Regulation".

As a result, the removal of the temporary exemption has no effect on the Corporation's results of operation as of December 31, 2009. The financial impact of the rate regulation continues to be disclosed in accordance with Accounting Guideline 19 – "Disclosures by Entities Subject to Rate Regulation".

In addition, CICA Handbook Section 3465, Income Taxes was amended to require the recognition of future income tax liabilities and assets. On January 1, 2009, the Corporation began to account for the differences between its financial statement carrying value and tax basis of assets and liabilities in accordance with CICA Handbook Section 3465, Income Taxes. As at January 1, 2009, the Corporation has recognized a future income tax asset of $68,424 and a corresponding regulatory liability of $68,424.

(b) Goodwill and intangible assets

Effective January 1, 2009, the Corporation adopted CICA Handbook Section 3064, Goodwill and Intangible Assets. This standard augments existing Handbook Section 3061, Property, Plant and Equipment and replaces Section 3062 Goodwill and Other Intangible Assets.

As accounting for Goodwill under CICA Handbook Section 3064 remains unchanged from CICA 3062, there was no effect on the Goodwill calculations.

As a result of adopting this new accounting standard, the Corporation reclassified computer application software and land rights at its net book value from property, plant and equipment to intangible assets (Note 7).

(c) Financial Instruments recognition, measurement and disclosure

In July 2009, the CICA amended Handbook Section 3855 on financial instruments recognition and measurement to incorporate certain changes to Canadian GAAP in order to reduce differences with International Financial Reporting Standards (IFRSs) and to ease the requirements regarding impairment of certain investment in debt instruments. The application of these amendments did not have any impact on the Corporation's financial statements since there are no investments in debt instruments for reclassification nor impairment losses to report on other than the allowance for doubtful accounts.

(i) Credit risk and fair value of financial assets and financial liabilities

In January 2009, the CICA issued an Emerging Issues Committee Abstract (EIC) 173 on credit risk and fair value of financial assets and financial liabilities which is applicable to all entities that have adopted Section 3855 on financial instruments recognition and measurement. It reached a consensus that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities including derivative instruments.

(in thousands of dollars)

## 5. Changes in accounting policies (continued)

*Current changes (continued)*

(c) Financial Instruments recognition, measurement and disclosure (continued)

(ii) Financial Instrument Disclosures

CICA Handbook Section 3862 on Financial Instrument Disclosures was amended and effective from fiscal years ending after September 30, 2009. These amendments include additional disclosure requirements in respect of fair valuation measurement and liquidity risk management disclosures. The amendments require an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The adoption of CICA Handbook Sections 3855, 3862 and EIC 173 resulted in additional disclosures of the fair market value of Financial Instruments as described in Note 21(b).

*Future accounting changes*

(d) International Financial Reporting Standards ("IFRSs")

The Corporation is required to prepare their financial statements effective January 1, 2011 in accordance with IFRSs requirements.

The Corporation has an internal initiative to govern the conversion process to IFRSs and is currently in the process of evaluating the potential impact of IFRSs on its consolidated financial statements. The Corporation will continue to monitor the progress made by the International Accounting Standards Board (IASB) on the rate-regulated activities standard in consultation with other LDCs and its professional advisers.

## 6. Property, plant and equipment

| | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| | $ | $ | $ |
| Land | 8,923 | - | 8,923 |
| Buildings | 71,183 | 16,051 | 55,132 |
| Transformer stations | 107,429 | 33,742 | 73,687 |
| Transformers and meters | 310,368 | 153,188 | 157,180 |
| Plant and equipment | 843,257 | 405,670 | 437,587 |
| Other | 39,188 | 26,481 | 12,707 |
| Construction in progress | 59,227 | - | 59,227 |
| | 1,439,575 | 635,132 | 804,443 |
| Capital contributions | 253,973 | 51,294 | 202,679 |
| | 1,185,602 | 583,838 | 601,764 |

Included in property, plant and equipment costs is an amount of $5,683 related to an "allowance for the outlay of funds" employed during the construction period as allowed by the OEB. In the absence of rate regulation, interest expense in the current year would have been higher by $1,433. Further, transformers and meters amounting to $1,061 were considered to be impaired and an impairment loss was recorded.

# PowerStream Inc.

Notes to the financial statements
December 31, 2009
(in thousands of dollars)

## 7. Intangibles

The Corporation reclassified land rights and computer software from property, plant and equipment to Intangibles in accordance with CICA Handbook Section 3064, Goodwill and Intangible Assets.

| | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| | $ | $ | $ |
| Land rights | 729 | - | 729 |
| Computer software | 15,580 | (12,695) | 2,885 |
| | 16,309 | (12,695) | 3,614 |

## 8. Regulatory assets and liabilities

Regulatory assets and liabilities arise as a result of the rate-making process and consist of the following:

| | $ |
|---|---|
| **Regulatory assets** | |
| Deferred smart meter costs | 25,713 |
| Other regulatory assets | 720 |
| **Regulatory assets** | **26,433** |
| **Regulatory liabilities** | |
| Retail settlement variance accounts | (1,010) |
| Future income taxes | (61,665) |
| Regulatory assets recovery account | (22,915) |
| PILs variance | (4,008) |
| **Regulatory liabilities** | **(89,598)** |
| Provision for regulatory assets and liabilities | (1,542) |
| **Regulatory liabilities, net** | **(91,140)** |

*(a) Regulatory assets*

(i) Deferred smart meter costs

As part of the Ontario Government's initiative, the Corporation had installed 225,000 smart meters as at December 31, 2009 (2008 – 135,000). The Corporation has recorded the capital spending and incremental expenses incurred in connection with smart meters along with related funding collected from customer in the deferral accounts established by the OEB.

The Corporation applied and received approval for recovery of smart meter costs up to December 31, 2007 in its 2009 Cost of Service rate application. The approved amount of $8,863 which has been reallocated consists of $8,909 of property, plant and equipment, $2,002 of revenue and $1,956 of operating expense.

In the absence of this regulatory treatment, property, plant and equipment would be increased by $19,883 with related amortization expense of $878. Operating expenses would be increased by $814. Other revenue would be increased by $4,093 and interest revenue would be lower by $164.

**8. Regulatory assets and liabilities (continued)**

*(a) Regulatory assets (continued)*

(i) Deferred smart meter costs (continued)

This regulatory asset balance also includes the net book value less proceeds of stranded mechanical meters, which have been replaced by smart meters, in the amount of $10,184. In the absence of this regulatory treatment, current year replaced meters with a net book value of $3,747 would have been recorded as a loss on disposal of property, plant and equipment.

(ii) Other regulatory assets

This consists mainly of the costs related to the transition to IFRSs less the related amounts included in rates. It also includes costs related to the Green Energy and Green Economy Act, 2009 initiatives that are allowed to be deferred.

Under OEB regulations, these expenses are allowed to be deferred, which under Canadian GAAP would be recorded as expense for an unregulated business. Under non regulated reporting, expenses would have been $661 higher in 2009 and interest income would have been lower in 2009 by $36.

*(b) Regulatory liabilities*

(i) Retail settlement variance accounts

Retail settlement variances are variances that have occurred since May 1, 2002 when the competitive electricity market was declared open, to December 31, 2009, and have accumulated pursuant to direction from the OEB. Current balances represent variances from January 1, 2005 to December 31, 2009; balances up to December 31, 2004 were approved for settlement with customers in 2006 rates. Specifically, these amounts include:

(a) Variances between the amount charged by the Independent Electricity System Operator ("IESO") for the operation of the markets and grid, the purchase of imported power by the IESO to augment Ontario's power supply and charged by the IESO as an uplift charge that is part of the wholesale market service charges, as well as various wholesale market settlement charges and transmission charges, as compared to the amount billed to consumers based on the OEB-approved wholesale market service rate and transmission rates; and

(b) Differences between the amounts charged by the IESO and billed to consumers for energy costs. Energy charges by the IESO consist of the hourly price of electricity, global adjustment charges related to the Ontario Power Authority's long term contracted supply of electricity including renewables, and adjustments for electricity billed to customers at regulated price plan rates.

Under OEB regulations, the retail settlement variances are allowed to be deferred which under Canadian GAAP would be recorded as costs for an unregulated business. Under non regulated reporting, cost of power would have been $4,484 higher in 2009 and interest expense would have been lower in 2009 by $360.

## 8. Regulatory assets and liabilities (continued)

*(b) Regulatory liabilities (continued)*

(ii) Future income taxes

Effective January 1, 2009, the Corporation adopted CICA handbook Section 3465, Income Taxes and accounted for future income taxes by taking into account the differences between the tax basis of assets and liabilities and their financial statement carrying value. The OEB allows the Corporation to recover amounts in rates for payments in lieu of corporate income taxes ("PILs") using the taxes payable method. No allowance is made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. This regulatory liability account is related to the expected future distribution rate reduction for customers arising from the recognition of future income tax assets. Accordingly, a regulatory liability has been recorded to offset the future income tax asset.

(iii) Regulatory assets recovery account

The regulatory asset recovery account is comprised of the final balances of regulatory assets and regulatory liabilities approved for disposition by the OEB.

As at December 31, 2009, the balances include the following:

(a) Former Barrie Hydro Distribution Inc. rate zone

On May 1, 2008, the Corporation began recovery of regulatory asset balances in the amount of $910 over a period of 36 months through rate riders. These recoveries are based on final balances approved by the OEB reflecting costs to December 31, 2006 and carrying interest accrued to April 30, 2008. In 2008 the approved amounts were netted with the recoveries account in accordance with OEB direction.

(b) Former PowerStream Inc. rate zone

On September 1, 2009, the Corporation began refunding net regulatory liabilities in the amount of $28,089 over a period of twenty months through rate riders. These recoveries are based on final balances approved by the OEB reflecting costs to December 31, 2007 and carrying interest accrued to April 30, 2009. In 2009 the approved amounts were netted with the recoveries account in accordance with OEB direction.

The billed amounts are recorded in the regulatory assets recovery account and interest is applied at the OEB prescribed interest rate for carrying charges. Under non regulated reporting, revenues would be decreased by $5,036 and interest expense in 2009 would have been $573 lower.

(iv) Payments in lieu of corporate income taxes ("PILs") variance

PILs are recorded based on the OEB PILs methodology of PILs billed amount versus PILs proxy amount variance and an annual Spreadsheet Implementation Model for PILs ("SIMPILs") filing with specified true-ups. Under non regulated reporting, revenues would have been $241 higher and interest expense would have been $51 lower.

**8. Regulatory assets and liabilities (continued)**

*(b) Regulatory liabilities (continued)*

(iv) Payments in lieu of corporate income taxes ("PILs") variance (continued)

The OEB has undertaken a combined proceeding (EB-2008-0381) to review the balances set up in this account, for a group of utilities (the former Barrie Hydro Distribution Inc., ENWIN Utilities Ltd. and Halton Hills Hydro Inc.) and determine the amounts to be recovered from or repaid to customers.

The Corporation has used the SIMPIL model and followed instructions provided by the OEB in setting up the balances in this account for the period October 2001 to April 30, 2006 and a revised model as directed by the OEB thereafter.

As an outcome of this proceeding, the OEB will provide clarification of the existing rules and interpretations as to how these rules should have been applied. It is the OEB's stated intention that these clarifications and interpretations will be used as a reference in determining the amounts for disposition by other utilities.

This proceeding is in the early stages and the outcome is indeterminable at this time. Any adjustments will be recorded when known.

(v) Provision for regulatory assets and liabilities

Management has determined that there is uncertainty concerning the future recovery of certain regulatory assets and liabilities. Based on this uncertainty, a provision in the amount of $1,542 has been recorded.

Under the OEB's new guidelines for disposition of variance and deferral accounts, the Corporation has applied for disposal of most regulatory asset and liability balances as at December 31, 2008 in its 2010 incentive rate mechanism service rate application for the former Barrie Hydro Distribution Inc. rate zone. Under the same guidelines, former PowerStream Inc. rate zone did not meet the threshold and did not apply for disposition of variance and deferral accounts.

Management will continue to assess the likelihood of recovery of the regulatory assets and liabilities amount recorded. In the event that Management determines the recovery for these amounts is no longer probable, these amounts will be expensed in the period for which the determination is made.

**9. Credit facilities**

The Corporation executed an unsecured credit facility with a Canadian chartered bank on December 17, 2008 which is renewable annually. This credit facility agreement provides an extendible 364-day committed revolving credit facility of $75,000, an uncommitted demand facility of $25,000 for a specific purpose, an uncommitted Letter of Guarantee facility of $15,000 and a committed term facility of $50,000.

As at December 31, 2009, the Corporation had utilized $12,000 of the Letter of Guarantee facility to provide the IESO with a letter of credit for prudential support. With the opening of Ontario's electricity market to wholesale and retail competition on May 1, 2002 ("Open Access"), the IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the letter of credit if the Corporation defaults on its payment.

(in thousands of dollars)

## 9. Credit facilities (continued)

The 364-day committed revolving credit facility can be drawn upon by direct advances, bearing interest at prime plus 0.25% or Bankers' Acceptances of a stamping fee plus 137 basis points (1.37%) per annum. The uncommitted demand facility bears an interest rate of prime plus 0.00%, or Bankers' Acceptance of a stamping fee plus 100 basis points (1.00%) per annum. The Letter of Guarantee facility bears a charge of 50 basis points (0.50%) per annum.

The committed term facility was fully drawn by the Corporation in February 2008 (Note 12(a)). The $25,000 uncommitted demand facility was drawn by the Corporation in December 2008 and remains outstanding as at December 31, 2009. As of December 2009, the Corporation has utilized $15,000 of the committed revolving credit facility (Note 13).

## 10. Accounts payable and accrued liabilities

| | $ |
|---|---|
| Accounts payable - energy purchases | **57,581** |
| Current portion of customers' deposits | **1,000** |
| Other accounts payable and accrued liabilities (including construction deposits of $129 to be refunded in a year) | **52,824** |
| | **111,405** |

## 11. Related party balances and transactions

The amount due to the Corporation of the City of Vaughan ("Vaughan"), the Corporation of the City of Barrie ("Barrie") and the Corporation of the Town of Markham ("Markham") is comprised of amounts payable to Vaughan, Markham and Barrie and their wholly-owned subsidiaries.

Components of the amounts due to related parties are as follows:

| | $ |
|---|---|
| The Corporation of the City of Vaughan | |
| Net balance payable of inter entity transactions, without interest | **5,523** |
| The Corporation of the Town of Markham | |
| Net balance payable of inter entity transactions, without interest | **4,951** |
| The Corporation of the City of Barrie | |
| Net balance payable of inter entity transactions, without interest | **1,575** |
| | **12,049** |

(in thousands of dollars)

## 11. Related party balances and transactions (continued)

Other significant related party transactions not otherwise disclosed separately in the financial statements, are summarized below:

| | City of Vaughan | Town of Markham | City of Barrie |
|---|---|---|---|
| | $ | $ | $ |
| Revenue | | | |
| Energy and distribution | **4,094** | **3,903** | **3,726** |
| Shared services | **1,916** | **1,401** | **1,620** |
| Expenses | | | |
| Facilities rental | **732** | **120** | **-** |
| Realty taxes | **530** | **158** | **303** |
| Operations | **482** | **95** | **-** |

## 12. Long-term debt

(a) *Bank term loan*

The bank term loan is a 5 year fixed rate term loan with a Canadian Chartered Bank which bears interest at an annual rate of 5.08%. It is a non-amortizing loan with repayment at the end of the contracted term, February 26, 2013. The financial covenants require a Total Debt to Capitalization Ratio of no greater than 0.60:1, and to maintain an Interest Coverage Ratio of no less than 1.25:1.

Interest expense relating to the bank term loan for the year ended December 31, 2009 was $2,540.

(b) *Debentures payable*

| | |
|---|---|
| | $ |
| 6.45% unsecured debentures due August 15, 2012, interest payable in arrears semi-annually on August 15 and February 15 | **123,091** |

In August 2002, the four predecessor corporations (Hydro Vaughan Distribution Inc., Markham Hydro Distribution Inc., Richmond Hill Hydro Inc. and Barrie Hydro Distribution Inc.) raised gross proceeds of $125,000 through a private placement offering. These predecessor corporations were four of five local distribution companies ("LDC") that participated in the Electricity Distributors Finance Corporation ("EDFIN") 10 Year Debentures Issued (Series 2002-1) that was offered on a private placement. EDFIN is a specific purpose corporation managed by MEARIE Management Inc., for the purpose of providing the LDCs with efficient access to the debt capital markets. Each LDC has executed a debenture which is a direct and unsecured obligation of the LDC. The LDC's obligations are several and not joint, and each LDC is liable for its own obligation and not that of any other LDC.

(in thousands of dollars)

## 12. Long-term debt (continued)

*(b) Debentures payable (continued)*

The debentures are recorded at amortized cost, using the effective interest method. Interest expense relating to debentures payable was $8,691 which included $629 of accretion.

The debentures are subject to the financial covenant that the consolidated funded obligation does not exceed 75% of the total consolidated capitalization of the Corporation.

*(c) Notes payable*

| | $ |
|---|---|
| Promissory note issued to the City of Vaughan | **78,236** |
| Deferred interest on promissory note issued to the City of Vaughan | **8,743** |
| Promissory note issued to the Town of Markham | **67,866** |
| Deferred interest on promissory note issued to the Town of Markham | **7,585** |
| Promissory note issued to the City of Barrie | **20,000** |
| | **182,430** |

On June 1, 2004, an unsecured 20 year term promissory note was issued to the Corporation of the City of Vaughan ("Vaughan") in the amount of $78,236. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On June 1, 2004, an unsecured 20 year term promissory note was issued to the Corporation of the Town of Markham ("Markham") in the amount of $67,866. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On December 31, 2008, an unsecured 16 year term promissory note was issued to the Corporation of the City of Barrie ("Barrie") in the sum of $20,000. Interest for 2009 is at an annual rate of 6.50%, and will change to 5.58% in 2010 and after.

The three promissory notes are repayable 90 days following demand by Vaughan, Markham and Barrie, with subordination and conditions. These notes have been classified as long-term as it is not the intent of Vaughan, Markham or Barrie to demand repayment within the next year.

At the request of the City of Vaughan and the Town of Markham, eight quarters of interest have been deferred commencing October 1, 2006. This deferred interest will be repayable in full on October 31, 2013 and is subject to the same interest rate and conditions as the original note.

Interest of $4,853 on the note payable to the City of Vaughan, $4,210 on the note payable to the Town of Markham and interest of $1,300 to the City of Barrie was charged to interest expense during the year. This includes interest on the related deferred interest balance for the City of Vaughan and the Town of Markham.

(in thousands of dollars)

## 13. Short-term debt

| | $ |
|---|---|
| Short-term demand facility with a Canadian Bank with an interest rate at prime rate or Banker's Acceptance plus 100 basis points per annum, whichever is lower. The terms of this facility are renewable annually. | **25,000** |
| Drawn down on the Corporation's $75,000 364-day committed revolving credit facility with a Canadian Bank. The interest rate for this facility is at prime rate plus 0.25% per annum, or Banker's Acceptance plus 137 basis points per annum, whichever is lower. The terms of this facility are renewable annually. | **15,000** |
| | **40,000** |

## 14. Customers' deposits

| | $ |
|---|---|
| Service deposits | **17,726** |
| Less amounts expected to be refunded within one year, included in accounts payable and accrued liabilities (Note 10) | **1,000** |
| Non-current portion of customers' deposits | **16,726** |

## 15. Employee future benefits

The Corporation pays certain health, dental and life insurance benefits under unfunded benefit plans on behalf of its retired employees.

The Corporation measures its accrued benefit obligation for accounting purposes every three years. The latest actuarial valuation was performed as at December 31, 2009.

A reconciliation of the Corporation's accrued benefit obligation to the amounts recorded in the financial statements is as follows:

| | $ |
|---|---|
| Accrued benefit obligation | **16,490** |
| Unamortized transitional obligation | **(482)** |
| Unamortized net actuarial losses | **(3,972)** |
| Accrued benefit liability | **12,036** |

(in thousands of dollars)

## 15. Employee future benefits (continued)

Details of the accrued benefit obligation are as follows:

| | $ |
|---|---|
| Accrued benefit obligation, beginning of the year | 13,441 |
| Current service cost | 260 |
| Interest cost on obligation | 878 |
| Benefit payments | (393) |
| Actuarial losses | 2,304 |
| Accrued benefit obligation, end of the year | 16,490 |

The plan expense for the year is determined as follows:

| | $ |
|---|---|
| Current service cost | 260 |
| Interest cost on obligation | 878 |
| Amortization of transitional obligation | 70 |
| Amortization of net actuarial losses | 108 |
| Plan expense | 1,316 |

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation are as follows:

| | % |
|---|---|
| Discount rate | 5.50-6.50 |
| Rate of compensation increase | 3.50 |
| Medical benefits costs escalation - hospitalization | 5.00-9.00 |
| Medical benefits costs escalation - extended health care | 5.00-9.00 |
| Dental benefits costs escalation | 5.00 |

*Sensitivity analysis*

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2009:

| | Increase | Decrease |
|---|---|---|
| | $ | $ |
| Total service and interest cost | 152 | (130) |
| Accrued benefit obligation | 2,229 | (1,802) |

(in thousands of dollars)

## 16. Pension

The Corporation participates in the Ontario Municipal Employees Retirement System ("OMERS") for its full time employees, as a *'Defined Contribution Plan'*. OMERS is a multi-employer defined benefit pension plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The fund is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund. The Corporation incurred $2,536 of contribution expense during the year ended December 31, 2009.

## 17. Share capital

The Corporation's authorized share capital is made up of an unlimited number of common shares. The issued share capital is as follows:

| | $ |
|---|---|
| 100,000 common shares | **247,183** |

Of the total 100,000 common shares issued 45,315 common shares are registered under Vaughan Holdings Inc. (wholly owned by The Corporation of the City of Vaughan), 34,185 common shares are registered under Markham Enterprises Corporation (wholly owned by The Corporation of the Town of Markham) and 20,500 common shares are registered under Barrie Hydro Holdings Inc. (wholly owned by The Corporation of the City of Barrie).

## 18. Dividends

During 2009, the Corporation established a dividend policy to distribute a minimum dividend of 50% of net income with consideration given to the:

(a) Cash position at the beginning of the year;

(b) Working capital requirements for the current year; and

(c) Net capital expenditures required for the current year.

During 2009, the Corporation paid $11,274 to the shareholders based on the combined net income of the predecessor corporations. In addition, the Corporation made a special payment of $19,808 to the shareholders as the final closing adjustment for the amalgamation of PowerStream Inc. and Barrie Hydro Distribution Inc..

## 19. Commitments

*(a) Town of Markham*

The Corporation retained cashiering services from the Town of Markham to facilitate customers paying electricity bills. The total commitment for these services is $84 for the year 2010.

*(b) City of Vaughan*

The Corporation rents certain outdoor and indoor facilities from the City of Vaughan. The total commitment for these services to 2012 is $529.

(in thousands of dollars)

**19. Commitments (continued)**

*(c) Leases for the operation centres*

(i) Cochrane Operation Centre

In November 2007, the Corporation entered into a lease agreement with a third party for an operations centre and warehouse. The lease term is from December 1, 2007 to March 31, 2010. The agreement also provided the Corporation with the ability to exercise two 3-month extension terms and accordingly the final terminating date of the agreement is September 30, 2010. The extension terms were not exercised and accordingly the lease contract ended on March 31, 2010. The total commitment for this lease from January 1, 2010 to March 31, 2010 is $134.

(ii) Operation Centre

On October 9, 2008, the Corporation entered into a 25 year lease agreement relating to a new operation centre. The lease term commenced January 1, 2010 and occupancy occurred in March 2010. Therefore, the leased building asset valued at $18,280 and the corresponding liability will be recorded at commencement of the lease. Upon entering into this lease arrangement, the Corporation evaluated whether substantially all of the benefits and risks of ownership related to this operation centre have been transferred to the Corporation (the lessee) in order to determine if the lease is classified and recorded as capital or operating. The component of the annual basic rent related to the land is classified and recorded as an operating lease and the component related to the building is classified as a capital lease.

The annual basic rent as per the lease agreement is as follows:

| Fiscal year | Annual basic rent |
|---|---|
| | $ |
| 2010-2019 | 2,286 |
| 2020-2029 | 2,457 |
| 2030-2034 | 2,621 |

*(d) Contractual commitments*

Markham TS#4

In 2007, the Corporation engaged third parties to construct a new 230KV to 28KV Transformer Station in the Markham area - Markham TS#4 to serve the north side of Hwy 407 west of Warden. The transformer station is expected to be energized by April 28, 2010 and the commitment from January 1, 2010 to April 28, 2010 is approximately $3,000.

## 20. Contingencies

*(a) Legal claims*

The Corporation has been named as a defendant in several actions. No provision has been recorded in the financial statements for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

*(b) Other claims - Late Payment Charges Class Action*

This action has been brought under the Class Proceedings Act, 1992. The plaintiff class seeks $500 million in restitution for amounts paid to Toronto Hydro and to other Ontario municipal electric utilities ("LDCs") who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to section 347 of the Criminal Code. Pleadings have closed in this action. The action has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceeding brought against Enbridge Gas Distribution Inc. (formerly Consumers Gas).

On April 22, 2004, the Supreme Court of Canada released a decision in the Consumers Gas case rejecting all of the defenses which had been raised by Enbridge, although the Court did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by Enbridge and that settlement was approved by the Ontario Superior Court.

In 2007, Enbridge filed an application to the OEB to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008, the OEB approved recovery of the said amounts from ratepayers over a five year period.

After the release by the Supreme Court of Canada of its 2004 decision in the Consumers Gas case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs. The parties are in settlement discussions but no settlement has been reached. At this time, it is not possible to quantify the effect, if any, on the financial statements.

## 20. Contingencies (continued)

(c) *Ministry of Finance Tax audits*

The Ministry of Finance (the "Ministry") conducted PILs audits in 2008 on the three predecessor utilities, namely Richmond Hill Hydro Inc., Markham Hydro Distribution Inc. and Hydro Vaughan Distribution Inc. for the period January 1, 2004 through to May 31, 2004 and for PowerStream Inc. in 2009 for the periods June 1, 2004 through to December 31, 2004 and January 1, 2005 through to October 31, 2005. There is still an outstanding matter regarding the treatment of the retail settlement variance accounts (RSVA) for tax purposes.

There has been inconsistent practice of tax treatment of certain regulatory asset/liability accounts among LDCs across Ontario.

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 financial statements. Similar treatment has been followed for tax purposes. The Ministry is questioning this treatment of the RSVA for tax purposes and is suggesting that RSVA liabilities may be considered income for tax purposes.

The Ministry is currently reviewing the treatment of RSVA for tax purposes on a province wide basis. The impact of a tax ruling may result in a reassessment of taxes payable which could have an impact on results, financial position and cash flows in the future. The outcome of the Ministry's review is not determinable and as such, no provision has been made in the financial statements.

(in thousands of dollars)

## 21. Financial instruments and risk management

*(a) Recognition and measurement*

CICA Handbook Section 3855 established the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The Corporation's accounting policies relating to the recognition and measurement of financial instruments are disclosed in Note 4(c).

*(b) Risk management*

The Corporation's carrying value and fair value of financial instruments are as follows:

| Description | Carrying value | Fair value |
|---|---|---|
| | $ | $ |
| Assets | | |
| Cash | 42,612 | 42,612 |
| Accounts receivable (net of allowance for doubtful accounts) | 73,633 | 73,633 |
| | 116,245 | 116,245 |
| Liabilities | | |
| Accounts payable and accrued liabilities | 111,405 | 111,405 |
| Due to related parties | 12,049 | 12,049 |
| Short-term debt | 40,000 | 40,000 |
| Bank term loan | 50,000 | 53,686 |
| Debentures payable | 123,091 | 135,391 |
| Notes payable | 182,430 | 198,901 |
| | 518,975 | 551,432 |

(in thousands of dollars)

## 21. Financial instruments and risk management (continued)

*(b) Risk management (continued)*

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk and liquidity risk as well as related mitigation strategies have been discussed below. However, the risks described below are not exhaustive of all the risks nor will the mitigation strategies eliminate the Corporation's exposure to all risks listed.

(i) Credit risk

The Corporation's primary source of credit risks to its accounts receivable result from customer's failing to discharge their dues for electricity consumed and billed. The Corporation has approximately 321,000 residential and commercial customers. In order to mitigate such potential credit risks, the Corporation has taken various measures in respect of its Energy customers such as collecting security deposits amounting to $21,872 in accordance with OEB guidelines, reviewing Dun & Bradstreet (D&B) reports for the top 3000 commercial customers with an outstanding balance of $5 or more, in-house collection department as well as external collection agencies and a bad debt insurance policy for $4,500 related to energy receivables. Thus, the Corporation monitors and limits its exposure to such credit risks on an ongoing basis.

Pursuant to their respective terms, accounts receivable are aged as follows at December 31:

| | Total | % |
|---|---|---|
| | $ | |
| Outstanding | 75,808 | 100 |
| Less than 30 days | 55,965 | 73 |
| 30 - 60 days | 4,346 | 6 |
| 61 - 90 days | 4,336 | 6 |
| Greater than 91 days | 11,161 | 15 |
| Less: Allowance for doubtful accounts | (2,175) | (3) |
| | 73,633 | |

As at December 31, 2009, there was no significant concentration of credit risk with respect to any class of financial assets.

(in thousands of dollars)

## 21. Financial instruments and risk management (continued)

*(b) Risk management (continued)*

(ii) Interest rate risk

The Corporation limits its exposure to interest rate risk by issuing long term fixed rate debt in the form of debentures, promissory notes and bank loans. It also ensures that all payment obligations are met by adopting proper capital planning.

During fiscal 2009, the Board of Directors approved a swap and derivative transaction policy to enable the Corporation to enter into agreements such as interest rate swaps, and foreign exchange swaps where 100% of the floating rate risk is hedged into fixed rate for prudent risk management purposes and not speculative purposes. The Corporation has not entered into any such transactions.

As part of the Corporations' revolving demand operating credit facility, the Corporation may utilize the line of credit for working capital and/or capital expenditure purposes. Such short term borrowing may expose the Corporation to short term interest rate fluctuations as follows:

Interest rate and fees

| | |
|---|---|
| 364 Day Revolving Facility | |
| Prime Based Loans | **PR*+0.25% p.a.** |
| Bankers Acceptances | **SF*+1.37% p.a.** |
| Demand Facility | |
| Prime Based Loans | **PR*+0.00% p.a.** |
| Bankers Acceptances | **SF*+1.00% p.a.** |
| Letter of Guarantee Facility | **0.50% p.a.** |
| Committed Term Facility (Fixed Rate for 5 Years) | **5.08%** |

*Note:*
***PR**** *- Prime Rate,* ***SF**** *- Stamping Fee*

Cash balances that are not required for day to day obligations earn an interest of Prime minus 1.7% per annum. These interest rate fluctuations could impact the level of interest income earned by the Corporation.

(in thousands of dollars)

## 21. Financial instruments and risk management (continued)

*(b) Risk management (continued)*

(iii) Liquidity risk

Liquidity risks are those risks associated with the Corporation's inability to meet obligations associated with financial liabilities such as repayment of principal or interest payments on debts. The Corporation monitors its liquidity risks on a regular basis to ensure there is sufficient cash flow to meet the obligations as they fall due as well as minimize the interest expense. Cash flow forecasts are prepared to monitor liquidity risks. Liquidity risks associated with financial liabilities are as follows:

| Maturity period | Principal * | Interest | Total |
|---|---|---|---|
| | $ | $ | $ |
| Less than 1 year | 123,454 | - | 123,454 |
| 1-5 years | 231,327 | 33,673 | 265,000 |
| 6-10 years | - | - | - |
| Over 10 years | 166,102 | 133,621 | 299,723 |
| | 520,883 | 167,294 | 688,177 |

* *The principal includes $1,908 of deferred issuing cost amortization*

(iv) Hedging and derivatives risk

The Corporation has not entered into hedging and derivative financial instruments and hence the Corporation is not exposed to risks of this nature. The Corporation does not have commodity price risk.

(v) Foreign exchange risk

The Corporation has minimal exposure to fluctuations in foreign currencies. The Corporation purchases goods and services from the US which are payable in US dollars, however the impact of these transactions to the financial statement are minimal.

In addition to the above, the Corporation maintains appropriate types and levels of insurance with major insurers. With respect to liability insurance, the Corporation is a member of the Municipal Electricity Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousands of dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Coverage is provided to a level of $24,000 per incident.

(in thousands of dollars)

## 22. Capital disclosures

The Corporation's main objectives in the management of capital are to:

(i) Ensure that there is access to various funding options at the lowest possible rates for the various capital initiatives and working capital requirements necessary for the distribution business.

(ii) Ensure compliance with various covenants related to its long-term/short-term debt, promissory notes and debentures.

(iii) Consistently maintain a high credit rating for the Corporation.

(iv) Maintain a split of 60% debt, 40% equity as recommended by the OEB.

(v) Ensure interest rate fluctuations are mitigated primarily by long term borrowings as well as capital planning.

(vi) Deliver appropriate financial returns to shareholders.

The Corporation considers shareholders' equity, long-term debt and certain short-term debt as its Capital. The capital structure as at December 31, 2009 is as follows:

| | $ |
|---|---|
| **Shareholders' equity** | |
| Share capital | **247,183** |
| Retained earnings | **21,064** |
| Total | **268,247** |
| **Short-term debt (Note 13)** | **40,000** |
| **Long-term debt (Note 12)** | |
| Bank term loan | **50,000** |
| Debenture payable | **123,091** |
| Notes payable | **182,430** |
| Total | **395,521** |
| **Total capital** | **663,768** |

As at December 31, 2009, the Corporation was in compliance with all covenants included in its short-term debt, bank term loan, debentures payable and notes payable. Details relating to debt covenants are disclosed in Note 12.

The Corporation is within the debt and equity requirements of the OEB.

The Corporation's dividend policy is disclosed in Note 18.

(in thousands of dollars)

## 23. Corporate income taxes

(a) Current taxes

The provision for payments in lieu of corporate income taxes (PILs) differs from the amount that would have been recorded using the combined Canadian federal and provincial statutory income tax rates. The reconciliation between the statutory and effective tax rates is provided as follows:

| | $ |
|---|---|
| Income from operations before PILs | **29,625** |
| Statutory Canadian federal and provincial income tax rates | **33.00%** |
| Expected tax provision on income at statutory rates - | **9,776** |
| Increase (decrease) in income taxes resulting from timing differences: | |
| Amortization/CCA differences | **(2,755)** |
| Post employment benefits | **305** |
| Eligible capital expenditures | **(227)** |
| Other reserves | **590** |
| Revenue and overheads related to smart meters recognized for tax purposes but capitalized for accounting purposes | **401** |
| Other | **577** |
| Permanent differences | **(106)** |
| Provision for PILs | **8,561** |

(b) Future income tax assets and liabilities

As per CICA Handbook Section 3465, a future income tax asset or future income tax liability would be recognized for the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount. Future income tax assets of $61,665, and a corresponding regulatory liability of $61,665 was recorded as at December 31, 2009.

## 24. Net change in non-cash operating working capital

| | $ |
|---|---|
| Accounts receivable | **(9,586)** |
| Unbilled revenue | **(11,501)** |
| Income taxes recoverable | **2,206** |
| Inventories | **126** |
| Prepaid and other | **96** |
| Accounts payable, accrued liabilities and customers' deposits | **(11,853)** |
| Income taxes payable | **5,034** |
| | **(25,478)** |

## 25. Supplementary cash flow information

| | $ |
|---|---|
| Cash paid during the year for: | |
| Interest | **21,298** |
| Payments in lieu of corporate income taxes | **10,026** |

## 26. Net interest expense

| | $ |
|---|---|
| Interest expense - notes payable, bank term loan, short-term debt and debentures payable | **21,886** |
| Interest income | **(272)** |
| | **21,614** |

## 27. Guarantees

In the normal course of business, the Corporation enters into agreements that meet the definition of a guarantee as follows:

(a) The Corporation has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Corporation agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Indemnity has been provided to all directors and/or officers of the Corporation for various items including, but not limited to, all costs to settle suits or actions due to association with the Corporation, subject to certain restrictions. The Corporation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Corporation. The maximum amount of any potential future payment cannot be reasonably estimated.

(c) In the normal course of business, the Corporation has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Corporation to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Corporation has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

## 28. Subsequent event

On March 16, 2010 Ontario Regulations 66/10 and 67/10 were filed for the purpose of creating a means for the Province of Ontario to recover $53,695 from electricity distributors and the IESO relating to the period from April 1, 2009 to March 31, 2010 in order to partially fund conservation programs delivered by the Ministry of Energy and Infrastructure. Ontario Regulation 67/10 is an amendment to existing regulation 275/04, under the Ontario Energy Board Act, which deals with bill presentment for low volume consumers.

The Corporation is required to remit $3,100, representing its apportioned amount to the Minister of Finance by July 30, 2010. The Corporation will be allowed to recover this apportioned amount through a uniform provincial kWh charge. A preliminary analysis estimates the charge to be about 0.037cents/kWh.

Financial statements of

# PowerStream Inc.

December 31, 2010

# PowerStream Inc.
December 31, 2010

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Deloitte.

Deloitte & Touche LLP
5140 Yonge Street
Suite 1700
Toronto ON M2N 6L7
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

# Independent Auditor's Report

To the Shareholders of PowerStream Inc.

We have audited the accompanying financial statements of PowerStream Inc., which comprise the balance sheet as at December 31, 2010, and the statements of earnings and comprehensive income and retained earnings and of cash flows for the year the 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.

## Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement to the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 PowerStream Inc. as at December 31, 2010, and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
April 27, 2011

# PowerStream Inc.
## Balance sheet
## as at December 31, 2010
(In thousands of dollars)

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Current assets | | |
| Cash | **8,568** | 42,612 |
| Accounts receivable, net of allowance for doubtful accounts (Note 18(c)) | **69,366** | 73,633 |
| Unbilled revenue | **92,207** | 88,160 |
| Income taxes recoverable | **-** | 1,525 |
| Inventories (Note 4) | **3,050** | 3,869 |
| Prepaids and other | **2,718** | 2,581 |
| | **175,909** | 212,380 |
| Property, plant and equipment, net (Note 5) | **642,059** | 601,764 |
| Regulatory assets (Note 7(a)) | **31,961** | 26,433 |
| Deferred charges, net of amortization of $63 (2009 - $31) | **612** | 644 |
| Intangibles, net (Note 6) | **4,180** | 3,614 |
| Future income tax assets (Note 20(b)) | **53,313** | 61,665 |
| Goodwill | **42,543** | 42,543 |
| | **950,577** | 949,043 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 8) | **105,339** | 110,405 |
| Current portion of customers' deposits | **1,478** | 1,000 |
| Income taxes payable | **6,622** | 5,034 |
| Due to related parties (Note 9) | **12,214** | 12,049 |
| Short-term debt (Note 10(a)) | **40,000** | 40,000 |
| Infrastructure Ontario Financing (Note 10(b)) | **827** | - |
| Current portion of liability for subdivision development | **4,138** | 3,375 |
| Current portion of capital lease obligation (Note 16) | **259** | - |
| | **170,877** | 171,863 |
| Long-term liabilities | | |
| Bank term loan (Note 11(a)) | **50,000** | 50,000 |
| Debentures payable (Note 11(b)) | **123,765** | 123,091 |
| Notes payable (Note 11(c)) | **182,430** | 182,430 |
| Regulatory liabilities (Note 7(b)) | **68,314** | 91,140 |
| Customers' deposits | **12,071** | 16,726 |
| Employee future benefits (Note 12) | **14,007** | 12,036 |
| Liability for subdivision development | **1,232** | 4,917 |
| Construction deposits | **23,364** | 23,172 |
| Capital lease obligation (Note 16) | **17,679** | - |
| Future Income tax liabilities (Note 20(c)) | **61** | - |
| Other liabilities | **160** | 5,421 |
| | **493,083** | 508,933 |
| **Shareholders' equity** | | |
| Share capital (Note 14) | **249,618** | 247,183 |
| Retained earnings | **36,999** | 21,064 |
| | **286,617** | 268,247 |
| | **950,577** | 949,043 |

Approved on behalf of the Board

______________________ Director

______________________ Director

See accompanying notes to the financial statements.

# PowerStream Inc.

## Statement of earnings and comprehensive income and retained earnings year ended December 31, 2010

(In thousands of dollars)

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| **Revenue** | | |
| Sale of energy | **691,318** | 621,719 |
| Distribution revenue | **155,841** | 146,076 |
| Other revenue | **9,229** | 9,889 |
| Total revenue | **856,388** | 777,684 |
| Cost of power purchased | **691,318** | 621,719 |
| | **165,070** | 155,965 |
| Operating expenses | **59,746** | 62,601 |
| Earnings before amortization, interest and income taxes | **105,324** | 93,364 |
| Depreciation of property, plant and equipment and intangibles (net of $2,803 (2009 - $2,582) charged to other accounts) | **46,255** | 42,125 |
| Net interest expense (Note 22) | **22,014** | 21,614 |
| Income before income taxes | **37,055** | 29,625 |
| Income tax expense (Note 20(a)) | **10,588** | 8,561 |
| Net earnings and comprehensive income for the year | **26,467** | 21,064 |
| Retained earnings, beginning of year | **21,064** | - |
| Dividends (Note 14) | **(10,532)** | - |
| **Retained earnings, end of year** | **36,999** | 21,064 |

See accompanying notes to the financial statements.

# PowerStream Inc.

Statement of cash flows
year ended December 31, 2010
(In thousands of dollars)

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| **Operating activities** | | |
| Net earnings for the year | **26,467** | 21,064 |
| Adjustments to determine cash provided by operating activities | | |
| Depreciation of property, plant and equipment | **46,675** | 42,006 |
| Accretion of debentures payable | **674** | 629 |
| Amortization of intangibles | **2,383** | 2,701 |
| Amortization of deferred charges | **32** | 31 |
| Employee future benefits | **1,971** | 923 |
| Future income taxes | **8,413** | 6,759 |
| Decrease in regulatory assets/liabilities | **(28,354)** | (23,280) |
| Loss (gain) on disposal of property, plant and equipment | **533** | (218) |
| Net change in non-cash operating working capital (Note 21) | **(2,714)** | (23,328) |
| | **56,080** | 27,287 |
| **Financing activities** | | |
| Decrease in liability for subdivisions development | **(2,922)** | (3,164) |
| (Decrease) increase in long-term customers' deposits | **(4,655)** | 1,223 |
| Decrease in other liabilities | **(5,261)** | (47) |
| Obligations to predecessor shareholders (Note 14) | **-** | (31,082) |
| Dividends paid (Note 14) | **(10,532)** | - |
| Increase in short-term debt | **-** | 15,000 |
| Increase in construction deposits | **192** | 23,172 |
| Decrease in principal on capital lease obligation | **(342)** | - |
| Increase in Infrastructure Ontario Financing | **827** | - |
| | **(22,693)** | 5,102 |
| **Investing activities** | | |
| Proceeds on disposal of property, plant and equipment | **140** | 248 |
| Purchase of intangibles | **(2,949)** | (6,314) |
| Purchase of property, plant and equipment, net of contribution of capital construction | **(67,057)** | (67,419) |
| Proceeds from the issuance of Class A common shares | **2,435** | - |
| | **(67,431)** | (73,485) |
| Decrease in cash during the year | **(34,044)** | (41,096) |
| Cash, beginning of year | **42,612** | 83,708 |
| **Cash, end of year** | **8,568** | 42,612 |
| **Supplementary cash flow information** | | |
| Cash paid during the year for: | | |
| Interest | **22,619** | 21,298 |
| Payments in lieu of corporate income taxes | **9,247** | 10,026 |
| Acquisition of property, plant and equipment financed by capital lease | **18,280** | - |

See accompanying notes to the financial statements.

## 1. Description of the business

PowerStream Inc. (the "Corporation") was amalgamated on January 1, 2009, under the Business Corporations Act (Ontario) and is owned by the Corporation of the City of Vaughan (the "City of Vaughan"), through its wholly owned subsidiary, Vaughan Holdings Inc.; the Corporation of the Town of Markham (the "Town of Markham"), through its wholly owned subsidiary, Markham Enterprises Corporation; and the Corporation of the City of Barrie (the "City of Barrie"), through its wholly owned subsidiary, Barrie Hydro Holdings Inc.

The principal activity of the Corporation is to distribute electricity in the service area of Alliston, Aurora, Barrie, Beeton, Bradford West Gwillimbury, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham and Vaughan in the Province of Ontario, under licenses issued by the Ontario Energy Board ("OEB"). The Corporation is regulated under the OEB and adjustments to the distribution rates require OEB approval.

Under the Green Energy and Green Economy Act, 2009, the Corporation and other Ontario electricity distributors have new opportunities and responsibilities for enabling renewable generation. The Corporation has commenced operations of a solar generation business, in 2010, as permitted by these changes.

## 2. Significant accounting policies

The Corporation's financial statements are the representations of management prepared 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, issued under the authority of the Ontario Energy Board Act, 1998.

The financial statements reflect the following significant accounting policies:

*(a) Rate setting*

The Ontario Energy Board Act, 1998 gave the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may prescribe license requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, and filing process requirements for rate-setting purposes.

As the Corporation is regulated by the OEB, the timing of recognition and measurement of assets and liabilities arising from rate regulation in these financial statements may differ from what is 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".

## 2. Significant accounting policies (continued)

*(b) Revenue recognition*

(i) Electricity distribution and sale

Revenue from the sale and distribution of electricity is recorded on the basis of cyclical billings based on electricity usage and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is generally comprised of the following:

- Electricity Price and Related Rebates. The electricity price and related rebates represent a pass through of the commodity cost of electricity.
- Distribution Rate. The distribution rate is designed to recover the costs incurred by the Corporation in delivering electricity to customers, as well as earn the OEB allowed rate of return. Distribution charges are regulated by the OEB and typically comprise a fixed charge and a usage-based (consumption) charge.
- Retail Transmission Rate. The retail transmission rate represents a pass through of costs charged to the Corporation for the transmission of electricity from generating stations to the Corporation's service area. Retail transmission rates are regulated by the OEB.
- Wholesale Market Service Charge. The wholesale market service charge represents a pass through of various wholesale market support costs charged by the Independent Electricity System Operator ("IESO").

(ii) Other revenue

Other revenue related to the sale of other services is recognized as services are rendered. Contract revenue is accounted for using the percentage of completion method, whereby revenue is recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident.

*(c) Financial instruments*

The Corporation has made the following balance sheet classifications in connection with its financial assets and financial liabilities:

(i) Cash is classified as financial assets "Held-for-Trading" and is measured at fair value.

(ii) Accounts receivable are classified as "Loans and Receivables" and are measured at amortized cost using the effective interest method.

(iii) Accounts payable, accrued liabilities, amounts due to related parties, short-term debt, Infrastructure Ontario financing, bank term loan, debentures payable, notes payable and customers' deposits are classified as "Other Financial Liabilities" and are measured at amortized cost using the effective interest method.

Financial assets and liabilities are initially recorded at fair value. The fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Transaction costs are netted against the proceeds of financial instruments classified as "Other Financial Liabilities" and are considered when determining the effective interest rate for the discounted cash flows. Subsequent measurement depends on how each financial instrument is classified on the balance sheet.

**2. Significant accounting policies (continued)**

*(c) Financial instruments (continued)*

The Corporation has classified fair value measurements using a fair value hierarchy that reflects three levels of inputs used in making the fair value measurements. The fair value hierarchy has the following levels:

(i) Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

(ii) 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; and

(iii) Level 3: Unobservable inputs for the assets or liabilities that are not based on observable market data.

*(d) Inventories*

Inventories, which consist of parts and supplies acquired for internal construction or consumption, is stated at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis. Any impairment losses taken on inventories are reversed if and when net realizable value subsequently recovers. Major spare parts and standby equipment are recorded as part of property, plant and equipment and depreciated once they are put into use.

*(e) Property, plant and equipment and depreciation*

Property, plant and equipment ("PP&E") is recorded at cost and includes contracted services, materials, labour, engineering costs, interest and overheads. 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 depreciation are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period.

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

| | |
|---|---|
| Buildings | 10 to 50 years |
| Transformer stations | 40 years |
| Transformwers and meters | 25 to 40 years |
| Plant and equipment | 10 to 30 years |
| Other | 3 to 8 years |

Construction in progress comprises PP&E under construction; not yet placed into service; and pre-construction activities related to specific projects expected to be constructed. An allowance for the outlay of funds employed during the construction period has been applied to the related PP&E as allowed by the OEB.

*(f) Impairment of long-lived assets*

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

## 2. Significant accounting policies (continued)

*(g) Intangibles*

Intangibles include computer software and land rights. Computer software is stated at cost and amortized on a straight-line basis over three years while land rights are stated at cost, are not amortized and as they have an indefinite useful life.

*(h) Rate regulated assets and liabilities*

Regulatory assets/liabilities represent costs/revenue that have been deferred and that are expected to be disposed of through future rates. Retail Settlement Variance Amounts ("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.

As at December 31, 2010, regulatory assets and liabilities are comprised principally of deferred Smart Meter costs, future income taxes and RSVA's. The Corporation has provided a provision against certain regulatory assets and liabilities, and continues to assess the likelihood of recovery of these regulatory assets and liabilities. The Corporation believes that it is probable that its regulatory assets and liability balances will be factored into the setting of future rates.

*(i) Goodwill*

Goodwill represents the excess of the purchase price over the fair value assigned to the Corporation's interest of the net identifiable assets acquired on the acquisition, by predecessor corporations of the former Richmond Hill Hydro Inc., Penetanguishene Hydro, Essa Hydro, New Tecumseth Hydro and Bradford Hydro. Goodwill is not amortized but is tested for impairment annually or more frequently if events or circumstances change that indicate that the asset may be impaired. When the carrying amount of goodwill exceeds the implied fair value an impairment loss is recognized in an amount equal to the excess.

*(j) Pension and other post-employment benefits*

(i) Pension

The Corporation provides a pension plan to its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer defined benefit pension plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The pension plan is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund.
The Corporation accounts for its participation in OMERS, a multi-employer public sector pension fund, as a defined contribution plan. The Corporation recognizes the expense related to this plan as contributions are made.

(ii) Other post-employment benefits

The Corporation provides certain health, dental and life insurance benefits. This benefit plan provides benefits to employees when they retire from the Corporation.

The Corporation actuarially determines the cost of post-employment benefits offered to employees using the projected benefit method prorated on service and based on management's best estimate assumptions. Under this method, the projected post-employment benefit is deemed to be earned on a pro-rata basis over the years of service in the attribution period commencing at the date of hire, and ending at the earliest age the employee could retire and qualify for benefits. Compensated absences and termination benefits that do not vest or accumulate are recognized as an expense when the event occurs. This accounting policy for post-employment benefits was applied on the prospective basis. The transitional obligation resulting from this treatment is being amortized over the average remaining service period of employees.

**2. Significant accounting policies (continued)**

*(k) Customer 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 customers' deposits.

*(l) Payment in lieu of corporate income taxes ("PILs")*

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 offsetting 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 earnings and comprehensive income and retained earnings.

*(m) Measurement uncertainty*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, as well as the disclosure of contingent assets and liabilities at the financial statement date. Accounts receivable, unbilled revenue, inventories, regulatory assets and liabilities, goodwill, employee future benefits and income taxes payable are reported based on amounts expected to be recovered/refunded and an appropriate allowance has been provided based on managements' best estimate of unrecoverable amounts. Due to the inherent uncertainty involved in making such estimates, actual results could differ from amounts recorded in these financial statements, including changes as a result of future decisions made by the OEB, the Minister of Energy and Infrastructure and the Minister of Finance.

**3. Changes in accounting policies**

*Future accounting changes*

*International Financial Reporting Standards ("IFRS")*

In September 2010, the Accounting Standards Board of Canada ("AcSB") approved an optional one year deferral for qualifying entities with rate-regulated activities. The Corporation has elected to take the one year deferral; accordingly the adoption of IFRS will occur on January 1, 2012. Thus, the Corporation will continue to prepare its financial statements in accordance with Canadian GAAP for 2011.

The adoption of IFRS will require the restatement, for comparative purposes, of the amounts reported by the Corporation for its December 31, 2011 year end, and the opening balance sheet as at January 1, 2011. The Corporation has an internal initiative to govern the conversion process to IFRS and is continuing to evaluate the impact of IFRS on its financial statements which is not yet determinable. The Corporation does, however expect an increase in the amount of disclosure requirements resulting from IFRS.

The Corporation will continue to monitor the progress made by the International Accounting Standards Board ("IASB") on the rate-regulated activities in consultation with other local distribution companies ("LDCs") and its professional advisor.

(In thousands of dollars)

## 4. Inventories

During fiscal 2010, an amount of $nil (2009 - $31) was recorded as an expense for the write-down of obsolete or damaged inventory.

## 5. Property, plant and equipment

| | Cost | Accumulated depreciation | 2010 Net book value | 2009 Net book value |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Land | **10,875** | **-** | **10,875** | 8,923 |
| Buildings | **53,225** | **7,689** | **45,536** | 55,132 |
| Transformer stations | **155,935** | **46,876** | **109,059** | 73,687 |
| Transformers and meters | **306,909** | **144,961** | **161,948** | 148,337 |
| Plant and equipment | **899,980** | **435,094** | **464,886** | 437,587 |
| Other | **43,048** | **30,664** | **12,384** | 12,707 |
| Assets under capital lease | **18,280** | **731** | **17,549** | - |
| Construction in progress | **26,786** | **-** | **26,786** | 59,227 |
| Major spare parts | **8,404** | **-** | **8,404** | 8,843 |
| | **1,523,442** | **666,015** | **857,427** | 804,443 |
| Capital contributions | **277,010** | **61,642** | **215,368** | 202,679 |
| | **1,246,432** | **604,373** | **642,059** | 601,764 |

Included in PP&E costs is an amount of $7,196 (2009 - $5,683) related to an "allowance for the outlay of funds" employed during the construction period as allowed by the OEB. In the absence of rate regulation, interest expense in the current year would have been higher by $1,513 (2009 - $1,433).

Major spare parts amounting to $nil (2009 - $1,061) were considered to be impaired, as they had not been utilized for several years and were no longer in compliance with current standards. The fair value was determined to be $nil, as the assets could only be sold as scrap with nominal proceeds. The 2009 impairment loss was recorded in the operating expense line of the statement of earnings and comprehensive income.

## 6. Intangibles

Intangible assets consist of the following:

| | Cost | Accumulated amortization | 2010 Net book value | 2009 Net book value |
|---|---|---|---|---|
| | $ | $ | $ | |
| Land rights | **730** | **-** | **730** | 729 |
| Computer software | **18,528** | **15,078** | **3,450** | 2,885 |
| | **19,258** | **15,078** | **4,180** | 3,614 |

(In thousands of dollars)

## 7. Regulatory assets and liabilities

In its 2009 rate application, the Corporation received approval to repay net regulatory liabilities accrued from January 1, 2005 to December 31, 2007 plus interest thereon to April 30, 2009 over the period September 1, 2009 to April 30, 2011, for the former PowerStream Inc. rate zone. In its 2010 rate application, relating to the former Barrie Hydro Distribution Inc. rate zone, the Corporation has received approval to repay net regulatory liabilities accrued from January 1, 2005 to December 31, 2008 plus interest thereon to April 30, 2010 over the period May 1, 2010 to April 30, 2011.

Regulatory assets and liabilities arise as a result of the rate-making process and consist of the following:

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| Regulatory assets | | |
| Deferred smart meter costs | **29,191** | 25,713 |
| Other regulatory assets | **2,770** | 720 |
| Regulatory assets | **31,961** | 26,433 |
| Regulatory liabilities | | |
| Retail settlement variance accounts | **(1,157)** | (1,010) |
| Future income taxes | **(53,313)** | (61,665) |
| Regulatory assets recovery account | **(8,193)** | (22,915) |
| PILs variance | **(4,109)** | (4,008) |
| Provision for regulatory assets and liabilities | **(1,542)** | (1,542) |
| Regulatory liabilities, including the provision | **(68,314)** | (91,140) |

*(a) Regulatory assets*

(i) Deferred smart meter costs

As part of the Ontario Government's initiative, the Corporation had installed 297,000 smart meters as at December 31, 2010 (2009 - 225,000). The Corporation has recorded the capital spending and incremental expenses incurred in connection with smart meters less amount capitalized to PP&E when smart meter rate applications are approved by the OEB along with related funding collected from the customer in the deferral accounts established by the OEB.

In 2010, the Corporation submitted an application and received approval from the OEB for the recovery of costs associated with smart meters installed in the former PowerStream Inc. rate zone in 2008 and 2009. This resulted in new rate riders effective January 1, 2011. The rate riders allow the smart meter revenue requirement to be reflected in the Corporation's rates. In addition the approval also resulted in the recognition of the following amounts that were recorded in the smart meter deferral accounts: smart meter funding amounts previously collected in the amount of $6,481 as distribution revenue, operating costs of $2,960, PP&E of $18,285 and depreciation of $1,227.

In the absence of this regulatory treatment, PP&E would have increased by $21,031 (2009 - $19,883) with related depreciation expense of $877 (2009 - $878). Operating expenses would have increased by $1,828 (2009 - $814). Other revenue would have increased by $5,898 (2009 - $4,093) and interest revenue would have been lower by $167 (2009 - $164).

This regulatory asset balance also includes the net book value less proceeds of stranded mechanical meters, which have been replaced by smart meters, in the amount of $13,497 (2009 - $10,184). In the absence of this regulatory treatment, current year replaced meters with a net book value of $4,360 (2009 - $3,747) would have been recorded as a loss on disposal of PP&E.

(In thousands of dollars)

7. **Regulatory assets and liabilities (continued)**

*(a) Regulatory assets (continued)*

(ii) Other regulatory assets

Other regulatory accounts consist of accrued deferred costs which are listed in the table below:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| **Other regulatory assets** | | |
| Late payment class action suit settlement - (a) | **1,024** | - |
| Ministry of Energy and Infrastructure special purpose charge - (b) | **1,103** | - |
| IFRS transition costs | **232** | 615 |
| Other | **411** | 105 |
| **Other regulatory assets** | **2,770** | 720 |

*(a) Late Payment Penalty ("LPP") Class Action Suit 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 is required to pay $1,024 on June 30, 2011 to the United Way to assist low income electricity users. In February 2011 the Corporation received approval from the OEB to recover this amount from ratepayers. The Corporation has accrued this liability and recorded a corresponding regulatory asset. Under non regulated reporting, current year expenses would have been $1,024 higher.

*(b) Ministry of Energy and Infrastructure ("MEI") Special Purpose Charge*

On March 16, 2010 Ontario Regulations 66/10 and 67/10 were filed for the purpose of creating a means for the Province of Ontario to recover $53,695 from electricity distributors and the IESO relating to the period from April 1, 2009 to March 31, 2010 in order to partially fund conservation programs. The Corporation is allowed to recover this apportioned amount from customers through a uniform provincial kWh charge of 0.03725 cents/kWh on electricity used for the period May 1, 2010 to April 30, 2011. Both amounts collected from the customer and the amount paid are recorded in a new variance account as directed by the OEB.

Under non-regulated reporting this charge would be classified as a receivable on the balance sheet.

*(b) Regulatory liabilities*

(i) Retail settlement variance accounts

RSVA are variances that have occurred since May 1, 2002 when the competitive electricity market was declared open, to December 31, 2010, and have accumulated pursuant to direction from the OEB. Current balances represent variances:

- from January 1, 2008 to December 31, 2009 for the former PowerStream Inc. rate zone;
- from January 1, 2009 to December 31, 2009 for the former Barrie Hydro Distribution Inc. rate zone; and
- from January 1, 2010 to December 31, 2010 for the Corporation's combined service area.

**7. Regulatory assets and liabilities (continued)**

*(b) Regulatory liabilities (continued)*

(i) Retail settlement variance accounts (continued)

Balances up to December 31, 2007 were approved for settlement with customers in 2009 rates for the former PowerStream Inc. rate zone and up to December 31, 2008 in 2010 rates for the former Barrie Hydro Distribution Inc. rate zone. Specifically, these amounts include:

a) Variances between the amounts charged by the IESO for:

- the operation of the markets and grid;
- the purchase of imported power by the IESO to augment Ontario's power supply and charged by the IESO as an uplift charge that is part of the wholesale market service charges; and
- various wholesale market settlement charges and transmission charges, as compared to the amount billed to consumers based on the OEB-approved wholesale market service rate and transmission rates.

b) Differences between the amounts charged by the IESO and billed to consumers for energy costs.

Energy charges by the IESO consist of the hourly price of electricity, global adjustment charges related to the Ontario Power Authority's long term contracted supply of electricity including renewables, and adjustments for electricity billed to customers at regulated price plan rates.

Under non regulated reporting, the current year cost of power would have been $6,041 lower (2009 - $4,484 higher) and interest expense would have been lower by $15 (2009 - $360).

(ii) Future income taxes

The recovery from, or refund to, customers of future income taxes by the corporation in future electricity rates is required by Section 3465 of the CICA Handbook to be recognized as an asset or liability. Accordingly the corporation has recorded a future income tax asset related to the regulated business of $53,313 and a corresponding regulatory liability of $53,313. Under non regulated reporting, income tax expense would have been $6,291 (2009- $5,135) higher.

(iii) Regulatory assets recovery account ("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.

As at December 31, 2010, the balances include the following:

a) Former Barrie Hydro Distribution Inc. rate zone

On May 1, 2008, the Corporation began recovery of regulatory asset balances in the amount of $910 over a period of 36 months through rate riders. These recoveries are based on final balances approved by the OEB reflecting costs to December 31, 2006 and carrying interest charges accrued to April 30, 2008. In 2008 the approved amounts were netted with the recoveries account in accordance with OEB direction.

On May 1, 2010, the Corporation began refunding net regulatory liabilities in the amount of $6,469 over a period of 12 months through rate riders. The approved amounts were netted with the recoveries account in accordance with OEB direction.

**7. Regulatory assets and liabilities (continued)**

*(b) Regulatory liabilities (continued)*

(iii) Regulatory assets recovery account ("RARA") (continued)

b) Former PowerStream Inc. rate zone

On September 1, 2009, the Corporation began refunding net regulatory liabilities in the amount of $28,089 over a period of 20 months through rate riders. These recoveries are based on final balances approved by the OEB reflecting costs to December 31, 2007 and carrying interest charges accrued to April 30, 2009. In 2009 the approved amounts were netted with the recoveries account in accordance with OEB direction.

Under non regulated reporting, current year revenues would have been decreased by $20,749 (2009 - $5,036) and interest expense in 2010 would have been decreased by $119 (2009 - $573).

(iv) PILs variance

For the period of October 1, 2001 to April 30, 2006, PILs were recorded based on the OEB PILs methodology of PILs billed amount versus PILs proxy amount variances and an annual Spreadsheet Implementation Model for PILs ("SIMPILs") filing with specified true-ups.

The OEB has undertaken a combined proceeding (EB-2008-0381) to review the balances set up in this account, for a group of utilities (the former Barrie Hydro Distribution Inc., ENWIN Utilities Ltd. and Halton Hills Hydro Inc.) and to determine the amounts to be recovered from or repaid to customers.

As an outcome of this proceeding, the OEB will provide clarification of the existing rules and interpretations as to how these rules should have been applied. It is the OEB's stated intention that these clarifications and interpretations will be used as a reference in determining the amounts for disposition by other utilities.

This proceeding is in progress and the outcome is indeterminable at this time. Any adjustments will be recorded when known.

Under non regulated reporting, current year revenues would have been $68 (2009 - $241) higher and interest expense would have been $33 (2009 - $51) lower.

(v) Provision for regulatory assets and liabilities

The Corporation has determined that there is uncertainty concerning the future recovery/settlement of certain regulatory assets and liabilities. Based on this uncertainty, a net regulatory liability provision in the amount of $1,542 (2009 - $1,542) has been recorded, of which $126 (2009 - $126) relates to regulatory assets and $1,416 (2009 - $1,416) relates to regulatory liabilities.

(In thousands of dollars)

## 8. Accounts payable and accrued liabilities

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Accounts payable - energy purchases | 59,689 | 57,581 |
| Payroll payable | 5,120 | 5,173 |
| Debt retirement charge payable | 4,340 | 4,463 |
| Interest payable | 3,089 | 2,484 |
| Commodity taxes payable | 1,967 | 290 |
| Current portion of construction deposits | - | 129 |
| Customer receivables in credit balances | 8,263 | 7,732 |
| Other accounts payable and accrued liabilities | 22,871 | 32,553 |
| | 105,339 | 110,405 |

## 9. Related party balances and transactions

The amount due to related parties is comprised of amounts payable to the City of Vaughan, the Town of Markham and the City of Barrie and their wholly-owned subsidiaries. The below information includes transaction and balances not already disclosed in Note 11(c) and Note 14.

Components of the amounts due to related parties are as follows:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| City of Vaughan | 5,420 | 5,523 |
| Town of Markham | 5,073 | 4,951 |
| City of Barrie | 1,721 | 1,575 |
| | 12,214 | 12,049 |

Other significant related party transactions not otherwise disclosed separately in the financial statements, are summarized below:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | City of Vaughan | Town of Markham | City of Barrie | City of Vaughan | Town of Markham | City of Barrie |
| | $ | $ | $ | $ | $ | $ |
| Revenue | | | | | | |
| Energy and distribution | 4,594 | 4,367 | 5,509 | 4,094 | 3,903 | 3,726 |
| Shared services | 1,953 | 2,468 | 1,000 | 1,916 | 1,401 | 1,620 |
| Expenses | | | | | | |
| Facilities rental | 284 | - | - | 732 | 120 | - |
| Realty taxes | 567 | 174 | 299 | 530 | 158 | 303 |
| Operations | 381 | - | - | 482 | 95 | - |

These transactions are in the normal course of operations and are recorded at the exchange amount.

During the year the Corporation entered into operating leases with the City of Vaughan, Town of Markham and City of Barrie to lease rooftops on a number of buildings for which solar panels will be installed. There has been no financial impact of these leases for the year ended December 31, 2010.

(In thousands of dollars)

## 10. Short-term debt

*(a) Credit facilities*

On December 17, 2008 the Corporation executed an unsecured credit facility with a Canadian chartered bank. The credit facility is renewable annually. The credit facility agreement provides an extendible 364-day committed revolving credit facility of $75,000, an uncommitted demand facility of $25,000 for a specific purpose, and an uncommitted Letter of Guarantee facility of $15,000.

As at December 31, 2010, the Corporation had utilized $12,484 (2009 - $12,000) of the 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. With the opening of Ontario's electricity market to wholesale and retail competition on May 1, 2002 ("Open Access"), the IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the letter of credit if the Corporation defaults on its payment. Further, as at December 31, 2010, an additional $444 (2009 - $46) of the uncommitted Letter of Guarantee facility was utilized as security for operation projects.

The 364-day committed revolving credit facility can be drawn upon by direct advances, bearing interest at prime plus 0.15% or Bankers' Acceptance of a stamping fee plus 110 basis points (1.10% per annum). The uncommitted demand facility bears an interest rate of prime minus 0.10% or Bankers' Acceptance of a stamping fee plus 90 basis points (0.90% per annum). The Letter of Guarantee facility bears a charge of 50 basis points (0.50%) per annum.

The amount of short-term debt drawn on the credit facilities consists of:

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| Uncommitted demand facility | **25,000** | 25,000 |
| 364-day committed revolving credit facility | **15,000** | 15,000 |
| | **40,000** | 40,000 |

*(b) Ontario Infrastructure Projects Corporation ("Infrastructure Ontario") financing*

On October 15, 2010 the Corporation secured financing with Infrastructure Ontario for its Solar business. The funding is available for up to 5 years from the date that the agreement was signed.

As at December 31, 2010, the Corporation has utilized $827 of the $90,000 financing facility. Each advance shall bear interest at a floating rate per annum as determined by Infrastructure Ontario. The advance interest rate at December 31, 2010 was 1.74% and interest expense for the year was $0.670.

The Corporation will pay Infrastructure Ontario a stand-by fee calculated at a rate of 25 basis points (0.25%) on the unadvanced balance of the committed amount should the Corporation fail to draw any funds pursuant to the agreement from Infrastructure Ontario during any period of 12 consecutive months commencing initially from October 15, 2010 and subsequently from the date of the draw of any such funds until the earlier of the facility termination date October 15, 2015 or the full advance of the committed amount. The financial covenants require a debt service coverage ratio of 1 to 1 or higher, a debt to capital ratio of 70% or lower, and a current ratio of 1:1 or higher.

(In thousands of dollars)

## 11. Long-term debt

*(a) Bank term loan*

The bank term loan of $50,000 is a 5 year fixed rate term loan with a Canadian Chartered Bank which bears interest at an annual rate of 5.08%. It is a non-amortizing loan with repayment at the end of the contracted term, February 26, 2013. The financial covenants require a total debt to capitalization ratio of no greater than 0.60:1, and to maintain an interest coverage ratio of no less than 1.25:1.

Interest expense relating to the bank term loan for the year ended December 31, 2010 was $2,540 (2009 - $2,540).

*(b) Debentures payable*

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| 6.45% unsecured debentures due August 15, 2012, interest payable in arrears semi-annually on August 15 and February 15 | **123,765** | 123,091 |

In August 2002, the four predecessor corporations (Hydro Vaughan Distribution Inc., Markham Hydro Distribution Inc., Richmond Hill Hydro Inc. and Barrie Hydro Distribution Inc.) raised gross proceeds of $125,000 through a private placement offering. These predecessor corporations were four of five LDCs that participated in the Electricity Distributors Finance Corporation ("EDFIN") 10 Year Debenture Issue (Series 2002-1) that was offered on a private placement. EDFIN is a specific purpose corporation managed by MEARIE Management Inc., for the purpose of providing the LDCs with efficient access to the debt capital markets. Each LDC has executed a debenture which is a direct and unsecured obligation of the LDC. The LDC's obligations are several and not joint, and each LDC is liable for its own obligation and not that of any other LDC.

The debentures are recorded at amortized cost, using the effective interest method. Interest expense relating to the debentures payable was $8,737 (2009 - $8,691) which included $674 (2009 - $629) of accretion.

The debentures are subject to a financial covenant. This covenant requires that the consolidated funded obligation does not exceed 75% of the total consolidated capitalization of the Corporation.

*(c) Notes payable*

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| Promissory note issued to the City of Vaughan | **78,236** | 78,236 |
| Deferred interest on promissory note issued to the City of Vaughan | **8,743** | 8,743 |
| Promissory note issued to the Town of Markham | **67,866** | 67,866 |
| Deferred interest on promissory note issued to the Town of Markham | **7,585** | 7,585 |
| Promissory note issued to the City of Barrie | **20,000** | 20,000 |
| | **182,430** | 182,430 |

(In thousands of dollars)

## 11. Long-term debt (continued)

*(c) Notes payable (continued)*

On June 1, 2004 an unsecured 20 year term promissory note was issued to the City of Vaughan in the amount of $78,236. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On June 1, 2004 an unsecured 20 year term promissory note was issued to the Town of Markham in the amount of $67,866. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On December 31, 2008, an unsecured 16 year term promissory note was issued to the City of Barrie in the sum of $20,000. Interest for fiscal 2010 is at an annual rate of 5.58%.

The three promissory notes are repayable 90 days following demand by the City of Vaughan, the Town of Markham, and the City of Barrie, with subordination and conditions. These notes have been classified as long-term as it is not the intent of the City of Vaughan, the Town of Markham, or the City of Barrie to demand repayment within the next year.

At the request of the City of Vaughan and the Town of Markham, eight quarters of interest have been deferred commencing October 1, 2006. This deferred interest will be repayable in full on October 31, 2013 and is subject to the same interest rate and conditions as the original note.

Interest of $4,853 (2009 - $4,853) on the note payable to the City of Vaughan, $4,210 (2009 - $4,210) on the note payable to the Town of Markham and interest of $1,116 (2009 - $1,300) to the City of Barrie was charged to interest expense during the year. This includes interest on the related deferred interest balance for the City of Vaughan and the Town of Markham.

## 12. Employee future benefits

The Corporation measures its accrued benefit obligation for accounting purposes every three years. The latest actuarial valuation was performed as at December 31, 2009.

On June 30, 2010, the Corporation signed a new three year collective agreement with the Power Workers Union. As a result of the new agreement, limited employee post-employment benefits were extended to all union employees and any union employees hired during the term of the collective bargaining agreement. An actuarial review was undertaken only for the additional employees added to the post-employment benefit plan. This was for the period July 1, 2010 to December 31, 2010.

In December 2010 the Corporation approved extending the post-employment benefit plan to all management employees effective February 2011 on the same basis as noted above for the union employees. As a result, the accrued benefit liability was increased by $627 for the additional management employees.

A reconciliation of the Corporation's accrued benefit obligation to the amounts recorded in the financial statements is as follows:

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| Accrued benefit obligation | **20,297** | 16,490 |
| Unamortized transitional obligation | **(417)** | (482) |
| Unamortized net actuarial losses | **(5,285)** | (3,972) |
| Unamortized past service costs | **(588)** | - |
| Accrued benefit liability December 31, 2010 | **14,007** | 12,036 |

(In thousands of dollars)

## 12. Employee future benefits (continued)

Details of the accrued benefit obligation are as follows:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Accrued benefit obligation, beginning of the year | **16,490** | 13,441 |
| Current service cost | **418** | 260 |
| Interest cost on obligation | **951** | 878 |
| Unamortized past service costs | **1,261** | - |
| Benefit payments | **(428)** | (393) |
| Actuarial losses | **1,605** | 2,304 |
| Accrued benefit obligation, end of the year | **20,297** | 16,490 |

The plan expense for the year is determined as follows:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Current service cost | **418** | 260 |
| Interest cost on obligation | **951** | 878 |
| Amortization of transitional obligation | **72** | 70 |
| Amortization of past service costs | **38** | - |
| Amortization of net actuarial losses | **292** | 108 |
| Plan expense | **1,771** | 1,316 |

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation are as follows:

| | % |
|---|---|
| Discount rate | **5.00 - 5.50** |
| Rate of compensation increase | **3.50** |
| Medical benefits costs escalation - hospitalization | **5.00 - 8.30** |
| Medical benefits costs escalation - extended health care | **5.00 - 8.30** |
| Dental benefits costs escalation | **5.00** |

*Sensitivity analysis*

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2010:

| | Increase | Decrease |
|---|---|---|
| | $ | $ |
| Total service and interest cost | **270** | **(147)** |
| Accrued benefit obligation | **3,078** | **(2,456)** |
| | 3,348 | (2,603) |

(In thousands of dollars)

## 13. Pension

The Corporation provides a pension plan to its full time employees through OMERS, a multi-employer plan. The Corporation incurred $3,150 (2009 - $2,536) of contribution expense during the year ended December 31, 2010.

## 14. Share capital

The Corporation's authorized share capital is made up of an unlimited number of common shares, and an unlimited number of Class A common shares. The issued share capital is as follows:

| | | **2010** | 2009 |
|---|---|---|---|
| | | **$** | $ |
| 100,000 | Common shares | **247,183** | 247,183 |
| 4,056 | Class A common shares, non-voting | **2,435** | - |
| | | **249,618** | 247,183 |

Of the total 100,000 common shares issued 45,315 common shares are registered under Vaughan Holdings Inc. (wholly owned the City of Vaughan), 34,185 common shares are registered under Markham Enterprises Corporation (wholly owned by the Town of Markham) and 20,500 common shares are registered under Barrie Hydro Holdings Inc. (wholly owned by the City of Barrie).

On November 23, 2010 a Subscription Agreement was signed between the Corporation and its Shareholders for new Class A common shares for the purposes of the Shareholders providing equity for the Corporation's solar business. The articles of incorporation and shareholders agreement were amended in order to proceed with the subscription agreement. The maximum amount of Class A common shares that are available under the subscription agreement is 100,000.

Of the total 4,056 Class A common shares issued 1,838 Class A common shares are registered under Vaughan Holdings Inc. (wholly owned the City of Vaughan), 1,387 Class A common shares are registered under Markham Enterprises Corporation (wholly owned by the Town of Markham) and 831 Class A common shares are registered under Barrie Hydro Holdings Inc. (wholly owned by the City of Barrie).

*Dividends*

The Corporation has established a dividend policy to distribute a minimum dividend on the common shares of 50% of net income with consideration given to the:

- Cash position at the beginning of the year;
- Working capital requirements for the current year; and
- Net capital expenditures required for the current year.

In 2010, the Corporation paid a dividend on the common shares of $10,532. During 2009, the Corporation paid $11,274 to the shareholders based on the combined net income of the predecessor corporations. In addition, the Corporation made a special payment of $19,808 to the shareholders as the final closing adjustment for the amalgamation of PowerStream Inc. and Barrie Hydro Distribution Inc.

(In thousands of dollars)

## 15. Insurance

The Corporation maintains appropriate types and levels of insurance with major insurers. With respect to liability insurance, the Corporation is a member of the Municipal Electricity Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousands of dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Coverage is provided to a level of $24,000 per incident.

## 16. Leases

On October 9, 2008, the Corporation entered into a 25 year lease agreement relating to its operation centre. The lease term commenced January 1, 2010 and occupancy occurred in March 2010. Upon entering into this lease arrangement, the Corporation evaluated whether substantially all of the benefits and risks of ownership related to this operation centre have been transferred to the Corporation (the lessee) in order to determine if the lease is classified and recorded as capital or operating. The component of the annual basic rent related to the land is classified and recorded as an operating lease and the component related to the building is classified as a capital lease.

The Corporation is also committed to lease agreements for various vehicles and equipment that have been classified as operating leases.

The annual basic rent for capital and operating leases are as follows:

| | Capital | Operating |
|---|---|---|
| | $ | $ |
| 2011 | 1,430 | 1,128 |
| 2012 | 1,430 | 1,204 |
| 2013 | 1,430 | 1,162 |
| 2014 | 1,430 | 1,145 |
| 2015 | 1,430 | 1,143 |
| 2016 and thereafter | 29,285 | 22,268 |
| | 36,435 | 28,050 |
| Less: amounts representing interest | 18,497 | |
| | 17,938 | |
| Less: current portion of capital lease obligation | 259 | |
| Capital lease obligation | 17,679 | |

Interest on the lease obligation during fiscal 2010 amounted to $1,087 based on the rate of 6.57% per annum. Amortization of the corresponding capital asset during fiscal 2010 amounted to $731 based on the straight-line method with a useful life equal to the term of the lease (25 years).

## 17. Contingencies

*(a) Legal claims*

The Corporation has been named as a defendant in several actions. No provision has been recorded in the financial statements for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

*(b) Ministry of Finance tax audits*

The Ministry of Finance (the "Ministry") has conducted PILs audits of the taxation years up to and including the 2006 year.

There remains an outstanding matter regarding the treatment of the RSVA for tax purposes.

There has been inconsistent practice of tax treatment of certain regulatory asset/liability accounts among LDCs across Ontario.

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 financial statements. Similar treatment has been followed for tax purposes. The Ministry is questioning this treatment of the RSVA for tax purposes and is suggesting that RSVA liabilities may be considered income for tax purposes.

The Ministry is currently reviewing the treatment of RSVA for tax purposes on a province wide basis. The impact of a tax ruling may result in a reassessment of taxes payable which could have an impact on results, financial position and cash flows in the future. The outcome of the Ministry's review is not determinable and as such, amounts will be recorded as necessary.

(In thousands of dollars)

## 18. Financial instruments and risk management

*(a) Recognition and measurement*

The Corporation's accounting policies relating to the recognition and measurement of financial instruments are disclosed in Note 2(c).

The Corporation's carrying value and fair value of financial instruments are as follows:

| | | **2010** | | 2009 |
|---|---|---|---|---|
| **Description** | **Carrying value** | **Fair value** | Carrying value | Fair value |
| | **$** | **$** | $ | $ |
| Assets | | | | |
| Cash | **8,568** | **8,568** | 42,612 | 42,612 |
| Accounts receivable (net of allowance for doubtful accounts) | **69,366** | **69,366** | 73,633 | 73,633 |
| | **77,934** | **77,934** | 116,245 | 116,245 |
| Liabilities | | | | |
| Accounts payable and accrued liabilities | **105,339** | **105,339** | 110,405 | 110,405 |
| Customer deposits | **13,549** | **13,549** | 17,726 | 17,726 |
| Due to related parties | **12,214** | **12,214** | 12,049 | 12,049 |
| Short-term debt | **40,000** | **40,000** | 40,000 | 40,000 |
| Infrastructure Ontario financing | **827** | **827** | - | - |
| Bank term loan | **50,000** | **52,529** | 50,000 | 53,686 |
| Debentures payable | **123,765** | **131,326** | 123,091 | 135,391 |
| Notes payable | **182,430** | **207,468** | 182,430 | 198,901 |
| | **528,124** | **563,252** | 535,701 | 568,158 |

The fair value of financial instruments has been calculated using the market interest rates as at December 31, adjusted for the Corporation's risk rating. The Corporation uses Level 1 classifications for fair value measurements for most of its financial instruments and Level 2 classifications for the bank term loan, debentures payable and notes payable.

*(b) Risk factors*

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk and liquidity risk as well as related mitigation strategies have been discussed below. However, the risks described below are not exhaustive of all the risks nor will the mitigation strategies eliminate the Corporation's exposure to all risks listed.

(In thousands of dollars)

## 18. Financial instruments and risk management (continued)

### (c) *Credit risk*

The Corporation's primary source of credit risks to its accounts receivable result from customer's failing to discharge their dues for electricity consumed and billed. The Corporation has approximately 325,000 (2009 - 321,000) residential and commercial customers. In order to mitigate such potential credit risks, the Corporation has taken various measures in respect of its Energy customers such as collecting security deposits amounting to $17,043 (2009 - $21,872) in accordance with OEB guidelines, reviewing Dun & Bradstreet (D&B) reports for the top 3000 commercial customers with an outstanding balance of $5 or more, in-house collection department as well as external collection agencies and a bad debt insurance policy for $4,500 (2009 - $4,500) related to energy receivables. Thus, the Corporation monitors and limits its exposure to such credit risks on an ongoing basis.

Pursuant to their respective terms, accounts receivable are aged as follows at December 31:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Total** | | Total | |
| | **$** | **$** | $ | $ |
| Less than 30 days | **55,435** | **78** | 55,965 | 73 |
| 30 - 60 days | **8,493** | **12** | 4,346 | 6 |
| 61 - 90 days | **3,434** | **5** | 4,336 | 6 |
| Greater than 91 days | **4,082** | **5** | 11,161 | 15 |
| Total outstanding | **71,444** | **100** | 75,808 | 100 |
| Less: Allowance for doubtful accounts | **(2,078)** | **(3)** | (2,175) | (3) |
| | **69,366** | | 73,633 | |

As at December 31, 2010, there was no significant concentration of credit risk with respect to any class of financial assets.

### (d) *Interest rate risk*

The Corporation manages its exposure to interest rate risk by issuing long term fixed rate debt in the form of debentures, promissory notes and bank loans. It also ensures that all payment obligations are met by adopting proper capital planning.

As part of the Corporations' revolving demand operating credit facility, the Corporation may utilize the line of credit for working capital and/or capital expenditure purposes. Such short term borrowing may expose the Corporation to short term interest rate fluctuations as follows:

| | **2010** | 2009 |
|---|---|---|
| 364 day revolving facility | | |
| Prime based loans | **PR*+0.15% p.a.** | PR*+0.25% p.a. |
| Bankers Acceptances | **SF*+1.10% p.a.** | SF*+1.37% p.a. |
| Demand facility | | |
| Prime based loans | **PR*-0.10% p.a.** | PR*+0.00% p.a. |
| Bankers acceptances | **SF*+0.90% p.a.** | SF*+1.00% p.a. |
| Letter of guarantee facility | **0.50% p.a.** | 0.50% p.a. |
| Committed term facility (Fixed Rate for 5 Years) | **5.08% p.a.** | 5.08% p.a. |
| Infrastructure Ontario financing | **Floating rate p.a.** | - |

*Note: PR*- Prime Rate, SF* - Stamping Fee*

(In thousands of dollars)

## 18. Financial instruments and risk management (continued)

*(d) Interest rate risk (continued)*

A sensitivity analysis was conducted to examine the impact of a change in the prime rate or stamping fee on the short-term debt. A variation of 1% (100 basis points) would increase or decrease the annual interest expense by approximately $400.

Cash balances that are not required for day to day obligations earn an interest of Prime minus 1.7% per annum. These interest rate fluctuations could impact the level of interest income earned by the Corporation.

*(e) Liquidity risk*

Liquidity risks are those risks associated with the Corporation's inability to meet obligations associated with financial liabilities such as repayment of principal or interest payments on debts. The Corporation monitors its liquidity risks on a regular basis to ensure there is sufficient cash flow to meet the obligations as they fall due as well as minimize the interest expense. Cash flow forecasts are prepared to monitor liquidity risks. Liquidity risks associated with financial liabilities are as follows:

| | | | **2010** | | 2009 |
|---|---|---|---|---|---|
| Maturity period | **Principal *** | **Interest** | **Total** | Principal * | Interest |
| | **$** | **$** | **$** | $ | $ |
| Less than 1 year | **117,553** | **-** | **117,553** | 123,454 | - |
| 1-5 years | **231,327** | **22,159** | **253,486** | 231,327 | 33,673 |
| 6-10 years | **-** | **-** | **-** | - | - |
| Over 10 years | **166,102** | **124,353** | **290,455** | 166,102 | 133,621 |
| | **514,982** | **146,512** | **661,494** | 520,883 | 167,294 |

* The principal includes $1,908 of deferred issuing cost amortization

*(f) Hedging / Derivative risk*

The Corporation has a swap and derivative transaction policy to enable the Corporation to enter into agreements such as interest rate swaps where 100% of the floating rate risk is hedged into a fixed rate. This is done for prudent risk management purposes and not speculative purposes. The Corporation has not entered into any such transactions during the year.

## 19. Capital disclosures

The Corporation's main objectives in the management of capital are to:

(i) Ensure that there is access to various funding options at the lowest possible rates for the various capital initiatives and working capital requirements necessary for the distribution business.

(ii) Ensure compliance with various covenants related to its long-term/short-term debt, promissory notes and debentures.

(iii) Consistently maintain a high credit rating for the Corporation.

(iv) Maintain a split of approximately 60% debt, 40% equity as recommended by the OEB.

(v) Ensure interest rate fluctuations are mitigated primarily by long term borrowings as well as capital planning.

(vi) Deliver appropriate financial returns to shareholders.

(In thousands of dollars)

## 19. Capital disclosures (continued)

The Corporation considers shareholders' equity, long-term debt and certain short-term debt as its capital. The capital structure as at December 31, 2010 is as follows:

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| **Shareholders' equity** | | |
| Share capital (Note 14) | **249,618** | 247,183 |
| Retained earnings | **36,999** | 21,064 |
| Total equity | **286,617** | 268,247 |
| **Short-term debt** | | |
| Short-term debt (Note 10 (a)) | **40,000** | 40,000 |
| Infrastructure Ontario financing (Note 10 (b)) | **827** | - |
| **Long-term debt** | | |
| Bank term loan (Note 11 (a)) | **50,000** | 50,000 |
| Debenture payable (Note 11 (b)) | **123,765** | 123,091 |
| Notes payable (Note 11 (c)) | **182,430** | 182,430 |
| Total debt | **397,022** | 395,521 |
| **Total capital** | **683,639** | 663,768 |

As at December 31, 2010, the Corporation was in compliance with all covenants included in its short-term debt, bank term loan, debentures payable and notes payable. Details relating to debt covenants are disclosed in Note 10 and Note 11.

The Corporation is within the debt and equity requirements of the OEB.

The Corporation's dividend policy is disclosed in Note 14.

(In thousands of dollars)

## 20. Corporate income taxes

The provision for PILs is comprised of the following:

| | 2010 | 2009 |
|---|---|---|
| | **$** | $ |
| Current income taxes | **10,527** | 8,561 |
| Future income liabilities | **61** | - |
| | **10,588** | 8,561 |

*(a) Current taxes*

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and provincial statutory income tax rates. The reconciliation between the statutory and effective tax rates is provided as follows:

| | 2010 | 2009 |
|---|---|---|
| | **$** | $ |
| Income from operations before PILs | **37,055** | 29,625 |
| Statutory Canadian federal and provincial income tax rates | **31.00%** | 33.00% |
| Expected tax provision on income at statutory rates | **11,487** | 9,776 |
| Increase (decrease) in income taxes resulting from timing differences: | | |
| Amortization/CCA differences | **(2,776)** | (2,755) |
| Post employment benefits | **611** | 305 |
| Eligible capital expenditures | **(166)** | (227) |
| Other reserves | **368** | 590 |
| Revenue and overheads related to smart meters recognized for tax purposes but capitalized for accounting purposes | **604** | 401 |
| Other | **569** | 577 |
| Permanent differences | **(109)** | (106) |
| Provision for PILs | **10,588** | 8,561 |

(In thousands of dollars)

## 20. Corporate income taxes (continued)

### (b) *Future income tax assets*

Future income tax assets of $53,313 (2009 - $61,665), and a corresponding regulatory liability of $53,313 (2009 - $61,665) were recorded as at December 31, 2010. Significant components of the Corporation's future income tax assets and liabilities are as follows:

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| Employee future benefits | **4,377** | 3,943 |
| Property, plant, equipment and intangible assets | **46,126** | 56,235 |
| Smart meter revenues/costs | **1,914** | 1,543 |
| Other taxable temporary differences | **896** | (56) |
| | **53,313** | 61,665 |

### (c) *Future income tax liabilities*

Future income tax liabilities of $61 were recorded as at December 31, 2010. The future tax liabilities relate to taxable temporary differences. This amount is not offset by a regulatory asset, as it relates specifically to the Corporation's non-regulated solar business.

