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Independent Auditors' Report

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To The Members Of Council, Inhabitants and Ratepayers  
Of The Corporation of the Town of Petrolia

We have audited the accompanying financial statements of the Corporation of the Town of Petrolia, which comprise the statement of financial position as at December 31, 2011 and the statements of financial activities and accumulated surplus, cash flows and change in net financial assets 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 public sector accounting standards, 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 an 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 amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's 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 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 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, these financial statements present fairly, in all material respects, the financial position of the Corporation of the Town of Petrolia as at December 31, 2011 and the results of its financial activities, cash flows and change in net financial assets for the year then ended in accordance with Canadian public sector accounting standards.

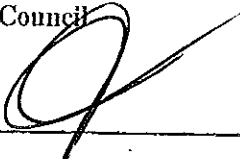
Sarnia, Ontario  
July 3, 2012

*Collins Barrow Sarnia*  
Chartered Accountants  
Licensed Public Accountants

Corporation of the Town Of Petrolia  
Statement Of Financial Position  
December 31, 2011

|  | 2011                        | 2010                        |
|--|-----------------------------|-----------------------------|
| <b>Assets</b>                                      |                             |                             |
| <b>Financial Assets</b>                            |                             |                             |
| Cash (note 3)                                      | \$ 4,038,237                | \$ 4,455,397                |
| Taxes and interest receivable (note 4)             | 638,282                     | 628,294                     |
| Accounts receivable                                | 706,289                     | 1,333,389                   |
| Other receivable (note 5)                          | 198,401                     | 289,174                     |
| Long-term receivable (note 6)                      | 450,000                     | 500,000                     |
| Investment in Bluewater Power Corporation (note 7) | <u>3,870,189</u>            | <u>3,725,747</u>            |
| <b>Total financial assets</b>                      | <u><b>9,901,398</b></u>     | <u><b>10,932,001</b></u>    |
| <b>Liabilities</b>                                 |                             |                             |
| Bank loan  | -                           | 1,240,000                   |
| Construction loan (note 9)                         | 899,700                     | -                           |
| Accounts payable and accrued liabilities           | 701,542                     | 1,348,518                   |
| Interest on municipal debt                         | 18,754                      | 21,316                      |
| Municipal debt (note 8)                            | 5,026,583                   | 5,847,419                   |
| Deferred revenue (note 10)                         | <u>214,627</u>              | <u>305,281</u>              |
| <b>Total liabilities</b>                           | <u><b>6,861,206</b></u>     | <u><b>8,762,534</b></u>     |
| <b>Net Financial Assets