## 21. Net change in non-cash operating working capital

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| Accounts receivable | **4,267** | (9,586) |
| Unbilled revenue | **(4,047)** | (11,501) |
| Income taxes recoverable | **1,525** | 2,206 |
| Inventories | **819** | 126 |
| Prepaid and other | **(137)** | 96 |
| Accounts payable and accrued liabilities | **(7,372)** | (11,853) |
| Current portion of customer deposits | **478** | - |
| Increase in due to related parties | **165** | 2,150 |
| Income taxes payable | **1,588** | 5,034 |
| | **(2,714)** | (23,328) |

## 22. Net interest expense

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| Interest expense | **22,421** | 21,886 |
| Interest income | **(407)** | (272) |
| | **22,014** | 21,614 |

## 23. Guarantees

In the normal course of business, the Corporation enters into agreements that meet the definition of a guarantee as follows:

(a) The Corporation has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Corporation agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Indemnity has been provided to all directors and/or officers of the Corporation for various items including, but not limited to, all costs to settle suits or actions due to association with the Corporation, subject to certain restrictions. The Corporation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Corporation. The maximum amount of any potential future payment cannot be reasonably estimated.

(c) In the normal course of business, the Corporation has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Corporation to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Corporation has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

## 24. Comparatives

In certain instances, the prior year information presented for comparative purposes has been reclassified to conform to the financial statement presentation adopted for the current year.

# COLLINGWOOD UTILITY SERVICES CORP.

## FINANCIAL STATEMENTS

## DECEMBER 31, 2009

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GAVILLER & COMPANY LLP
CHARTERED ACCOUNTANTS

## NOTICE TO READER

On the basis of information provided by management, we have compiled the balance sheet of **Collingwood Utility Services Corp.** as at December 31, 2009.

We have not performed an audit or a review engagement in respect of these financial statements and, accordingly, we express no assurance thereon.

Readers are cautioned that these statements may not be appropriate for their purposes.

*Gaviller & Company LLP*
Licensed Public Accountants
Collingwood, Ontario
March 5, 2010

# COLLINGWOOD UTILITY SERVICES CORP.

**BALANCE SHEET**
**AS AT DECEMBER 31**

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Due from Town of Collingwood | **100** | 100 |
| Investment in subsidiaries, at cost | **5,101,540** | 5,101,540 |
| | **5,101,640** | 5,101,640 |

| | | |
|---|---|---|
| **Shareholder's equity** | | |
| Capital stock | | |
| Authorized | | |
| Unlimited common shares | | |
| Issued | | |
| 5,101,640 common shares | **5,101,640** | 5,101,640 |
| Total shareholder's equity | **5,101,640** | 5,101,640 |

Approved on behalf of the board:

_________________________ Director

_________________________ Director

# COLLUS ENERGY CORP.

## FINANCIAL STATEMENTS

## DECEMBER 31, 2009

### CONTENTS

## NOTICE TO READER

On the basis of information provided by management, we have compiled the balance sheet of **COLLUS Energy Corp.** as at December 31, 2009.

We have not performed an audit or a review engagement in respect of these financial statements and, accordingly, we express no assurance thereon.

Readers are cautioned that these statements may not be appropriate for their purposes.

*Gaviller & Company LLP*
Licensed Public Accountants
Collingwood, Ontario
May 26, 2010

# COLLUS ENERGY CORP.

**BALANCE SHEET**
**AS AT DECEMBER 31**

| | 2009 | 2008 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| Due from Town of Collingwood | **100** | 100 |
| Total assets | **100** | 100 |
| **Shareholder's equity** | | |
| Capital stock | | |
| Authorized | | |
| Unlimited number of common shares | | |
| Issued | | |
| 100 common shares | **100** | 100 |
| Total shareholder's equity | **100** | 100 |

Approved on behalf of the Board:

______________________________ Director

______________________________ Director

# COLLUS POWER CORP.

## FINANCIAL STATEMENTS
## DECEMBER 31, 2009

## 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, 2009, 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 the company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Gaviller & Company LLP*
Licensed Public Accountants
Collingwood, Ontario
March 5, 2010

# COLLUS POWER CORP.

## BALANCE SHEET
## AS AT DECEMBER 31

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| Current | | |
| Cash | **1,388,603** | 5,113,419 |
| Taxes recoverable | **102,231** | 180,719 |
| Accounts receivable | **3,554,460** | 3,937,272 |
| Unbilled revenue | **3,024,852** | 3,470,384 |
| Inventory | **297,789** | 255,131 |
| | **8,367,935** | 12,956,925 |
| Property, Plant and Equipment | | |
| Lands | **90,439** | 90,439 |
| Buildings | **255,668** | 80,668 |
| Distribution stations | **3,857,578** | 3,150,296 |
| Distribution lines | **19,596,227** | 17,864,725 |
| Distribution transformers | **5,020,605** | 4,647,854 |
| Distribution meters | **1,565,562** | 1,478,408 |
| Other | **2,838,992** | 2,139,843 |
| Load control | **1,459,235** | 1,417,631 |
| Contributions in aid of construction (Note 4) | **(9,354,806)** | (6,738,873) |
| | **25,329,500** | 24,130,991 |
| Less accumulated depreciation | **(13,405,295)** | (12,472,621) |
| | **11,924,205** | 11,658,370 |
| Other | | |
| Goodwill | **276,704** | 276,704 |
| Intangible assets (net of accumulated amortization of $130,189) | **338,117** | 33,667 |
| Investment in Utility Collaborative Services Inc. - at cost | **100** | - |
| Future taxes recoverable | **178,811** | 145,874 |
| | **793,732** | 456,245 |
| | **21,085,872** | 25,071,540 |

Approved by directors:

________________________________ Director

________________________________ Director

See accompanying notes to the financial statements

# COLLUS POWER CORP.

## BALANCE SHEET
## AS AT DECEMBER 31

| | 2009 | 2008 |
|---|---|---|
| | **$** | $ |
| **Liabilities** | | |
| Current | | |
| Accounts payable and accruals (Notes 4 and 7) | **7,350,989** | 8,686,709 |
| Customer deposits | **355,081** | 355,272 |
| Current portion of long-term | **-** | 1,117,353 |
| | **7,706,070** | 10,159,334 |
| Long-term (Note 6) | **1,710,170** | 1,710,170 |
| Employee future benefits (Note 14) | **281,085** | 255,109 |
| Other (Note 5) | **1,005,314** | 3,012,396 |
| Total liabilities | **10,702,639** | 15,137,009 |
| **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 | **2,315,879** | 1,867,177 |
| Total shareholder's equity | **10,383,233** | 9,934,531 |
| | **21,085,872** | 25,071,540 |

See accompanying notes to the financial statements

# COLLUS POWER CORP.

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

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| Revenue | | |
| Sale of power | **24,064,556** | 23,782,787 |
| Distribution services | **5,126,519** | 4,517,599 |
| | **29,191,075** | 28,300,386 |
| Cost of power | | |
| Power purchased | **24,064,556** | 23,782,787 |
| Distribution income (17.6%, 2008 - 16.0%) | **5,126,519** | 4,517,599 |
| Other revenue | **488,295** | 539,564 |
| | **5,614,814** | 5,057,163 |
| Operating and maintenance expenses (Note 7) | | |
| Distribution and transmission | **1,903,185** | 1,839,366 |
| Billing and collecting | **821,070** | 632,507 |
| General administration (Notes 6 and 7) | **1,369,727** | 1,370,336 |
| Depreciation and amortization | **1,004,161** | 854,329 |
| | **5,098,143** | 4,696,538 |
| Net income before taxes | **516,671** | 360,625 |
| Provision for (recovery of) taxes | | |
| Current | **100,906** | 136,676 |
| Future | **(32,937)** | (55,874) |
| | **67,969** | 80,802 |
| **Net income for the year** | **448,702** | 279,823 |
| Retained income, beginning of year | **1,867,177** | 1,587,354 |
| **Retained income, end of year** | **2,315,879** | 1,867,177 |

See accompanying notes to the financial statements

# COLLUS POWER CORP.

## STATEMENT OF CASH FLOW
## FOR THE YEAR ENDING DECEMBER 31

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| **Cash flows from (for):** | | |
| **Operating activities** | | |
| Net income | **448,702** | 279,823 |
| Items not requiring funds | | |
| Depreciation | **1,036,132** | 925,191 |
| Amortization of deferred charges and smart meters | **76,094** | 8,155 |
| Future taxes | **(32,937)** | (55,874) |
| | **1,527,991** | 1,157,295 |
| Changes in | | |
| Accounts receivable | **328,812** | 1,341,637 |
| Unbilled revenue | **445,532** | (140,768) |
| Inventory | **(42,658)** | 27,362 |
| Accounts payable and accruals | **(1,335,718)** | 1,548,830 |
| Taxes payable | **78,488** | (200,941) |
| Customer deposits | **(191)** | (3,504) |
| Employee future benefits | **25,976** | 44,000 |
| Other liabilities | **(2,709,369)** | 633,769 |
| | **(1,681,137)** | 4,407,680 |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | **(926,226)** | (2,610,130) |
| Investment in Utility Collaborative Services Inc. | **(100)** | - |
| | **(926,326)** | (2,610,130) |
| **Financing activities** | | |
| Repayment of long-term liabilities | **(1,117,353)** | (324,244) |
| **Change in cash** | **(3,724,816)** | 1,473,306 |
| Cash position, beginning of year | **5,113,419** | 3,640,113 |
| **Cash position, end of year** | **1,388,603** | 5,113,419 |

See accompanying notes to the financial statements

**NOTES TO THE FINANCIAL STATEMENTS**
**AS AT DECEMBER 31, 2009**

## 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, 2009, the company was authorized to earn 9.85% 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 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 | 6.67% to 20% |

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

(f) Economic evaluation is an estimate of amounts due to subdivision developers in the future as repayment for the developers installation of hydro infrastructure.

(g) The purchased power cost variance represent variances in the purchase and sale of electricity which will be recovered from or returned to customers by increases or decreases to rates in the future. Purchased power cost variance includes annual carrying charges accrued at the OEB quarterly interest rate in effect.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2009

**1. Significant accounting policies (continued)**

(h) 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.

(i) 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.

(j) 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.

**2. Changes in accounting policies**

(a) Capital disclosures

Effective December 1, 2009, the company adopted CICA Handbook Section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity’s capital and how it is managed. Adoption of these recommendations had no effect on the financial statements for the year ending December 31, 2009 except for additional disclosure found in Note 15.

(b) Intangible assets

Effective January 1, 2009, the company adopted CICA Handbook Section 3064 - "Goodwill and Intangible Assets" which replaced CICA Handbook Section 3062 - "Goodwill and Other Intangible Assets". Existing assets were examined to determine if they met the new criteria for an intangible asset. It was determined that the company's computer software met the new criteria and was re-classified as an intangible asset from property, plant and equipment. The historical cost of the computer software is \$468,306 (2008 - \$70,196) and the accumulated depreciation is \$130,189 (2008 - \$36,529). Computer software is being amortized over its useful life on a straight line basis over 5 years.

**3. Future Accounting Pronouncements**

On February 13, 2008, the Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2011. The transition period is expected to begin for fiscal years beginning on or after January 1, 2010. The impact of these changes cannot be estimated at this time. 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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2009

## 4. 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 (2008 - $633,711). The liability is included in accounts payable. The balance of $9,354,806 (2008 - $6,738,873) is recorded as a reduction of the cost of capital assets.

## 5. Other assets (liabilities)

Other assets (liabilities) consist of the following:

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| Deferred charges-service area expansion (net of $90,744 accumulated amortization, 2008 - $82,589) | **114,170** | 122,325 |
| **Regulatory assets** | | |
| Other regulatory assets | **66,530** | 82,356 |
| Smart meter variance | **1,927,304** | - |
| Total regulatory assets | **1,993,834** | 82,356 |
| **Regulatory liabilities** | | |
| Purchased power cost variance | **(2,562,776)** | (2,669,912) |
| Regulatory recoveries | **(507,194)** | (184,311) |
| Smart meter variance | **-** | (29,521) |
| Other regulatory liabilities | **(43,348)** | (333,333) |
| Total regulatory liabilities | **(3,113,318)** | (3,217,077) |
| Net liability | **(1,005,314)** | (3,012,396) |

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.

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 2010. The company launched its project shortly following the Province of Ontario's announcement in 2006. As at December 31, 2009, the company had installed approximately 15,000 smart meters. In 2008, in connection with this initiative, the OEB approved the disposition of the balances incurred in 2006 and 2007. As at December 31, 2008, smart meter capital expenditures totaled $2,257,264 (2008 - $24,073 ) which is offset by revenues of $262,021 (2008 - $l17,270 ) and accumulated depreciation of $67,939 (2008 - $NIL ).

## NOTES TO THE FINANCIAL STATEMENTS
## AS AT DECEMBER 31, 2009

### 6. Long-term liabilities

Long-term liabilities consist of the following:

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| 5.47% demand installment loan payable to the CIBC, repaid on January 7, 2009. | **-** | 1,117,353 |
| 7.25% note payable to the Town of Collingwood, no set terms of repayment | **1,710,170** | 1,710,170 |
| | **1,710,170** | 2,827,523 |
| Current portion | **-** | (1,117,353) |
| | **1,710,170** | 1,710,170 |

Included in general administration expense is $129,020 (2008 - $188,965) of interest on long-term liabilities.

The company is contingently liable for a letter of credit in the amount of $1,631,702 (2008 - $1,631,702) to meet the prudential requirements of the Independent Electricity System Operator.

**NOTES TO THE FINANCIAL STATEMENTS**
**AS AT DECEMBER 31, 2009**

## 7. 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:

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| Amounts payable to the Collingwood Public Utilities Service Board | **(496,809)** | (322,931) |
| Amounts payable to COLLUS Solutions Corp. | **(94,769)** | (63,978) |
| Amounts payable to the Town of Collingwood | **(412,995)** | (2,221,671) |
| 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** | 194,000 |
| Operating and maintenance expenses include services purchased from COLLUS Solutions Corp. | **1,114,125** | 1,068,195 |
| 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 |

## 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. Supplemental cash flow information

Cash receipts and (payments) were made as follows:

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| Interest paid | **(179,149)** | (188,965) |
| Interest received | **68,862** | 133,513 |
| Taxes paid | **(204,160)** | (337,617) |
| Taxes refunded | **181,742** | - |

## 10. Contingencies

A class action has been brought under the Class Proceedings Act, 1992. The plaintiff class seeks $500 million in restitution for amounts paid to Toronto Hydro and to other municipal electric utilities (LDCs) who received late payment penalties which constitute interest at 60% per year, contrary to section 347 of the Criminal Code. Pleadings have closed in this action. The action has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceedings brought against Enbridge Gas Distribution Inc. (formerly Consumers Gas).

On April 22, 2004, the Supreme Court of Canada released a decision in the Consumers Gas case rejecting all of the defences which had been raised by Enbridge, although the court did not permit the plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Supreme Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by Enbridge and that settlement was approved by the Ontario Superior Court.

In 2007, Enbridge filed an application to the OEB to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008 the OEB approved recovery of the said amounts from ratepayers over a five year period.

After the release by the Supreme Court of Canada of its 2004 decision in the Enbridge case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs. In 2010 the parties reached a tentative settlement and it was determined that the company's portion of the settlement will be $47,000, which has been accrued. The settlement is contingent on all LDCs agreeing to the terms of the settlement.

## 11. Financial instruments

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

## 12. Commitments

The company committed to the construction of the Sixth Street substation. The work began during 2009 and is set to be completed in 2010 by Tilltran. As of December 31, 2009 total costs of $1,050,192 had been incurred. During 2010 additional costs of $177,115 are expected to complete this project.

## 13. Subsequent events

Subsequent to year end, a $3 million loan was approved by Infrastructure Ontario and will be activated upon notice from the Board. This loan is to be paid back over 15 years. The loan interest rate is expected to be 4.67% and the loan will likely be advanced in May 2010.

## NOTES TO THE FINANCIAL STATEMENTS
## AS AT DECEMBER 31, 2009

### 14. 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 $60,174 (2008 - $49,094).

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, 2009 of $281,085 and the net periodic benefit cost for 2009 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 third year or when there are significant changes to the workforce.

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

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| **Accrued benefit obligation** | | |
| Balance at the beginning of period | **255,109** | 211,109 |
| Current service cost for the period | **9,582** | 29,342 |
| Interest cost for the period | **19,409** | 14,116 |
| Actuarial loss | **54,778** | 55,468 |
| Prior period cost | **9,063** | 13,596 |
| Benefits paid for the period | **(10,090)** | (8,947) |
| Projected accrued benefit obligation at end of period as determined by actuarial valuation. | **337,851** | 314,684 |
| Unamortized actuarial loss | **(52,235)** | (50,512) |
| Unamortized prior service cost | **(4,531)** | (9,063) |
| Balance at end of period | **281,085** | 255,109 |
| | | |
| **Components of net periodic benefit cost** | | |
| Current service cost for the period | **9,582** | 29,342 |
| Interest cost for the period | **19,409** | 14,116 |
| Amortization of actuarial loss | **2,543** | 4,956 |
| Amortization of prior service cost | **4,531** | 4,533 |
| Net periodic benefit cost | **36,065** | 52,947 |

**14. 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 2009 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2009, 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 increase at 9.0% in 2009 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 2009 and thereafter.

**15. 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, 2009, 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, 2009 is 1:2.98 (2008 - 1:1.80). 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.

# COLLUS SOLUTIONS CORP.

**FINANCIAL STATEMENTS**
**DECEMBER 31, 2009**

**CONTENTS**

# GAVILLER & COMPANY LLP
**CHARTERED ACCOUNTANTS**

## AUDITORS' REPORT

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

We have audited the balance sheet of **COLLUS Solutions Corp.** as at December 31, 2009, and the statements of income 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 the company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Gaviller & Company LLP*
Licensed Public Accountants
Collingwood, Ontario
March 5, 2010

# COLLUS SOLUTIONS CORP.

## BALANCE SHEET
## AS AT DECEMBER 31

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| Current | | |
| Cash | **183,822** | 279,116 |
| Accounts receivable (Note 3) | **350,105** | 319,348 |
| Taxes receivable | **2,172** | 8,437 |
| | **536,099** | 606,901 |
| Future taxes | **77,026** | 62,470 |
| | **613,125** | 669,371 |
| **Liabilities** | | |
| Current | | |
| Accounts payable and accruals (Note 3) | **85,849** | 194,564 |
| | **85,849** | 194,564 |
| Employee future benefits (Note 9) | **314,390** | 283,955 |
| Total liabilities | **400,239** | 478,519 |
| **Shareholder's equity** | | |
| Capital stock | | |
| Authorized | | |
| Unlimited common shares | | |
| Issued | | |
| 100 common shares | **100** | 100 |
| Retained income | **212,786** | 190,752 |
| Total shareholder's equity | **212,886** | 190,852 |
| | **613,125** | 669,371 |

Approved on behalf of the Board:

______________________________ Director

______________________________ Director

See accompanying notes to the financial statements

# COLLUS SOLUTIONS CORP.

## STATEMENT OF INCOME AND RETAINED INCOME
## FOR THE YEAR ENDED DECEMBER 31

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| Revenue (Note 3) | | |
| Accounting and administrative services | **1,926,006** | 1,852,112 |
| Miscellaneous | **69,676** | 73,903 |
| | **1,995,682** | 1,926,015 |
| Operating expenses (Note 3) | | |
| Administration | **19,585** | 38,471 |
| Wages and benefits | **1,958,770** | 1,886,301 |
| | **1,978,355** | 1,924,772 |
| Income before taxes | **17,327** | 1,243 |
| Provision for (recovery of) taxes | | |
| Current | **9,849** | 8,107 |
| Future | **(14,556)** | (16,119) |
| | **(4,707)** | (8,012) |
| **Net income for the year** | **22,034** | 9,255 |
| Retained income, beginning of year | **190,752** | 181,497 |
| **Retained income, end of year** | **212,786** | 190,752 |

See accompanying notes to the financial statements

# COLLUS SOLUTIONS CORP.

## STATEMENT OF CASH FLOW
## FOR THE YEAR ENDED DECEMBER 31

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| **Cash flows from (for):** | | |
| **Operating activities** | | |
| Net income | **22,034** | 9,255 |
| Items not providing funds | | |
| Future taxes | **(14,556)** | (16,119) |
| | **7,478** | (6,864) |
| Changes in | | |
| Accounts receivable | **(30,757)** | (160,358) |
| Income taxes | **6,265** | (10,338) |
| Accounts payable and accruals | **(108,715)** | 21,793 |
| Employee future benefits | **30,435** | 40,000 |
| **Decrease in cash** | **(95,294)** | (115,767) |
| Cash position, beginning of year | **279,116** | 394,883 |
| **Cash position, end of year** | **183,822** | 279,116 |

See accompanying notes to the financial statements

## NOTES TO THE FINANCIAL STATEMENTS
## AS AT DECEMBER 31, 2009

### 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 employee future benefits. The financial statements have, in the opinion of management, been properly prepared within the framework of the accounting policies summarized below:

(a) Revenue Recognition

Revenue from accounting and administrative services provided are recognized at the time in which the services were provided.

(b) Financial Instruments

The company has adopted 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. The adoption of this standard did not have any impact on the company's results of operations or financial position.

### 2. Tax status

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

### 3. Related party transactions

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

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

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| Amounts receivable from COLLUS Power Corp. | **94,769** | 63,978 |
| Amounts receivable from Collingwood Public Utilities Service Board | **162,324** | 142,223 |
| Amounts receivable from the Town of Collingwood | **75,536** | 83,014 |
| Amounts payable to the Town of Collingwood | **-** | (7,469) |
| Revenues include amounts charged to the following parties: | | |
| Town of Collingwood | **62,517** | 58,087 |
| COLLUS Power Corp. | **1,114,125** | 1,068,195 |
| Collingwood Public Utilities Service Board | **811,881** | 783,917 |
| Expenses include information technology assistance to the Town of Collingwood | **20,029** | 18,326 |

## NOTES TO THE FINANCIAL STATEMENTS
## AS AT DECEMBER 31, 2009

### 4. Economic dependence

As the company's major source of income is derived from providing processing services to related parties its ability to continue viable operations is dependent upon COLLUS Power Corp. and Collingwood Public Utilities Service Board.

### 5. Future Accounting Pronouncements

On February 13, 2008, the Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2011. The transition period is expected to begin for fiscal years beginning on or after January 1, 2010. The impact of these changes cannot be estimated at this time. 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.

### 6. Financial instruments

The company's financial instruments consist of cash, accounts receivable, taxes recoverable and accounts payable and accruals. 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.

### 7. Supplemental cash flow information

Cash receipts (payments) were made as follows:

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| Interest received | **1,555** | 6,931 |
| Taxes refunded | **8,376** | - |
| Taxes paid | **(11,960)** | (18,445) |

## 8. Employee future benefits

The employees of COLLUS Solutions 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 $167,748 (2008 - $121,848).

In addition, COLLUS Solutions 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, 2009 of $314,390 and the net periodic benefit cost for 2009 was determined by actuarial valuations using discount rates of 6.0% and was adjusted by management based on new information available. 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:

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| **Accrued benefit obligation** | | |
| Balance at the beginning of period | **283,955** | 243,955 |
| Current service cost for the period | **12,133** | 29,545 |
| Interest cost for the period | **16,505** | 14,189 |
| Actuarial (gain)/loss | **(24,764)** | 24,010 |
| Prior period cost | **3,805** | 5,707 |
| Benefits paid for the period | **(105)** | (5,730) |
| Projected accrued benefit obligation at end of period as determined by actuarial valuation. | **291,529** | 311,676 |
| Unamortized actuarial gain/(loss) | **24,764** | (23,916) |
| Unamortized prior service cost | **(1,903)** | (3,805) |
| Balance at end of period | **314,390** | 283,955 |
| **Components of net periodic benefit cost** | | |
| Current service cost for the period | **12,133** | 29,545 |
| Interest cost for the period | **16,505** | 14,189 |
| Amortization of actuarial loss | **-** | 94 |
| Amortization of prior service cost | **1,902** | 1,902 |
| Net periodic benefit cost | **30,540** | 45,730 |

## NOTES TO THE FINANCIAL STATEMENTS
## AS AT DECEMBER 31, 2009

**8. Employee future benefits (continued)**

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

(c) General inflation

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.0% in 2009 and thereafter.

(d) Interest (discount) rate

The obligation as at December 31, 2009, 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%.

(e) Salary levels

Future general salary and wage levels were assumed to increase at 3.3% per annum.

(f) Medical costs

Medical costs were assumed to increase at 9.0% in 2009 graded down 0.67% a year until 2015 after which the rate is assumed to increase 5.0% annually.

(g) Dental costs

Dental costs were assumed to increase at 5.0% in 2009 and thereafter.

**9. Capital disclosures**

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

(a) Ensure ongoing access to funds that will allow the ongoing operation of the service company.

(b) Ensure compliance with covenants related to its credit facilities.

As at December 31, 2009, the company's definition of capital includes shareholder's equity and long-term debt. There have been no changes in the Company's approach to capital management during the year.

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

# COLLINGWOOD UTILITY SERVICES CORP.

**CONSOLIDATED FINANCIAL STATEMENTS**
**DECEMBER 31, 2009**

**CONTENTS**

# GAVILLER & COMPANY LLP
**CHARTERED ACCOUNTANTS**

**AUDITORS' REPORT**

To the Shareholder of **Collingwood Utility Services Corp.**:

We have audited the consolidated balance sheet of **Collingwood Utility Services Corp.** as at December 31, 2009, and the consolidated statements of operations and retained income and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Collingwood Utility Services Corp. as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Gaviller & Company LLP*
Licensed Public Accountants
Collingwood, Ontario
March 5, 2010

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED BALANCE SHEET
## AS AT DECEMBER 31

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Current | | |
| Cash | **1,572,425** | 5,392,535 |
| Taxes recoverable | **104,404** | 189,156 |
| Accounts receivable (Note 9) | **3,809,997** | 4,192,842 |
| Unbilled revenue | **3,024,852** | 3,470,384 |
| Inventory | **297,789** | 255,131 |
| | **8,809,467** | 13,500,048 |
| Property, plant and equipment | | |
| Lands | **90,439** | 90,439 |
| Buildings | **255,668** | 80,668 |
| Distribution stations | **3,857,578** | 3,150,296 |
| Distribution lines | **19,596,227** | 17,864,725 |
| Distribution transformers | **5,020,605** | 4,647,854 |
| Distribution meters | **1,565,562** | 1,478,408 |
| Other | **2,838,992** | 2,139,843 |
| Load control | **1,459,235** | 1,417,631 |
| Contributions in aid of construction (Note 7) | **(9,354,806)** | (6,738,873) |
| | **25,329,500** | 24,130,991 |
| Less accumulated depreciation | **(13,405,295)** | (12,472,621) |
| | **11,924,205** | 11,658,370 |
| Other | | |
| Goodwill | **276,704** | 276,704 |
| Intangible assets (net of accumulated amortization of $130,189) | **338,117** | 33,667 |
| Investment in Utility Collaborative Services Inc. - at cost | **100** | - |
| Future taxes recoverable | **255,837** | 208,344 |
| | **870,758** | 518,715 |
| | **21,604,430** | 25,677,133 |

Approved by directors:

______________________________ Director

______________________________ Director

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED BALANCE SHEET
## AS AT DECEMBER 31

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| **Liabilities** | | |
| Current | | |
| Accounts payable and accruals (Notes 7, and 9) | **7,342,070** | 8,817,294 |
| Customer deposits | **355,081** | 355,272 |
| Current portion of long-term (Note 10) | **-** | 1,117,353 |
| | **7,697,151** | 10,289,919 |
| Long-term (Note 10) | **1,710,170** | 1,710,170 |
| Employee future benefits (Note 12) | **595,475** | 539,064 |
| Other (Note 11) | **1,005,314** | 3,012,396 |
| Total liabilities | **11,008,110** | 15,551,549 |
| **Shareholder's equity** | | |
| Capital stock | | |
| Authorized | | |
| Unlimited common shares | | |
| Issued | | |
| 5,101,640 common shares | **5,101,640** | 5,101,640 |
| Miscellaneous paid in capital | **2,966,014** | 2,966,014 |
| Retained income | **2,528,666** | 2,057,930 |
| Total shareholder's equity | **10,596,320** | 10,125,584 |
| | **21,604,430** | 25,677,133 |

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

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

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| Revenues | | |
| Sale of power | **24,064,556** | 23,782,787 |
| Distribution services | **5,126,519** | 4,517,599 |
| | **29,191,075** | 28,300,386 |
| Cost of power | | |
| Power purchased | **24,064,556** | 23,782,787 |
| Distribution income (17.6%; 2008 - 16.0%) | **5,126,519** | 4,517,599 |
| Other operating income (Note 9) | | |
| Accounting and administrative services | **811,881** | 783,917 |
| Miscellaneous | **557,971** | 613,467 |
| | **6,496,371** | 5,914,983 |
| Operating expenses (Note 9) | | |
| Distribution and transmission | **1,732,891** | 1,660,992 |
| Billing and collecting | **631,522** | 478,850 |
| General administration (Notes 9 and 10) | **2,593,799** | 2,558,945 |
| Depreciation and amortization | **1,004,161** | 854,329 |
| | **5,962,373** | 5,553,116 |
| Net income before taxes | **533,998** | 361,867 |
| Provision for (recovery) of taxes | | |
| Current | **110,755** | 144,784 |
| Future | **(47,493)** | (71,993) |
| | **63,262** | 72,791 |
| **Net income for the year** | **470,736** | 289,076 |
| Retained income, beginning of year | **2,057,930** | 1,768,854 |
| **Retained income, end of year** | **2,528,666** | 2,057,930 |

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED STATEMENT OF CASH FLOW
## FOR THE YEAR ENDED DECEMBER 31

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| **Cash flows from (for):** | | |
| **Operating activities** | | |
| Net income for the year | **470,736** | 289,076 |
| Items not requiring funds | | |
| Depreciation | **1,036,132** | 925,191 |
| Amortization of deferred charges and smart meters | **76,094** | 8,155 |
| Future taxes | **(47,493)** | (71,993) |
| | **1,535,469** | 1,150,429 |
| Changes in: | | |
| Accounts receivable | **382,845** | 1,231,315 |
| Unbilled revenue | **445,532** | (140,768) |
| Inventory | **(42,658)** | 27,362 |
| Accounts payable and accruals | **(1,475,224)** | 1,520,589 |
| Income taxes | **84,752** | (211,279) |
| Customer deposits | **(191)** | (3,504) |
| Employee future benefits | **56,411** | 84,000 |
| Other liabilities | **(2,709,369)** | 633,769 |
| | **(1,722,433)** | 4,291,913 |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | **(980,224)** | (2,610,130) |
| Investment in Utility Collaborative Services Inc. | **(100)** | - |
| | **(980,324)** | (2,610,130) |
| **Financing activities** | | |
| Repayment of long-term liabilities | **(1,117,353)** | (324,244) |
| | **(1,117,353)** | (324,244) |
| Change in cash | **(3,820,110)** | 1,357,539 |
| Cash position, beginning of year | **5,392,535** | 4,034,996 |
| **Cash position, end of year** | **1,572,425** | 5,392,535 |

See accompanying notes to the financial statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## AS AT DECEMBER 31, 2009

### 1. Significant accounting policies

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

(a) The financial statements of the company are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), including accounting principles prescribed by the Ontario Energy Board (OEB) through the accounting procedures handbook and directives.

(b) The company's distribution of electricity is subject to rate regulation by the OEB. This rate regulation results in the company accounting for specific transactions differently than it would if it was not rate-regulated. The differences in accounting treatment give rise to regulatory assets or liabilities. These balances will be recovered from or returned to customers by increases or decreases to rates in the future.

The electricity rates charged by the company are approved on an annual basis using performance-based regulation. For the rate year ending April 30, 2009, the company was authorized to earn 9.85% on equity and 6.25% on debt with a deemed debt to equity ratio of 1:0.89.

(c) The company recognizes revenue on an accrual basis, which includes unbilled revenue, which is an estimate of electricity consumed by customers to the end of year but not yet billed by the company. Revenue from accounting and administrative services provided are recognized at the time in which the services were provided.

(d) The financial statements of the company's subsidiaries, COLLUS Solutions Corp., COLLUS Power Corp. and COLLUS Energy Corp. have been consolidated. All inter-company transactions have been eliminated.

(e) 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 depreciated over their estimated useful lives, using the straight-line method. Assets constructed by others and donated to the company are recorded at cost to the developer. Depreciation rates are 4% except as follows:

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

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

(g) Economic evaluation is an estimate of amounts due to subdivision developers in the future as repayment for the developers installation of hydro infrastructure.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT DECEMBER 31, 2009**

**1. Significant accounting policies (continued)**

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

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

(j) 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.

(k) The company has adopted 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.

**2. Tax status**

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

**3. Change in accounting policy**

(a) Capital disclosures

Effective December 1, 2009, the company adopted CICA Handbook Section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity’s capital and how it is managed. Adoption of these recommendations had no effect on the financial statements for the year ending December 31, 2009 except for additional disclosure found in Note 13.

(b) Intangible assets

Effective January 1, 2009, the company adopted CICA Handbook Section 3064 - "Goodwill and Intangible Assets" which replaced CICA Handbook Section 3062 - "Goodwill and Other Intangible Assets". Existing assets were examined to determine if they met the new criteria for an intangible asset. It was determined that the company's computer software met the new criteria and was re-classified as an intangible asset from property, plant and equipment. The historical cost of the computer software is $468,306 (2008 - $70,196) and the accumulated depreciation is $130,189 (2008 - $36,529). Computer software is being amortized over its useful life on a straight line basis over 5 years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## AS AT DECEMBER 31, 2009

**4. Future Accounting Pronouncements**

On February 13, 2008, the Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2011. The transition period is expected to begin for fiscal years beginning on or after January 1, 2010. The impact of these changes cannot be estimated at this time. 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.

**5. Financial instruments**

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

**6. Supplemental cash flow information**

Cash receipts (payments) were made as follows:

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| Interest received | **70,417** | 140,444 |
| Interest paid | **(179,149)** | (188,963) |
| Taxes refunded | **190,118** | - |
| Taxes paid | **(216,120)** | (356,062) |

**7. 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 $365,610 (2008 - $633,711). The liability is included in accounts payable. The balance of $9,354,806 (2008 - $6,738,873) is recorded as a reduction of the cost of property, plant and equipment.

**8. Subsequent events**

Subsequent to year end, a $3 million loan was approved by Infrastructure Ontario and will be activated upon notice from the Board. This loan is to be paid back over 15 years. The loan interest rate is expected to be 4.67% and the loan will likely be advanced in May 2010.

## 9. Related party transactions

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

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

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| Amounts receivable from Collingwood Public Utilities Service Board | **162,324** | 142,223 |
| Amounts receivable from the Town of Collingwood | **75,536** | 83,014 |
| Amounts payable to the Collingwood Public Utilities Service Board | **(496,809)** | (322,931) |
| Amounts payable to the Town of Collingwood | **(412,995)** | (2,229,140) |
| Revenues include amounts charged to the following parties: | | |
| Town of Collingwood | **62,517** | 58,087 |
| Collingwood Public Utilities Service Board | **811,881** | 783,917 |
| Expenses include information technology assistance to the Town of Collingwood | **20,029** | 18,326 |
| The company is leasing its operations centre and computers from the Collingwood Public Utilities Service Board. The lease has a one year term and is renewable annually. These costs are included in general administration expense. | **317,000** | 311,000 |

## 10. Long-term liabilities

Long-term liabilities consist of the following:

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| 5.47% demand installment loan payable to the CIBC, repaid on January 7, 2009 | **-** | 1,117,353 |
| 7.25% note payable to Town of Collingwood, no set terms of repayment | **1,710,170** | 1,710,170 |
| | **1,710,170** | 2,827,523 |
| Current portion of long-term liabilities | **-** | (1,117,353) |
| | **1,710,170** | 1,710,170 |

Included in general administration expense is $129,020 (2008 - $188,965) of interest on long-term liabilities.

The corporation is contingently liable for a letter of credit in the amount of $1,631,702 (2008 - $1,631,702) to meet the prudential requirements of the Independent Electricity System Operator.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## AS AT DECEMBER 31, 2009

### 11. Other assets (liabilities)

Other assets (liabilities) consist of the following:

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| Deferred charges-service area expansion (net of $90,744 accumulated amortization, 2008 - $82,589) | **114,170** | 122,325 |
| **Regulatory assets** | | |
| Other regulatory assets | **66,530** | 82,356 |
| Smart meter variance | **1,927,304** | - |
| **Regulatory liabilities** | | |
| Purchased power cost variance | **(2,562,776)** | (2,669,912) |
| Regulatory assets recovered | **(507,194)** | (184,311) |
| Smart meter variance | **-** | (29,521) |
| Other regulatory liabilities | **(43,348)** | (333,333) |
| Total regulatory liabilities | **(3,113,318)** | (3,217,077) |
| Net liability | **(1,005,314)** | (3,012,396) |

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.

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 2010. The company launched its project shortly following the Province of Ontario's announcement in 2006. As at December 31, 2009, the company had installed approximately 15,000 smart meters. In 2008, in connection with this initiative, the OEB approved the disposition of the balances incurred in 2006 and 2007. As at December 31, 2009, smart meter capital expenditures totaled $2,257,264 (2008 - $24,073) which is offset by revenues of $262,021 (2008 - $117,270) and accumulated depreciation of $67,939 (2008 - $NIL).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## AS AT DECEMBER 31, 2009

### 12. Employee future benefits

The employees of Collingwood Utility Services Corp. participate in the Ontario Municipal Employees Retirement System ("OMERS"). Although the plan has a defined retirement benefit for employees, the related obligation of the corporation cannot be identified. The OMERS plan has several unrelated participating municipalities and costs are not specifically attributed to each participant. Amounts paid to OMERS during the year totaled $227,922 (2008 - $170,942).

In addition, Collingwood Utility Services Corp. pays certain benefits on behalf of its retired employees. The corporation recognizes these post-retirement costs in the period in which the employees rendered the services. The accrued benefit obligation at December 31, 2009 of $595,475 and the net periodic benefit cost for 2009 was determined by actuarial valuations using discount rates of 6.0% and was adjusted by management based on new information available. 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:

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| **Accrued benefit obligation** | | |
| Balance at the beginning of period | **539,064** | 455,064 |
| Current service cost for the period | **21,715** | 58,887 |
| Interest cost for the period | **35,914** | 28,305 |
| Actuarial loss | **30,014** | 79,478 |
| Prior period cost | **12,868** | 19,303 |
| Benefits paid for the period | **(10,195)** | (14,677) |
| Projected accrued benefit obligation at end of period as determined by actuarial valuation. | **629,380** | 626,360 |
| Unamortized actuarial loss | **(27,471)** | (74,428) |
| Unamortized prior service cost | **(6,434)** | (12,868) |
| Balance at end of period | **595,475** | 539,064 |
| **Components of net periodic benefit cost** | | |
| Current service cost for the period | **21,715** | 58,887 |
| Interest cost for the period | **35,914** | 28,305 |
| Amortization of actuarial losses | **2,543** | 5,050 |
| Amortization of prior service cost | **6,433** | 6,435 |
| Net periodic benefit cost | **66,605** | 98,677 |

## 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 2009 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2009, 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 increase at 9.0% in 2009 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 2009 and thereafter.

## 13. Capital disclosures

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

(a) Ensure ongoing access to funds that will allow the ongoing operation of the service company.

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

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

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

As at December 31, 2009, the company's definition of capital includes shareholder's equity and long-term debt. 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. Contingencies

A class action has been brought under the Class Proceedings Act, 1992. The plaintiff class seeks $500 million in restitution for amounts paid to Toronto Hydro and to other municipal electric utilities (LDCs) who received late payment penalties which constitute interest at 60% per year, contrary to section 347 of the Criminal Code. Pleadings have closed in this action. The action has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceedings brought against Enbridge Gas Distribution Inc. (formerly Consumers Gas).

On April 22, 2004, the Supreme Court of Canada released a decision in the Consumers Gas case rejecting all of the defences which had been raised by Enbridge, although the court did not permit the plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Supreme Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by Enbridge and that settlement was approved by the Ontario Superior Court.

In 2007, Enbridge filed an application to the OEB to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008 the OEB approved recovery of the said amounts from ratepayers over a five year period.

After the release by the Supreme Court of Canada of its 2004 decision in the Enbridge case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs. In 2010 the parties reached a tentative settlement and it was determined that the company's portion of the settlement will be $47,000, which has been accrued. The settlement is contingent on all LDCs agreeing to the terms of the settlement.

## 15. Commitments

The company committed to the construction of the Sixth Street substation. The work began during 2009 and is set to be completed in 2010 by Tilltran. As of December 31, 2009 total costs of $1,050,192 had been incurred. During 2010 additional costs of $177,115 are expected to complete this project.

# COLLINGWOOD UTILITY SERVICES CORP.

## FINANCIAL STATEMENTS

## DECEMBER 31, 2010

## CONTENTS

# GAVILLER & COMPANY LLP
CHARTERED ACCOUNTANTS

## NOTICE TO READER

On the basis of information provided by management, we have compiled the balance sheet of **Collingwood Utility Services Corp.** as at December 31, 2010.

We have not performed an audit or a review engagement in respect of these financial statements and, accordingly, we express no assurance thereon.

Readers are cautioned that these statements may not be appropriate for their purposes.

*Gaviller & Company LLP*
Licensed Public Accountants
Collingwood, Ontario
April 26, 2011

# COLLINGWOOD UTILITY SERVICES CORP.

## BALANCE SHEET
## AS AT DECEMBER 31

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Due from Town of Collingwood | **100** | 100 |
| Investment in subsidiaries, at cost | **5,101,540** | 5,101,540 |
| | **5,101,640** | 5,101,640 |
| **Shareholder's equity** | | |
| Capital stock | | |
| Authorized | | |
| Unlimited common shares | | |
| Issued | | |
| 5,101,640 common shares | **5,101,640** | 5,101,640 |
| Total shareholder's equity | **5,101,640** | 5,101,640 |

Approved on behalf of the board:

______________________________ Director

______________________________ Director

# COLLUS ENERGY CORP.

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**CONTENTS**

# GAVILLER & COMPANY LLP
**CHARTERED ACCOUNTANTS**

**NOTICE TO READER**

On the basis of information provided by management, we have compiled the balance sheet of **COLLUS Energy Corp.** as at December 31, 2010.

We have not performed an audit or a review engagement in respect of these financial statements and, accordingly, we express no assurance thereon.

Readers are cautioned that these statements may not be appropriate for their purposes.

*Gaviller & Company LLP*
Licensed Public Accountants
Collingwood, Ontario
May 13, 2011

# COLLUS ENERGY CORP.

**BALANCE SHEET**
**AS AT DECEMBER 31**

| | 2010 | 2009 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| Due from Town of Collingwood | **100** | 100 |
| Total assets | **100** | 100 |
| | | |
| **Shareholder's equity** | | |
| Capital stock | | |
| Authorized | | |
| Unlimited number of common shares | | |
| Issued | | |
| 100 common shares | **100** | 100 |
| Total shareholder's equity | **100** | 100 |

Approved on behalf of the Board:

______________________________ Director

______________________________ Director

Prepared without audit - see Notice to Reader

# 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 | 1,565,362 |
| 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

## 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.

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.

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).

## 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).

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
## AS AT DECEMBER 31, 2010

### 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 |

## NOTES TO THE FINANCIAL STATEMENTS
## AS AT DECEMBER 31, 2010

**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.

# COLLUS SOLUTIONS CORP.

**FINANCIAL STATEMENTS**
**DECEMBER 31, 2010**

**CONTENTS**

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of **COLLUS Solutions 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 Solutions 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 SOLUTIONS CORP.

**BALANCE SHEET**
**AS AT DECEMBER 31**

| | 2010 | 2009 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| Current | | |
| Cash | **208,958** | 183,822 |
| Accounts receivable (Note 3) | **415,168** | 350,105 |
| Taxes receivable | **6,927** | 2,172 |
| | **631,053** | 536,099 |
| Future taxes | **86,826** | 77,026 |
| | **717,879** | 613,125 |
| **Liabilities** | | |
| Current | | |
| Accounts payable and accruals | **168,793** | 85,849 |
| Employee future benefits (Note 9) | **347,303** | 314,390 |
| Total liabilities | **516,096** | 400,239 |
| **Shareholder's equity** | | |
| Capital stock | | |
| Authorized | | |
| Unlimited common shares | | |
| Issued | | |
| 100 common shares | **100** | 100 |
| Retained income | **201,683** | 212,786 |
| Total shareholder's equity | **201,783** | 212,886 |
| | **717,879** | 613,125 |

Approved on behalf of the Board:

______________________________ Director

______________________________ Director

See accompanying notes to the financial statements

# COLLUS SOLUTIONS CORP.

## INCOME AND RETAINED INCOME STATEMENT
## FOR THE YEAR ENDED DECEMBER 31

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| Revenue (Note 3) | | |
| Accounting and administrative services | **2,056,480** | 1,926,006 |
| Miscellaneous | **72,920** | 69,676 |
| | **2,129,400** | 1,995,682 |
| Operating expenses (Note 3) | | |
| Administration | **31,580** | 19,585 |
| Wages and benefits | **2,115,665** | 1,958,770 |
| | **2,147,245** | 1,978,355 |
| Income (loss) before taxes | **(17,845)** | 17,327 |
| Provision for (recovery of) taxes | | |
| Current | **3,058** | 9,849 |
| Future | **(9,800)** | (14,556) |
| | **(6,742)** | (4,707) |
| **Net (loss) income for the year** | **(11,103)** | 22,034 |
| Retained income, beginning of year | **212,786** | 190,752 |
| **Retained income, end of year** | **201,683** | 212,786 |

See accompanying notes to the financial statements

# COLLUS SOLUTIONS CORP.

## CASH FLOW STATEMENT
## FOR THE YEAR ENDED DECEMBER 31

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| **Cash flows from (for):** | | |
| **Operating activities** | | |
| Net (loss) income | **(11,103)** | 22,034 |
| Items not providing funds | | |
| Future taxes | **(9,800)** | (14,556) |
| | **(20,903)** | 7,478 |
| Changes in | | |
| Accounts receivable | **(65,063)** | (30,757) |
| Income taxes | **(4,755)** | 6,265 |
| Accounts payable and accruals | **82,944** | (108,715) |
| Employee future benefits | **32,913** | 30,435 |
| **Change in cash** | **25,136** | (95,294) |
| Cash position, beginning of year | **183,822** | 279,116 |
| **Cash position, end of year** | **208,958** | 183,822 |

See accompanying notes to the financial statements

## 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 employee future benefits. The financial statements have, in the opinion of management, been properly prepared within the framework of the accounting policies summarized below:

(a) Revenue Recognition

Revenue from accounting and administrative services provided are recognized at the time in which the services were provided.

(b) Financial Instruments

The company has adopted 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. The adoption of this standard did not have any impact on the company's results of operations or financial position.

### 2. Tax status

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

### 3. Related party transactions

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

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

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| Amounts receivable from COLLUS Power Corp. | **135,797** | 94,769 |
| Amounts receivable from Collingwood Public Utilities Service Board | **171,234** | 162,324 |
| Amounts receivable from the Town of Collingwood | **91,413** | 75,536 |
| Revenues include amounts charged to the following parties: | | |
| Town of Collingwood | **68,461** | 62,517 |
| COLLUS Power Corp. | **1,174,677** | 1,114,125 |
| Collingwood Public Utilities Service Board | **881,803** | 811,881 |
| Expenses include information technology assistance to the Town of Collingwood | **21,631** | 20,029 |

## 4. Line of credit

The company has a revolving line of credit with CIBC with a credit limit of $250,000. The interest rate is set at prime minus 0.75% per annum. During 2010 the company did not draw on their line of credit.

## 5. Economic dependence

As the company's major source of revenue is derived from providing processing services to related parties its ability to continue viable operations is dependent upon COLLUS Power Corp. and Collingwood Public Utilities Service Board.

## 6. Future Accounting Pronouncements

The company 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. It is subject to IFRS in 2012 as it is consolidated under Collingwood Utilities Services Corp. financial statements with Collus Power Corp. a sister company who is required to adopt IFRS starting in 2012. 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.

## 7. Financial instruments

The company's financial instruments consist of cash, accounts receivable, taxes recoverable and accounts payable and accruals. 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 receipts (payments) were made as follows:

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| Interest received | **1,256** | 1,555 |
| Interest paid | **(153)** | - |
| Taxes refunded | **2,172** | 8,376 |
| Taxes paid | **(9,900)** | (11,960) |

## NOTES TO THE FINANCIAL STATEMENTS
## AS AT DECEMBER 31, 2010

### 9. Employee future benefits

The employees of COLLUS Solutions 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 $165,576 (2009 - $167,748).

In addition, COLLUS Solutions 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 $347,303 and the net periodic benefit cost for 2010 was determined by actuarial valuations 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 | **314,390** | 283,955 |
| Current service cost for the period | **12,861** | 12,133 |
| Interest cost for the period | **18,260** | 16,505 |
| Actuarial gain | **(24,764)** | (24,764) |
| Prior period cost | **1,903** | 3,805 |
| Benefits paid for the period | **(111)** | (105) |
| Projected accrued benefit obligation at end of period as determined by actuarial valuation. | **322,539** | 291,529 |
| Unamortized actuarial gain | **24,764** | 24,764 |
| Unamortized prior service cost | **-** | (1,903) |
| Balance at end of period | **347,303** | 314,390 |
| | | |
| **Components of net periodic benefit cost** | | |
| Current service cost for the period | **12,861** | 12,133 |
| Interest cost for the period | **18,260** | 16,505 |
| Amortization of prior service cost | **1,903** | 1,902 |
| Net periodic benefit cost | **33,024** | 30,540 |

**9. 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 increase at 9.0% in 2010 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.

**10. Capital disclosures**

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

(a) Ensure ongoing access to funds that will allow the ongoing operation of the service company.

(b) Ensure compliance with covenants related to its credit facilities.

As at December 31, 2010, the company's definition of capital includes shareholder's equity and long-term debt. 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.

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED FINANCIAL STATEMENTS
## DECEMBER 31, 2010

### CONTENTS

# GAVILLER & COMPANY LLP
**CHARTERED ACCOUNTANTS**

## INDEPENDENT AUDITORS' REPORT

To the Shareholder of **Collingwood Utility Services Corp.**:

**Report on the Consolidated Financial Statements**

We have audited the accompanying financial statements of **Collingwood Utility Services Corp.**, which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated income and retained income statement and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of **Collingwood Utility Services 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

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED BALANCE SHEET
## AS AT DECEMBER 31

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| Current | | |
| Cash | **3,131,790** | 1,572,425 |
| Accounts receivable (Note 9) | **4,969,831** | 3,735,946 |
| Unbilled revenue | **3,343,566** | 3,024,852 |
| Taxes recoverable | **53,413** | 104,404 |
| Prepaid expenses | **130,846** | 74,051 |
| Inventory | **317,756** | 297,789 |
| | **11,947,202** | 8,809,467 |
| Property, plant and equipment | | |
| 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 | **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 7) | **(9,636,769)** | (9,354,806) |
| | **27,107,680** | 25,329,500 |
| Less accumulated depreciation | **(14,344,099)** | (13,405,295) |
| | **12,763,581** | 11,924,205 |
| Other | | |
| Goodwill | **276,704** | 276,704 |
| Intangible assets (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 | **243,823** | 255,837 |
| | **798,699** | 870,758 |
| | **25,509,482** | 21,604,430 |

Approved by directors:

______________________________ Director

______________________________ Director

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED BALANCE SHEET
## AS AT DECEMBER 31

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| **Liabilities** | | |
| Current | | |
| Accounts payable and accruals (Notes 7 and 9) | **7,417,305** | 7,342,070 |
| Customer deposits | **430,736** | 355,081 |
| Current portion of long-term (Note 10) | **200,000** | - |
| | **8,048,041** | 7,697,151 |
| Long-term (Note 10) | **4,410,170** | 1,710,170 |
| Employee future benefits (Note 12) | **655,332** | 595,475 |
| Other (Note 11) | **1,411,987** | 1,005,314 |
| Total liabilities | **14,525,530** | 11,008,110 |
| **Shareholder's equity** | | |
| Capital stock | | |
| Authorized | | |
| Unlimited common shares | | |
| Issued | | |
| 5,101,640 common shares | **5,101,640** | 5,101,640 |
| Miscellaneous paid in capital | **2,966,014** | 2,966,014 |
| Retained income | **2,916,298** | 2,528,666 |
| Total shareholder's equity | **10,983,952** | 10,596,320 |
| | **25,509,482** | 21,604,430 |

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED INCOME AND RETAINED INCOME STATEMENT
## FOR THE YEAR ENDED DECEMBER 31

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| Revenues | | |
| 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 operating income (Note 9) | | |
| Accounting and administrative services | **881,803** | 811,881 |
| Miscellaneous | **629,785** | 557,971 |
| | **6,948,977** | 6,496,371 |
| Operating expenses | | |
| Distribution and transmission | **1,697,352** | 1,732,891 |
| Billing and collecting | **913,832** | 631,522 |
| General administration (Notes 9 and 10) | **2,893,320** | 2,593,799 |
| Amortization | **967,205** | 1,004,161 |
| | **6,471,709** | 5,962,373 |
| Net income before taxes | **477,268** | 533,998 |
| Provision for (recovery) of taxes | | |
| Current | **77,622** | 110,755 |
| Future | **12,014** | (47,493) |
| | **89,636** | 63,262 |
| **Net income for the year** | **387,632** | 470,736 |
| Retained income, beginning of year | **2,528,666** | 2,057,930 |
| **Retained income, end of year** | **2,916,298** | 2,528,666 |

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED STATEMENT OF CASH FLOW
## FOR THE YEAR ENDED DECEMBER 31

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| **Cash flows from (for):** | | |
| **Operating activities** | | |
| Net income for the year | **387,632** | 470,736 |
| Items not requiring funds | | |
| Amortization | **1,150,939** | 1,112,226 |
| Future taxes | **12,014** | (47,493) |
| Gain on disposition of property, plant and equipment | **(8,852)** | - |
| | **1,541,733** | 1,535,469 |
| Changes in: | | |
| Accounts receivable | **(1,290,680)** | 382,845 |
| Unbilled revenue | **(318,714)** | 445,532 |
| Inventory | **(19,967)** | (42,658) |
| Accounts payable and accruals | **75,235** | (1,475,224) |
| Income taxes | **50,991** | 84,752 |
| Customer deposits | **75,655** | (191) |
| Employee future benefits | **59,857** | 56,411 |
| Other liabilities | **406,673** | (2,709,369) |
| | **580,783** | (1,722,433) |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | **(1,930,270)** | (980,224) |
| Investment in Utility Collaborative Services Inc. | **-** | (100) |
| Proceeds from disposal of property, plant and equipment | **8,852** | - |
| | **(1,921,418)** | (980,324) |
| **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 | **1,559,365** | (3,820,110) |
| Cash position, beginning of year | **1,572,425** | 5,392,535 |
| **Cash position, end of year** | **3,131,790** | 1,572,425 |

See accompanying notes to the financial statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2010

### 1. Significant accounting policies

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

(a) The financial statements of the company are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), including accounting principles prescribed by the Ontario Energy Board (OEB) through the accounting procedures handbook and directives.

(b) The company's distribution of electricity is subject to rate regulation by the OEB. This rate regulation results in the company accounting for specific transactions differently than it would if it was not rate-regulated. The differences in accounting treatment give rise to regulatory assets or liabilities. These balances will be recovered from or returned to customers by increases or decreases to rates in the future.

The electricity rates charged by the company are approved on an annual basis using performance-based regulation. For the rate year ending April 30, 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. Revenue from accounting and administrative services provided are recognized at the time in which the services were provided.

(d) The financial statements of the company's subsidiaries, COLLUS Power Corp. , COLLUS Solutions Corp. and COLLUS Energy Corp. have been consolidated. All inter-company transactions have been eliminated.

(e) 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 capital assets | 6.67% to 20% |

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

(g) Economic evaluation is an estimate of amounts due to subdivision developers in the future as repayment for the developers installation of hydro infrastructure.

**1. Significant accounting policies (continued)**

(h) 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.

(i) 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 property, plant and equipment. The company's inventory is valued using the moving average cost method and is recorded at the lower of cost and net realizable value.

(j) The company has adopted 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.

(k) 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. Tax status**

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

**3. Financial instruments**

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

**4. Line of credit**

The company has two revolving lines of credit with CIBC with a combined credit limit of $750,000. The interest rates for both are set at prime minus 0.75% per annum. During 2010 the company did not draw on either line of credit.

## 5. 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.

## 6. Supplemental cash flow information

Cash receipts (payments) were made as follows:

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| Interest received | **51,253** | 70,417 |
| Interest paid | **(221,217)** | (179,149) |
| Taxes refunded | **104,403** | 190,118 |
| Taxes paid | **(130,950)** | (216,120) |

## 7. 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 $365,610 (2009 - $365,610). The liability is included in accounts payable and accruals. The balance of $9,636,769 (2009 - $9,354,806) is recorded as a reduction of the cost of property, plant and equipment.

## 8. 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).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## AS AT DECEMBER 31, 2010

### 9. Related party transactions

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

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

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Amounts receivable from Collingwood Public Utilities Service Board | **171,234** | 162,324 |
| Amounts receivable from the Town of Collingwood | **91,413** | 75,536 |
| Amounts payable to the Collingwood Public Utilities Service Board | **(93,479)** | (496,809) |
| Amounts payable to the Town of Collingwood | **(1,831,697)** | (412,995) |
| Revenues include amounts charged to the following parties: | | |
| Town of Collingwood | **68,461** | 62,517 |
| Collingwood Public Utilities Service Board | **881,803** | 811,881 |
| Expenses include information technology assistance to the Town of Collingwood | **21,631** | 20,029 |
| The company is leasing its operations centre and computers from the Collingwood Public Utilities Service Board. The lease has a one year term and is renewable annually. These costs are included in general administration expense. | **317,000** | 317,000 |

### 10. 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 Town of Collingwood, no set terms of repayment | **1,710,170** | 1,710,170 |
| | **4,610,170** | 1,710,170 |
| Current portion of long-term liabilities | **(200,000)** | - |
| | **4,410,170** | 1,710,170 |

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

The corporation 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT DECEMBER 31, 2010**

**11. 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 |
| **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). In the current year smart meter accumulated amortization was offset by a contra account per OEB regulation.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT DECEMBER 31, 2010**

## 12. Employee future benefits

The employees of Collingwood Utility Services Corp. participate in the Ontario Municipal Employees Retirement System ("OMERS"). Although the plan has a defined retirement benefit for employees, the related obligation of the corporation cannot be identified. The OMERS plan has several unrelated participating municipalities and costs are not specifically attributed to each participant. Amounts paid to OMERS during the year totaled $216,202 (2009 - $227,922).

In addition, Collingwood Utility Services Corp. pays certain benefits on behalf of its retired employees. The corporation recognizes these post-retirement costs in the period in which the employees rendered the services. The accrued benefit obligation at December 31, 2010 of $655,332 and the net periodic benefit cost for 2010 was determined by actuarial valuations 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 | **595,475** | 539,064 |
| Current service cost for the period | **23,018** | 21,715 |
| Interest cost for the period | **38,815** | 35,914 |
| Actuarial loss | **27,471** | 30,014 |
| Prior period cost | **6,434** | 12,868 |
| Benefits paid for the period | **(10,953)** | (10,195) |
| Projected accrued benefit obligation at end of period as determined by actuarial valuation. | **680,260** | 629,380 |
| Unamortized actuarial loss | **(24,928)** | (27,471) |
| Unamortized prior service cost | **-** | (6,434) |
| Balance at end of period | **655,332** | 595,475 |
| **Components of net periodic benefit cost** | | |
| Current service cost for the period | **23,018** | 21,715 |
| Interest cost for the period | **38,815** | 35,914 |
| Amortization of actuarial losses | **2,543** | 2,543 |
| Amortization of prior service cost | **6,434** | 6,433 |
| Net periodic benefit cost | **70,810** | 66,605 |

**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 increase at 9.0% in 2010 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 funds that will allow the ongoing operation of the service company.

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

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

(d) 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. 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.

## Collus Power Corp.
### Income Statement - 2012 (C$ Thousands)

| | 2012F |
|---|---|
| **Revenue** | |
| Total Revenue | |
| Cost of Power | |
| Distribution | 6,078 |
| Misc. Revenue | 575 |
| | **6,653** |
| **Costs** | |
| OM&A | 4,277 |
| **EBITDA** | **2,376** |
| Depreciation | 1,180 |
| **EBIT** | **1,196** |
| Interest Expense | 465 |
| **EBT** | **731** |
| Provision for income taxes | 158 |
| **Net Income** | **573** |

## Collus Power Corp.

**Balance Sheet - 2012 (C$ Thousands)**

| | 2012F |
|---|---|
| Current Assets | |
| Cash & cash equivalents | 2,811 |
| Non cash working capital | 9,249 |
| Total Current Assets | 12,060 |
| Fixed Assets (net of Acc. Dep.) | 13,515 |
| Intangible Assests - Software | 100 |
| Goodwill | 277 |
| Future Taxes Recoverable | 157 |
| **Total Assets** | **26,109** |
| | |
| Current Liabilities | |
| Accouts Payable and Accruals | 6,918 |
| Customer Deposits | 544 |
| Curren Portion - Long Term Debt | 200 |
| Total Current Liabilities | 7,662 |
| Long Term Liabilities | |
| Regulatory Liabilities | 322 |
| Infrastructure Ontario Debt | 2,300 |
| Promissory Note | - |
| New Long-Term Debt | 8,200 |
| Employee Future Benefits | 350 |
| **Total Liabilities** | 18,834 |
| | |
| Shareholders Equity | |
| Share Capital / Contributed Surplus | 6,067 |
| Retained Earnings | 1,208 |
| Total Shareholder's Equity | 7,275 |
| **Total Liabilities & Equity** | **26,109** |

## Collus Power Corp.
**Cash Flow Statement - 2012 (C$ Thousands)**

| | 2012F |
|---|---|
| **Operating Activities:** | |
| Net income from continuing operations | 573 |
| Non-Cash Items | 1,247 |
| **Funds From Operations** | **1,820** |
| **Financing Activities:** | |
| Issuance of Long Term Debt | 8,200 |
| Repayment of Long-Term Debt | (1,910) |
| Dividends to Shareholder | (4,500) |
| **Cash Flow from Financing** | **1,790** |
| **Investing Activities:** | |
| Fixed asset additions, net of contributions | (1,620) |
| **Cash Flow from Investing** | **(1,620)** |
| **Net change in cash for the year** | **1,990** |
| Cash, beginning of year | 821 |
| **Cash, end of year** | **2,811** |

## PowerStream Inc.
### Income Statement - 2012 (C$ Millions)

| | 2012F |
|---|---|
| **Revenue** | |
| Total Revenue | 944.6 |
| Cost of Power | 774.4 |
| Distribution | 159.3 |
| Misc. Revenue | 10.9 |
| | **170.2** |
| **Costs** | |
| OM&A | 84.8 |
| **EBITDA** | **85.4** |
| Depreciation | 32.6 |
| **EBIT** | **52.8** |
| | |
| Interest Expense | 24.2 |
| **EBT** | **28.6** |
| Provision for income taxes | 2.5 |
| **Net Income** | **26.1** |

**PowerStream Inc.**
**Balance Sheet - 2012 (C$ Millions)**

| | 2012F |
|---|---|
| Current Assets | |
| Cash | 3.3 |
| Accounts Receivable | 77.6 |
| Unbilled Revenue | 94.5 |
| Inventory | 3.9 |
| Prepaid Expenses | 2.8 |
| Total Current Assets | 182.1 |
| Fixed Assets (net of Acc. Dep.) | 725.1 |
| Burden Adjustment | (1.0) |
| Goodwill | 42.5 |
| Other Long Term Assets | |
| Deferred Charges | 0.6 |
| Investment in Collus Power | 8.0 |
| Regulatory Assets | 7.3 |
| Future Income Tax Assets | 53.1 |
| Other Intangibles | 4.3 |
| Total Other Long Term Assets | 73.2 |
| **Total Assets** | **1,022.0** |
| | |
| Current Liabilities | |
| Accounts payable / Accrued Liabilities | 111.8 |
| Current portion of customer deposit | 13.5 |
| Income Taxes Payable | 5.3 |
| Due to Related Parties | 12.6 |
| Short term debt | 25.0 |
| Total Current Liabilities | 168.1 |
| Long Term Liabilities | |
| Debenture Debt | 125.0 |
| Note Payable - Shareholder | 182.4 |
| Capital Lease | 17.4 |
| New Debt | 100.0 |
| Total Long Term Debt | 424.8 |
| Other Liabilities | |
| Regulatory Liabilities | 22.7 |
| Future Income Tax Assessment | 53.1 |
| Long Term Construction Deposits | 23.2 |
| Employee Future Benefits | 17.6 |
| Other Liabilities | 0.2 |
| Total Long Term Liabilities | 541.6 |
| **Total Liabilities** | **709.7** |
| | |
| Shareholders Equity | |
| Common | 247.2 |
| Retained Earnings | 65.0 |
| Total Equity | 312.1 |
| **Total Liabilities & Equity** | **1,022.0** |

**PowerStream Inc.**

**Cash Flow Statement - 2012 (C$ Millions)**

| | 2012F |
|---|---|
| **Operating Activities:** | |
| Net income from continuing operations | 26.1 |
| Non-Cash Items | 34.8 |
| **Funds From Operations** | **60.9** |
| Regulatory Asset/Liability (decrease) | 4.9 |
| Change in Working Captial | (0.3) |
| **Cash Flow From Operations** | **65.5** |
| **Financing Activities:** | |
| Increase (decrease) in New Debt | 50.0 |
| Dividends | (14.5) |
| Purchase of 50% of Collus | (8.0) |
| Change in customer/LT deposit | (12.1) |
| **Cash Flow from Financing** | **15.4** |
| **Investing Activities:** | |
| Fixed asset additions, net of contributions | (76.7) |
| **Cash Flow from Investing** | **(76.7)** |
| **Net change in cash for the year** | **4.2** |
| Cash, beginning of year | (0.9) |
| **Cash, end of year** | **3.3** |

Power Stream

# CONNECTING TO THE FUTURE

ANNUAL 09 REPORT

# SHAREHOLDERS' MESSAGE

*Her Worship*
*Mayor Linda Jackson*
*City of Vaughan*

*His Worship*
*Mayor Frank Scarpitti*
*Town of Markham*

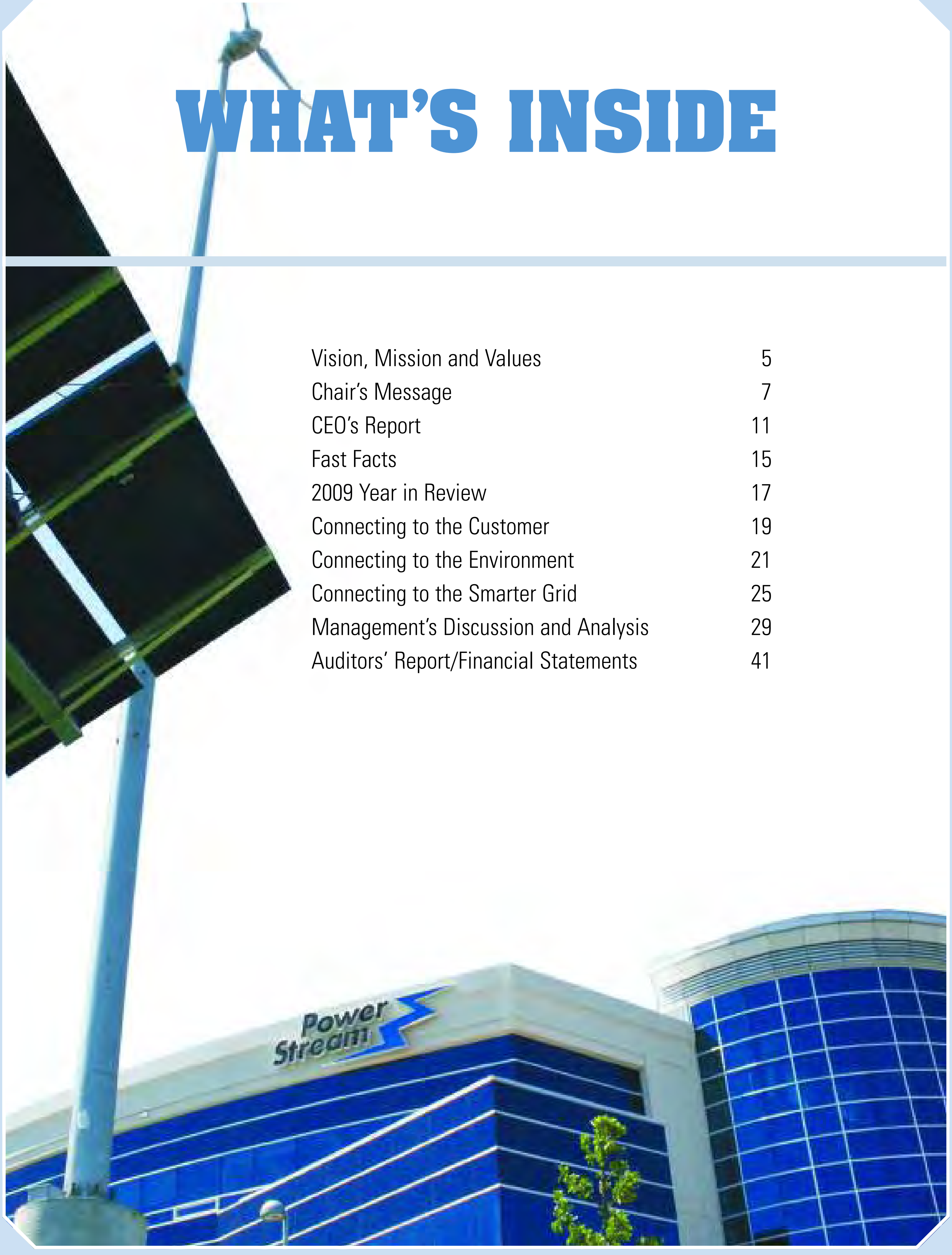
*His Worship*
*Mayor Dave Aspden*
*City of Barrie*

PowerStream, the second largest municipally-owned electricity distribution company in Ontario, is jointly owned by the City of Vaughan, the Town of Markham and the City of Barrie. The creation and continued success of the company is largely due to the vision of the three municipalities, working together to build a publicly-owned utility that has become an industry leader in customer service, innovation and environmental stewardship. We are proud to highlight PowerStream's successes in this annual report.

***On the cover:*** *The image on the cover shows the reflection of a transformer station within an array of solar photovoltaic panels. Transformer stations have always been key to the efficient operation of PowerStream's distribution system. As a result of the passing of the Green Energy and Green Economy Act in 2009, the connection of generation to PowerStream's distribution system from renewable sources, such as solar and wind, has become equally important and is expected to be more so in the future.*

# WHAT'S INSIDE





# VISION, MISSION AND VALUES

## Vision

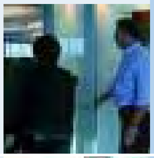
We will be a socially responsible company, committed to the environment and sustainable growth, leading the way into the future with boldness, innovation and best in class performance.

## Mission

To deliver reliable power and related services safely and efficiently to support our customers' quality of life, and to provide value to our shareholders and the communities we serve.

## Values

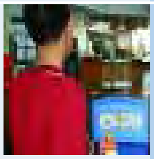
**Respect** – we believe putting safety first, respecting individuals and acting with integrity builds understanding and trust.



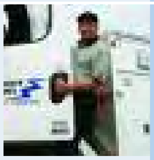
**Teamwork** – we believe open communication and working together brings out the best in all of us.

**Performance** – we believe in excellence and delivering the results expected of us by all of our stakeholders.

**Accountability** – we believe in taking individual and collective responsibility and accountability for our actions to ensure safe, proper and sustainable stewardship of all corporate resources while providing excellent service to our customers.



**Initiative** – we believe in leading by example and taking action to drive innovation and improvement.



**...ONE OF ONTARIO'S MOST INNOVATIVE AND FASTEST GROWING ELECTRICITY DISTRIBUTION COMPANIES**

Peter Meffe, *Chair*

## AN INSIGHTFUL AND FORWARD LOOKING CORPORATE VISION

# CHAIR'S MESSAGE

The compass and road map that a company needs to use in *Connecting to the Future* are usually found in the development and adherence to a corporate vision which is insightful and forward looking.

Being able to achieve this through the pursuit of its corporate vision has been apparent at PowerStream from the moment the company was created on June 1, 2004 to where the utility is today, recognized within the industry for being one of Ontario's most innovative and fastest growing electricity distribution companies.

At the turn of this century, it was PowerStream's municipal shareholders, originally through the respective predecessor utilities they owned, which had the foresight to recognize the opportunities that would and continue to be available when the Ontario electricity industry was restructured in 1998 with the Provincial Government's passing of Bill 35, *The Energy Competition Act*.

This vision has enabled PowerStream to be an industry leader in growing its asset base through the implementation of successful consolidation strategies. The merger and acquisition activities in which PowerStream and its predecessor utilities participated in 2000, 2004, 2005 and 2009 resulted in the utility becoming Ontario's second largest municipally-owned electricity distribution company, serving more than 320,000 customers in York Region and Simcoe County.

It was also PowerStream's forward-looking corporate vision in 2004 which enabled the company to quickly align itself with the Ontario Government's call to help build a culture of conservation in the Province. An investment of $1.1 million to fund the delivery of conservation initiatives to customers in 2005 helped to save 3.1 million kilowatt-hours of electricity that year and created a solid program base to build on. Subsequently, the success of PowerStream's conservation programs has grown exponentially through the years. Results from 2009, show that PowerStream customers who engaged in the company's conservations initiatives were able to save a total of 45.6 million kilowatt-hours.

PowerStream's corporate vision is to "be a socially responsible company, committed to the environment and sustainable growth, leading the way into the future with boldness, innovation and best in class performance." It re-focuses the organization on *Connecting to the Future* (both literally and figuratively) in order for the company to now take advantage, and be effective in operating within the guidelines, of Ontario's new *Green Energy and Green Economy Act* (GEGEA).

Some of the outcomes that are and will be a part of this vision in *Connecting to the Future* include the completion of our smart meter program, development of a smart grid, connecting approved third-party distributed and renewable generation projects to our distribution system, launching our own commercial solar photovoltaic (PV) generation business and establishing ourselves as one of Ontario's Environmental Leaders.

PowerStream is well positioned to succeed in all of these areas and to also better serve our customers, be an industry leader and provide increased value to all three of our municipal shareholders – the City of Vaughan, the Town of Markham and the City of Barrie.

In previous years, PowerStream's vision has been a catalyst in helping the company to expand the operation of its electricity distribution business beyond municipal boundaries. Going forward, it is reasonable to expect that the new vision for PowerStream in *Connecting to the Future* will be instrumental in driving the company to expand and succeed in business areas above and beyond electricity distribution. We look forward to meeting the challenges and taking advantage of the opportunities which lie ahead.


***PowerStream's Board of Directors:*** *(L-R seated): Frank Scarpitti, Vice-Chair; Peter Meffe, Chair (L-R standing): Andrew Prince, Dan Horchik, Robert Colelli, Mario Ferri, Lynn Strachan, Ronald Stevens, Joyce Frustaglio, Tony Carella, Jim Jones, Bernie DiVona, David Allison.*

# BOARD COMMITTEES

## AUDIT AND FINANCE COMMITTEE

Established by the Board of Directors to oversee and serve as a check and balance on the company's accounting and financial reporting systems and strategic financial matters. Meetings of the Audit and Finance Committee are held at minimum on a quarterly basis.

**Members** (L-R): Dan Horchik (Chair), Frank Scarpitti, Robert Colelli, Andrew Prince




## HUMAN RESOURCES AND GOVERNANCE COMMITTEE

Mandated by the Board of Directors to establish human resources strategies that ensure officer continuity and provide competitive compensation programs that attract, retain and motivate management to enhance and sustain shareholder values.

**Members** (L-R): Ronald Stevens, (Chair), David Allison, Mario Ferri



**OUR EFFORTS AND ACCOMPLISHMENTS ON THE ENVIRONMENTAL FRONT IN 2009 WERE AS REMARKABLE AS OUR CDM ACHIEVEMENTS.**

**Brian Bentz,** ***President and CEO***

# CEO'S REPORT

Recognizing that our success in *Connecting to the Future* would first require the company to come together as a single organization following the merger of PowerStream Inc. and Barrie Hydro Distribution Inc. on January 1, our major operational focus for most of 2009 was to implement strategies to that effect. In other words, in order to connect to the future, we first needed to transition from the past.

Key to our overall success in this transition was the integration and consolidation of the company's major information network systems including telephone, email, JD Edwards' enterprise software, Geographic Information System (GIS) applications, system control, power outage notification, Customer Information System (CIS), website and intranet.

We also implemented strategies to transition employees in becoming a part of a single organization as well as educating customers about the merger and its projected benefits. Teambuilding activities and information sessions led by a "Champions of Change" committee, comprising representation from both management and staff, helped employees adjust to the new reality. An advertising and promotional campaign entitled "A winning combination for hydro customers" provided information to customers about the merger.

Throughout 2009, we co-branded the company "PowerStream Barrie Hydro" in Barrie and Simcoe County on our fleet vehicles, bills, newsletters, bill inserts, advertisements and other collateral materials in order to assist customers in that part of our service territory to become familiar with the PowerStream name and corporate identity.

And yet, our merger transition requirements didn't preclude us from being proactive in other operational areas that helped to improve efficiencies and prepare us for the challenges and opportunities resulting from the May 2009 enactment of the *Green Energy and Green Economy Act* (GEGEA). This was consistent with PowerStream's new mission statement "to deliver reliable power and related services safely and efficiently to support our customers'

## IN 2009, POWERSTREAM:

- Earned a net income of **$21.1 million**.
- Completed or initiated **105** capital projects at a cost of **$67.4 million.**
- Arranged to occupy a newly constructed **107,214 square foot** energy-efficient Operations Centre in Markham.
- Installed **90,000** smart meters to bring total installations in PowerStream's service territory to more than **220,000**.
- Migrated **16,000** customers to the new Time-of-Use pricing structure.
- Connected **6,512** new residential and commercial customers.
- Surpassed the **320,000** milestone for the total number of customers served.
- Posted a system reliability index of **99.98** percent.
- Spent **$1.6 million** in program costs and **$13.4 million** in customer incentives, funded by the OPA, to deliver CDM programs which earned energy savings of **45.6 million kWh**.
- Achieved **296,651 hours** without a lost-time injury.
- Launched an Employee Vanpool Program with **2 vehicles** in service.
- Earned the **'Smart Commute Employer of the Year Award'** for North Toronto, Vaughan.
- Held an employee campaign which helped to raise more than **$130,000** for the United Way of York Region and the United Way of Greater Simcoe County.
- Encouraged employee participation in Heart and Stroke Foundation's 'Big Bike' event that raised more than **$28,000** for the charity.
- Pledged a **$750,000** donation to Georgian College's new Centre for Sustainable Technologies building.

quality of life and to provide value to our shareholders and the communities we serve."

In an effort to provide additional value through the pursuit of potential opportunities from the GEGEA, at the end of 2009, we received approval from PowerStream's Board of Directors and commitments from our shareholders for equity investment in a new commercial solar generation business unit.

Also, in response to the GEGEA, operational systems were developed and implemented to handle the processing of applications for connecting renewable generation projects to our distribution system under the Ontario Power Authority's (OPA) feed-in-tariff (FIT) microFIT programs.

Other operational and asset management highlights in 2009 included the initiation of two major construction projects in Markham to gain further efficiencies in the future and enhance reliability in the southern part of our service territory – a new operations centre facility and a new transformer station.

Scheduled for completion and occupancy in the first quarter of 2010, the new operations centre, which is being targeted to be our second LEED® (Leadership in Energy and Environmental Design) gold certified building, will enable us to consolidate the assets and employees from two other facilities to a single location in southern York Region. The new transformer station, which will be equipped with two 125 MVA transformers and is expected to be operational sometime during the second quarter of 2010, will help provide power to areas of high growth in Markham and Richmond Hill.

Plans and agreements were also finalized in 2009 to build a new municipal substation in the Barrie area, which is expected to be operational by the end of third quarter 2010.

As mandated by the Ontario Government, we continued the installation of smart meters for our residential and small business customers within our service territory. By the end of 2009, a total of 221,334 smart meters had been installed with 15,545 customers in Aurora migrated to the new time-of-use (TOU) pricing regime.

Our Smart Suite Metering Program added 1,200 customers who previously had their electricity provided as part of a bulk-metered service. The number of customers we connected through this initiative exceeded the program's target for the year and represented 17 percent of PowerStream's total organic customer growth of the 6,512 in 2009.

Our Conservation and Demand Management (CDM) results for the year were outstanding. CDM programs we delivered to customers in our service territory, funded by the Ontario Power Authority, saved over 45.6 million-kilowatt hours of electricity. The electricity our customers saved was enough to power 4,855 average-sized homes for a one year period.

In fact, we significantly exceeded most of our CDM program targets for the year. The 7,313 small business customers that received energy-efficiency upgrades under the Power Savings Blitz Program resulted in us exceeding the program target by 327 percent.

The 2,244 kilowatts saved by large business customers who participated in the Electricity Retrofit Incentive Program was 156 percent above target and the 8,693 programmable thermostats installed under the ***peaksaver***® demand response program exceeded target by 160 percent. Our success in this ***peaksaver***® demand response program earned us the Ontario Clean Air Alliance's "Peak Buster Utility Challenge" award for the largest percentage increase in ***peaksaver***® installations.

Our results in removing old, inefficient fridges and freezers through the Great Refrigerator Roundup Program were impressive, with 3,709 units being removed and recycled. Our relatively new Data Centre Incentive Program started to pay kilowatt-saving dividends with wo customers completing the program by the end of 2009 and several others in various stages of retrofitting their respective data centres to be more energy efficient.

Our efforts and accomplishments on the environmental front in 2009 were as remarkable as our CDM achievements. We introduced several new employee commuting initiatives to help reduce vehicle emissions. This included the establishment of a "Car Pool Zone" on the Internet for employees to register for car pooling opportunities and the launch of a vanpool program to facilitate the commute for employees traveling to head office from the north and the east. These initiatives were key factors in the company being named as the "Smart Commute Employer of the Year" for North Toronto and Vaughan.

In consideration of our commitment to the environment and our desire to do even more in this area of our business operations, in December 2009, we were notified by the Ministry of the Environment that PowerStream had been accepted as the 11th company, and first municipally-owned utility, to be recognized as one of *Ontario's Environmental Leaders* (*Leaders)* and therefore eligible to participate in the MOE's *Leaders* program. We look forward to being officially inducted as a member of this prestigious group of companies early in 2010.

As in previous years, Health and Safety continued to be an important operational area for PowerStream. During 2009, we, maintained our *Silver Effort* level within the Infrastructure Health and Safety Association's ZeroQuest Program.

As we move forward into the second decade of the 21st century, PowerStream will look for new opportunities without losing focus on its core business of providing customers with safe, reliable and efficient electricity distribution services. We will achieve this as a leading utility within the distribution sector, paying attention to the external forces affecting both our business and the industry. We will continue to work closely and provide the necessary leadership with agencies and organizations which have legislative authority or lobbying influence within our industry.

The management and staff at PowerStream, with the support of the company's Board of Directors and three municipal shareholders – Vaughan, Markham and Barrie – are looking forward to successfully taking on the industry challenges that lay ahead for the utility in the years ahead.

## CONNECTED EMPLOYEES

PowerStream's tremendous achievements in 2009 would not have been possible without the efforts of the utility's nearly 500 dedicated and hard working employees who are as connected to the communities they serve as they are to the company they work for.

Raising more than $130,000 during the 2009 Employee United Way Campaign while having to deal with the additional workload that came as a result of the PowerStream – Barrie Hydro merger at the start of the year, is just one example of why the employees of this company are recognized for being some of the best in the industry.

PowerStream employees also demonstrated their character earlier in the year by raising more than $28,000 for the Heart and Stroke Foundation through their participation in the charity's annual 'Big Bike' event.

And when a relatively young colleague suddenly passed away, leaving behind two parentless adolescent daughters, company employees pulled together and raised almost $10,000 over a two-week period in an effort to provide some additional financial support to the children.

PowerStream employees also showed how they have connected to the communities they serve through involvement in environmental programs such as "Bike to Work Day" and "Clean Air Commute Week". Their participation in the latter event in 2009 was a 25 percent increase from the previous year and contributed to greenhouse gas emission (GHG) savings of 3,175,694.00 grams of pollutants.

PowerStream employees giving of themselves to help others may be somewhat related to their view of the the utility. Recognizing that the success of any organization is largely due to the contributions made by staff, PowerStream conducted its first ever employee survey to determine overall satisfaction levels and areas for improvement. Survey results showed that 97 percent of the employees who responded believe that PowerStream is a responsible corporate citizen in the community. Furthermore, 92 percent of the respondents indicated that they were proud to work for PowerStream and 85 percent said they would choose to work at PowerStream if faced with the same decision again.

Based on the charitable contributions made, as well as the results of the survey, it's easy to understand why there is a strong connection between PowerStream, its employees and the communities they serve.

**POWERSTREAM'S EXECUTIVE MANAGEMENT TEAM:**

*(L-R ) Brian Bentz, President and Chief Executive Officer; Mark Henderson, Executive Vice President Asset Management and Chief Operating Officer; John Glicksman, Executive Vice President and Chief Financial Officer; Milan Bolkovic, Executive Vice President, Renewable Generation and Conservation;  Dennis Nolan, Executive Vice President Corporate Services and Secretary.*

# FAST FACTS 09

## OUR ASSETS ($949 MILLION)

*A distribution system consisting of*

- Overhead circuit wires: 2,749 km
- Underground cable: 4,922 km
- Transformer stations: 10
- Municipal substations: 56
- Transformers: 41,995
- Switchgear: 1,789
- Poles and pole structures: 43,590

**$949 million**

## OUR SERVICE AREA:

- Geographical size of service territory:

**806.6 km²**

## AVERAGE ANNUAL ELECTRICITY CONSUMPTION BILLED IN 2009:

- Residential-per customer: 9,093 kWh
- Commercial-per customer: 145,808 kWh

## OUR CUSTOMERS

- Residential: 283,665
- Commercial under 50 kW demand: 32,375
- Commercial over 50 kW demand: 4,656
- Large industrial user: 1
- Sentinel lights: 135
- Street Lighting: 37

**320,869**

## OUR DISTRIBUTION OF ELECTRICITY:

- Total electricity billed in 2009: 8,004 GWh
- 2009 system peak demand: 1,763 MW
- All-time system peak demand: 1,894 MW

## OUR EMPLOYEES:

- Full time employees:

**493**


Final Thought
FT
Power

# YEAR IN REVIEW

### JANUARY

Merger of PowerStream and Barrie Hydro creates the second largest municipally owned electricity distribution company in Ontario.

### FEBRUARY

PowerStream commends the Ontario Government for its decision to further conservation and sustainability in the province with the introduction of the *Green Energy Act.*

### MARCH

PowerStream announces that it will be the title sponsor of the inaugural Barrie Earth Hour Music Festival.

### MARCH

AMD, a technology company which designs computing and graphics solutions, became the first PowerStream customer to benefit from the Data Centre Incentive Program.

### MARCH

Participation by PowerStream customers in *Earth Hour* sees a reduction in electricity consumption of 10 percent between 8:30 -9:30 p.m. on March 28, 2009.

### APRIL

Ontario Energy Board announces increases to Regulated Price Plan electricity prices for all eligible customers in the province effective May 1.

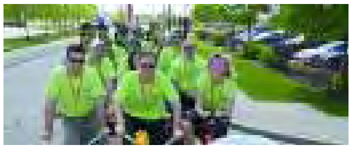
### MAY

Ontario's *Green Energy and Green Economy Act* legislation passes and receives Royal Assent

Evergreen partners with PowerStream to cross-promote utility's ***peaksaver***® conservation program with organization's local tree-planting activities.

### MAY

PowerStream employees raise more than $28,000 participating in the Heart and Stroke Foundation's *Big Bike* event.



### JUNE

Sadly, Tony Wong, PowerStream Board member and Markham Regional Councillor, passes away after battle with lengthy illness.

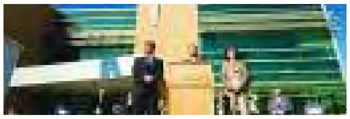
### JULY

PowerStream announces that migration of customers to the new time-of-use pricing structure to begin August in the Aurora area.

### AUGUST

Georgian College's new *Centre for Sustainable Technologies* building to receive $750,000 donation from PowerStream.

Media event at head office helps PowerStream launch Employee Vanpool Program.



### SEPTEMBER

*PowerStream Annual Charity Golf Tournament* raises more than $50,000 for the United Way of York Region and the United Way of Greater Simcoe County.

Public tours of head office facility held as PowerStream participates for the first time in *Doors Open Vaughan.*

### OCTOBER

PowerStream municipal electrical substation in Barrie dedicated in honour of Ross Archer, former Board Chair of Barrie Hydro.

Ontario Energy Board announces increases to Regulated Price Plan electricity prices for all eligible customers in the province effective November 1.

### NOVEMBER

PowerStream named *Smart Commute Employer of the Year* for North Toronto, Vaughan.

Ontario Clean Air Alliance presents PowerStream with *Peak Busters Utility Challenge Award* for achieving the largest percentage increase of installed ***peaksaver***® units in its service territory.

### DECEMBER

PowerStream donates more than $130,000 to the United Way of York Region and the United Way of Greater Simcoe County, its largest contribution ever to the charity's annual campaign

PowerStream announces expansion of *Winter Warmth Program* to include Barrie and Greater Simcoe County.

***Facing page:*** *A crowd of more than 5,000 were in attendance at the inaugural "Barrie Earth Hour Music Festival" presented by PowerStream.*

**POWERSTREAM STRIVES TO GET A BETTER UNDERSTANDING EACH YEAR OF CUSTOMER NEEDS AND SATISFACTION LEVELS THROUGH QUANTITATIVE AND QUALITATIVE RESEARCH.**

*Participation in the peaksaver® conservation program is just one example of how PowerStream is Connecting to the Customer in different ways.*

# CONNECTING TO THE CUSTOMER

Providing best in class customer service at PowerStream is more than just simply connecting the customer to the distribution system and then delivering electricity to their home or business. It's about connecting to the customer on different levels and through various means.

In order to connect to customers effectively, PowerStream strives to get a better understanding each year of customer needs and satisfaction levels through quantitative and qualitative research. Based on the findings, the company implements strategies to either develop new service offerings or enhance current services to meet the changing needs of its customers.

Research conducted by PowerStream in 2009, showed that the company was continuing to solidify its reputation among its customers by providing them with high quality customer service. Through focus groups and online surveys, 84 percent of participating customers indicated that they were very satisfied or somewhat satisfied with the overall service they were receiving from PowerStream.

Findings from the research indicated there was a greater awareness of the PowerStream brand among customers, and that there were opportunities to further enhance the company's image through the promotion of its municipal ownership as well as its community support and outreach initiatives.

Strategies for connecting to the customer in these areas going forward will focus on implementing customer communication initiatives which feature the company's municipal ownership and highlight PowerStream's ongoing involvement in the communities it serves. This will include advertising that showcases the company as being municipally-owned as well as placing an emphasis in appropriate communication materials on PowerStream's community involvement.

The research also showed that residential customers had a greater understanding and awareness of smart meter installations and the implementation of Time-of-Use (TOU) rates as compared to the findings from a similar study conducted a year earlier. Although there was some skepticism from the respondents as to whether they would be better able to manage their electricity costs under a TOU pricing regime, there was a sincere desire to see the smart meter concept work. Customers also reported in the research findings that the communication materials they received from PowerStream on smart meters and TOU rates were clear and well-constructed.

Based on the 2009 findings, PowerStream will also develop strategies to enhance its service levels and offerings to small commercial customers, who indicated concerns about the impact of TOU rates on their businesses. Further promotion of conservation programs and incentives available for these customers will be provided as well as direction on where they can quickly access information on power outages.

Results of interviews with representatives from a number of key accounts showed a high level of satisfaction with PowerStream and the company was seen as being a high-quality service provider. Representatives from key accounts felt that PowerStream should increase visibility in the business community. They also expressed interest in receiving additional information on conservation initiatives, the government's new Feed-in-Tariff (FIT) program and the *Green Energy and Green Economy Act* (GEGEA).

PowerStream continues connecting to its customers through various means including the distribution of communication materials, delivery of conservation and sustainability programs, sponsorship of community events and organizations as well as donations to local charities and institutions

A customer newsletter is distributed to all PowerStream customers twice a year through a bill insert. The corporate website provides customers with extensive information and the ability to access their own account details online. Conservation and environmental programs are broadly marketed throughout the service territory and customers can speak face-to-face with company representatives at many of the sponsored community events.

Connecting to the customer on different levels and through multiple means will be even more important in the future.


PowerStream
YOUR CURRENT CONNECTION
ONTARIO'S
ENVIRONMENTAL
LEADERS

# CONNECTING TO THE ENVIRONMENT

Although PowerStream has always been committed to sustainability and conservation, its vision for *Connecting to the Environment* in the future will be tied into both Ontario's *Green Energy and Green Economy Act* (GEGEA) and the company's official recognition by the Ministry of Environment (MOE) as being one of 'Ontario's Environmental Leaders'.

The landmark GEGEA was passed into law by the Ontario legislature in May 2009. The Ontario Government's strategy in bringing this legislation forward was to provide a mechanism that would help build a green economy in Ontario, including the creation of 50,000 related jobs, by making it easier to fund and develop renewable energy projects while continuing to nurture a culture of conservation among Ontarians.

Through the GEGEA, the Ontario Government is expecting to deliver on the Province's Climate Change Strategy to create a world-leading clean-tech industry that will help facilitate the achievement of aggressive targets including:

- 6000 megawatts (MW) of conservation by 2015 with an additional 2.5% annual (compounding) reduction in energy resource needs as a result of conservation from 2015 onwards
- 10,000 MW of new installed renewable energy by 2015, over and above 2003 levels
- 25,000 MW of new installed renewable energy by 2025, over and above 2003 levels
- 1,500 MW of new installed clean distributed energy by 2015, and 3,000 MW by 2025, as of the introduction of the GEGEA.
- Achievement of the approximately 30% reduction in natural gas consumption by 2017.

PowerStream's Board of Directors and Executive Management Team fully endorsed the GEGEA when it was first introduced into the Ontario legislature in February 2009 and was quick to respond to it when it was enacted a few months later.

Since the GEGEA provided the regulatory framework that for the first time allows electricity distribution companies like PowerStream to invest in or directly own and operate renewable and co-generation facilities, the company began to develop a business case, which was later approved by PowerStream's three municipal shareholders, for establishing a commercial venture in renewable energy generation.

PowerStream also immediately revised its operational and connection processes to accommodate the Ontario Power Authority's (OPA) feed-in tariff (FIT) initiative, enabled when the GEGEA was passed into law and which serves as a critical component of the Ontario Ministry of Energy and Infrastructure's (MEI) plan to fund and develop renewable energy projects. FIT is a comprehensive guaranteed pricing structure for renewable electricity production, which provides stable prices under long-term contracts for energy generated from renewable sources, including biomass, biogas, landfill gas, on-shore and off-shore wind, solar photovoltaic (PV) and waterpower.

Implemented in October 2009, PowerStream's procedure for processing FIT (projects over 10 kilowatts) and microFIT (projects 10 kilowatts or less) applications handled 16 microFIT submissions by the end of 2009 including one for PowerStream's own wind turbine and array of solar panels at its head office facility in Vaughan. All applications were awaiting contract approvals from the OPA in 2010.

**...OFFICIAL RECOGNITION BY THE MINISTRY OF ENVIRONMENT OF BEING ONE OF 'ONTARIO'S ENVIRONMENTAL LEADERS'.**


*John Gerretsen, Minister of the Environment (second from the right) presents the Ontario's Environmental Leaders member certificate to (left to right) Frank Scarpitti, PowerStream Vice Chair; Brian Bentz, PowerStream President & CEO and Peter Meffe, PowerStream Chair.*

And while PowerStream was moving forward on several environmental fronts as a result of the GEGEA and programs championed by the MEI, the company was also working with the MOE to build on its own sustainability and conservation commitments even further.

In a letter dated December 1, 2009, the MOE officially welcomed PowerStream into *Ontario's Environmental Leaders (Leaders) Program*, an initiative that recognizes and showcases companies who go the extra mile to help preserve the environment by reducing their own impacts through improving business processes and increasing efficiencies. The select group of other companies that had previously been accepted into the prestigious program included Exhibition Place, Steelcase, Fielding Chemical Technologies, GM Canada, Nalco, Teknion, Trillium Health Centre, Rohm and Haas, Ontario Power Generation (Niagara Plant Group) and Cargill.

As a participant in the Leaders Program, PowerStream gave its commitment to achieve a number of beyond-compliance environmental targets by no later than December 31, 2013. These targets are as follows:

- Increasing Conservation and Demand Management (CDM) / electricity conservation targets by the end of 2009 as well as setting and achieving annual CDM targets for 2010 – 2013.
- Achieving a minimum of a LEED® (Leadership in Energy and Environmental Design) silver certification for its new Markham Operations Centre.
- Removing 40 percent of in-service PCB transformers by 2013
- Reducing fleet vehicle emissions ($CO_2e$) by 5 percent by 2013
- Reducing employee vehicle emissions ($CO_2e$) by 10 percent by 2013

PowerStream also committed to, as part of its participation in the Leaders Program, implementing a public communications and outreach plan; providing the MOE with public annual reports on the progress towards achieving the targets and undertaking third-party verification of performance towards the targets in years two and five of its membership.

The acceptance of PowerStream's application to the Leaders Program was based on several other past accomplishments which demonstrated the company's environmental stewardship and its ability to achieve beyond-compliance targets.

In February 2008, PowerStream completed the construction and took occupancy of a 92,000 square-foot head office building, which the Canada Green Building Council (CaGBC) later that year certified as being LEED gold. Among some of the facility's many energy-efficient and environmental features were an array of solar panels and a wind turbine which could generate 17.5 and 1.7 kilowatts of electricity respectively when in optimal use, an adjacent storm drainage pond which eliminates the need to use any potable water for landscape watering, high-efficiency plumbing fixtures to reduce other potable water needs by 30 percent and T8 fluorescent lighting with motion sensor activation.

Go Green with PowerStream

# POWERSTREAM CONTINUES TO ENGAGE ITS WORKFORCE IN ENVIRONMENTAL PROGRAMS

Over the years, PowerStream has also implemented several commuting initiatives including an Employee Vanpool Program in 2009, which ultimately has had a positive impact on the environment by taking a total of 16 vehicles off the road during morning and afternoon commutes, thereby eliminating approximately 93 tonnes of greenhouse gases on an annual basis. The commuting initiatives earned PowerStream the *Smart Commute Employer of the Year Award* for North Toronto and Vaughan.

Furthermore, PowerStream has and continues to engage its workforce in environmental programs and events. Programs such as waste diversion, as well as, battery, light bulb and book recycling initiatives, combined with events like Bike to Work Day, Clean Air Commute Week and Environment Awareness Week demonstrates how PowerStream employees understand the roles they can play in helping to protect the environment.

Any discussion on programs that will continue to have a profound impact on how PowerStream and its customers connect to the environment in the future would not be complete without inclusion of Conservation and Demand Management (CDM) initiatives.

As impressive as PowerStream's CDM results have been since the company first began delivering conservation programs within its service territory in 2005, the figures for 2009 far surpassed anything else that had ever been achieved in previous years. The five programs offered to PowerStream customers helped to save 45.6 million kilowatt-hours of electricity; enough to power 4,855 average homes for one year.

A summary of the five programs, their targets and what was achieved in 2009 shows the following:

| Program | Target | Actual | Target % Achieved | Load Reduction |
|---|---|---|---|---|
| Power Savings Blitz | 2,236 retrofits | 7,313 | 327% | 5.5 MW |
| *peaksaver* | 5,423 installations | 8,693 | 160% | NA |
| Electricity Retrofit Incentive Program (ERIP) | 1,440 kW reduction | 2,244 | 156% | 2.3 MW |
| Fridge Roundup | 4,050 units | 3,709 | 92% | 3.1 MW |
| Data Centre Incentive Program (DCIP) | NA | NA | NA | 400 kW |

PowerStream's outstanding CDM results in 2009 not only had an enormous impact on how the organization was *Connecting to the Environment* during the year but also helped to establish a solid foundation for achieving targets that will be tied into the company's distribution licence beginning in 2011.


*PowerStream customer Nani Pradeepan stands beside the metering system now installed at his home. The meter closest to him measures his home's electricity consumption while the the meter at the left measures the amount of electricity his 1.26 kW, 6-panel solar photovoltaic system is producing and being distributed back to grid though the Ontario Power Authority's microFIT program.*

# CONNECTING TO THE SMARTER GRID

The one area of certainty about the term "smart grid" is that it means many different things to many different people, thereby making it difficult to clearly define or describe it in a short and easy to understand phrase or sentence. Given this certainty, perhaps the real challenge in "connecting" PowerStream customers to a smarter grid may, in the final analysis, be more of an educational one rather than technical.

Nonetheless, PowerStream is proceeding with ensuring the technical requirements are in place going forward for establishing a "smarter" electricity distribution system that can intelligently integrate the behaviour and actions of all users connected to it in order to efficiently deliver sustainable, economic and secure electricity supply.

Generally, a smart grid utilizes innovative products and services together with intelligent monitoring, control, communication and self-healing technologies to:

- Better facilitate the connection and operation of generators of all sizes and technologies.
- Allow consumers to play a part in optimizing the operation of the system.
- Provide consumers with greater information and options for choice of supply.
- Significantly reduce the environmental impact of the whole electricity supply system.
- Maintain or even improve the existing high levels of system reliability, quality and security of supply.
- Maintain and improve the existing services efficiently
- Foster market integration where appropriate.

In considering what will best serve PowerStream customers, the company's plans to develop a smarter grid will focus on six key areas:

- Increased reliability
- Operational efficiencies
- Flexibility (to handle multiple renewable generation sources)
- Security and privacy of the Operations Systems
- Safety
- Customer empowerment

Steps have already been taken to increase reliability through the installation of "self-healing" technologies such as digital Fault Detection Isolation Restoration (FDIR) devices and digital fault indicators for feeders on the FlexNet Advance Metering Infrastructure (AMI) system which, with the installation of smart meters for all customers, are the building blocks in the creation of a Smart Grid system.

Pilot programs to test out both the FDIR devices and the fault indicators are scheduled to take place in 2010 at the Lazenby Transformer Station in Richmond Hill. If successful, these two technologies during an outage situation will automatically restore power immediately to as many customers as possible without the need for the intervention from a System Control staff member.

An Outage Management System (OMS), scheduled to be operational in 2010, will also increase reliability by compiling information from a number of sources including smart meters, Supervisory Control and Data Acquisition (SCADA), telephone Interactive Voice Recognition (IVR) as well as manual inputs

**THE REAL CHALLENGE IN "CONNECTING" POWERSTREAM CUSTOMERS TO A SMARTER GRID MAY BE MORE OF AN EDUCATIONAL ONE RATHER THAN TECHNICAL.**


from Customer Service representatives. Combined with links to several web servers, including those with geographical (GIS) and customer (CIS) information, the OMS will allow System Control operators to more effectively manage outages, direct resources more efficiently and accurately capture outage data that can be communicated to Customer Service representatives and on the corporate website as well as the IVR system.

Through the use of smart technologies, PowerStream's distribution system will also be able to enhance operational efficiencies. The initial phase of a pilot project involving a Smart Energy Management System began in Richmond Hill with the installation of smart meters in 11 pad mount transformers to confirm the expected operational efficiency benefits including energy use reconciliation, determination of power diversion, load balancing, feeder optimization, transformer load factors, customer and feeder load profiling, voltage regulation information and power outage reporting. The second phase of this pilot project is scheduled to get underway either late in 2010 or early in 2011.

Ensuring that the smarter grid is flexible enough to accommodate multiple distributed and renewable generation projects will be critical to being able to meet the demand for connections to the distribution grid under the Ontario Power Authority's Feed-in Tariff (FIT) and microFIT programs, a key component of the *Green Energy and Green Economy Act*.

Also, grid flexibility planning will more than likely be

required during the latter part of the decade in order to accommodate electric vehicles on the distribution system. PowerStream has already taken the initial steps towards involvement with electric vehicles by becoming part of a consortium comprising several other stakeholders who have agreed to work together on pilot and demonstration projects.


*Building a smarter grid: (above left) Work being done at a new state-of-the-art transformer station in Markham (scheduled to be fully operational in 2010), which will incorporate many "smart" grid features. (top right) A smart grid requires a communications layer to be "smart" – PowerStream utilizes fibre optics communications for data collection, control, meter data transmission and video. (bottom right) Smarter protective relays used in PowerStream's transformer stations helps to reduce the impact of outages in the company's service area.*

By establishing a smarter grid, PowerStream will be able to empower customers and provide them with tools that will help them to take advantage of their Home Energy Management Systems and smart appliances as well as the future integration of any renewable energy generation or electric vehicles that they bring to their homes or businesses.

# MANAGEMENT'S DISCUSSION & ANALYSIS

**PowerStream Inc. came into existence on June 1, 2004, following the merger of Hydro Vaughan, Markham Hydro, and Richmond Hill Hydro. On November 1, 2005, PowerStream Inc. purchased Aurora Hydro Connections Ltd. On January 1, 2009, PowerStream Inc. continued to expand through the merger with Barrie Hydro Distribution Inc.**

## BUSINESS OF POWERSTREAM INC.

PowerStream Inc. (PowerStream) is the second largest municipally-owned electricity distribution company in Ontario and is jointly owned by the City of Vaughan, the Town of Markham and the City of Barrie. The principal activity of the Corporation is to take delivery of electricity from the provincial transmission grid and distribute it to more than 320,000 residential and commercial customers within 11 Simcoe County and York Region communities including Alliston, Aurora, Barrie, Beeton, Bradford West Gwillimbury, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham and Vaughan. Its geographic territory spans over 800 square kilometres. As a result of the Barrie Hydro Distribution Inc. (Barrie Hydro) and PowerStream merger, the number of full time employees within PowerStream is approximately 500. The Corporation currently operates with an asset base of $949M, delivering over 8,004 gigawatt hours of electricity to customers annually.

## OUR VALUES

**Respect**
We believe putting safety first, respecting individuals and acting with integrity builds understanding and trust.

**Teamwork**
We believe open communication and working together brings out the best in all of us.

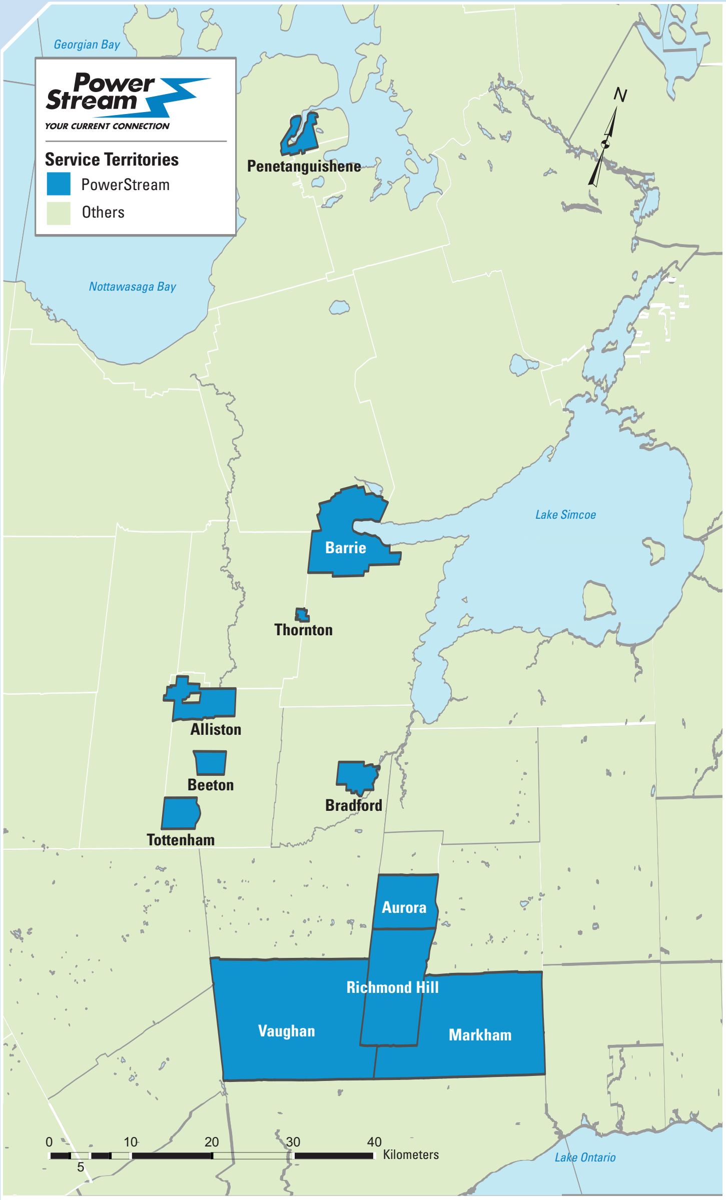
**Performance**
We believe in excellence and delivering the results expected of us by all of our stakeholders.

**Accountability**
We believe in taking individual and collective responsibility and accountability for our actions to ensure safe, proper and sustainable stewardship of all corporate resources while providing excellent service to our customers.

**Initiative**
We believe in leading by example and taking action to drive innovation and improvement.

***Facing page:*** *PowerStream's Senior Finance Management Team: (L - R): John Glicksman, Executive Vice President and Chief Financial Officer; Lynda Miedema, Executive Assistant; Lucy Lombardi, Vice President, Finance; Ed Benvenuto, Vice President, Customer Service; Colin Macdonald, Vice President, Rates and Regulatory Affairs.*

***Picture at right:*** *(L - R): Thomas Barrett, Manager, Rates Applications; Geri Yin, Manager, Financial Services; Norah Dallimore, Director, Corporate Accounting and Reporting; Stephen Perry, Director, Customer Credit; Luisa Tersigni, Manager, Corporate Accounting; Dianne Petrucci, Manager, Rates and Revenue (missing from photo).*




PowerStream's mission is "To deliver reliable power and related services safely and efficiently to support our customers' quality of life, and to provide value to our shareholders and the communities we serve". PowerStream remains committed to providing its customers with safe, reliable and efficient service. The company continues to improve its utilization of assets and find opportunities to reduce operating and capital expenditures to ensure that it provides shareholders with an optimized rate of return.

PowerStream is licensed by the Ontario Energy Board (OEB) as an electricity distributor and its distribution business is regulated by the OEB under authority of the *Ontario Energy Board Act, 1998*. As a distributor, PowerStream is responsible for delivering electricity and meeting the electricity needs of customers within its service territory. The OEB approves and sets the distribution rates for PowerStream customers based on an approved revenue requirement that provides for cost recovery and includes an approved rate of return.

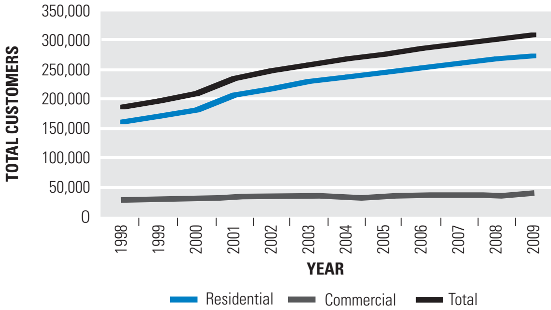
## POWERSTREAM'S STRATEGIC INITIATIVES FOCUS ON THE FOLLOWING

- Provide an optimized rate of return
- Deliver business case results
- Develop new business streams
- Provide professional customer service
- Foster conservation and sustainability
- Optimize core business processes
- Proactive and positive advocacy
- Practice good governance
- Become a best-in-class employer
- Ensure a safe and healthy workplace
- Build integrated technology platforms

### MERGER BETWEEN POWERSTREAM INC. AND BARRIE HYDRO DISTRIBUTION INC. ON JANUARY 1, 2009

On December 15, 2008, the OEB provided its approval for Barrie Hydro and PowerStream to merge effective January 1, 2009. The newly combined PowerStream Inc. came into existence on January 1, 2009. In order to provide meaningful year-over-year analysis and discussion, PowerStream's financial results for the 2009 fiscal year will be compared to the combined 2008 financial results for PowerStream and Barrie Hydro. The 2008 financial results for both Corporations were audited and are reflected in the combined, unaudited results within the Summarized Statement of Operations and Summarized Balance Sheet.

### TOTAL CUSTOMERS BY CATEGORY 1998 – 2009




*Within the 11 communities that PowerStream serves, total number of customers has increased by 71% since 1998, representing an average annual increase of 5.4%. This increase was driven by residential customer growth.*

## 2009 FINANCIAL RESULTS

The following discussion and analysis should be read in conjunction with the audited financial statements and accompanying notes of PowerStream Inc. as at and for the year ended December 31, 2009 (the Financial Statements). The Financial Statements are the representations of management, prepared in accordance with Canadian generally accepted accounting principles and accounting policies provided by its regulator, the OEB, as contained in the Accounting Procedures Handbook for Electric Distribution Utilities, issued under the authority of the *Ontario Energy Board Act, 1998*, and are presented on the pages following the Management's Discussion and Analysis section.

### Net Earnings

Net Earnings for 2009 was $21.1M compared with $22.5M in 2008. The decrease of $1.5M in net earnings was a result of stable net revenues and increased operation, maintenance and administration expenses, amortization of property, plant and equipment and intangibles and net interest expense. This was partially offset by lower amounts of income taxes.

### Gross Margin (Net Revenues)

Net Revenues (revenues minus cost of purchased power) were $156.0M in 2009 compared to $155.0M in 2008. The $1.0M increase in Net Revenues was largely attributable to an increase in Other Revenue, resulting primarily from bonuses earned by Conservation and Demand Management in over achieving their conservation program targets. Distribution revenue was lower in 2009 as a result of lower consumption levels by both residential and commercial customers. The downward trend in distribution volumes resulted from the soft economy and unseasonably cool weather experienced in the late spring and summer months. The decrease in distribution revenue was partially mitigated by the recognition of Smart Meter revenue, following approval from the OEB.

### Expenses

Operation, Maintenance and Administration (OM&A) costs are primarily comprised of labour, material, equipment and purchased services in support of the distribution system. Total OM&A was $62.6M in 2009 compared to $61.4M in 2008, an increase of $1.2M. The increase in OM&A was primarily the result of transition costs associated with the merger which was partially offset by synergy savings realized from the merger.

Amortization expense of property, plant and equipment and intangibles increased by $1.4M from $40.7M in 2008 to $42.1M in 2009, primarily due to the addition of distribution assets during the year.

The 2009 net interest expense was $21.6M in comparison to $19.2M in 2008, an increase of $2.4M. The net interest expense represents the net of combined interest income and interest expense. The net increase in interest expense is primarily due to the recapitalization of PowerStream resulting from the merger and a lower level of interest earned during 2009 as compared to 2008.

**POWERSTREAM INC.**
**SUMMARIZED STATEMENT OF OPERATIONS**
*Year ended December 31, 2009 (in thousands of dollars)*

| | **2009** | Merged Unaudited 2008 | 2009 vs 2008 Fav/(Unfav) |
|---|---|---|---|
| Total Revenue | **$ 777,684** | $ 752,296 | $ 25,388 |
| Cost of Power Purchased | **621,719** | 597,276 | 24,443 |
| **Gross Margin (Net Revenues)** | **$ 155,965** | $ 155,020 | $ 945 |
| Operation, Maintenance and Administration Expenses | **62,601** | 61,410 | (1,191) |
| Amortization of Property, Plant and Equipment and Intangibles | **42,125** | 40,711 | (1,414) |
| Net Interest Expense | **21,614** | 19,202 | (2,412) |
| Income Before Income Taxes | **$ 29,625** | $ 33,697 | ($ 4,072) |
| Income Tax Expense | **8,561** | 11,148 | 2,587 |
| **Net Earnings For The Year** | **$ 21,064** | $ 22,549 | ($ 1,485) |

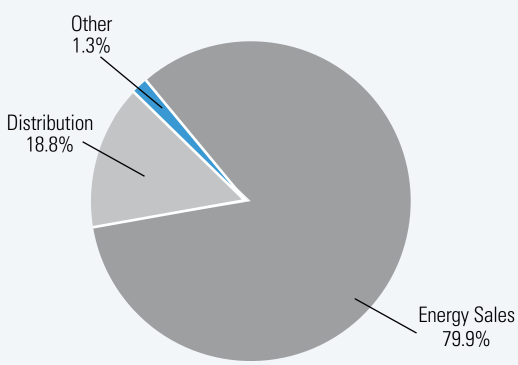
## Income Tax Expense

PowerStream is required to make payments in lieu of corporate income taxes to the Ontario Electricity Financial Corporation (OEFC) in accordance with the *Electricity Act, 1998* on the same basis as if the company was subject to federal and provincial corporate taxes. PowerStream accounts for payments-in-lieu of corporate income taxes using the future income taxes method. The decrease in the provision for payments in lieu of Corporate Income taxes is a result of recent changes in tax rules allowing higher amortization rates on capital assets and a decrease in earnings before taxes.

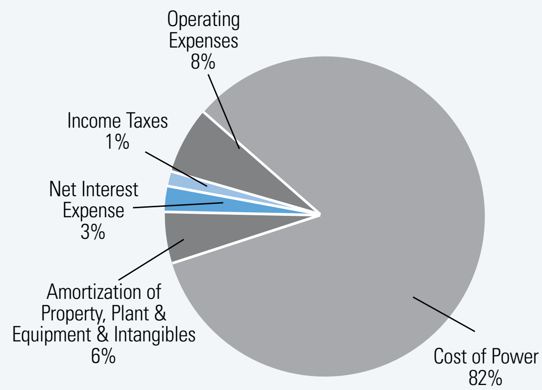
**POWERSTREAM INC.**
**SUMMARIZED BALANCE SHEET** *As at December 31, 2009 (in thousands of dollars)*

| | 2009 | Merged Unaudited 2008 | Fav/(Unfav) $ Change |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | $ 212,380 | $ 222,648 | ($ 10,268) |
| Property, Plant and Equipment | 601,764 | 566,180 | 35,584 |
| Future Income Tax Assets | 61,665 | 0 | 61,665 |
| Other Assets | 27,077 | 12,845 | 14,232 |
| Goodwill & Intangibles | 46,157 | 42,543 | 3,615 |
| **Total Assets** | $ 949,043 | $ 844,216 | $ 104,828 |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | |
| *LIABILITIES* | | | |
| Current Liabilities | $ 171,863 | $ 155,350 | ($ 16,513) |
| Long-term Debt | 355,521 | 354,892 | (629) |
| Other Liabilities | 153,412 | 55,708 | (97,705) |
| **Total Liabilities** | $ 680,796 | $ 565,950 | ($ 114,846) |
| *SHAREHOLDER'S EQUITY* | | | |
| Share Capital | $ 247,183 | $ 225,248 | $ 21,935 |
| Retained Earnings | 21,064 | 53,018 | (31,954) |
| **Total Shareholder's Equity** | $ 268,247 | $ 278,266 | ($ 10,019) |
| **Total Liabilities and Shareholder's Equity** | $ 949,043 | $ 844,216 | $ 104,827 |

**2009 REVENUE BY TYPE**




**2009 EXPENSES BY TYPE**



## Capital Expenditures

In 2009, net capital expenditures were $67.4M compared to $54.4M in 2008. The capital expenditures for 2009 included $21.8M for a new transformer station in Markham, $4.4M for a new operations centre, $11.8M for Smart Meters and various other road works in the service territory.

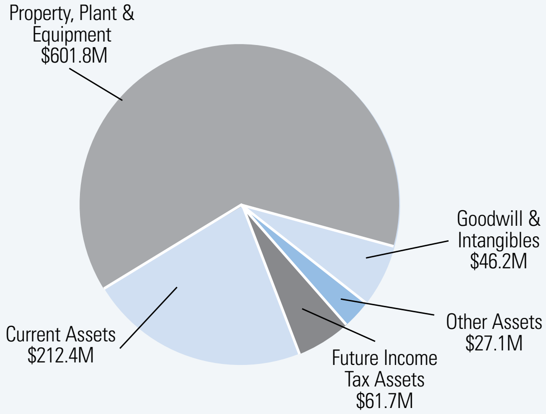
## Net Regulatory Liabilities

PowerStream's Net Regulatory Liability account balance has increased from ($19.6M) in 2008 to ($64.7M) in 2009. This liability consists mainly of ($61.7M) in Future Income Taxes, ($22.9M) in regulatory asset recovery amount and ($4.0M) in over recovery of payments in lieu of taxes. The recovery amount represents the remaining balance of amounts approved for refund to customers. The recovery amount consists mainly of retail settlement variances (RSVAs) representing an over collection from customers of energy, the Independent Electricity System Operator (IESO) Wholesale Market Services (WMS) and transmission costs which have been approved for refund to customers and transferred to the recoveries account. These liabilities are offset by Smart Meter regulatory assets of $25.7M.

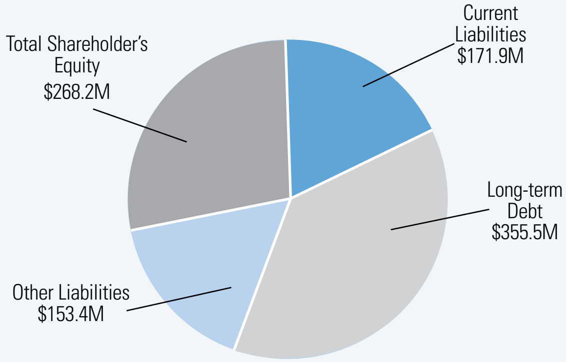
The significant increase of ($45.1M) in Regulatory Liabilities is due mainly to the new future income taxes amount of ($61.7M) which represents reductions in charges to customers that will occur when the future income tax assets are realized in the form of lower payments in lieu of taxes. This was primarily offset by a net increase in Smart Meter deferred costs of $6.3M, net refunds to customers of $4.5M and a decrease in RSVAs of $4.1M.

In its 2009 cost of service rate application, PowerStream applied and received approval for new regulatory asset rate riders to return over collected RSVA amounts to customers.

**TOTAL ASSETS**
**AS AT DECEMBER 31, 2009**




**TOTAL LIABILITIES & SHAREHOLDERS' EQUITY**
**AS AT DECEMBER 31, 2009**



The remaining balances to be refunded are in the recovery amount discussed above. PowerStream received approval to transfer Smart Meter expenditures up to December 31, 2007 into rate base and these costs, as well as the allowed return, are now reflected in rates.

## Liquidity and Financing

PowerStream's primary source of liquidity and capital resources is from cash provided by operating activities, bank financing, and interest income. PowerStream's cash equivalent position decreased during the year from $70.6M to $42.6M, a decrease of $28.0M. Cash provided by operating activities was $25.1M, a decrease from the 2008 level of $61.3M. The decrease in cash provided by operating activities was due primarily to refunding customers for over collection of the cost of power in prior years as well as under collecting for the cost of power in 2009. The cost of power is a "pass through" cost. Variances can occur in any given year due to differences between the actual cost of power and the amounts approved for billing by the OEB. These variances are tracked, reviewed and approved by the OEB for settlement with customers when PowerStream files its rate applications. Cash provided by financing activities was $7.3M, a decrease of $28.4M from the 2008 level of $35.7M. This was partially due to a dividend which was paid in 2009. The dividend was related to closing adjustments as a result of the merger with Barrie Hydro.

PowerStream has a $75M committed line of credit with TD Commercial Banking. Throughout the year, PowerStream accessed the committed line to fund capital expenditures and finance working capital. In addition to the committed line of credit, PowerStream has a $15M letter of guarantee facility of which $12M was issued to the IESO. With the opening of Ontario's electricity market to wholesale and retail competition on May 1, 2002, the IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw upon the letter of guarantee if the Corporation defaults on its payment.

PowerStream has a promissory note with the City of Vaughan in the amount of $87.0M, of which $78.2M has an unsecured 20 year term; with the Town of Markham for $75.5M of which $67.9M has an unsecured 20 year term; and with the City of Barrie for $20.0M which has an unsecured 16 year term. In December 2008, Barrie Hydro Distribution Inc. secured a $25M uncommitted demand loan by way of Banker's Acceptance and prime rate based loans. As part of the merger, this demand loan was incorporated as part of PowerStream's bank facility. In 2008, PowerStream secured a $50M, five year fixed rate loan facility with a major Canadian financial institution to fund on-going capital requirements.

In August 2002, four of PowerStream's predecessor corporations, Hydro Vaughan Distribution Inc., Markham Hydro Distribution Inc., Richmond Hill Hydro Inc. and Barrie Hydro Distribution Inc. participated in a private placement offering by the Electricity Distributors Finance Corporation ("EDFIN") 10 Year Debentures Issued (Series 2002-1), and raised gross proceeds of $125M. PowerStream Inc. assumed the obligations of Hydro Vaughan, Markham Hydro, and Richmond Hill Hydro pursuant to an assumption agreement dated June 1, 2004 and assumed the obligations of Barrie Hydro with the merger of Barrie Hydro on January 1, 2009.

## DISTRIBUTION RATE ADJUSTMENT

Barrie Hydro and the pre-merger PowerStream are separate rate zones. This arrangement will continue until the OEB approves the harmonization of distribution rates across the two zones. It is currently planned to apply to the OEB for harmonized rates in the 2012 to 2014 timeframe.

Barrie Hydro's rates were adjusted on May 1, 2009 under the OEB's Third Generation Incentive Regulation rate setting mechanism. Rates were increased to account for inflation but this was offset by a productivity factor. Typical residential customers experienced a $0.70 or 0.71 % increase in monthly distribution charges. Typical small commercial customers experienced a $1.26 or 0.53% increase in monthly distribution charges.

PowerStream's rates were adjusted May 1, 2009 as a result of a cost of service rate review. This involved a complete review of PowerStream's anticipated revenues and costs. New rates were implemented September 1, 2009 but were effective on the applied-for May 1, 2009 date. Typical residential customers experienced a $1.33 or 1.45% decrease in monthly distribution charges. Typical small commercial customers experienced a $4.3 or 1.8% decrease in monthly distribution charges.

## SMART METER PROGRAM & SMART SUITE METERING

By the end of 2009, PowerStream had installed an additional 90,000 Smart Meters and had exceeded both its own 2009 installation target (+30%) as well as the company's commitment to the Ministry of Energy & Infrastructure to have 180,000 residential Smart Meters in place in its service territory by December 2009. This was year three of a multi-year installation program which will result in approximately 310,000 meter installations for PowerStream's complete customer base by year end 2010. As well, all issues associated with PowerStream's Smart Meter deployment were successfully defended in the 2009 Distribution Rates hearing and all costs recovered to year end 2007.

PowerStream also made excellent progress in commencing its migration of customers to the Provincial Meter Data Management Repository (MDM/R) and Time-of-Use (TOU) rates. Acceptance testing of the MDM/R software was completed by May 2009 and by year end, 37,000 customers were flowing to the MDM/R and 16,000 customers were on TOU rates. PowerStream was the first large LDC in the province to successfully interface with the MDM/R and implement TOU billing.

Smart Suite Metering is a program to install individual unit meters in new and existing multi-unit buildings as opposed to bulk metering the entire complex. This service is available to residential as well as commercial customers. By the end of 2009, PowerStream had connected a total of 4,600 new customers as a direct result of the Smart Suite Metering initiative, 1,200 (133% of target) of those new customer connections were achieved in 2009.

Two essential Smart Grid projects were successfully implemented in 2009; specifically, the Advanced Meter Infrastructure – Outage Management System – Geographic Information System (AMI-OMS-GIS) interface project which significantly improves outage management reporting and the transformer-based smart energy management system.

The year 2009 marked an exciting and groundbreaking period for PowerStream's CDM team. Each year, the OPA provides PowerStream with program-specific targets to meet. In 2009, PowerStream substantially surpassed all OPA targets set for PowerStream in three of the four core programs. The Power Savings Blitz results were more than three times the targeted amount, and ***peaksaver***® achieved unprecedented results, realizing slightly less than twice the target. These great outcomes can be attributed to aggressive marketing campaigns, as well as improvements in technology making the programs more appealing to customers. The CDM department also attended close to sixty events throughout PowerStream's service territory, assisting in saving 45.6 million kilowatt-hours of electricity, enough kilowatt hours to power 4,855 average-sized homes for one year.

## CONSERVATION AND DEMAND MANAGEMENT

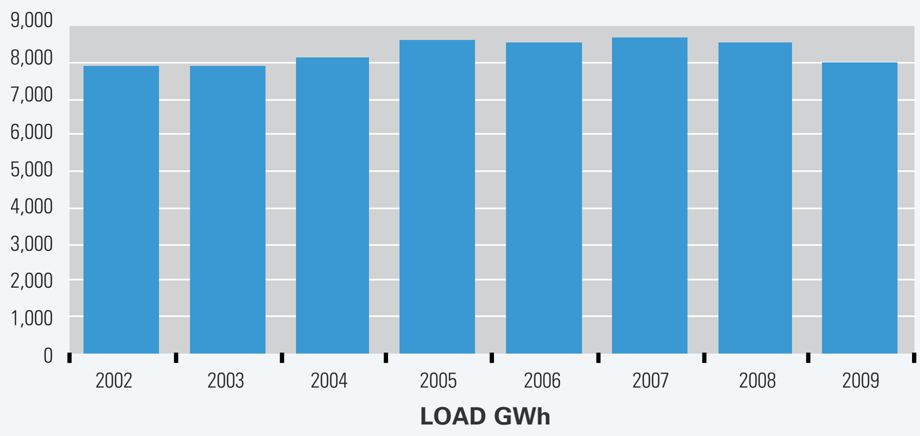
Building on PowerStream's goal to "Go Green", PowerStream's Conservation and Demand Management (CDM) department has focused on reducing the peak electricity demand in Ontario, thus avoiding the need to buy power from coal-fired peaking plants and further helping to reduce greenhouse gas emissions. Since saving a kilowatt is approximately four times cheaper than building a kilowatt, the Province of Ontario established the Ontario Power Authority (OPA) to oversee the delivery of conservation programs. The CDM department is completely funded by the OPA, and delivers four core programs to PowerStream customers: the *Great Refrigerator Roundup*, ***peaksaver***®, the *Electricity Retrofit Incentive Program*, the *Power Savings Blitz*, as well as one custom initiative, the *Data Centre Incentive Program*.

## CUSTOMER AND LOAD GROWTH

PowerStream added an additional 6,512 new customer connections in 2009, serving a residential and commercial customer base greater than 320,000. The increase in customer base of 2.1% was not reflected in an increase of the annual distribution energy level, which decreased by 6.5% from an annual volume of 8,564 GWh to 8,004 GWh's. A portion of the increase in customer base is due to the individual metering of apartment suites in place of single metering for the entire building. The decrease in annual distribution level and consumption was due to the unseasonably cool summer months.

PowerStream's peak demand in 2009 was approximately 1,763 MW, slightly higher than the 1,733 MW peak reached in 2008.

**POWERSTREAM ANNUAL VOLUMES (GWhs) 2002 – 2008**



## SINCE 2002, THE COMPANY'S ORGANIC CUSTOMER GROWTH HAS INCREASED BY MORE THAN 65,000 OR 26%.

### SERVICE AND RELIABILITY

Since 2002, the company's organic customer growth has increased by more than 65,000 or 26%. Nonetheless, PowerStream's standards for service and reliability continue to exceed the thresholds and performance level requirements monitored by the OEB and the IESO.

Within the electrical utility industry, the generally accepted indices to measure reliability are CAIDI (Customer Average Interruption Duration Index), SAIDI (System Average Interruption Duration Index), and SAIFI (System Average Interruption Frequency Index). CAIDI is calculated as SAIDI divided by SAIFI. In order to provide a level of benchmarking, PowerStream participates in the Canadian Electrical Association annual Service Continuity study which reports on the Canadian Utility average performance. PowerStream's distribution system reliability performance in 2009, measured by the above indices, continues to be significantly better than the 2002 through 2006 Canadian averages for customer power interruptions and overall system reliability. PowerStream continued to maintain its 99.98% system reliability index in 2009.

### HEALTH AND SAFETY

In 2005, PowerStream enrolled in the Infrastructure Health and Safety Association's (IHSA) ZeroQuest Program and continues to advance through this program. This program requires accelerated levels of commitment from the more than 100 utilities that participate and instills an audit approach to managing Health and Safety. PowerStream is currently at the Silver Effort level of its Health and Safety Management System. This signifies a commitment to the program and additional effort to develop a management structure. Throughout 2009, PowerStream and Barrie Hydro merged all audit items to ensure areas of opportunity are prioritized in an attempt to achieve the IHSA's Gold Outcome level.


## LOOKING FORWARD

### Rate Application

In October 2009, applications were submitted to the OEB to adjust the rates for Barrie Hydro and for PowerStream effective May 1, 2010. The two applications were made under the OEB's Third Generation Incentive Regulation rate setting mechanism. Rates were increased to account for inflation but this was offset by a productivity factor. If approved, typical residential and small commercial customers in the former Barrie Hydro service territory will see a slight decrease in distribution charges. If approved for residential and small commercial customers in the original PowerStream service territory, the increase in distribution charges will be below inflation.

### International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board (AcSB) confirmed that Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for fiscal years commencing on or after January 1, 2011. As well, the Canadian Public Sector Accounting Board (PSAB) issued an amendment to the scope of the public sector accounting standards that supported government business enterprises to adopt IFRS in October 2009. As a result of these decisions, PowerStream commenced its IFRS project in May 2008.

PowerStream's IFRS project consists of four phases: initial assessment, detailed assessment, design and implementation. PowerStream completed its initial assessment and detailed assessment during the first quarter of 2009, which involved a high level review of the major differences between Canadian Generally Accepted Accounting Principles (CGAAP) and IFRS. During the detailed assessment, it was determined that the areas of accounting differences with the highest potential impact to PowerStream would be the accounting for property, plant and equipment and rate regulated accounting. PowerStream developed a detailed project plan for each of the impacted areas to determine the IFRS options, business processes and system changes.

PowerStream is currently in the design phase of the project and is expected to complete this phase in 2010. The design phase involved establishing an IFRS core team, which worked with external advisors on writing a number of technical papers for each IFRS topic. Within these papers, an analysis was made of the issues and the team developed recommendations for changes in accounting and business processes. Based on the outcomes of the technical papers, PowerStream is currently determining the projected impacts of adopting IFRS on its financial statements after considering the exemptions available under IFRS 1, *First Time Adoption of IFRS*. Although the impact of the adoption of IFRS on PowerStream's financial position and results of operations is not yet reasonably determinable or estimable, PowerStream expects a significant increase in financial statement disclosure requirements resulting from the adoption of IFRS and has designed the systems to provide the additional information required to make these disclosures.

On July 23, 2009, the International Accounting Standards Board (IASB) issued an Exposure Draft (ED) proposing accounting requirements for rate-regulated activities. The ED proposes to

# POWERSTREAM IS CONTINUING TO ASSESS THE IMPACT OF THE OEB'S REPORT AND OTHER RECOMMENDATIONS ON ITS IFRS CONVERSION PROJECT.

allow entities with rate regulated activities to recognize regulatory assets and liabilities on their balance sheets using the present value of expected future cash flows. Expected future cash flows are based on the probabilities of the assets' or liabilities' occurrence. As well, the ED is also proposing to allow rate-regulated entities to capitalize costs as allowed by the local regulator. PowerStream contributed to the Electricity Distribution Association's comment letter and submitted its own comment letter on November 19, 2009.

On February 17, 2010, the IASB met to discuss the ED and the comment letters received. The IASB asked the IASB staff to continue to perform further research on the project and to focus on the key issue of whether regulatory assets and regulatory liabilities exist in accordance with the current framework. The IASB staff will present their analysis to the IASB together with an amended timetable for the project. In light of these developments, a final standard is not likely to be issued in 2010. In addition, the IASB tentatively decided that there will be an amendment to IFRS 1, *First Time Adoption of IFRS*, which would allow rate regulated entities to use the CGAAP carrying amount as its deemed cost on transition to IFRS.

The magnitude of the impact of IFRS, without the provisions of the ED on the financial statements for PowerStream, is not trivial.

Currently, the differences between what is billed and the actual cost of power, Retail Settlement Variances (RSVA), are recorded as regulatory assets or liabilities on the balance sheet for future true up with customers. Under IFRS, without the ED on Rate-Regulated Activities being enacted, recognizing RSVAs on the balance sheet would no longer be allowed. PowerStream would have to include these RSVAs in its income or expense. Including these amounts in earnings would distort the true earnings accruing to the business. Failure to record the significant amounts refundable to customers in recent years would materially misstate the financial position of the company.

PowerStream will continue to monitor the rate-regulated activities project developments for further guidance, and evaluate the impacts on its systems, processes and controls.

On May 2008, the OEB initiated a consultative process to determine the nature of any changes to regulatory reporting requirements in response to IFRS. The OEB held public

**POWERSTREAM REMAINS WELL POSITIONED FOR CONTINUED FUTURE SUCCESS DUE TO ITS EXCELLENT SERVICE TERRITORY, BALANCED CUSTOMER MIX AND SOLID CUSTOMER BASE.**

meetings and a formal stakeholder conference in May 2009. PowerStream participated at each opportunity offered to the public to communicate with the OEB. On July 28, 2009, the OEB released some preliminary views on how regulatory reporting requirements will change in response to IFRS. The OEB has initiated a second phase of its consultative process to amend certain regulatory instruments. PowerStream is continuing to assess the impact of the OEB's report and other recommendations on its IFRS conversion project.

## OVERALL OUTLOOK

Aligned with its Mission Statement, PowerStream continues to "deliver reliable power and related services safely and efficiently to support our customers' quality of life, and to provide value to our shareholders and the communities we serve." PowerStream continues to be a successful and influential industry leader, able to respond effectively to industry, regulatory and legislative changes. Continued efforts are being made to increase the financial position of the utility and ultimately benefit the shareholders through dividends, interest, community involvement and increased value to the business, while offering fair distribution rates to customers. As the second largest municipally-owned electricity distribution company in Ontario, PowerStream remains well positioned for continued future success due to its excellent service territory, balanced customer mix and solid customer base. The continued support and leadership of PowerStream's Board of Directors and Shareholders, working together with the executive management team and staff, has been and continues to be instrumental in the sustained achievement of the company's strategic initiatives.

# AUDITORS' REPORT

Deloitte.

Deloitte & Touche LLP
5140 Yonge Street, Suite 1700
Toronto ON M2N 6L7 Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

To the Shareholders of
PowerStream Inc.

We have audited the balance sheet of PowerStream Inc. as at December 31, 2009 and the statements of earnings and comprehensive income and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 31, 2010

**POWERSTREAM INC.**

# BALANCE SHEET

AS AT DECEMBER 31, 2009
*(in thousands of dollars)*

| | |
|---|---|
| **ASSETS** | |
| *CURRENT* | |
| Cash | $ 42,612 |
| Accounts receivable, net of allowance (Note 21(b)(i)) | 73,633 |
| Unbilled revenue | 88,160 |
| Income taxes recoverable | 1,525 |
| Inventories | 3,869 |
| Prepaids and other | 2,581 |
| | $ 212,380 |
| Property, plant and equipment (Note 6) | 601,764 |
| Regulatory assets (Note 8(a)) | 26,433 |
| Deferred charges, net of amortization of $31 | 644 |
| Intangibles (Note 7) | 3,614 |
| Future income tax assets (Note 8(b)(ii) and 23(b)) | 61,665 |
| Goodwill | 42,543 |
| | **$ 949,043** |
| **LIABILITIES** | |
| *CURRENT* | |
| Accounts payable and accrued liabilities (Note 10) | $ 111,405 |
| Income taxes payable | 5,034 |
| Due to related parties (Note 11) | 12,049 |
| Short-term debt (Note 13) | 40,000 |
| Liability for subdivision development | 3,375 |
| | 171,863 |
| *LONG-TERM LIABILITIES* | |
| Bank term loan (Note 12(a)) | 50,000 |
| Debentures payable (Note 12(b)) | 123,091 |
| Notes payable (Note 12(c)) | 182,430 |
| Regulatory liabilities (Note 8(b)) | 91,140 |
| Customers' deposits (Note 14) | 16,726 |
| Employee future benefits (Note 15) | 12,036 |
| Liability for subdivision development | 4,917 |
| Construction deposits | 23,172 |
| Other liabilities | 5,421 |
| | **$ 508,933** |
| **SHAREHOLDERS' EQUITY** | |
| Share capital (Note 17) | 247,183 |
| Retained earnings | 21,064 |
| | 268,247 |
| | **$ 949,043** |

Approved on behalf of the Board: Peter Meffe, *Chair* Frank Scarpitti, *Vice-Chair*

**POWERSTREAM INC.**

# STATEMENT

## OF EARNINGS AND COMPREHENSIVE INCOME AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 2009

*(in thousands of dollars)*

| | |
|---|---|
| *REVENUE* | |
| Sale of energy | $ 621,719 |
| Distribution revenue | 146,076 |
| Other revenue | 9,889 |
| Total revenue | 777,684 |
| Cost of power purchased | 621,719 |
| | 155,965 |
| Operating expenses | 62,601 |
| Earnings before amortization, interest and income taxes | 93,364 |
| Amortization of property, plant and equipment and intangibles (net of $2,582 charged to other accounts) | 42,125 |
| Net interest expense (Note 26) | 21,614 |
| Income before income taxes | 29,625 |
| Income tax expense (Note 23(a)) | 8,561 |
| **Net earnings and comprehensive income for the year** | **$ 21,064** |

## POWERSTREAM INC.

# STATEMENT
# OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2009

*(in thousands of dollars)*

| | |
|---|---|
| *OPERATING ACTIVITIES* | |
| Net earnings for the year | $ 21,064 |
| Adjustments to determine cash provided by operating activities | |
| Amortization of property, plant and equipment | 42,006 |
| Accretion of debentures payable | 629 |
| Amortization of intangibles | 2,701 |
| Amortization of deferred charges | 31 |
| Employee future benefits | 923 |
| Future income taxes | 6,759 |
| Decrease in regulatory assets/liabilities | (23,280) |
| Gain on disposal of property, plant and equipment | (218) |
| Net change in non-cash operating working capital (Note 24) | (25,478) |
| | $ 25,137 |
| *FINANCING ACTIVITIES* | |
| Decrease in liability for subdivisions development | (3,164) |
| Increase in due to related parties | 2,150 |
| Increase in long-term customers' deposits | 1,223 |
| Decrease in other liabilities | (47) |
| Obligations to predecessor shareholders (Note 18) | (31,082) |
| Increase in short-term debt | 15,000 |
| Construction deposits | 23,172 |
| | $ 7,252 |
| *INVESTING ACTIVITIES* | |
| Proceeds on disposal of property, plant and equipment | 248 |
| Purchase of intangibles | (6,314) |
| Expenditure on property, plant and equipment, net of contribution of capital construction | (67,419) |
| | ($ 73,485) |
| Net decrease in cash during the year | (41,096) |
| Cash, beginning of year | 83,708 |
| Cash, end of year | $ 42,612 |

*(in thousands of dollars)*

## 1. AMALGAMATION

The City of Vaughan through its wholly owned subsidiary Vaughan Holdings Inc.; the Town of Markham through its wholly owned subsidiary, Markham Enterprises Corporation; and the City of Barrie, through its wholly owned subsidiary Barrie Hydro Holdings Inc; agreed to amalgamate PowerStream Inc. and Barrie Hydro Distribution Inc. on January 1, 2009 and continue as a corporation amalgamated under the laws of Ontario.

The amalgamated corporation retained the PowerStream Inc. corporate name.

Upon the amalgamation, shares of PowerStream Inc. held by Vaughan Holdings Inc. and Markham Enterprises Corporation, and shares of Barrie Hydro Distribution Inc. held by Barrie Hydro Holdings Inc. were exchanged for shares of the newly amalgamated Corporation, PowerStream Inc., as follows:

(a) the common shares of PowerStream Inc. held by Vaughan Holdings Inc. were converted into 45,315 issued and fully-paid common shares of the amalgamated corporation;
(b) the common shares of PowerStream Inc. held by Markham Enterprises Corporation were converted into 34,185 issued and fully-paid common shares of the amalgamated corporation; and
(c) the common shares of Barrie Hydro Distribution Inc. held by Barrie Hydro Holdings Inc. were converted into 20,500 issued and fully-paid common shares of the amalgamated corporation.

The ultimate shareholders of the amalgamated PowerStream Inc., being the Corporation of the City of Vaughan, the Corporation of the Town of Markham, and the Corporation of the City of Barrie entered into a shareholders' agreement effective January 1, 2009.

The contribution of the net assets of the amalgamated corporation has been recorded at the carrying value of the predecessor Corporations as at January 1, 2009 in the balance sheet as follows:

| | |
|---|---|
| Net assets contributed | |
| Current assets (including cash $ 83,708) | $ 234,816 |
| Current liabilities | (155,350) |
| | 79,466 |
| Property, plant and equipment | 566,180 |
| Goodwill | 42,543 |
| Other assets | 26,171 |
| Long-term liabilities | (436,095) |
| Obligations to predecessor shareholders (Note 18) | (31,082) |
| | 247,183 |
| Consideration | |
| Shareholders' contributions | 247,183 |
| | $ 247,183 |

## 2. DESCRIPTION OF THE BUSINESS

In these financial statements, PowerStream Inc. (the "Corporation") refers to both the newly amalgamated entity PowerStream Inc. and the predecessor corporation. The Corporation is owned by the Corporation of the City of Vaughan, through its wholly owned subsidiary, Vaughan Holdings Inc.; the Corporation of the Town of Markham, through its wholly owned subsidiary, Markham Enterprises Corporation; and City of Barrie, through its wholly owned subsidiary, Barrie Hydro Holdings Inc.

The principal activity of the Corporation is to distribute electricity in the service area of Alliston, Aurora, Barrie, Beeton, Bradford West Gwillimbury, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham and Vaughan in the Province of Ontario, under licenses issued by the Ontario Energy Board ("OEB"). The Corporation is regulated under the OEB and adjustments to the distribution rates require OEB approval.

## 3. ELECTRICITY INDUSTRY REGULATION

The Ontario Energy Board Act, 1998 gave the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may prescribe license requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, and filing process requirements for rate-setting purposes.

The Corporation is required to charge its customers for the following amounts (all of which, other than the distribution rate, essentially represent a pass through of amounts payable to third parties):

(i) Electricity Price and Related Rebates: The electricity price and related rebates represent a pass through of the commodity cost of electricity.

(ii) Distribution Rate: The distribution rate is designed to recover the costs incurred by the Corporation in delivering electricity to customers, as well as earn the OEB allowed rate of return. Distribution charges are regulated by the OEB and typically comprise a fixed charge and a usage-based (consumption) charge.

The volume of electricity consumed by the Corporation's customers during any period is governed by events largely outside 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).

(iii) Retail Transmission Rate: The retail transmission rate represents a pass through of costs charged to the Corporation for the transmission of electricity from generating stations to the Corporation's service area. Retail transmission rates are regulated by the OEB.

(iv) Wholesale Market Service Charge: The wholesale market service charge represents a pass through of various wholesale market support costs charged by the Independent Electricity System Operator (IESO).

Any differences between the actual cost of electricity, transmission and wholesale market services and the amounts charged to customers are recorded in retail settlement variance accounts ("RSVA amounts"). These RSVA amounts are reviewed by the OEB and periodically rate adjustments are requested and approved by the OEB to "true up" the amounts charged to customers for these services.

Electricity distribution rates as described above are approved by the OEB and allow the Corporation to recover its reasonable costs and the OEB allowed market based rate of return.

In its 2009 rate application, the Corporation received approval to repay the net regulatory liabilities accrued from January 1, 2005 to December 31, 2007 plus interest thereon to April 30, 2009 over the period September 1, 2009 to April 30, 2011, for the former PowerStream Inc. rate zone. In its 2010 rate application, for the former Barrie Hydro Distribution Inc. rate zone, the Corporation has applied to refund the net regulatory liabilities accrued from January 1, 2005 to December 31, 2008 plus interest thereon to April 30, 2010 over the period May 1, 2010 to April 30, 2011.

In 2008, the OEB approved distribution rates for the former Barrie Hydro Distribution Inc. rate zone for the period May 1, 2008 to April 30, 2009 based on updated values for assets and costs, a deemed debt equity ratio of 60:40 and an allowed return on deemed equity of 8.57%. In 2009, the OEB approved distribution rates for the former PowerStream Inc. rate zone effective for the period May 1, 2009 to April 30, 2010

## 3. ELECTRICITY INDUSTRY REGULATION *(continued)*

based on updated values for assets and costs, a deemed debt equity ratio of 60:40 and an allowed return on deemed equity of 8.01%.

The OEB has established a multi-year electricity distribution rate-setting plan for distributors to streamline the process for approving distribution rates and charges. The OEB issued guidelines along with an Incentive Regulation Models ("IRM") to be used to calculate annual rate adjustments. The guidelines effectively adjusted Base Distribution Rates for inflation less a productivity factor. Following the rebasing, both rate zones are on the 3rd Generation IRM method for setting rates for 2010.

The Corporation has filed 3rd Generation IRM rate filings for its 2010 distribution rates for both rate zones. New rates are expected to be approved effective May 1, 2010.

Under the Green Energy and Green Economy Act, 2009, the Corporation and other Ontario electricity distributors have new responsibilities for enabling renewable generation, including investing in a smart grid, to accommodate any changes this may have on the local distribution of electricity. The OEB has approved several new deferral accounts to capture incremental costs related to these new initiatives for recovery in future periods.

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders may affect the distribution rates and other permitted recoveries.

## 4. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements reflect the following significant accounting policies:

*(a) Rate setting*
The Corporation is regulated by the OEB under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB also has the authority to provide rate protection for certain electricity customers.

As the Corporation is regulated by the OEB, the timing of accounting recognition and measurement of assets and liabilities arising from rate regulation may differ from that otherwise expected under Canadian generally accepted accounting principles for non-rate regulated enterprises. The Corporation has determined that its assets and liabilities arising from rate-regulated activities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Statement of Financial Accounting Standards No. 71 – "Accounting for the Effects of Certain Types of Regulation".

*(b) Revenue recognition*

(i) Electricity distribution and sale
Revenue from the sale and distribution of electricity is recorded on the basis of cyclical billings based on electricity usage and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed.

(ii) Other revenue
Other revenue related to sales of other services is recognized as services are rendered. Contract revenue is accounted for using the percentage of completion method, whereby revenue is recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident.

*(c) Financial instruments*
The Corporation has made the following balance sheet classifications in connection with its financial assets and financial liabilities:

- Cash is classified as financial assets "Held-for-Trading" and is measured at fair value.
- Accounts receivable are classified as "Loans and Receivables" and are measured at amortized cost using the effective interest method.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

*(c) Financial instruments (continued)*

– Other non-current assets are classified as "Held-to-Maturity Investments" and are measured at amortized cost, which, after initial recognition, is considered equivalent to fair value.
– Accounts payable, accrued liabilities, amounts due to related parties, short-term debt, bank term loan, debentures payable and notes payable are classified as "Other Financial Liabilities" and are measured at amortized cost using the effective interest method.

Financial assets and liabilities are initially recorded at fair value. The fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Subsequent measurement depends on how each financial instrument is classified on the balance sheet.

In accordance with the amendments to CICA Handbook Section 3862, the Corporation has classified fair value measurements using a fair value hierarchy that reflects the three levels of the inputs used in making the fair value measurements. The fair value hierarchy has the following levels:

(i) Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
(ii) 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; and
(iii) Level 3: Unobservable inputs for the assets or liabilities that are not based on observable market data.

*(d) Inventories*

Inventories, which consists of parts and supplies acquired for internal construction or consumption, is stated at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis. Any impairment losses taken on inventories are reversed if and when net realizable value subsequently recovers. Major spare parts and standby equipment are recorded as part of property, plant and equipment and amortized once they are put into use.

*(e) Property, plant and equipment and amortization*

Property, plant and equipment are recorded at cost and includes contracted services, materials, labour, engineering costs, interest and overheads. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers and in some instances a portion may be refunded by the Corporation based on economic evaluation (discounted cash flow), in accordance with the OEB Distribution System Code. Such contributions, whether in cash or in-kind, are offset against the related 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 property, plant and equipment is provided for on the straight-line basis over the estimated service life of the assets. Amortization of contributions from developers or customers is amortized at the rates corresponding with the useful lives of the related property, plant and equipment. The estimated service lives of the various assets used in calculating amortization are summarized below:

| | |
|---|---|
| Buildings | 10 to 60 years |
| Transformer stations | 40 years |
| Transformers and meters | 25 to 40 years |
| Plant and equipment | 10 to 30 years |
| Other | 3 to 8 years |

Construction in progress comprises property, plant and equipment under construction; property, plant and equipment not yet placed into service; and pre-construction activities related to specific projects expected to be constructed. An allowance for the outlay of funds employed during the construction period has been applied to the related property, plant and equipment as allowed by the OEB.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

*(f) Impairment of long-lived assets*

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

*(g) Intangibles*

Intangibles includes computer software and land rights. Computer software is stated at cost and amortized on a straight-line basis over three years while land rights are stated at cost, are not amortized and have an estimated indefinite useful life.

*(h) Regulatory assets and liabilities*

Regulatory assets/liabilities represent costs/revenue that have been deferred and that are expected to be disposed of through future rates. Retail Settlement Variances (RSVA) amounts 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.

As at December 31, 2009, regulatory assets and liabilities are comprised principally of deferred Smart Meter costs and retail settlement variances.

As at December 31, 2009, management has provided a provision against certain regulatory assets and liabilities. Management continues to assess the likelihood of recovery of its regulatory assets and believes that it is probable that its regulatory assets, net of the valuation allowance, and liability balances will be factored into the setting of future rates.

*(i) Goodwill*

Goodwill represents the excess of the purchase price over the fair value assigned to the Corporation's interest of the net identifiable assets acquired on the acquisition, by predecessor corporations of the former Richmond Hill Hydro Inc., Penetanguishene Hydro, Essa Hydro, New Tecumseth Hydro and Bradford Hydro. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. 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.

*(j) Pension and other post-employment benefits*

The Corporation accounts for its participation in the Ontario Municipal Employees Retirement Fund ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan.

The Corporation actuarially determines the cost of other employment and post-employment benefits offered to employees using the projected benefit method prorated on service and based on management's best estimate assumptions. Under this method, the projected post-retirement benefit is deemed to be earned on a pro-rata basis over the years of service in the attribution period commencing at the date of hire, and ended at the earliest age the employee could retire and qualify for benefits. Compensated absences and termination benefits that do not vest or accumulate are recognized as an expense when the event occurs. This accounting policy for future employee benefits was applied on the prospective basis. The transitional obligation resulting from this treatment is being amortized over the average remaining service period of employees.

*(k) Customers' deposits*

Customer's deposits are cash 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 customers' deposits.

*(l) Payment in lieu of corporate income taxes*

Effective January 1, 2009, the Corporation adopted amendments to the Canadian Institute of Chartered Accountants (CICA) Handbook section 3465, Income Taxes and CICA Handbook Section 1100, Generally Accepted Accounting Principles. These amendments established new standards for the recognition, measurement, presentation and disclosure of future income tax assets and liabilities.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

*(l) Payment in lieu of corporate income taxes (continued)*

The requirement for rate-regulated enterprises to recognize future income taxes, as well as a separate asset or liability for the future revenue or reduction in future revenue expected as a result of regulator's action in respect of future income taxes, applies for fiscal years beginning on or after January 1, 2009.

*(m) Measurement uncertainty*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, as well as the disclosure of contingent assets and liabilities at the financial statement date. Accounts receivable, unbilled revenue, inventories, regulatory assets and liabilities, goodwill, employee future benefits and income taxes payable are reported based on amounts expected to be recovered/refunded and an appropriate allowance has been provided based on managements' best estimate of unrecoverable amounts. Due to the inherent uncertainty involved in making such estimates, actual results could differ from amounts recorded in these financial statements, including changes as a result of future decisions made by the OEB, the Minister of Energy and Infrastructure and the Minister of Finance.

## 5. CHANGES IN ACCOUNTING POLICIES

**Current changes**

*(a) Rate-regulated operations*

Effective January 1, 2009, the temporary exemption from CICA Handbook Section 1100, "Generally Accepted Accounting Principles", which permits the recognition and measurement of assets and liabilities arising from rate regulation, was withdrawn.

The Corporation has determined that its assets and liabilities arising from rate-regulated activities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Statement of Financial Accounting Standards No. 71 – "Accounting for the Effects of Certain Types of Regulation".

As a result, the removal of the temporary exemption has no effect on the Corporation's results of operation as of December 31, 2009. The financial impact of the rate regulation continues to be disclosed in accordance with Accounting Guideline 19 – "Disclosures by Entities Subject to Rate Regulation".

In addition, CICA Handbook Section 3465, Income Taxes was amended to require the recognition of future income tax liabilities and assets. On January 1, 2009, the Corporation began to account for the differences between its financial statement carrying value and tax basis of assets and liabilities in accordance with CICA Handbook Section 3465, Income Taxes. As at January 1, 2009, the Corporation has recognized a future income tax asset of $68,424 and a corresponding regulatory liability of $68,424.

*(b) Goodwill and intangible assets*

Effective January 1, 2009, the Corporation adopted CICA Handbook Section 3064, Goodwill and Intangible Assets. This standard augments existing Handbook Section 3061, Property, Plant and Equipment and replaces Section 3062 Goodwill and Other Intangible Assets.

As accounting for Goodwill under CICA Handbook Section 3064 remains unchanged from CICA 3062, there was no effect on the Goodwill calculations.

As a result of adopting this new accounting standard, the Corporation reclassified computer application software and land rights at its net book value from property, plant and equipment to intangible assets (Note 7).

*(c) Financial Instruments recognition, measurement and disclosure*

In July 2009, the CICA amended Handbook Section 3855 on financial instruments recognition and measurement to incorporate certain changes to Canadian GAAP in order to reduce differences with International Financial Reporting Standards (IFRSs) and to ease the requirements regarding impairment of certain investment in debt instruments. The application of these amendments did not have any impact on the Corporation's financial statements since there are no investments in debt instruments for reclassification nor impairment losses to report on other than the allowance for doubtful accounts.

(in thousands of dollars)

## 5. CHANGES IN ACCOUNTING POLICIES *(continued)*

*(c) Financial Instruments recognition, measurement and disclosure (continued)*

(i) Credit risk and fair value of financial assets and financial liabilities
In January 2009, the CICA issued an Emerging Issues Committee Abstract (EIC) 173 on credit risk and fair value of financial assets and financial liabilities which is applicable to all entities that have adopted Section 3855 on financial instruments recognition and measurement. It reached a consensus that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities including derivative instruments.

ii) Financial Instrument Disclosures
CICA Handbook Section 3862 on Financial Instrument Disclosures was amended and effective from fiscal years ending after September 30, 2009. These amendments include additional disclosure requirements in respect of fair valuation measurement and liquidity risk management disclosures. The amendments require an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The adoption of CICA Handbook Sections 3855, 3862 and EIC 173 resulted in additional disclosures of the fair market value of Financial Instruments as described in Note 21(b).

**Future accounting changes**

*(d) International Financial Reporting Standards ("IFRSs")*

The Corporation is required to prepare their financial statements effective January 1, 2011 in accordance with IFRSs requirements.

The Corporation has an internal initiative to govern the conversion process to IFRSs and is currently in the process of evaluating the potential impact of IFRSs on its financial statements. The Corporation will continue to monitor the progress made by the International Accounting Standards Board (IASB) on the rate-regulated activities standard in consultation with other LDCs and its professional advisers.

## 6. PROPERTY, PLANT AND EQUIPMENT

| | Cost | Accumulated Amortization | Net Book Value |
|---|---|---|---|
| Land | $ 8,923 | $ – | $ 8,923 |
| Buildings | 71,183 | 16,051 | 55,132 |
| Transformer stations | 107,429 | 33,742 | 73,687 |
| Transformers and meters | 310,368 | 153,188 | 157,180 |
| Plant and equipment | 843,257 | 405,670 | 437,587 |
| Other | 39,188 | 26,481 | 12,707 |
| Construction in progress | 59,227 | – | 59,227 |
| | 1,439,575 | 635,132 | 804,443 |
| Capital contributions | 253,973 | 51,294 | 202,679 |
| | 1,185,602 | 583,838 | 601,764 |

Included in property, plant and equipment costs is an amount of $5,683 related to an "allowance for the outlay of funds" employed during the construction period as allowed by the OEB. In the absence of rate regulation, interest expense in the current year would have been higher by $1,433. Further, transformers and meters amounting to $1,061 were considered to be impaired and an impairment loss was recorded.

*(in thousands of dollars)*

## 7. INTANGIBLES

The Corporation reclassified land rights and computer software from property, plant and equipment to Intangibles in accordance with CICA Handbook Section 3064, Goodwill and Intangible Assets.

| | Cost | Accumulated Amortization | Net Book Value |
|---|---|---|---|
| Land rights | $ 729 | $ – | $ 729 |
| Computer software | 15,580 | (12,695) | 2,885 |
| | 16,309 | (12,695) | 3,614 |

## 8. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-making process and consist of the following:

| | |
|---|---|
| **Regulatory assets** | |
| Deferred smart meter costs | $ 25,713 |
| Other regulatory assets | 720 |
| Regulatory assets | 26,433 |
| **Regulatory liabilities** | |
| Retail settlement variance accounts | (1,010) |
| Future income taxes | (61,665) |
| Regulatory assets recovery account | (22,915) |
| PILs variance | (4,008) |
| **Regulatory liabilities** | **(89,598)** |
| Provision for regulatory assets and liabilities | (1,542) |
| **Regulatory liabilities, net** | **$ (91,140)** |

*(a) Regulatory assets*

(i) Deferred smart meter costs

As part of the Ontario Government's initiative, the Corporation had installed 225,000 smart meters as at December 31, 2009 (2008 – 135,000). The Corporation has recorded the capital spending and incremental expenses incurred in connection with smart meters along with related funding collected from customer in the deferral accounts established by the OEB.

The Corporation applied and received approval for recovery of smart meter costs up to December 31, 2007 in its 2009 Cost of Service rate application. The approved amount of $8,863 which has been reallocated consists of $8,909 of property, plant and equipment, $2,002 of revenue and $1,956 of operating expense.

In the absence of this regulatory treatment, property, plant and equipment would be increased by $19,883 with related amortization expense of $878. Operating expenses would be increased by $814. Other revenue would be increased by $4,093 and interest revenue would be lower by $164.

This regulatory asset balance also includes the net book value less proceeds of stranded mechanical meters, which have been replaced by smart meters, in the amount of $10,184. In the absence of this regulatory treatment, current year replaced meters with a net book value of $3,747 would have been recorded as a loss on disposal of property, plant and equipment.

## 8. REGULATORY ASSETS AND LIABILITIES *(continued)*

*(a) Regulatory assets (continued)*

(ii) Other regulatory assets

This consists mainly of the costs related to the transition to IFRSs less the related amounts included in rates. It also includes costs related to the Green Energy and Green Economy Act, 2009 initiatives that are allowed to be deferred.

Under OEB regulations, these expenses are allowed to be deferred, which under Canadian GAAP would be recorded as expense for an unregulated business. Under non regulated reporting, expenses would have been $661 higher in 2009 and interest income would have been lower in 2009 by $36.

*(b) Regulatory liabilities*

(i) Retail settlement variance accounts

Retail settlement variances are variances that have occurred since May 1, 2002 when the competitive electricity market was declared open, to December 31, 2009, and have accumulated pursuant to direction from the OEB. Current balances represent variances from January 1, 2005 to December 31, 2009; balances up to December 31, 2004 were approved for settlement with customers in 2006 rates. Specifically, these amounts include:

(a) Variances between the amount charged by the Independent Electricity System Operator ("IESO") for the operation of the markets and grid, the purchase of imported power by the IESO to augment Ontario's power supply and charged by the IESO as an uplift charge that is part of the wholesale market service charges, as well as various wholesale market settlement charges and transmission charges, as compared to the amount billed to consumers based on the OEB-approved wholesale market service rate and transmission rates; and

(b) Differences between the amounts charged by the IESO and billed to consumers for energy costs. Energy charges by the IESO consist of the hourly price of electricity, global adjustment charges related to the Ontario Power Authority's long term contracted supply of electricity including renewables, and adjustments for electricity billed to customers at regulated price plan rates.

Under OEB regulations, the retail settlement variances are allowed to be deferred which under Canadian GAAP would be recorded as costs for an unregulated business. Under non regulated reporting, cost of power would have been $4,484 higher in 2009 and interest expense would have been lower in 2009 by $360.

(ii) Future income taxes

Effective January 1, 2009, the Corporation adopted CICA handbook Section 3465, Income Taxes and accounted for future income taxes by taking into account the differences between the tax basis of assets and liabilities and their financial statement carrying value. The OEB allows the Corporation to recover amounts in rates for payments in lieu of corporate income taxes ("PILs") using the taxes payable method. No allowance is made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. This regulatory liability account is related to the expected future distribution rate reduction for customers arising from the recognition of future income tax assets. Accordingly, a regulatory liability has been recorded to offset the future income tax asset.

(iii) Regulatory assets recovery account

The regulatory asset recovery account is comprised of the final balances of regulatory assets and regulatory liabilities approved for disposition by the OEB.

As at December 31, 2009, the balances include the following:

(a) Former Barrie Hydro Distribution Inc. rate zone

On May 1, 2008, the Corporation began recovery of regulatory asset balances in the amount of $910 over a period of 36 months through rate riders. These recoveries are based on final balances approved by the OEB reflecting costs to December 31, 2006 and carrying interest accrued to April 30, 2008. In 2008 the approved amounts were netted with the recoveries account in accordance with OEB direction.

## 8. REGULATORY ASSETS AND LIABILITIES *(continued)*

(iii) Regulatory assets recovery account *(continued)*

(b) Former PowerStream Inc. rate zone

On September 1, 2009, the Corporation began refunding net regulatory liabilities in the amount of $28,089 over a period of twenty months through rate riders. These recoveries are based on final balances approved by the OEB reflecting costs to December 31, 2007 and carrying interest accrued to April 30, 2009. In 2009 the approved amounts were netted with the recoveries account in accordance with OEB direction.

The billed amounts are recorded in the regulatory assets recovery account and interest is applied at the OEB prescribed interest rate for carrying charges. Under non regulated reporting, revenues would be decreased by $5,036 and interest expense in 2009 would have been $573 lower.

(iv) Payments in lieu of corporate income taxes (“PILs”) variance

PILs are recorded based on the OEB PILs methodology of PILs billed amount versus PILs proxy amount variance and an annual Spreadsheet Implementation Model for PILs (“SIMPILs”) filing with specified true-ups. Under non regulated reporting, revenues would have been $241 higher and interest expense would have been $51 lower.

The OEB has undertaken a combined proceeding (EB-2008-0381) to review the balances set up in this account, for a group of utilities (the former Barrie Hydro Distribution Inc., ENWIN Utilities Ltd. and Halton Hills Hydro Inc.) and determine the amounts to be recovered from or repaid to customers.

The Corporation has used the SIMPIL model and followed instructions provided by the OEB in setting up the balances in this account for the period October 2001 to April 30, 2006 and a revised model as directed by the OEB thereafter.

As an outcome of this proceeding, the OEB will provide clarification of the existing rules and interpretations as to how these rules should have been applied. It is the OEB’s stated intention that these clarifications and interpretations will be used as a reference in determining the amounts for disposition by other utilities.

This proceeding is in the early stages and the outcome is indeterminable at this time. Any adjustments will be recorded when known.

(v) Provision for regulatory assets and liabilities

Management has determined that there is uncertainty concerning the future recovery of certain regulatory assets and liabilities. Based on this uncertainty, a provision in the amount of $1,542 has been recorded.

Under the OEB’s new guidelines for disposition of variance and deferral accounts, the Corporation has applied for disposal of most regulatory asset and liability balances as at December 31, 2008 in its 2010 incentive rate mechanism service rate application for the former Barrie Hydro Distribution Inc. rate zone. Under the same guidelines, former PowerStream Inc. rate zone did not meet the threshold and did not apply for disposition of variance and deferral accounts.

Management will continue to assess the likelihood of recovery of the regulatory assets and liabilities amount recorded. In the event that Management determines the recovery for these amounts is no longer probable, these amounts will be expensed in the period for which the determination is made.

## 9. CREDIT FACILITIES

The Corporation executed an unsecured credit facility with a Canadian chartered bank on December 17, 2008 which is renewable annually. This credit facility agreement provides an extendible 364-day committed revolving credit facility of $75,000, an uncommitted demand facility of $25,000 for a specific purpose, an uncommitted Letter of Guarantee facility of $15,000 and a committed term facility of $50,000.

As at December 31, 2009, the Corporation had utilized $12,000 of the Letter of Guarantee facility to provide the IESO with a letter of credit for prudential support. With the opening of Ontario's electricity market to wholesale and retail competition on May 1, 2002 ("Open Access"),

*(in thousands of dollars)*

## 9. CREDIT FACILITIES *(continued)*

the IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the letter of credit if the Corporation defaults on its payment.

The 364-day committed revolving credit facility can be drawn upon by direct advances, bearing interest at prime plus 0.25% or Bankers' Acceptances of a stamping fee plus 137 basis points (1.37%) per annum. The uncommitted demand facility bears an interest rate of prime plus 0.00%, or Bankers' Acceptance of a stamping fee plus 100 basis points (1.00%) per annum. The Letter of Guarantee facility bears a charge of 50 basis points (0.50%) per annum.

The committed term facility was fully drawn by the Corporation in February 2008 (Note 12(a)). The $25,000 uncommitted demand facility was drawn by the Corporation in December 2008 and remains outstanding as at December 31, 2009. As of December 2009, the Corporation has utilized $15,000 of the committed revolving credit facility (Note 13).

## 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | |
|---|---|
| Accounts payable - energy purchases | $ 57,581 |
| Current portion of customers' deposits | 1,000 |
| Other accounts payable and accrued liabilities (including construction deposits of $129 to be refunded in a year) | 52,824 |
| | **$ 111,405** |

## 11. RELATED PARTY BALANCES AND TRANSACTIONS

The amount due to the Corporation of the City of Vaughan ("Vaughan"), the Corporation of the City of Barrie ("Barrie") and the Corporation of the Town of Markham ("Markham") is comprised of amounts payable to Vaughan, Markham and Barrie and their wholly-owned subsidiaries.

Components of the amounts due to related parties are as follows:

| | |
|---|---|
| **The Corporation of the City of Vaughan** | |
| Net balance payable of inter entity transactions, without interest | $ 5,523 |
| **The Corporation of the Town of Markham** | |
| Net balance payable of inter entity transactions, without interest | 4,951 |
| **The Corporation of the City of Barrie** | |
| Net balance payable of inter entity transactions, without interest | 1,575 |
| | **$ 12,049** |

Other significant related party transactions not otherwise disclosed separately in the financial statements, are summarized below:

| | City of Vaughan | Town of Markham | City of Barrie |
|---|---|---|---|
| Revenue | | | |
| Energy and distribution | $ 4,094 | $ 3,903 | $ 3,726 |
| Shared services | 1,916 | 1,401 | 1,620 |
| Expenses | | | |
| Facilities rental | 732 | 120 | – |
| Realty taxes | 530 | 158 | 303 |
| Operations | 482 | 95 | – |

*(in thousands of dollars)*

## 12. LONG-TERM DEBT

*(a) Bank term loan*

The bank term loan is a 5 year fixed rate term loan with a Canadian Chartered Bank which bears interest at an annual rate of 5.08%. It is a non-amortizing loan with repayment at the end of the contracted term, February 26, 2013. The financial covenants require a Total Debt to Capitalization Ratio of no greater than 0.60:1, and to maintain an Interest Coverage Ratio of no less than 1.25:1.

Interest expense relating to the bank term loan for the year ended December 31, 2009 was $2,540.

*(a) Bank term*

| | | |
|---|---|---|
| 6.45% unsecured debentures due August 15, 2012,<br>interest payable in arrears semi-annually on August 15 and February 15 | **$** | **123,091** |

In August 2002, the four predecessor corporations (Hydro Vaughan Distribution Inc., Markham Hydro Distribution Inc., Richmond Hill Hydro Inc. and Barrie Hydro Distribution Inc.) raised gross proceeds of $125,000 through a private placement offering. These predecessor corporations were four of five local distribution companies ("LDC") that participated in the Electricity Distributors Finance Corporation ("EDFIN") 10 Year Debentures Issued (Series 2002-1) that was offered on a private placement. EDFIN is a specific purpose corporation managed by MEARIE Management Inc., for the purpose of providing the LDCs with efficient access to the debt capital markets. Each LDC has executed a debenture which is a direct and unsecured obligation of the LDC. The LDC's obligations are several and not joint, and each LDC is liable for its own obligation and not that of any other LDC.

The debentures are recorded at amortized cost, using the effective interest method. Interest expense relating to debentures payable was $8,691 which included $629 of accretion.

The debentures are subject to the financial covenant that the consolidated funded obligation does not exceed 75% of the total consolidated capitalization of the Corporation.

*(c) Notes payable*

| | | |
|---|---|---|
| Promissory note issued to the City of Vaughan | $ | 78,236 |
| Deferred interest on promissory note issued to the City of Vaughan | | 8,743 |
| Promissory note issued to the Town of Markham | | 67,866 |
| Deferred interest on promissory note issued to the Town of Markham | | 7,585 |
| Promissory note issued to the City of Barrie | | 20,000 |
| | **$** | **182,430** |

On June 1, 2004, an unsecured 20 year term promissory note was issued to the Corporation of the City of Vaughan ("Vaughan") in the amount of $78,236. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On June 1, 2004, an unsecured 20 year term promissory note was issued to the Corporation of the Town of Markham ("Markham") in the amount of $67,866. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On December 31, 2008, an unsecured 16 year term promissory note was issued to the Corporation of the City of Barrie ("Barrie") in the sum of $20,000. Interest for 2009 is at an annual rate of 6.50%, and will change to 5.58% in 2010 and after.

The three promissory notes are repayable 90 days following demand by Vaughan, Markham and Barrie, with subordination and conditions. These notes have been classified as long-term as it is not the intent of Vaughan, Markham or Barrie to demand repayment within the next year.

At the request of the City of Vaughan and the Town of Markham, eight quarters of interest have been deferred commencing October 1, 2006. This deferred interest will be repayable in full on October 31, 2013 and is subject to the same interest rate and conditions as the original note.

*(in thousands of dollars)*

## 12. LONG-TERM DEBT *(continued)*

*(c) Notes payable (continued)*

Interest of $4,853 on the note payable to the City of Vaughan, $4,210 on the note payable to the Town of Markham and interest of $1,300 to the City of Barrie was charged to interest expense during the year. This includes interest on the related deferred interest balance for the City of Vaughan and the Town of Markham.

## 13. SHORT-TERM DEBT

| | | |
|---|---|---|
| Short-term demand facility with a Canadian Bank with an interest rate at prime rate or Banker's Acceptance plus 100 basis points per annum, whichever is lower. The terms of this facility are renewable annually. | $ | 25,000 |
| Drawn down on the Corporation's $75,000 364-day committed revolving credit facility with a Canadian Bank. The interest rate for this facility is at prime rate plus 0.25% per annum, or Banker's Acceptance plus 137 basis points per annum, whichever is lower. The terms of this facility are renewable annually. | | 15,000 |
| | **$** | **40,000** |

## 14. CUSTOMERS' DEPOSITS

| | | |
|---|---|---|
| Service deposits | $ | 17,726 |
| Less amounts expected to be refunded within one year, included in accounts payable and accrued liabilities (Note 10) | | 1,000 |
| Non-current portion of customers' deposits | **$** | **16,726** |

## 15. EMPLOYEE FUTURE BENEFITS

The Corporation pays certain health, dental and life insurance benefits under unfunded benefit plans on behalf of its retired employees. The Corporation measures its accrued benefit obligation for accounting purposes every three years. The latest actuarial valuation was performed as at December 31, 2009.

A reconciliation of the Corporation's accrued benefit obligation to the amounts recorded in the financial statements is as follows:

| | | |
|---|---|---|
| Accrued benefit obligation | $ | 16,490 |
| Unamortized transitional obligation | | (482) |
| Unamortized net actuarial losses | | (3,972) |
| Accrued benefit liability | **$** | **12,036** |

Details of the accrued benefit obligation are as follows:

| | | |
|---|---|---|
| Accrued benefit obligation, beginning of the year | $ | 13,441 |
| Current service cost | | 260 |
| Interest cost on obligation | | 878 |
| Benefit payments | | (393) |
| Actuarial losses | | 2,304 |
| Accrued benefit obligation, end of the year | **$** | **16,490** |

The plan expense for the year is determined as follows:

| | | |
|---|---|---|
| Current service cost | $ | 260 |
| Interest cost on obligation | | 878 |
| Amortization of transitional obligation | | 70 |
| Amortization of net actuarial losses | | 108 |
| Plan expense | **$** | **1,316** |

*(in thousands of dollars)*

## 15. EMPLOYEE FUTURE BENEFITS *(continued)*

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation are as follows:

| | |
|---|---|
| Discount rate | **5.50 – 6.50%** |
| Rate of compensation increase | **3.50%** |
| Medical benefits costs escalation – hospitalization | **5.00 – 9.00%** |
| Medical benefits costs escalation – extended health care | **5.00 – 9.00%** |
| Dental benefits costs escalation | **5.00%** |

*Sensitivity analysis*

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2009:

| | Increase | Decrease |
|---|---|---|
| Total service and interest cost | $ 152 | $ (130) |
| Accrued benefit obligation | $ 2,229 | $ (1,802) |

## 16. PENSION

The Corporation participates in the Ontario Municipal Employees Retirement System ("OMERS") for its full time employees, as a 'Defined Contribution Plan'. OMERS is a multi-employer defined benefit pension plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The fund is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund. The Corporation incurred $2,536 of contribution expense during the year ended December 31, 2009.

## 17. SHARE CAPITAL

The Corporation's authorized share capital is made up of an unlimited number of common shares. The issued share capital is as follows:

| | |
|---|---|
| 100,000 common shares | **$ 247,183** |

Of the total 100,000 common shares issued 45,315 common shares are registered under Vaughan Holdings Inc. (wholly owned by The Corporation of the City of Vaughan), 34,185 common shares are registered under Markham Enterprises Corporation (wholly owned by The Corporation of the Town of Markham) and 20,500 common shares are registered under Barrie Hydro Holdings Inc. (wholly owned by The Corporation of the City of Barrie).

## 18. DIVIDENDS

During 2009, the Corporation established a dividend policy to distribute a minimum dividend of 50% of net income with consideration given to the:

(a) Cash position at the beginning of the year;
(b) Working capital requirements for the current year; and
(c) Net capital expenditures required for the current year.

During 2009, the Corporation paid $11,274 to the shareholders based on the combined net income of the predecessor corporations. In addition, the Corporation made a special payment of $19,808 to the shareholders as the final closing adjustment for the amalgamation of PowerStream Inc. and Barrie Hydro Distribution Inc.

(in thousands of dollars)

## 19. COMMITMENTS

*(a) Town of Markham*

The Corporation retained cashiering services from the Town of Markham to facilitate customers paying electricity bills. The total commitment for these services is $84 for the year 2010.

*(b) City of Vaughan*

The Corporation rents certain outdoor and indoor facilities from the City of Vaughan. The total commitment for these services to 2012 is $529.

*(c) Leases for the operation centres*

(i) Cochrane Operation Centre

In November 2007, the Corporation entered into a lease agreement with a third party for an operations centre and warehouse. The lease term is from December 1, 2007 to March 31, 2010. The agreement also provided the Corporation with the ability to exercise two 3-month extension terms and accordingly the final terminating date of the agreement is September 30, 2010. The extension terms were not exercised and accordingly the lease contract ended on March 31, 2010. The total commitment for this lease from January 1, 2010 to March 31, 2010 is $134.

(ii) Operation Centre

On October 9, 2008, the Corporation entered into a 25 year lease agreement relating to a new operation centre. The lease term commenced January 1, 2010 and occupancy occurred in March 2010. Therefore, the leased building asset valued at $18,280 and the corresponding liability will be recorded at commencement of the lease. Upon entering into this lease arrangement, the Corporation evaluated whether substantially all of the benefits and risks of ownership related to this operation centre have been transferred to the Corporation (the lessee) in order to determine if the lease is classified and recorded as capital or operating. The component of the annual basic rent related to the land is classified and recorded as an operating lease and the component related to the building is classified as a capital lease.

The annual basic rent as per the lease agreement is as follows:

| Fiscal year | Annual basic rent |
|---|---|
| 2010-2019 | $ 2,286 |
| 2020-2029 | $ 2,457 |
| 2030-2034 | $ 2,621 |

*(d) Contractual commitments*

Markham TS#4

In 2007, the Corporation engaged third parties to construct a new 230KV to 28KV Transformer Station in the Markham area - Markham TS#4 to serve the north side of Hwy 407 west of Warden. The transformer station is expected to be energized by April 28, 2010 and the commitment from January 1, 2010 to April 28, 2010 is approximately $3,000.

## 20. CONTINGENCIES

*(a) Legal claims*

The Corporation has been named as a defendant in several actions. No provision has been recorded in the financial statements for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

*(b) Other claims – Late Payment Charges Class Action*

This action has been brought under the Class Proceedings Act, 1992. The plaintiff class seeks $500 million in restitution for amounts paid to Toronto Hydro and to other Ontario municipal electric utilities ("LDCs") who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to section 347 of the Criminal Code. Pleadings have closed in this action. The action has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceeding brought against Enbridge Gas Distribution Inc. (formerly Consumers Gas).

## 20. CONTINGENCIES *(continued)*

*(b) Other claims – Late Payment Charges Class Action (continued)*

On April 22, 2004, the Supreme Court of Canada released a decision in the Consumers Gas case rejecting all of the defenses which had been raised by Enbridge, although the Court did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by Enbridge and that settlement was approved by the Ontario Superior Court.

In 2007, Enbridge filed an application to the OEB to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008, the OEB approved recovery of the said amounts from ratepayers over a five year period.

After the release by the Supreme Court of Canada of its 2004 decision in the Consumers Gas case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs. The parties are in settlement discussions but no settlement has been reached. At this time, it is not possible to quantify the effect, if any, on the financial statements.

*(c) Ministry of Finance Tax audits*

The Ministry of Finance (the "Ministry") conducted PILs audits in 2008 on the three predecessor utilities, namely Richmond Hill Hydro Inc., Markham Hydro Distribution Inc. and Hydro Vaughan Distribution Inc. for the period January 1, 2004 through to May 31, 2004 and for PowerStream Inc. in 2009 for the periods June 1, 2004 through to December 31, 2004 and January 1, 2005 through to October 31, 2005. There is still an outstanding matter regarding the treatment of the retail settlement variance accounts (RSVA) for tax purposes.

There has been inconsistent practice of tax treatment of certain regulatory asset/liability accounts among LDCs across Ontario.

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 financial statements. Similar treatment has been followed for tax purposes. The Ministry is questioning this treatment of the RSVA for tax purposes and is suggesting that RSVA liabilities may be considered income for tax purposes.

The Ministry is currently reviewing the treatment of RSVA for tax purposes on a province wide basis. The impact of a tax ruling may result in a reassessment of taxes payable which could have an impact on results, financial position and cash flows in the future. The outcome of the Ministry's review is not determinable and as such, no provision has been made in the financial statements.

## 21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

*(a) Recognition and measurement*

CICA Handbook Section 3855 established the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The Corporation's accounting policies relating to the recognition and measurement of financial instruments are disclosed in Note 4(c).

*(in thousands of dollars)*

## 21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

*(b) Risk management*

The Corporation's carrying value and fair value of financial instruments are as follows:

| Description | Carrying Value | Fair Value |
|---|---|---|
| Assets | | |
| Cash | $ 42,612 | $ 42,612 |
| Accounts receivable (net of allowance for doubtful accounts) | 73,633 | 73,633 |
| | 116,245 | 116,245 |
| Liabilities | | |
| Accounts payable and accrued liabilities | 111,405 | 111,405 |
| Due to related parties | 12,049 | 12,049 |
| Short-term debt | 40,000 | 40,000 |
| Bank term loan | 50,000 | 53,686 |
| Debentures payable | 123,091 | 135,391 |
| Notes payable | 182,430 | 198,901 |
| | **$ 518,975** | **$ 551,432** |

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk and liquidity risk as well as related mitigation strategies have been discussed below. However, the risks described below are not exhaustive of all the risks nor will the mitigation strategies eliminate the Corporation's exposure to all risks listed.

(i) Credit risk

The Corporation's primary source of credit risks to its accounts receivable result from customer's failing to discharge their dues for electricity consumed and billed. The Corporation has approximately 321,000 residential and commercial customers. In order to mitigate such potential credit risks, the Corporation has taken various measures in respect of its Energy customers such as collecting security deposits amounting to $21,872 in accordance with OEB guidelines, reviewing Dun & Bradstreet (D&B) reports for the top 3000 commercial customers with an outstanding balance of $5 or more, in-house collection department as well as external collection agencies and a bad debt insurance policy for $4,500 related to energy receivables. Thus, the Corporation monitors and limits its exposure to such credit risks on an ongoing basis.

Pursuant to their respective terms, accounts receivable are aged as follows at December 31:

| | Total | % |
|---|---|---|
| Outstanding | $ 75,808 | 100 |
| Less than 30 days | 55,965 | 73 |
| 30 - 60 days | 4,346 | 6 |
| 61 - 90 days | 4,336 | 6 |
| Greater than 91 days | 11,161 | 15 |
| Less: Allowance for doubtful accounts | (2,175) | (3) |
| | $ 73,633 | |

As at December 31, 2009, there was no significant concentration of credit risk with respect to any class of financial assets.

(ii) Interest rate risk

The Corporation limits its exposure to interest rate risk by issuing long term fixed rate debt in the form of debentures, promissory notes and bank loans. It also ensures that all payment obligations are met by adopting proper capital planning.

(in thousands of dollars)

## 21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

*(b) Risk management (continued)*

(ii) Interest rate risk *(continued)*

During fiscal 2009, the Board of Directors approved a swap and derivative transaction policy to enable the Corporation to enter into agreements such as interest rate swaps, and foreign exchange swaps where 100% of the floating rate risk is hedged into fixed rate for prudent risk management purposes and not speculative purposes. The Corporation has not entered into any such transactions.

As part of the Corporation's revolving demand operating credit facility, the Corporation may utilize the line of credit for working capital and/or capital expenditure purposes. Such short term borrowing may expose the Corporation to short term interest rate fluctuations as follows:

| Interest rate and fees | |
|---|---|
| 364 Day Revolving Facility | |
| - Prime Based Loans | PR*+0.25% p.a. |
| - Bankers Acceptances | SF*+1.37% p.a. |
| Demand Facility | |
| - Prime Based Loans | PR*+0.00% p.a. |
| - Bankers Acceptances | SF*+1.00% p.a. |
| Letter of Guarantee Facility | 0.50% p.a. |
| Committed Term Facility (Fixed Rate for 5 Years) | 5.08% |

*Note: PR* – Prime Rate, SF* – Stamping Fee*

Cash balances that are not required for day to day obligations earn an interest of Prime minus 1.7% per annum. These interest rate fluctuations could impact the level of interest income earned by the Corporation.

(iii) Liquidity risk

Liquidity risks are those risks associated with the Corporation's inability to meet obligations associated with financial liabilities such as repayment of principal or interest payments on debts. The Corporation monitors its liquidity risks on a regular basis to ensure there is sufficient cash flow to meet the obligations as they fall due as well as minimize the interest expense. Cash flow forecasts are prepared to monitor liquidity risks. Liquidity risks associated with financial liabilities are as follows:

| Maturity period | Principal* | Interest | Total |
|---|---|---|---|
| Less than 1 year | $ 123,454 | – | $ 123,454 |
| 1-5 years | 231,327 | 33,673 | 265,000 |
| 6-10 years | – | – | – |
| Over 10 years | 166,102 | 133,621 | 299,723 |
| | **520,883** | **167,294** | **688,177** |

** The principal includes $1,908 of deferred issuing cost amortization*

(iv) Hedging and derivatives risk

The Corporation has not entered into hedging and derivative financial instruments and hence the Corporation is not exposed to risks of this nature. The Corporation does not have commodity price risk.

(v) Foreign exchange risk

The Corporation has minimal exposure to fluctuations in foreign currencies. The Corporation purchases goods and services from the US which are payable in US dollars, however the impact of these transactions to the financial statement are minimal.

*(in thousands of dollars)*

## 21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

*(b) Risk management (continued)*

(iii) Liquidity risk *(continued)*

In addition to the above, the Corporation maintains appropriate types and levels of insurance with major insurers. With respect to liability insurance, the Corporation is a member of the Municipal Electricity Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousands of dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Coverage is provided to a level of $24,000 per incident.

## 22. CAPITAL DISCLOSURES

The Corporation's main objectives in the management of capital are to:

(i) Ensure that there is access to various funding options at the lowest possible rates for the various capital initiatives and working capital requirements necessary for the distribution business.
(ii) Ensure compliance with various covenants related to its long-term/short-term debt, promissory notes and debentures.
(iii) Consistently maintain a high credit rating for the Corporation.
(iv) Maintain a split of 60% debt, 40% equity as recommended by the OEB.
(v) Ensure interest rate fluctuations are mitigated primarily by long term borrowings as well as capital planning.
(vi) Deliver appropriate financial returns to shareholders.

The Corporation considers shareholders' equity, long-term debt and certain short-term debt as its Capital. The capital structure as at December 31, 2009 is as follows:

| | |
|---|---|
| **Shareholders' equity** | |
| Share capital | $ 247,183 |
| Retained earnings | 21,064 |
| **Total** | **268,247** |
| **Short-term debt (Note 13)** | 40,000 |
| **Long-term debt (Note 12)** | |
| Bank term loan | 50,000 |
| Debenture payable | 123,091 |
| Notes payable | 182,430 |
| **Total** | **$ 395,521** |
| **Total capital** | **$ 663,768** |

As at December 31, 2009, the Corporation was in compliance with all covenants included in its short-term debt, bank term loan, debentures payable and notes payable. Details relating to debt covenants are disclosed in Note 12.

The Corporation is within the debt and equity requirements of the OEB.

The Corporation's dividend policy is disclosed in Note 18.

(in thousands of dollars)

## 23. CORPORATE INCOME TAXES

*(a) Current taxes*

The provision for payments in lieu of corporate income taxes (PILs) differs from the amount that would have been recorded using the combined Canadian federal and provincial statutory income tax rates. The reconciliation between the statutory and effective tax rates is provided as follows:

| | | |
|---|---|---|
| Income from operations before PILs | $ | 29,625 |
| Statutory Canadian federal and provincial income tax rates | | 33.00% |
| Expected tax provision on income at statutory rates | $ | 9,776 |
| Increase (decrease) in income taxes resulting from timing differences: | | |
| Amortization/CCA differences | | (2,755) |
| Post employment benefits | | 305 |
| Eligible capital expenditures | | (227) |
| Other reserves | | 590 |
| Revenue and overheads related to smart meters recognized for tax purposes but capitalized for accounting purposes | | 401 |
| Other | | 577 |
| Permanent differences | | (106) |
| Provision for PILs | **$** | **8,561** |

*(b) Future income tax assets and liabilities*

As per CICA Handbook Section 3465, a future income tax asset or future income tax liability would be recognized for the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount. Future income tax assets of $61,665, and a corresponding regulatory liability of $61,665 was recorded as at December 31, 2009.

## 24. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL

| | | |
|---|---|---|
| Accounts receivable | $ | (9,586) |
| Unbilled revenue | | (11,501) |
| Income taxes recoverable | | 2,206 |
| Inventories | | 126 |
| Prepaid and other | | 96 |
| Accounts payable, accrued liabilities and customers' deposits | | (11,853) |
| Income taxes payable | | 5,034 |
| | **$** | **(25,478)** |

## 25. SUPPLEMENTARY CASH FLOW INFORMATION

| | | |
|---|---|---|
| Cash paid during the year for: | | |
| Interest | $ | 21,298 |
| Payments in lieu of corporate income taxes | $ | 10,026 |

## 26. NET INTEREST EXPENSE

| | | |
|---|---|---|
| Interest expense - notes payable, bank term loan, short-term debt and debentures payable | $ | 21,886 |
| Interest income | | (272) |
| | **$** | **21,614** |

## 27. GUARANTEES

In the normal course of business, the Corporation enters into agreements that meet the definition of a guarantee as follows:

(a) The Corporation has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Corporation agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Indemnity has been provided to all directors and/or officers of the Corporation for various items including, but not limited to, all costs to settle suits or actions due to association with the Corporation, subject to certain restrictions. The Corporation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Corporation. The maximum amount of any potential future payment cannot be reasonably estimated.

(c) In the normal course of business, the Corporation has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Corporation to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Corporation has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

## 28. SUBSEQUENT EVENT

On March 16, 2010 Ontario Regulations 66/10 and 67/10 were filed for the purpose of creating a means for the Province of Ontario to recover $53,695 from electricity distributors and the IESO relating to the period from April 1, 2009 to March 31, 2010 in order to partially fund conservation programs delivered by the Ministry of Energy and Infrastructure. Ontario Regulation 67/10 is an amendment to existing regulation 275/04, under the Ontario Energy Board Act, which deals with bill presentment for low volume consumers.

The Corporation is required to remit $3,100, representing its apportioned amount to the Minister of Finance by July 30, 2010. The Corporation will be allowed to recover this apportioned amount through a uniform provincial kWh charge. A preliminary analysis estimates the charge to be about 0.037cents/kWh.


Power Stream
Power Stream
powerstream.ca

# HOW TO CONTACT US

**HEAD OFFICE:**
161 Cityview Boulevard
Vaughan, ON  L4H 0A9

**Phone:**
*Vaughan and vicinity:*
905-417-6900

*All other areas:*
1-877-963-6900

**Fax:** 1-877-236-6395

**Email:** info@powerstream.ca

**Website:**
www.powerstream.ca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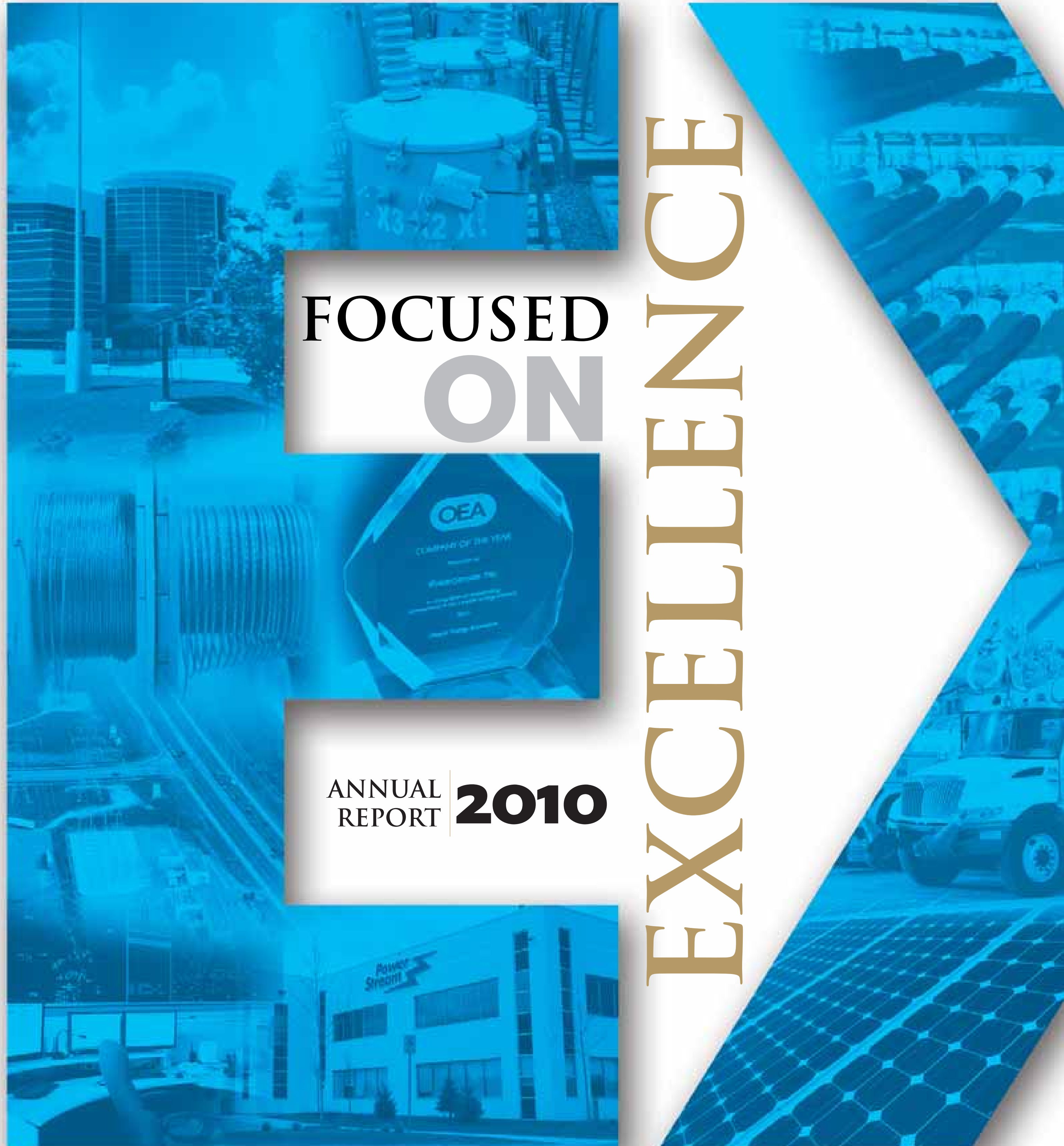
position only

Go Green with PowerStream




# FOCUSED ON EXCELLENCE

ANNUAL REPORT 2010

Go Green with PowerStream

# SHAREHOLDERS' MESSAGE

**Mayors representing PowerStream's municipal shareholders:**
*(L-R) Maurizio Bevilacqua, City of Vaughan; Frank Scarpitti, Town of Markham; Jeff Lehman, City of Barrie.*

PowerStream, the second largest municipally-owned electricity distribution company in Ontario, is jointly owned by the City of Vaughan, the Town of Markham and the City of Barrie. The creation and continued success of the company is largely due to the vision of the three municipalities, working together to build a publicly-owned utility that has become an industry leader in customer service, innovation and environmental stewardship. We are proud to highlight PowerStream's successes in this annual report.

**On the cover:** Images on the cover, encapsulated within the large blue letters, showcase various assets and operational areas in which PowerStream continues to demonstrate its committment to excellence.

# WHAT'S INSIDE





FOCUSED ON EXCELLENCE

ANNUAL REPORT 2010

PowerStream's head office in Vaughan, Ontario is a LEED® gold certified building, featuring solar panels and a wind turbine adjacent to the facility.

# VISION, MISSION AND VALUES

## Vision

We will be a socially responsible company, committed to the environment and sustainable growth, leading the way into the future with boldness, innovation and best in class performance.

## Mission

To deliver reliable power and related services safely and efficiently to support our customers' quality of life, and to provide value to our shareholders and the communities we serve.

## Values

**Respect** - we believe putting safety first, respecting individuals and acting with integrity builds understanding and trust.

**Teamwork** - we believe open communication and working together brings out the best in all of us.

**Performance** - we believe in excellence and delivering the results expected of us by all of our stakeholders.

**Accountability** - we believe in taking individual and collective responsibility and accountability for our actions to ensure safe, proper and sustainable stewardship of all corporate resources while providing excellent service to our customers.

**Initiative** - we believe in leading by example and taking action to drive innovation and improvement.

*(L-R) Frank Scarpitti, Board Chair;*
*Brian Bentz, President and Chief Executive Officer.*

# MESSAGE FROM THE CHAIR AND CEO

## CHASING **PERFECTION** TO CATCH **EXCELLENCE**

***"Perfection is not attainable, but if we chase perfection we can catch excellence."***

Vince Lombardi, Professional Football Coach

As an organization that has always set high performance standards for itself, 2010 was highlighted by PowerStream receiving awards and recognition throughout the year, from both within and outside of the electricity industry, for its ongoing efforts in focusing on business and operational excellence.

Many of the awards bestowed upon the company were consistent with the wording and messaging that can be found in PowerStream's vision and mission statements – being socially responsible, committed to the environment and sustainable growth, leading the way in best in class performance and delivering reliable power and related services safely and efficiently.

The list of accolades, either received during 2010 or relating to the year's activities, includes the Ministry of the Environment designation as being one of *Ontario's Environmental Leaders,* recognition as *Energy Company of the Year* by the Ontario Energy Association, winning the *LDC Performance Excellence* and *Environmental Excellence Awards* from the Electricity Distributors Association as well as being named *Business of the Year* by the Vaughan Chamber of Commerce.

These honours, given to us from so many diverse organizations, are a reflection of the successful results we achieved in 2010 that can be measured through several meaningful metrics.

Our financial performance for the year was solid, resulting in dividends paid to our Shareholders – the City of Vaughan, the Town of Markham and the City of Barrie. This was largely due to Management's diligence in managing the utility, including:

- the realization of operating and capital savings that were forecast prior to and as a result of the company's January 1, 2009 merger with Barrie Hydro;
- carefully managing operations, maintenance and administration spending; and
- the optimization of the capital spending portfolio.

### IN 2010, POWERSTREAM:

- Earned a net income of **$26.5 million**.
- Completed or initiated **134** capital projects at a cost of **$79.9 million.**
- Officially opened a new **107,214 square foot** energy-efficient Operations Centre in Markham.
- Commissioned its **11**th transformer station directly connected to the provincial transmission grid.
- Signed a number of agreements with building owners for the installation and operation of rooftop solar PV generation systems that will produce **7.8 MW** of electricity.
- Connected **2** FIT and **66** microFIT installations to the company's distribution system.
- Installed **71,379** smart meters.
- Migrated **214,625** customers to the new Time-of-Use pricing structure.
- Connected **7,720** new residential and commercial customers.
- Surpassed the **325,000** milestone for the total number of customers served.
- Posted a system reliability index of **99.99**%.
- Spent **$2.7 million** in funding from the Ontario Power Authority to deliver CDM programs which earned energy savings of **12,831 MW hours.**
- Achieved **632,322 hours** without a lost-time injury.
- Employee campaign helped raise more than **$123,000** for the United Way of York Region and the United Way of Greater Simcoe County.
- Employee participation in the Heart and Stroke Foundation's 'Big Bike' event raised more than **$30,000** for the charity.

# MESSAGE FROM THE CHAIR AND CEO

Our outstanding Index of Reliability (IOR) score in delivering electricity to our customers improved to 99.9939 in 2010, up from the 99.9888 we recorded during the previous year. Similarly, in safety, we achieved 632,322 hours without a Lost-Time Injury (LTI) and our LTI rating improved from .71 to .23.

In 2010, PowerStream invested more than $79.9 million in critical infrastructure improvements, with a focus on growth, system reliability and customer care. This included the commissioning of our 11th transformer station directly connected to the provincial transmission grid, the opening of a new South Operations Centre in Markham, the installation of another 71,379 smart meters and the continued enhancement of our distribution system through implementation of Smart Grid initiatives.



We complied with our legislated obligations under the *Green Energy and Green Economy Act* by facilitating the connections of third-party renewable generation projects to our distribution system as part of the Ontario Power Authority's Feed in Tariff (FIT) Program. By the end of 2010, PowerStream's Engineering department had connected a total of 2 FIT and 66 microFIT installations. Our own renewable generation business unit, under its new name 'PowerStream Solar', secured a number of major contracts in 2010 that are expected to bring in significant revenue for the company by as early as 2012.

Our customer satisfaction levels remained high (83 percent) and above the Ontario average (80 percent) during a year that saw significant increases in electricity prices by the Ontario Energy Board, the implementation of the Ontario Government's mandated migration of customers to Time-of-Use rates and tax reform through the introduction of the HST, as well as a hotter than average summer. In an effort to assist our customers in minimizing bill impacts and better understand the issues, we executed a public relations and awareness campaign entitled *Power Down Your Summer Electricity Costs* early in the summer to inform customers of these factors and what they could do to mitigate the increases.

We demonstrated our excellence in corporate social responsibility in 2010 through our continued commitment to support organizations and charities within the communities we serve. Our ongoing partnership with Georgian College to facilitate the education and training of students to work in the electricity industry saw our Company provide the institution with its second installment of $150,000 towards a total commitment of $750,000 made the previous year. Our Annual Employee United Way Campaign in 2010 raised more than $123,000 for the United Way of York Region and the United Way of Greater Simcoe County. We also contributed $60,000 to assist financially-strapped customers struggling to pay their electricity bills through the 2010 Winter Warmth program.

And yet, even though we continue to set new performance standards in various operational areas and receive recognition from external groups for what we have accomplished, our journey to excellence is just beginning. In December 2010, we achieved *Foundation* Level 1 of the National Quality Institute's (Excellence Canada) Progressive Excellence Program with a goal of reaching *Role Model* Level 3 by 2015. Participation in this program will allow us to build on the outstanding work we are already doing and to improve our processes.

Since the road to excellence is always under construction, we will continue to stay the course by being focused on excellence in the years ahead, anchoring our efforts through adherence to our stated corporate values of Respect, Teamwork, Performance, Accountability and Initiative. On behalf of the Board of Directors and the Executive Management Team, we wish to thank our employees for their dedication and commitment to upholding these corporate values and for their contributions to the company's successes as a recognized industry leader.

Frank Scarpitti

***Frank Scarpitti***
*Board Chair*

***Brian Bentz***
*President & CEO*

**Executive Management Team:** *(L-R) John Glicksman, Executive Vice President and Chief Financial Officer; Dennis Nolan, Executive Vice President Corporate Services and Secretary; Brian Bentz, President and Chief Executive Officer; Milan Bolkovic, Executive Vice President Renewable Generation and Conservation; Mark Henderson, Executive Vice President Asset Management and Chief Operating Officer.*

PowerStream's North Operations and Administration Centre in Barrie, Ontario features nine solar generation systems on the roof of the building.

# FAST FACTS 2010

## Total Assets : $950.6 million

| | |
|---|---|
| Overhead Circuit Wires: | 2,551 km |
| Underground Cable: | 4,830 km |
| Transformer stations: | 11 |
| Municipal substations: | 55 |
| Transformers: | 40,682 |
| Switchgear: | 1,772 |
| Poles and pole structures: | 43,575 |

## Our Customers: 328,589

| | |
|---|---|
| Residential: | 290,951 |
| Commercial under 50 kW demand: | 32,944 |
| Commercial over 50 kW demand: | 4,512 |
| Large industrial user: | 1 |
| Sentinel lights: | 129 |
| Street Lighting: | 52 |

## Our Distribution of Electricity:

| | |
|---|---|
| Total electricity billed in 2010: | 8,335 GWh |
| 2010 system peak demand: | 1,896 MW |
| All-time system peak demand: | 1,896 MW *(on July 8, 2010)* |

Average annual electricity consumption billed in 2010:

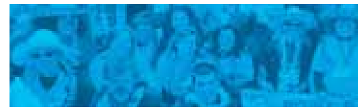
- Residential-per customer: 9,373 kWh
- Commercial-per customer: 148,990 kWh

## Total Service Area: 806.6 $km^2$

## Total Full-Time PowerStream employees: 503

**PowerStream's South Operation Centre, a LEED® gold certified facility located in Markham, Ontario features solar panels mounted on the warehouse wall.**

# YEAR IN REVIEW



## JANUARY

PowerStream announces the end to co- branding the company as 'PowerStream Barrie Hydro' in the northern part of its service territory.

Jim Jones, Regional Councillor for the Town of Markham, is appointed to the company's Board of Directors.

## FEBRUARY

PowerStream announces its continued support of Earth Hour in sponsoring the Barrie Earth Hour Music Festival and the Woodbridge Earth Hour Lantern Walk.


## MARCH

Participation by PowerStream customers in Earth Hour sees a reduction in electricity consumption of 10 percent between 8:30-9:30 p.m. on March 27, 2010.

PowerStream is awarded the Environmental Excellence Award at the Electricity Distributors Association (EDA) Annual General Meeting.

## APRIL

PowerStream opens its new South Operations Centre to serve customers in York Region.

Vaughan Chamber of Commerce names PowerStream 'Business of the Year'.

Ministry of the Environment inducts PowerStream as one of 'Ontario's Environmental Leaders'.

## MAY

OEB increases electricity prices across the province effective May 1, 2010.

PowerStream raises over $30,000 for the Heart and Stroke "Big Bike" campaign.

## JUNE

PowerStream commissions the Robert Fabro Transformer Station as the company's 11th transformer station directly connected to the provincial transmission grid.

## JULY

ESRI International presents PowerStream with a Special Achievement Award in GIS.

## AUGUST

A series of news releases issued by PowerStream, as part the company's 'Power Down Your Summer Electricity Costs' campaign, provides consumers with conservation tips.

## SEPTEMBER

PowerStream is named 'Energy Company of the Year' by the Ontario Energy Association.

PowerStream's Annual Charity Golf Tournament raises more than $63,000 for the United Way.

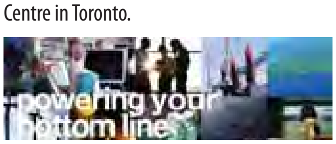
## OCTOBER

OEB announces pricing adjustments that are expected to decrease electricity costs for most PowerStream customers effective November 1, 2010.

## NOVEMBER

The Heart & Stroke Foundation of Ontario awards PowerStream with its '2010 Regional Heart & Soul Award for Volunteer Service (Organization & Corporation)'

PowerStream joins several other large Ontario electricity and gas distributors to host the 'Energy into Action Conference' at the Air Canada Centre in Toronto.




## DECEMBER

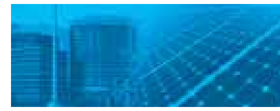
OEB announces changes to the rules around bill issuances, payments, disconnections, and security deposits to take effect on January 1, 2011.






**The Ontario Energy Association's *'Company of the Year'* award was presented to PowerStream in September 2010.**

# EXCELLENCE IN BUSINESS



***"Great companies first build a culture of discipline…and create a business model that fits squarely in the intersection of three circles: what they can be best in the world at, a deep understanding of their economic engine, and the core values they hold with deep passion."***

Jim Collins, author of 'Good to Great'

For PowerStream, excellence in business begins with knowing and adhering to our mission "to deliver reliable power safely and efficiently to support our customers' quality of life and to provide value to our shareholders and the communities we serve."

In other words, we understand that our core purpose is to provide electricity distribution services to reach over 328,000 customers, representing a population of almost 1,000,000 people in nine municipalities, within the framework of earning a positive rate of return for our shareholders.

And although our mission statement underpins the company's direction and purpose, it is our ability to recognize and adapt to ongoing economic, technological and regulatory changes within the Ontario energy sector, as well as globally, that distinguishes us from so many other business organizations.

The genesis of this ability, now embedded in the company's DNA, can be viewed and understood from a historical perspective. PowerStream is a collection of municipally-owned electricity distribution companies that came together over a 10-year period as a result of economic and regulatory changes which created an environment more conducive and profitable to utilities that were able to take advantage of size and economies of scale. The savings realized from these consolidations has ultimately helped to reduce the upward pressure on our customers' distribution rates and increase the dividends paid out to our shareholders.

Our company's inherent ability to recognize and adapt to change was also evident when we moved quickly to create a new solar generation component to our business operations following the passing of the *Green Energy and Green Economy Act* in May 2009.

By focusing on improving our business through the establishment of strong corporate values including respect, teamwork, performance, accountability and initiative, we continue to use new technologies as a means to enhance the customer experience and provide additional value to our shareholders. The installation of 71,379 additional smart meters in 2010 to advance the company's Smart Grid initiatives is just one example of this.

Our efforts in striving for business excellence did not go unnoticed in 2010. The Ontario Energy Association (OEA) named PowerStream as its *Energy Company of the Year,* citing specifically our achievements in community support, environmental stewardship and customer communications.

"Our awards selection committee was especially impressed with how PowerStream was able to bring multiple communities with different needs together," Elise Herzig, OEA President and CEO, explained when the award was presented. "It was very apparent that they were adept at understanding and servicing the needs of various stakeholder groups within the company's expanded service territory."

The Vaughan Chamber of Commerce, a business association serving more than 14,000 members in the municipality which is home to the PowerStream head office, bestowed *Business of the Year* honours on the company for the second time in five years. PowerStream was recognized for demonstrating "superior business acumen, social awareness and an economic contribution to the community" in the chamber's assessment that included customer service, contributions to the community, leadership, entrepreneurship, sales growth, productivity/quality improvements, product innovation, use of technology and employee labour relations.

And finally, in keeping with our business excellence focus, we have achieved the National Quality Institute Progressive Excellence Program's *Foundation* Level 1 certification, the first step in our journey to reach *Role Model* (Level 3) status before the end of 2015.


**The Electricity Distributors Association presented PowerStream with its *'LDC Performance Excellence Award'* for 2010.**

# EXCELLENCE IN ELECTRICITY DISTRIBUTION

*"Excellence is doing ordinary things extraordinarily well."*

John W. Gardner, Former U.S. Administrator

PowerStream strives to achieve excellence in electricity distribution by focusing on several key areas including operations, customer service and health and safety. We work not just to get things done or done well but to be exceptional in doing them.

It's about having a prevailing attitude in place within the organization to encourage best in class performance so that we continue to provide outstanding service to our most important stakeholder – our customers.

We demonstrated our commitment to this philosophy in our delivery of electricity distribution services on numerous occasions in 2010.

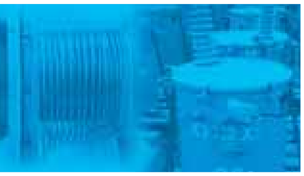
In April, we achieved operational efficiencies through the opening of a new 107,214 square-foot Operations Centre in Markham that consolidated two separate work locations under a single roof. In addition to optimizing the use of equipment and tools, the new building features working facilities designed to help increase employee productivity and improve service levels. The building was also constructed to achieve LEED® (Leadership in Energy and Environmental Design) gold certification status, a designation previously awarded in 2008 to our head office facility in Vaughan.

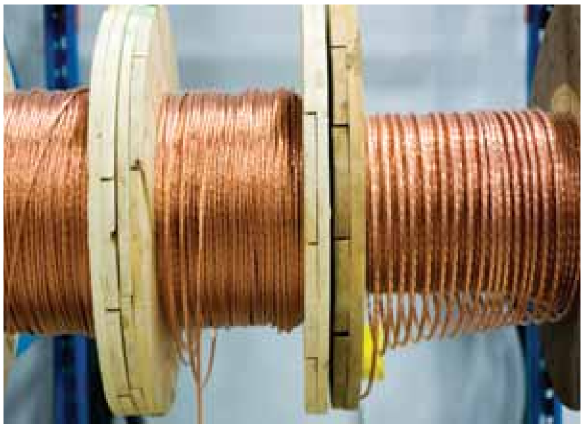
Enhancing reliability and being in a position to better serve customer growth were the reasons behind adding another transformer station to the company's distribution system in 2010. Commissioned in June and located just east of the new Operations Centre, the Robert Fabro Transformer Station primarily serves customers in Markham and Richmond Hill and has the capacity to supply enough electricity for approximately 40,000 homes.

The addition of the Fabro facility gave PowerStream a total of 11 transformer stations directly connected to the provincial transmission grid. No other municipally-owned electricity distribution company in Ontario owns and operates more transmission grid direct-connect transformer stations.

PowerStream SmartGrid Technologies

PowerStream's commitment to excellence in electricity distribution operations was also evident through our Smart Grid initiatives. In addition to finalizing our Smart Grid Strategy document, we installed another 71,379 smart meters and migrated 214,625 residential customers to Time-of-Use (TOU) rates. In the future, our network of more than 300,000 smart meters will interface with our Outage Management System to enhance reliability and the service we provide to our customers. Also, a Fault Detection Isolation and Restoration (FDIR) pilot project implemented at two of our transformer stations in Richmond Hill will test features that will





ultimately be a part of PowerStream's self-healing grid of the future.

We continue to strive to achieve excellence in our customer satisfaction levels, which were among the best in Ontario in 2010 with an 83 percent rating as compared to the provincial average of 80 percent. This was achieved during an extremely difficult year for customers of most Ontario electric distribution companies, who experienced significant increases in electricity prices, implementation of TOU rates, the introduction of the HST and a hotter than average summer impacting their bills.



Customer Service and Corporate Communications departments demonstrated excellence in customer communications when they teamed up early in the summer to execute the "Power Down Your Summer Electricity Costs" campaign to facilitate customers' awareness of the various factors that were about to impact their bills, what they could do to mitigate increases and to help customers better understand the changes.

Our attention to excellence in health and safety continued to be a top priority in 2010 as a critical component in our overall approach to our operations. We developed and implemented a Health & Safety Plan that was specifically aligned to the corporate initiatives for the year as well as the company's five-year strategic plan. This included an evaluation of health and safety management systems to select the BS1 18001 program. It enabled us to automate the recording of statistics into a centralized management system to produce monthly reports and establish targets for all levels of staff including the monitoring of safety meetings, safety meeting attendance and site inspection performance.

The implementation of these initiatives can be attributed to an increase in health and safety awareness through the new incident reporting system that identifies potential problems and reduces lost time injury. It also resulted in a total of 2,491 crew site inspections being completed and 220 departmental safety meetings held.

Our accomplishments as an electricity distribution company earned us the Electricity Distributors Association's *Performance Excellence Award* for 2010, in recognition of our outstanding work in areas such as occupational health and safety, operations, finance, conservation and demand management (CDM) and contributions to the community.

This included our overall approach to health and safety programming in the work environment; our attention to key operational indicators such as reliability of service, emergency response restoration and customer service; our overall financial performance based on results achieved against our financial plan; our documented CDM

results, as well as specific programs we undertook to enhance the communities we serve, which involved a combination of employee volunteerism and philanthropic/sponsorship support of charitable and not-for-profit initiatives.

Another honour earned by PowerStream in 2010, related to operational excellence in electricity distribution, was a *Special Achievement Award in GIS* from ESRI International. Selected from more than 300,000 organizations worldwide, PowerStream was chosen as a recipient for this award in recognition of the company's vision, leadership, hard work and innovative use of ESRI's geographic information system.

Greenwood Transformer Station in Vaughan, Ontario, features four power transformer units that are directly connected to the provincial transmission grid.


In 2010, PowerStream joined a select group of Ontario companies inducted into the Ministry of the Environment's *'Ontario Environmental Leaders Program'.*

# EXCELLENCE IN ENVIRONMENT AND CONSERVATION

***"Excellence is an art won by training and habituation. We do not act rightly because we have virtue or excellence, but we rather have those because we have acted rightly"***

Aristotle, Greek Philosopher

Although we understand that our core business is to deliver electricity to homes and businesses in our service territory and to provide value to our three municipal shareholders, at PowerStream we do this within the context of serving the greater good of protecting the environment and conserving resources for future generations.

The Ministry of the Environment acknowledged PowerStream's excellence in this area during 2010 by inducting the company into its *Ontario Environmental Leaders* (OEL) program, an initiative which recognizes and showcases companies that go the extra mile to help preserve the environment by reducing their own impacts through improving their business processes and increasing efficiencies.

Under the OEL program, we extended our environmental commitments to meet specified annual conservation targets as well as reducing the amount of PCBs currently being used in providing electricity to our customers. We also made a pledge to secure internationally recognized green building standards in the construction of new facilities as well as to further reduce our fleet and employee vehicle emissions.

Examples of excellence and the steps taken to achieve some of these objectives included targeting the new South Operations Centre to be our second building to achieve LEED® (Leadership in Energy and Environmental Design) gold certification and expanding our carpool/vanpool programs so that more than 20 percent of our employees would be able to participate in company-sponsored commuting initiatives.

The launch and development of our solar Photovoltaic (PV) generation business under the banner "PowerStream Solar" in 2010 was also consistent with our focus on environmental excellence as well as our corporate vision of "being a socially responsible company, committed to the environment and sustainable growth." By the end of the year, a number of lease agreements had been signed with commercial property business owners for installation and operation of rooftop solar PV generation systems that would produce a total of 7.8 MW of electricity for the provincial grid.

Also highlighting our support and involvement in initiatives during 2010 that will ultimately benefit the environment was the connection of third party renewable generation projects under the Ontario Power Authority's Feed-in Tariff (FIT) Program to our distribution system.  In 2010, we were

able to connect a total of 2 FIT and 66 microFIT installations.

We continued our support of external and internal events that promoted environmental causes and messaging including Earth Hour and the company's own Environment Awareness Week. The Barrie Earth Hour Music Festival and Woodbridge Earth Hour Lantern Walk were two events held in March 2010 that PowerStream sponsored to encourage customers to help fight climate change by reducing their electricity consumption.

Our conservation and demand management (CDM) programs, during a transition year for Ontario electricity distribution companies, dovetailed well with our environmental initiatives and earned the following results in 2010:

- *peaksaver®* – 2,629 thermostat installations (46 % of target achieved)
- Great Refrigerator Roundup – 2,934 appliances collected (59 % of target achieved)
- Power Savings Blitz – 2,522 retrofits (82 % of target achieved)
- ERIP – 2.9 megawatts saved (132 % of target achieved)

We demonstrated excellence in delivering unique CDM programming to customers within our service territory by offering specialty programs such as the Data Centre Incentive Program (DCIP), specifically aimed and marketed to the IT sector, as well as the Multi-family Energy Efficiency Rebate (MEER) Program for residential condominiums.

Our efforts in environmental and conservation initiatives were recognized by the Electricity Distributors Association (EDA) in March 2010 when the organization bestowed upon us its *Environmental Excellence Award.* The EDA cited PowerStream for its stewardship, innovation and applicability in the delivery of environmental initiatives.

Lazenby Transformer Station in Richmond Hill, Ontario, features four power transformer units that are directly connected to the provincial transmission grid.


**PowerStream earned the *'2010 Campaign Merit Award'* from the United Way of Greater Simcoe County.**

# EXCELLENCE IN CORPORATE SOCIAL RESPONSIBILITY

***"Excellence in corporate social responsibility begins with operating a business in a manner that is always supportive and considerate of humanity and the world we live in."***

Unknown Author

In addition to environmental stewardship, our demonstration of excellence in corporate social responsibility during 2010 was evident in the efforts made by our company and its employees to support organizations and activities within the communities we serve.

As part of PowerStream's five-year partnership with Georgian College to facilitate the education and training of students as potential future employees in the electricity industry, the institution received payment of its second $150,000 installment towards a $750,000 total commitment made by PowerStream the previous year.

Our annual Employee United Way Campaign raised more than $123,000 for the United Way of York Region and the United Way of Greater Simcoe County through the company's annual golf tournament, employee events, payroll deductions and a matching corporate donation. We also worked in partnership with the United Way in the delivery of "Winter Warmth", a program PowerStream contributed $60,000 in funding towards that provided assistance to financially-strapped customers struggling to pay their electricity bills.

Our employees raised more than $30,000 for the Heart & Stroke Foundation through participation in "Big Bike" events held in Vaughan, Markham and Barrie. For the fundraising excellence shown by our employees, PowerStream was one of only 13 companies in Ontario recognized by the Heart & Stroke Foundation as a recipient of its prestigious Heart & Soul Award.

In keeping with the fundraising theme through involvement in cycling activities, three PowerStream employees teamed-up in 2010 to participate in Princess Margaret Hospital's Ride to Conquer Cancer event and in doing so were able to contribute more than $20,000 to the cause.

As in previous years, PowerStream employees continued to hold food, clothing and holiday toy drives at each of the company's three work locations in Vaughan, Markham and Barrie.

Also, PowerStream continued to offer a comprehensive sponsorship program in 2010 that supported various community events and organizations. This included support of the York Region Character Community initiative through sponsorship of its annual Character Community Awards event and the execution of an internal incentive initiative to encourage volunteerism and character mentorship by PowerStream employees entitled "Promoting Character through Community Involvement Program."


Other activities that received significant sponsorship from PowerStream in 2010 included the Vaughan Winterfest, Richmond Hill Winter Carnival, Barrie Earth Hour Music Festival, Woodbridge Earth Hour Lantern Walk, Markham Theatre, Business Achievement Awards held by local Chambers of Commerce, hospital fundraising galas in Vaughan, Richmond Hill and Markham, Mayors' Charity Golf Tournaments, Woodbridge Italian Festival, Markham Fair, Woodbridge Fair and Vaughan Winterlights.

**Senior Finance Management Team:** *Front (L-R) Lucy Lombardi, Vice President, Finance; Victoria Scoffield, Executive Assistant. Back (L-R) Colin Macdonald, Vice President, Rates and Regulatory Affairs; Ed Benvenuto, Vice President, Customer Service; John Glicksman, Executive Vice President and Chief Financial Officer.*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

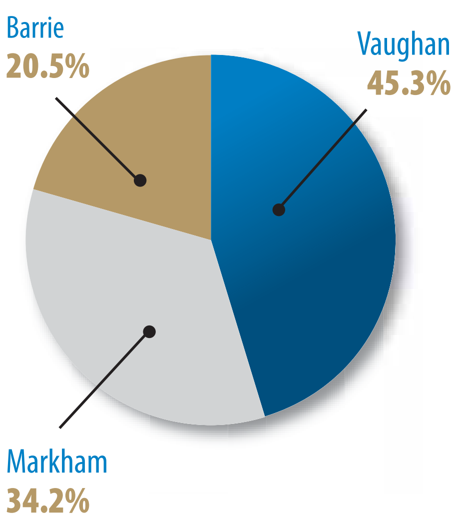
The following discussion and analysis should be read in conjunction with the audited financial statements and accompanying notes of PowerStream Inc. for the year ended December 31, 2010. The financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles.

## CORE BUSINESS AND STRATEGY

### BUSINESS OF POWERSTREAM INC.

PowerStream Inc. (PowerStream) is the second largest municipally-owned electricity distribution company in Ontario and is owned by the City of Vaughan, the Town of Markham and the City of Barrie. The principal activity of the Corporation is to distribute electricity to more than 328,000 residential and commercial customers within 11 Simcoe County and York Region communities including Alliston, Aurora, Barrie, Beeton, Bradford West Gwillimbury, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham and Vaughan. Its geographic territory spans over 800 square kilometers. The number of full time employees within PowerStream is approximately 500. PowerStream currently operates with an asset base of $950M, delivering over 8,306 gigawatt hours (GWh) of electricity to customers annually.

**Share ownership of PowerStream by municipality**




In April 1999, the government of Ontario began restructuring Ontario's electricity industry. Under regulations passed pursuant to restructuring, PowerStream and other electricity distributors have been purchasing their electricity from the wholesale market administered by the Independent Electricity System Operator (IESO) and recovering the costs of electricity and certain other costs at a later date in accordance with procedures mandated by the Ontario Energy Board (OEB).

PowerStream is licensed by the OEB as an electricity distributor and its distribution business is regulated by the OEB under the authority of the *Ontario Energy Board Act, 1998*. As a distributor, PowerStream is responsible for delivering electricity and meeting the electricity needs of customers within its service territory.

PowerStream is required to charge its customers for the following amounts (all of which, other than the distribution

**Finance Management Staff:** (seated L-R) Luisa Tersigni, Manager, Corporate Accounting; Tom Barrett, Manager, Rates Applications; (standing L-R) Geri Yin, Manager, Financial Services; Heather Clark, Manager, IFRS and Special Projects; Daniel Miller, Manager, Strategic Support & Planning; Norah Dalimore, Director, Corporate Accounting; Dianne Petrucci, Manager, Rates and Revenue. (Missing from photo) Sarah Griffiths, Manager, Regulatory and Government Affairs.



rate, essentially represent a pass through of amounts payable to third parties):

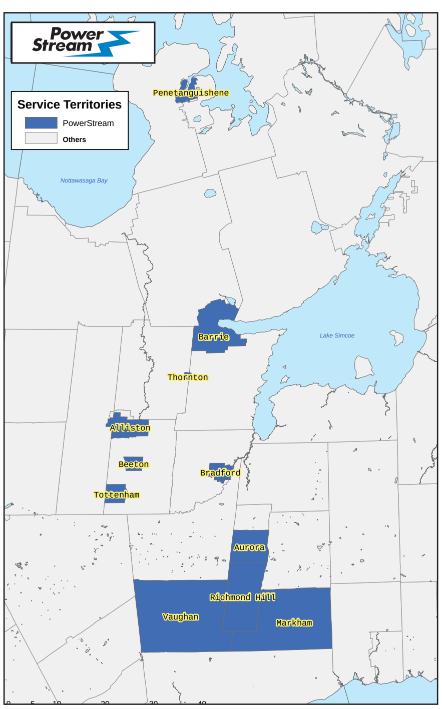
(i) Electricity Price and Related Rebates: The electricity price and related rebates represent a pass through of the commodity cost of electricity.

(ii) Distribution Rate: The distribution rate is designed to recover the costs incurred by PowerStream in delivering electricity to customers, as well as earn the OEB allowed rate of return. Distribution charges are regulated by the OEB and typically comprise a fixed charge and a usage-based (consumption) charge.

The volume of electricity consumed by PowerStream's customers during any period is governed by events largely outside PowerStream'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).

(iii) Retail Transmission Rate: The retail transmission rate represents a pass through of costs charged to PowerStream for the transmission of electricity from generating stations to PowerStream's service area. Retail transmission rates are regulated by the OEB.

(iv) Wholesale Market Service Charge: The wholesale market service charge represents a pass through of various wholesale market support costs charged by the IESO.




The OEB approves and sets the electricity distribution rates as described above for PowerStream's customers based on an approved revenue requirement that provides for cost recovery and includes an approved rate of return.

Under the Green *Energy and Green Economy Act*, 2009, PowerStream and other Ontario electricity distributors have new opportunities and responsibilities for enabling renewable generation. PowerStream has commenced operations of a solar generation business in 2010, as permitted by these changes.

### *Strategic Objectives*

PowerStream's strategic objectives focus on the following:

- Provide an optimized rate of return;
- Provide professional customer service;
- Foster conservation and sustainability;
- Practice good governance;
- Ensure a safe and healthy workplace;
- Develop new revenue streams;
- Optimize core business processes;
- Proactive and positive advocacy;
- Become a best-in-class employer;
- Deliver business case results; and
- Build integrated technology platforms.

## KEY PERFORMANCE DRIVERS

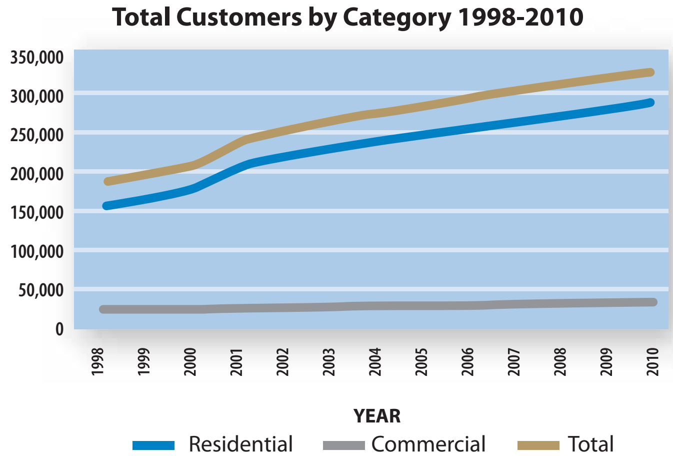
The strategic objectives listed above are achieved through four key performance drivers:

## GROWTH

Growth is a key performance driver for PowerStream and is achieved through natural customer growth, the smart suite meter program and the new solar generation business.

### *Customer Growth*

PowerStream added an additional 7,720 new customer connections in 2010, serving a residential and commercial customer base greater than 328,000.  A portion of the increase in customer base is due to the individual metering of condominium suites in place of single metering for the entire building. The increase in customer base of 2.4% was reflected as an increase of the annual distribution energy level by 4.1% from an annual volume of 8,004 GWh to 8,335 GWh.  This increase was also partly due to more energy being consumed in the warm summer months.




PowerStream's peak demand in 2010 was approximately 1,896 MW, which was significantly higher than the 1,763 MW peak reached in 2009. This was primarily due to the warmer summer in 2010.

### Smart Suite Meter Program

Smart suite metering is where individual meters are installed in condominiums and measured individually. This program was established to support the Ontario government's initiative to develop an energy conservation culture, as the smart suite meters can be billed on Time-of-Use rates.

In 2010 PowerStream added an additional 1,940 customers from the smart suite meter program, which represented 25% of PowerStream's total customer additions for the year.

### Solar Generation Business

In 2010, PowerStream signed a number of site specific leases with shareholders and other third parties to host PowerStream-owned roof top solar PV generation systems.

## CUSTOMERS

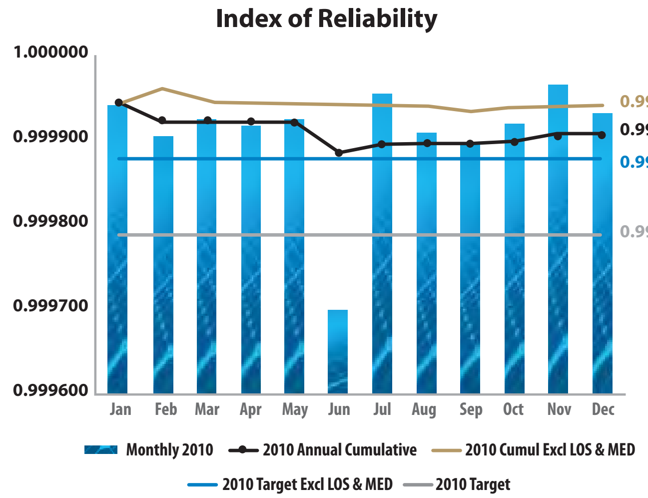
Customer service is an important performance driver. This is achieved through the service and reliability of PowerStream's distribution system as well as the conservation and demand management (CDM) programming that is available to customers.

### Service and Reliability

Since 2002, the company's organic customer growth has increased by more than 65,000 or 26%. PowerStream's standards for service and reliability continue to exceed the thresholds and performance level requirements monitored by the OEB and the IESO.

Within the electrical utility industry, the generally accepted indices to measure reliability are CAIDI (Customer Average Interruption Duration Index), SAIDI (System Average Interruption Duration Index), and SAIFI (System Average Interruption Frequency Index). CAIDI is calculated as SAIDI divided by SAIFI. In order to provide a level of benchmarking, PowerStream participates in the Canadian Electrical Association annual service continuity study which reports on the Canadian utility average performance. PowerStream's distribution system reliability performance in 2010, measured by the indices discussed above, continues to be significantly better than the 2002 through 2009 Canadian averages for customer power outages and overall system reliability. In 2010 PowerStream exceeded expectations and achieved a 99.99% (excluding loss of supply) system reliability index.

Below is the Index Of Reliability (IOR) which is a mathematical calculation incorporating SAIDI and hours of the year (this does not incorporate SAIFI). This is a measure of deliverability of power for PowerStream.




### Conservation and Demand Management

Building on PowerStream's goal to "Go Green", PowerStream's CDM department has focused on reducing the peak electricity demand in Ontario, thus avoiding the need to buy power from coal-fired peaking plants and further helping to reduce greenhouse gas emissions. Since saving a kilowatt is approximately four times cheaper than building



a kilowatt, the Province of Ontario established the Ontario Power Authority (OPA) to oversee the delivery of conservation programs. The CDM department is completely funded by the OPA, and delivered four core programs to PowerStream customers in 2010: The Great Refrigerator Roundup, *peaksaver®*, the Electricity Retrofit Incentive Program (ERIP) and the Power Savings Blitz.

The following results were achieved by the programs' end on December 31, 2010:

- *peaksaver®*- 2,629 thermostat installations were made;
- Great Refrigerator Roundup- 2,934 appliances were collected;
- Power Savings Blitz- 2,522 retrofits were performed; and
- ERIP- 2.9 megawatts were saved.

## PROCESS IMPROVEMENTS

Process improvements allow PowerStream to continually improve core processes for maximum efficiency and effectiveness. During 2010, PowerStream achieved Foundation Level 1 of the National Quality Institute's (Excellence Canada). Participation in this program is helping PowerStream to nurture a quality and healthy workplace and put a framework in place for continuous improvement.

Process improvements in the industry occur through advocacy which allows PowerStream to actively participate in opportunities to shape and influence regulatory and government policy. During 2010, PowerStream has been active in advocating for a number of changes in the regulatory environment.

Furthermore during 2010, PowerStream migrated its entire smart meter customer base to the new Operational DataStore (ODS) that fully integrates with PowerStream's key operational systems (OMS & GIS) with no disruption in customer service and/or billing continuity.

## FOUNDATION

Foundation is a key performance indicator as it is PowerStream's base for achieving a safe and healthy workplace and build on its goal to "Go Green". This is achieved through PowerStream's Health & Safety and Environmental office.

### *Health and Safety*

In 2010, PowerStream achieved 632,322 man hours without a lost-time injury. This can be attributed to an increase in health and safety awareness through a new incident reporting system that identifies potential problems and thus reduces lost-time injury.

PowerStream had a number of achievements which allowed the company to further strengthen its safe and healthy workplace. These included:

- Establishing health and safety targets for all levels of staff;
- The creation of a multi-site Joint Health & Safety and Environment Committee (amalgamating the three work locations); and
- Training employees in the areas of: WHMIS, driver training, CPR, AED, and Rescue Practice.

### *Environmental*

In 2010, PowerStream continued with its environmental plan which consists of the following initiatives. The purpose of these initiatives is to reduce PowerStream's impact on the environment, and build on its goal to "Go Green".

- Manage Ontario's Environmental Leaders Program;
- Meet the CDM target reductions;
- Reduce the number of PCB containing transformers in service;
- Reduce the amount of polluting atmospheric emissions;
- Continuously improve the Environmental Management System;
- Provide a complete employee commuting program;
- Put the "Go Green with PowerStream" messaging on fleet vehicles;
- Integrate the Barrie operations with the existing Environmental Management System;
- Grow a "green" corporate culture by promoting the environment internally with employees and externally with customers;
- Measure and report regularly on PowerStream's recycling performance; and
- Continue to facilitate customer connections of renewable energy in PowerStream's service territory.

## REGULATORY ENVIRONMENT

PowerStream operates within the framework of the *Electricity Act,1998* and the *Ontario Energy Board Act, 1998*. As a result the regulatory environment is an important aspect of PowerStream's business. Each of the key areas of focus for the regulatory environment are described below.

### *Distribution Rate Adjustments*

The former Barrie Hydro and the pre-merger PowerStream service territories are currently separate rate zones with different rate schedules. This arrangement will continue until the OEB approves the harmonization of distribution rates across the two zones. PowerStream is currently planning to apply to the OEB for harmonized rates in the 2013 to 2014 timeframe.

Barrie/Simcoe County rates were adjusted on May 1, 2010 under the OEB's Third Generation Incentive Regulation rate setting mechanism (3GIRM). Rates were increased for inflation and offset by a productivity factor. There were also adjustments for changes in income tax rates and updated smart meter rate riders. The distribution rates provide the revenues that fund PowerStream's ongoing operations. Rate changes also included the clearance of variance and deferral accounts which are mainly commodity cost adjustments related to the actual cost of power, wholesale market service costs and transmission costs. These are "pass-through costs" and do not affect PowerStream's distribution revenues. Typical residential customers experienced a 0.7% increase in monthly distribution charges before the commodity cost adjustments. Typical small commercial customers experienced a 0.6% increase in monthly distribution charges.

Similarly, PowerStream's York Region customers rates were adjusted May 1, 2010 under 3GIRM. Rates were increased for inflation offset by a productivity factor. Other adjustments were made to distribution rates for changes in income tax rates, smart meter rate riders and the clearance of variance and deferral accounts mainly related to commodity cost adjustments. Typical residential customers experienced a 0.4% increase in monthly distribution charges before the commodity cost adjustments. Typical small commercial customers experienced a 0.1% decrease in monthly distribution charges.

### *Rate Applications*

In June 2010, an application was submitted to the OEB to adjust rates in the PowerStream rate zone to reflect the cost of smart meters installed up to December 31, 2009. In December 2010, the OEB approved rate changes effective January 1, 2011. The higher increase for residential customers was as a result of smart meters being installed at residential customer locations.

In October 2010, an application was submitted to the OEB to adjust the rates under 3GIRM for the PowerStream rate zones effective May 1, 2011. Rates were increased for inflation offset by a productivity factor and adjustments were made for changes in income tax rates and smart meter rate riders. Rate changes also included the clearance of variance and deferral accounts which are mainly commodity cost adjustments related to the actual cost of power, wholesale market service costs and transmission costs, which are all "pass-through costs" and do not affect PowerStream's distribution revenues.

PowerStream's installation of smart meters in accordance with the Provincially-mandated program will be completed in the first quarter of 2011. At that time an application will be made for final recovery of deferred smart meter costs and for the reflection of the remaining smart meter costs in rates.

PowerStream's next scheduled cost of service (COS) rate application is for rates effective in 2013. A COS rate application is a detailed examination of PowerStream's costs and revenue requirements. Work has started on this application which will be filed in the spring of 2012.

### *Green Energy and Green Economy Act, 2009 (GEGEA)*

In 2009, the Provincial Government passed the GEGEA which amended more than a dozen energy and environment acts. The GEGEA is intended to facilitate two main changes in Ontario energy policy:

1. A new green energy era characterized by facilitating development of renewable energy projects and mandating a conservation culture in Ontario.
2. Significantly increased direct government involvement in energy policy and regulation in the Province.



The GEGEA empowered the OPA to create a new feed-in tariff (FIT) regime which is a pricing system for renewable energy. The FIT tariffs guarantee rates for the power generated and are intended to help incent new investment in renewable energy generation projects. Renewable energy projects are exempt from municipal zoning by-laws, site plan control by-laws, demolition by-laws and other provisions in the *Planning Act.*

The GEGEA is also intended to create a "culture of conservation" in the province by introducing leading energy-efficiency standards for household appliances, creating financing tools to help consumers manage the up-front costs of small-scale renewable energy projects, making energy efficiency a central tenet of *Ontario's Building Code* and establishing mandatory energy conservation targets for electricity distributors.

The renewable generation opportunities afforded by the GEGEA, in particular the FIT regime, led PowerStream to start a roof-top solar business. PowerStream's Engineering Department is also managing over 200 applications from proponents of FIT projects that want to connect to the power distribution system.

### *Conservation and Demand Management*

In 2010, the Provincial Government mandated that electricity distributors, as a whole, must achieve demand and energy reductions of 1,330 megawatts (MW) and 6,000 GWh over the period 2011 to 2014. PowerStream's share of this amount is 96 MW and 407 GWh. The OEB, through a new *CDM Code,* made achievement of these targets a condition of a utility's distribution license.

To a large extent the CDM programs will be developed and funded by the OPA and delivered by distributors. There are also options to deliver programs in conjunction with Enbridge Gas and Union Gas. Distributors can apply to the OEB for funding for any CDM programs that are not available through the OPA.

The *CDM Code* specified that a CDM Strategy must be filed with the OEB by November 1, 2010. The document must outline the annual targets, a description of programs that will be employed in each of the four years, and budget information. PowerStream successfully filed its CDM Strategy in November 2010, which was accepted by the OEB.

### *Low-income Energy Assistance Program (LEAP) Emergency Financial Assistance*

In 2010, the OEB directed that all distributors must annually donate 0.12% of their distribution revenue to the LEAP program for emergency financial assistance. PowerStream's amount for 2011 is $186,000. PowerStream designated two social agencies from a list provided by the OEB, the United Way of Greater Simcoe County and United Way of York Region were selected. United Way of Greater Simcoe County and United Way of York Region can use up to 15% of the amount paid for administration and program delivery with the remaining 85% to be used to assist PowerStream's customers in paying their electricity bills.

### *Energy Consumer Protection Act, 2010 (ECPA) – Gas Marketers and Electricity Retailers*

The EPCA was passed by the Provincial legislature in 2010. The EPCA allows for greater oversight of gas marketers and electricity retailers by the OEB. This is a result of several years of customer complaints about the practices sometimes used by these entities. Gas marketers and electricity retailers must certify in writing with the OEB by January 1, 2011 that they will operate in accordance with new codes of conduct. The codes of conduct are quite prescriptive with items such as the requirement to provide prospective customers with a written comparison of the amount already being paid and the offer. It is expected the new requirements will reduce the amount of gas marketing and electricity retailing activity.

### *Smart Meter Program*

The Provincially-mandated smart meter program that replaces mechanical meters for residential and small commercial customers with smart meters was over 95% complete at December 31, 2010 with almost 300,000 installations completed. The 2010 installation program essentially completed PowerStream's residential smart meter deployment with only a relatively small number of commercial/industrial installations, special situations and customer refusals remaining to be completed.

Furthermore, PowerStream successfully migrated 270,000 customers to the provincial Meter Data Management Repository (MDM/R) with 214,000 customers receiving Time-of-Use (TOU) bills by December 31, 2010. This is consistent with PowerStream's Ministry of Energy and OEB targets.

## RESULTS OF OPERATIONS

Year ended December 31, 2010 compared to year ended December 31, 2009.

### POWERSTREAM INC.

SUMMARIZED STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME

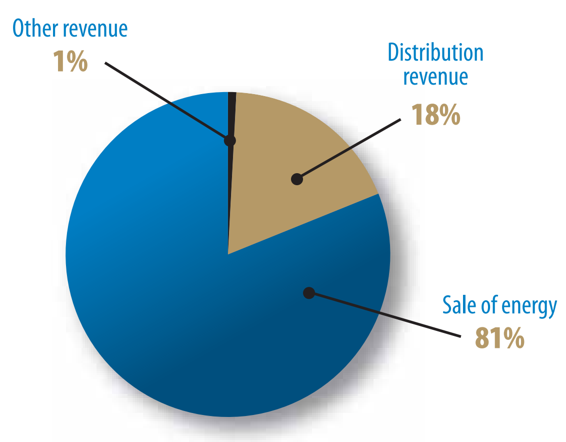
Year ended December 31, 2010 *(In thousands of dollars)*

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| **Revenue** | | |
| Sale of energy | **691,318** | 621,719 |
| Distribution revenue | **155,841** | 146,076 |
| Other revenue | **9,229** | 9,889 |
| Total revenue | **856,388** | 777,684 |
| Cost of power purchased | **691,318** | 621,719 |
| Gross Margin (Net Revenues) | **165,070** | 155,965 |
| | | |
| Operations, Maintenance and Administration | **59,746** | 62,601 |
| Depreciation of property, plant and equipment and intangibles | **46,255** | 42,125 |
| Net interest expense | **22,014** | 21,614 |
| Income before income taxes | **37,055** | 29,625 |
| Income tax expense | **10,588** | 8,561 |
| **Net Earnings and comprehensive income for the year** | **26,467** | 21,064 |

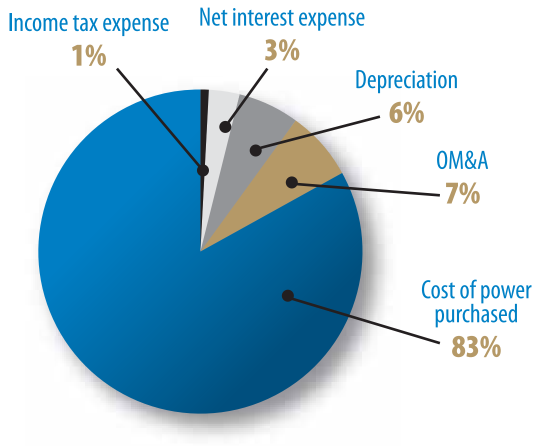
### *Gross Margin (Net Revenues)*

Net Revenues (revenues minus cost of purchased power) were $165.1M in 2010 compared to $156.0M in 2009. The $9.1M increase in net revenues was largely attributable to two factors; the first was an increase in distribution revenue, resulting primarily from revenue recognized from the 2008 and 2009 installed smart meters following approval from the OEB. The second factor was the upward trend in distribution volumes which resulted from the warm weather experienced in the late spring and summer months.

2010 Revenue by type



2010 Expenses by type






## *Expenses*

Operations, Maintenance and Administration (OM&A) expenses are primarily comprised of labour, material, equipment and purchased services in support of the distribution system. Total OM&A was $59.7M in 2010 compared to $62.6M in 2009, a decrease of $2.9M. The decrease in OM&A was the result of a reduction in labour and material costs. Labour was lower due to synergy savings from the merger with Barrie Hydro, and material costs were lower as a result of less burn offs in 2010.

Depreciation of property, plant and equipment and intangibles increased by $4.1M from $42.1M in 2009 to $46.2M in 2010, primarily due to the new transformer station and other capital expenditures.

The 2010 net interest expense was $22.0M in comparison to $21.6M in 2009, an increase of $0.4M. The net interest expense represents the net of combined interest income and interest expense. The net increase in interest expense is due primarily to the inclusion of the capital lease interest expense associated with the new Operations Centre which was brought into service in 2010.

## *Income Tax Expense*

PowerStream is required to make payments in lieu of corporate income taxes to the Ontario Electricity Financial Corporation (OEFC) in accordance with the *Electricity Act, 1998* on the same basis as if the company was subject to federal and provincial corporate taxes. PowerStream accounts for payments-in-lieu of corporate income taxes using the future income taxes method. The increase in the provision for payments in lieu of corporate income taxes is a result of higher net income being earned.

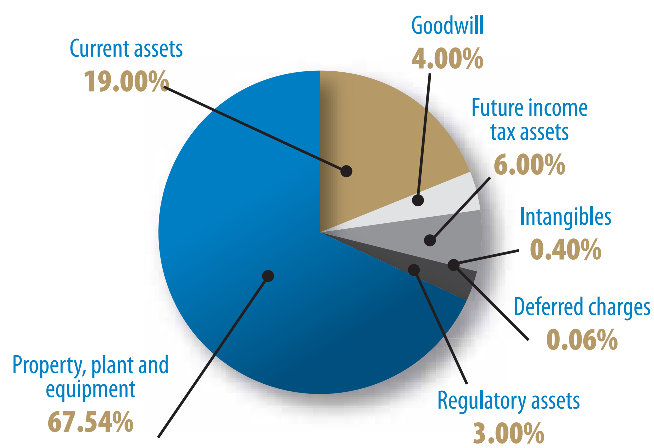
## *Net Earnings*

Net Earnings for 2010 was $26.4M compared with $21.1M in 2009. The increase of $5.3M in net earnings was primarily a result of an increase in net revenues and a decrease in OM&A. This was partially offset by higher amounts of depreciation.

## *Assets*

In 2010, total assets increased from $949M in 2009 to $950M in 2010. The increase was mainly the result of the addition of the new Operating Centre during the year; this was mostly offset by a decrease in current assets.

2010 Total Assets




## *Net Regulatory Liabilities*

PowerStream's net regulatory liability account balance has decreased from $64.7M in 2009 to $36.3M in 2010. This liability consists mainly of $53.3M in future income taxes, $8.2M in the regulatory asset recovery account and $4.1M in payments in lieu of taxes. The regulatory asset recovery account represents the remaining balance of amounts approved for refund to customers. This regulatory asset recovery account consists mainly of retail settlement variances (RSVAs) representing a temporary over collection from customers of

## POWERSTREAM INC.

SUMMARIZED BALANCE SHEET

As at December 31, 2010 *(In thousands of dollars)*

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Current assets | **175,909** | 212,380 |
| Property, plant and equipment, net | **642,059** | 601,764 |
| Regulatory assets | **31,961** | 26,433 |
| Deferred charges | **612** | 644 |
| Intangibles, net | **4,180** | 3,614 |
| Future income tax assets | **53,313** | 61,665 |
| Goodwill | **42,543** | 42,543 |
| **Total Assets** | **950,577** | 949,043 |
| **Liabilities** | | |
| Current liabilities | **170,877** | 171,863 |
| Long-term liabilities | **493,083** | 508,933 |
| **Total Liabilities** | **663,960** | 680,796 |
| **Shareholders' equity** | | |
| Share capital | **249,618** | 247,183 |
| Retained earnings | **36,999** | 21,064 |
| **Total Shareholder's Equity** | **286,617** | 268,247 |
| **Total Liabilities and Shareholder's Equity** | **950,577** | 949,043 |

energy, the IESO Wholesale Market Services (WMS) and transmission costs which have been approved for refund to customers by the OEB and transferred to this regulatory asset recovery account.

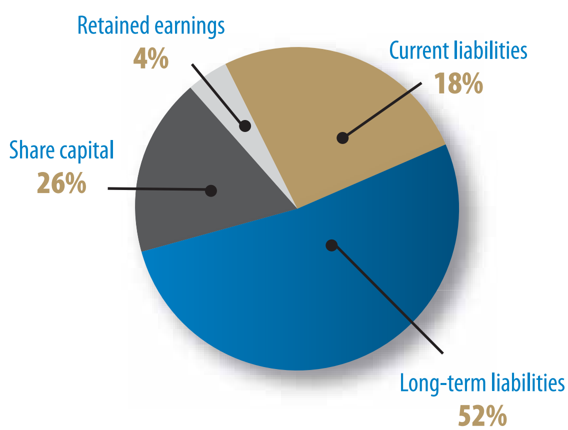
These liabilities are offset by smart meter regulatory assets of $29.1M.

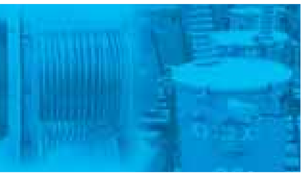
The significant decrease of $28.4M in regulatory liabilities is due to the decrease in the regulatory asset recovery account by $14.9M which was a result of PowerStream receiving approval to refund a portion of this account through rate riders. The decrease was also the result of the reduction in future income taxes.

### *Capital Expenditures*

In 2010, net capital expenditures were $79.9M compared to $67.4M in 2009. Capital expenditures for 2010 included $19.4M for sustainment type

**2010 Total Liabilities and Shareholders' Equity**





projects such as pole and switchgear replacement programs, reliability driven lines projects and emergency/restoration work. Development type projects such as road authority, new subdivision and growth driven lines projects made up $15.2M of the total capital portfolio. Operation type projects which include fleet and information technology expenditures added $20.8M. Other spending of $24.5M was attributed to programs such as the smart meter program.

## LIQUIDITY AND FINANCING

### *Sources of Liquidity and Capital Resources*

In 2010, PowerStream's primary source of liquidity and capital resources was from cash provided by operating activities, Infrastructure Ontario financing, and the issuance of Class A common shares to the shareholders for the purpose of providing equity financing for PowerStream's solar generation business.

### *Net Cash provided by Operating Activities*

PowerStream's cash position decreased during the year from $42.6M to $8.6M, a decrease of $34.0M. This decrease was the result of PowerStream's decision to temporarily use cash on hand rather than drawing down on external borrowing. Cash provided by operating activities was $56.1M, an increase from $27.3M in 2009. The increase in cash provided by operating activities was due to an increase in PowerStream's net income from 2009, and a decrease in the net change of non-cash operating working capital. In 2010, PowerStream's accounts receivables decreased by $4.3M and inventories decreased by approximately $0.9M which provided more cash to the company.

### *Net Cash used by Financing Activities*

Cash used by financing activities was $22.7M, a decrease of $27.8M from 2009. The decrease in 2010 was partially due to PowerStream only accessing debt financing in 2010 for its solar generation business. In 2009, PowerStream accessed $15.0M in short-term debt from its committed line of credit; however, in 2010 PowerStream did not access any new short-term debt.

### *Credit Facility*

In 2010, PowerStream has an extendible 364-day committed revolving credit facility of $75M, an uncommitted demand facility of $25M for a specific purpose, and an uncommitted Letter of Guarantee facility of $15M.

As at December 31, 2010, PowerStream had utilized $12M of the 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. With the opening of Ontario's electricity market to wholesale and retail competition on May 1, 2002 ("Open Access"), the IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the letter of credit if Powerstream defaults on its payment.

## POWERSTREAM INC.

**SUMMARIZED STATEMENT OF CASH FLOWS**

Year ended December 31, 2010 *(In thousands of dollars)*

| | 2010 | 2009 |
|---|---|---|
| | **$** | $ |
| Operating activities | **56,080** | 27,287 |
| Financing activities | **(22,693)** | 5,102 |
| Investing activities | **(67,431)** | (73,485) |
| Decrease in cash during the year | **(34,044)** | (41,096) |
| Cash, beginning of year | **42,612** | 83,708 |
| **Cash, end of year** | **8,568** | **42,612** |

### Ontario Infrastructure Projects Corporation ("Infrastructure Ontario") Financing

On October 15, 2010, PowerStream secured access to $90M in financing with Infrastructure Ontario for its solar generation business. The funding is available for up to 5 years from the date that the agreement was signed.

### Bank Term Loan

PowerStream has a bank term loan of $50M, which is a 5-year fixed rate term loan with a Canadian Chartered Bank which bears interest at an annual rate of 5.08%. It is a non-amortizing loan with repayment at the end of the contracted term, February 26, 2013.

### Notes Payable

PowerStream has a promissory note with the City of Vaughan in the amount of $87.0M, of which $78.2M has an unsecured 20-year term; with the Town of Markham for $75.5M of which $67.9M has an unsecured 20-year term; and with the City of Barrie for $20.0M which has an unsecured 16-year term.

### Debentures Payable

In August 2002, four of PowerStream's predecessor corporations, Hydro Vaughan Distribution Inc., Markham Hydro Distribution Inc., Richmond Hill Hydro Inc. and Barrie Hydro Distribution Inc. participated in a private placement offering by the Electricity Distributors Finance Corporation ("EDFIN") 10-Year Debentures Issued (Series 2002-1), and raised gross proceeds of $125M.

## RISKS AND UNCERTAINTIES

PowerStream has adopted a process to identify the principal risks of the organization and to verify that there are controls in place to mitigate these risks as much as possible. During 2010 the Board of Directors identified the risks and uncertainties applicable to PowerStream noted below. Throughout the year these risks were monitored and updates were presented to the Human Resource Compensation and Governance Committee as well as the Board of Directors.

### Green Energy and Green Economy Act – New Business Opportunities

The *Green Energy and Green Economy Act (GEGEA)* provides PowerStream with a business growth opportunity.

PowerStream has:

- developed a business plan with the assistance of suitable consultants and hired skilled and capable staff to execute the business plan;
- assessed various technical products and only chose those that met the required level of historical and technological performance;
- built up PowerStream's competitive strength by hiring staff with appropriate sales skills and used internal resources with the skills required to compete in this area;
- applied scrutiny and diligence when submitting applications to the OPA, in order to ensure that all projects meet all applicable requirements; and
- arranged appropriate financing for this business venture to meet all its anticipated obligations.

### Customer Service / Reputation

Concerns over the increase in customer bills have become of primary importance. Although most of the increased costs are simply a flow through of costs from sources outside PowerStream's control, PowerStream is determined to communicate relevant information to its customers and help them control costs as much as possible.

The main strategy PowerStream is employing is to help educate customers through its corporate communications and its customer service and to help customers better manage their electricity bill. PowerStream continues to have customer satisfaction surveys and customer focus groups to further understand the needs of its customers.

### Technology

As the electricity industry continues to evolve, technology is becoming a key enabler. PowerStream realizes that technology is of great strategic importance going forward and wants to take advantage of technology to become more efficient and effective.

The primary mitigation strategy is to continue the alignment of PowerStream's information technology strategy to make sure business objectives are reached. PowerStream also continues to review its needs for the Enterprise Management System and the Customer Information System to make sure the most efficient methods are employed.


### *Process*
With several mergers being accomplished in the past, PowerStream is committed to making each process as efficient as it can possibly be.

The primary mitigation strategy is PowerStream's commitment to the National Quality Institute's Progressive Excellence Program. This initiative will help streamline processes as PowerStream constantly strives to become a more efficient organization.

### *Skilled and Engaged Workforce*
There is potential for a lack of appropriate skill sets and expertise in the future, especially due to PowerStream's aging workforce. A shortage of skill sets such as operators, metering and design technicians, throughout the industry, have had the effect of companies competing for the same resources.

PowerStream's primary mitigation strategy is an ambitious apprentice program and training activities for current employees that focus on PowerStream's corporate needs for the future.

### *Regulations and Legislation outside the Green Energy Act*

PowerStream's regulatory environment is constantly changing. The complexities and the information requirements continue to be more onerous.

The main mitigation strategy in this area is to have a very pro-active advocacy initiative and strong internal processes which will demonstrate to the regulator prudent management of costs. PowerStream is part of many of the core groups that have potential influence in developing the legislation and regulatory environment.

### *Health and Safety / Environmental*
There is a risk to PowerStream that an event can occur that will have a major impact on the health and safety of staff or will create an environmental hazard.

PowerStream's primary mitigation strategy is its strong safety culture and a strong commitment to the environment. The commitment to this culture is emphasized at all levels at PowerStream from field staff to the Board of Directors. The creation of the executive sponsored Health & Safety and Environment Steering Committee and the initiative to continue to implement the Environmental Plan is evidence of PowerStream's commitment in this area.

## FUTURE ACCOUNTING PRONOUNCEMENTS

### *International Financial Reporting Standards*
On February 13, 2008, the Accounting Standards Board (AcSB) confirmed that Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for fiscal years commencing on or after January 1, 2011. As well, in October 2009 the Canadian Public Sector Accounting Board (PSAB) issued an amendment to the scope of the public sector accounting standards that supported government business enterprises to adopt IFRS. As a result of these decisions, PowerStream commenced its IFRS project in May 2008. In September 2010, the AcSB approved an optional one year deferral for qualifying entities with rate regulated activities. PowerStream has elected to take the one year deferral; accordingly the adoption of IFRS will occur on January 1, 2012.

PowerStream's IFRS project consists of four phases: initial assessment, detailed assessment, design and implementation. PowerStream completed its initial assessment and detailed assessment during the first quarter of 2009, which involved a high level review of the major differences between Canadian Generally Accepted Accounting Principles (CGAAP) and IFRS. During the detailed assessment, it was determined that the areas of accounting differences with the highest potential impact to PowerStream would be the accounting for property, plant and equipment and rate regulated accounting. PowerStream developed a detailed project plan for each of the impacted areas to determine the IFRS options, business processes and system changes.

During 2010 PowerStream completed the design phase of the project. The design phase involved establishing an IFRS core team, which worked with external advisors on writing a number of technical papers for each IFRS topic. Within these papers, an analysis was made of the issues and the team developed recommendations for changes in accounting and business processes. Based on the outcomes of the technical papers, PowerStream determined the projected impacts of adopting IFRS on its financial statements after considering the exemptions available under IFRS 1, First Time Adoption of IFRS. Although the impact of the adoption of IFRS on PowerStream's financial position and results of operations is not yet reasonably determinable or estimable, PowerStream expects a significant increase in financial statement disclosure requirements resulting from the adoption of IFRS and has designed the systems to provide the additional information required to make these disclosures.

In 2011 PowerStream will be completing the implementation phase. During this phase PowerStream will be developing new accounting policies, processes and procedures and will be preparing IFRS financial statements and the related disclosures. PowerStream will also be developing revised internal control processes and updating key controls as well as training all related staff on the new changes. Further system changes will be implemented in order to enable PowerStream to report under IFRS and to the OEB.

On July 23, 2009, the International Accounting Standards Board (IASB) issued an Exposure Draft (ED) which proposed accounting requirements for rate regulated activities. The ED proposed to allow entities with rate regulated activities to recognize regulatory assets and liabilities. On February 17, 2010, the IASB met to discuss the ED and the comment letters received. The result of this meeting was that the IASB asked the IASB staff to continue to perform further research on the project and to focus on the key issue of whether regulatory assets and regulatory liabilities exist in accordance with the current framework. On September 3, 2010, the IASB staff issued an agenda paper on rate regulated accounting which concluded that regulatory assets and liabilities did not meet the definition of assets and liabilities under the current IFRS framework. On September 16, 2010, the IASB met to discuss the agenda paper on rate regulated accounting, the IASB members were divided on this issue and decided to obtain feedback on what the next steps in this project should be. This will be done through public consultation in 2011.

The magnitude of the impact of IFRS, without the provisions of the ED on the financial statements for PowerStream, is not trivial. PowerStream will continue to monitor the rate regulated activities project developments for further guidance, and evaluate the impacts on its systems, processes and controls.

In May 2008, the OEB initiated a consultative process to determine the nature of any changes to regulatory reporting requirements in response to IFRS. The OEB held public meetings and a formal stakeholder conference in May 2009. PowerStream participated at each opportunity offered to the public to communicate with the OEB. On July 28, 2009, the OEB released some preliminary views on how regulatory reporting requirements will change in response to IFRS. On November 8, 2010, the OEB issued an amendment to their Board report on the transition to IFRS. This amendment added certain policy adjustments. It also included the allowance for a one-year deferral of IFRS as approved by the AcSB.

On November 17, 2010, the OEB initiated a working group to develop recommendations on how IFRS should be implemented in an Incentive Rate Mechanism (IRM) environment. PowerStream was selected to be included in this working group and will be monitoring the outcome of this working group closely.

## OVERALL OUTLOOK

PowerStream continues to fulfill its mission to "deliver reliable power and related services safely and efficiently to support our customers' quality of life, and to provide value to our shareholders and the communities we serve." PowerStream continues to be a successful and influential industry leader, able to respond effectively to industry, regulatory and legislative changes. Continued efforts are being made to improve the financial position of the utility and ultimately benefit the shareholders through dividends, interest, community involvement and increased value to the business, while offering reasonable distribution rates to customers.

As the second largest municipally-owned electricity distribution company in Ontario, PowerStream remains well positioned for continued future success due to its balanced customer mix and solid customer base. The continued support and leadership of PowerStream's Board of Directors and Shareholders, working together with the executive management team and staff, has been and continues to be instrumental in the sustained achievement of PowerStream's strategic initiatives.

Fabro Transformer Station in Markham, Ontario, one of PowerStream's 11 transformer stations directly connected to the provincial transmission grid.

# INDEPENDENT AUDITOR'S REPORT

Deloitte

Deloitte | Touche LLP
5140 Yonge Street
Suite 1700
Toronto ON M2N 6L7
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

*To the Shareholders of PowerStream Inc.*

We have audited the accompanying financial statements of PowerStream Inc., which comprise the balance sheet as at December 31, 2010, and the statements of earnings and comprehensive income and retained earnings and of cash flows for the year the 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.

***Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement to the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 PowerStream Inc. as at December 31, 2010, and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

*Chartered Accountants*
*Licensed Public Accountants*
*April 27, 2011*

PowerStream Inc.

# BALANCE SHEET

as at
December 31, 2010
*(In thousands of dollars)*

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Current assets | | |
| Cash | **8,568** | 42,612 |
| Accounts receivable, net of allowance for doubtful accounts (Note 18(c)) | **69,366** | 73,633 |
| Unbilled revenue | **92,207** | 88,160 |
| Income taxes recoverable | - | 1,525 |
| Inventories (Note 4) | **3,050** | 3,869 |
| Prepaids and other | **2,718** | 2,581 |
| | **175,909** | 212,380 |
| Property, plant and equipment, net (Note 5) | **642,059** | 601,764 |
| Regulatory assets (Note 7(a)) | **31,961** | 26,433 |
| Deferred charges, net of amortization of $63 (2009 - $31) | **612** | 644 |
| Intangibles, net (Note 6) | **4,180** | 3,614 |
| Future income tax assets (Note 20(b)) | **53,313** | 61,665 |
| Goodwill | **42,543** | 42,543 |
| | **950,577** | 949,043 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 8) | **105,339** | 110,405 |
| Current portion of customers' deposits | **1,478** | 1,000 |
| Income taxes payable | **6,622** | 5,034 |
| Due to related parties (Note 9) | **12,214** | 12,049 |
| Short-term debt (Note 10(a)) | **40,000** | 40,000 |
| Infrastructure Ontario Financing (Note 10(b)) | **827** | - |
| Current portion of liability for subdivision development | **4,138** | 3,375 |
| Current portion of capital lease obligation (Note 16) | **259** | - |
| | **170,877** | 171,863 |
| Long-term liabilities | | |
| Bank term loan (Note 11(a)) | **50,000** | 50,000 |
| Debentures payable (Note 11(b)) | **123,765** | 123,091 |
| Notes payable (Note 11(c)) | **182,430** | 182,430 |
| Regulatory liabilities (Note 7(b)) | **68,314** | 91,140 |
| Customers' deposits | **12,071** | 16,726 |
| Employee future benefits (Note 12) | **14,007** | 12,036 |
| Liability for subdivision development | **1,232** | 4,917 |
| Construction deposits | **23,364** | 23,172 |
| Capital lease obligation (Note 16) | **17,679** | - |
| Future Income tax liabilities (Note 20(c)) | **61** | - |
| Other liabilities | **160** | 5,421 |
| | **493,083** | 508,933 |
| **Shareholders' equity** | | |
| Share capital (Note 14) | **249,618** | 247,183 |
| Retained earning | **36,999** | 21,064 |
| | **286,617** | 268,247 |
| | **950,577** | 949,043 |

*Approved on behalf of the Board*

Paul Scarpitti Director

Director

See accompanying notes to the financial statements.

PowerStream Inc.

# STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME AND RETAINED EARNINGS

year ended December 31, 2010

*(In thousands of dollars)*

| | 2010 | 2009 |
|---|---|---|
| | **$** | $ |
| **Revenue** | | |
| Sale of energy | **691,318** | 621,719 |
| Distribution revenue | **155,841** | 146,076 |
| Other revenue | **9,229** | 9,889 |
| Total revenue | **856,388** | 777,684 |
| Cost of power purchased | **691,318** | 621,719 |
| | **165,070** | 155,965 |
| Operating expenses | **59,746** | 62,601 |
| Earnings before amortization, interest and income taxes | **105,324** | 93,364 |
| Depreciation of property, plant and equipment and intangibles (net of $2,803 (2009 - $2,582) charged to other accounts) | **46,255** | 42,125 |
| Net interest expense (Note 22) | **22,014** | 21,614 |
| Income before income taxes | **37,055** | 29,625 |
| Income tax expense (Note 20(a)) | **10,588** | 8,561 |
| Net earnings and comprehensive income for the year | **26,467** | 21,064 |
| Retained earnings, beginning of year | **21,064** | - |
| Dividends (Note 14) | **(10,532)** | - |
| **Retained earnings, end of year** | **36,999** | 21,064 |

See accompanying notes to the financial statements.

PowerStream Inc.

# STATEMENT OF CASH FLOWS

year ended
December 31, 2010
*(In thousands of dollars)*

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| **Operating activities** | | |
| Net earnings for the year | **26,467** | 21,064 |
| Adjustments to determine cash provided by operating activities | | |
| Depreciation of property, plant and equipment | **46,675** | 42,006 |
| Accretion of debentures payable | **674** | 629 |
| Amortization of intangibles | **2,383** | 2,701 |
| Amortization of deferred charges | **32** | 31 |
| Employee future benefits | **1,971** | 923 |
| Future income taxes | **8,413** | 6,759 |
| Decrease in regulatory assets/liabilities | **(28,354)** | (23,280) |
| Loss (gain) on disposal of property, plant and equipment | **533** | (218) |
| Net change in non-cash operating working capital (Note 21) | **(2,714)** | (23,328) |
| | **56,080** | 27,287 |
| **Financing activities** | | |
| Decrease in liability for subdivisions development | **(2,922)** | (3,164) |
| (Decrease) increase in long-term customers' deposits | **(4,655)** | 1,223 |
| Decrease in other liabilities | **(5,261)** | (47) |
| Obligations to predecessor shareholders (Note 14) | **-** | (31,082) |
| Dividends paid (Note 14) | **(10,532)** | - |
| Increase in short-term debt | **-** | 15,000 |
| Increase in construction deposits | **192** | 23,172 |
| Decrease in principal on capital lease obligation | **(342)** | - |
| Increase in Infrastructure Ontario Financing | **827** | - |
| | **(22,693)** | 5,102 |
| **Investing activities** | | |
| Proceeds on disposal of property, plant and equipment | **140** | 248 |
| Purchase of intangibles | **(2,949)** | (6,314) |
| Purchase of property, plant and equipment, net of contribution of capital construction | **(67,057)** | (67,419) |
| Proceeds from the issuance of Class A common shares | **2,435** | - |
| | **(67,431)** | (73,485) |
| Decrease in cash during the year | **(34,044)** | (41,096) |
| Cash, beginning of year | **42,612** | 83,708 |
| **Cash, end of year** | **8,568** | 42,612 |
| **Supplementary cash flow information** | | |
| Cash paid during the year for: | | |
| Interest | **22,619** | 21,298 |
| Payments in lieu of corporate income taxes | **9,247** | 10,026 |
| Acquisition of property, plant and equipment financed by capital lease | **18,280** | - |



See accompanying notes to the financial statements.

PowerStream Inc.

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

*(In thousands of dollars)*

## 1. Description of the business

PowerStream Inc. (the "Corporation") was amalgamated on January 1, 2009, under the Business Corporations Act (Ontario) and is owned by the Corporation of the City of Vaughan (the "City of Vaughan"), through its wholly owned subsidiary, Vaughan Holdings Inc.; the Corporation of the Town of Markham (the "Town of Markham"), through its wholly owned subsidiary, Markham Enterprises Corporation; and the Corporation of the City of Barrie (the "City of Barrie"), through its wholly owned subsidiary, Barrie Hydro Holdings Inc.

The principal activity of the Corporation is to distribute electricity in the service area of Alliston, Aurora, Barrie, Beeton, Bradford West Gwillimbury, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham and Vaughan in the Province of Ontario, under licenses issued by the Ontario Energy Board ("OEB"). The Corporation is regulated under the OEB and adjustments to the distribution rates require OEB approval.

Under the Green Energy and Green Economy Act, 2009, the Corporation and other Ontario electricity distributors have new opportunities and responsibilities for enabling renewable generation. The Corporation has commenced operations of a solar generation business, in 2010, as permitted by these changes.

## 2. Significant accounting policies

The Corporation's financial statements are the representations of management prepared 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, issued under the authority of the Ontario Energy Board Act, 1998.

The financial statements reflect the following significant accounting policies:

### *(a) Rate setting*

The Ontario Energy Board Act, 1998 gave the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may prescribe license requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, and filing process requirements for rate-setting purposes.

As the Corporation is regulated by the OEB, the timing of recognition and measurement of assets and liabilities arising from rate regulation in these financial statements may differ from what is 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".

### *(b) Revenue recognition*

(i) Electricity distribution and sale

Revenue from the sale and distribution of electricity is recorded on the basis of cyclical billings based on electricity usage and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is generally comprised of the following:

- Electricity Price and Related Rebates. The electricity price and related rebates represent a pass through of the commodity cost of electricity.
- Distribution Rate. The distribution rate is designed to recover the costs incurred by the Corporation in delivering electricity to customers, as well as earn the OEB allowed rate of return. Distribution charges are regulated by the OEB and typically comprise a fixed charge and a usage-based (consumption) charge.

## 2. Significant accounting policies *(continued)*

### *(b) Revenue recognition (continued)*

(i) Electricity distribution and sale *(continued)*

- Retail Transmission Rate. The retail transmission rate represents a pass through of costs charged to the Corporation for the transmission of electricity from generating stations to the Corporation's service area. Retail transmission rates are regulated by the OEB.
- Wholesale Market Service Charge. The wholesale market service charge represents a pass through of various wholesale market support costs charged by the Independent Electricity System Operator ("IESO").

(ii) Other revenue

Other revenue related to the sale of other services is recognized as services are rendered. Contract revenue is accounted for using the percentage of completion method, whereby revenue is recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident.

### *(c) Financial instruments*

The Corporation has made the following balance sheet classifications in connection with its financial assets and financial liabilities:

(i) Cash is classified as financial assets "Held-for-Trading" and is measured at fair value.



(ii) Accounts receivable are classified as "Loans and Receivables" and are measured at amortized cost using the effective interest method.

(iii) Accounts payable, accrued liabilities, amounts due to related parties, short-term debt, Infrastructure Ontario financing, bank term loan, debentures payable, notes payable and customers' deposits are classified as "Other Financial Liabilities" and are measured at amortized cost using the effective interest method.

Financial assets and liabilities are initially recorded at fair value. The fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Transaction costs are netted against the proceeds of financial instruments classified as "Other Financial Liabilities" and are considered when determining the effective interest rate for the discounted cash flows. Subsequent measurement depends on how each financial instrument is classified on the balance sheet.

The Corporation has classified fair value measurements using a fair value hierarchy that reflects three levels of inputs used in making the fair value measurements. The fair value hierarchy has the following levels:

(i) Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

(ii) 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; and

(iii) Level 3: Unobservable inputs for the assets or liabilities that are not based on observable market data.

### *(d) Inventories*

Inventories, which consist of parts and supplies acquired for internal construction or consumption, is stated at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis. Any impairment losses taken on inventories are reversed if and when net realizable value subsequently recovers. Major spare parts and standby equipment are recorded as part of property, plant and equipment and depreciated once they are put into use.

### *(e) Property, plant and equipment and depreciation*

Property, plant and equipment ("PP&E") is recorded at cost and includes contracted services, materials, labour, engineering costs, interest and overheads. 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 depreciation are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period.

## 2. Significant accounting policies (continued)

### (e) Property, plant and equipment and depreciation (continued)

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

| | |
|---|---|
| Buildings | 10 to 50 years |
| Transformer stations | 40 years |
| Transformers and meters | 25 to 40 years |
| Plant and equipment | 10 to 30 years |
| Other | 3 to 8 years |

Construction in progress comprises PP&E under construction; not yet placed into service; and pre-construction activities related to specific projects expected to be constructed. An allowance for the outlay of funds employed during the construction period has been applied to the related PP&E as allowed by the OEB.

### (f) Impairment of long-lived assets

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



### (g) Intangibles

Intangibles include computer software and land rights. Computer software is stated at cost and amortized on a straight-line basis over three years while land rights are stated at cost, are not amortized and as they have an indefinite useful life.

### (h) Rate regulated assets and liabilities

Regulatory assets/liabilities represent costs/revenue that have been deferred and that are expected to be disposed of through future rates. Retail Settlement Variance Amounts ("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.

As at December 31, 2010, regulatory assets and liabilities are comprised principally of deferred Smart Meter costs, future income taxes and RSVA's. The Corporation has provided a provision against certain regulatory assets and liabilities, and continues to assess the likelihood of recovery of these regulatory assets and liabilities. The Corporation believes that it is probable that its regulatory assets and liability balances will be factored into the setting of future rates.

### (i) Goodwill

Goodwill represents the excess of the purchase price over the fair value assigned to the Corporation's interest of the net identifiable assets acquired on the acquisition, by predecessor corporations of the former Richmond Hill Hydro Inc., Penetanguishene Hydro, Essa Hydro, New Tecumseth Hydro and Bradford Hydro. Goodwill is not amortized but is tested for impairment annually or more frequently if events or circumstances change that indicate that the asset may be impaired. When the carrying amount of goodwill exceeds the implied fair value an impairment loss is recognized in an amount equal to the excess.

### (j) Pension and other post-employment benefits

(i) Pension

The Corporation provides a pension plan to its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer defined benefit pension plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The pension plan is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund. The Corporation accounts for its participation in OMERS, a multi-employer public sector

## 2. Significant accounting policies *(continued)*

### *(j) Pension and other post-employment benefits (continued)*

(i) Pension *(continued)*

pension fund, as a defined contribution plan. The Corporation recognizes the expense related to this plan as contributions are made.

(ii) Other post-employment benefits

The Corporation provides certain health, dental and life insurance benefits. This benefit plan provides benefits to employees when they retire from the Corporation.

The Corporation actuarially determines the cost of post-employment benefits offered to employees using the projected benefit method prorated on service and based on management's best estimate assumptions. Under this method, the projected post-employment benefit is deemed to be earned on a pro-rata basis over the years of service in the attribution period commencing at the date of hire, and ending at the earliest age the employee could retire and qualify for benefits. Compensated absences and termination benefits that do not vest or accumulate are recognized as an expense when the event occurs. This accounting policy for post-employment benefits was applied on the prospective basis. The transitional obligation resulting from this treatment is being amortized over the average remaining service period of employees.

### *(k) Customer 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 customers' deposits.

### *(l) Payment in lieu of corporate income taxes ("PILs")*

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 offsetting 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 earnings and comprehensive income and retained earnings.

### *(m) Measurement uncertainty*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, as well as the disclosure of contingent assets and liabilities at the financial statement date. Accounts receivable, unbilled revenue, inventories, regulatory assets and liabilities, goodwill, employee future benefits and income taxes payable are reported based on amounts expected to be recovered/refunded and an appropriate allowance has been provided based on managements' best estimate of unrecoverable amounts. Due to the inherent uncertainty involved in making such estimates, actual results could differ from amounts recorded in these financial statements, including changes as a result of future decisions made by the OEB, the Minister of Energy and Infrastructure and the Minister of Finance.

## 3. Changes in accounting policies

### *Future accounting changes*

*International Financial Reporting Standards ("IFRS")*

In September 2010, the Accounting Standards Board of Canada ("AcSB") approved an optional one year deferral for qualifying entities with rate-regulated activities. The Corporation has elected to take the one year deferral; accordingly the adoption of IFRS will occur on January 1, 2012. Thus, the Corporation will continue to prepare its financial statements in accordance with Canadian GAAP for 2011.

The adoption of IFRS will require the restatement, for comparative purposes, of the amounts reported by the Corporation for its December 31, 2011 year end, and the opening balance sheet as at January 1, 2011. The Corporation has an internal initiative to govern the conversion process to IFRS and is continuing to evaluate the impact of IFRS on its

*(In thousands of dollars)*

## 3. Changes in accounting policies *(continued)*

financial statements which is not yet determinable. The Corporation does, however expect an increase in the amount of disclosure requirements resulting from IFRS.

The Corporation will continue to monitor the progress made by the International Accounting Standards Board ("IASB") on the rate-regulated activities in consultation with other local distribution companies ("LDCs") and its professional advisor.

## 4. Inventories

During fiscal 2010, an amount of $nil (2009 - $31) was recorded as an expense for the write-down of obsolete or damaged inventory.

## 5. Property, plant and equipment

| | | | 2010 | 2009 |
|---|---|---|---|---|
| | **Cost** | **Accumulated depreciation** | **Net book value** | Net book value |
| | **$** | **$** | **$** | $ |
| Land | **10,875** | **-** | **10,875** | 8,923 |
| Buildings | **53,225** | **7,689** | **45,536** | 55,132 |
| Transformer stations | **155,935** | **46,876** | **109,059** | 73,687 |
| Transformers and meters | **306,909** | **144,961** | **161,948** | 148,337 |
| Plant and equipment | **899,980** | **435,094** | **464,886** | 437,587 |
| Other | **43,048** | **30,664** | **12,384** | 12,707 |
| Assets under capital lease | **18,280** | **731** | **17,549** | - |
| Construction in progress | **26,786** | **-** | **26,786** | 59,227 |
| Major spare parts | **8,404** | **-** | **8,404** | 8,843 |
| | **1,523,442** | **666,015** | **857,427** | 804,443 |
| Capital contributions | **277,010** | **61,642** | **215,368** | 202,679 |
| | **1,246,432** | **604,373** | **642,059** | 601,764 |

Included in PP&E costs is an amount of $7,196 (2009 - $5,683) related to an "allowance for the outlay of funds" employed during the construction period as allowed by the OEB. In the absence of rate regulation, interest expense in the current year would have been higher by $1,513 (2009 - $1,433).

Major spare parts amounting to $nil (2009 - $1,061) were considered to be impaired, as they had not been utilized for several years and were no longer in compliance with current standards. The fair value was determined to be $nil, as the assets could only be sold as scrap with nominal proceeds. The 2009 impairment loss was recorded in the operating expense line of the statement of earnings and comprehensive income.

## 6. Intangibles

Intangible assets consist of the following:

| | | | 2010 | 2009 |
|---|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Net book value** | Net book value |
| | **$** | **$** | **$** | **$** |
| Land rights | **730** | **-** | **730** | 729 |
| Computer software | **18,528** | **15,078** | **3,450** | 2,885 |
| | **19,258** | **15,078** | **4,180** | 3,614 |

(In thousands of dollars)

## 7. Regulatory assets and liabilities

In its 2009 rate application, the Corporation received approval to repay net regulatory liabilities accrued from January 1, 2005 to December 31, 2007 plus interest thereon to April 30, 2009 over the period September 1, 2009 to April 30, 2011, for the former PowerStream Inc. rate zone. In its 2010 rate application, relating to the former Barrie Hydro Distribution Inc. rate zone, the Corporation has received approval to repay net regulatory liabilities accrued from January 1, 2005 to December 31, 2008 plus interest thereon to April 30, 2010 over the period May 1, 2010 to April 30, 2011.

Regulatory assets and liabilities arise as a result of the rate-making process and consist of the following:

| | 2010 | 2009 |
|---|---|---|
| | **$** | $ |
| Regulatory assets | | |
| Deferred smart meter costs | **29,191** | 25,713 |
| Other regulatory assets | **2,770** | 720 |
| Regulatory assets | **31,961** | 26,433 |
| Regulatory liabilities | | |
| Retail settlement variance accounts | **(1,157)** | (1,010) |
| Future income taxes | **(53,313)** | (61,665) |
| Regulatory assets recovery account | **(8,193)** | (22,915) |
| PILs variance | **(4,109)** | (4,008) |
| Provision for regulatory assets and liabilities | **(1,542)** | (1,542) |
| Regulatory liabilities, including the provision | **(68,314)** | (91,140) |

### *(a) Regulatory assets*

(i) Deferred smart meter costs

As part of the Ontario Government's initiative, the Corporation had installed 297,000 smart meters as at December 31, 2010 (2009 - 225,000). The Corporation has recorded the capital spending and incremental expenses incurred in connection with smart meters less amount capitalized to PP&E when smart meter rate applications are approved by the OEB along with related funding collected from the customer in the deferral accounts established by the OEB.

In 2010, the Corporation submitted an application and received approval from the OEB for the recovery of costs associated with smart meters installed in the former PowerStream Inc. rate zone in 2008 and 2009. This resulted in new rate riders effective January 1, 2011. The rate riders allow the smart meter revenue requirement to be reflected in the Corporation's rates. In addition the approval also resulted in the recognition of the following amounts that were recorded in the smart meter deferral accounts: smart meter funding amounts previously collected in the amount of $6,481 as distribution revenue, operating costs of $2,960, PP&E of $18,285 and depreciation of $1,227.

In the absence of this regulatory treatment, PP&E would have increased by $21,031 (2009 - $19,883) with related depreciation expense of $877 (2009 - $878). Operating expenses would have increased by $1,828 (2009 - $814). Other revenue would have increased by $5,898 (2009 - $4,093) and interest revenue would have been lower by $167 (2009 - $164).

This regulatory asset balance also includes the net book value less proceeds of stranded mechanical meters, which have been replaced by smart meters, in the amount of $13,497 (2009 - $10,184). In the absence of this regulatory treatment, current year replaced meters with a net book value of $4,360 (2009 - $3,747) would have been recorded as a loss on disposal of PP&E.

(In thousands of dollars)

## 7. Regulatory assets and liabilities *(continued)*

### *(a) Regulatory assets (continued)*

(ii) Other regulatory assets

Other regulatory accounts consist of accrued deferred costs which are listed in the table below:

| | 2010 | 2009 |
|---|---|---|
| | **$** | $ |
| **Other regulatory assets** | | |
| Late payment class action suit settlement - (a) | **1,024** | - |
| Ministry of Energy and Infrastructure special purpose charge - (b) | **1,103** | - |
| IFRS transition costs | **232** | 615 |
| Other | **411** | 105 |
| Other regulatory assets | **2,770** | 720 |

*(a) Late Payment Penalty ("LPP") Class Action Suit 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 is required to pay $1,024 on June 30, 2011 to the United Way to assist low income electricity users. In February 2011 the Corporation received approval from the OEB to recover this amount from ratepayers. The Corporation has accrued this liability and recorded a corresponding regulatory asset. Under non regulated reporting, current year expenses would have been $1,024 higher.

*(b) Ministry of Energy and Infrastructure ("MEI") Special Purpose Charge*

On March 16, 2010 Ontario Regulations 66/10 and 67/10 were filed for the purpose of creating a means for the Province of Ontario to recover $53,695 from electricity distributors and the IESO relating to the period from April 1, 2009 to March 31, 2010 in order to partially fund conservation programs. The Corporation is allowed to recover this apportioned amount from customers through a uniform provincial kWh charge of 0.03725 cents/kWh on electricity used for the period May 1, 2010 to April 30, 2011. Both amounts collected from the customer and the amount paid are recorded in a new variance account as directed by the OEB.

Under non-regulated reporting this charge would be classified as a receivable on the balance sheet.

### *(b) Regulatory liabilities*

(i) Retail settlement variance accounts

RSVA are variances that have occurred since May 1, 2002 when the competitive electricity market was declared open, to December 31, 2010, and have accumulated pursuant to direction from the OEB. Current balances represent variances:

- from January 1, 2008 to December 31, 2009 for the former PowerStream Inc. rate zone;
- from January 1, 2009 to December 31, 2009 for the former Barrie Hydro Distribution Inc. rate zone; and
- from January 1, 2010 to December 31, 2010 for the Corporation's combined service area.

Balances up to December 31, 2007 were approved for settlement with customers in 2009 rates for the former PowerStream Inc. rate zone and up to December 31, 2008 in 2010 rates for the former Barrie Hydro Distribution Inc. rate zone. Specifically, these amounts include:

a) Variances between the amounts charged by the IESO for:

- the operation of the markets and grid;
- the purchase of imported power by the IESO to augment Ontario's power supply and charged by the IESO as an uplift charge that is part of the wholesale market service charges; and
- various wholesale market settlement charges and transmission charges, as compared to the amount billed to consumers based on the OEB-approved wholesale market service rate and transmission rates.

### 7. Regulatory assets and liabilities *(continued)*

#### *(b) Regulatory liabilities (continued)*

(i) Retail settlement variance accounts *(continued)*

b) Differences between the amounts charged by the IESO and billed to consumers for energy costs.

Energy charges by the IESO consist of the hourly price of electricity, global adjustment charges related to the Ontario Power Authority's long term contracted supply of electricity including renewables, and adjustments for electricity billed to customers at regulated price plan rates.

Under non regulated reporting, the current year cost of power would have been $6,041 lower (2009 - $4,484 higher) and interest expense would have been lower by $15 (2009 - $360).

(ii) Future income taxes

The recovery from, or refund to, customers of future income taxes by the corporation in future electricity rates is required by Section 3465 of the CICA Handbook to be recognized as an asset or liability. Accordingly the corporation has recorded a future income tax asset related to the regulated business of $53,313 and a corresponding regulatory liability of $53,313. Under non regulated reporting, income tax expense would have been $6,291 (2009- $5,135) higher.

(iii) Regulatory assets recovery account (“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.

As at December 31, 2010, the balances include the following:

a) Former Barrie Hydro Distribution Inc. rate zone

On May 1, 2008, the Corporation began recovery of regulatory asset balances in the amount of $910 over a period of 36 months through rate riders. These recoveries are based on final balances approved by the OEB reflecting costs to December 31, 2006 and carrying interest charges accrued to April 30, 2008. In 2008 the approved amounts were netted with the recoveries account in accordance with OEB direction.

On May 1, 2010, the Corporation began refunding net regulatory liabilities in the amount of $6,469 over a period of 12 months through rate riders. The approved amounts were netted with the recoveries account in accordance with OEB direction.

b) Former PowerStream Inc. rate zone

On September 1, 2009, the Corporation began refunding net regulatory liabilities in the amount of $28,089 over a period of 20 months through rate riders. These recoveries are based on final balances approved by the OEB reflecting costs to December 31, 2007 and carrying interest charges accrued to April 30, 2009. In 2009 the approved amounts were netted with the recoveries account in accordance with OEB direction.

Under non regulated reporting, current year revenues would have been decreased by $20,749 (2009 - $5,036) and interest expense in 2010 would have been decreased by $119 (2009 - $573).

(iv) PILs variance

For the period of October 1, 2001 to April 30, 2006, PILs were recorded based on the OEB PILs methodology of PILs billed amount versus PILs proxy amount variances and an annual Spreadsheet Implementation Model for PILs (“SIMPILs”) filing with specified true-ups.

The OEB has undertaken a combined proceeding (EB-2008-0381) to review the balances set up in this account, for a group of utilities (the former Barrie Hydro Distribution Inc., ENWIN Utilities Ltd. and Halton Hills Hydro Inc.) and to determine the amounts to be recovered from or repaid to customers.

As an outcome of this proceeding, the OEB will provide clarification of the existing rules and interpretations as to how these rules should have been applied. It is the OEB’s stated intention that these clarifications and interpretations will be used as a reference in determining the amounts for disposition by other utilities.

This proceeding is in progress and the outcome is indeterminable at this time. Any adjustments will be recorded when known.

(In thousands of dollars)

## 7. Regulatory assets and liabilities *(continued)*

### *(b) Regulatory liabilities (continued)*

(iv) PILs variance *(continued)*

Under non regulated reporting, current year revenues would have been $68 (2009 - $241) higher and interest expense would have been $33 (2009 - $51) lower.

(v) Provision for regulatory assets and liabilities

The Corporation has determined that there is uncertainty concerning the future recovery/settlement of certain regulatory assets and liabilities. Based on this uncertainty, a net regulatory liability provision in the amount of $1,542 (2009 - $1,542) has been recorded, of which $126 (2009 - $126) relates to regulatory assets and $1,416 (2009 - $1,416) relates to regulatory liabilities.

## 8. Accounts payable and accrued liabilities

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Accounts payable - energy purchases | **59,689** | 57,581 |
| Payroll payable | **5,120** | 5,173 |
| Debt retirement charge payable | **4,340** | 4,463 |
| Interest payable | **3,089** | 2,484 |
| Commodity taxes payable | **1,967** | 290 |
| Current portion of construction deposits | **-** | 129 |
| Customer receivables in credit balances | **8,263** | 7,732 |
| Other accounts payable and accrued liabilities | **22,871** | 32,553 |
| | **105,339** | 110,405 |

## 9. Related party balances and transactions

The amount due to related parties is comprised of amounts payable to the City of Vaughan, the Town of Markham and the City of Barrie and their wholly-owned subsidiaries. The below information includes transaction and balances not already disclosed in Note 11(c) and Note 14.

Components of the amounts due to related parties are as follows:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| City of Vaughan | **5,420** | 5,523 |
| Town of Markham | **5,073** | 4,951 |
| City of Barrie | **1,721** | 1,575 |
| | **12,214** | 12,049 |

Other significant related party transactions not otherwise disclosed separately in the financial statements, are summarized below:

| | | | 2010 | | | 2009 |
|---|---|---|---|---|---|---|
| | **City of Vaughan** | **Town of Markham** | **City of Barrie** | City of Vaughan | Town of Markham | City of Barrie |
| | $ | $ | $ | $ | $ | $ |
| Revenue | | | | | | |
| Energy and distribution | **4,594** | **4,367** | **5,509** | 4,094 | 3,903 | 3,726 |
| Shared services | **1,953** | **2,468** | **1,000** | 1,916 | 1,401 | 1,620 |
| Expenses | | | | | | |
| Facilities rental | **284** | **-** | **-** | 732 | 120 | - |
| Realty taxes | **567** | **174** | **299** | 530 | 158 | 303 |
| Operations | **381** | **-** | **-** | 482 | 95 | - |

(In thousands of dollars)

## 9. Related party balances and transactions *(continued)*

These transactions are in the normal course of operations and are recorded at the exchange amount.

During the year the Corporation entered into operating leases with the City of Vaughan, Town of Markham and City of Barrie to lease rooftops on a number of buildings for which solar panels will be installed. There has been no financial impact of these leases for the year ended December 31, 2010.

## 10. Short-term debt

### *(a) Credit facilities*

On December 17, 2008 the Corporation executed an unsecured credit facility with a Canadian chartered bank. The credit facility is renewable annually. The credit facility agreement provides an extendible 364-day committed revolving credit facility of $75,000, an uncommitted demand facility of $25,000 for a specific purpose, and an uncommitted Letter of Guarantee facility of $15,000.

As at December 31, 2010, the Corporation had utilized $12,484 (2009 - $12,000) of the 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. With the opening of Ontario's electricity market to wholesale and retail competition on May 1, 2002 ("Open Access"), the IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the letter of credit if the Corporation defaults on its payment. Further, as at December 31, 2010, an additional $444 (2009 - $46) of the uncommitted Letter of Guarantee facility was utilized as security for operation projects.



The 364-day committed revolving credit facility can be drawn upon by direct advances, bearing interest at prime plus 0.15% or Bankers' Acceptance of a stamping fee plus 110 basis points (1.10% per annum). The uncommitted demand facility bears an interest rate of prime minus 0.10% or Bankers' Acceptance of a stamping fee plus 90 basis points (0.90% per annum). The Letter of Guarantee facility bears a charge of 50 basis points (0.50%) per annum.

The amount of short-term debt drawn on the credit facilities consists of:

| | 2010 | 2009 |
|---|---|---|
| | **$** | $ |
| Uncommitted demand facility | **25,000** | 25,000 |
| 364-day committed revolving credit facility | **15,000** | 15,000 |
| | **40,000** | 40,000 |

### *(b) Ontario Infrastructure Projects Corporation ("Infrastructure Ontario") financing*

On October 15, 2010 the Corporation secured financing with Infrastructure Ontario for its Solar business. The funding is available for up to 5 years from the date that the agreement was signed.

As at December 31, 2010, the Corporation has utilized $827 of the $90,000 financing facility. Each advance shall bear interest at a floating rate per annum as determined by Infrastructure Ontario. The advance interest rate at December 31, 2010 was 1.74% and interest expense for the year was $0.670.

The Corporation will pay Infrastructure Ontario a stand-by fee calculated at a rate of 25 basis points (0.25%) on the unadvanced balance of the committed amount should the Corporation fail to draw any funds pursuant to the agreement from Infrastructure Ontario during any period of 12 consecutive months commencing initially from October 15, 2010 and subsequently from the date of the draw of any such funds until the earlier of the facility termination date October 15, 2015 or the full advance of the committed amount. The financial covenants require a debt service coverage ratio of 1 to 1 or higher, a debt to capital ratio of 70% or lower, and a current ratio of 1:1 or higher.

(In thousands of dollars)

## 11. Long-term debt

### (a) Bank term loan

The bank term loan of $50,000 is a 5 year fixed rate term loan with a Canadian Chartered Bank which bears interest at an annual rate of 5.08%. It is a non-amortizing loan with repayment at the end of the contracted term, February 26, 2013. The financial covenants require a total debt to capitalization ratio of no greater than 0.60:1, and to maintain an interest coverage ratio of no less than 1.25:1.

Interest expense relating to the bank term loan for the year ended December 31, 2010 was $2,540 (2009 - $2,540).

### (b) Debentures payable

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| 6.45% unsecured debentures due August 15, 2012, interest payable in arrears semi-annually on August 15 and February 15 | **123,765** | 123,091 |

In August 2002, the four predecessor corporations (Hydro Vaughan Distribution Inc., Markham Hydro Distribution Inc., Richmond Hill Hydro Inc. and Barrie Hydro Distribution Inc.) raised gross proceeds of $125,000 through a private placement offering. These predecessor corporations were four of five LDCs that participated in the Electricity Distributors Finance Corporation ("EDFIN") 10 Year Debenture Issue (Series 2002-1) that was offered on a private placement. EDFIN is a specific purpose corporation managed by MEARIE Management Inc., for the purpose of providing the LDCs with efficient access to the debt capital markets. Each LDC has executed a debenture which is a direct and unsecured obligation of the LDC. The LDC's obligations are several and not joint, and each LDC is liable for its own obligation and not that of any other LDC.

The debentures are recorded at amortized cost, using the effective interest method. Interest expense relating to the debentures payable was $8,737 (2009 - $8,691) which included $674 (2009 - $629) of accretion.

The debentures are subject to a financial covenant. This covenant requires that the consolidated funded obligation does not exceed 75% of the total consolidated capitalization of the Corporation.

### (c) Notes payable

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Promissory note issued to the City of Vaughan | **78,236** | 78,236 |
| Deferred interest on promissory note issued to the City of Vaughan | **8,743** | 8,743 |
| Promissory note issued to the Town of Markham | **67,866** | 67,866 |
| Deferred interest on promissory note issued to the Town of Markham | **7,585** | 7,585 |
| Promissory note issued to the City of Barrie | **20,000** | 20,000 |
| | **182,430** | 182,430 |

On June 1, 2004 an unsecured 20 year term promissory note was issued to the City of Vaughan in the amount of $78,236. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On June 1, 2004 an unsecured 20 year term promissory note was issued to the Town of Markham in the amount of $67,866. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On December 31, 2008, an unsecured 16 year term promissory note was issued to the City of Barrie in the sum of $20,000. Interest for fiscal 2010 is at an annual rate of 5.58%.

The three promissory notes are repayable 90 days following demand by the City of Vaughan, the Town of Markham, and the City of Barrie, with subordination and conditions. These notes have been classified as long-term as it is not the intent of the City of Vaughan, the Town of Markham, or the City of Barrie to demand repayment within the next year.

At the request of the City of Vaughan and the Town of Markham, eight quarters of interest have been deferred commencing October 1, 2006. This deferred interest will be repayable in full on October 31, 2013 and is subject to the same interest rate and conditions as the original note.

*(In thousands of dollars)*

## 11. Long-term debt *(continued)*

### *(c) Notes payable (continued)*

Interest of $4,853 (2009 - $4,853) on the note payable to the City of Vaughan, $4,210 (2009 - $4,210) on the note payable to the Town of Markham and interest of $1,116 (2009 - $1,300) to the City of Barrie was charged to interest expense during the year. This includes interest on the related deferred interest balance for the City of Vaughan and the Town of Markham.

## 12. Employee future benefits

The Corporation measures its accrued benefit obligation for accounting purposes every three years. The latest actuarial valuation was performed as at December 31, 2009.

On June 30, 2010, the Corporation signed a new three year collective agreement with the Power Workers Union. As a result of the new agreement, limited employee post-employment benefits were extended to all union employees and any union employees hired during the term of the collective bargaining agreement. An actuarial review was undertaken only for the additional employees added to the post-employment benefit plan. This was for the period July 1, 2010 to December 31, 2010.

In December 2010 the Corporation approved extending the post-employment benefit plan to all management employees effective February 2011 on the same basis as noted above for the union employees. As a result, the accrued benefit liability was increased by $627 for the additional management employees.



A reconciliation of the Corporation's accrued benefit obligation to the amounts recorded in the financial statements is as follows:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Accrued benefit obligation | **20,297** | 16,490 |
| Unamortized transitional obligation | **(417)** | (482) |
| Unamortized net actuarial losses | **(5,285)** | (3,972) |
| Unamortized past service costs | **(588)** | - |
| Accrued benefit liability December 31, 2010 | **14,007** | 12,036 |

Details of the accrued benefit obligation are as follows:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Accrued benefit obligation, beginning of the year | **16,490** | 13,441 |
| Current service cost | **418** | 260 |
| Interest cost on obligation | **951** | 878 |
| Unamortized past service costs | **1,261** | - |
| Benefit payments | **(428)** | (393) |
| Actuarial losses | **1,605** | 2,304 |
| Accrued benefit obligation, end of the year | **20,297** | 16,490 |

The plan expense for the year is determined as follows:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Current service cost | **418** | 260 |
| Interest cost on obligation | **951** | 878 |
| Amortization of transitional obligation | **72** | 70 |
| Amortization of past service costs | **38** | - |
| Amortization of net actuarial losses | **292** | 108 |
| Plan expense | **1,771** | 1,316 |

(In thousands of dollars)

## 12. Employee future benefits *(continued)*

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation are as follows:

| | % |
|---|---|
| Discount rate | **5.00 - 5.50** |
| Rate of compensation increase | **3.50** |
| Medical benefits costs escalation - hospitalization | **5.00 - 8.30** |
| Medical benefits costs escalation - extended health care | **5.00 - 8.30** |
| Dental benefits costs escalation | **5.00** |

*Sensitivity analysis*

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2010:

| | Increase | Decrease |
|---|---|---|
| | **$** | **$** |
| Total service and interest cost | **270** | **(147)** |
| Accrued benefit obligation | **3,078** | **(2,456)** |
| | **3,348** | **(2,603)** |



## 13. Pension

The Corporation provides a pension plan to its full time employees through OMERS, a multi-employer plan. The Corporation incurred $3,150 (2009 - $2,536) of contribution expense during the year ended December 31, 2010.

## 14. Share capital

The Corporation's authorized share capital is made up of an unlimited number of common shares, and an unlimited number of Class A common shares. The issued share capital is as follows:

| | | 2010 | 2010 |
|---|---|---|---|
| | | **$** | $ |
| 100,000 | Common shares | **247,183** | 247,183 |
| 4,056 | Class A common shares, non-voting | **2,435** | - |
| | | **249,618** | 247,183 |

Of the total 100,000 common shares issued 45,315 common shares are registered under Vaughan Holdings Inc. (wholly owned the City of Vaughan), 34,185 common shares are registered under Markham Enterprises Corporation (wholly owned by the Town of Markham) and 20,500 common shares are registered under Barrie Hydro Holdings Inc. (wholly owned by the City of Barrie).

On November 23, 2010 a Subscription Agreement was signed between the Corporation and its Shareholders for new Class A common shares for the purposes of the Shareholders providing equity for the Corporation's solar business. The articles of incorporation and shareholders agreement were amended in order to proceed with the subscription agreement. The maximum amount of Class A common shares that are available under the subscription agreement is 100,000.

Of the total 4,056 Class A common shares issued 1,838 Class A common shares are registered under Vaughan Holdings Inc. (wholly owned the City of Vaughan), 1,387 Class A common shares are registered under Markham Enterprises Corporation (wholly owned by the Town of Markham) and 831 Class A common shares are registered under Barrie Hydro Holdings Inc. (wholly owned by the City of Barrie).

(In thousands of dollars)

## 14. Share capital *(continued)*

*Dividends*

The Corporation has established a dividend policy to distribute a minimum dividend on the common shares of 50% of net income with consideration given to the:

- Cash position at the beginning of the year;
- Working capital requirements for the current year; and
- Net capital expenditures required for the current year.

In 2010, the Corporation paid a dividend on the common shares of $10,532. During 2009, the Corporation paid $11,274 to the shareholders based on the combined net income of the predecessor corporations. In addition, the Corporation made a special payment of $19,808 to the shareholders as the final closing adjustment for the amalgamation of PowerStream Inc. and Barrie Hydro Distribution Inc.

## 15. Insurance

The Corporation maintains appropriate types and levels of insurance with major insurers. With respect to liability insurance, the Corporation is a member of the Municipal Electricity Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.



Insurance premiums charged to each member consist of a levy per thousands of dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Coverage is provided to a level of $24,000 per incident.

## 16. Leases

On October 9, 2008, the Corporation entered into a 25 year lease agreement relating to its operation centre. The lease term commenced January 1, 2010 and occupancy occurred in March 2010. Upon entering into this lease arrangement, the Corporation evaluated whether substantially all of the benefits and risks of ownership related to this operation centre have been transferred to the Corporation (the lessee) in order to determine if the lease is classified and recorded as capital or operating. The component of the annual basic rent related to the land is classified and recorded as an operating lease and the component related to the building is classified as a capital lease.

The Corporation is also committed to lease agreements for various vehicles and equipment that have been classified as operating leases.

The annual basic rent for capital and operating leases are as follows:

| | Capital | Operating |
|---|---|---|
| | $ | $ |
| 2011 | **1,430** | **1,128** |
| 2012 | **1,430** | **1,204** |
| 2013 | **1,430** | **1,162** |
| 2014 | **1,430** | **1,145** |
| 2015 | **1,430** | **1,143** |
| 2016 and thereafter | **29,285** | **22,268** |
| | **36,435** | **28,050** |
| Less: amounts representing interest | **18,497** | |
| | **17,938** | |
| Less: current portion of capital lease obligation | **259** | |
| Capital lease obligation | **17,679** | |

Interest on the lease obligation during fiscal 2010 amounted to $1,087 based on the rate of 6.57% per annum. Amortization of the corresponding capital asset during fiscal 2010 amounted to $731 based on the straight-line method with a useful life equal to the term of the lease (25 years).

(In thousands of dollars)

## 17. Contingencies

### (a) Legal claims

The Corporation has been named as a defendant in several actions. No provision has been recorded in the financial statements for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

### (b) Ministry of Finance tax audits

The Ministry of Finance (the "Ministry") has conducted PILs audits of the taxation years up to and including the 2006 year.

There remains an outstanding matter regarding the treatment of the RSVA for tax purposes.

There has been inconsistent practice of tax treatment of certain regulatory asset/liability accounts among LDCs across Ontario.

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 financial statements. Similar treatment has been followed for tax purposes. The Ministry is questioning this treatment of the RSVA for tax purposes and is suggesting that RSVA liabilities may be considered income for tax purposes.

The Ministry is currently reviewing the treatment of RSVA for tax purposes on a province wide basis. The impact of a tax ruling may result in a reassessment of taxes payable which could have an impact on results, financial position and cash flows in the future. The outcome of the Ministry's review is not determinable and as such, amounts will be recorded as necessary.

## 18. Financial instruments and risk management

### (a) Recognition and measurement

The Corporation's accounting policies relating to the recognition and measurement of financial instruments are disclosed in Note 2(c).

The Corporation's carrying value and fair value of financial instruments are as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| **Description** | **Carrying value** | **Fair value** | Carrying value | Fair value |
| | **$** | **$** | $ | $ |
| **Assets** | | | | |
| Cash | **8,568** | **8,568** | 42,612 | 42,612 |
| Accounts receivable (net of allowance for doubtful accounts) | **69,366** | **69,366** | 73,633 | 73,633 |
| | **77,934** | **77,934** | 116,245 | 116,245 |
| **Liabilities** | | | | |
| Accounts payable and accrued liabilities | **105,339** | **105,339** | 110,405 | 110,405 |
| Customer deposits | **13,549** | **13,549** | 17,726 | 17,726 |
| Due to related parties | **12,214** | **12,214** | 12,049 | 12,049 |
| Short-term debt | **40,000** | **40,000** | 40,000 | 40,000 |
| Infrastructure Ontario financing | **827** | **827** | - | - |
| Bank term loan | **50,000** | **52,529** | 50,000 | 53,686 |
| Debentures payable | **123,765** | **131,326** | 123,091 | 135,391 |
| Notes payable | **182,430** | **207,468** | 182,430 | 198,901 |
| | **528,124** | **563,252** | 535,701 | 568,158 |

(In thousands of dollars)

## 18. Financial instruments and risk management *(continued)*

### *(a) Recognition and measurement (continued)*

The fair value of financial instruments has been calculated using the market interest rates as at December 31, adjusted for the Corporation's risk rating. The Corporation uses Level 1 classifications for fair value measurements for most of its financial instruments and Level 2 classifications for the bank term loan, debentures payable and notes payable.

### *(b) Risk factors*

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk and liquidity risk as well as related mitigation strategies have been discussed below. However, the risks described below are not exhaustive of all the risks nor will the mitigation strategies eliminate the Corporation's exposure to all risks listed.

### *(c) Credit risk*

The Corporation's primary source of credit risks to its accounts receivable result from customer's failing to discharge their dues for electricity consumed and billed. The Corporation has approximately 325,000 (2009 - 321,000) residential and commercial customers. In order to mitigate such potential credit risks, the Corporation has taken various measures in respect of its Energy customers such as collecting security deposits amounting to $17,043 (2009 - $21,872) in accordance with OEB guidelines, reviewing Dun & Bradstreet (D&B) reports for the top 3000 commercial customers with an outstanding balance of $5 or more, in-house collection department as well as external collection agencies and a bad debt insurance policy for $4,500 (2009 - $4,500) related to energy receivables. Thus, the Corporation monitors and limits its exposure to such credit risks on an ongoing basis.

Pursuant to their respective terms, accounts receivable are aged as follows at December 31:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| | **Total** | | Total | |
| | **$** | **$** | $ | $ |
| Less than 30 days | **55,435** | **78** | 55,965 | 73 |
| 30 - 60 days | **8,493** | **12** | 4,346 | 6 |
| 61 - 90 days | **3,434** | **5** | 4,336 | 6 |
| Greater than 91 days | **4,082** | **5** | 11,161 | 15 |
| Total outstanding | **71,444** | **100** | 75,808 | 100 |
| Less: Allowance for doubtful accounts | **(2,078)** | **(3)** | (2,175) | (3) |
| | **69,366** | | 73,633 | |

As at December 31, 2010, there was no significant concentration of credit risk with respect to any class of financial assets.

### *(d) Interest rate risk*

The Corporation manages its exposure to interest rate risk by issuing long term fixed rate debt in the form of debentures, promissory notes and bank loans. It also ensures that all payment obligations are met by adopting proper capital planning.

(In thousands of dollars)

## 18. Financial instruments and risk management *(continued)*

### *(d) Interest rate risk (continued)*

As part of the Corporations' revolving demand operating credit facility, the Corporation may utilize the line of credit for working capital and/or capital expenditure purposes. Such short term borrowing may expose the Corporation to short term interest rate fluctuations as follows:

| | 2010 | 2009 |
|---|---|---|
| 364 day revolving facility | | |
| Prime based loans | **PR*+0.15% p.a.** | PR*+0.25% p.a. |
| Bankers Acceptances | **SF*+1.10% p.a.** | SF*+1.37% p.a. |
| Demand facility | | |
| Prime based loans | **PR*-0.10% p.a.** | PR*+0.00% p.a. |
| Bankers acceptances | **SF*+0.90% p.a.** | SF*+1.00% p.a. |
| Letter of guarantee facility | **0.50% p.a.** | 0.50% p.a. |
| Committed term facility (Fixed Rate for 5 Years) | **5.08% p.a.** | 5.08% p.a. |
| Infrastructure Ontario financing | **Floating rate p.a.** | - |

*Note: PR*- Prime Rate, SF* - Stamping Fee*

A sensitivity analysis was conducted to examine the impact of a change in the prime rate or stamping fee on the short-term debt. A variation of 1% (100 basis points) would increase or decrease the annual interest expense by approximately $400.

Cash balances that are not required for day to day obligations earn an interest of Prime minus 1.7% per annum. These interest rate fluctuations could impact the level of interest income earned by the Corporation.

### *(e) Liquidity risk*

Liquidity risks are those risks associated with the Corporation's inability to meet obligations associated with financial liabilities such as repayment of principal or interest payments on debts. The Corporation monitors its liquidity risks on a regular basis to ensure there is sufficient cash flow to meet the obligations as they fall due as well as minimize the interest expense. Cash flow forecasts are prepared to monitor liquidity risks. Liquidity risks associated with financial liabilities are as follows:

| | | | 2010 | | | 2009 |
|---|---|---|---|---|---|---|
| Maturity period | Principal * | Interest | Total | Principal * | Interest | Total |
| | $ | $ | $ | $ | $ | $ |
| Less than 1 year | **117,553** | **-** | **117,553** | 123,454 | - | 123,454 |
| 1-5 years | **231,327** | **22,159** | **253,486** | 231,327 | 33,673 | 265,000 |
| 6-10 years | **-** | **-** | **-** | - | - | - |
| Over 10 years | **166,102** | **124,353** | **290,455** | 166,102 | 133,621 | 299,723 |
| | **514,982** | **146,512** | **661,494** | 520,883 | 167,294 | 688,177 |

** The principal includes $1,908 of deferred issuing cost amortization*

### *(f) Hedging / Derivative risk*

The Corporation has a swap and derivative transaction policy to enable the Corporation to enter into agreements such as interest rate swaps where 100% of the floating rate risk is hedged into a fixed rate. This is done for prudent risk management purposes and not speculative purposes. The Corporation has not entered into any such transactions during the year.

*(In thousands of dollars)*

## 19. Capital disclosures

The Corporation's main objectives in the management of capital are to:

(i) Ensure that there is access to various funding options at the lowest possible rates for the various capital initiatives and working capital requirements necessary for the distribution business.

(ii) Ensure compliance with various covenants related to its long-term/short-term debt, promissory notes and debentures.

(iii) Consistently maintain a high credit rating for the Corporation.

(iv) Maintain a split of approximately 60% debt, 40% equity as recommended by the OEB.

(v) Ensure interest rate fluctuations are mitigated primarily by long term borrowings as well as capital planning.

(vi) Deliver appropriate financial returns to shareholders.

The Corporation considers shareholders' equity, long-term debt and certain short-term debt as its capital. The capital structure as at December 31, 2010 is as follows:

| | 2010 | 2009 |
|---|---|---|
| | **$** | $ |
| **Shareholders' equity** | | |
| Share capital (Note 14) | **249,618** | 247,183 |
| Retained earnings | **36,999** | 21,064 |
| Total equity | **286,617** | 268,247 |
| **Short-term debt** | | |
| Short-term debt (Note 10 (a)) | **40,000** | 40,000 |
| Infrastructure Ontario financing (Note 10 (b)) | **827** | - |
| **Long-term debt** | | |
| Bank term loan (Note 11 (a)) | **50,000** | 50,000 |
| Debenture payable (Note 11 (b)) | **123,765** | 123,091 |
| Notes payable (Note 11 (c)) | **182,430** | 182,430 |
| Total debt | **397,022** | 395,521 |
| **Total capital** | **683,639** | 663,768 |

As at December 31, 2010, the Corporation was in compliance with all covenants included in its short-term debt, bank term loan, debentures payable and notes payable. Details relating to debt covenants are disclosed in Note 10 and Note 11.

The Corporation is within the debt and equity requirements of the OEB.

The Corporation's dividend policy is disclosed in Note 14.

(In thousands of dollars)

## 20. Corporate income taxes

The provision for PILs is comprised of the following:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Current income taxes | **10,527** | 8,561 |
| Future income liabilities | **61** | - |
| | **10,588** | 8,561 |

### *(a) Current taxes*

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and provincial statutory income tax rates. The reconciliation between the statutory and effective tax rates is provided as follows:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Income from operations before PILs | **37,055** | 29,625 |
| Statutory Canadian federal and provincial income tax rates | **31.00%** | 33.00% |
| Expected tax provision on income at statutory rates | **11,487** | 9,776 |
| Increase (decrease) in income taxes resulting from timing differences: | | |
| Amortization/CCA differences | **(2,776)** | (2,755) |
| Post employment benefits | **611** | 305 |
| Eligible capital expenditures | **(166)** | (227) |
| Other reserves | **368** | 590 |
| Revenue and overheads related to smart meters recognized for tax purposes but capitalized for accounting purposes | **604** | 401 |
| Other | **569** | 577 |
| Permanent differences | **(109)** | (106) |
| Provision for PILs | **10,588** | 8,561 |

### *(b) Future income tax assets*

Future income tax assets of $53,313 (2009 - $61,665), and a corresponding regulatory liability of $53,313 (2009 - $61,665) were recorded as at December 31, 2010. Significant components of the Corporation's future income tax assets and liabilities are as follows:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Employee future benefits | **4,377** | 3,943 |
| Property, plant, equipment and intangible assets | **46,126** | 56,235 |
| Smart meter revenues/costs | **1,914** | 1,543 |
| Other taxable temporary differences | **896** | (56) |
| | **53,313** | 61,665 |

(In thousands of dollars)

## 20. Corporate income taxes *(continued)*

### *(c) Future income tax liabilities*

Future income tax liabilities of $61 were recorded as at December 31, 2010. The future tax liabilities relate to taxable temporary differences. This amount is not offset by a regulatory asset, as it relates specifically to the Corporation's non-regulated solar business.

## 21. Net change in non-cash operating working capital

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Accounts receivable | **4,267** | (9,586) |
| Unbilled revenue | **(4,047)** | (11,501) |
| Income taxes recoverable | **1,525** | 2,206 |
| Inventories | **819** | 126 |
| Prepaid and other | **(137)** | 96 |
| Accounts payable and accrued liabilities | **(7,372)** | (11,853) |
| Current portion of customer deposits | **478** | - |
| Increase in due to related parties | **165** | 2,150 |
| Income taxes payable | **1,588** | 5,034 |
| | **(2,714)** | (23,328) |



## 22. Net interest expense

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Interest expense | **22,421** | 21,886 |
| Interest income | **(407)** | (272) |
| | **22,014** | 21,614 |

## 23. Guarantees

In the normal course of business, the Corporation enters into agreements that meet the definition of a guarantee as follows:

(a) The Corporation has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Corporation agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Indemnity has been provided to all directors and/or officers of the Corporation for various items including, but not limited to, all costs to settle suits or actions due to association with the Corporation, subject to certain restrictions. The Corporation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Corporation. The maximum amount of any potential future payment cannot be reasonably estimated.

(c) In the normal course of business, the Corporation has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Corporation to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence

## 23. Guarantees *(continued)*

of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Corporation has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

## 24. Comparatives

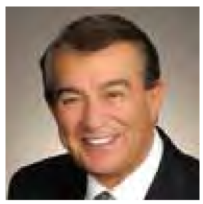
In certain instances, the prior year information presented for comparative purposes has been reclassified to conform to the financial statement presentation adopted for the current year.

# BOARD OF DIRECTORS


Frank Scarpitti, *(Chair)*

Maurizio Bevilacqua, *(Vice Chair)*






Tony Carella, *Director*

Alex Chiu, *Director*

Michael Di Biase, *Director*

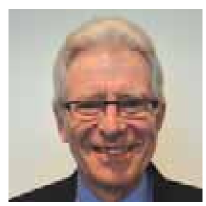
Dan Horchik, *Director*

Jim Jones, *Director*

Jeff Lehman, *Director*






Gino Rosati, *Director*

Deb Schulte, *Director*

Alan Shefman, *Director*

Ron Stevens, *Director*

Lynn Strachan, *Director*

## BOARD COMMITTEES

### Audit and Finance Committee

Provides oversight and serves as a check and balance of the Corporation's financial reporting system with respect to strategic financial matters. The Committee assists the Board in its oversight responsibilities in relation to evaluating competence and independence of the outside auditor; ensures the integrity of the Corporation's Financial Statements; ensures alignment of the Budget and Strategic Plan and reviews the Corporation's finance and insurance programs.

**Members:** *Gino Rosati (Chair), Dan Horchik (Vice Chair), Frank Scarpitti, Maurizio Bevilacqua, Jeff Lehman*

### Human Resources, Compensation and Governance Committee

Provides oversight and guidance with respect to the Corporation's strategic human resource activities, compensation plan, and all matters relating to Board Governance. The Committee assists the Board in fulfilling its oversight responsibilities in relation to corporate governance, performance, compliance and conduct, risk management, and advises the Board with respect to composition, succession and training of the Board and Executive Management.

**Members:** *Ron Stevens (Chair), Alan Shefman (Vice Chair), Lynn Strachan, Dan Horchik*

### New Business and Environment Committee

Provides oversight with respect to new business ventures, Conservation and Demand Management ("CDM"), and the Environment for the Corporation. The Committee assists the Board in fulfilling its oversight responsibilities in relation to the development of new business opportunities in a manner compliant with legislative and regulatory guidelines, including the *Green Energy and Green Economy Act,* as well as CDM and Environmental stewardship.

**Members:** *Jim Jones (Chair), Tony Carella (Vice Chair), Michael Di Biase, Deb Schulte, Alex Chiu*

# HOW TO CONTACT US

**Head office:**
161 Cityview Boulevard
Vaughan, ON L4H 0A9

**Phone:**
Vaughan and vicinity:
905-417-6900

All other areas:
1-877-963-6900

**Fax:**
1-877-236-6395

**Email:**
info@powerstream.ca

**Website:**
www.powerstream.ca

# ANNUAL REPORT 2010

FOCUSED ON EXCELLENCE


**HEAD OFFICE**
161 Cityview Boulevard Vaughan, ON L4H 0A9

**PHONE:** Vaughan and vicinity: 905-417-6900 All other areas: 1-877-963-6900 • **FAX:** *1-877-236-6395* • **EMAIL:** info@powerstream.ca

www.powerstream.ca



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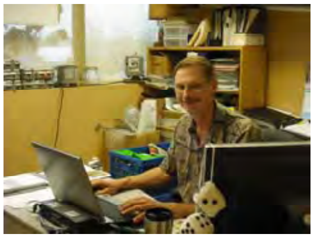
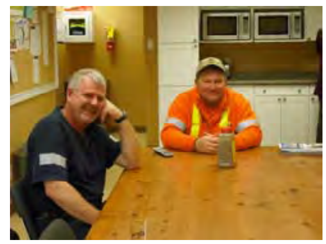


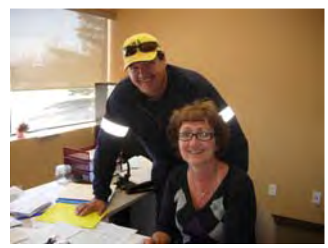






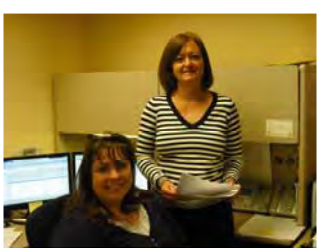



# Collingwood Utility Services



TOGETHER... WE HELP OUR TOWN
COLLUS
COLLINGWOOD UTILITY SERVICES

## 2009 Annual Report & 2010 – 2012 Business Plan




The Business Plan and Annual Report focuses on both hydro and water.
The following name references will be used throughout the document:

- **Collingwood Utility Services** – refers to both electricity and water
- **COLLUS Power** – refers to electricity only
- **Collingwood Public Utilities** – refers to water only

43 Stewart Road, P.O. Box 189
Collingwood, Ontario L9Y 3Z5
705-445-1800
www.collus.com

# Table Of Contents

# A Message from the Chair and the President & CEO

**A MESSAGE FROM THE CHAIR AND FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF COLLUS POWER & COLLINGWOOD PUBLIC UTILITIES SERVICES BOARD**

# Financial Analysis of 2009

### A Message from the Chief Financial Officer

The combined Business Plan of Collus Power Corp and the Collingwood Public Utilities Service Board is provided within this document. It provides an overview of the complex financial and administrative strategy that our Boards have established in order to achieve the goals of our Shareholder. The Business Plan outlines the steps that will be undertaken in meeting the objectives while our high level of customer service will continue to be maintained. Appendices are included that contain the 2009 Financial Statements of the consolidated Collingwood Utility Services Corp and also the Collingwood Public Utilities. These statements will confirm the financial strength of the companies and provide key information that indicates that high levels of customer service have been maintained.

#### Collus Power Corp

It is difficult to comprehend that 2010 is already the 10th year of operation as a corporation formed under the *Electricity Act 1998*. The financial statements for 2009 indicate results that will provide the resources that are required to complete our key short-term and long-term initiatives. In early 2010 our newest substation (Sixth St. and Stewart Road) will come into operation and provide the additional capacity that we require to improve upon our municipal distribution system. A $3.0M investment has been made as a result of the Province's Smart Meter Project and this will ensure that all of our customers will have an important measurement device at their disposal. The government plans to continue to introduce opportunities to receive rewards for conservation. Our investment will ensure that our customers will be able to put their smart meter and the information we can provide to them to take advantage of these opportunities. Additionally, we continue to implement the appropriate steps to ensure that the accounting requirements under the International Financial Reporting Standards rules that must be in place by 2011. Our Board is continuously aware of the severe economic pressure that the customers are experiencing and consider this carefully as it establishes effective and efficient processes that can meet our goals.

#### Collingwood Public Utilities

All of our financial results for 2009 indicate a strong performance. The 2009 Financial workplan has been completed using our historical reporting format. 2009 Financial Statements are currently being completed incorporating the new Public Sector Accounting Board requirements. The new format will provide additional information about assets and liabilities which will be incorporated in future decision making.

The Board has established a budget for 2010 that will provide guidelines for management to follow as it also works with the strategies of the recently adopted Town of Collingwood Full Cost Recovery Study. The key components of the study will be incorporated in a Financial Plan that is required to be submitted to the Province in 2010. The Ministry of the Environment and the government in general are continuing to implement changes with the water and wastewater sector. Collingwood Public Utilities has been strategically positioned to take advantage of the opportunities that will be available when the changes take place.

# Who We Are

**COLLINGWOOD UTILITY SERVICES IS A COMMUNITY OWNED UTILITY THAT PROVIDES RELIABLE ELECTRICITY, AND WATER SERVICES TO ITS CUSTOMERS.**

***Because we are community owned.......***

- ✓ We have more control over our prices and are able to invest locally to manage reliability
- ✓ We are proud to be actively involved in our community and support our community goals
- ✓ We are not only concerned, we are doing something about the environment
- ✓ We are able to offer the convenience of joint utility services
- ✓ Our Council and our Citizens are our Partners

# Who We Are

**Electrical Customer Class Breakdown-*Based on 2009 full-time equivalent basis***

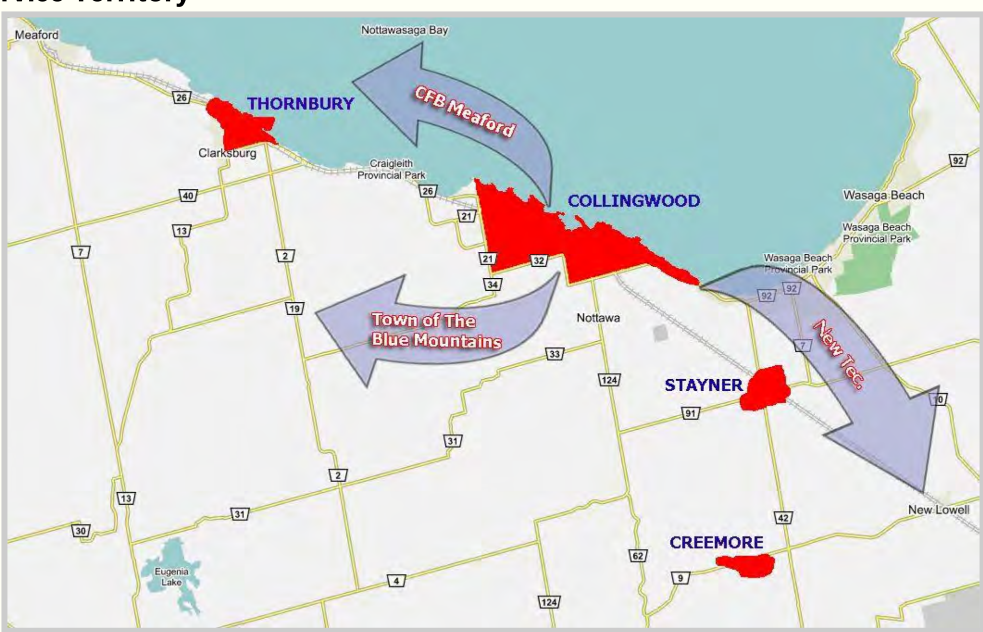
| | Collingwood | Thornbury | Stayner | Creemore | Total Customers |
|---|---|---|---|---|---|
| **Residential** | 9,830 | 1,260 | 1,700 | 555 | 13,345 |
| **< 50 kW** | 1,200 | 210 | 210 | 90 | 1,710 |
| **> 50 kW** | 90 | 15 | 10 | 5 | 120 |
| **Total Customers** | **11,120** | **1,485** | **1,920** | **650** | **15,175** |

**Water Customer Class Breakdown-*Based on 2009 full-time equivalent basis***

| | Collingwood |
|---|---|
| **Residential** | 8400 |
| **General Service** | 750 |
| **Total Water Customers** | **9,150*** |

**** 30 Bulk metered Residential Multi-Units Approximately 1,200 Customers***

**Service Territory**

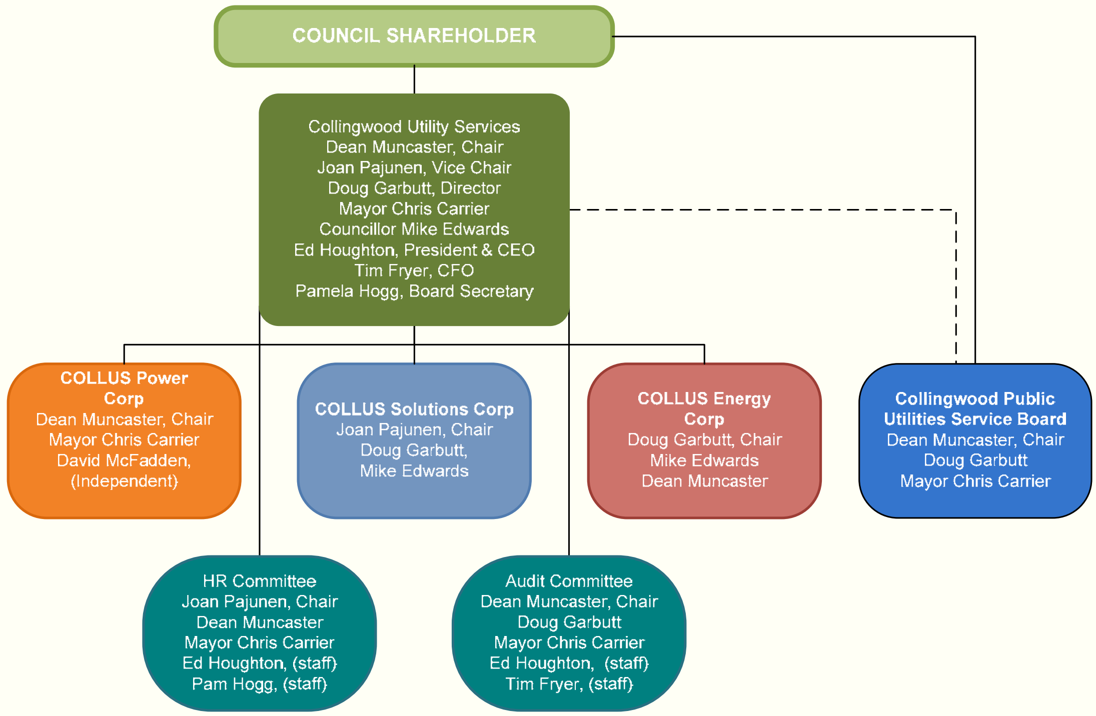



**Contract Services**

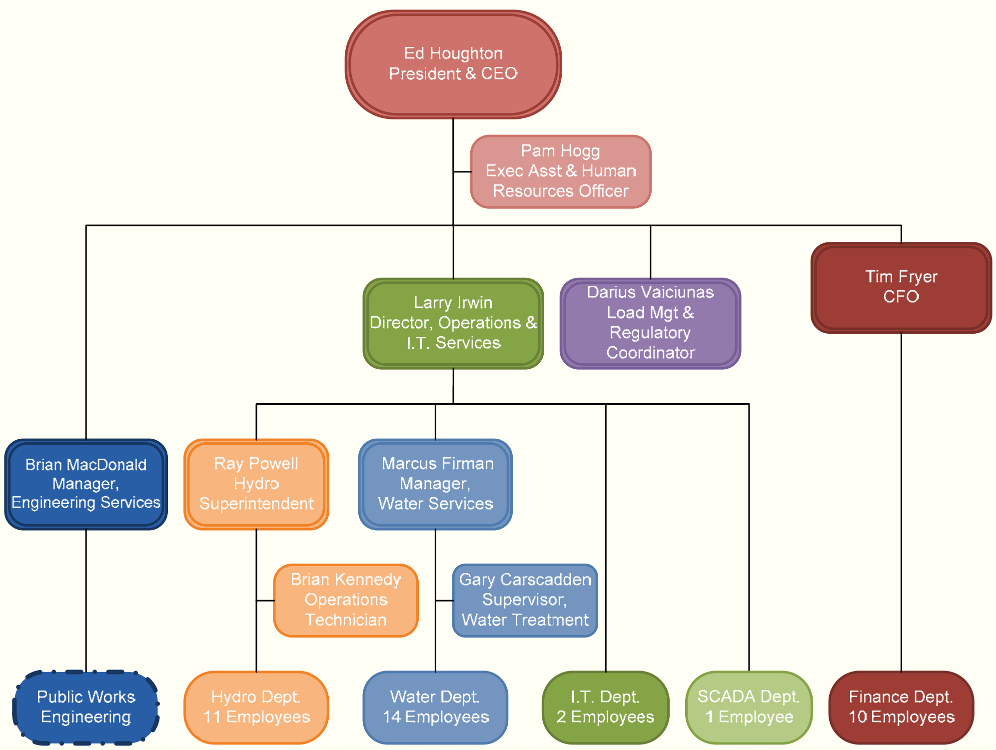
- New Tecumseth - Supply of Water to 66 Km Regional Pipeline
- CFB Meaford - Operation of Water & Wastewater Facilities
- Town of the Blue Mountains - Supply of Water
- Devils Glen Country Club - Operation of Water Treatment Plant
- Home Water Filtration Units - Sale and Installation of Units

# Who We Are

## Organizational Structure




## Employee Structure Overview



# Who We Are

## Board of Directors

The Board of Directors is responsible for providing the overall strategic direction and is accountable for the results of the Corporations. The Board oversees the conduct of management which is responsible for the day-to-day operation of the businesses and ensures its success through the delivery of agreed upon goals and objectives developed in a shared view with management on key issues such as vision, mission, goals, objectives, business definition and tactics. The Board has an obligation to ensure that the corporations operate in a transparent and accountable manner. Consistent with the strategy and vision, the Board accepts this responsibility with a commitment to our customers and our shareholder.

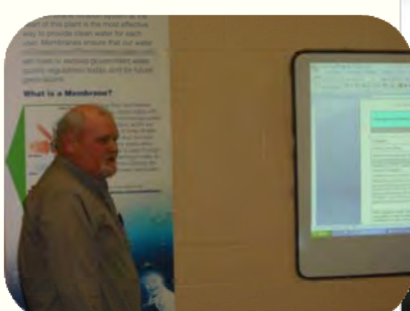
## Board Committees

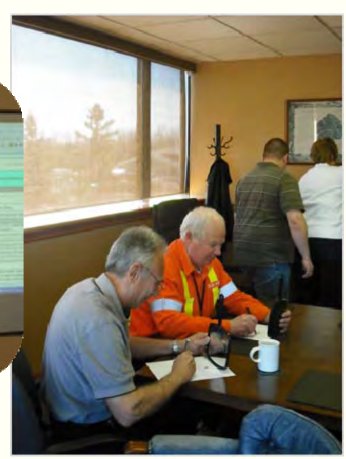
### Audit Committee

The Audit Committee is responsible to help the Board meet its fundamental responsibilities of protecting the Corporations assets and managing the operations as efficiently as possible; review the adequacy of the Corporations system of internal controls; increase the credibility and objectivity of the utility's financial report; review the activities, organizational structure and qualifications of the internal audit function; review the independent auditor's proposed audit scope and approach; conduct a post-audit review of the financial statements and audit finding, including any significant suggestions for improvements provided to management by the independent auditors. In addition, the Audit Committee performs other oversight functions as requested by the Board.

### Human Resources Committee

The Human Resource Committee objective is to contribute to the ongoing success of the Corporation through the provision of actionable recommendations surrounding acquisition, assessment, development, management, retention, reward and/or consequences of the human capital of the company. And, to contribute to the long term success of the company by ensuring sufficient attention is paid to avenues of approach in succession planning. It is the responsibility of the committee to deliver accurate and timely information and direction to the board related to the human aspect of the company through researching internal and external resources and applying information of a cohesive plan. And, by ensuring recommendations are realistic, appropriate and ready for a cost benefit analysis.





# Who We Are

### Board of Directors


Doug Garbutt, Dean Muncaster, Joan Pajunen, David McFadden, Chris Carrier, Mike Edwards

### Management Team

# Overview of our Business Plan & Annual Report

As with previous years, the 2008 Annual Report & 2009—2011 Business Plan is a combined Business Plan and Annual Report covering the activities of both our electricity and water businesses. Once again, as suggested by Council and for ease of comparison, our report takes on a similar image of our previous years.

Collingwood Utility Services and its employees have built a reputation in both the water and electricity industry for being forward thinking and fiscally responsible in the pursuit of success for their various business activities. We trust that you will take pride in your review of our report as we have in its preparation. We believe that this report is concise and transparent and is an understandable document expressing a three-year direction for our business activities.

The electricity and water services in Collingwood have been delivered on the basis of a "shared service model" designed to maximize efficiencies between all utility services and bring the greatest value to the customer. This business plan builds on the successes realized to-date and offers directions that are consistent with the Municipality's expectations and our goal to be recognized as a leading provider of electricity and water services both Provincially and Nationally.

This document contains information pertinent to our 2008 annual reporting requirements and a detailed business plan spanning the years 2009 through 2011.

The Business Plan focuses on both electricity and water. The following name references will be used throughout the plan;

- **Collingwood Utility Services** - referring to both electricity and water
- **COLLUS Power** - referring to electricity only
- **Collingwood Public Utilities** - referring to water only

**Governance & Ownership**

**Collingwood Utility Services Corp.** is comprised of five directors with Council being articulated in the Electricity Act as the single shareholder. The Board is made up of the Mayor, a Councillor and three other Council appointed Directors. Members of the Board, make up two Committees, an Audit Committee and a HR Committee.

**COLLUS Power** is comprised of three directors, one being the Mayor and the two other directors are appointed by Council. One of the directors must be totally independent of any affiliate.

**Collingwood Public Utilities** is municipally owned and governed by a Municipal Services Board that from time to time when required reports to Council. The Board is comprised of three Directors, one being the Mayor with the other two appointed by Council. Existing municipal by-laws provide some strategic direction, outlines executive limitations and reporting requirements. Reporting of Board business to Council is done by Staff presentations at Council Meetings, issue updates via email from the President and CEO, and through His Worship Mayor Carrier as our Council Representative.

# A Track Record of Success...At A Glance

## DEDICATED TO BUILDING BETTER COMMUNITY SERVICE

### Customer Service & Corporate Management

- ✓ Implemented cost-savings through an integrated single customer information system, and accrual accounting between COLLUS Power and Collingwood Public Utilities.
- ✓ Implemented customer focused billing standards resulting in improved accuracy, reduced estimations, increased payment options and a single customer point of contact.
- ✓ Implemented cost-savings through an integrated corporate management and customer service structure between COLLUS Power and Collingwood Public Utilities.
- ✓ The 2004 Water and Wastewater rate study was revisited in 2009 and completed and accepted by Council in 2010. The rate study is based on true cost billing in accordance with current Regulations.
- ✓ Hired a Customer Service Representative to enhance customer needs such as coordinate appointments with customers, handle enquiries and complaints and organizing service locates.

### Corporate Finance

- ✓ Debt Repayment - Goal continues to be to reduce debt to equity ratio annually.
- ✓ Combined water sales and services outside the municipal boundaries provide a total revenue in excess of $1.0 M annually.
- ✓ Dividends and in-kind services to the municipality / shareholder in excess of $800,000 annually.
- ✓ Continued affiliation with other utilities through the Cornerstone Hydro Electric Concepts Association (CHEC) has provided financial benefits through shared cost savings.
- ✓ Utilities Collaborative Services cooperative association for new Customer Information System for further cost savings.

### Operations Management

- ✓ The Water Treatment Plant has been registered to ISO 14001 Environmental Management Standard since 2005 and once again successfully passed the surveillance audit. This accreditation exceeds provincial regulation requirements and shows Collingwood Public Utilities commitment to the Environment.
- ✓ In 2009 the environmental management system was integrated with a quality management system in order to comply with the new Regulation. The new Drinking Water Quality Management System was integrated in June 2009 and an application for accreditation was made. We will be audited in 2010.
- ✓ As part of the DWQMS a detailed risk assessment of all process in the drinking water system was completed and critical control points recognized in the system. These critical control points required standard operating procedures and Critical control limits to be established.
- ✓ We continue with an aggressive leak detection and water loss reduction program - there were 13 water main breaks in 2009, almost half of which were as a result of contractor error. This is three times better than the provincial average. In addition the unaccounted water loss was approximately 10% which meets the MOE's best practice goal.
- ✓ A low Flush Toilet rebate program was launched in 2009 with over 178 successful applicants. As a result over 4000$m^3$ of potable water was conserved. This equates to a Green House Gas emissions reduction of 1.3 tones. It is intended to continue with this program.

# Our Vision, Mission & Values

### VISION - WHERE WE WANT TO GO

Together, we will grow, maximize opportunities and exceed customers' expectations.

### MISSION—WHO WE ARE

Our business provides people with the energy for success, and with the necessities of life.

### VALUES - HOW WE ACT

We value the entrepreneurial spirit to responsibly and decisively challenge the conventional.

**Trust -** ***Building & Maintaining Customer Confidence***
- ✓ We value a work environment based on public accountability, customer satisfaction, respect and giving back to the community.
- ✓ When problems arise, they are dealt with quickly, professionally and courteously.
- ✓ Citizens recognize our community relationship and responsiveness as key values of local ownership.
- ✓ We operate in an environment of openness and transparency while protecting our customers' confidentiality.

**Responsibility -** ***Committed to Service Quality, Reliability & Conservation***
- ✓ We value prudent and responsible financial management.
- ✓ We value a high standard of environmental excellence.
- ✓ We value superior health and safety standards and practices.
- ✓ We value our obligation to protect our customers and staff by exceeding the highest standards of training for our employees.

**Sustainability -** ***Environmental, Economic, Social & Cultural***
- ✓ We value sustainable community planning.
- ✓ We value the gold standard of environmental excellence
- ✓ We value the four pillars of sustainability; environmental, Economic, Social & Cultural
- ✓ We value a sustainable Regional approach

**People -** ***Strong Relationships & Pride Make a Difference***
- ✓ We value our employees as our most important asset and celebrate their accomplishments.
- ✓ We listen, and we respond in the best manner we can.
- ✓ We treat people with dignity, fairness and respect.
- ✓ We value individual and organizational accountability.
- ✓ We value timely, effective, honest, and open communication throughout the organization, with our stakeholders.

**Partnerships & Collaboration -** ***Leveraging & Sharing Resources***
- ✓ We value integrated solutions that eliminate duplication and improve efficiency and effectiveness
- ✓ We value peer and industry partnerships and the opportunity to improve cost and service levels in our community and the communities we serve.

**Continuous Improvement -** ***Business Processes & Technology That Delivers Results***
- ✓ We embrace the opportunity of legislative & regulatory reform and the need to stay "one step ahead."
- ✓ We strive to remain at the leading edge of technology.

# Direction

## DIRECTION

The Strategic Direction for Collingwood Utility Services begins and ends with our stakeholders.

The customers benefit from quality water and electric services and value local representation.

### CUSTOMER BENEFIT

**Customers will benefit from quality utility services because:**

Customer expectations are satisfied.

- ✓ Overall customer satisfaction will be among the highest in the Province
- ✓ Our rates for core services are deemed to be fair and sustainable and seen as such by our customers.
- ✓ Customers will be very satisfied with service responsiveness and dependability
- ✓ Respond to unplanned electric outages within 30 minutes on an annual basis.
- ✓ Respond to unplanned water interruptions within 30 minutes on an annual basis.

Hydro and Water services are safe.

- ✓ Safety is never compromised.

### CUSTOMER VALUE

**Customers value local ownership because Collingwood Utility Services:**

- ✓ Collingwood Utility Services is supportive of community needs and values.
- ✓ Collingwood Utility Services recognizes the customers concern for the environment.
- ✓ Collingwood Utility Services is concerned about the financial impact of our rates to our customers.
- ✓ Local control of customer rates was a key reason for retaining a local presence and ownership.
- ✓ Customers benefit from accessible and accountable local decision-making.

# Corporate Goals

### Goals, Core Values & Performance Measures

The following corporate goals are designed to put into action and achieve the desired outcomes anticipated in the vision and value statements. By design, the corporate goals are limited in number, practical, manageable, and highly focused in relation to the activities of the corporation. A specific measure and associated values are presented in conjunction with each relevant goal statement.

1. **To Provide Safe, High Quality Of Water And Electricty Services To All Our Customers.**

   **Core Values:**
   - Trust-Building & Maintaining Customer Confidence, Committed to Service Quality, Reliability & Conservation

   **Performance Measure:**
   - Safety, Quality of Service, Legislative & Regulatory Compliance

2. **To maintain a sound financial position while striving to meet the financial expectations of the Municipality by communicating business outcomes to the owner.**

   **Core Values:**
   - Committed to Service Quality, Safety, Reliability & Environmental Conservation

   **Performance Measure:**
   - Financial & Risk Management

3. **To build and strengthen customer relationships.**

   **Core Values:**
   - Trust-Building & Maintaining Customer Confidence, Committed to Service Quality, Reliability & Environmental Conservation, Openness and Transparency, and Confidentiality

   **Performance Measure:**
   - Quality of Service

4. **To pursue new entrepreneurial opportunities both locally and regionally which benefit our customers and provide value to the business and municipality/ shareholder.**

   **Core Values:**
   - Partnerships & Collaboration, Leveraging and Sharing Resources, Continuous Improvement, Business Process & Technologies That Delivers Results

   **Performance Measure:**
   - Develop & Maintain Strategic Partnerships To Minimize Costs, Pursue Entrepreneurial Opportunities.

# Corporate Goals

5. **TO BUILD AND MAINTAIN A SUSTAINABLE WATER AND ELECTRICITY SYSTEM BASED ON A STRONG ASSET MANAGEMENT PROGRAM.**

   **Core Values:**
   - Trust-Building & Maintaining Customer Confidence, Committed to Service Quality, Safety, Reliability & Environmental Conservation.

   **Performance Measure:**
   - Financial & Risk Management, Legislative & Regulatory Compliance

6. **TO SEEK AND ENCOURAGE EFFICIENT AND EFFECTIVE IMPROVEMENTS BY SUPPORTING INTEGRATED BUSINESS SOLUTIONS WHEREVER APPROPRIATE AND PRACTICAL.**

   **Core Values:**
   - Partnership & Collaboration, Leveraging and Sharing Resources.

   **Performance Measure:**
   - Develop & Maintain Strategic Partnerships To Minimize Costs

7. **TO BE AN "EMPLOYER OF CHOICE" WHERE EMPLOYEES ARE PROUD TO WORK AND OTHERS WANT TO WORK.**

   **Core Values:**
   - People-Strong Relationships & Pride Make A Difference, Health and Safety Standards and Practices, Business Processes & Technology That Delivers Results

   **Performance Measure:**
   - Employee & Labour Relations, Employee Retention

8. **TO BE RECOGNIZED AS A LEADER IN ENVIRONMENTAL STEWARDSHIP.**

   **Core Values:**
   - Committed to Service Quality, Reliability & Environmental Conservation

   **Performance Measure:**
   - Environmental, Consistency with Shareholder's Sustainable Community Plan

9. **TO PROMOTE CONSERVATION AND THE WISE USE OF WATER AND ELECTRICTY RESOURCES.**

   **Core Values:**
   - Committed to Service Quality, Reliability & Environmental Conservation

   **Performance Measure:**
   - Financial & Risk Management, Consistency with Shareholder's Sustainable Community Plan

# Corporate Goals

**10. TO IDENTIFY AND BUILD STRONG COMMUNITY RELATIONSHIPS.**

**Core Values:**
- Trust-Building & Maintaining Customer Confidence

**Performance Measure:**
- Develop & Maintain Strategic Partnerships, Local Community Involvement

**11. TO ENCOURAGE AND SUPPORT LOCAL ECONOMIC DEVELOPMENT.**

**Core Values:**
- Trust-Building & Maintaining Customer Confidence, Committed to Service Quality, Reliability & Environmental Conservation, Partnerships & Collaboration, Leveraging and Sharing Services

**Performance Measure:**
- Develop & Maintain Strategic Partnerships, Legislative & Regulatory Compliance, Pursue Entrepreneurial Opportunities to Increase Efficiencies

**12. TO PROMOTE AND ENCOURAGE THE ADVANCEMENT OF TECHNOLOGY AND INNOVATION CONTRIBUTING TO THE SYNERGIES BETWEEN OUR PUBLIC UTILITIES SERVICES (WATER & ELECTRICITY).**

**Core Values:**
- Continuous Improvement, Business Process & Technologies That Deliver, Safety and Reliability

**Performance Measure:**
- Develop & Maintain Strategic Partnerships To Minimize Costs

**The Board and Management Staff held a strategic planning session and established four major strategies for supporting Collus's goals and future direction.**

1. Collus Power will investigate becoming a full energy company using Epcor as a model upon which to improve and innovate its business model—a total utility concept and an energy Entity.

2. Collus Power will partner with its Shareholder and others to expand renewable energy.

3. Collus Power will investigate boundaries and opportunities in order to maximize its service delivery.

4. Collus Power will, in conjunction with the municipality become a Beta Model Lab for the development of innovations in sustainable solutions.

# Industry Trends

**TRENDS** | **COLLINGWOOD PUBLIC UTILITIES ACTIVITIES**

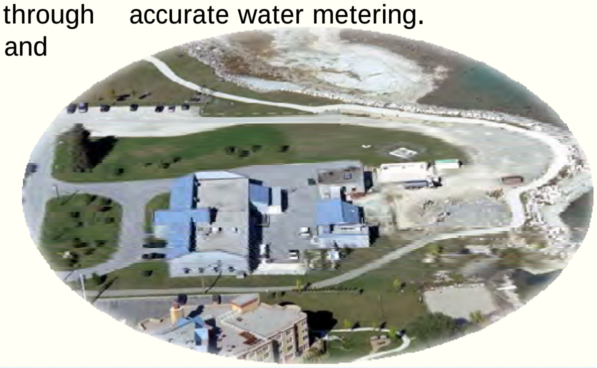
## Maintaining Public Confidence

In 2009 there was a media blitz through numerous documentaries on basic water issues such as, conservation, commoditizing water, the exporting of water, abusing the environment etc. The result of this is to heighten concern over all things environmental. As mentioned in the 2009 report the areas of concern include green house gas emissions, global warming, falling lake levels as well as concern over various contaminants such as lead and pharmaceuticals and personal care products in water to name just a few. Collingwood Public Utilities ensures that our point of view is well represented in the development of new regulations pertaining to these issues by participating in various Boards and Government committees and panels. As a result of this involvement, Collingwood Public Utilities has developed a reputation as a leader in water and environmental issues in the industry and is perceived by the public as a steward of the environment.

Collingwood Public Utilities believe that through a policy of public openness and transparency have developed a high level of Public confidence. This has been confirmed through the results of a customer satisfaction survey undertaken in Spring 2010. It is Collingwood Public Utilities' goal to maintain this confidence through continued improvement and openness. In the Spring of 2010 a water Newsletter was included in the billing and it is hoped that these will become a regular publication. In addition to this newsletter Collingwood Public Utilities continue to provide the public with information on water quality and regulated issues through Public information books, the internet and Radio and Television broadcasts.

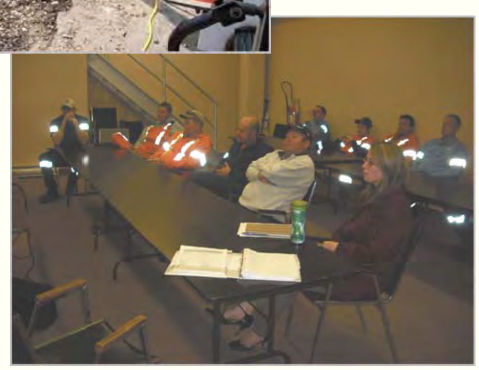
One area that has peaked the public interest is water conservation and in this regard Collingwood Public Utilities launched a low flush toilet rebate program. This was well received and will be continued until interest starts to diminish as 13 litre toilets become a thing of the past. As a longer term project Collingwood Public Utilities intends to partner with COLLUS Power in an education program that is being offered to Grade school students on green energy and water conservation. Collingwood Public Utilities believes that this grass roots project will result in long term benefits to the environment.

Another issue that is coming more and more to the forefront is the possibility of time of use water metering. This will be similar to the current smart meter program mandated by the government for electricity. However, in order to employ this type of billing it will require a complete change out of water meters from the present metre reads to litre reads. In addition to take advantage of producing water in off peak energy slots it is necessary to have a large percentage of spare production capacity at the treatment plant, this will only be available if the plant is expanded. Nonetheless, Collingwood Public Utilities believe that the use of litre reading meters enhances conservation as efforts to reduce water use can be easily seen. In this vein Collingwood Public Utilities intend to run a pilot study using state of the art water meters in an effort to determine both the tangible and intangible benefits of more accurate water metering.



# Industry Trends

| **TRENDS** | **COLLINGWOOD PUBLIC UTILITIES ACTIVITIES** |
|---|---|
| **Aging Water Infrastructure** | |
| Collingwood Public Utilities having completed a complete asset inventory in 2004 and continue to review the status of the water infrastructure annually as part of our Management System management review. Currently the water main break ratio is less than 50% of the Provincial average and our unaccounted water loss meets MOE best practices. These statistics are indicative of a sound infrastructure. As a result Collingwood Public Utilities will continue to enhance the water distribution system by upgrading and replacing assets as required. | Related projects for 2010 include:<br>✓ Some membrane replacement and the purchase and refurbishment of a high lift distribution pump at the water treatment plant.<br>✓ Replacement of old residential meters and calibration and refurbishment of one third of the larger commercial water meters.<br>✓ Upgrading old 100mm dia. Cast Iron water mains on Robinson and George Streets as part of the Town Sewer replacement project.<br>✓ Construction of a new 300mm dia. water main to close the loop between Silver Creek and Forest Drive. |



# Industry Trends

| **TRENDS** | **COLLUS POWER ACTIVITIES** |
|---|---|
| **Evolving Electricity Industry** | |
| The passing of the Green Energy and Green Economy Act in 2009 has had a significant impact on the industry and will continue to change the way Distribution Utilities will need to focus their efforts for years to come.<br><br>The Act has resulted in updates to the Distribution System Code as well as the Retail Settlement Code, both of which are key documents governing the operations of an LDC. | Key areas affected by the new legislation are:<br><br>Increased Focus on Distributed Generation through the implementation of the Feed In Tariff program.<br><br>Conservation Targets set Provincially by way of Regulation to the OEB and further by way of a Condition of Licence for the Local Distribution Companies. |
| **Smart Grid** | |
| The foundation of a Smart Grid come from two primary building blocks.<br><br>1. The installation of Smart Meters and the related systems.<br>2. A reliable Transmission and Distribution infrastructure which can accommodate the needs of both consumers and generators. | COLLUS Power recently completed an extensive overhaul of the Supervisory Control and Data Acquisition (SCADA) system. With more and more reliance on the distribution system and the need to incorporate the "smarts" for the Smart Grid, COLLUS needed to ensure that the data centre which provides operational control of the Distribution infrastructure was both robust and secure from external attacks. The new server-based platform has allowed for additional security enhancements to the system. |
| **Smart Metering Systems** | |
| The "Smart Metering" plan initiated by the Government requires the replacement of every electricity meter across the province by the end of 2010.<br><br> | By the end of 2009, COLLUS Power staff had installed over 13,000 smart meters across our service territory. Total installations of smart meters across the COLLUS territory are now over 15,000 and covers over 98% of our total meter deployment.<br><br>Staff have been actively involved in establishing the communications infrastructure and testing the integrity of any data flowing through the system. Proper system tuning is key to facilitating the use of the new metering technology in preparation to migration to the Meter Data Management Repository. |

# Industry Trends

**TRENDS** | **COLLUS POWER ACTIVITIES**

## Distributed Generation

In October of 2009, the Ontario Power Authority launched the Feed In Tariff program which provides 20 year contracts to purchase power from Renewable Generation Facilities across the province.

By the end of 2009, the OPA had over 8,000 applications from small (<10kW) generators, and over 1,300 applications from larger facilities.

The response has been compared to a "gold rush" of Solar PV systems ranging from standalone facilities which are pole mounted in a field to roof-top installations on residential homes everywhere.

COLLUS staff have been very much involved with the OPA in the development of the settlements and technical guidelines which needed to be clearly established in order to accommodate this unprecedented level of generation connections.

COLLUS Power has been an active supporter of Distributed Generation, and will continue with their active participation as a leader in the industry.

COLLUS Power Staff has and will continue working with the Ontario Power Authority as they update their power purchase plans for Distributed Renewable energy to help ensure a streamlined process that not only is profitable for the generator, but also protects the interests of all Ontario consumers.

## Transmission & Distribution Systems

COLLUS Power has made significant investments in the distribution system particularly over the last few years. Most significant were the recent completion of the upgrade to the Municipal Substation (MS5) and the construction of a new substation at the corner of 6th Street and Stewart Road.

A major upgrade to the Transmission facilities feeding the Stayner Transformer Station was completed in 2009. The project reflected a significant investment of over $40,000,000 by Hydro One in our area and was the culmination of system planning which began in the early 1990's. This project will provide us with security of supply for at least the next 12 years.

# Our Business Direction - Water

### Legislative / Regulatory

- ✓ The Watertight Report provides recommendations to implement the findings of Justice O'Connor's Walkerton report. Of the 51 recommendations made in the report. Collingwood Public Utilities have stated to the Minister their objection to only one: the proposal to establish a new Ontario Water Board. Collingwood Public Utilities believes this will compound costs and add another layer of bureaucracy to the present system. This proposal has resurfaced as Bill 13 the Sustainable Sewage and Water System Improvement Act. Although there are many points contained in this Act that Collingwood Public Utilities agrees with, the act still proposes the establishment of an Ontario Water Board and again Collingwood Public Utilities have stated to the Minister their objection to this measure.
- ✓ Continue to monitor the implementation of the proposed Clean Water Act will do three things:
  It will direct local communities to look at any activity that could threaten water quality and take action to reduce or remove that threat; It will empower local authorities to take preventative measures to reduce the risk that an activity may interfere with a water supply and; It will require that the whole community participates in finding workable, effective solutions through full and open public consultation. As a result of this Act Collingwood Public Utilities has recognized Source Water Protection as a significant environmental aspect in our ISO 14001 EMS prior to the Clean Water Act requiring any action.
- ✓ Collingwood Public Utilities is an active member of the Annex Advisory Panel that provides input to the various ministries both provincial and federal on issues pertaining to the sustainability of the Great Lakes and regulations governing the intra and inter basin transfer of water between water sheds.

### Rate Study, Asset Management and Financial Plan

- ✓ The 2004 comprehensive water and wastewater rate study was revisited in 2009, and the new report accepted by Council in 2010. This report is a living document that leads the way to sustainability for water and wastewater rates over the next ten years. However, as a living document, rates can be adjusted on a yearly basis depending on circumstances, and will be approved by Council as part of the Fees and Service Charge Bylaw.

- ✓ The water system is now graphically represented on Collingwood Public Utilities' GIS system. This system is continually upgraded and not only provides an accurate graphical representation of the system but also provides the ability to build upon data bases to monitor maintenance of the system, such as hydrant flushing and valve maintenance. In addition the data is also being used to determine asset replacement based on age and condition of the asset.
- ✓ As a requirement of receiving a Drinking Water License a Financial Plan must be developed and submitted to the MOE and MOHMA for review and acceptance. This plan utilizes the rate study report and will be finalized and submitted to Council for acceptance in 2010.

# Our Business Direction - Water

### Status of Labour Agreement

- ✓ Third year of three year agreement - September 1, 2007 to August 31, 2010

### To Provide Service for the Least Possible Cost

- ✓ Shared resources model in Place for CEO, IT, HR, Finance, customer care and administration services
- ✓ Further cost savings to the Town of Collingwood; we provide I.T. Public Works Management Services and Managerial assistance and expertise to the Environmental Services department.

### Finance / Customer Charges

- ✓ Full cost recovery requirements are determined and then funded through customer charges. No subsidization is required from the Town of Collingwood's tax revenue.

### Integrated Management System (DWQMS / ISO14001)

- ✓ Collingwood Public Utilities' water treatment plant has been registered ISO 14001 since 2005. The Environmental Management System has now been integrated with the regulated requirements of the Drinking Water Quality Management System to cover the Collingwood Drinking Water System. The Collingwood Drinking Water System is defined as everything related to potable water from the intake to the curb stop at property line.
- ✓ The Management System manual addresses the primary function of Collingwood Public Utilities, which is to produce and distribute safe drinking water that meets applicable legislative and regulatory requirements and provide for the continual improvement of the Management System. The system is also designed to include all reasonable precautions for safeguarding the health and safety of Collingwood Public Utilities employees and to protect the environment within the concept of sustainable development.
- ✓ The Management System is designed to ensure Collingwood Public Utilities achieves its goals of accreditation under the Safe Drinking Water Act 2002 (SDWA) and conformance to the Ontario Health & Safety Act, both as amended from time to time and certification status within ISO 14001:2004.
- ✓ Both the Environmental and Quality Management Systems are subject to annual independent auditing.


# Our Business Direction - Water

### The Environment and Conservation

- ✓ As stated in previous business plans Collingwood Public Utilities and the Town are members of the Great Lakes and St Lawrence Cities Initiative and have volunteered to take part in a Water Conservation Framework. The goal of this program is to reduce water consumption levels by 15% by 2015. This goal has been exceeded since 2008 and it is Collingwood Public Utilities goal to maintain progress in its conservation program. Currently as reported in the annual framework report, residential use has been reduced by some 24.6% since 2000. Current residential usage is only 174 litres per capita per day as compared to a Canadian average of 320 litres per capita per day.

- ✓ The low flush replacement toilet program was launched in 2009 and will be continued in 2010. The resultant annual water savings was approximately 4000 $m^3$ which represents a reduction in green house gas emission of approximately 1.3 tonnes.

- ✓ Leak Detection: Collingwood Public Utilities undertakes an annual leak detection survey to limit undetected water losses. Unaccounted losses over the last two years have been either below or equal to MOE best practice of 10%.

- ✓ In partnership with COLLUS Power, Collingwood Public Utilities fund a green energy and water conservation education program that will be presented to local schools.

### Other Programs

- ✓ Collingwood Public Utilities continues to undertake regular hydrant and dead end flushing to maintain the high quality of potable water as well as ensure fire protection capabilities.

### Commercial Initiatives

- ✓ Sale of water to New Tecumseth Improvement Society (Alliston)
- ✓ Sale of water to Town of the Blue Mountains
- ✓ Operation of water and wastewater treatment plants at Land Forces Training Centre; Canadian Forces Base, Meaford
- ✓ Operation of Devil's Glen Country Club Water Treatment Plant
- ✓ International Training Centre for Zenon Ultrafiltration Technology
- ✓ Sales and Installation of Home Filtration Units.

# Our Business Direction - Electricity

The Business Planning process for the COLLUS Power must recognize all the key influences from the business environment that it functions within. Management's assessment of these key factors is set out below.

### Legislative / Regulatory

- ✓ As a Licenced Local Distribution Company, COLLUS Power Corp answers to several entities which govern our activities:
  - The Government of Ontario
  - The Ontario Energy Board
  - The Independent Electricity System Operator
  - The Ontario Power Authority
  - The Electric Safety Association

- ✓ The staff at COLLUS Power are committed to meet every requirement placed upon us in a timely fashion, and to avoid any non-compliance notices. Our staff will continue to monitor the changes through ongoing participation in work groups, task forces, and corporate affiliations.
- ✓ COLLUS Power Corp customers in the towns of Collingwood, Creemore, Stayner, and Thornbury depend on a safe and reliable supply of electrical energy. Through the ongoing dedication to high quality service and attention to the various codes, regulations, and legislative documents, COLLUS Power staff remain committed to deliver on the expectations of our customers and our shareholder.

### Status of Labour Agreement

- ✓ Third year of three year agreement - September 1, 2007 to August 31, 2010

### To Provide Service for the Least Possible Cost

- ✓ Shared Resources Model in Place for CEO, IT, HR, Finance, Customer Care and Administration Services
- ✓ Further cost savings to the Town of Collingwood; we provide I.T. ,and Public Works Management Services

### Finance / Customer Charges

- ✓ COLLUS Power follows Regulatory Accounting Processes and Generally Accepted Accounting Practices to record their financial performance
- ✓ COLLUS Power's customer charges are regulated by the Ontario Energy Board as are all Electric Utilities in the Province.

# Our Business Direction - Electricity

## Conservation and Demand Management (CDM)

Throughout 2009, COLLUS Power has actively promoted and delivered conservation programs to our customer base. Conservation is the key to affordable power for our customers given the industry trend of rising costs under the current Government policies driving the electricity industry.

### Small Business Direct Install Program

Early in 2009 COLLUS launched a new program targeted at the Small Commercial (<50kW) customer base. This program provided free lighting and water heating upgrades up to $1,000 per facility. Recognizing the fact that small business is a key driver to the economy, the Ontario Power Authority designed the program in a way to help as many small businesses to participate as possible.

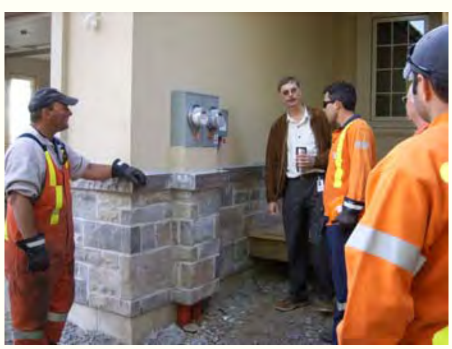
By the end of 2009, contractors had completed over 390 retrofits representing an investment of over $345,000 worth of incentives.

These customers not only saved on the cost of the retrofit, but will continue to save on their energy bills for years to come. The program will help their "bottom line" and surely help these small businesses continue to thrive in the Towns they service.

### Education and Awareness

Advancing the importance of understanding conservation to customers in all market sectors and in turn facilitating the programs empowering customers to adopt energy saving opportunities requires significant effort and consistent marketing. Common messages and approaches have and will continue to be utilized to achieve greatest possible penetration.

It is also important that our internal staff have a good understanding of the technologies such as "Smart Metering" and "Distributed Generation" and how they will impact our customers. COLLUS has held training sessions on both these technologies for our internal staff including basic overview of systems as well as on-site review of installed systems in the field



# Our Business Direction - Electricity

## Conservation and Demand Management *cont'd*

### RENEWABLE ENERGY TECHNOLOGIES

Distributed Generation and Renewable technologies are a key component to the Green Energy and Green Economy Act passed by the Provincial Government in 2009. COLLUS understands the important role we play in helping to educate our customers on what is involved in setting up these technologies and connecting to the Grid. With the increased attention to Solar and Wind generation at a residential level, it is important that our customers understand proper connection and operation of the systems both for their return on investment and for the safety of the public and our staff.


The COLLUS Renewable Energy Trailer is a pivotal tool in providing our customers a hands-on overview of the systems and technology. The assembly of the trailer involved students from Collingwood Collegiate Institute under the expert guidance of the Science Department and staff from Excess Energy.

During the fall and early winter of 2009, COLLUS Power partnered with the staff at Elephant Thoughts to take the trailer into the schools across our service territory. The trailer was an integral part of a complete half-day curriculum on electricity and renewable energy technologies. The program was so well received by the local schools, COLLUS will be re-visiting the schools once again in the spring/summer of 2010.

### PARTNERSHIPS / SPONSORSHIPS

As with our partnership with Elephant Thoughts, COLLUS understands that in order to achieve the greatest return for the investment in conservation efforts, it is best to partner with individuals, organizations, and retail outlets to avoid duplication of delivery channels. COLLUS Power will continue to work with local retail outlets, and organizations such as the Environment Network, to promote and deliver conservation products and services.

# Market Energy Prices - Electricity

2009 Marked was likely one of the most significant years since the market opened in 2002 in terms of market pricing. In 2005 the Government introduced a new component to the market pricing structure called the Global Adjustment (known as the Provincial Benefit on consumers power bills). The intent of the Global Adjustment was to provide a method of balancing the difference between the market prices for electricity and the fixed contract prices established with many generators in the province. As the years progressed, the GA became the conduit for collecting the required funds for the conservation programs driven by the Ontario Power Authority. Beginning in April of 2009, the GA rate surpassed the actual Market Rate and has remained either higher or almost on par ever since.

| Year | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|
| Average | 5.90 | 5.67 | 5.19 | 6.57 | 5.08 | 5.48 | 5.72 | 6.01 |
| Jan | | 6.23 | 6.95 | 5.97 | 4.26 | 5.64 | 4.66 | 6.69 |
| Feb | | 8.86 | 5.43 | 5.04 | 4.55 | 6.78 | 6.35 | 5.38 |
| Mar | | 8.48 | 5.02 | 6.09 | 5.21 | 5.13 | 6.18 | 4.01 |
| Apr | | 6.16 | 4.73 | 6.35 | 4.94 | 4.75 | 5.28 | 4.98 |
| May | | 4.51 | 5.05 | 5.46 | 5.61 | 4.57 | 4.16 | 6.89 |
| Jun | 3.71 | 4.53 | 4.94 | 7.11 | 5.12 | 5.78 | 8.47 | 5.27 |
| Jul | 6.20 | 4.27 | 4.78 | 7.60 | 5.63 | 5.33 | 6.20 | 5.51 |
| Aug | 6.94 | 5.15 | 4.55 | 8.27 | 5.90 | 6.35 | 5.35 | 7.17 |
| Sep | 8.31 | 5.05 | 5.13 | 8.27 | 3.58 | 4.78 | 6.01 | 5.57 |
| Oct | 5.09 | 5.90 | 5.04 | 6.02 | 5.47 | 5.62 | 5.00 | 7.16 |
| Nov | 5.12 | 4.19 | 5.38 | 4.52 | 6.12 | 5.18 | 6.14 | 6.06 |
| Dec | 5.93 | 4.68 | 5.28 | 8.14 | 4.56 | 5.81 | 4.87 | 7.40 |

The difficulty facing consumers is the fact that when the GA was introduced, although it became part of the Regulated Price Plan, it was not included as a charge to the Retailers and as such was added to all invoices issued to consumers that had signed Retailer contracts resulting in significant increases to the invoices paid by consumers having moved from the Regulated Price Plan rates set by the Ontario Energy Board.

# Our Customers Give Us An 'A'

A 2010 survey of our customers showed that customers remain consistently clear about what is foundationally important to them, namely: provide consistent reliable energy, quickly and professionally handle outages, accurately bill, and deliver on promises made to customers. For 2010, respondents Agree strongly that Collingwood Utility Services is an organization that can be trusted and is worthy of respect. In addition, they also Agree strongly that the utility is actively involved in the industry, in the community and in things that affect the customer.

| Attributes of a Utilities Image | | | |
|---|---|---|---|
| Agree 'strongly' + 'somewhat' | Collus | Ontario | National |
| Is a respected company in the community | 87% | 84% | 87% |
| Maintains high standards of business ethics | 86% | 80% | 84% |
| Deals professionally with customers' problems | 86% | 82% | 85% |
| Takes steps to reduce the impact of its operations on the environment | 81% | 76% | 80% |
| Provides consistent reliable energy | 88% | 88% | 91% |
| Customer focused and treats customers as if they're valued | 83% | 77% | 79% |
| Influential in the electric utility industry | 81% | 82% | 86% |
| Provides good vale for your money | 73% | 69% | 74% |
| A leader in promoting energy conservation | 81% | 78% | 82% |
| Works with customers to keep their energy costs affordable | 72% | 68% | 81% |
| Delivers on its service commitments to customers | 86% | 85% | 87% |
| Accurate billing and meter reading | 86% | 83% | 86% |
| Quickly handles outages | 84% | 87% | 89% |
| Keeps customers informed | 83% | 79% | 80% |
| Tries to keep electricity rates reasonable | 72% | 64% | 69% |
| Makes using electricity safely a top priority | 90% | 87% | 89% |
| Can be counted on to keep its promises to customers and the community | 83% | 79% | 81% |
| Treats customers in a fair and equitable manner | 87% | 79% | 82% |
| Can be counted on to tell the truth | 83% | 74% | 77% |
| Considered a fair and equitable employer | 85% | 82% | 87% |
| Beyond providing jobs and paying taxes, is socially responsible | 84% | 77% | 81% |
| Uses responsible business practices | 87% | 83% | 86% |
| Influential in local business community | 84% | 78% | 82% |
| Is trusted and trustworthy | 87% | 80% | 83% |

COLLUS Power partnered with a number of similar sized Municipally owned Electric Utilities from across the Province to perform a survey of our customers. The survey was a way to gather important feedback from our customers on our performance. The company we selected also performs both an Ontario and a National survey of Electric Utilities and as such was able to compare the results across the three segments.

# Our Business Direction - Key Examples

### Building the Sustainable Communities of Tomorrow

In 2008, we partnered with our Electricity Distributors Association to help define and promote a long-term vision for the role of electricity distributors in Ontario's sustainable communities of tomorrow. A primary contributor to achieving this environmentally sustainable goal will be through the smart use of electricity.

In bringing this collective vision forward, COLLUS Power will focus its efforts and will dedicate significant financial capital towards our existing electricity delivery system. As per the directive of the Minister of Energy and Infrastructure, COLLUS Power will be in a position to have all of our residential customers ready for Time of Use Rates by summer of 2011.

We will embrace new technologies that will advance our opportunities to become more sustainable and to drive innovation . We will where possible enable clean and renewable energy, distributed generation, effective conservation and demand management and offer greater customer choice.


By expanding our vision and partnering with our municipality and industrial and residential stakeholders we will help create the sustainable community of tomorrow.

### Human Resources

Collingwood Utility Services has a team of dedicated, highly skilled and passionate employees that are proud to provide excellence and high quality service to the citizens of Collingwood, Thornbury, Stayner and Creemore.

Human Resources serves and supports all Departments of Collingwood Utility Services and ensures that Human Resources issues are identified and addressed. Strategic advice is provided to the President & CEO, members of the Senior Management Team and the Board of Directors relative to organizational change and human resources matters.

Collingwood Utility Services is known for its service excellence, which is the direct result of exceptional corporate leadership and direction, the performance of individual employees, teams and the total organization. We strive to generate and provide a positive, productive work and learning environment. In 2009 a Employee Relations Committee was formed with representatives from each department as well as Management representatives. In 2010 an employee survey will be undertaken to give all employees a chance to provide feedback on a variety of issues. The survey will assist us in measuring our progress and help us to identify any areas of concern which will in turn make us that much stronger.

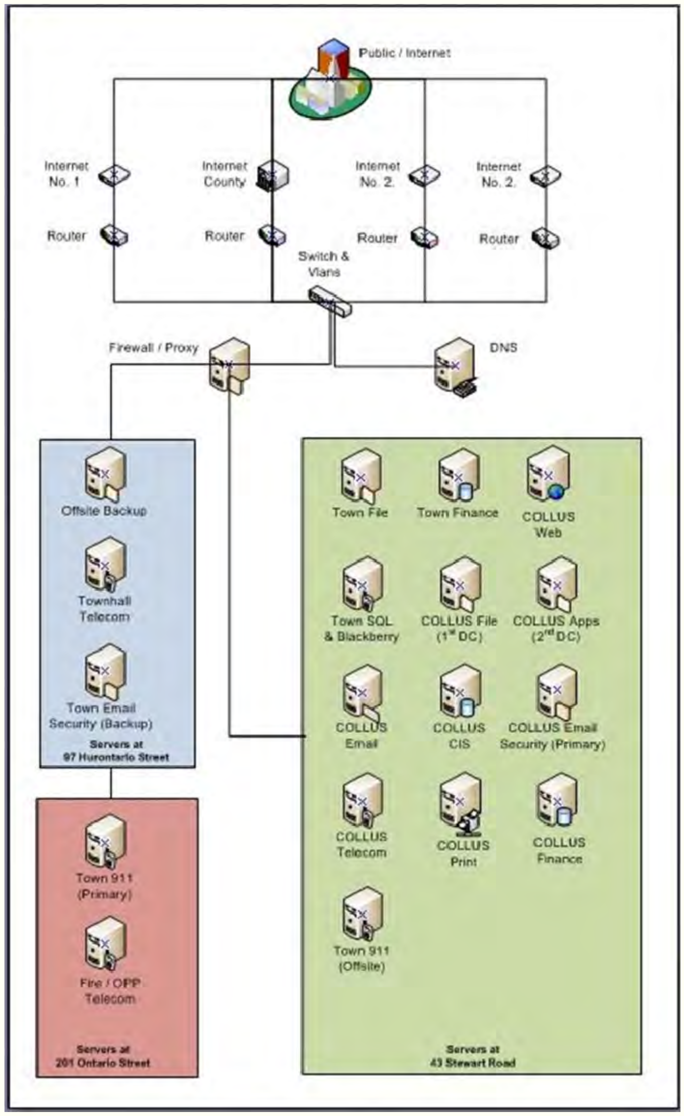
On an ongoing basis, Collingwood Utility Services continues to be committed to a safe and healthy workplace, the enhancement of communications, and labour/management relations, and the ideal of lifelong learning for staff.  Ultimately, these efforts are intended to better serve our customers.

# Our Business Direction - Key Examples

### Information Technology (IT)

Our unique partnership with the Town of Collingwood where we provide shared technology infrastructure and staffing has continued to work well for all parties. This partnership has grown to the point where we are now currently supporting a total of:

198 network users
16 network servers
172 workstations
7 facilities




In 2009 we increased our internet bandwidth once again to meet the demands of the billing system, increased website traffic, and to accommodate the extra load from new users. We also put a new firewall and router in place that is capable of properly connecting all of our internal and external networks. It will load balance our internet connections to help ensure reliability. We also began construction of a new web-site which will allow for easy up-dates by staff and will provide excellent information to our customers such as near real time outage information and outage maps.

In 2009 our GIS expanded as well. We purchased an enterprise level GIS server platform which allows for our unlimited users to edit the GIS data. This system has enabled much efficiency such as directly inputting locates as they are happening. We added 6 rugged mobile computers to our vehicles, for a total of 7. These mobile units allow our em-ployees to have full access to all of the hydro and water infrastructure mapping while out in the field. This saves many trips to the office and eliminates the need for costly and cumbersome map books.

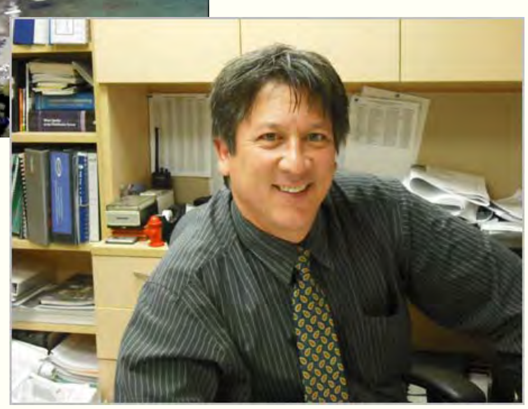
In 2009 we will continue enhancing all of our systems while balancing costs and other require-ments (end-user & legislated) while trying to stay ahead of complex security requirements such as continually evolving spam and viruses, noncompliance risks and the vulnerability of our data to interception and tampering.

# Water Forecasting & Infrastructure Needs

## System Demand and Delivery Capability

Although Collingwood's residential usage is one of the lowest in the Province at 174 litres per capita per day production capacity at the Raymond A. Barker Water Treatment Plant is still critical. In 2009 the maximum day demand 28.561 ML was 92% of the Plant's production capability of 31.14ML/d. However, of the 28.561Ml, 13.5Ml were bulk water sales: 9.5Ml to New Tecumseth and 4 Ml to the Town of Blue Mountain. This means that the projections for Collingwood appear to be tracking extremely well with the figures in the original plant EA. This established that the original plant capacity of 27.355Ml would be capable of supplying Collingwood for approximately 20 years. This year the plant is 12 years old or 60% of its life capacity; this compares to 55% of capacity of water used just for Collingwood. From these figures it can be seen that the plant expansion is required to service bulk water sales only. It is hoped that at some time in the near future an agreement can be made with the Province and New Tecumseth to fund the expansion. In hope of this Collingwood Public Utilities have completed the design of the plant expansion and a Certificate of Approval has been issued. This ensures that the project is truly shovel ready should funding be made available. The expansion will increase the plant capacity to 47.17Ml thus recovering approximately 30ML for Collingwood 13.5Ml for New Tecumseth and 4ML for Town of Blue Mountains.

The proposed design of the expanded plant whilst providing 47.17 Ml of capacity is capable, with only the addition of membranes, of producing up to 60 ML/d before other major works are required, namely the expansion of the contact chamber and conversation of the last two ZW500 membrane process trains to ZW1000 process trains. At which time the plant would be capable of producing approximately 90ML/d. In light of this it can be seen that the facility at Sunset point is capable of meeting Collingwood's needs for many years.



# Our Financial Plan

Our Business Plan incorporates the 2010 financial budgets and the 2011-2012 budget forecasts for the corporations to produce a Financial Plan that aims to ensure that current and future business outcomes meet the goals of our Boards and Shareholder.

Our goals include but are not limited to:

- ✓Offering fair pricing while providing safe and reliable services;
- ✓Being responsible to community needs and values;
- ✓Being stewards of the environment; and
- ✓Remaining financially sound.

The Financial Plan provides the basis that will be used to monitor the business and financial progress of the corporations during 2010 and beyond.

Business Drivers of the 2010 Plan and Budget Forecast are:

- Upward rate pressure to our customers due to increased cost to provide our products and services, as an offset we continue to promote conservation initiatives by governmental agencies.
- The need to provide customers with mechanisms to better control their utility costs and still maintain the integrity of our financial projections.
- Continuing to meet changing regulatory requirements while emphasizing the need to meet or exceed our customer expectations.
- Monitor and maintain the infrastructure as required to assure a high level of safety, reliability and service to our customers.
- Consider financial planning options to ensure maximum flexibility that allows the corporations to make key decisions on an as needed basis once risks and benefits have been measured.
- Increase Shareholder Value

The following pages provide a summary of key financial information that includes historic and forecasted data.

# Our Financial Plan - 2010 Budget Summary

## COLLINGWOOD PUBLIC UTILITIES

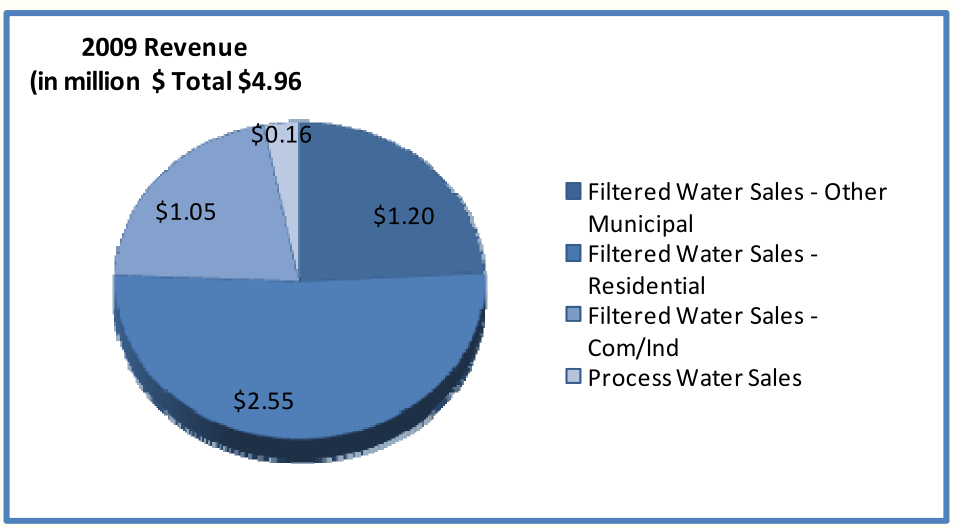
| FINANCIAL FORECAST (in million $) | 2008 Actual | 2009 Actual | 2010 Budget | 2011 Forecast | 2012 Forecast |
|---|---|---|---|---|---|
| Total Water Service Revenue | $5.996 | $5.806 | $6.138 | $6.479 | $6.837 |
| Total Operating Expenditures | 3.921 | 4.187 | 4.396 | 4.537 | 4.678 |
| Net Income before Interest and Amortization | 2.075 | 1.619 | 1.742 | 1.942 | 2.159 |
| Interest Expense | .375 | .264 | .255 | .266 | .330 |
| Amortization of Capital Assets | 1.077 | 1.1.50 | 1.200 | 1.200 | 1.200 |
| Total Financial Expense | 1.452 | 1.414 | 1.455 | 1.466 | 1.530 |
| Net Income | .623 | .205 | .287 | .476 | .629 |
| Earned Surplus - beginning of year | 10.481 | 11.138 | 11.377 | 11.697 | 12.207 |
| Amortization of Contributed Surplus | .034 | .034 | .033 | .034 | .034 |
| Earned Surplus - end of period | 11.138 | 11.377 | 11.697 | 12.207 | 12.870 |
| Capital Expenditures* | 1.123 | 1.409 | 1.446 | 1.469 | 3.469 |

**  Information presented in historical reporting format. Not PSAB compliant.*
** The 2010 Capital Budget is provided in Appendix A*

### WATER SERVICE REVENUE

As indicated in the above Financial Forecast Chart, these are the source of funds to be used in performing the year to year business operations. The Financial Forecast outlines the historical data in total and forecasts the years 2010-2012. In 2008 the rental water heater business was sold to Reliance Home Comfort for a net result of approximately $400,000.

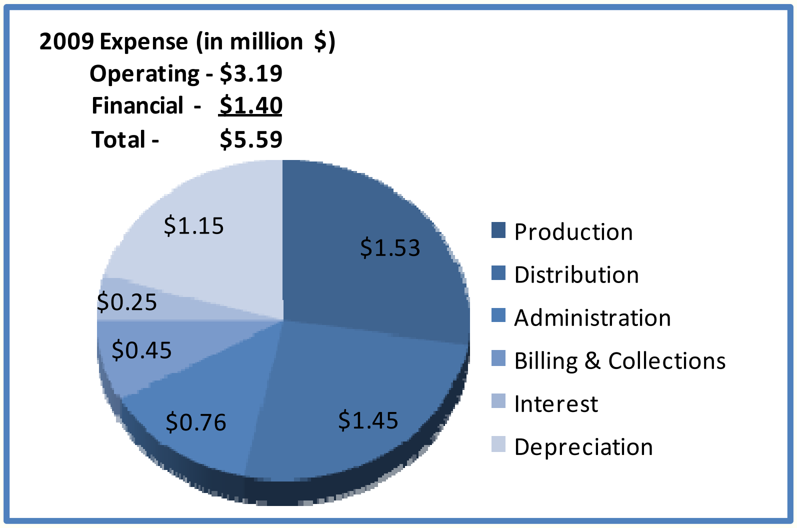
The chart below indicates the components and their contributions to Water Service Revenue in 2009.



# Our Financial Plan - Expenditures

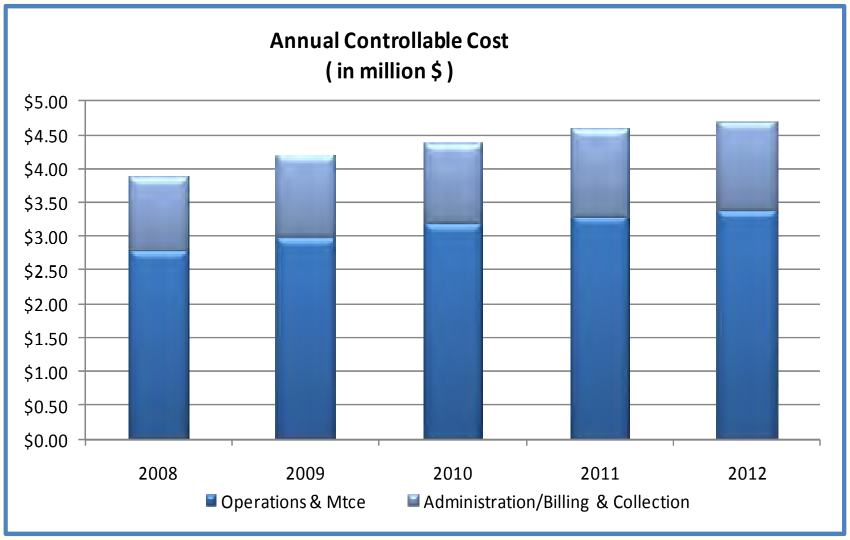
### Collingwood Public Utilities

### Total Expenditures




The chart above provides a breakdown of the category of expenditure and the portions of total operating and financial expense that were required in 2009.

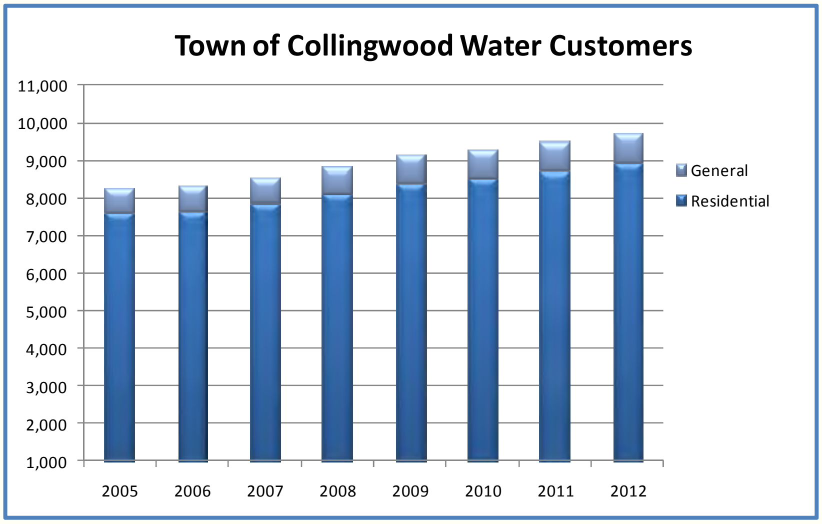
The chart below provides a detailed outline of the actual operating expenditures for 2008 and 2009 that are directly controllable (it does not include interest or depreciation expense). It also forecasts the expected expenditure in 2010 - 2012. Controllable costs are expected to increase due to inflationary pressure and as a result of new regulation that puts upward pressure on operation and maintenance expense.




As indicated above, annual operation and maintenance expense is over 70% of total controllable costs.

# Our Financial Plan - Customer Statistics

**COLLINGWOOD PUBLIC UTILITIES**

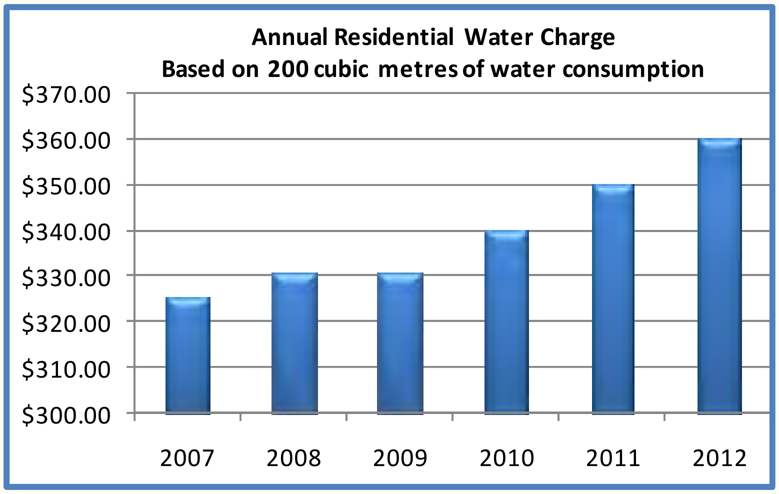



*Notes: The chart above does not include the 30 Bulk Metered Multi-Units—1,200 Customers. Conservative customer growth estimates used for financial planning purposes*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| Residential | 7,600 | 7,650 | 7,850 | 8,100 | 8,400 | 8,540 | 8,730 | 8,920 |
| General | 640 | 670 | 680 | 730 | 750 | 760 | 770 | 780 |
| Total | 8,240 | 8,320 | 8,530 | 8,830 | 9,150 | 9,310 | 9,500 | 9,700 |

Customer growth is expected to continue as indicated in the chart above. The current Full Cost Recovery Plan considers the impact of the Ontario Ministry of the Environment's Bill 175. The Full Cost Recovery Plan indicates that annual rate increases are required to cover estimated inflationary impacts (2.5% per year) and the requirement to build up reserves. The Full Cost Recovery Plan went through an extensive review and was updated in early 2010.

The Chart below indicates the past, the current and the forecasted average annual residential charge for water.



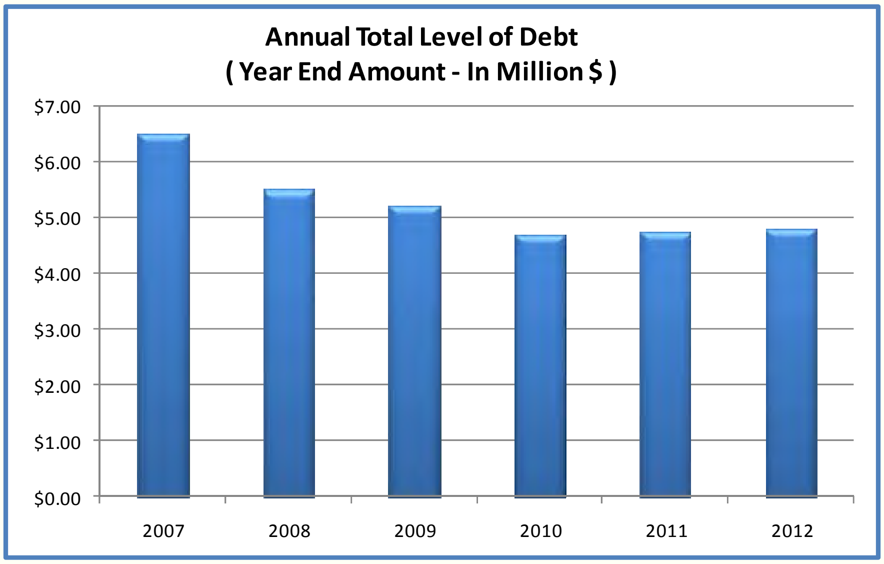
# Our Financial Plan - Debt

## Collingwood Public Utilities

### Financing Activities

The chart below indicates the historical and projected debt service and includes existing and proposed debenture requirements. Long-term financing supports current and projected capital requirements. A component of the recent Full Cost Recovery Study was an extensive review of the existing water infrastructure and future water infrastructure needs. The debt chart includes the expected impacts, identified in the Full Cost Recovery Study, incorporated in our Financial Plan.

As a Municipal Service Board any debt undertaken directly impacts on our Shareholder's borrowing limit. As previously noted, our Financial Plan will continue to attempt to reduce long-term debt. This will ensure that there is long-term financing options available for both ourselves and our Shareholder when considering future key investment decisions.




### Full Cost Recovery Planning

For the past 4 years financial planning has been based on the Full Cost Recovery Study results. This is a critically important tool that will continue to be used extensively. In 2009 the study was updated with the most current financial and statistical information available. The report incorporates a plan for the accumulation of a Lifecycle Reserve to be used in the future for replacement of assets. The results will continue to be incorporated into the financial plan. The financial plan will meet the criteria of the Ministry of the Environment in regards to the information that is required to be filed in 2010 and annually thereafter.

# Our Financial Plan - 2010 Budget Summary

### COLLUS POWER

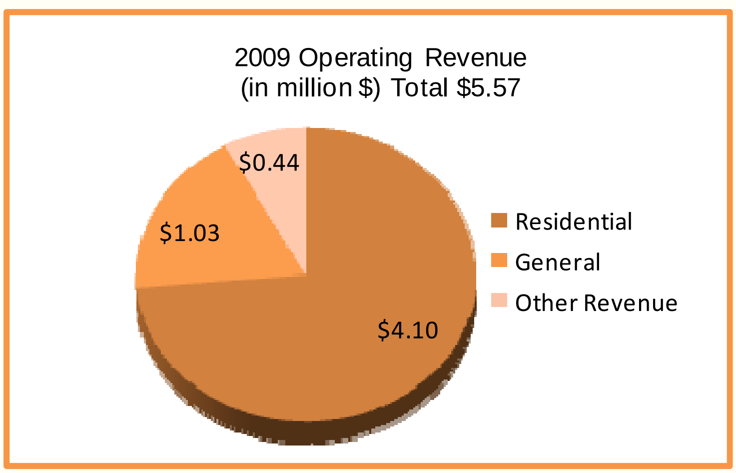
| **Financial Forecast (in million $)** | **2008 Actual** | **2009 Actual** | **2010 Budget** | **2011 Forecast** | **2012 Forecast** |
|---|---|---|---|---|---|
| Total Operating Revenue | $5.057 | $5.569 | $5.990 | $6.210 | $6.270 |
| Total Operating Expenditures | 3.586 | 3.869 | 3.914 | 4.019 | 4.155 |
| Net Income before Interest and Amortization | 1.471 | 1.700 | 2.076 | 2.191 | 2.115 |
| Interest Expense | .247 | .179 | .209 | .249 | .249 |
| Amortization of Capital Assets | .854 | 1.004 | .950 | .950 | .950 |
| Total Financial Expense | 1.101 | 1.183 | 1.159 | 1.199 | 1.199 |
| Net Income before taxes | .370 | .517 | .917 | .992 | .916 |
| Income & Capital Tax Expense | .090 | .68 | .244 | .278 | .202 |
| Net Income | .280 | .449 | .672 | .714 | .714 |
| Earned Surplus - beginning of year | 1.587 | 1.867 | 2.316 | 2.988 | 3.702 |
| Earned Surplus - end of period | 1.867 | 2.316 | 2.988 | 3.702 | 4.416 |
| Capital Expenditures*-*not including smart meters* | 1.969 | 3.563 | 2.585 | 1.520 | 3.225 |

** The 2010 Capital Budget is provided in Appendix B*

### OPERATING REVENUE

The charts on this page are provided to show the 2010 Budget Summary Information and detail the breakdown of our source of funds (Operating Revenue). In addition to providing historic and forecasted data in the Summary, further comment should be made in regard to the budgeted Total Operating Revenue. For 2008 the impact of the closure of Alcoa Wheel Products, our largest customer, resulted in a substantial variance in net income. As noted above, it increased in 2009.

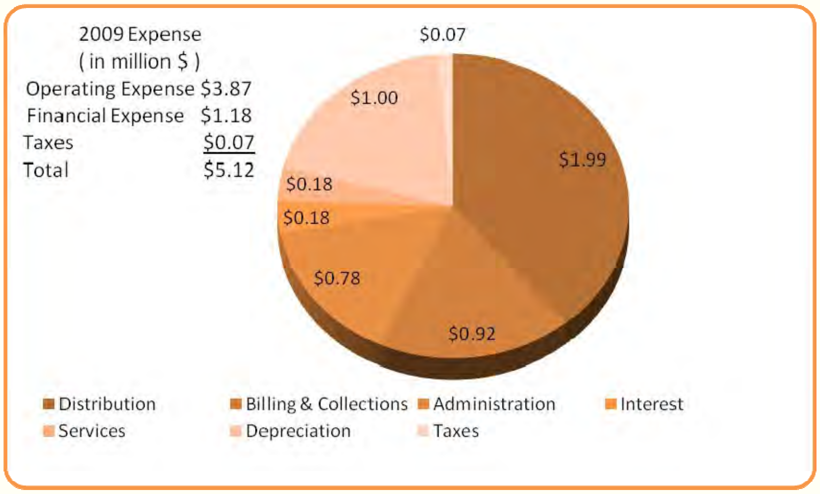
The Summary also provides information on Capital Expenditures, incurred and forecasted. 2008 - 2009 reflect investment requirements in the municipal distribution sub-station infrastructure. Decisions have been made regarding investment into our infrastructure to ensure system reliability and ensure we maintain our ability to properly service all customers.



# Our Financial Plan - Expenditures

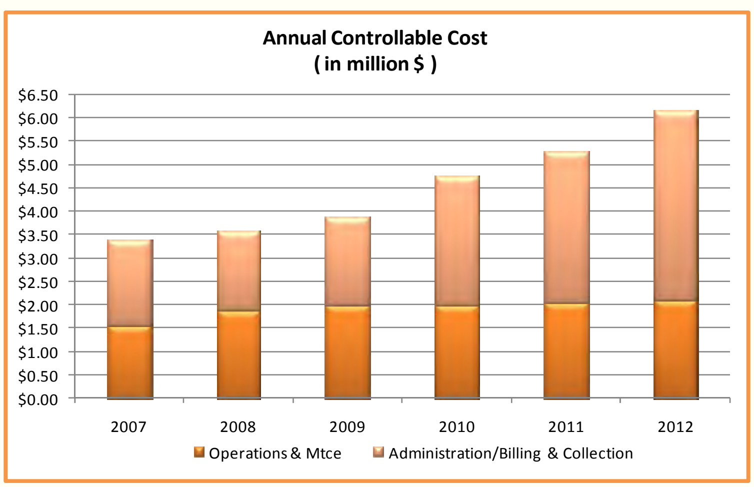
## COLLUS Power

### Total Expenditures




The chart above provides a breakdown of the components and their expense requirement during business operations in 2009. Operating Expenses (Distribution, Billing & Collections, Administration and Services) reflects 75% of the total 2009 expenditure. Distribution expense is incurred in the operation and maintenance of the infrastructure. The majority of our spending in 2009 was to ensure that the integrity of the infrastructure was maintained and that our customer service needs were met.

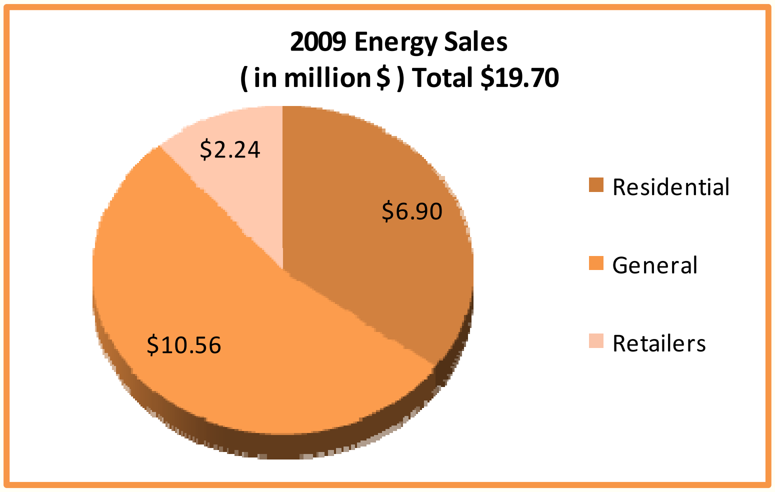
The chart below is an additional breakdown of the Operating Expense component of Total Expense also described as Controllable Cost. COLLUS Power continues to have one of the lowest Controllable Cost per customer ratios in Ontario. Comparisons to other municipal electric utilities are done regularly in performance appraisals. Although there have been major changes enacted by the Province to create a competitive environment in the electricity marketplace, electric utilities still realize the benefits of comparative analysis. Also, the Ontario Energy Board requires regular reports that include information on performance. Controllable Cost will continue to be one of the major factors that we use for comparison with our peer utilities.



# Our Financial Plan - Customer Statistics

## COLLUS Power

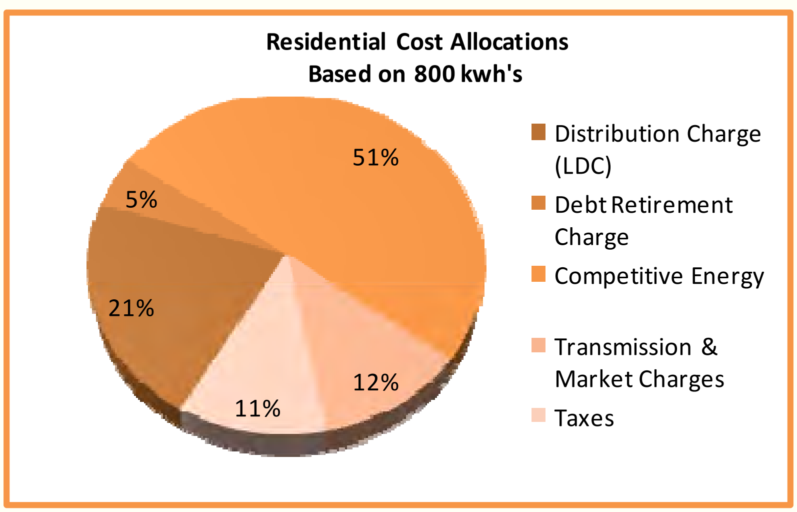
### Total Energy




The chart above indicates the proportion of energy sales to the various customer classes for 2009. As indicated in the chart we continue to have a strong Commercial and Industrial (General and Large User) sales base.

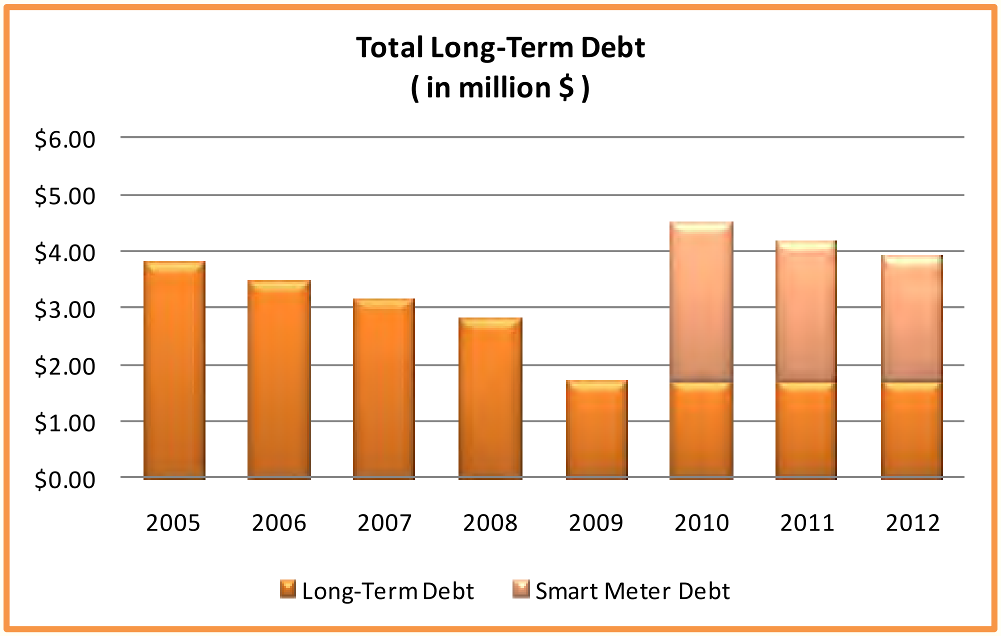
The chart below provides a breakdown of the components of the cost of energy for a Residential customer. Only 24 cents of every dollar of an average residential customer's bill goes toward the operation of COLLUS Power's facilities. COLLUS Power's rates continue to rank below the mean average in the Province, helping to maintain a competitive advantage over other municipalities.

### Energy Cost Allocation



# Our Financial Plan - Debt

## COLLUS Power




The chart above indicates the long-term financing obligations of COLLUS Power. Included in the annual amount is a $1.7 Million promissory note held on behalf of COLLUS Power by our Shareholder. Currently COLLUS Power makes interest payments to the Town of Collingwood of 7.25% per annum on the promissory note. In 2010 debt will be added due to investment in Provincially required Smart Meter Projects. This debt is fully recoverable in amended rates.

During capital budget planning, our Board and Management ensure that required infrastructure investment needs are met. The current long-term debt position of COLLUS Power will allow all options to be considered in meeting future capital investment requirements , such as the Province's "Smart Meter" initiative.

Collus Power continues to plan towards meeting the Provincial requirement for all electricity customers to have new hydro meter technology by 2011. Installation of the meters was completed in 2009. Communication infrastructure and processes will be implemented in 2010. The meter technology and new "time-of-use" rates, planned to be in place in 2011, will allow customers to use their consumption history as a basis to make adjustments to change their usage patterns to garner cost reductions.

# Our Financial Plan - Shareholder

### COLLUS Power And Collingwood Public Utilities

The Financial Plan outlined on the previous pages provides detailed information of the historic, budgeted and forecasted business operations of the corporations. While setting our corporate goals we equally consider the needs of our customers and the benefit we provide to our Shareholder. The financial information that has been presented provides the detail of the growth in value of their investment. The chart below is an indication of some of the measurable direct benefits.

### Town Of Collingwood Payments Received From The Corporations

| Company | Description | 2008 Actual | 2009 Actual | 2010 Projected |
|---|---|---|---|---|
| COLLUS Power | Interest on Promissory Note | $124,000 | $124,000 | $124,000 |
| Public Utilities | Operations Center Rental | $195,000 | $200,000 | $200,000 |
| Public Utilities | New Tecumseth | $95,000 | $95,000 | $95,000 |
| COLLUS Solutions | In-kind Services | $265,000 | $280,000 | $290,000 |
| Public Utilities | In-kind Services | $35,000 | $38,000 | $40,000 |
| Public Utilities | Sewer Administration | $86,000 | $88,000 | $90,000 |
| COLLUS & Public Utilities | In-kind Community Services | $37,000 | $40,000 | $40,000 |
| | Total Cash | $414,000 | $419,000 | $419,000 |
| | Total In-kind Services | $423,000 | $446,000 | $460,000 |
| | **Total Cash & In-kind** | **$837,000** | **$865,000** | **$879,000** |
| Public Utilities | Extraordinary Events—Library | $350,000 | | |
| COLLUS Power | Extraordinary Events—South End | $410,000 | | |
| | | **$1,597,000** | | |

The dynamics of our industry are such that our projections are being done on an annual basis.

# Appendix A

Capital Budget Analysis

Financial Analysis

Statistical Data

2010 Schedule of Fees & Charges

2009 Financial Statements

**Collingwood Public Utilities Capital Budget** **APPENDIX A**

| PROJECT # | DESCRIPTION | 2010 BUDGETED | 2011 PROJECTED | 2012 PROJECTED |
|---|---|---|---|---|
| | | | | |
| **WATER MAIN BOOSTER STATION:** | | | | |
| 11011 | Town Line Booster Upgrade Project | **$ 5,000** | $ - | $ - |
| **WATERMAIN VALVE COORDINATION:** | | | | |
| 11020 | Valve addition & replacement projects | **$ 30,000** | **$ 30,000** | **$ 30,000** |
| **FILTRATION PLANT PROJECTS:** | | | | |
| 11023 | Membrane and (1) High lift replacement | **$ 220,000** | **$ 500,000** | **$ 500,000** |
| 11022 | Filtration Plant Upgrade Supervision | *$ 900,000* | *$ 300,000* | *$ 300,000* |
| 11024 | Filtration Plant Expansion Construction Work | *$ 18,000,000* | *$ 4,000,000* | *$ 4,000,000* |
| **WATER CONSERVATION PROGRAM:** | | | | |
| 11025 | Water Conservation Tools & Equipment | **$ 12,000** | **$ 12,000** | **$ 12,000** |
| **WATER METER COORDINATION:** | | | | |
| 11040 | Water Meters Additions and Upgrades | **$ 100,000** | **$ 100,000** | **$ 100,000** |
| **WATER HEATER COORDINATION:** | | | | |
| 11042 | Water Heater Additions and Upgrades | **$ -** | **$ -** | **$ -** |
| **RESERVOIR PROJECTS:** | | | | |
| 11044 | Stewart Road Reservoir Project | | | **$ 2,000,000** |
| **WATERMAIN COORDINATION:** | | | | |
| 11045 | Small Watermain Extension Projects | **$ 250,000** | **$ 250,000** | **$ 250,000** |
| **WATERMAIN PROJECTS:** | | | | |
| 11047 | Osler Bluff Road Project | **$ 500,000** | | |
| 11048 | Bob Davey Reservoir landscape upgrading | **$ 20,000** | | |
| **WATER HYDRANT COORDINATION:** | | | | |
| 11050 | Hydrant Additions and Upgrades | **$ 15,000** | **$ 15,000** | **$ 15,000** |
| **OTHER PROJECTS:** | | | | |
| 11055 | Full Cost Recovery Expansion Project | **$ -** | **$ -** | **$ -** |
| **TOOLS AND EQUIPMENT:** | | | | |
| 11070 | Large Tools & Equipment Purchases (Total Sections a to d) | **$ 45,000** | **$ 46,000** | **$ 46,000** |
| 11070b | 2008 Tools | $ 25,500 | $ 25,500 | $ 25,500 |
| 11070c | 2008-10 IT Department Tools | $ 16,500 | $ 17,500 | $ 17,500 |
| 11070d | Cellular & Two Way Radio | $ 3,000 | $ 3,000 | $ 3,000 |
| 11073 | 2007 radio SCADA | **$ -** | **$ -** | **$ -** |
| **CARMICHAEL RESERVOIR EQUIPMENT:** | | | | |
| 11075 | Carmichael Reservoir Equipment | | **$ 350,000** | **$ -** |
| **OPERATION CENTER UPGRADE PROJECT:** | | | | |
| 11080-07 | Service Centre Upgrades(incl. Design and Administration) | **$ 85,000** | **$ -** | **$ -** |
| 11081b | Access Control system | $ 50,000 | $ - | $ - |
| 11081c | New Quonset Building | $ 35,000 | | |
| **ROLLING STOCK COORDINATION:** | | | | |
| 11090 | Vehicle Purchases (Water Department) | **$ 40,000** | **$ 40,000** | **$ 40,000** |
| **WATER TOWER PROJECTS:** | | | | |
| 11104 | Elevated Tank Upgrade Project | | | **$ 350,000** |
| **WATER SERVICE PROJECTS:** | | | | |
| 11110 | Residential Services Installation | **$ 9,000** | **$ 9,000** | **$ 9,000** |
| 11120 | General Service Services Installation | **$ 3,000** | **$ 3,000** | **$ 3,000** |
| 11150 | Water Service Upgrade Projects | **$ 10,000** | **$ 10,000** | **$ 10,000** |
| **COMPUTER HARDWARE & SOFTWARE EQUIPMENT:** | | | | |
| 11172 | CPU Computer Equipment Purchases | **$ 37,000** | **$ 39,000** | **$ 39,000** |
| 11173 | CPU Admin Dept Software (Server & IFRS GP upgrades) | **$ 25,000** | **$ 25,000** | **$ 25,000** |
| 11174 | Computer software Workstations & Server | **$ 20,000** | **$ 20,000** | **$ 20,000** |
| 11175 | GIS Software & Equipment | **$ 20,000** | **$ 20,000** | **$ 20,000** |
| | **Gross Capital Project Spending** | **$ 20,346,000** | **$ 5,769,000** | **$ 7,769,000** |
| | Less Contributed Capital from Others (Non-bold amounts) | *$ (18,900,000)* | *$ (4,300,000)* | *$ (4,300,000)* |
| | (Development Charge Projects still included in Net Spending) | $ 505,000 | | $ 2,000,000 |
| | **Net Capital Spending Projected for the Year** | **$ 1,446,000** | **$ 1,469,000** | **$ 3,469,000** |

**LEGEND - Bold Amounts = Total GCPS: Underlined Bold are DC Reserve impact projects: Italicized Non-Bold are Developer FE Loading projects: Non-bold are further detail of Totals for that Project.**

**COLLINGWOOD PUBLIC UTILITIES**

**SUMMARY FINANCIAL ANALYSIS**

**2008 ACTUAL, 2009 ACTUAL, 2009 BUDGET, 2010 BUDGET and 2011-12 PROJECTIONS**

**APPENDIX A**

| | 2008 - (ACTUAL) | 2009* (ACTUAL) | 2009 (BUDGET) | 2010* (BUDGETED) | 2011* (PROJECTED) | 2012* (PROJECTED) |
|---|---|---|---|---|---|---|
| **Financial Data** | | | | | | |
| Service Revenue - Process Water Sales | $ 211,203 | $ 158,533 | $ 189,263 | $ 178,995 | $ 187,944 | $ 197,342 |
| Service Revenue - Filtered Water Sales | $ 3,627,958 | $ 3,599,090 | $ 3,839,326 | $ 3,905,309 | $ 4,163,575 | $ 4,433,753 |
| Service Revenue - New Tec. & Other Sales | $ 1,012,806 | $ 1,199,577 | $ 1,145,505 | $ 1,272,037 | $ 1,340,406 | $ 1,413,408 |
| Other Revenue | $ 826,329 | $ 848,765 | $ 792,600 | $ 782,500 | $ 787,500 | $ 792,500 |
| **Total Revenue** | **$ 5,678,296** | **$ 5,805,965** | **$ 5,966,694** | **$ 6,138,840** | **$ 6,479,425** | **$ 6,837,003** |
| Production Expense - Process Water | $ 101,021 | $ 95,215 | $ 130,000 | $ 108,000 | $ 122,000 | $ 130,000 |
| Production Expense - Filtered Water | $ 1,472,944 | $ 1,428,901 | $ 1,600,000 | $ 1,660,500 | $ 1,745,700 | $ 1,836,000 |
| Water Distribution Expense | $ 1,028,798 | $ 1,236,828 | $ 1,105,000 | $ 1,200,000 | $ 1,200,000 | $ 1,200,000 |
| Outside Municipal Works Exp (Meaford/Devils Glen/Hmsprg) | $ 209,976 | $ 215,077 | $ 192,000 | $ 190,000 | $ 190,000 | $ 190,000 |
| Management Expense | $ 160,765 | $ 183,883 | $ 174,720 | $ 180,000 | $ 187,200 | $ 195,000 |
| Accounting Expense | $ 149,976 | $ 158,327 | $ 161,200 | $ 180,000 | $ 187,200 | $ 195,000 |
| Billing Expense | $ 384,975 | $ 447,941 | $ 402,800 | $ 460,000 | $ 475,200 | $ 492,000 |
| Other Expenses (Municipal, Board & Mgmt Fee) | $ 408,500 | $ 420,000 | $ 405,000 | $ 417,000 | $ 430,000 | $ 440,000 |
| Financial - Interest Expense | $ 127,707 | $ 47,274 | $ 177,672 | $ 81,906 | $ 137,603 | $ 249,766 |
| Financial - Debenture (Interest) Payment | $ 247,847 | $ 217,080 | $ 217,080 | $ 174,683 | $ 128,932 | $ 80,298 |
| Amortization/Depreciation | $ 1,076,224 | $ 1,149,801 | $ 1,175,000 | $ 1,200,000 | $ 1,200,000 | $ 1,200,000 |
| **Total Expenses** | **$ 5,368,733** | **$ 5,600,327** | **$ 5,740,472** | **$ 5,852,089** | **$ 6,003,835** | **$ 6,208,064** |
| **Extraordinary Item** | **$ 313,931** | | | | | |
| **Net Income (Loss)** | **$ 623,494** | **$ 205,638** | **$ 226,222** | **$ 286,751** | **$ 475,590** | **$ 628,939** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Working Funds** | | | | | | |
| ***Working Funds Analysis:*** | | | | | | |
| Cash Position at Beginning of Year | $ 1,003,643 | $ 1,263,443 | $ 1,263,443 | $ 1,072,797 | $ 1,447,548 | $ 1,334,138 |
| ***Sources and Uses of Cash:*** | | | | | | |
| - Net Income | $ 623,494 | $ 205,638 | $ 226,222 | $ 286,751 | $ 475,590 | $ 628,939 |
| - Depreciation | $ 1,095,084 | $ 1,174,801 | $ 1,200,000 | $ 1,214,000 | $ 1,220,000 | $ 1,222,000 |
| - Cash Flows From Other Operating Activities | $ 571,355 | $ 810,190 | $ (200,000) | $ (1,000,000) | $ 250,000 | $ 200,000 |
| - Cash Flows From Investing Activities | $ (1,123,413) | $ (1,408,500) | $ (1,564,500) | $ (20,346,000) | $ (5,769,000) | $ (7,769,000) |
| - Cash Flows From Financing Activities | $ (906,720) | $ (972,775) | $ (825,000) | $ 20,220,000 | $ 3,710,000 | $ 5,750,000 |
| Change in Cash Position | $ 259,800 | $ (190,646) | $ (1,163,278) | $ 374,751 | $ (113,410) | $ 31,939 |
| **Cash Position at End of Period** | **$ 1,263,443** | **$ 1,072,797** | **$ 100,165** | **$ 1,447,548** | **$ 1,334,138** | **$ 1,366,077** |
| ***Working Capital Analysis*** | | | | | | |
| **Working Funds Position at Beginning of Year** | $ 1,263,443 | $ 1,072,797 | $ 100,165 | $ 1,447,548 | $ 1,334,138 | $ 1,366,077 |
| Plus : Total Other Current Assets | $ 2,064,338 | $ 2,064,338 | $ 2,064,338 | $ 2,064,338 | $ 1,814,338 | $ 1,614,338 |
| Less: Total Current Laibilities | $ (2,549,690) | $ (3,249,690) | $ (2,349,690) | $ (2,249,690) | $ (2,249,690) | $ (2,249,690) |
| **Working Funds Position at End of Year** | **$ 778,091** | **$ (112,555)** | **$ (185,187)** | **$ 1,262,196** | **$ 898,786** | **$ 730,725** |

COLLINGWOOD PUBLIC UTILITIES
STATISTICAL INFORMATION

## 2008 ACTUAL, 2009 ACTUAL, 2009 BUDGET, 2010 BUDGET and 2011-12 PROJECTIONS

APPENDIX B

| | 2008 - (ACTUAL) | 2009 0 (ACTUAL) | 2009 (BUDGET) | 2010 (BUDGETED) | 2011 (PROJECTED) | 2012 (PROJECTED) |
|---|---|---|---|---|---|---|
| **Statistical Data** | | | | | | |
| Pumped - Process (m3) **(Note 1)** | 1,193,334 | 891,966 | 978,500 | 900,000 | 900,000 | 900,000 |
| - Filtered (m3) **(Note 1)** (Collingwood only does not include TBM sales) | 3,569,597 | 3,357,214 | 3,841,900 | 3,600,000 | 3,600,000 | 3,600,000 |
| - New Tec & Others (m3) (Filtered) | 2,926,930 | 2,758,175 | 4,927,500 | 4,927,500 | 4,927,500 | 4,927,500 |
| Total Filtered | 6,496,527 | 6,115,389 | 8,769,400 | 8,527,500 | 8,527,500 | 8,527,500 |
| | | | | | | |
| Sold - Process (m3) | 1,193,334 | 891,966 | 978,500 | 900,000 | 900,000 | 900,000 |
| - Filtered (m3) | 3,086,257 | 2,913,856 | 3,244,500 | 3,100,000 | 3,100,000 | 3,100,000 |
| - New Tec & Others (m3) (Filtered) | 2,926,930 | 2,758,175 | 4,927,500 | 4,927,500 | 4,927,500 | 4,927,500 |
| Total Filtered | 6,253,287 | 5,672,031 | 8,172,000 | 8,027,500 | 8,027,500 | 8,027,500 |
| | | | | | | |
| System Losses - Filtered Water Only not Including New Tec amount **(Note 2)** | 13.5% | 13.2% | 15.5% | 13.9% | 13.9% | 13.9% |
| | | | | | | |
| Revenue per sold unit - Process | $ 0.177 | $ 0.178 | $ 0.193 | $ 0.199 | $ 0.209 | $ 0.219 |
| Revenue per sold unit - Filtered (Collingwood filtered water sales only) | $ 1.176 | $ 1.235 | $ 1.183 | $ 1.260 | $ 1.343 | $ 1.430 |
| Revenue per pumped unit - NT & TBM (TBM mid-year 2004 and onward) | $ 0.379 | $ 0.469 | $ 0.252 | $ 0.278 | $ 0.291 | $ 0.306 |
| | | | | | | |
| Production cost per Pumped Unit of Filtered Water Only Including NT | $ 0.227 | $ 0.234 | $ 0.182 | $ 0.195 | $ 0.205 | $ 0.215 |
| Production cost per Sold Unit of Filtered Water Only Including NT(after dist. loss) | $ 0.245 | $ 0.252 | $ 0.196 | $ 0.207 | $ 0.217 | $ 0.229 |
| | | | | | | |
| Production cost per Sold Unit of Process Water only | $ 0.085 | $ 0.107 | $ 0.133 | $ 0.120 | $ 0.136 | $ 0.144 |
| | | | | | | |
| Earnings before Financial Expense | $ 1,761,341 | $ 1,619,793 | $ 1,795,974 | $ 1,743,340 | $ 1,942,125 | $ 2,159,003 |
| | | | | | | |
| Number of Customers - Part of Filtered System | 8,950 | 9,150 | 9,050 | 9,300 | 9,500 | 9,700 |
| Control Exp / Customer = Total Expense - (Financial Exp. + Dep. + Meaford/Devils Glen/Hmsprg) | $ 414.19 | $ 434.00 | $ 439.64 | $ 452.20 | $ 457.61 | $ 462.68 |
| | | | | | | |
| **Remaining Debenture Principal (at the end of the year shown)** | $ 3,552,000 | $ 2,847,000 | $ 2,847,000 | $ 2,101,000 | $ 1,311,000 | $ 675,000 |
| **New Borrowing 2009 & 11 (Based on net decrease in total debt level annually)** | $ - | $ - | $ - | $ 2,352,000 | $ 500,000 | $ 2,400,000 |
| **Reduced 2005 CIBC loan and principal payment of new borrowing amounts 2010-12** | $ 1,270,373 | $ 975,373 | $ 975,373 | $ 664,373 | $ 2,691,373 | $ 2,852,373 |
| **Difference: DC Reserve & Working Capital (at end of period) (NOTE 3)** | $ 629,989 | $ 1,555,635 | $ 1,365,767 | $ (295,116) | $ 103,294 | $ (1,193,645) |
| | | | | | | |
| **TOTAL DEBT AT YEAR END (Net of Working Capital)** | ***$ 5,452,362*** | ***$ 5,378,008*** | ***$ 5,188,140*** | ***$ 4,822,257*** | ***$ 4,605,667*** | ***$ 4,733,728*** |

**NOTES:**

1. Lower Process and Filtered use in 2009. In 2010 forecasting increased consumption and 2011-2012 no growth factor utilized.
2. Losses expected to be below 14% which is generally below the average for municipal distribution system losses.
3. DC Rerserve is included on a net basis with the Working Capital end position at the end of each period. Used to determine the total debt at the end of period.

**Collingwood Public Utilities**
**2010 Schedule of Fees and Charges**

**APPENDIX A**

| Dept. | Facility | Services | Discount (if any) | Last Updated | 2009 Fees and Service Charges | 2010 Fees and Service Charges | Basis for Fees/Service Charges |
|---|---|---|---|---|---|---|---|
| **Operations Department** | | | | | | | |
| **Municipal Supply Charges** | n/a | Water Service Supply Charge - up to 1 1/4" line | n/a | 2008 | $18.17 per month | $18.62 per month | Water Rates for Supply & Consumption are based on full cost recovery as per the recommendations in the March 2005 Water & Wastewater Rate Study Report by C.N. Watson & Associates |
| | n/a | Water Service Supply Charge - 1 1/4" line | n/a | 2008 | $22.94 per month | $23.52 per month | |
| | n/a | Water Service Supply Charge - 1 1/2" line | n/a | 2008 | $34.82 per month | $35.69 per month | |
| | n/a | Water Service Supply Charge - 2" line | n/a | 2008 | $51.22 per month | $52.50 per month | |
| | n/a | Water Service Supply Charge - 3" line | n/a | 2008 | $76.61 per month | $78.52 per month | |
| | n/a | Water Service Supply Charge - 4" line | n/a | 2008 | $116.10 per month | $119.00 per month | |
| | n/a | Water Service Supply Charge - 6" line | n/a | 2008 | $174.49 per month | $178.85 per month | |
| | n/a | Water Service Supply Charge - 8" line | n/a | 2008 | $232.17 per month | $237.97 per month | |
| | n/a | Water Service Supply Charge - 10" line | n/a | 2008 | $348.97 per month | $357.69 per month | |
| **Municipal Consumption Charges** | n/a | Filtered Water Consumption Charge - Residential | n/a | 2008 | $0.54 per cubic meter of water consumption | $0.554 per cubic meter of water consumption | Water Rates for Supply & Consumption are based on full cost recovery as per the recommendations in the March 2005 Water & Wastewater Rate Study Report by C.N. Watson & Associates |
| | n/a | Filtered Water Consumption Charge - Residential* | n/a | 2008 | * For consumption > 40 cm per month in May, June, July, Aug. & Sep. $0.82 per cm | | |
| | n/a | Filtered Water Consumption Charge - General | n/a | 2008 | $0.54 per cubic meter of water consumption | $0.554 per cubic meter of water consumption | |
| | n/a | Process Water Consumption Charge - Industrial | n/a | 2008 | $0.17 per cubic meter of water consumption | $0.174 per cubic meter of water consumption | |
| | n/a | Non-Metered (Flat Rate) Water Consumption Charge | n/a | 2009 | n/a | $30.00 1st month basaed on 50 cm. Increases by 50% each month thereafter | |
| **Interest Charges** | n/a | Late Payment Charge | n/a | 2008 | 1.5% cumulative monthly | 1.5% cumulative monthly | Recovery of Actual Costs |
| **Hydrant Charges** | n/a | Fire Hydrant Rental - Municipal | n/a | 2008 | $118.00 per year | $118.00 per year | Hydrant Rental Fees are for recovery of capital & maintenance cost of system |
| | n/a | Fire Hydrant Rental - Other | n/a | 2008 | $150.00 per year | $150.00 per year | |
| **Water Service Connection Charge** | n/a | Highway #26 East Watermain Project | n/a | 2008 | $5,010.74 per connection + $164.75 per m frontage | $5,010.74 per connection + $164.75 per m frontage | Charge is applied for each consumer to recover full cost of installation plus cost of servicing the debt |
| | n/a | Silver Creek Drive Improvement Project | n/a | 2008 | $101.49 per m of frontage | $101.49 per m of frontage | |
| | n/a | Osler Bluff Road Improvement Project | n/a | 2008 | $181.65 / m frontage to max 60.96m + meter cost | $181.65 / m frontage to max 60.96m + meter cost | |
| | n/a | Mountain Road Trunk water main connection | n/a | 2008 | $4,326.00 includes water meter | $4,326.00 includes water meter | |
| | n/a | Raglan Street South | n/a | 2008 | $117.01 per m frontage plus water meter cost | $117.01 per m frontage plus water meter cost | |
| **Water Service Charges** | n/a | Water Service Installation or Repair | n/a | 2008 | Actual Costs + overhead charge and admin. fee | Actual Costs + overhead charge and admin. fee | Recovery of Actual Costs |
| | n/a | Water Meter Purchase - up to 3/4" meter | n/a | 2008 | $126.00 per meter | $126.00 per meter | Recovery of Actual Costs |
| | n/a | Water Meter Purchase - > than 1" meter | n/a | 2008 | Actual Costs plus Admin. Fee | Actual Costs plus Admin. Fee | Recovery of Actual Costs |
| | n/a | Disconnection of a water service at main | n/a | 2008 | Actual Costs + overhead charge and admin. fee | Actual Costs + overhead charge and admin. fee | Recovery of Actual Costs |
| | n/a | Temporary removal and reinstallation of meter | n/a | 2008 | Actual Costs + overhead charge and admin. fee | Actual Costs + overhead charge and admin. fee | Recovery of Actual Costs |
| | n/a | Construction water supply | n/a | 2008 | $50.00 per construction unit | $50.00 per construction unit | Charge is applied for each construction unit to recover cost of water supplied |
| **Vehicle Rental Charges** | n/a | Service Truck | n/a | 2008 | $11.00 per hour | $11.00 per hour | Recovery of Capital & Maintenance Costs |
| | n/a | Large Truck | n/a | 2008 | $22.00 per hour | $22.00 per hour | Recovery of Capital & Maintenance Costs |
| | n/a | Flat-Bed Truck | n/a | 2008 | $12.00 per hour | $12.00 per hour | Recovery of Capital & Maintenance Costs |
| | n/a | Dump Truck | n/a | 2008 | $32.00 per hour | $32.00 per hour | Recovery of Capital & Maintenance Costs |
| | n/a | Backhoe | n/a | 2008 | $32.00 per hour | $32.00 per hour | Recovery of Capital & Maintenance Costs |
| | n/a | Small Track Hoe | n/a | 2008 | $22.00 per hour | $22.00 per hour | Recovery of Capital & Maintenance Costs |
| | n/a | Rock Breaker | n/a | 2008 | $100.00 per hour | $100.00 per hour | Recovery of Capital & Maintenance Costs |
| | n/a | Test Pump and Chloinator | n/a | 2008 | $18.00 per hour | $18.00 per hour | Recovery of Capital & Maintenance Costs |
| **Other Charges** | n/a | Water Service Turn on or off Charge - Normal Hours | n/a | 2008 | $27.50 per action | $27.50 per action | Recovery of Actual Costs |
| | n/a | Water Service Turn on or off Charge - Overtime | n/a | 2008 | Actual cost plus applicable overheads | Actual cost plus applicable overheads | Recovery of Actual Costs |
| | n/a | Labour Charge - Normal Hours | n/a | 2008 | $58.00 per hour | $58.00 per hour | Recovery of Actual Costs |
| | n/a | Work for Municipality | n/a | 2008 | Actual Cost | Actual Cost | Recovery of Actual Costs |
| | n/a | Private Pool or other large water container | n/a | 2008 | $135.00 flat fee for use of hydrant | $135.00 flat fee for use of hydrant | Recovery of Actual Costs |
| | | (only available if hydrant on same side of road) | | | (customer must provide own fire hose) | (customer must provide own fire hose) | |
| | n/a | Bulk water sales from tanker point at RAB Plant | n/a | 2008 | Private or Commercial user $1.00 per cu. m | Private or Commercial user $1.00 per cu. m | Recovery of Actual Costs |
| | | | | | Municipal user current per cu.m charge | Municipal user current per cu.m charge | Recovery of Actual Costs |
| | n/a | Inspection Charge | n/a | 2008 | Actual Costs + overhead charge and admin. fee | Actual Costs + overhead charge and admin. fee | Recovery of Actual Costs |
| | n/a | Water main Chlorination and Bacti Testing | n/a | 2008 | Actual Costs + overhead charge and admin. fee | Actual Costs + overhead charge and admin. fee | Recovery of Actual Costs |
| | n/a | Water Service Thawing | n/a | 2008 | Actual Costs + overhead charge and admin. fee | Actual Costs + overhead charge and admin. fee | Recovery of Actual Costs |

**Finance & Engineering Departments**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Administration** | n/a | Arrears Certificate Charge | n/a | 2008 | $5.00 per certificate | $5.00 per certificate | Recovery of administration and overhead costs |
| | n/a | Collection Charge | n/a | 2008 | $10.00 per call | $10.00 per call | Recovery of administration and overhead costs |
| | n/a | N.S.F. Cheque Charge | n/a | 2008 | $15.00 per cheque | $15.00 per cheque | Recovery of administration and overhead costs |
| | n/a | Change of Occupancy Charge | n/a | 2008 | $5.00 per occurrence | $5.00 per occurrence | Recovery of administration and overhead costs |
| | n/a | History of Account Charge or Bill Reprint Charge | n/a | 2008 | $5.00 per occurrence | $5.00 per occurrence | Recovery of administration and overhead costs |
| | n/a | Charge to Pull Post Dated Cheque Payment | n/a | 2008 | $5.00 per occurrence | $5.00 per occurrence | Recovery of administration and overhead costs |
| | n/a | Credit Reference Check Charge | n/a | 2008 | $5.00 per occurrence | $5.00 per occurrence | Recovery of administration and overhead costs |
| | n/a | Charge to Certify Cheque for Payment | n/a | 2008 | $5.00 per occurrence | $5.00 per occurrence | Recovery of administration and overhead costs |
| **Engineering** | n/a | CAD System work | n/a | 2008 | $26.25 per hour | $26.25 per hour | Recovery of administration and overhead costs |
| | n/a | Information Technology related work | n/a | 2008 | Actual Cost + overhead | Actual Cost + overhead | Recovery of administration and overhead costs |
| | n/a | Clerical work | n/a | 2008 | Actual Cost + overhead | Actual Cost + overhead | Recovery of administration and overhead costs |
| | n/a | Color Plotting (11"X17") | n/a | 2008 | $2.21 each | $2.21 each | Recovery of costs |
| | n/a | Color Plotting (D Size) | n/a | 2008 | $8.93 each | $8.93 each | Recovery of costs |
| | n/a | Color Plotting (E Size) | n/a | 2008 | $12.02 each | $12.02 each | Recovery of costs |

# Appendix B

Capital Budget Analysis

Financial Analysis

Statistical Data

2009 Consolidated Financial Statements

**COLLUS Power Corp Capital Project Budget Summary** **APPENDIX B**

| Project or Class No. | Project Description | 2010 Budgeted | 2011 Projected | 2012 Projected |
|---|---|---|---|---|
| | **DISTRIBUTION PLANT - CUSTOMER DEMAND & RENEWAL CATEGORY : Major Construction Projects** | | | |
| 17011 | Princeton Shores Rebuild - ESA review indicates required | | $ 200,000 | |
| 17012 | Osler Bluff Road - Hydro One Upgrade requirement | $ 20,000 | | |
| | Hurontario Street Rebuild | $ 100,000 | | |
| 17014 | Sixth Street High to 6th for new Sub. + 2nd Pine to Birch | $ 200,000 | | |
| 17013 | Poplar Sideroad Pole Line Realign & Rebuild | $ 180,000 | | |
| 17020 | Peel St. (Ontario to Hume), Moberly (Peel to Hume) | $ 200,000 | | |
| 17021 | Ste. Paul St. (Ontario to Hume) | | | $ 175,000 |
| 17022 | Engineering Design Creemore Station | | | $ 30,000 |
| " | Land Acquisition for Creemore Staion | | | $ 150,000 |
| " | Pole line construction for Creemore Station | | | $ 125,000 |
| 17023 | Sixth St. feeder construction from M.S.#9 to Oak St. | | $ 300,000 | |
| 17016 | **DISTRIBUTION PLANT - SECURITY & RELIABILITY CATEGORY : Miscellaneous Projects - Resulting from Annual** | | | |
| | Rebuild Projects (Poles, Conductor & Hardware) Specifically attributed to the Annual Inspections. Note This amount also includes the system inspection costs. (**Increase $20,000 in 09**) | $ 150,000 | $ 150,000 | $ 150,000 |
| 17018 | **DISTRIBUTION PLANT - REGULATORY CATEGORY : Distribution System Boundary Line Expansion (Load Transfers** | | | |
| | New 4kV Polelines - Osler Bluff Road, Loblaws, Long Point Road, Madeline Ave in Cwood and 10th Line in Thornbury - (4th Line 2012) | | $ - | $ 180,000 |
| 17019 | **DISTRIBUTION PLANT - CUSTOMER METERING CATEGORY : Wholesale Metering Capital Projects (2008 and 10)** | | | |
| | The expected upgrade/replacement work that will be required. | | $ 85,000 | $ 50,000 |
| 17040 | **DISTRIBUTION PLANT - CAPACITY CATEGORY : Distribution Substation Capital Projects** | | | |
| | Construction of new MS#9 Sub-Station in the South West Portion of Collingwood as per 2005 System optimization study results updated in 2008 for current situation. | $ 900,000 | $ - | $ 1,500,000 |
| 17050 | **DISTRIBUTION PLANT - CUSTOMER METERING CATEGORY : Electric Metering Capital Projects** | | | |
| | Annual replacement program for resid. & comm. hydro meters | $ 10,000 | $ 60,000 | $ 60,000 |
| 17070 | **DISTRIBUTION PLANT - CUSTOMER DEMAND & RENEWAL CATEGORY : Distribution Transformer Capital Projects** | | | |
| | To accommodate any new distribution transformers required for general load growth (**Add $20,000 in 09 due to supplier inc.)** | $ 145,000 | $ 175,000 | $ 180,000 |
| 17091 | **GENERAL PLANT - COMMUNICATIONS EQUIPMENT CATEGORY : SCADA Capital Projects** | | | |
| | New RTU's for Sub-Stations, New Data Radios and Fault Indicators for 44kV feeders | $ 85,000 | $ 35,000 | $ 50,000 |
| 17126 | **GENERAL PLANT - TRANSPORTATION EQUIPMENT CATEGORY : Large Vehicles & Equipment Purchases** | | | |
| | Large Chassis | | $ 100,000 | |
| | Locator Truck | | $ 35,000 | |
| | Meter Van Replacement | | | $ 50,000 |
| | Replace 83 RBD($200K) Trailer ($15K) and Foreman truck ($50K) | $ 265,000 | | |
| | Replace Supervisors trucks | | $ 70,000 | |
| | Replace 1993 Double Bucket Truck | | | $ 200,000 |
| 17170,180, 190,200 | **DISTRIBUTION PLANT - CUSTOMER DEMAND & RENEWAL CATEGORY : Collingwood - Overhead & Underground** | | | |
| | Utility spending on any new o/h & u/g residential & general service as per conditions of service or customer request. | $ 100,000 | $ 100,000 | $ 100,000 |
| 17401-4 | **DISTRIBUTION PLANT - CUSTOMER DEMAND & RENEWAL CATEGORY : Thornbury - Overhead & Underground** | | | |
| | Utility spending on any new o/h & u/g residential & general service as per conditions of service or customer request. | $ 25,000 | $ 25,000 | $ 25,000 |
| 17301-4 | **DISTRIBUTION PLANT - CUSTOMER DEMAND & RENEWAL CATEGORY : Clearview - Overhead & Underground** | | | |
| | Utility spending on any new o/h & u/g residential & general service as per conditions of service or customer request. | $ 25,000 | $ 25,000 | $ 25,000 |
| 17163 | **GENERAL PLANT - COMPUTER SYSTEM CATEGORY : CIS & Accounting Enhancements - Specific for COLLUS** | | | |
| | Enhancements to the customer information system and general accounting system specifically for COLLUS Power. In particular requirements of changes to the electric market. | $ 50,000 | $ 50,000 | $ 50,000 |
| 17600 | **DISTRIBUTION PLANT - CUSTOMER DEMAND & RENEWAL CATEGORY : Economic Evaluations -** | | | |
| | The portion paid to developers attributed to their original contributed capital calculations. | $ 100,000 | $ 100,000 | $ 100,000 |
| | **GENERAL PLANT - FACILITIES CATEGORY : Operations Centre - Capital Additions** | | | |
| 17130 | Transformer racking added 09 | $ - | $ - | |
| 17131 | Office Equipment 2008-10 | $ 30,000 | $ 10,000 | $ 25,000 |
| | **GROSS TOTAL Before Contributed Capital =** | **$2,585,000** | **$1,520,000** | **$3,225,000** |
| N/A | **NON-CATEGORY ITEM : Rechargeable Mtce Projects & Light Work Re-billed (Not included into totals)** | | | |
| | Small Mtce Projects and other work recorded to track spending | $60,000 | $60,000 | $60,000 |
| 18000 | **Rechargeable Capital Work ( Used to track utility spending on this item that contributed capital nets against)** | | | |
| | Large Capital Work Projects net impact of $0 to capital | $100,000 | $100,000 | $100,000 |
| 18000 | **DISTRIBUTION PLANT - CUSTOMER DEMAND & RENEWAL CATEGORY : Contributed Capital (customer portion)** | | | |
| | Contributions from developers and others for capital work done. | -$300,000 | -$300,000 | -$300,000 |
| | **NET CAPITAL SPENDING REQUIREMENT(Net of Contributed Capital) =** | **$2,385,000** | **$1,320,000** | **$3,025,000** |

**COLLUS POWER CORP**
**SUMMARY FINANCIAL INFORMATION**
**2008 ACTUAL, 2009 BUDGET, 2009 ACTUAL, 2010 BUDGET & 2011-2012 PROJECTION**

**APPENDIX B**

| | COLLUS POWER 2008 (ACTUAL) | % | COLLUS POWER 2009 (2009 rate appl) (BUDGET) | % | COLLUS POWER 2009 (ACTUAL) | % | COLLUS POWER 2010 (09 appl full yr) (BUDGETED) | % | COLLUS POWER 2011 (PROJECTED) | % | COLLUS POWER 2012 (PROJECTED) | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Financial Data** | | | | | | | | | | | | |
| **Revenue:** | | | | | | | | | | | | |
| Gross Sales Revenue | $ 28,300,385 | | $ 30,110,629 | | $ 29,191,076 | | $ 30,694,804 | | $ 30,914,804 | | $ 30,974,804 | |
| Cost of Power | $ (23,782,787) | | $ (24,545,103) | | $ (24,064,557) | | $ (25,074,804) | | $ (25,074,804) | | $ (25,074,804) | |
| **Net Sales Revenue (Distribution Service Revenue DSR) *** | $ 4,517,598 | 89.3 | $ 5,565,526 | 93.9 | $ 5,126,519 | 92.1 | $ 5,620,000 | 93.8 | $ 5,840,000 | 94.0 | $ 5,900,000 | 94.1 |
| Other Revenue | $ 539,564 | 10.7 | $ 363,856 | 6.1 | $ 442,441 | 7.9 | $ 370,000 | 6.2 | $ 370,000 | 6.0 | $ 370,000 | 5.9 |
| **Total DSR and Other Revenue** | **$ 5,057,162** | 100.0 | **$ 5,929,382** | 100.0 | **$ 5,568,960** | 100.0 | **$ 5,990,000** | 100.0 | **$ 6,210,000** | 100.0 | **$ 6,270,000** | 100.0 |
| **Expense:** | | | | | | | | | | | | |
| Distribution Mtce. Expense | $ 1,881,224 | 40.1 | $ 1,956,625 | 39.0 | $ 1,977,769 | 39.1 | $ 1,980,259 | 39.0 | $ 2,037,467 | 39.0 | $ 2,092,240 | 39.1 |
| Management Expense | $ 312,496 | 6.7 | $ 423,111 | 8.4 | $ 413,795 | 8.2 | $ 434,604 | 8.6 | $ 446,442 | 8.6 | $ 466,764 | 8.7 |
| Accounting Expense | $ 297,822 | 6.4 | $ 324,130 | 6.5 | $ 323,008 | 6.4 | $ 373,855 | 7.4 | $ 385,071 | 7.4 | $ 404,324 | 7.6 |
| Extraordinary Item | $ 76,977 | 1.6 | $ - | | $ 47,000 | 0.9 | $ - | | $ - | | $ - | |
| Billing Expense | $ 767,845 | 16.4 | $ 912,482 | 18.2 | $ 924,282 | 18.3 | $ 975,206 | 19.2 | $ 999,812 | 19.2 | $ 1,041,932 | 19.5 |
| Management Fee Expense (Outside Services) | $ 250,000 | 5.3 | $ 181,500 | 3.6 | $ 183,125 | 3.6 | $ 150,000 | 3.0 | $ 150,000 | 2.9 | $ 150,000 | 2.8 |
| Financial Expense - Interest | $ 122,928 | 2.6 | $ 107,806 | 2.2 | $ 55,149 | 1.1 | $ 85,000 | 1.7 | $ 125,000 | 2.4 | $ 125,000 | 2.3 |
| Financial Expense - Municipal Prom. Note Interest | $ 124,000 | 2.6 | $ 124,000 | 2.5 | $ 124,000 | 2.5 | $ 124,000 | 2.4 | $ 124,000 | 2.4 | $ 124,000 | 2.3 |
| Amortization/Depreciation Expense | $ 854,329 | 18.2 | $ 983,056 | 19.6 | $ 1,004,161 | 19.9 | $ 950,000 | 18.7 | $ 950,000 | 18.2 | $ 950,000 | 17.7 |
| **Total Expenses** | **$ 4,687,621** | 100.0 | **$ 5,012,710** | 100.0 | **$ 5,052,289** | 100.0 | **$ 5,072,924** | 100.0 | **$ 5,217,792** | 100.0 | **$ 5,354,260** | 100.0 |
| **Net Income (Loss) Before Tax Calculation** | **$ 369,541** | **7.3** | **$ 916,672** | **15.5** | **$ 516,671** | **9.3** | **$ 917,076** | **15.3** | **$ 992,208** | **16.0** | **$ 915,740** | **14.6** |
| **Capital Tax Payable** | $ (8,916) | | $ (8,916) | | $ (8,916) | | $ (8,916) | | $ (8,916) | | $ (8,916) | |
| **Payments in Lieu of Tax** | $ (136,676) | | $ (254,773) | | $ (91,990) | | $ (235,776) | | $ (208,991) | | $ (107,428) | |
| **Provision for Future Income Tax** | $ 55,874 | | $ - | | $ 32,937 | | $ - | | $ (60,000) | | $ (85,000) | |
| **Net Income (Loss) After Tax Calculation** | **$ 279,823** | **5.5** | **$ 652,983** | **11.0** | **$ 448,702** | **8.1** | **$ 672,384** | **11.2** | **$ 714,302** | **11.5** | **$ 714,396** | **11.4** |

| **Working Capital and Funds Position** | COLLUS POWER 2008 (ACTUAL) | | COLLUS POWER 2009 (BUDGET) | | COLLUS POWER 2009 (ACTUAL) | | COLLUS POWER 2010 (BUDGETED) | | COLLUS POWER 2011 (PROJECTED) | | COLLUS POWER 2012 (PROJECTED) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Cash Position Analysis:*** | | | | | | | | | | | | |
| Cash Position at Beginning of Year | $ 3,640,113 | | $ 5,113,419 | | $ 5,113,419 | | $ 1,388,603 | | $ 3,257,540 | | $ 2,913,395 | |
| ***Sources and Uses:*** | | | | | | | | | | | | |
| - Cash Flows From Operating Activities | $ 4,399,825 | | $ (332,408) | | $ 956,059 | | $ 1,153,937 | | $ 945,854 | | $ 945,949 | |
| - Cash Flows From Investing Activities | $ (2,602,275) | | $ (3,217,500) | | $ (3,563,522) | | $ (2,585,000) | | $ (1,520,000) | | $ (3,225,000) | |
| - Cash Flows From Financing Activities | $ (324,244) | | $ 75,000 | | $ (1,117,353) | | $ 3,300,000 | | $ 230,000 | | $ 1,730,000 | |
| Change in Cash Position | $ 1,473,306 | | $ (3,474,908) | | $ (3,724,816) | | $ 1,868,937 | | $ (344,146) | | $ (549,051) | |
| **Cash Position at End of Year** | **$ 5,113,419** | | **$ 1,638,511** | | **$ 1,388,603** | | **$ 3,257,540** | | **$ 2,913,395** | | **$ 2,364,344** | |
| ***Working Capital Calculation:*** | | | | | | | | | | | | |
| Cash in Bank and On Hand | $ 5,113,419 | | $ 1,638,511 | | $ 1,388,603 | | $ 3,257,540 | | $ 2,913,395 | | $ 2,364,344 | |
| Plus: Total Other Current Assets | $ 7,843,507 | | $ 7,514,695 | | $ 7,002,158 | | $ 7,002,158 | | $ 7,002,158 | | $ 7,002,158 | |
| Less: Total Current Liabilities | $ (9,041,981) | | $ (8,041,981) | | $ (7,706,072) | | $ (7,690,462) | | $ (7,690,462) | | $ (7,690,462) | |
| **Working Capital at end of the Period :** | **$ 3,914,945** | | **$ 1,111,225** | | **$ 684,689** | | **$ 2,569,236** | | **$ 2,225,091** | | **$ 1,676,040** | |

**COLLUS POWER CORP**

**STATISTICAL INFORMATION**

**2008 ACTUAL, 2009 BUDGET, 2009 ACTUAL, 2010 BUDGET & 2011-2012 PROJECTION** **APPENDIX B**

| **Statistical Data** | **COLLUS POWER 2008 (ACTUAL)** | **COLLUS POWER 2009 (2009 rate appl) (BUDGET)** | **COLLUS POWER 2009 (ACTUAL)** | **COLLUS POWER 2010 (BUDGETED)** | **COLLUS POWER 2011 (PROJECTED)** | **COLLUS POWER 2012 (PROJECTED)** |
|---|---|---|---|---|---|---|
| (Before transmission loss factor of 3.4%) Purchased KWH | 333,246,701 | 344,535,764 | 317,262,016 | 326,779,876 | 326,779,876 | 326,779,876 |
| Sold KWH | 322,535,808 | 333,367,938 | 306,783,697 | 315,987,208 | 315,987,208 | 315,987,208 |
| Distribution System Losses **(NOTE 1)** | 3.21% | 3.24% | 3.30% | 3.30% | 3.30% | 3.30% |
| | | | | | | |
| Comparison of Sold kWh to Previous Year **(NOTE 2)** | 95.35% | 103.36% | 95.12% | 103.00% | 100.00% | 100.00% |
| | | | | | | |
| Monthly Average Peak Demand Load (KW) | 49,473 | 53,500 | 46,907 | 48,314 | 48,314 | 48,314 |
| Average Peak Demand Load Factor (%) | 76.89% | 73.52% | 77.21% | 77.21% | 77.21% | 77.21% |
| | | | | | | |
| Distribution Sales Revenue per KWH Purchased | $ 0.01356 | $ 0.01615 | $ 0.01616 | $ 0.01720 | $ 0.01787 | $ 0.00000 |
| | | | | | | |
| Number of Customers | 14,950 | 15,150 | 15,200 | 15,504 | 15,814 | 16,130 |
| Control Exp.(Op. & Mtce.)/Customer | $ 130.98 | $ 129.15 | $ 133.21 | $ 127.73 | $ 128.84 | $ 0.00 |
| Control Exp.(Admin. Less Financial)/Customer | $ 108.91 | $ 121.53 | $ 121.33 | $ 124.72 | $ 125.29 | $ 0.00 |
| **CIBC Bank Loans: Balance at end of each year** | **$1,118,341** | **$893,341** | **$ -** | **$3,000,000** | **$2,930,000** | **$4,360,000** |

**NOTES:**

1. Losses result from distributing the electricity purchased thru to the customers. The meter measurements of the customers are the sold kWh. Distribution losses are considered in range if they are less than 4%.
2. 2009 Budget was based on 2009 rate application statistics. 2009 actual materially lower due to major reduction in load and consumption as LU customer reduced and eventually trsf to GS>50 class.

# COLLINGWOOD UTILITY SERVICES CORP.

**CONSOLIDATED FINANCIAL STATEMENTS**
**DECEMBER 31, 2009**

**CONTENTS**

# GAVILLER & COMPANY LLP
**CHARTERED ACCOUNTANTS**

## AUDITORS' REPORT

To the Shareholder of **Collingwood Utility Services Corp.**:

We have audited the consolidated balance sheet of **Collingwood Utility Services Corp.** as at December 31, 2009, and the consolidated statements of operations and retained income and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Collingwood Utility Services Corp. as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Gaviller & Company LLP*
Licensed Public Accountants
Collingwood, Ontario
March 5, 2010

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED BALANCE SHEET
## AS AT DECEMBER 31

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| Current | | |
| Cash | **1,572,425** | 5,392,535 |
| Taxes recoverable | **104,404** | 189,156 |
| Accounts receivable (Note 9) | **3,809,997** | 4,192,842 |
| Unbilled revenue | **3,024,852** | 3,470,384 |
| Inventory | **297,789** | 255,131 |
| | **8,809,467** | 13,500,048 |
| Property, plant and equipment | | |
| Lands | **90,439** | 90,439 |
| Buildings | **255,668** | 80,668 |
| Distribution stations | **3,857,578** | 3,150,296 |
| Distribution lines | **19,596,227** | 17,864,725 |
| Distribution transformers | **5,020,605** | 4,647,854 |
| Distribution meters | **1,565,562** | 1,478,408 |
| Other | **2,838,992** | 2,139,843 |
| Load control | **1,459,235** | 1,417,631 |
| Contributions in aid of construction (Note 7) | **(9,354,806)** | (6,738,873) |
| | **25,329,500** | 24,130,991 |
| Less accumulated depreciation | **(13,405,295)** | (12,472,621) |
| | **11,924,205** | 11,658,370 |
| Other | | |
| Goodwill | **276,704** | 276,704 |
| Intangible assets (net of accumulated amortization of $130,189) | **338,117** | 33,667 |
| Investment in Utility Collaborative Services Inc. - at cost | **100** | - |
| Future taxes recoverable | **255,837** | 208,344 |
| | **870,758** | 518,715 |
| | **21,604,430** | 25,677,133 |

Approved by directors:

______________________________ Director

______________________________ Director

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED BALANCE SHEET
## AS AT DECEMBER 31

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| **Liabilities** | | |
| Current | | |
| Accounts payable and accruals (Notes 7, and 9) | **7,342,070** | 8,817,294 |
| Customer deposits | **355,081** | 355,272 |
| Current portion of long-term (Note 10) | **-** | 1,117,353 |
| | **7,697,151** | 10,289,919 |
| Long-term (Note 10) | **1,710,170** | 1,710,170 |
| Employee future benefits (Note 12) | **595,475** | 539,064 |
| Other (Note 11) | **1,005,314** | 3,012,396 |
| Total liabilities | **11,008,110** | 15,551,549 |
| **Shareholder's equity** | | |
| Capital stock | | |
| Authorized | | |
| Unlimited common shares | | |
| Issued | | |
| 5,101,640 common shares | **5,101,640** | 5,101,640 |
| Miscellaneous paid in capital | **2,966,014** | 2,966,014 |
| Retained income | **2,528,666** | 2,057,930 |
| Total shareholder's equity | **10,596,320** | 10,125,584 |
| | **21,604,430** | 25,677,133 |

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

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

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| Revenues | | |
| Sale of power | **24,064,556** | 23,782,787 |
| Distribution services | **5,126,519** | 4,517,599 |
| | **29,191,075** | 28,300,386 |
| Cost of power | | |
| Power purchased | **24,064,556** | 23,782,787 |
| Distribution income (17.6%; 2008 - 16.0%) | **5,126,519** | 4,517,599 |
| Other operating income (Note 9) | | |
| Accounting and administrative services | **811,881** | 783,917 |
| Miscellaneous | **557,971** | 613,467 |
| | **6,496,371** | 5,914,983 |
| Operating expenses (Note 9) | | |
| Distribution and transmission | **1,732,891** | 1,660,992 |
| Billing and collecting | **631,522** | 478,850 |
| General administration (Notes 9 and 10) | **2,593,799** | 2,558,945 |
| Depreciation and amortization | **1,004,161** | 854,329 |
| | **5,962,373** | 5,553,116 |
| Net income before taxes | **533,998** | 361,867 |
| Provision for (recovery) of taxes | | |
| Current | **110,755** | 144,784 |
| Future | **(47,493)** | (71,993) |
| | **63,262** | 72,791 |
| **Net income for the year** | **470,736** | 289,076 |
| Retained income, beginning of year | **2,057,930** | 1,768,854 |
| **Retained income, end of year** | **2,528,666** | 2,057,930 |

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED STATEMENT OF CASH FLOW
## FOR THE YEAR ENDED DECEMBER 31

| | 2009 | 2008 |
|---|---|---|
| | **$** | $ |
| **Cash flows from (for):** | | |
| **Operating activities** | | |
| Net income for the year | **470,736** | 289,076 |
| Items not requiring funds | | |
| Depreciation | **1,036,132** | 925,191 |
| Amortization of deferred charges and smart meters | **76,094** | 8,155 |
| Future taxes | **(47,493)** | (71,993) |
| | **1,535,469** | 1,150,429 |
| Changes in: | | |
| Accounts receivable | **382,845** | 1,231,315 |
| Unbilled revenue | **445,532** | (140,768) |
| Inventory | **(42,658)** | 27,362 |
| Accounts payable and accruals | **(1,475,224)** | 1,520,589 |
| Income taxes | **84,752** | (211,279) |
| Customer deposits | **(191)** | (3,504) |
| Employee future benefits | **56,411** | 84,000 |
| Other liabilities | **(2,709,369)** | 633,769 |
| | **(1,722,433)** | 4,291,913 |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | **(980,224)** | (2,610,130) |
| Investment in Utility Collaborative Services Inc. | **(100)** | - |
| | **(980,324)** | (2,610,130) |
| **Financing activities** | | |
| Repayment of long-term liabilities | **(1,117,353)** | (324,244) |
| | **(1,117,353)** | (324,244) |
| Change in cash | **(3,820,110)** | 1,357,539 |
| Cash position, beginning of year | **5,392,535** | 4,034,996 |
| **Cash position, end of year** | **1,572,425** | 5,392,535 |

See accompanying notes to the financial statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## AS AT DECEMBER 31, 2009

### 1. Significant accounting policies

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

(a) The financial statements of the company are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), including accounting principles prescribed by the Ontario Energy Board (OEB) through the accounting procedures handbook and directives.

(b) The company's distribution of electricity is subject to rate regulation by the OEB. This rate regulation results in the company accounting for specific transactions differently than it would if it was not rate-regulated. The differences in accounting treatment give rise to regulatory assets or liabilities. These balances will be recovered from or returned to customers by increases or decreases to rates in the future.

The electricity rates charged by the company are approved on an annual basis using performance-based regulation. For the rate year ending April 30, 2009, the company was authorized to earn 9.85% on equity and 6.25% on debt with a deemed debt to equity ratio of 1:0.89.

(c) The company recognizes revenue on an accrual basis, which includes unbilled revenue, which is an estimate of electricity consumed by customers to the end of year but not yet billed by the company. Revenue from accounting and administrative services provided are recognized at the time in which the services were provided.

(d) The financial statements of the company's subsidiaries, COLLUS Solutions Corp., COLLUS Power Corp. and COLLUS Energy Corp. have been consolidated. All inter-company transactions have been eliminated.

(e) 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 depreciated over their estimated useful lives, using the straight-line method. Assets constructed by others and donated to the company are recorded at cost to the developer. Depreciation rates are 4% except as follows:

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

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

(g) Economic evaluation is an estimate of amounts due to subdivision developers in the future as repayment for the developers installation of hydro infrastructure.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT DECEMBER 31, 2009**

**1. Significant accounting policies (continued)**

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

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

(j) 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.

(k) The company has adopted 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.

**2. Tax status**

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

**3. Change in accounting policy**

(a) Capital disclosures

Effective December 1, 2009, the company adopted CICA Handbook Section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity’s capital and how it is managed. Adoption of these recommendations had no effect on the financial statements for the year ending December 31, 2009 except for additional disclosure found in Note 13.

(b) Intangible assets

Effective January 1, 2009, the company adopted CICA Handbook Section 3064 - "Goodwill and Intangible Assets" which replaced CICA Handbook Section 3062 - "Goodwill and Other Intangible Assets". Existing assets were examined to determine if they met the new criteria for an intangible asset. It was determined that the company's computer software met the new criteria and was re-classified as an intangible asset from property, plant and equipment. The historical cost of the computer software is $468,306 (2008 - $70,196) and the accumulated depreciation is $130,189 (2008 - $36,529). Computer software is being amortized over its useful life on a straight line basis over 5 years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## AS AT DECEMBER 31, 2009

### 4. Future Accounting Pronouncements

On February 13, 2008, the Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2011. The transition period is expected to begin for fiscal years beginning on or after January 1, 2010. The impact of these changes cannot be estimated at this time. 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.

### 5. Financial instruments

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

### 6. Supplemental cash flow information

Cash receipts (payments) were made as follows:

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| Interest received | **70,417** | 140,444 |
| Interest paid | **(179,149)** | (188,963) |
| Taxes refunded | **190,118** | - |
| Taxes paid | **(216,120)** | (356,062) |

### 7. 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 $365,610 (2008 - $633,711). The liability is included in accounts payable. The balance of $9,354,806 (2008 - $6,738,873) is recorded as a reduction of the cost of property, plant and equipment.

### 8. Subsequent events

Subsequent to year end, a $3 million loan was approved by Infrastructure Ontario and will be activated upon notice from the Board. This loan is to be paid back over 15 years. The loan interest rate is expected to be 4.67% and the loan will likely be advanced in May 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## AS AT DECEMBER 31, 2009

### 9. Related party transactions

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

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

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| Amounts receivable from Collingwood Public Utilities Service Board | **162,324** | 142,223 |
| Amounts receivable from the Town of Collingwood | **75,536** | 83,014 |
| Amounts payable to the Collingwood Public Utilities Service Board | **(496,809)** | (322,931) |
| Amounts payable to the Town of Collingwood | **(412,995)** | (2,229,140) |
| Revenues include amounts charged to the following parties: | | |
| Town of Collingwood | **62,517** | 58,087 |
| Collingwood Public Utilities Service Board | **811,881** | 783,917 |
| Expenses include information technology assistance to the Town of Collingwood | **20,029** | 18,326 |
| The company is leasing its operations centre and computers from the Collingwood Public Utilities Service Board. The lease has a one year term and is renewable annually. These costs are included in general administration expense. | **317,000** | 311,000 |

### 10. Long-term liabilities

Long-term liabilities consist of the following:

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| 5.47% demand installment loan payable to the CIBC, repaid on January 7, 2009 | **-** | 1,117,353 |
| 7.25% note payable to Town of Collingwood, no set terms of repayment | **1,710,170** | 1,710,170 |
| | **1,710,170** | 2,827,523 |
| Current portion of long-term liabilities | **-** | (1,117,353) |
| | **1,710,170** | 1,710,170 |

Included in general administration expense is $129,020 (2008 - $188,965) of interest on long-term liabilities.

The corporation is contingently liable for a letter of credit in the amount of $1,631,702 (2008 - $1,631,702) to meet the prudential requirements of the Independent Electricity System Operator.

## 11. Other assets (liabilities)

Other assets (liabilities) consist of the following:

| | 2009 | 2008 |
|---|---|---|
| | **$** | $ |
| Deferred charges-service area expansion (net of $90,744 accumulated amortization, 2008 - $82,589) | **114,170** | 122,325 |
| **Regulatory assets** | | |
| Other regulatory assets | **66,530** | 82,356 |
| Smart meter variance | **1,927,304** | - |
| **Regulatory liabilities** | | |
| Purchased power cost variance | **(2,562,776)** | (2,669,912) |
| Regulatory assets recovered | **(507,194)** | (184,311) |
| Smart meter variance | **-** | (29,521) |
| Other regulatory liabilities | **(43,348)** | (333,333) |
| Total regulatory liabilities | **(3,113,318)** | (3,217,077) |
| Net liability | **(1,005,314)** | (3,012,396) |

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.

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 2010. The company launched its project shortly following the Province of Ontario's announcement in 2006. As at December 31, 2009, the company had installed approximately 15,000 smart meters. In 2008, in connection with this initiative, the OEB approved the disposition of the balances incurred in 2006 and 2007. As at December 31, 2009, smart meter capital expenditures totaled $2,257,264 (2008 - $24,073) which is offset by revenues of $262,021 (2008 - $117,270) and accumulated depreciation of $67,939 (2008 - $NIL).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT DECEMBER 31, 2009**

## 12. Employee future benefits

The employees of Collingwood Utility Services Corp. participate in the Ontario Municipal Employees Retirement System ("OMERS"). Although the plan has a defined retirement benefit for employees, the related obligation of the corporation cannot be identified. The OMERS plan has several unrelated participating municipalities and costs are not specifically attributed to each participant. Amounts paid to OMERS during the year totaled $227,922 (2008 - $170,942).

In addition, Collingwood Utility Services Corp. pays certain benefits on behalf of its retired employees. The corporation recognizes these post-retirement costs in the period in which the employees rendered the services. The accrued benefit obligation at December 31, 2009 of $595,475 and the net periodic benefit cost for 2009 was determined by actuarial valuations using discount rates of 6.0% and was adjusted by management based on new information available. 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:

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| **Accrued benefit obligation** | | |
| Balance at the beginning of period | **539,064** | 455,064 |
| Current service cost for the period | **21,715** | 58,887 |
| Interest cost for the period | **35,914** | 28,305 |
| Actuarial loss | **30,014** | 79,478 |
| Prior period cost | **12,868** | 19,303 |
| Benefits paid for the period | **(10,195)** | (14,677) |
| Projected accrued benefit obligation at end of period as determined by actuarial valuation. | **629,380** | 626,360 |
| Unamortized actuarial loss | **(27,471)** | (74,428) |
| Unamortized prior service cost | **(6,434)** | (12,868) |
| Balance at end of period | **595,475** | 539,064 |
| **Components of net periodic benefit cost** | | |
| Current service cost for the period | **21,715** | 58,887 |
| Interest cost for the period | **35,914** | 28,305 |
| Amortization of actuarial losses | **2,543** | 5,050 |
| Amortization of prior service cost | **6,433** | 6,435 |
| Net periodic benefit cost | **66,605** | 98,677 |

## 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 2009 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2009, 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 increase at 9.0% in 2009 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 2009 and thereafter.

## 13. Capital disclosures

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

(a) Ensure ongoing access to funds that will allow the ongoing operation of the service company.

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

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

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

As at December 31, 2009, the company's definition of capital includes shareholder's equity and long-term debt. 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. Contingencies

A class action has been brought under the Class Proceedings Act, 1992. The plaintiff class seeks $500 million in restitution for amounts paid to Toronto Hydro and to other municipal electric utilities (LDCs) who received late payment penalties which constitute interest at 60% per year, contrary to section 347 of the Criminal Code. Pleadings have closed in this action. The action has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceedings brought against Enbridge Gas Distribution Inc. (formerly Consumers Gas).

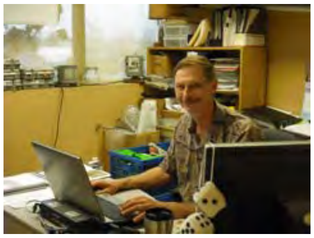
On April 22, 2004, the Supreme Court of Canada released a decision in the Consumers Gas case rejecting all of the defences which had been raised by Enbridge, although the court did not permit the plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Supreme Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by Enbridge and that settlement was approved by the Ontario Superior Court.

In 2007, Enbridge filed an application to the OEB to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008 the OEB approved recovery of the said amounts from ratepayers over a five year period.

After the release by the Supreme Court of Canada of its 2004 decision in the Enbridge case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs. In 2010 the parties reached a tentative settlement and it was determined that the company's portion of the settlement will be $47,000, which has been accrued. The settlement is contingent on all LDCs agreeing to the terms of the settlement.

## 15. Commitments

The company committed to the construction of the Sixth Street substation. The work began during 2009 and is set to be completed in 2010 by Tilltran. As of December 31, 2009 total costs of $1,050,192 had been incurred. During 2010 additional costs of $177,115 are expected to complete this project.

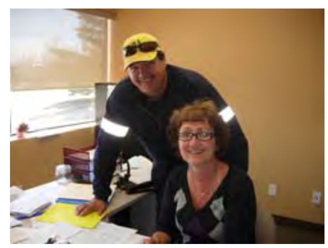




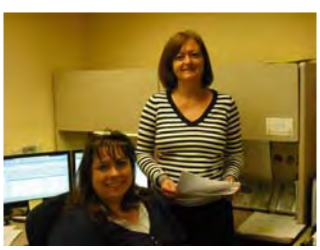
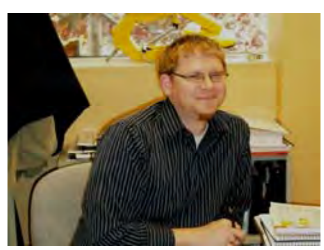




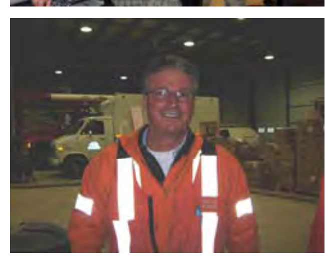

# Collingwood Utility Services



## 2010 Annual Report & 2011 – 2013 Business Plan





The Business Plan and Annual Report focuses on both hydro and water.
The following name references will be used throughout the document:

- **Collingwood Utility Services** – refers to both electricity and water
- **COLLUS Power** – refers to electricity only
- **Collingwood Public Utilities** – refers to water only

43 Stewart Road, P.O. Box 189
Collingwood, Ontario L9Y 3Z5
705-445-1800
www.collus.com

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# A Message from the Chair and the President & CEO

### A MESSAGE FROM THE CHAIR AND FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF COLLUS POWER & COLLINGWOOD PUBLIC UTILITIES SERVICES BOARD

As expected, the level of activity in all aspects of our businesses remained high throughout 2010. It was a year where we saw significant challenges from a regulatory perspective but also from the impacts of a shrinking industrial base. We did however have our successes!

At COLLUS Power and Collingwood Public Utilities, it is quickly acknowledged that our successes are a direct result of our people. Not only do our people work hard and allow us to achieve the desired results of our goals and objectives but they are also an integral part of the operation of our Community. Our staff contributes significantly to the operation and maintenance of the roads and sidewalks, wastewater treatment plant, transit system, computer system, and the development of wastewater rates and development charges. They do this while still performing their regular duties and they do it with professionalism and with tremendous pride. This is our effort to provide additional in-kind value to our Shareholder along with our cash dividends.

As mandated by the Provincial Government, our Smart Metering program continued to be the significant focus of both our metering and billing departments. By the end of 2010 all of our residential and small business customer meters had been installed and were functioning correctly. This proved to be a noteworthy accomplishment since nearly 5% of the electric meters installed were either stopped or not communicating properly. We then focused our attention to transition our customers into Time-of- Use pricing.

Collus and Collingwood Public Utilities remained committed to electricity and water conservation by creating and delivering conservation programs and activities for our residential customers in order to help conserve our precious resources, protect our environment and help mitigate escalating prices. Working with and for our business customers will provide solutions that will be essential in keeping their businesses sustainable today and in the future.

As we move forward, we will continue to build the framework to support growth. We will look for new opportunities and explore new ways of doing things but we will continue to keep focus on our core businesses. We will continue to work closely with our partner and shareholder, the Town of Collingwood, and strive to exceed their expectations. Developing and maintaining this relationship has been the foundation of our business and the rationale for our values and priorities. As an active Community partner, we are proud to celebrate their successes and to help wherever there is the need. Our customers like to know that they are doing business with a company that stands for the things they believe in.

We are proud of the key role we play within our Communities and on behalf of our Boards and our professional staff we wish to thank you for having the opportunity to serve you.

# Financial Analysis of 2010

### A Message from the Chief Financial Officer

The combined Business Plan of Collus Power Corp and the Collingwood Public Utilities Service Board is provided within this document. It provides an overview of the complex financial and administrative strategy that our Boards have established in order to achieve the goals of our Shareholder. The Business Plan outlines the steps that will be undertaken in meeting the objectives while our high level of customer service is continued.

Appendices are included that contain the 2010 Financial Consolidated Statements of Collingwood Utility Services Corp and also the Collingwood Public Utilities. These statements will confirm the financial strength of the companies and provide key information that indicates that 2010 has been another successful year.

### Collus Power Corp

It is difficult to comprehend that 2010 was the 10th year of operation as a corporation formed under the *Electricity Act 1998*. The financial statements for 2010 indicate results that will provide the necessary resources that are required to complete our key short-term and long-term initiatives. In early 2010 our newest substation (Sixth St. and Stewart Road) came into operation and it will provide the additional capacity that we require to implement enhancements to our municipal distribution system. A $3.0M investment has now been made as a result of the Province's Smart Meter Project and this will ensure that our customers will have this important measurement mechanism at their disposal. The government plans to continue to introduce opportunities and rewards for conservation of electricity use. Our investment will ensure that our customers will be able to use their smart meter and the information we can provide to them to take advantage of these opportunities and rewards.

Additionally, we continue to implement steps to ensure that we meet the accounting requirements under the International Financial Reporting Standards rules that must be in place by 2012. Our Board is constantly aware of the severe economic pressure that customers are experiencing and consider this carefully as it establishes the most effective and efficient processes that can meet our goals.

### Collingwood Public Utilities

All of the financial results for 2010 indicate a strong performance. The 2010 Financial Statements are now completed incorporating the new Public Sector Accounting Board requirements. The new format will provide additional information about assets and liabilities which will be incorporated in our future decision making.

The Board has established a budget for 2011 that will provide guidelines that management will follow as it works with the strategies of the recently adopted Town of Collingwood Full Cost Recovery Study. The key components of the study will be incorporated in a Financial Plan that is required to be submitted to the Province in 2011. The Ministry of the Environment and the government in general continue to implement changes within the water and wastewater sector. We have strategically positioned ourselves to take advantage of the opportunities that will be available as the changes are implemented.

# Who We Are

**COLLINGWOOD UTILITY SERVICES IS A COMMUNITY OWNED UTILITY THAT PROVIDES RELIABLE ELECTRICITY, AND WATER SERVICES TO ITS CUSTOMERS.**

***Because we are community owned.......***

- ✓ We have more control over our prices and are able to invest locally to manage reliability
- ✓ We are proud to be actively involved in our community and support our community goals
- ✓ We are not only concerned, we are doing something about the environment
- ✓ We are able to offer the convenience of joint utility services
- ✓ Our Council and our Citizens are our Partners

# Who We Are

**Electrical Customer Class Breakdown-*Based on 2010 full-time equivalent basis***

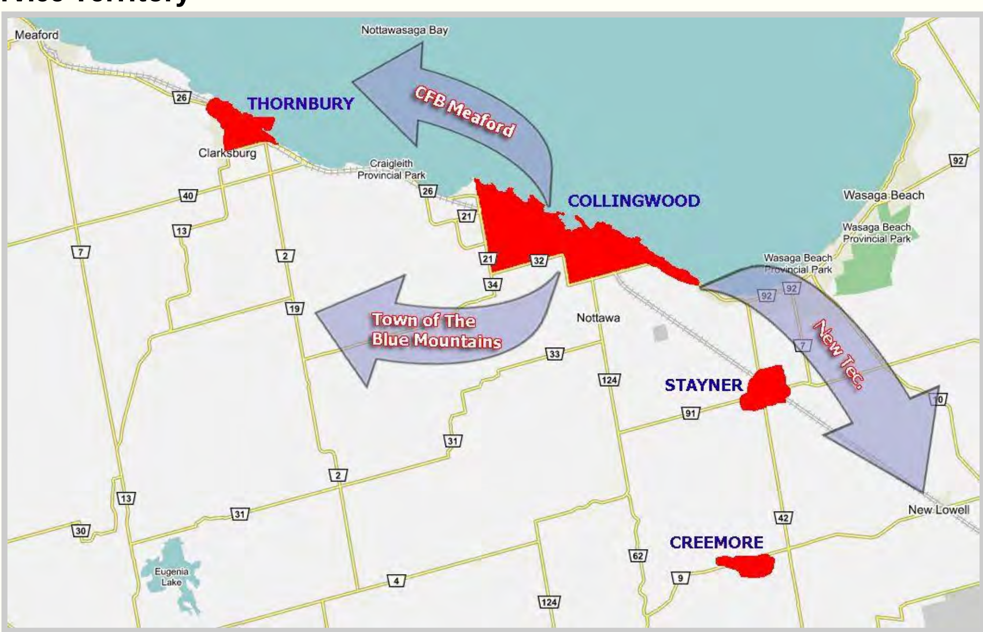
| | Collingwood | Thornbury | Stayner | Creemore | Total Customers |
|---|---|---|---|---|---|
| **Residential** | 9,950 | 1,300 | 1,760 | 590 | 13,600 |
| **< 50 kW** | 1,200 | 210 | 210 | 90 | 1,710 |
| **> 50 kW** | 90 | 15 | 10 | 5 | 120 |
| **Total Customers** | **11,240** | **1,525** | **1,980** | **685** | **15,430** |

**Water Customer Class Breakdown-*Based on 2010 full-time equivalent basis***

| | Collingwood |
|---|---|
| **Residential** | 8570 |
| **General Service** | 730 |
| **Total Water Customers** | **9,300*** |

**** 30 Bulk metered Residential Multi-Units Approximately 1,200 Customers***

**Service Territory**

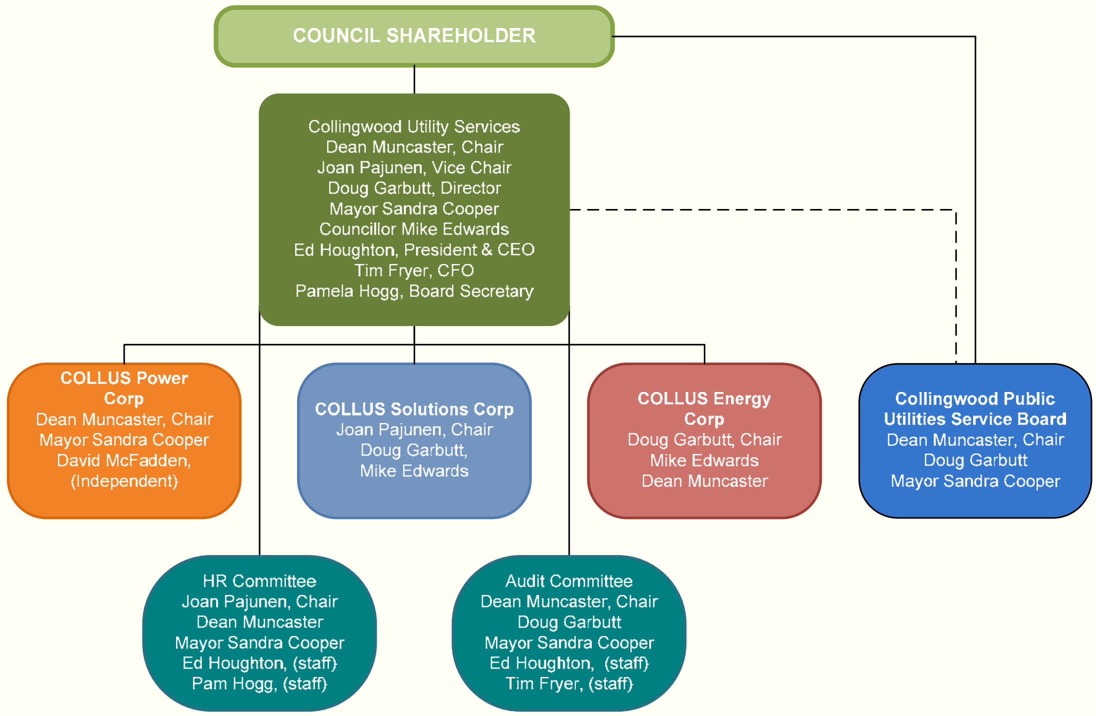



**Contract Services**

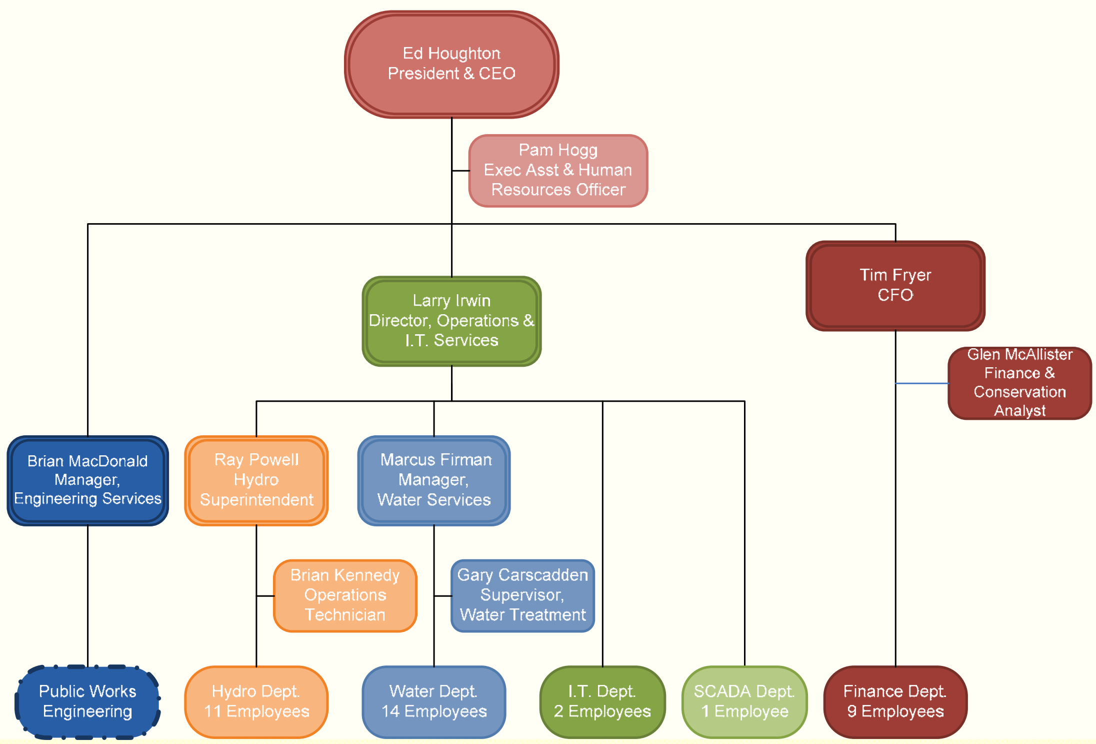
- New Tecumseth - Supply of Water to 66 Km Regional Pipeline
- CFB Meaford - Operation of Water & Wastewater Facilities
- Town of the Blue Mountains - Supply of Water
- Devils Glen Country Club - Operation of Water Treatment Plant
- Home Water Filtration Units - Sale and Installation of Units

# Who We Are

## Organizational Structure




## Employee Structure Overview



# Who We Are

## Board of Directors

Mike Edwards, Dean Muncaster, Sandra Cooper, Joan A Pajunen, Doug Garbutt
*Absent David McFadden*

## Management Team

Marcus Firman, Larry Irwin, Glen McAllister, Ray Powell, Tim Fryer, Gary Carscadden, Pamela Hogg, Ed Houghton

# Who We Are

## Board of Directors

The Board of Directors is responsible for providing the overall strategic direction and is accountable for the results of the Corporations. The Board oversees the conduct of management which is responsible for the day-to-day operation of the businesses and ensures its success through the delivery of agreed upon goals and objectives developed in a shared view with management on key issues such as vision, mission, goals, objectives, business definition and tactics. The Board has an obligation to ensure that the corporations operate in a transparent and accountable manner. Consistent with the strategy and vision, the Board accepts this responsibility with a commitment to our customers and our shareholder.

## Board Committees

### Audit Committee

The Audit Committee is responsible to help the Board meet its fundamental responsibilities of protecting the Corporations assets and managing the operations as efficiently as possible; review the adequacy of the Corporations system of internal controls; increase the credibility and objectivity of the utility's financial report; review the activities, organizational structure and qualifications of the internal audit function; review the independent auditor's proposed audit scope and approach; conduct a post-audit review of the financial statements and audit finding, including any significant suggestions for improvements provided to management by the independent auditors. In addition, the Audit Committee performs other oversight functions as requested by the Board.

### Human Resources Committee

The Human Resource Committee objective is to contribute to the ongoing success of the Corporation through the provision of actionable recommendations surrounding acquisition, assessment, development, management, retention, reward and/or consequences of the human capital of the company. And, to contribute to the long term success of the company by ensuring sufficient attention is paid to avenues of approach in succession planning. It is the responsibility of the committee to deliver accurate and timely information and direction to the board related to the human aspect of the company through researching internal and external resources and applying information of a cohesive plan. And, by ensuring recommendations are realistic, appropriate and ready for a cost benefit analysis.

# Overview of our Business Plan & Annual Report

As with previous years, Annual Report & 2011—2013 Business Plan is a combined Business Plan and Annual Report covering the activities of both our electricity and water businesses. Once again for ease of comparison, our report takes on a similar image of our previous years.

Collingwood Utility Services and its employees have built a reputation in both the water and electricity industry for being forward thinking and fiscally responsible in the pursuit of success for their various business activities. We trust that you will take pride in your review of our report as we have in its preparation. We believe that this report is concise and transparent and is an understandable document expressing a three-year direction for our business activities.

The electricity and water services in Collingwood have been delivered on the basis of a "shared service model" designed to maximize efficiencies between all utility services and bring the greatest value to the customer. This business plan builds on the successes realized to-date and offers directions that are consistent with the Municipality's expectations and our goal to be recognized as a leading provider of electricity and water services both Provincially and Nationally.

This document contains information pertinent to our 2010 annual reporting requirements and a detailed business plan spanning the years 2011 through 2013.

The Business Plan focuses on both electricity and water. The following name references will be used throughout the plan;

- **Collingwood Utility Services** - referring to both electricity and water
- **COLLUS Power** - referring to electricity only
- **Collingwood Public Utilities** - referring to water only

**Governance & Ownership**

**Collingwood Utility Services Corp.** is comprised of five directors with Council being articulated in the Electricity Act as the single shareholder. The Board is made up of the Mayor, a Councillor and three other Council appointed Directors. Members of the Board, make up two Committees, an Audit Committee and a HR Committee.

**COLLUS Power** is comprised of three directors, one being the Mayor and the two other directors are appointed by Council. One of the directors must be totally independent of any affiliate.

**Collingwood Public Utilities** is municipally owned and governed by a Municipal Services Board that from time to time when required reports to Council. The Board is comprised of three Directors, one being the Mayor with the other two appointed by Council. Existing municipal by-laws provide some strategic direction, outlines executive limitations and reporting requirements. Reporting of Board business to Council is done by Staff presentations at Council Meetings, issue updates via email from the President and CEO, and through Her Worship Mayor Cooper as our Council Representative.

# A Track Record of Success...At A Glance

## DEDICATED TO BUILDING BETTER COMMUNITY SERVICE

### Customer Service & Corporate Management

- ✓ Implemented cost-savings through an integrated single customer information system, and accrual accounting between COLLUS Power and Collingwood Public Utilities.
- ✓ Implemented customer focused billing standards resulting in improved accuracy, reduced estimations, increased payment options and a single customer point of contact.
- ✓ Implemented cost-savings through an integrated corporate management and customer service structure between COLLUS Power and Collingwood Public Utilities.
- ✓ The 2004 Water and Wastewater rate study was revisited in 2009 and completed and accepted by Council in 2010. The rate study is based on true cost billing in accordance with current Regulations.
- ✓ Hired a Customer Service Representative to enhance customer needs such as coordinate appointments with customers, handle enquiries and complaints and organizing service locates.

### Corporate Finance

- ✓ Debt Repayment - Goal continues to be to reduce debt to equity ratio annually.
- ✓ Combined water sales and services outside the municipal boundaries provide a total revenue in excess of $1.0 M annually.
- ✓ Dividends and in-kind services to the municipality / shareholder close to $1 M annually.
- ✓ Continued affiliation with other utilities through the Cornerstone Hydro Electric Concepts Association (CHEC) has provided financial benefits through shared cost savings.
- ✓ Utilities Collaborative Services cooperative association for new Customer Information System for further cost savings.

### Operations Management

- ✓ The Water Treatment Plant has been registered ISO 14001 Environmental Management Standard since 2005. In 2010 a reaccreditation audit was successfully completed re certifying the plant until 2013. This accreditation exceeds provincial regulation requirements and shows Collingwood Public Utilities commitment to the Environment.
- ✓ In 2009 the environmental management system was integrated with a quality management system in order to comply with the new Regulation. The new Drinking Water Quality Management System was integrated in June 2009 and an application for accreditation was made. We were finally successfully audited in April 2011 and accreditation will follow this summer.
- ✓ The DWQMS and ISO 14001 are implemented through the Operational Plan. This Plan is reviewed by Top Management and endorsed by the Board annually.
- ✓ In 2010 we participated in the National Benchmarking Initiative, the results of which will be available in 2011. This initiative will allow management to develop Key Performance indicators as well as a comparison tool for our customers.
- ✓ Our aggressive leak detection and water loss reduction program continues - The system has an excellent Infrastructure Leak Index (ILI) of 1.08.
- ✓ Our conservation program which includes a low Flush Toilet rebate program has been continued. In 2010 there were 347 rebates issued. As a result over 8000$m^3$ of potable water was conserved and resultant green house gas reduction of 2.6 tones. It is intended to continue with this program.

# Our Vision, Mission & Values

**VISION - WHERE WE WANT TO GO**

Together, we will grow, maximize opportunities and exceed customers' expectations.

**MISSION—WHO WE ARE**

Our business provides people with the energy for success, and with the necessities of life.

**VALUES - HOW WE ACT**

We value the entrepreneurial spirit to responsibly and decisively challenge the conventional.

**Trust -** ***Building & Maintaining Customer Confidence***

- ✓ We value a work environment based on public accountability, customer satisfaction, respect and giving back to the community.
- ✓ When problems arise, they are dealt with quickly, professionally and courteously.
- ✓ Citizens recognize our community relationship and responsiveness as key values of local ownership.
- ✓ We operate in an environment of openness and transparency while protecting our customers' confidentiality.

**Responsibility -** ***Committed to Service Quality, Reliability & Conservation***

- ✓ We value prudent and responsible financial management.
- ✓ We value a high standard of environmental excellence.
- ✓ We value superior health and safety standards and practices.
- ✓ We value our obligation to protect our customers and staff by exceeding the highest standards of training for our employees.

**Sustainability -** ***Environmental, Economic, Social & Cultural***

- ✓ We value sustainable community planning.
- ✓ We value the gold standard of environmental excellence
- ✓ We value the four pillars of sustainability; environmental, Economic, Social & Cultural
- ✓ We value a sustainable Regional approach

**People -** ***Strong Relationships & Pride Make a Difference***

- ✓ We value our employees as our most important asset and celebrate their accomplishments.
- ✓ We listen, and we respond in the best manner we can.
- ✓ We treat people with dignity, fairness and respect.
- ✓ We value individual and organizational accountability.
- ✓ We value timely, effective, honest, and open communication throughout the organization, with our stakeholders.

**Partnerships & Collaboration -** ***Leveraging & Sharing Resources***

- ✓ We value integrated solutions that eliminate duplication and improve efficiency and effectiveness
- ✓ We value peer and industry partnerships and the opportunity to improve cost and service levels in our community and the communities we serve.

**Continuous Improvement -** ***Business Processes & Technology That Delivers Results***

- ✓ We embrace the opportunity of legislative & regulatory reform and the need to stay "one step ahead."
- ✓ We strive to remain at the leading edge of technology.

# Direction

### Direction

The Strategic Direction for Collingwood Utility Services begins and ends with our stakeholders.

The customers benefit from quality water and electric services and value local representation.

### Customer Benefit

**Customers will benefit from quality utility services because:**

Customer expectations are satisfied.

- ✓ Overall customer satisfaction will be among the highest in the Province
- ✓ Our rates for core services are deemed to be fair and sustainable and seen as such by our customers.
- ✓ Customers will be very satisfied with service responsiveness and dependability
- ✓ Respond to unplanned electric outages within 30 minutes on an annual basis.
- ✓ Respond to unplanned water interruptions within 30 minutes on an annual basis.

Hydro and Water services are safe.

- ✓ Safety is never compromised.

### Customer Value

**Customers value local ownership because Collingwood Utility Services:**

- ✓ Collingwood Utility Services is supportive of community needs and values.
- ✓ Collingwood Utility Services recognizes the customers concern for the environment.
- ✓ Collingwood Utility Services is concerned about the financial impact of our rates to our customers.
- ✓ Local control of customer rates was a key reason for retaining a local presence and ownership.
- ✓ Customers benefit from accessible and accountable local decision-making.

# Corporate Goals

### Goals, Core Values & Performance Measures

The following corporate goals are designed to put into action and achieve the desired outcomes anticipated in the vision and value statements. By design, the corporate goals are limited in number, practical, manageable, and highly focused in relation to the activities of the corporation. A specific measure and associated values are presented in conjunction with each relevant goal statement.

1. **To Provide Safe, High Quality Of Water And Electricty Services To All Our Customers.**

   **Core Values:**
   - Trust-Building & Maintaining Customer Confidence, Committed to Service Quality, Reliability & Conservation

   **Performance Measure:**
   - Safety, Quality of Service, Legislative & Regulatory Compliance

2. **To maintain a sound financial position while striving to meet the financial expectations of the Municipality by communicating business outcomes to the owner.**

   **Core Values:**
   - Committed to Service Quality, Safety, Reliability & Environmental Conservation

   **Performance Measure:**
   - Financial & Risk Management

3. **To build and strengthen customer relationships.**

   **Core Values:**
   - Trust-Building & Maintaining Customer Confidence, Committed to Service Quality, Reliability & Environmental Conservation, Openness and Transparency, and Confidentiality

   **Performance Measure:**
   - Quality of Service

4. **To pursue new entrepreneurial opportunities both locally and regionally which benefit our customers and provide value to the business and municipality/ shareholder.**

   **Core Values:**
   - Partnerships & Collaboration, Leveraging and Sharing Resources, Continuous Improvement, Business Process & Technologies That Delivers Results

   **Performance Measure:**
   - Develop & Maintain Strategic Partnerships To Minimize Costs, Pursue Entrepreneurial Opportunities.

# Corporate Goals

5. **TO BUILD AND MAINTAIN A SUSTAINABLE WATER AND ELECTRICITY SYSTEM BASED ON A STRONG ASSET MANAGEMENT PROGRAM.**

   **Core Values:**
   - Trust-Building & Maintaining Customer Confidence, Committed to Service Quality, Safety, Reliability & Environmental Conservation.

   **Performance Measure:**
   - Financial & Risk Management, Legislative & Regulatory Compliance

6. **TO SEEK AND ENCOURAGE EFFICIENT AND EFFECTIVE IMPROVEMENTS BY SUPPORTING INTEGRATED BUSINESS SOLUTIONS WHEREVER APPROPRIATE AND PRACTICAL.**

   **Core Values:**
   - Partnership & Collaboration, Leveraging and Sharing Resources.

   **Performance Measure:**
   - Develop & Maintain Strategic Partnerships To Minimize Costs

7. **TO BE AN "EMPLOYER OF CHOICE" WHERE EMPLOYEES ARE PROUD TO WORK AND OTHERS WANT TO WORK.**

   **Core Values:**
   - People-Strong Relationships & Pride Make A Difference, Health and Safety Standards and Practices, Business Processes & Technology That Delivers Results

   **Performance Measure:**
   - Employee & Labour Relations, Employee Retention

8. **TO BE RECOGNIZED AS A LEADER IN ENVIRONMENTAL STEWARDSHIP.**

   **Core Values:**
   - Committed to Service Quality, Reliability & Environmental Conservation

   **Performance Measure:**
   - Environmental, Consistency with Shareholder's Sustainable Community Plan

9. **TO PROMOTE CONSERVATION AND THE WISE USE OF WATER AND ELECTRICTY RESOURCES.**

   **Core Values:**
   - Committed to Service Quality, Reliability & Environmental Conservation

   **Performance Measure:**
   - Financial & Risk Management, Consistency with Shareholder's Sustainable Community Plan

# Corporate Goals

## 10. To identify and build strong community relationships.

**Core Values:**
- Trust-Building & Maintaining Customer Confidence

**Performance Measure:**
- Develop & Maintain Strategic Partnerships, Local Community Involvement

## 11. To encourage and support local economic development.

**Core Values:**
- Trust-Building & Maintaining Customer Confidence, Committed to Service Quality, Reliability & Environmental Conservation, Partnerships & Collaboration, Leveraging and Sharing Services

**Performance Measure:**
- Develop & Maintain Strategic Partnerships, Legislative & Regulatory Compliance, Pursue Entrepreneurial Opportunities to Increase Efficiencies

## 12. To promote and encourage the advancement of technology and innovation contributing to the synergies between our public utilities services (water & electricity).

**Core Values:**
- Continuous Improvement, Business Process & Technologies That Deliver, Safety and Reliability

**Performance Measure:**
- Develop & Maintain Strategic Partnerships To Minimize Costs

**The Board and Management Staff have established four major strategies for supporting Collus's goals and future direction.**

1. Collus Power will investigate becoming a full energy company using Epcor as a model upon which to improve and innovate its business model—a total utility concept and an energy Entity.

2. Collus Power will partner with its Shareholder and others to expand renewable energy.

3. Collus Power will investigate boundaries and opportunities in order to maximize its service delivery.

4. Collus Power will, in conjunction with the municipality become a Beta Model Lab for the development of innovations in sustainable solutions.

# Industry Trends

| **TRENDS** | **COLLINGWOOD PUBLIC UTILITIES ACTIVITIES** |
| --- | --- |

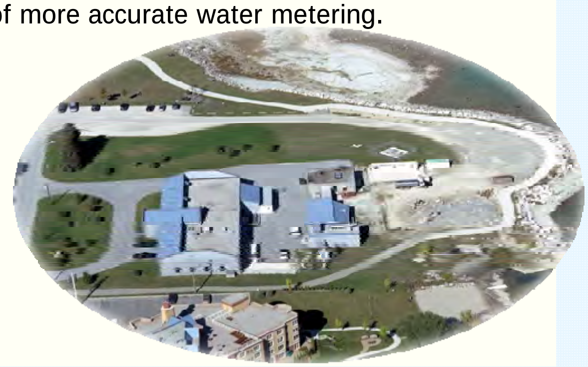
**Maintaining Public Confidence**

Following the media blitz in 2009 through numerous documentaries on basic water issues such as, conservation, commoditizing water, the exporting of water, abusing the environment etc. Public opinion remains heightened regarding concern over all things environmental. As mentioned in previous reports the areas of concern include green house gas emissions, global warming, falling lake levels as well as concern over various contaminants such as lead and pharmaceuticals and personal care products in water to name just a few. Collingwood Public Utilities ensures that our point of view is well represented in the development of new regulations pertaining to these issues by participating in various Boards and Government committees and panels. As a result of this involvement, Collingwood Public Utilities has developed a reputation as a leader in water and environmental issues in the industry and is perceived by the public as a steward of the environment.

Collingwood Public Utilities believe that through a policy of public openness and transparency have developed a high level of Public confidence. This has been confirmed through the results of a customer satisfaction survey undertaken in Spring 2010. It is Collingwood Public Utilities' goal to maintain this confidence through continued improvement and openness. In 2010 two water newsletters were included in the billing and it is intended to continue with these regular publications. In addition to this newsletter Collingwood Public Utilities continue to provide the public with information on water quality and regulated issues through Public information books, the internet and Radio and Television broadcasts. In this vein Collingwood Public Utilities is participating in a National Benchmarking Initiative. The information gathered from this initiative will be made available to our customers and will show a direct comparison with other progressive water providers.

One area that has peaked the public interest is water conservation and in this regard Collingwood Public Utilities will continue a low flush toilet rebate program. This was well received and will be continued until interest starts to diminish. As a longer term project Collingwood Public Utilities intends to continue with an education program that promotes the use of Tap water. Reusable water bottles have been distributed to all Grade school students together with a teacher's resource package. Collingwood Public Utilities believes that this grass roots project will result in long term benefits to the environment.

Another issue that is coming more and more to the forefront is the possibility of time of use water metering. This will be similar to the current smart meter program mandated by the government for electricity. However, in order to employ this type of billing it will require a systematic change out of water meters from the present metre reads to litre reads. In order to take full advantage of producing water in off peak energy slots it is necessary to have a large percentage of spare production capacity at the treatment plant, this will only be available if the plant is expanded. Nonetheless, Collingwood Public Utilities believe that the use of litre reading meters enhances conservation as efforts to reduce water use can be easily seen. In this vein Collingwood Public Utilities is currently undertaking a pilot study using state of the art water meters in an effort to determine both the tangible and intangible benefits of more accurate water metering.



# Industry Trends

**Trends** | **Collingwood Public Utilities Activities**

## Aging Water Infrastructure

**Trends**

Collingwood Public Utilities having completed a complete asset inventory in 2004 and continue to review the status of the water infrastructure annually as part of our Management System management review. Currently the water main break ratio is less than 50% of the Provincial average and our unaccounted water loss meets MOE best practices. This was confirmed by conducting an AWWA water Audit this produced an Infrastructure Leak index of 1.08. This is an excellent result that indicates that the system is in excellent condition and that further efforts to reduce leakage would be un economic. As a result Collingwood Public Utilities will continue to enhance the water distribution system by upgrading and replacing assets as required.

**Collingwood Public Utilities Activities**

Related projects for 2011 include:

- ✓ Continued membrane replacement and the refurbishment of a high lift distribution pump at the water treatment plant.
- ✓ Replacement of old residential meters and calibration and refurbishment of one third of the larger commercial water meters.
- ✓ Upgrading old 100mm dia. Cast Iron water mains on Robinson and George Streets as part of the Town Sewer replacement project.
- ✓ Construction of a new 300mm dia. water main to close the loop between Poplar Sideroad and Raglan Street.

# Industry Trends

| TRENDS | COLLUS POWER ACTIVITIES |
|---|---|
| **Evolving Electricity Industry** | |
| The passing of the Green Energy and Green Economy Act in 2009 has had a significant impact on the industry and will continue to change the way Distribution Utilities will need to focus their efforts for years to come.<br><br>The Act has resulted in updates to the Distribution System Code as well as the Retail Settlement Code, both of which are key documents governing the operations of an LDC. In addition, during 2010 the Conservation and Demand Management (CDM) Code was introduced. | Key areas affected by the new legislation are:<br><br>Increased Focus on Distributed Generation through the implementation of the Feed In Tariff program.<br><br>Conservation Targets set Provincially by way of Regulation to the OEB and further by way of a Condition of License for the Local Distribution Companies. The CDM Code spans 2011-2014 and requires Provincially 2014 Net Annual Peak Demand Savings target of 1,330 MW and 2011-2014 Net Cumulative Energy Savings Target of 6,000 GWh. COLLUS Power is tasked with Demand Savings of 3.14 MW and Energy Savings of 14.970 GWh. |
| **Smart Grid** | |
| The foundation of a Smart Grid comes from two primary building blocks.<br><br>1. The installation of Smart Meters and the related systems.<br>2. A reliable Transmission and Distribution infrastructure which can accommodate the needs of both consumers and generators. | In 2009 COLLUS Power completed an extensive overhaul of the Supervisory Control and Data Acquisition (SCADA) system. With more and more reliance on the distribution system and the need to incorporate the "smarts" for the Smart Grid, COLLUS needed to ensure that the data centre which provides operational control of the Distribution infrastructure was both robust and secure from external attacks. The new server-based platform has allowed for additional security enhancements to the system. |
| **Smart Metering Systems** | |
| The "Smart Metering" plan initiated by the Government required the replacement of every electricity meter across the province by the end of 2010.<br><br> | By the end of 2010, COLLUS Power staff had installed over 15,400 smart meters across our service territory, which represents 99% of our total meter deployment.<br><br>Staff have been actively involved in establishing the communications infrastructure and testing the integrity of any data flowing through the system. Proper system tuning is key to facilitating the use of the new metering technology in preparation to migration to the Meter Data Management Repository. |

# Industry Trends

| **TRENDS** | **COLLUS POWER ACTIVITIES** |
|---|---|
| **Distributed Generation** | |
| In October of 2009, the Ontario Power Authority launched the Feed In Tariff program which provides 20 year contracts to purchase power from Renewable Generation Facilities across the province.<br><br>By the end of 2010, the OPA had over 24,000 applications from small (<10kW) generators, and over 4,000 applications from larger facilities. In the COLLUS Power service territory there are 6 roof top Solar PV and 1 ground mount Solar PV generators connected to the grid. In addition there is 1 Hydroelectric generator.<br><br>The response has been compared to a “gold rush” of Solar PV systems ranging from stand-alone facilities which are pole mounted in a field to roof-top installations on residential homes everywhere. | COLLUS staff have been very much involved with the OPA in the development of the settlements and technical guidelines which needed to be clearly established in order to accommodate this unprecedented level of generation connections.<br><br>COLLUS Power has been an active supporter of Distributed Generation, and will continue with their active participation as a leader in the industry.<br><br>COLLUS Power Staff has and will continue working with the Ontario Power Authority as they update their power purchase plans for Distributed Renewable energy to help ensure a streamlined process that not only is profitable for the generator, but also protects the interests of all Ontario consumers. |
| **Transmission & Distribution Systems** | |
| COLLUS Power has made significant investments in the distribution system particularly over the last few years. Most significant was the 2009 completion of the upgrade to the Municipal Substation (MS5) and in 2010 the completion of a substation and feeder line at the corner of 6th Street and Stewart Road. | A major upgrade to the Transmission facilities feeding the Stayner Transformer Station was completed in 2009. The project reflected a significant investment of over $40,000,000 by Hydro One in our area and was the culmination of system planning which began in the early 1990’s. This project will provide us with security of supply for at least the next 12 years. |

Happy Retirement Darius!

# Our Business Direction - Water

### Legislative / Regulatory

- ✓ The Watertight Report provided recommendations to implement the findings of Justice O'Connor's Walkerton report. Of the 51 recommendations made in the report. Collingwood Public Utilities have stated to the Minister their objection to only one: the proposal to establish a new Ontario Water Board. Collingwood Public Utilities believes this will compound costs and add another layer of bureaucracy to the present system. This proposal has resurfaced as Bill 13 the Sustainable Sewage and Water System Improvement Act. Although there are many points contained in this Act that Collingwood Public Utilities agrees with, the act still proposes the establishment of an Ontario Water Board and again Collingwood Public Utilities have stated to the Minister their objection to this measure.
- ✓ Continue to monitor the implementation of the proposed Clean Water Act will do three things:
  It will direct local communities to look at any activity that could threaten water quality and take action to reduce or remove that threat; It will empower local authorities to take preventative measures to reduce the risk that an activity may interfere with a water supply and; It will require that the whole community participates in finding workable, effective solutions through full and open public consultation. As a result of this Act Collingwood Public Utilities has recognized Source Water Protection as a significant environmental aspect in our ISO 14001 EMS prior to the Clean Water Act requiring any action. Intake protection zones 1 and 2 are now in place and work continues on intake protection zone 3
- ✓ Collingwood Public Utilities is an active member of the Annex Advisory Panel that provides input to the various ministries both provincial and federal on issues pertaining to the sustainability of the Great Lakes and regulations governing the intra and inter basin transfer of water between water sheds.

### Rate Study, Asset Management and Financial Plan

- ✓ The 2004 comprehensive water and wastewater rate study was revisited in 2009, and the new report accepted by Council in 2010. This report is a living document and has led the way to sustainability for water and wastewater rates. Currently the forecasted rate changes are at sustainable levels in that they are estimated to be less than the rate of inflation. However, as a living document, rates can be adjusted on a yearly basis depending on circumstances, and will be annually reviewed by Council as part of the Fees and Service Charge Bylaw.
- ✓ The water system is graphically recorded on the Collingwood Public Utilities' GIS system. This system is continually upgraded and provides an accurate graphical representation of it, and as well it provides us with the ability to build data bases to monitor maintenance of the system. In addition the data is also being used to determine when asset replacement is required based on age and condition of the asset.
- ✓ As a requirement of being awarded a Provincial Drinking Water License a Financial Plan must be developed and submitted to the MOE and MOHMA for review and acceptance. This plan utilizes the rate study report and will be finalized and submitted to Council for acceptance in 2011.

# Our Business Direction - Water

### Status of Labour Agreement

- ✓ First year of three year agreement - September 1, 2010 to August 31, 2013

### To Provide Service for the Least Possible Cost

- ✓ Shared resources model in Place for CEO, IT, HR, Finance, customer care and administration services
- ✓ Further cost savings to the Town of Collingwood; we provide I.T. Public Works Management Services and Managerial assistance and expertise to the Environmental Services department.

### Finance / Customer Charges

- ✓ Full cost recovery requirements are determined and then funded through customer charges. No subsidization is required from the Town of Collingwood's tax revenue.

### Integrated Management System (DWQMS / ISO14001)

- ✓ Collingwood Public Utilities' water treatment plant has been registered ISO 14001 since 2005. The Environmental Management System has now been integrated with the regulated requirements of the Drinking Water Quality Management System through the Operational Plan to cover the Collingwood Drinking Water System. The Collingwood Drinking Water System is defined as everything related to potable water from the intake to the curb stop at property line.
- ✓ The Operational Plan addresses the primary function of Collingwood Public Utilities, which is to produce and distribute safe drinking water that meets applicable legislative and regulatory requirements and provide for the continual improvement of the Management System. The system is also designed to include all reasonable precautions for safeguarding the health and safety of Collingwood Public Utilities employees and to protect the environment within the concept of sustainable development.
- ✓ The Operational Plan is designed to ensure Collingwood Public Utilities achieves its goals of accreditation under the Safe Drinking Water Act 2002 (SDWA) and conformance to the Ontario Health & Safety Act, both as amended from time to time and certification status within ISO 14001:2004.
- ✓ Both the Environmental and Drinking Water Quality Management Systems are subject to annual independent auditing.

# Our Business Direction - Water

### The Environment and Conservation

- ✓ As stated in previous business plans Collingwood Public Utilities and the Town are members of the Great Lakes and St Lawrence Cities Initiative and have volunteered to take part in a Water Conservation Framework. The goal of this program is to reduce water consumption levels by 15% by 2015. This goal has been exceeded since 2008 and it is Collingwood Public Utilities goal to maintain progress in its conservation program. Currently as reported in the annual framework report, residential use has been reduced by some 24% since 2000. Current residential usage is only 176 litres per capita per day as compared to a Canadian average of 320 litres per capita per day.

- ✓ The low flush replacement toilet program was continued in 2010 and will be continued in 2011. The resultant annual water savings was approximately 8000 $m^3$ which represents a reduction in green house gas emission of approximately 2.6 tonnes.

- ✓ Leak Detection: Collingwood Public Utilities undertakes an annual leak detection survey to limit undetected water losses. An AWWA water audit confirmed the success of this program.

- ✓ In partnership with Blue W, Collingwood Public Utilities funded together with industry sponsors a tap water promotion and education program that has been presented to local schools together with reusable water bottles to all elementary school students. Membership in the Blue W program enables members of the public to access tap water to refill reusable water bottles at various establishments throughout town.

### Other Programs

- ✓ Collingwood Public Utilities continues to undertake regular hydrant and dead end flushing to maintain the high quality of potable water as well as ensure fire protection capabilities.

### Commercial Initiatives

- ✓ Sale of water to New Tecumseth Improvement Society (Alliston)
- ✓ Sale of water to Town of the Blue Mountains
- ✓ Operation of water and wastewater treatment plants at Land Forces Training Centre; Canadian Forces Base, Meaford
- ✓ Operation of Devil's Glen Country Club Water Treatment Plant
- ✓ International Training Centre for Zenon Ultrafiltration Technology
- ✓ Sales and Installation of Home Filtration Units.

# Our Business Direction - Electricity

The Business Planning process for the COLLUS Power must recognize all the key influences from the business environment that it functions within. Management's assessment of these key factors is set out below.

### Legislative / Regulatory

- ✓ As a Licensed Local Distribution Company, COLLUS Power Corp answers to several entities which govern our activities:
  - The Government of Ontario
  - The Ontario Energy Board
  - The Independent Electricity System Operator
  - The Ontario Power Authority
  - The Electric Safety Association

- ✓ The staff at COLLUS Power are committed to meet every requirement placed upon us in a timely fashion, and to avoid any non-compliance notices. Our staff will continue to monitor the changes through ongoing participation in work groups, task forces, and corporate affiliations.

- ✓ COLLUS Power Corp customers in the towns of Collingwood, Creemore, Stayner, and Thornbury depend on a safe and reliable supply of electrical energy. Through the ongoing dedication to high quality service and attention to the various codes, regulations, and legislative documents, COLLUS Power staff remain committed to deliver on the expectations of our customers and our shareholder.

### Status of Labour Agreement

- ✓ First year of a three year agreement - September 1, 2010 to August 31, 2013

### To Provide Service for the Least Possible Cost

- ✓ Shared Resources Model in Place for CEO, IT, HR, Finance, Customer Care and Administration Services
- ✓ Further cost savings to the Town of Collingwood; we provide I.T. ,and Public Works Management Services

### Finance / Customer Charges

- ✓ COLLUS Power follows Regulatory Accounting Processes and Generally Accepted Accounting Practices to record their financial performance
- ✓ COLLUS Power's customer charges are regulated by the Ontario Energy Board as are all Electric Utilities in the Province.

# Our Business Direction - Electricity

## Conservation and Demand Management (CDM)

Throughout 2010, COLLUS Power has actively promoted and delivered conservation programs to our customer base. Conservation is the key to affordable power for our customers given the industry trend of rising costs under the current Government policies driving the electricity industry.

### Small Business Direct Install Program

Throughout 2010 COLLUS continued to provide the Small Business Direct Install program which is targeted at the Small Commercial (<50kW) customer base. This program provided free lighting and water heating upgrades up to $1,000 per facility. Recognizing the fact that small business is a key driver to the economy, the Ontario Power Authority designed the program in a way to help as many small businesses to participate as possible.

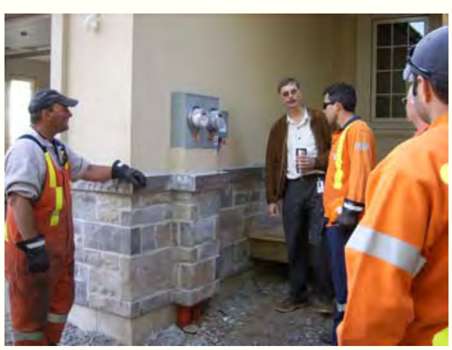
By the end of 2010, contractors had completed over 238 (2009 - 390) retrofits representing an investment of over $200,000 (2009 - $345,000) worth of incentives.

These customers not only saved on the cost of the retrofit, but will continue to save on their energy bills for years to come. The program will help their “bottom line” and surely help these small businesses continue to thrive in the Towns they service.

### Education and Awareness

Advancing the importance of understanding conservation to customers in all market sectors and in turn facilitating the programs empowering customers to adopt energy saving opportunities requires significant effort and consistent marketing. Common messages and approaches have and will continue to be utilized to achieve greatest possible penetration.

It is also important that our internal staff have a good understanding of the technologies such as “Smart Metering” and “Distributed Generation” and how they will impact our customers. COLLUS has held training sessions on both these technologies for our internal staff including basic overview of systems as well as on-site review of installed systems in the field



# Our Business Direction - Electricity

## Conservation and Demand Management *cont'd*

### RENEWABLE ENERGY TECHNOLOGIES

Distributed Generation and Renewable technologies are a key component to the Green Energy and Green Economy Act passed by the Provincial Government in 2009. COLLUS understands the important role we play in helping to educate our customers on what is involved in setting up these technologies and connecting to the Grid. With the increased attention to Solar and Wind generation at a residential level, it is important that our customers understand proper connection and operation of the systems both for their return on investment and for the safety of the public and our staff.


The COLLUS Renewable Energy Trailer is a pivotal tool in providing our customers a hands-on overview of the systems and technology. The assembly of the trailer involved students from Collingwood Collegiate Institute under the expert guidance of the Science Department and staff from Excess Energy.

Beginning in 2009 COLLUS Power partnered with the staff at Elephant Thoughts to take the trailer into the schools across our service territory. The trailer is an integral part of the Earth Keepers workshop, a complete half-day curriculum on electricity and renewable energy technologies. The program was so well received by the local schools, COLLUS re-visited the schools in 2010 and the program will be continued in the spring/summer of 2011.

### PARTNERSHIPS / SPONSORSHIPS

As with our partnership with Elephant Thoughts, COLLUS understands that in order to achieve the greatest return for the investment in conservation efforts, it is best to partner with individuals, organizations, and retail outlets to avoid duplication of delivery channels. COLLUS Power will continue to work with local retail outlets, and organizations such as the Environment Network, to promote and deliver conservation products and services.


# Market Energy Prices - Electricity

In 2005 the Government introduced a new component to the market pricing structure called the Global Adjustment (GA) (known as the Provincial Benefit on consumers power bills). The intent of the Global Adjustment was to provide a method of balancing the difference between the market prices for electricity and the fixed contract prices established with many generators in the province. As the years progressed, the GA became the conduit for collecting the required funds for the conservation programs driven by the Ontario Power Authority. Continuing the trend started in 2009 the Global Adjustment has remained either higher or almost on par with the Actual Market rate, representing on average 43 % (2009 - 48%) of the Average Weighted Hourly Price shown in the chart below.

| Year | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|
| Average | 5.67 | 5.19 | 6.57 | 5.08 | 5.48 | 5.72 | 6.01 | 6.54 |
| Jan | 6.23 | 6.95 | 5.97 | 4.26 | 5.64 | 4.66 | 6.69 | 6.83 |
| Feb | 8.86 | 5.43 | 5.04 | 4.55 | 6.78 | 6.35 | 5.38 | 6.92 |
| Mar | 8.48 | 5.02 | 6.09 | 5.21 | 5.13 | 6.18 | 4.01 | 5.43 |
| Apr | 6.16 | 4.73 | 6.35 | 4.94 | 4.75 | 5.28 | 4.98 | 7.74 |
| May | 4.51 | 5.05 | 5.46 | 5.61 | 4.57 | 4.16 | 6.89 | 7.45 |
| Jun | 4.53 | 4.94 | 7.11 | 5.12 | 5.78 | 8.47 | 5.27 | 6.28 |
| Jul | 4.27 | 4.78 | 7.60 | 5.63 | 5.33 | 6.20 | 5.51 | 7.89 |
| Aug | 5.15 | 4.55 | 8.27 | 5.90 | 6.35 | 5.35 | 7.17 | 5.25 |
| Sep | 5.05 | 5.13 | 8.27 | 3.58 | 4.78 | 6.01 | 5.57 | 4.79 |
| Oct | 5.90 | 5.04 | 6.02 | 5.47 | 5.62 | 5.00 | 7.16 | 5.91 |
| Nov | 4.19 | 5.38 | 4.52 | 6.12 | 5.18 | 6.14 | 6.06 | 7.24 |
| Dec | 4.68 | 5.28 | 8.14 | 4.56 | 5.81 | 4.87 | 7.40 | 6.80 |

The difficulty facing consumers is the fact that when the GA was introduced, although it became part of the Regulated Price Plan, it was not included as a charge to the Retailers and as such was added to all invoices issued to consumers that had signed Retailer contracts resulting in significant increases to the invoices paid by consumers having moved from the Regulated Price Plan rates set by the Ontario Energy Board.

# Our Business Direction - Key Examples

### Building the Sustainable Communities of Tomorrow

In 2008, we partnered with our Electricity Distributors Association to help define and promote a long-term vision for the role of electricity distributors in Ontario's sustainable communities of tomorrow. A primary contributor to achieving this environmentally sustainable goal will be through the smart use of electricity.

In bringing this collective vision forward, COLLUS Power will focus its efforts and will dedicate significant financial capital towards our existing electricity delivery system. As per the directive of the Minister of Energy and Infrastructure, COLLUS Power will be in a position to have all of our residential customers ready for Time of Use Rates by the end of 2011.

We will embrace new technologies that will advance our opportunities to become more sustainable and to drive innovation . We will where possible enable clean and renewable energy, distributed generation, effective conservation and demand management and offer greater customer choice.


By expanding our vision and partnering with our municipality and industrial and residential stakeholders we will help create the sustainable community of tomorrow.

### Human Resources

Collingwood Utility Services has a team of dedicated, highly skilled and passionate employees that are proud to provide excellence and high quality service to the citizens of Collingwood, Thornbury, Stayner and Creemore.

Human Resources serves and supports all Departments of Collingwood Utility Services and ensures that Human Resources issues are identified and addressed. Strategic advice is provided to the President & CEO, members of the Senior Management Team and the Board of Directors relative to organizational change and human resources matters.

Collingwood Utility Services is known for its service excellence, which is the direct result of exceptional corporate leadership and direction, the performance of individual employees, teams and the total organization. We strive to generate and provide a positive, productive work and learning environment.

In 2010 an employee survey was undertaken which gave all employees a chance to provide feedback on a variety of issues. Our Employee Relations Committee which has representatives from each department as well as Management representatives meet on a regular basis to address any areas of concern and deal with issues in a timely manner. The Committee is proud of the progress that has been made, which in turn will make us that much stronger.

On an ongoing basis, Collingwood Utility Services continues to be committed to a safe and healthy workplace, the enhancement of communications, and labour/management relations, and the ideal of lifelong learning for staff.  Ultimately, these efforts are intended to better serve our customers.

# Our Business Direction - Key Examples

### Information Technology (IT)

Our unique partnership with the Town of Collingwood where we provide shared technology infrastructure and staffing has continued to work well for all parties. This partnership has grown to the point where we are now currently supporting a total of:

- 201 Network users
- 18 Network servers
- 181 Workstations
- 7 Facilities

In 2010 we implemented the upgrade to version 10 of our financial Software Microsoft Dynamics GP. To compliment this upgrade, we also migrated to a new job costing/project tracking application called Worktech and we are now live with it. In order to minimize IT workload we implemented these new applications via Terminal Server Remote Application Technology, which allows us to install the application once on a server and the users connect to it via thin client remote desktop clients. This provides us with an easy to maintain, easy to backup installation that has a nearly zero footprint on the client end.

In addition to saving time, we also saved energy by utilizing server virtualization technology to replace 5 physical servers with virtual ones that use much less power and take up less room in the server rack. We also began testing low power workstations to see if they are suitable for our next round of desktop refreshing.

In 2010 our GIS continued to grow and expand. The 2010 portion of the Utility Pole Inventory was completed on time, adding to the vast amount of knowledge that can be extracted from our GIS. The inventory will conclude late summer 2011. The data collected will be used for asset management and invoicing of third party attachments and street lighting in 2011.

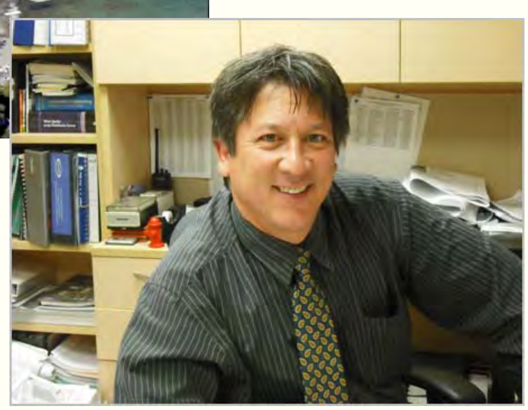

Following the successes of our mobile program (providing digital mapping in our vehicles via rugged laptops and tablets) during the 2009 season, we have moved forward to add additional units where necessary. We continue to leverage our mobile program by using top level software to create easy to use, functional field mapping right in the vehicles increasing our overall field efficiencies.

# Water Forecasting & Infrastructure Needs

## System Demand and Delivery Capability

Although Collingwood's residential usage is one of the lowest in the Province at 176 litres per capita per day production capacity at the Raymond A. Barker Water Treatment Plant is still critical. In 2009 the maximum day demand 28.561 ML was 92% of the Plant's production capability of 31.14ML/d, and this trend continued in 2010. However, of the 28.561Ml, 13.5Ml were bulk water sales: 9.5Ml to New Tecumseth and 4 Ml to the Town of Blue Mountain. This means that the projections for Collingwood appear to be tracking extremely well with the figures in the original plant EA. This established that the original plant capacity of 27.355Ml would be capable of supplying Collingwood for approximately 20 years. This year the plant is 12 years old or 60% of its life capacity; this compares to 55% of capacity of water used just for Collingwood. From these figures it can be seen that the plant expansion is required to service bulk water sales only. It is hoped that at some time in the near future an agreement can be made with the Province and New Tecumseth to fund the expansion. In hope of this Collingwood Public Utilities have completed the design of the plant expansion and a Certificate of Approval has been issued. This ensures that the project is truly shovel ready should funding be made available. The expansion will increase the plant capacity to 47.17Ml thus recovering approximately 30ML for Collingwood 13.5Ml for New Tecumseth and 4ML for Town of Blue Mountains.

The proposed design of the expanded plant whilst providing 47.17 Ml of capacity is capable, with only the addition of membranes, of producing up to 60 ML/d before other major works are required, namely the expansion of the contact chamber and conversion of the last two ZW500 membrane process trains to ZW1000 process trains. At which time the plant would be capable of producing approximately 90ML/d. In light of this it can be seen that the facility at Sunset point is capable of meeting Collingwood's needs for many years.



# Our Financial Plan

Our Business Plan incorporates the 2011 financial budgets and the 2012-2013 budget forecasts for the corporations to produce a Financial Plan that aims to ensure that current and future business outcomes meet the goals and needs of our Boards and Shareholder.

Our goals include but are not limited to:

- ✓Offering fair pricing while providing safe and reliable services;
- ✓Being responsible to community needs and values;
- ✓Being stewards of the environment; and
- ✓Remaining financially sound.

The Financial Plan provides the basis that will be used to monitor the business and financial progress of the corporations during 2011 and beyond.

Business Drivers of the 2011 Plan and Budget Forecast are:

- Upward rate pressure to our customers due to increased cost to provide our products and services, as an offset we continue to promote conservation initiatives by governmental agencies.
- The need to provide customers with mechanisms to better control their utility costs and still maintain the integrity of our financial projections.
- Continuing to meet changing regulatory requirements while emphasizing the need to meet or exceed our customer expectations.
- Monitor and maintain the infrastructure as required to assure a high level of safety, reliability and service to our customers.
- Consider financial planning options to ensure maximum flexibility that allows the corporations to make key decisions on an as needed basis once risks and benefits have been measured.
- Increase Shareholder Value

The following pages provide a summary of key financial information that includes historic and forecasted data.

# Our Financial Plan - 2011 Budget Summary

## Collingwood Public Utilities

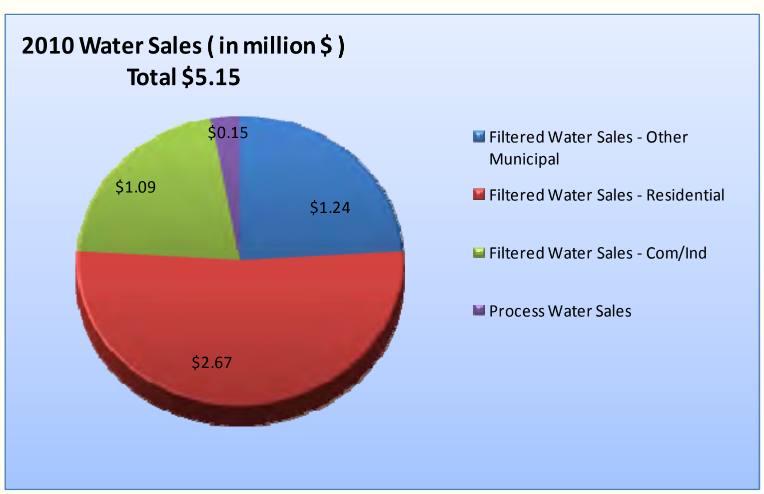
| Financial Forecast (in million $) | 2009 Actual | 2010 Actual | 2011 Budget | 2012 Forecast | 2013 Forecast |
|---|---|---|---|---|---|
| Total Water Service Revenue | $6.069 | $6.481 | $6.635 | $6.639 | $8.560 |
| Total Operating Expenditures | 4.282 | 4.518 | 4.601 | 4.772 | 4.903 |
| Net Income before Interest and Amortization | 1.787 | 1.963 | 2.034 | 1.867 | 3.657 |
| Interest Expense | .353 | .321 | .325 | .325 | .250 |
| Amortization of Capital Assets | 1.986 | 1.956 | 2.135 | 1.645 | 1.825 |
| Total Financial Expense | 2.339 | 2.277 | 2.460 | 1.920 | 2.075 |
| Net Income** | (.553) | (.314) | (.425) | (.102) | 1.583 |
| Earned Surplus - beginning of year | 27.193 | 26.640 | 26.326 | 25.901 | 25.749 |
| Earned Surplus - end of period | 26.640 | 26.326 | 25.901 | 25.799 | 27.332 |
| Capital Expenditures* | 1.350 | 1.063 | 1.501 | 1.722 | 3.647 |

** The 2011 Capital Budget is provided in Appendix A*
*** In 2009 Public Sector Accounting Board accounting changes were implemented. There was a significant impact on the financial results as Amortization Expense increased in excess of $1M. Also, Capital Expenditures for projects that were applicable to Development Charges, are now recorded as revenue. These adjustments will result in some major fluctuations in Net Income, as exhibited in 2013 projections.*
*In 2011 a Financial Plan document will be prepared and used to supplement the statement information. The Financial Plan will meet the Provincial Reporting requirements, which is the second stage of the implementation of the PSAB changes. In the future the new Financial Plan information will be included as part of the Business Plan.*

### Water Service Revenue

As indicated in the above Financial Forecast Chart, these are the source of funds to be used in performing the year to year business operations. The Financial Forecast outlines the historical data in total and forecasts the years 2011-2013.

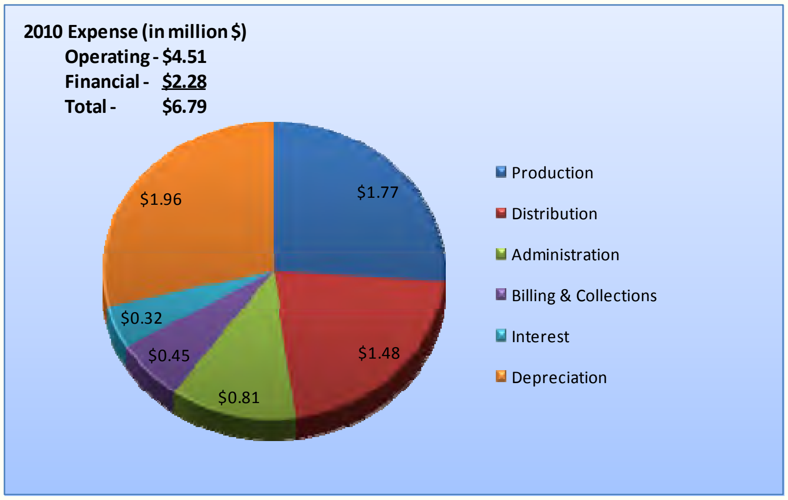
The chart below indicates the components and their contributions to Water Service Revenue in 2010.



# Our Financial Plan - Expenditures

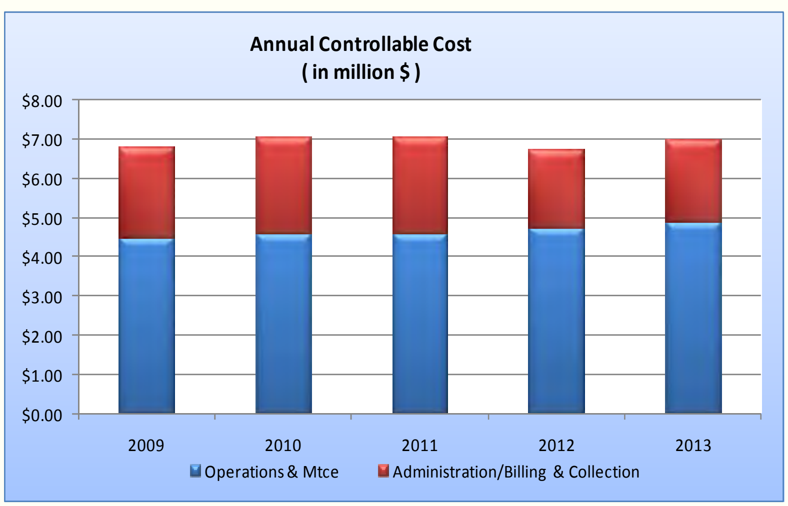
### Collingwood Public Utilities

**Total Expenditures**




The chart above provides a breakdown of the category of expenditure and the portions of total operating and financial expense that were required in 2010.

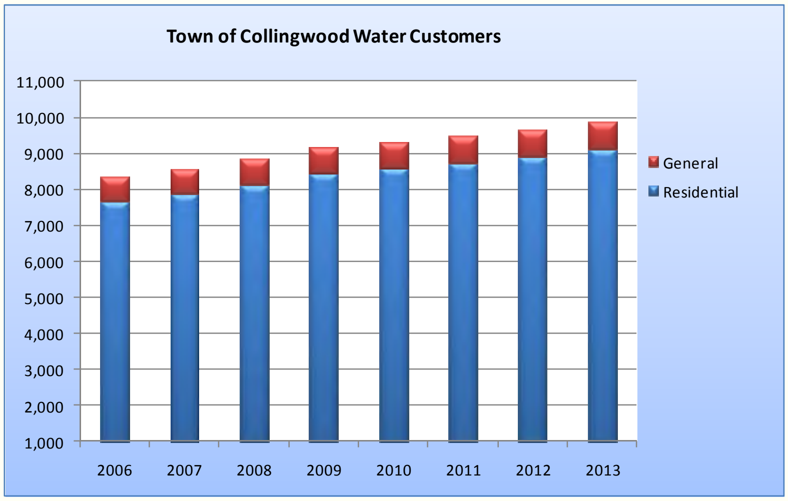
The chart below provides a detailed outline of the actual operating expenditures for 2009 and 2010 that are directly controllable (it does not include interest or depreciation expense). It also forecasts the expected expenditure in 2011 - 2013. Controllable costs are expected to increase due to inflationary pressure and as a result of new regulation that puts upward pressure on operation and maintenance expense.




As indicated above, annual operation and maintenance expense is over 70% of total controllable costs.

# Our Financial Plan - Customer Statistics

**COLLINGWOOD PUBLIC UTILITIES**

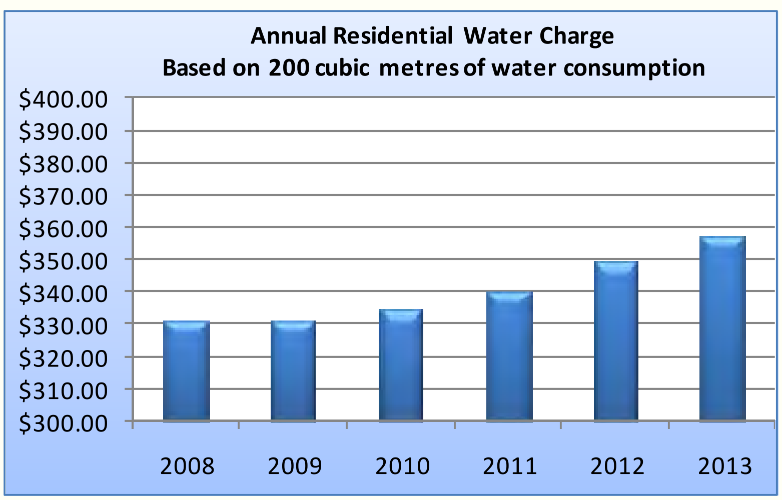



*Notes: The chart above does not include the 30 Bulk Metered Multi-Units—1,200 Customers. Conservative customer growth estimates used for financial planning purposes*

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|
| Residential | 7,650 | 7,850 | 8,110 | 8,425 | 8,570 | 8,710 | 8,905 | 9,100 |
| General | 670 | 680 | 720 | 725 | 730 | 740 | 745 | 750 |
| **Total** | **8,320** | **8,530** | **8,830** | **9,150** | **9,300** | **9,450** | **9,650** | **9,850** |

Customer growth is expected to continue as indicated in the chart above. The current Full Cost Recovery Plan considers the impact of the Ontario Ministry of the Environment's Bill 175. The Full Cost Recovery Plan indicates that annual rate increases are required to cover estimated inflationary impacts (average of 2.5% per year) and the requirement to build up reserves. The Full Cost Recovery Plan went through an extensive review and was updated in early 2010.

The Chart below indicates the past, the current and the forecasted average annual residential charge for water.



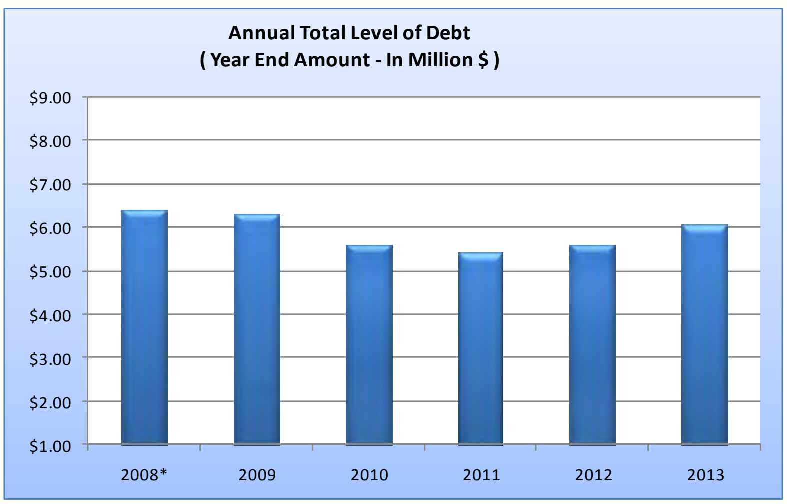
# Our Financial Plan - Debt

## COLLINGWOOD PUBLIC UTILITIES

### FINANCING ACTIVITIES

The chart below indicates the historical and projected debt servicing requirement and includes existing and proposed debenture requirements. Long-term financing supports current and projected capital investment requirements. A component of the recent Full Cost Recovery Study was an extensive review of the existing water infrastructure and future water infrastructure needs. The debt chart results include the expected impacts, identified in the Full Cost Recovery Study, incorporated in our Financial Plan analysis. The Financial Plan will be completed and provided to the Province for formal approval in 2011.

As a Municipal Service Board any debt undertaken directly impacts on our Shareholder's borrowing ability limit. As previously noted, our Financial Plan will continue to be based on our attempt to annually maintain or reduce the long-term debt level. This will ensure that there are long-term financing options available for both ourselves and our Shareholder when considering future key investment decisions.




**South Servicing debt added in 2009 applicable to 2008*

### FULL COST RECOVERY PLANNING

For the past 5 years financial planning has been based on the Full Cost Recovery Study results. This is a critically important tool that will continue to be used extensively. In 2009 the study was updated with the most current financial and statistical information available. The report incorporates a plan for the accumulation of a Lifecycle Reserve to be used in the future for replacement of assets. The results will continue to be incorporated into the Financial Plan. The Financial Plan will meet the criteria of the Ministry of the Environment in regards to the information that is required to be filed in 2011 and annually thereafter.

# Our Financial Plan - 2011 Budget Summary

### COLLUS POWER

| Financial Forecast (in million $) | 2009 Actual | 2010 Actual | 2011 Budget | 2012 Forecast | 2013** Forecast |
|---|---|---|---|---|---|
| Total Operating Revenue | $5.569 | $5.994 | $6.061 | $6.203 | $6.786 |
| Total Operating Expenditures | 3.869 | 4.281 | 4.092 | 4.278 | 4.423 |
| Net Income before Interest and Amortization | 1.700 | 1.713 | 1.969 | 1.921 | 2.363 |
| Interest Expense | .179 | .251 | .274 | .274 | .274 |
| Amortization of Capital Assets | 1.004 | .967 | 1.130 | 1.180 | 1.200 |
| Total Financial Expense | 1.183 | 1.218 | 1.404 | 1.454 | 1.474 |
| Net Income before taxes | .517 | .495 | .565 | .471 | .889 |
| Income & Capital Tax Expense | .68 | .0.96 | .135 | .092 | .143 |
| Net Income | .449 | .399 | .430 | .379 | .746 |
| Earned Surplus - beginning of year | 1.867 | 2.316 | 2.715 | 3.145 | 3.524 |
| Earned Surplus - end of period | 2.316 | 2.715 | 3.145 | 3.524 | 4.270 |
| Capital Expenditures*-*not including smart meters* | .926 | 1.930 | 1.405 | 1.935 | 3.270 |

** The 2011Capital Budget is provided in Appendix B*
*** Cost of Service Re-basing rate approval expected*

### OPERATING REVENUE

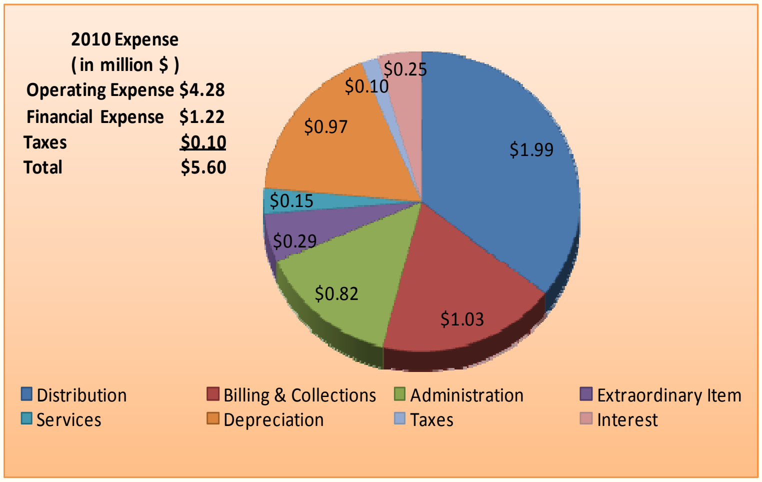
The charts on this page are provided to show the 2011 Budget Summary Information and detail the breakdown of our source of funds (Operating Revenue). In addition to providing historic and forecasted data in the Summary, further comment should be made in regard to the budgeted Total Operating Revenue. In 2010 a large industrial customer's closure impacted the net income by approximately $250,000.

The Summary also provides information on Capital Expenditures, incurred and forecasted. 2010-2013 reflects investment requirements in the municipal distribution sub-station infrastructure. Decisions have been made regarding investment into our infrastructure to ensure system reliability and ensure we maintain our ability to properly service all customers.

# Our Financial Plan - Expenditures

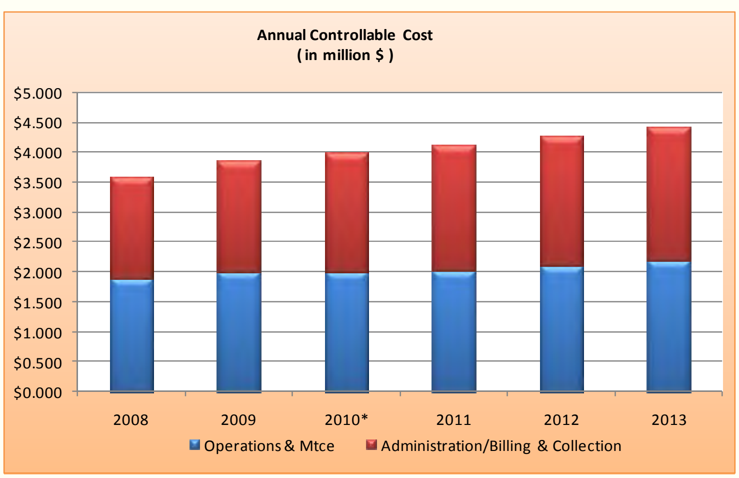
## COLLUS Power

### Total Expenditures




The chart above provides a breakdown of the components and their expense requirement during business operations in 2010. Operating Expenses (Distribution, Billing & Collections, Administration and Services) reflects 75% of the total 2010 expenditure. Distribution expense is incurred in the operation and maintenance of the infrastructure. The majority of our spending in 2010 was to ensure that the integrity of the infrastructure was maintained and that our customer service needs were met.

The chart below is an additional breakdown of the Operating Expense component of Total Expense also described as Controllable Cost. COLLUS Power continues to have one of the lowest Controllable Cost per customer ratios in Ontario. Comparisons to other municipal electric utilities are done regularly in performance appraisals. Although there have been major changes enacted by the Province to create a competitive environment in the electricity marketplace, electric utilities still realize the benefits of comparative analysis. Also, the Ontario Energy Board requires regular reports that include information on performance. Controllable Cost will continue to be one of the major factors that we use for comparison with our peer utilities.

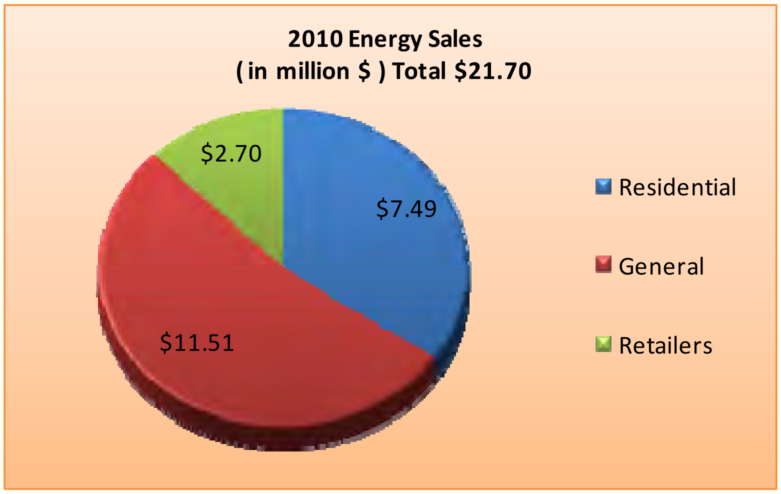



*Not including Extraordinary Expense.

# Our Financial Plan - Customer Statistics

## COLLUS POWER

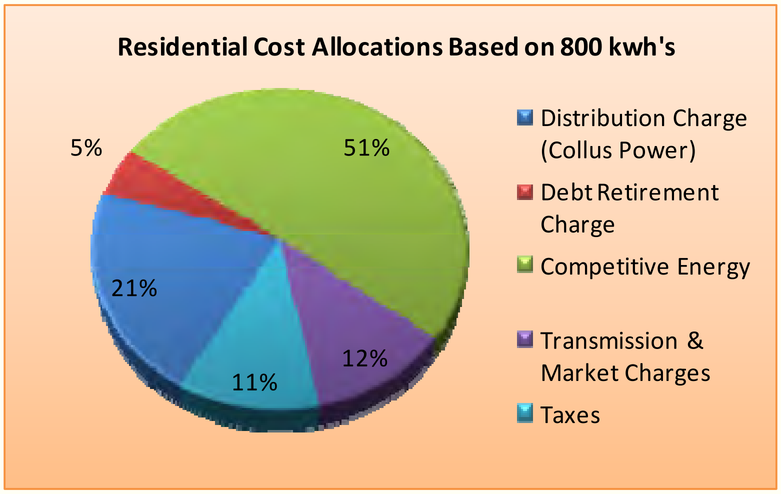
### Total Energy




The chart above indicates the proportion of energy sales to the various customer classes for 2010. As indicated in the chart we continue to have a strong General sales base.

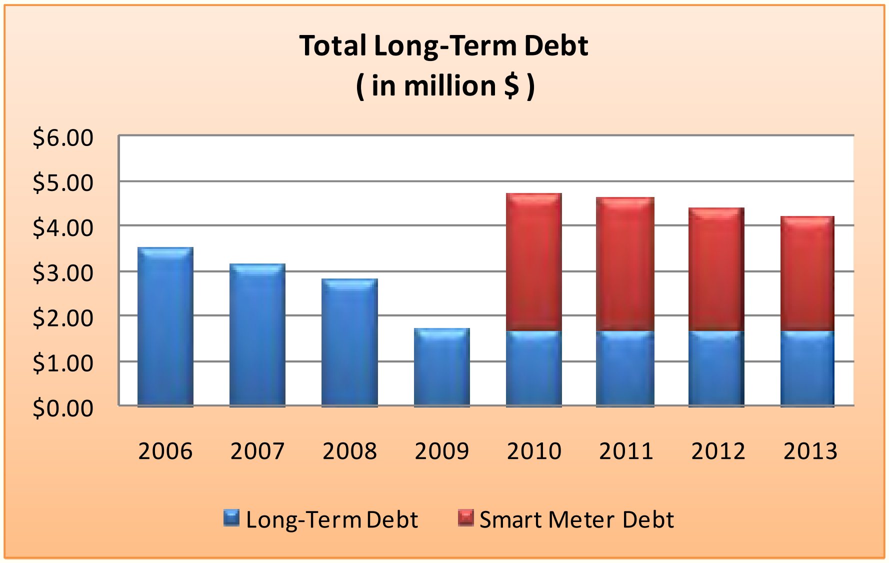
The chart below provides a breakdown of the components of the cost of energy for a Residential customer. Only 21 cents of every dollar of an average residential customer's bill goes toward the operation of COLLUS Power's facilities. COLLUS Power's rates continue to rank below the mean average in the Province, helping to maintain a competitive advantage over other municipalities.

### Energy Cost Allocation



# Our Financial Plan - Debt

## COLLUS POWER




The chart above indicates the long-term financing obligations of COLLUS Power. Included in the annual amount is a $1.7 Million promissory note held on behalf of COLLUS Power by our Shareholder. Currently COLLUS Power makes interest payments to the Town of Collingwood of 7.25% per annum on the promissory note. In 2010 debt was added due to investment in Provincially required Smart Meter Projects. This debt is fully recoverable in amended rates.

During capital budget planning, our Board and Management ensure that required infrastructure investment needs are met. The current long-term debt position of COLLUS Power will allow all options to be considered in meeting future capital investment requirements. The Province's "Smart Meter" initiative, and the Green Energy Act will introduce further investment requirements to successfully meet its objectives.

Collus Power continues to plan towards meeting the Provincial requirement for all electricity customers to have new hydro meter technology by 2011. Installation of the meters was completed in 2009. Communication infrastructure and processes were implemented in 2010. The meter technology and new "time-of-use" rates, planned to be in place in 2011, will allow customers to use their consumption history as a basis to make adjustments to change their usage patterns to garner cost reductions.

# Our Financial Plan - Shareholder

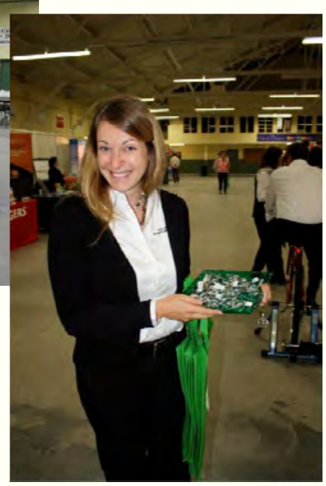
### COLLUS Power And Collingwood Public Utilities

The Financial Plan outlined on the previous pages provides detailed information of the historic, budgeted and forecasted business operations of the corporations. While setting our corporate goals we equally consider the needs of our customers and the benefit we provide to our Shareholder. The financial information that has been presented provides the detail of the growth in value of their investment. The chart below is an indication of some of the measurable direct benefits.

### Town Of Collingwood Payments Received From The Corporations

| Company | Description | 2009 Actual | 2010 Actual | 2011 Projected |
|---|---|---|---|---|
| COLLUS Power | Interest on Promissory Note | $124,000 | $124,000 | $124,000 |
| Public Utilities | Operations Center Rental | $200,000 | $200,000 | $216,000 |
| Public Utilities | New Tecumseth | $96,000 | $96,000 | $96,000 |
| COLLUS Solutions | In-kind Services | $280,000 | $290,000 | $300,000 |
| Public Utilities | In-kind Services | $38,000 | $40,000 | $45,000 |
| Public Utilities | Sewer Administration | $88,000 | $90,000 | $100,000 |
| COLLUS & Public Utilities | In-kind Community Services | $40,000 | $40,000 | $40,000 |
| | Total Cash | $420,000 | $420,000 | $436,000 |
| | Total In-kind Services | $446,000 | $460,000 | $485,000 |
| | **Total Cash & In-kind** | **$866,000** | **$880,000** | **$921,000** |

The dynamics of our industry are such that our projections are being done on an annual basis.



# Electricity Distribution Licence

# ED-2004-0420

# PowerStream Inc.

**Valid Until**

**August 29, 2024**

*Original signed by*

______________________________

**Kirsten Walli**
**Board Secretary**
**Ontario Energy Board**
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| Ontario Energy Board | Commission de l'Énergie de l'Ontario |
| P.O. Box 2319 | C.P. 2319 |
| 2300 Yonge Street | 2300, rue Yonge |
| 27th Floor | 27e étage |
| Toronto, ON M4P 1E4 | Toronto ON M4P 1E4 |

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## 1 Definitions

In this Licence:

"**Accounting Procedures Handbook**" means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

"**Act**" means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

"**Affiliate Relationships Code for Electricity Distributors and Transmitters**" means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

"**Conservation and Demand Management**" and "**CDM**" means distribution activities and programs to reduce electricity consumption and peak provincial electricity demand;

"**Conservation and Demand Management Code for Electricity Distributors**" means the code approved by the Board which, among other things, establishes the rules and obligations surrounding Board approved programs to help distributors meet their CDM Targets;

"**distribution services**" means services related to the distribution of electricity and the services the Board has required distributors to carry out, including the sales of electricity to consumers under section 29 of the Act, for which a charge or rate has been established in the Rate Order;

"**Distribution System Code**" means the code approved by the Board which, among other things, establishes the obligations of the distributor with respect to the services and terms of service to be offered to customers and retailers and provides minimum, technical operating standards of distribution systems;

"**Electricity Act**" means the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A;

"**Licensee**" means PowerStream Inc.

"**Market Rules**" means the rules made under section 32 of the Electricity Act;

"**Net Annual Peak Demand Energy Savings Target**" means the reduction in a distributor's peak electricity demand persisting at the end of the four-year period (i.e. December 31, 2014) that coincides with the provincial peak electricity demand that is associated with the implementation of CDM Programs;

"**Net Cumulative Energy Savings Target**" means the total amount of reduction in electricity consumption associated with the implementation of CDM Programs between 2011-2014;

"**OPA**" means the Ontario Power Authority;

"**Performance Standards**" means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act;

"**Provincial Brand**" means any mark or logo that the Province has used or is using, created or to be created by or on behalf of the Province, and which will be identified to the Board by the Ministry as a provincial mark or logo for its conservation programs;

"**Rate Order**" means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

"**regulation**" means a regulation made under the Act or the Electricity Act;

"**Retail Settlement Code**" means the code approved by the Board which, among other things, establishes a distributor's obligations and responsibilities associated with financial settlement among retailers and consumers and provides for tracking and facilitating consumer transfers among competitive retailers;

"**service area**" with respect to a distributor, means the area in which the distributor is authorized by its licence to distribute electricity;

"**Standard Supply Service Code**" means the code approved by the Board which, among other things, establishes the minimum conditions that a distributor must meet in carrying out its obligations to sell electricity under section 29 of the Electricity Act;

"**wholesaler**" means a person that purchases electricity or ancillary services in the IESO administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IESO-administered markets or directly to another person other than a consumer.

## 2 Interpretation

2.1 In this Licence, words and phrases shall have the meaning ascribed to them in the Act or the Electricity Act. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the Licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this Licence, where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens and where the time for doing an act expires on a holiday, the act may be done on the next day that is not a holiday.

## 3 Authorization

3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this Licence:

a) to own and operate a distribution system in the service area described in Schedule 1 of this Licence;

b) to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act in the manner specified in Schedule 2 of this Licence; and

c) to act as a wholesaler for the purposes of fulfilling its obligations under the Retail Settlement Code or under section 29 of the Electricity Act.

**4 Obligation to Comply with Legislation, Regulations and Market Rules**

4.1 The Licensee shall comply with all applicable provisions of the Act and the Electricity Act and regulations under these Acts, except where the Licensee has been exempted from such compliance by regulation.

4.2 The Licensee shall comply with all applicable Market Rules.

**5 Obligation to Comply with Codes**

5.1 The Licensee shall at all times comply with the following Codes (collectively the “Codes”) approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the licensee are set out in Schedule 3 of this Licence. The following Codes apply to this Licence:

a) the Affiliate Relationships Code for Electricity Distributors and Transmitters;

b) the Distribution System Code;

c) the Retail Settlement Code; and

d) the Standard Supply Service Code.

5.2 The Licensee shall:

a) make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours; and

b) provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

**6 Obligation to Provide Non-discriminatory Access**

6.1 The Licensee shall, upon the request of a consumer, generator or retailer, provide such consumer, generator or retailer with access to the Licensee’s distribution system and shall convey electricity on behalf of such consumer, generator or retailer in accordance with the terms of this Licence.

**7 Obligation to Connect**

7.1 The Licensee shall connect a building to its distribution system if:

a) the building lies along any of the lines of the distributor’s distribution system; and

b) the owner, occupant or other person in charge of the building requests the connection in writing.

7.2 The Licensee shall make an offer to connect a building to its distribution system if:

a) the building is within the Licensee's service area as described in Schedule 1; and

b) the owner, occupant or other person in charge of the building requests the connection in writing.

7.3 The terms of such connection or offer to connect shall be fair and reasonable and made in accordance with the Distribution System Code, and the Licensee's Rate Order as approved by the Board.

7.4 The Licensee shall not refuse to connect or refuse to make an offer to connect unless it is permitted to do so by the Act or a regulation or any Codes to which the Licensee is obligated to comply with as a condition of this Licence.

**8 Obligation to Sell Electricity**

8.1 The Licensee shall fulfill its obligation under section 29 of the Electricity Act to sell electricity in accordance with the requirements established in the Standard Supply Service Code, the Retail Settlement Code and the Licensee's Rate Order as approved by the Board.

**9 Obligation to Maintain System Integrity**

9.1 The Licensee shall maintain its distribution system in accordance with the standards established in the Distribution System Code and Market Rules, and have regard to any other recognized industry operating or planning standards adopted by the Board.

**10 Market Power Mitigation Rebates**

10.1 The Licensee shall comply with the pass through of Ontario Power Generation rebate conditions set out in Appendix A of this Licence.

**11 Distribution Rates**

11.1 The Licensee shall not charge for connection to the distribution system, the distribution of electricity or the retailing of electricity to meet its obligation under section 29 of the Electricity Act except in accordance with a Rate Order of the Board.

**12 Separation of Business Activities**

12.1 The Licensee shall keep financial records associated with distributing electricity separate from its financial records associated with transmitting electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board.

**13 Expansion of Distribution System**

13.1 The Licensee shall not construct, expand or reinforce an electricity distribution system or make an interconnection except in accordance with the Act and Regulations, the Distribution System Code and applicable provisions of the Market Rules.

13.2 In order to ensure and maintain system integrity or reliable and adequate capacity and supply of electricity, the Board may order the Licensee to expand or reinforce its distribution system in accordance with Market Rules and the Distribution System Code, or in such a manner as the Board may determine.

**14 Provision of Information to the Board**

14.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time.

14.2 Without limiting the generality of paragraph 14.1, the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) days past the date upon which such change occurs.

14.3 The Licensee shall:

a) immediately notify the Board in writing of the notice; and

b) provide a plan to the Board as soon as possible, but no later than ten (10) days after the receipt of the notice, as to how the affected distribution services will be maintained in compliance with the terms of this licence.

**15 Restrictions on Provision of Information**

15.1 The Licensee shall not use information regarding a consumer, retailer, wholesaler or generator obtained for one purpose for any other purpose without the written consent of the consumer, retailer, wholesaler or generator.

15.2 The Licensee shall not disclose information regarding a consumer, retailer, wholesaler or generator to any other party without the written consent of the consumer, retailer, wholesaler or generator, except where such information is required to be disclosed:

a) to comply with any legislative or regulatory requirements, including the conditions of this Licence;

b) for billing, settlement or market operations purposes;

c) for law enforcement purposes; or

d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator.

15.3 The Licensee may disclose information regarding consumers, retailers, wholesalers or generators where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified.

15.4 The Licensee shall inform consumers, retailers, wholesalers and generators of the conditions under which their information may be released to a third party without their consent.

15.5 If the Licensee discloses information under this section, the Licensee shall ensure that the information provided will not be used for any other purpose except the purpose for which it was disclosed.

## 16 Customer Complaint and Dispute Resolution

16.1 The Licensee shall:

a) have a process for resolving disputes with customers that deals with disputes in a fair, reasonable and timely manner;

b) publish information which will make its customers aware of and help them to use its dispute resolution process;

c) make a copy of the dispute resolution process available for inspection by members of the public at each of the Licensee's premises during normal business hours;

d) give or send free of charge a copy of the process to any person who reasonably requests it; and

e) subscribe to and refer unresolved complaints to an independent third party complaints resolution service provider selected by the Board. This condition will become effective on a date to be determined by the Board. The Board will provide reasonable notice to the Licensee of the date this condition becomes effective.

## 17 Term of Licence

17.1 This Licence shall take effect on August 30, 2004 and expire on August 29, 2024. The term of this Licence may be extended by the Board.

## 18 Fees and Assessments

18.1 The Licensee shall pay all fees charged and amounts assessed by the Board.

## 19 Communication

19.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.

19.2 All official communication relating to this Licence shall be in writing.

19.3 All written communication is to be regarded as having been given by the sender and received by the addressee:

a) when delivered in person to the addressee by hand, by registered mail or by courier;

b) ten (10) business days after the date of posting if the communication is sent by regular mail; and

c) when received by facsimile transmission by the addressee, according to the sender's transmission report.

**20 Copies of the Licence**

20.1 The Licensee shall:

a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and

b) provide a copy of this Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

**21 Conservation and Demand Management**

21.1 The Licensee shall achieve reductions in electricity consumption and reductions in peak provincial electricity demand through the delivery of CDM programs. The Licensee shall meet its 2014 Net Annual Peak Demand Savings Target of 95.570 MW, and its 2011-2014 Net Cumulative Energy Savings Target of 407.340 GWh (collectively the "CDM Targets"), over a four-year period beginning January 1, 2011.

21.2 The Licensee shall meet its CDM Targets through:

a) the delivery of Board approved CDM Programs delivered in the Licensee's service area ("Board-Approved CDM Programs");

b) the delivery of CDM Programs that are made available by the OPA to distributors in the Licensee's service area under contract with the OPA ("OPA-Contracted Province-Wide CDM Programs"); or

c) a combination of a) and b).

21.3 The Licensee shall make its best efforts to deliver a mix of CDM Programs to all consumer types in the Licensee's service area.

21.4 The Licensee shall comply with the rules mandated by the Board's Conservation and Demand Management Code for Electricity Distributors.

21.5 The Licensee shall utilize the common Provincial brand, once available, with all Board-Approved CDM Programs, OPA-Contracted Province-Wide Programs, and in conjunction with or co-branded with the Licensee's own brand or marks.

**SCHEDULE 1 DEFINITION OF DISTRIBUTION SERVICE AREA**

This Schedule, in conjunction with Appendix B specifies the area in which the Licensee is authorized to distribute and sell electricity in accordance with paragraph 8.1 of this Licence.

1. The Town of Markham as of January 1, 1979.

2. The service area is co-terminus with the City of Vaughan municipal boundary pursuant to the Regional Municipality of York Act, R.S.O. 1990, R.18, with the exception of an area two lots north of King-Vaughan Rd. abutting 7th Concession of the Town of King, as detailed in the parcel lot descriptions noted in Appendix B.

3. The Town of Richmond Hill as of January 1, 1979, with the exception of the boundary along Bathurst St, two lots north of King-Vaughan Rd. to Bloomington Rd., noted in Appendix B.

4. The Town of Aurora as of January 1, 1979, with the exception of the boundary along Bathurst St, seven lots north of Bloomington Rd. to two lots north of St. John's Sideroad, noted in Appendix B.

5. Lands located 45m south of the center-line of Castlemore Rd and 37.5m west of the center-line of Highway 50 in the City of Brampton.

6. City of Barrie Service Area:

   Within the municipal boundary of the City of Barrie as detailed firstly in Schedules A and B to the Barrie-Innisfil Annexation Act, 1981, secondly in the Schedule to the Barrie-Vespra Annexation Act, 1984 and thirdly as shown on Reference Map Document Number 4884 included on page 4 of “Schedule 1 Definition of Distribution Service Area” dated March 10, 2004, filed as supplementary material with the Board.

7. Community of Bradford West Gwillimbury Service Area:

   Within the Community of Bradford West Gwillimbury as detailed firstly as the "Expansion Service Area" in Schedule 'B' and 'C' to the Corporation of the Town of Bradford-West Gwillimbury By-law 95-048 dated September 11, 1995, secondly the portions of the Hydro One letter pertaining to Bradford-West Gwillimbury dated November 27, 2003 and thirdly as shown on Reference Map Document Number 4993 included on page 5 of “Schedule 1 Definition of Distribution Service Area” dated March 10, 2004, filed as supplementary material with the Board.

8. Community of Thornton Service Area:

   Within the Community of Thornton as detailed firstly in the Thornton Settlement Area in accordance with Schedule “A” of the Official Plan of the Township of Essa as approved by the County of Simcoe, April 22, 2003 and secondly as shown on Reference Map Document Number 5009 included on page 6 of “Schedule 1 Definition of Distribution Service Area” dated March 10, 2004, filed as supplementary material with the Board, excluding the following municipal addresses:

   - #’s 6, 8, 10, 12, 19, 21, 23, 25, 27, 28, 29, 30, 31, 32, 33, 34 and 35 Earl’s Court;

- # 4520 Robert Street (or County Road 21 Pt.16 Concession11);
- all residential lots fronting onto Jamieson Court from Thornton Ave to the cul-de-sac dead end;
- #'s 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, and 232 Thornton Avenue;
- all residential lots fronting onto Lennox Court from Spence Avenue to the cul-de-sac dead end;
- all residential lots fronting onto Spencer Avenue except # 221 Spencer Avenue from Thornton Avenue to North Ridge Road;
- all residential lots fronting onto North Ridge Road except #'s 204 and 205 from Camilla Crescent to Spencer Avenue.

9. Community of Alliston Service Area:

   Within the Community of Alliston as detailed firstly as the "Alliston Urban Area Expansion" in Schedule 'A' to the Corporation of the Town of the Amalgamated Municipalities of Alliston, Beeton, Tecumseth & Tottenham By-law 91-169 dated October 15, 1991 (entiltled "H.E.C. Service Area Expansion By-Law") and secondly as shown on Reference Map Document Number 5720 included on page 7 of "Schedule 1 Definition of Distribution Service Area" dated March 10, 2004, filed as supplementary material with the Board, excluding the consumer located at 4700 Tottenham Road.

10. Community of Beeton Service Area:

    Within the Community of Beeton as detailed firstly as the "Beeton Urban Area Expansion" in Schedule 'A' to the Corporation of the Town of the Amalgamated Municipalities of Alliston, Beeton, Tecumseth & Tottenham By-law 91-169 dated October 15, 1991 (entiltled "H.E.C. Service Area Expansion By-Law") and secondly as shown on Reference Map Document Number 4982 included on page 8 of "Schedule 1 Definition of Distribution Service Area" dated March 10, 2004, filed as supplementary material with the Board.

11. Community of Tottenham Service Area:

    Within the Community of Tottenham as detailed firstly as the "Tottenham Urban Area Expansion" in Schedule 'A' to the Corporation of the Town of the Amalgamated Municipalities of Alliston, Beeton, Tecumseth & Tottenham By-law 91-169 dated October 15, 1991 (entiltled "H.E.C. Service Area Expansion By-Law") and secondly as shown on Reference Map Document Number 5013 included on page 9 of "Schedule 1 Definition of Distribution Service Area" dated March 10, 2004, filed as supplementary material with the Board. It is noted that the "Beeton Creek" referenced in this schedule is technically a tributary to the actual Beeton Creek. The location of this tributary creek is shown on the Reference Map and it is to the east of the former Village of Tottenham.

12. Community of Penetanguishene Service Area:

    Within the Community of Penetanguishene as detailed firstly as the “Boundary Expansion Agreement” or “Annexation Transfer Agreement” dated December 31, 1998 between the former Ontario Hydro and the Penetanguishene Hydro-Electric Commission and secondly as shown on Reference Map Document Number 5001 included on page 10 of “Schedule 1 Definition of Distribution Service Area” dated March 10, 2004, filed as supplementary material with the Board.

**SCHEDULE 2 PROVISION OF STANDARD SUPPLY SERVICE**

This Schedule specifies the manner in which the Licensee is authorized to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act.

1. Licensee is authorized to retail electricity directly to consumers within its service area in accordance with paragraph 8.1 of this Licence, any applicable exemptions to this Licence, and at the rates set out in the Rate Orders.

**SCHEDULE 3 LIST OF CODE EXEMPTIONS**

This Schedule specifies any specific Code requirements from which the Licensee has been exempted.

1. The Licensee is exempt from the requirements of section 2.5.3 of the Standard Supply Service Code with respect to the price for small volume/residential consumers, subject to the Licensee offering an equal billing plan as described in its application for exemption from Fixed Reference Price, and meeting all other undertakings and material representations contained in the application and the materials filed in connection with it.

## APPENDIX A MARKET POWER MITIGATION REBATES

### 1. Definitions and Interpretations

In this Licence

"embedded distributor" means a distributor who is not a market participant and to whom a host distributor distributes electricity;

"embedded generator" means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

"host distributor" means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

### 2. Information Given to IESO

a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998.*

b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.

c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the

IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

## 3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

a retailers who serve one or more consumers in the distributor’s service area where a service transaction request as defined in the Retail Settlement Code has been implemented;

b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

“ONTARIO POWER GENERATION INC. rebate”

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

## ONTARIO POWER GENERATION INC. REBATES

For the payments that relate to the period from May 1, 2006 to April 30, 2009, the rules set out below shall apply.

### 1. Definitions and Interpretations

In this Licence

"embedded distributor" means a distributor who is not a market participant and to whom a host distributor distributes electricity;

"embedded generator" means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

"host distributor" means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

### 2. Information Given to IESO

a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*; and

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.

b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.

c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

**3. Pass Through of Rebate**

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*;

b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

"ONTARIO POWER GENERATION INC. rebate"

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

**APPENDIX B LAND DESCRIPTIONS**

| No. | Area | Legal Description | No. | Area | Legal Description |
|---|---|---|---|---|---|
| 1 | Vaughan | PT LOT 2, CON 7, PTS 6 & 8, 65R24532; KING ; T/W R216549; S/T EASE OVER PT 6, 65R24532 AS IN A24558A AND RENEWED BY R610943. | 17 | Richmond Hill | PT LT 5 CON 2 KING PT 22 65R531 ; KING |
| 2 | Vaughan | PT E 1/2 LT 2 CON 7 KING; PT LT 3 CON 7 KING AS IN R707971; S/T & T/W B35507B ; S/T A24558A KING | 18 | Richmond Hill | PT LT 5 CON 2 KING PT 22 65R531 ; KING |
| 3 | Vaughan | PT LT 2 CON 6 KING AS IN A55205A EXCEPT PTS 1 & 2 65R18259 ; KING | 19 | Richmond Hill | PT LT 2 CON 2 KING; PT LT 3 CON 2 KING AS IN B16975B, B19261B & A29730A EXCEPT PTS 4 & 5 65R14738 & PTS 8 & 9 65R531 ; KING |
| 4 | Vaughan | PT LT 2 CON 6 KING AS IN A55205A EXCEPT PTS 1 & 2 65R18259 ; KING | 20 | Richmond Hill | LOT 5, CONCESSION 2, KING |
| 5 | Vaughan | PT E 1/2 LT 2 CON 7 KING; PT LT 3 CON 7 KING AS IN R707971; S/T & T/W B35507B ; S/T A24558A KING | 21 | Richmond Hill | PT LT 3 CON 2 KING PT 2 65R5820 ; KING |
| 6 | Vaughan | PT E 1/2 LT 2 CON 7 KING; PT LT 3 CON 7 KING AS IN R707971; S/T & T/W B35507B ; S/T A24558A KING | 22 | Richmond Hill | PT LT 5 CON 2 KING PT 2 65R599 ; KING |
| 7 | Vaughan | PT LT 3 CON 6 KING AS IN R184760 ; KING | 23 | Richmond Hill | PT LT 5 CON 2 KING PT 2 65R599 ; KING |
| 8 | Vaughan | PT LT 3 CON 6 KING AS IN R184760 ; KING | 24 | Vaughan | LOT 2, CONCESSION 2, KING TWNSHP |
| 9 | Richmond Hill | PT LT 5 CON 2 KING PT 2 65R599 ; KING | 25 | Vaughan | PT LT 5 CON 2 KING PT 2 65R599 ; KING |
| 10 | Richmond Hill | PT LT 3 CON 2 KING PT 2 65R5820 ; KING | 26 | Richmond Hill | PT LT 5 CON 2 KING PT 2 65R599 ; KING |
| 11 | Richmond Hill | LOT 7, CONCESSION 2, KING | 27 | Vaughan | PT LT 5 CON 2 KING PT 2 65R599 ; KING |
| 12 | Richmond Hill | PT LT 5 CON 2 KING PT 22 65R531 ; KING | 28 | Aurora | PT LT 14 CON 2 KING AS IN R180958 EXCEPT PT 13 EXPROP PL R233113 ; KING ; SUBJECT TO EXECUTION 95-05877, IF ENFORCEABLE. ; SUBJECT TO EXECUTION 95-06771, IF ENFORCEABLE. ; SUBJECT TO EXECUTION 96-02878, IF ENFORCEABLE. ; |
| 13 | Richmond Hill | PT LT 5 CON 2 KING PT 22 65R531 ; KING | 29 | Aurora | PT LT 14 CON 2 KING AS IN KI25920 EXCEPT PT 11 EXPROP PL R233113 ; KING ; SUBJECT TO EXECUTION 96-06008, IF ENFORCEABLE. ; |
| 14 | Richmond Hill | PT LT 5 CON 2 KING PT 2 65R599 ; KING | 30 | Aurora | PT LT 14 CON 2 KING PT 1 65R2712 ; KING |
| 15 | Richmond Hill | PT LT 2 CON 2 KING; PT LT 3 CON 2 KING AS IN B16975B, B19261B & A29730A EXCEPT PTS 4 & 5 65R14738 & PTS 8 & 9 65R531 ; KING | 31 | Aurora | PT LT 14 CON 2 KING PT 1 65R2712 ; KING |
| 16 | Richmond Hill | PT LT 5 CON 2 KING PT 2 65R599 ; KING | 32 | Aurora | PT LT 15 CON 2 KING PT 2 65R8504 ; KING |

| No. | Area | Legal Description | No. | Area | Legal Description |
|---|---|---|---|---|---|
| 33 | Aurora | PT LT 15 CON 2 KING PT 1 65R8504 ; KING | 51 | Aurora | PT LT 22 CON 2 KING; PT LT 23 CON 2 KING PT 1, 65R6742 ; KING |
| 34 | Aurora | PT LT 15 CON 2 KING AS IN B47985B EXCEPT PT 8 EXPROP PL R233113 ; KING | 52 | Aurora | PT LT 22 CON 2 KING; PT LT 23 CON 2 KING PT 1, 65R6742 ; KING |
| 35 | Aurora | PT SE1/4 LT 16 CON 2 KING PTS 2 & 3 65R10629; T/W R439940 ; KING | 53 | Aurora | PT LT 24 CON 2 KING AS IN R629682 T/W R137178 ; KING |
| 36 | Aurora | PT SE1/4 LT 16 CON 2 KING PTS 2 & 3 65R10629; T/W R439940 ; KING | 54 | Aurora | PT LT 24 CON 2 KING AS IN R629682 T/W R137178 ; KING |
| 37 | Aurora | PT NE1/4 LT 16 CON 2 KING PT 2 65R15552 ; KING | 55 | Aurora | PT LT 24, CON 2, (KING) IN R662420 EXCEPT PTS 1 & 2, PL 65R29165, KING |
| 38 | Aurora | PT NE1/4 LT 16 CON 2 KING; PT LT 17 CON 2 KING; PT LT 18 CON 2 KING PTS 1, 3 65R15552 ; KING | 56 | Aurora | LOT 16, CONCESSION 2, KING |
| 39 | Aurora | PT NE1/4 LT 16 CON 2 KING; PT LT 17 CON 2 KING; PT LT 18 CON 2 KING PTS 1, 3 65R15552 ; KING | 57 | Aurora | PT LT 15 CON 2 KING AS IN R166067 EXCEPT R242869 ; KING |
| 40 | Aurora | PT LT 18 CON 2 KING PT 1 65R5395 ; KING | 58 | Aurora | PT LT 15 CON 2 KING AS IN R400615 ; KING |
| 41 | Aurora | PT LT 18 CON 2 KING AS IN R602840 ; KING | 59 | Aurora | PT SE1/4 LT 16 CON 2 KING PT 1 65R3379; T/W R145038 ; KING |
| 42 | Aurora | LOT 18, CONCESION 2, KING TWSHP | 60 | Aurora | PT LT 14 CON 2 KING AS IN B50839B EXCEPT PTS 10 & 12 EXPROP PL R233113; PT LT 15 CON 2 KING AS IN B27240B EXCEPT PT 2 65R9307; T/W R406638 ; KING |
| 43 | Aurora | PT LT 18 CON 2 KING PT 1 65R13476 ; KING | 61 | Aurora | PT LT 14 CON 2 KING AS IN B50839B EXCEPT PTS 10 & 12 EXPROP PL R233113; PT LT 15 CON 2 KING AS IN B27240B EXCEPT PT 2 65R9307; T/W R406638 ; KING |
| 44 | Aurora | PT LT 18 CON 2 KING PT 1 65R13476 ; KING | 62 | Aurora | PT LT 15 CON 2 KING PTS 2, 3 & 4 65R17617; S/T R660937; T/W R660070. ; KING |
| 45 | Aurora | PT LT 18 CON 2 KING PT 1 65R609 EXCEPT PT 8 EXPROP PL R233114 ; KING | 63 | Aurora | PT LT 15 CON 2 KING PT 5 65R17617; T/W R660938 ; KING |
| 46 | Aurora | LOT 19,  KING TWSHP | 64 | Aurora | NE1/4 LT 16 CON 2 KING PTS 1,2 65R3343; SE1/4 LT 16 CON 2 KING PTS 3,4 65R3343 ; KING |
| 47 | Aurora | LOT 19, KING TWSHP | 65 | Aurora | PT LT 13 CON 2 KING AS IN R306307 S/T INTEREST IN KI22671, S/T DEBTS IN R306307 ; KING |
| 48 | Aurora | PT LT 20 CON 2 KING PT 1 65R1245 EXCEPT PT 11, EXPROP PL R233114 ; KING | 66 | Aurora | PT SE1/4 LT 16 CON 2 KING PT 1, 65R20034; KING |
| 49 | Aurora | PT LT 21 CON 2 KING; PT LT 22 CON 2 KING AS IN B2661B EXCEPT PT 4 B33711B; DESCRIPTION MAY NOT BE ACCEPTABLE IN THE FUTURE AS IN B2661B ; KING | 67 | Aurora | PT SE1/4 LT 16 CON 2 KING PT 3, 65R20034; T/W R720871 ; KING ; SUBJECT TO EXECUTION 96-00974, IF ENFORCEABLE |
| 50 | Aurora | PT LT 22 CON 2 KING; PT LT 23 CON 2 KING PT 1, 65R6742 ; KING | 68 | Aurora | LOT 21, CONCESSION 2, KING TWNSHP |

PowerStream
YOUR CURRENT CONNECTION

# Service Area

**Serving more than 230,000 customers over an area of 640 km$^2$**


**Head Office**
161 Cityview Blvd
Vaughan, Ontario
L4H 0A9
905-417-6900

**Vaughan Cashier**
Vaughan Civic Center
2141 Major Mackenzie Dr West
Vaughan, Ontario
L4K 5N2

**Markham Cashier**
Markham Civic Centre
101 Town Centre Blvd
Markham, Ontario
L3R 9W3
905-477-7000


May, 2008
Powerstream GIS Department

# Electricity Distribution Licence

# ED-2002-0518

# Collus Power Corporation

**Valid Until**

**March 31, 2023**

*Original signed by*

______________________________
**Jennifer Lea**
**Counsel, Special Projects**
**Ontario Energy Board**
**Date of Issuance: June 13, 2003**
**Date of Amendment: January 22, 2009**
**Date of Amendment: November 12, 2010**
**Date of Amendment: June 14, 2011**

| | |
|---|---|
| Ontario Energy Board | Commission de l’énergie de l’Ontario |
| P.O. Box 2319 | C.P. 2319 |
| 2300 Yonge Street | 2300, rue Yonge |
| 27th Floor | 27e étage |
| Toronto, ON M4P 1E4 | Toronto ON M4P 1E4 |

**Table of Contents** **Page No.**

## 1 Definitions

In this Licence:

"**Accounting Procedures Handbook**" means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

"**Act**" means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

"**Affiliate Relationships Code for Electricity Distributors and Transmitters**" means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

"**Conservation and Demand Management**" and "**CDM**" means distribution activities and programs to reduce electricity consumption and peak provincial electricity demand;

"**Conservation and Demand Management Code for Electricity Distributors**" means the code approved by the Board which, among other things, establishes the rules and obligations surrounding Board approved programs to help distributors meet their CDM Targets;

"**distribution services**" means services related to the distribution of electricity and the services the Board has required distributors to carry out, including the sales of electricity to consumers under section 29 of the Act, for which a charge or rate has been established in the Rate Order;

"**Distribution System Code**" means the code approved by the Board which, among other things, establishes the obligations of the distributor with respect to the services and terms of service to be offered to customers and retailers and provides minimum, technical operating standards of distribution systems;

"**Electricity Act**" means the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A;

"**Licensee**" means Collus Power Corporation;

"**Market Rules**" means the rules made under section 32 of the Electricity Act;

"**Net Annual Peak Demand Energy Savings Target**" means the reduction in a distributor's peak electricity demand persisting at the end of the four-year period (i.e. December 31, 2014) that coincides with the provincial peak electricity demand that is associated with the implementation of CDM Programs;

"**Net Cumulative Energy Savings Target**" means the total amount of reduction in electricity consumption associated with the implementation of CDM Programs between 2011-2014;

"**OPA**" means the Ontario Power Authority;

"**Performance Standards**" means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act;

"**Provincial Brand**" means any mark or logo that the Province has used or is using, created or to be created by or on behalf of the Province, and which will be identified to the Board by the Ministry as a provincial mark or logo for its conservation programs;

"**Rate Order**" means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

"**regulation**" means a regulation made under the Act or the Electricity Act;

"**Retail Settlement Code**" means the code approved by the Board which, among other things, establishes a distributor's obligations and responsibilities associated with financial settlement among retailers and consumers and provides for tracking and facilitating consumer transfers among competitive retailers;

"**service area**" with respect to a distributor, means the area in which the distributor is authorized by its licence to distribute electricity;

"**Standard Supply Service Code**" means the code approved by the Board which, among other things, establishes the minimum conditions that a distributor must meet in carrying out its obligations to sell electricity under section 29 of the Electricity Act;

"**wholesaler**" means a person that purchases electricity or ancillary services in the IESO administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IESO-administered markets or directly to another person other than a consumer.

**2 Interpretation**

2.1 In this Licence, words and phrases shall have the meaning ascribed to them in the Act or the Electricity Act. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the Licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this Licence, where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens and where the time for doing an act expires on a holiday, the act may be done on the next day that is not a holiday.

**3 Authorization**

3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this Licence:

a) to own and operate a distribution system in the service area described in Schedule 1 of this Licence;

b) to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act in the manner specified in Schedule 2 of this Licence; and

c) to act as a wholesaler for the purposes of fulfilling its obligations under the Retail Settlement Code or under section 29 of the Electricity Act.

**4 Obligation to Comply with Legislation, Regulations and Market Rules**

4.1 The Licensee shall comply with all applicable provisions of the Act and the Electricity Act and regulations under these Acts, except where the Licensee has been exempted from such compliance by regulation.

4.2 The Licensee shall comply with all applicable Market Rules.

**5 Obligation to Comply with Codes**

5.1 The Licensee shall at all times comply with the following Codes (collectively the "Codes") approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the licensee are set out in Schedule 3 of this Licence. The following Codes apply to this Licence:

a) the Affiliate Relationships Code for Electricity Distributors and Transmitters;

b) the Distribution System Code;

c) the Retail Settlement Code; and

d) the Standard Supply Service Code.

5.2 The Licensee shall:

a) make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours; and

b) provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

**6 Obligation to Provide Non-discriminatory Access**

6.1 The Licensee shall, upon the request of a consumer, generator or retailer, provide such consumer, generator or retailer with access to the Licensee's distribution system and shall convey electricity on behalf of such consumer, generator or retailer in accordance with the terms of this Licence.

**7 Obligation to Connect**

7.1 The Licensee shall connect a building to its distribution system if:

a) the building lies along any of the lines of the distributor's distribution system; and

b) the owner, occupant or other person in charge of the building requests the connection in writing.

7.2 The Licensee shall make an offer to connect a building to its distribution system if:

a) the building is within the Licensee's service area as described in Schedule 1; and

b) the owner, occupant or other person in charge of the building requests the connection in writing.

7.3 The terms of such connection or offer to connect shall be fair and reasonable and made in accordance with the Distribution System Code, and the Licensee's Rate Order as approved by the Board.

7.4 The Licensee shall not refuse to connect or refuse to make an offer to connect unless it is permitted to do so by the Act or a regulation or any Codes to which the Licensee is obligated to comply with as a condition of this Licence.

**8 Obligation to Sell Electricity**

8.1 The Licensee shall fulfill its obligation under section 29 of the Electricity Act to sell electricity in accordance with the requirements established in the Standard Supply Service Code, the Retail Settlement Code and the Licensee's Rate Order as approved by the Board.

**9 Obligation to Maintain System Integrity**

9.1 The Licensee shall maintain its distribution system in accordance with the standards established in the Distribution System Code and Market Rules, and have regard to any other recognized industry operating or planning standards adopted by the Board.

**10 Market Power Mitigation Rebates**

10.1 The Licensee shall comply with the pass through of Ontario Power Generation rebate conditions set out in Appendix A of this Licence.

**11 Distribution Rates**

11.1 The Licensee shall not charge for connection to the distribution system, the distribution of electricity or the retailing of electricity to meet its obligation under section 29 of the Electricity Act except in accordance with a Rate Order of the Board.

**12 Separation of Business Activities**

12.1 The Licensee shall keep financial records associated with distributing electricity separate from its financial records associated with transmitting electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board.

**13 Expansion of Distribution System**

13.1 The Licensee shall not construct, expand or reinforce an electricity distribution system or make an interconnection except in accordance with the Act and Regulations, the Distribution System Code and applicable provisions of the Market Rules.

13.2 In order to ensure and maintain system integrity or reliable and adequate capacity and supply of electricity, the Board may order the Licensee to expand or reinforce its distribution system in accordance with Market Rules and the Distribution System Code, or in such a manner as the Board may determine.

**14 Provision of Information to the Board**

14.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time.

14.2 Without limiting the generality of paragraph 14.1, the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) days past the date upon which such change occurs.

**15 Restrictions on Provision of Information**

15.1 The Licensee shall not use information regarding a consumer, retailer, wholesaler or generator obtained for one purpose for any other purpose without the written consent of the consumer, retailer, wholesaler or generator.

15.2 The Licensee shall not disclose information regarding a consumer, retailer, wholesaler or generator to any other party without the written consent of the consumer, retailer, wholesaler or generator, except where such information is required to be disclosed:

a) to comply with any legislative or regulatory requirements, including the conditions of this Licence;

b) for billing, settlement or market operations purposes;

c) for law enforcement purposes; or

d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator.

15.3 The Licensee may disclose information regarding consumers, retailers, wholesalers or generators where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified.

15.4 The Licensee shall inform consumers, retailers, wholesalers and generators of the conditions under which their information may be released to a third party without their consent.

15.5 If the Licensee discloses information under this section, the Licensee shall ensure that the information provided will not be used for any other purpose except the purpose for which it was disclosed.

**16 Customer Complaint and Dispute Resolution**

16.1 The Licensee shall:

a) have a process for resolving disputes with customers that deals with disputes in a fair, reasonable and timely manner;

b) publish information which will make its customers aware of and help them to use its dispute resolution process;

c) make a copy of the dispute resolution process available for inspection by members of the public at each of the Licensee’s premises during normal business hours;

d) give or send free of charge a copy of the process to any person who reasonably requests it; and

e) subscribe to and refer unresolved complaints to an independent third party complaints resolution service provider selected by the Board. This condition will become effective on a date to be determined by the Board. The Board will provide reasonable notice to the Licensee of the date this condition becomes effective.

**17 Term of Licence**

17.1 This Licence shall take effect on June 13, 2003 and expire on March 31, 2023. The term of this Licence may be extended by the Board.

**18 Fees and Assessments**

18.1 The Licensee shall pay all fees charged and amounts assessed by the Board.

**19 Communication**

19.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.

19.2 All official communication relating to this Licence shall be in writing.

19.3 All written communication is to be regarded as having been given by the sender and received by the addressee:

a) when delivered in person to the addressee by hand, by registered mail or by courier;

b) ten (10) business days after the date of posting if the communication is sent by regular mail; and

c) when received by facsimile transmission by the addressee, according to the sender’s transmission report.

**20 Copies of the Licence**

20.1 The Licensee shall:

a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and

b) provide a copy of this Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

**21 Conservation and Demand Management**

21.1 The Licensee shall achieve reductions in electricity consumption and reductions in peak provincial electricity demand through the delivery of CDM programs. The Licensee shall meet its 2014 Net Annual Peak Demand Savings Target of 3.140 MW, and its 2011-2014 Net Cumulative Energy Savings Target of 14.970 GWh (collectively the “CDM Targets”), over a four-year period beginning January 1, 2011.

21.2 The Licensee shall meet its CDM Targets through:

a) the delivery of Board approved CDM Programs delivered in the Licensee’s service area (“Board-Approved CDM Programs”);

b) the delivery of CDM Programs that are made available by the OPA to distributors in the Licensee’s service area under contract with the OPA (“OPA-Contracted Province-Wide CDM Programs”); or

c) a combination of a) and b).

21.3 The Licensee shall make its best efforts to deliver a mix of CDM Programs to all consumer types in the Licensee’s service area.

21.4 The Licensee shall comply with the rules mandated by the Board’s Conservation and Demand Management Code for Electricity Distributors.

21.5 The Licensee shall utilize the common Provincial brand, once available, with all Board-Approved CDM Programs, OPA-Contracted Province-Wide Programs, and in conjunction with or co-branded with the Licensee’s own brand or marks.

**SCHEDULE 1 DEFINITION OF DISTRIBUTION SERVICE AREA**

This Schedule specifies the area in which the Licensee is authorized to distribute and sell electricity in accordance with paragraph 8.1 of this Licence.

1. The Town of Collingwood as established on January 1, 1993, following the annexation of a part of Nottawasaga Township.

2. The Town of Thornbury as of December 31, 1997, preceding the formation of the Town of the Blue Mountains.

3. The Village of Creemore as of December 31, 1992, preceding the formation of the Township of Clearview.

4. The Town of Stayner as of December 31, 1992, preceding the formation of the Township of Clearview.

**SCHEDULE 2 PROVISION OF STANDARD SUPPLY SERVICE**

This Schedule specifies the manner in which the Licensee is authorized to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act.

1. The Licensee is authorized to retail electricity directly to consumers within its service area in accordance with paragraph 8.1 of this Licence, any applicable exemptions to this Licence, and at the rates set out in the Rate Orders.

**SCHEDULE 3 LIST OF CODE EXEMPTIONS**

This Schedule specifies any specific Code requirements from which the Licensee has been exempted.

1. The Licensee is exempt from the requirements of section 2.5.3 of the Standard Supply Service Code with respect to the price for small volume/residential consumers, subject to the Licensee offering an equal billing plan as described in its application for exemption from Fixed Reference Price, and meeting all other undertakings and material representations contained in the application and the materials filed in connection with it.

2. The Licensee is exempt from the requirements of section 6.5.4 of the Distribution System Code until January 1, 2011 in relation to the following seven load transfer customers located within the Towns of Stayner and Collingwood:

   (a) 70 Nottawa Sideroad, RR4 Stayner - Con 5 PT E ½ Lot 36 RP; 51R24340 Part 2;
   (b) 48 Nottawa Sideroad, RR4 Stayner - Con 5 N PT Lot 36 RP; 51R29218 Part 1;
   (c) 26 Nottawa Sideroad, RR4 Stayner - Con 5 N PT Lot 36;
   (d) 48A Nottawa Sideroad, RR4 Stayner - Con 5 N PT Lot 36 RP; 51R29218 Part 2;
   (e) 2380 Fairgrounds Road, Collingwood - Con 5 N Pt Lot 36 RP 51 R9993; Parts 1&2;
   (f) 9257 Highway 26 East, Collingwood - Con 5 S PT Lot 37; and
   (g) Nottawa Sideroad East, Collingwood - Con 5 PT Lot 37 RP 5 1R1 4133; Part 1.

3. The Licensee is exempt from the requirement to implement time-of-use pricing as of the mandatory date for its RPP customers with eligible time-of-use meters as required under the Standard Supply Service Code for Electricity Distributors. The mandatory time-of-use pricing date exemption expires on December 31, 2011.

**APPENDIX A**

**MARKET POWER MITIGATION REBATES**

## 1. Definitions and Interpretations

In this Licence

"embedded distributor" means a distributor who is not a market participant and to whom a host distributor distributes electricity;

"embedded generator" means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

"host distributor" means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

## 2. Information Given to IESO

a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:

   i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

   ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998.*

b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

   i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

   ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.

c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

## 3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

a retailers who serve one or more consumers in the distributor’s service area where a service transaction request as defined in the Retail Settlement Code has been implemented;

b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

“ONTARIO POWER GENERATION INC. rebate”

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

**ONTARIO POWER GENERATION INC. REBATES**

For the payments that relate to the period from May 1, 2006 to April 30, 2009, the rules set out below shall apply.

**1. Definitions and Interpretations**

In this Licence

"embedded distributor" means a distributor who is not a market participant and to whom a host distributor distributes electricity;

"embedded generator" means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

"host distributor" means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

**2. Information Given to IESO**

a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*; and

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.

b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.

c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

**3. Pass Through of Rebate**

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*;

b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

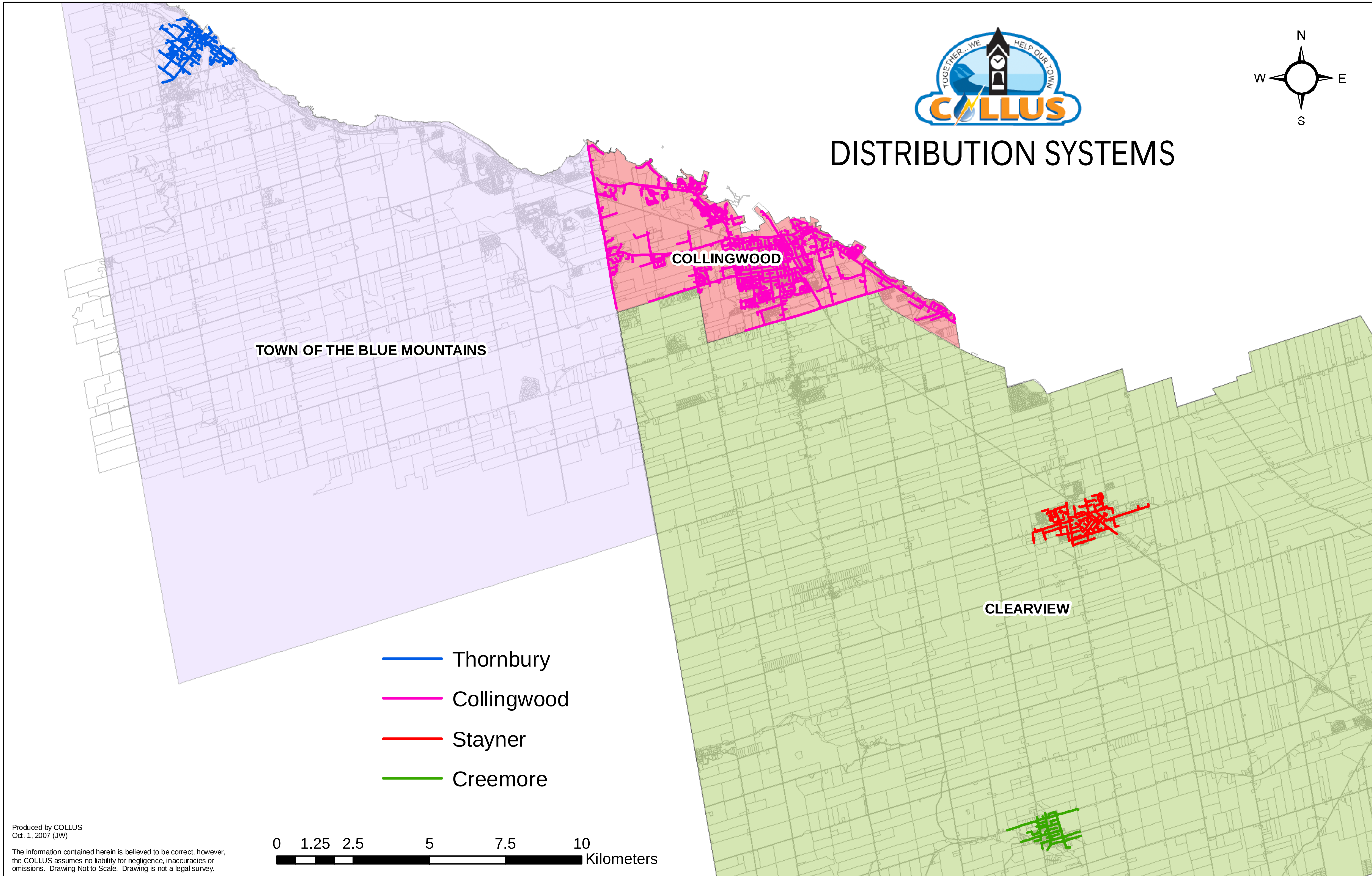
If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

"ONTARIO POWER GENERATION INC. rebate"

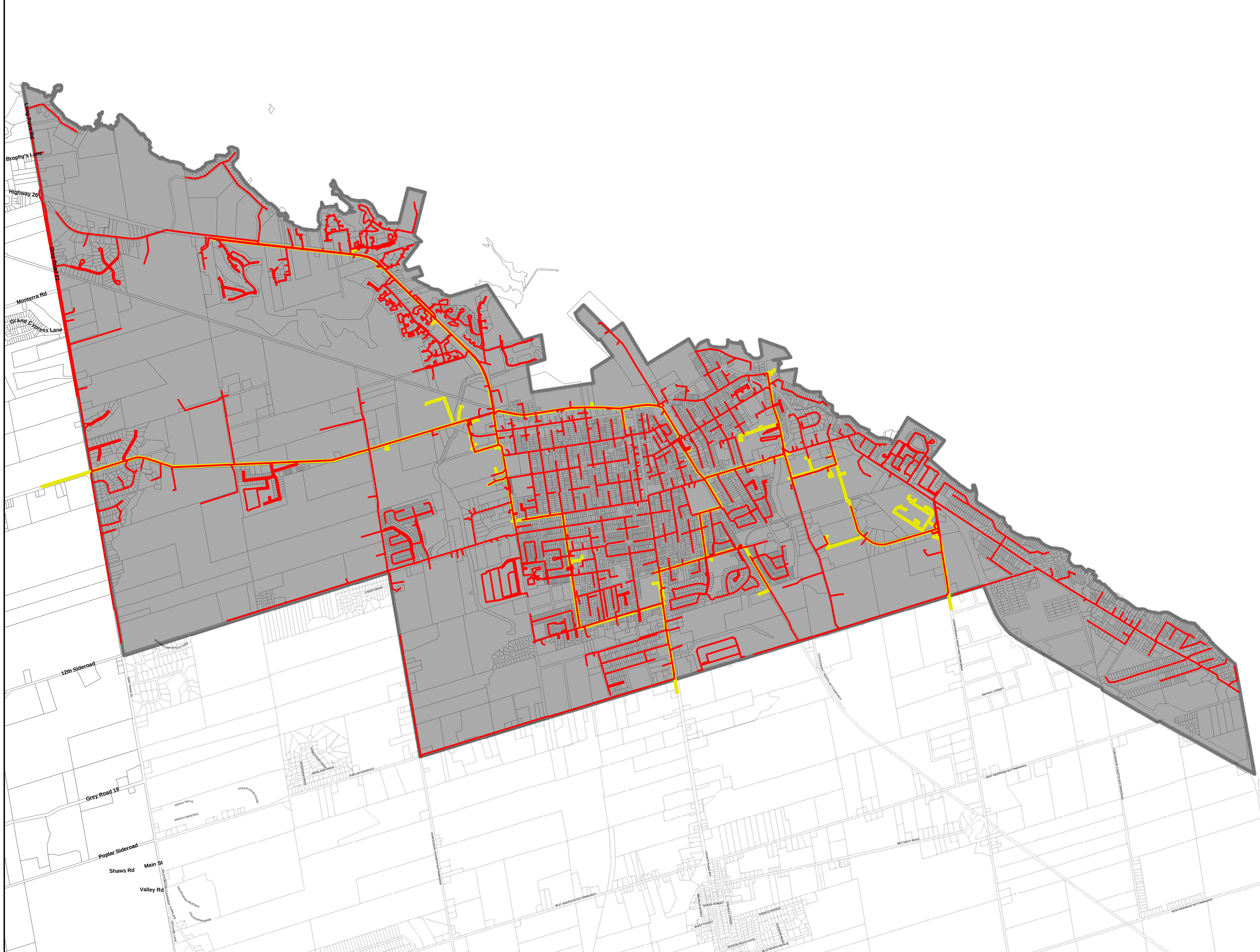
Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.


COLLUS
TOGETHER... WE HELP OUR TOWN
DISTRIBUTION SYSTEMS
N
W
E
S
COLLINGWOOD
TOWN OF THE BLUE MOUNTAINS
CLEARVIEW
Thornbury
Collingwood
Stayner
Creemore
0 1.25 2.5 5 7.5 10
Kilometers
Produced by COLLUS
Oct. 1, 2007 (JW)
The information contained herein is believed to be correct, however, the COLLUS assumes no liability for negligence, inaccuracies or omissions. Drawing Not to Scale. Drawing is not a legal survey.

# Collingwood Distribution Systems




Collingwood (4 kV)

Transmission Lines (44kV)

Boundary

N W E S

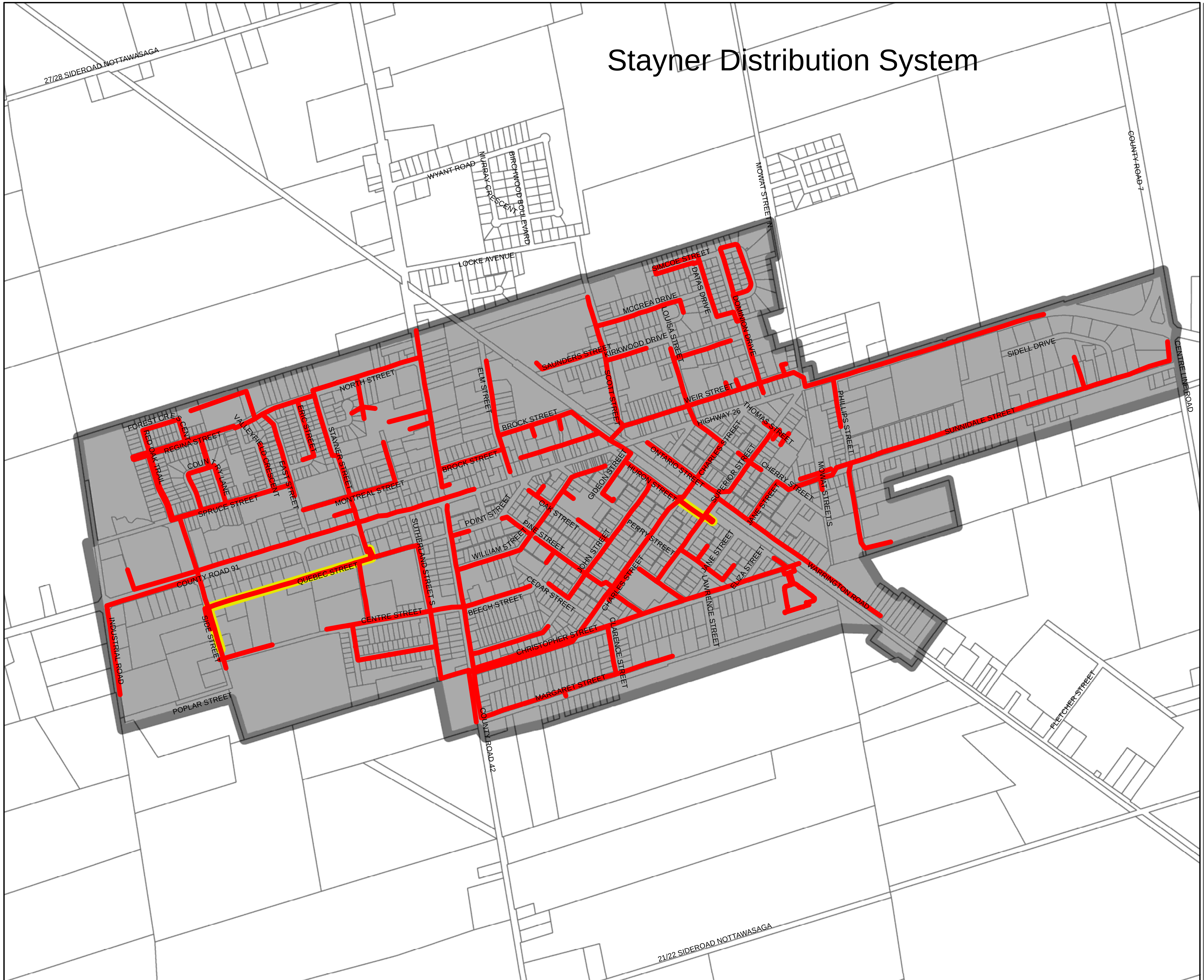
0 0.375 0.75 1.5 Kilometers

Source: Aerial Photography 2002 - County of Simcoe
Assessment Parcel Fabric - Teranet Inc.

Produced by COLLUS
July 16, 2008 (JW)

The information contained herein is believed to be correct, however, the COLLUS assumes no liability for negligence, inaccuracies or omissions. Drawing Not to Scale. Drawing is not a legal survey.

# Stayner Distribution System




Stayner ( 4 kV)

44 kV

Boundary

N
W E
S

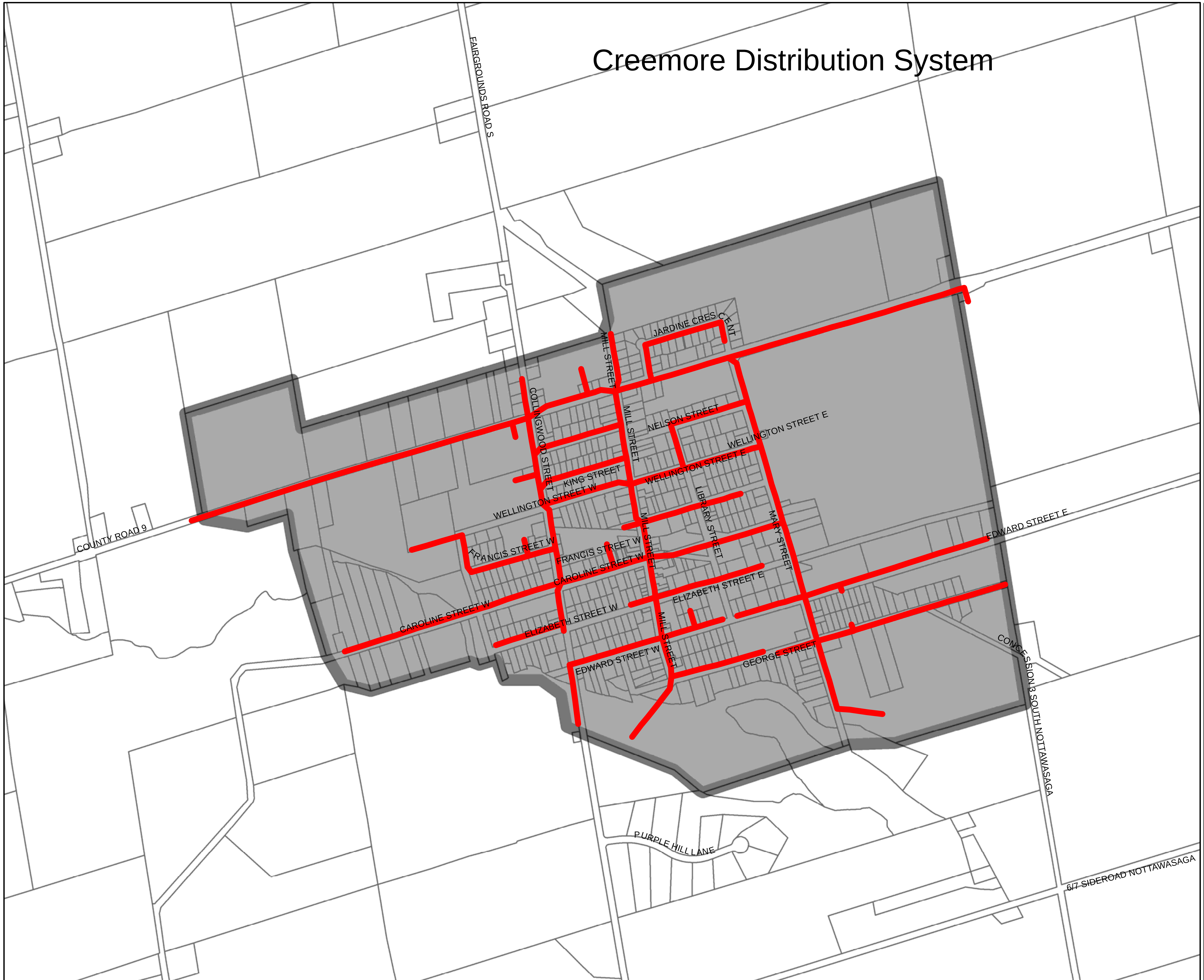
0 0.125 0.25 0.5 Kilometers

Source: Aerial Photography 2002 - County of Simcoe
Assessment Parcel Fabric - Teranet Inc.

Produced by COLLUS
July 16, 2008 (JW)

The information contained herein is believed to be correct, however, the COLLUS assumes no liability for negligence, inaccuracies or omissions. Drawing Not to Scale. Drawing is not a legal survey.

# Creemore Distribution System




Creemore (8 kV)

Boundary

N
W E
S

0 0.125 0.25 0.5 Kilometers

Source: Aerial Photography 2002 - County of Simcoe
Assessment Parcel Fabric - Teranet Inc.

Produced by COLLUS
July 16, 2008 (JW)

The information contained herein is believed to be correct, however, the COLLUS assumes no liability for negligence, inaccuracies or omissions. Drawing Not to Scale. Drawing is not a legal survey.

# Thornbury Distribution System


Thornbury (8 kV)

44 kV

Boundary

N
W E
S

0 0.1 0.2 0.4 Kilometers

Source: Aerial Photography 2002 - County of Simcoe
Assessment Parcel Fabric - Teranet Inc.

Produced by COLLUS
July 16, 2008 (JW)

The information contained herein is believed to be correct, however, the COLLUS assumes no liability for negligence, inaccuracies or omissions. Drawing Not to Scale. Drawing is not a legal survey.

Debt and Equity for PowerStream, Collus Power Corp., and Collingwood Utility Services as of December 31, 2010.

| 2010 | PowerStream ($000s) | Collus Power Corp. | Collingwood Utility Services |
|---|---|---|---|
| Shareholder Notes | $182,430 | $1,710,170 | $1,710,170 |
| Infrastructure Ontario | $827 | $2,900,000 | $2,900,000 |
| Bank Term Loan | $50,000 | | |
| Debentures Payable | $123,765 | | |
| Short-term Debt | $40,000 | | |
| | | | |
| Equity | $286,617 | $10,781,970 | $10,983,592 |

| Pro formas | PowerStream ($000s) | Collus Power Corp. | Collingwood Utility Services |
|---|---|---|---|
| Shareholder Notes | $182,430 | | |
| Infrastructure Ontario | $827 | $2,300,000 | $2,300,000 |
| Bank Term Loan | $50,000 | $8,200,000 | $8,200,000 |
| Debentures Payable | $123,765 | | |
| Short-term Debt | $40,000 | | |
| | | | |
| Equity | $286,617 | $10,500,000 | $10,500,000 |

# BY-LAW No. 2012-011
# OF THE
# CORPORATION OF THE TOWN OF COLLINGWOOD

COLLINGWOOD

BEING A BY-LAW TO AUTHORIZE THE ENTERING INTO AND EXECUTION OF A SHARE PURCHASE AGREEMENT RESPECTING THE SALE OF THE SHARES OF THE TOWN OF COLLINGWOOD (THE "TOWN") IN COLLINGWOOD UTILITY SERVICES CORP. ("CUS") TO POWERSTREAM INC., A SHAREHOLDERS AGREEMENT IN RESPECT OF CUS AND RELATED MATTERS

***WHEREAS*** CUS is wholly owned by the Town;

***AND WHEREAS*** each of Collus Power Corp. ("Collus"), Collus Energy Corp. ("Energy") and Collus Solutions Corp. ("Solutions") is a wholly owned subsidiary of CUS (collectively, Collus, Energy and Solutions are referred to as the "Subsidiaries");

***AND WHEREAS*** the Town, as the sole shareholder of CUS, wishes to approve a transaction (the "Transaction") wherein the Town will sell 50% of its shares in the issued capital of CUS (the "Shares") to PowerStream Inc. ("PowerStream"), pursuant to a share purchase agreement (the "Share Purchase Agreement") and enter into an agreement respecting the governance, shareholdings and related matters of and regarding CUS (the "Unanimous Shareholders Agreement"), each of the draft Share Purchase Agreement and the Unanimous Shareholder Agreement having been provided to Council and approved by CUS;

***AND WHEREAS*** it is in the interest of the Town and CUS to enter into the Share Purchase Agreement, to approve the Transaction contemplated thereby, and following the fulfillment of and completion of certain conditions precedent set out therein, sell the Shares and enter into the Unanimous Shareholders Agreement,

***NOW THEREFORE COUNCIL OF THE CORPORATION OF THE TOWN OF COLLINGWOOD ENACTS AS FOLLOWS:***

1. ***THAT*** Report No. CAO2012-01 be received.

2. ***THAT*** the Town enter into the Share Purchase Agreement and the Unanimous Shareholders Agreement with PowerStream, once those agreements are in a form and content to the satisfaction of the Mayor.

3. ***THAT*** the Mayor or the Clerk be authorized, for and on behalf of the Town, to execute the Share Purchase Agreement and the Unanimous Shareholders Agreement, with such changes as they may consider reasonable, and to execute all documentation necessary to effect the sale of the Shares to PowerStream, the Transaction and this By-law, including without limitation approve financing, authorize and file articles of amendment, amend bylaws, amend and enter into service agreements between the Town and CUS or its Subsidiaries, authorize dividends to be declared and paid by CUS and the Subsidiaries and authorize repayment of debt under the outstanding promissory note issued to the Town by Collus.

4. ***THAT*** this By-law shall come into full force and effect on the date of final passage hereof at which time all By-laws and/or resolutions that are inconsistent with the provisions of this By-law and the same are hereby repealed or rescinded insofar as it is necessary to give effect to the provisions of this By-law.

***ENACTED AND PASSED*** this 23rd day of January, 2012.

Sandra Cooper
MAYOR

CLERK

11741870.5

October 24, 2011 Board Meeting Resolution re: COLLUS RFP

a) M&A Presentation re COLLUS RFP Response (Walk-in) (Approval)

Mr. Bentz asked Mr. Glicksman to lead the Board through a PowerPoint presentation entitled "COLLUS Power – RFP Update", including background, proposal criteria, overview of COLLUS, Cornerstone Hydro Electric Concepts Association (CHEC) Group overview, proposed initial structure, additional acquisition structure, purchase of shares, financial assumptions, LDC acquisition premiums, governance, Dividend Policy, Objectives & Guiding Principles, Buy/Sell provisions, community and next steps.

Mr. Glicksman advised that the Audit & Finance Committee, at its October 20, 2011 meeting, approved PowerStream going forward with responding to the RFP.

Mr. Nolan advised that PowerStream is asking the Shareholder for their approval for all actions to finalize the transaction.

After discussion, it was:

**RESOLVED THAT** Management be authorized to submit a bid for COLLUS Power, in consultation with the Audit & Finance Committee, according to the parameters presented at this meeting;

**AND IT WAS FURTHER RESOLVED THAT** Management be directed to seek Shareholder approval to submit a bid for COLLUS Power, and proceed to take all actions necessary to finalize a resulting transaction, subject to the parameters approved by PowerStream's Board of Directors, or as amended by its Audit & Finance Committee.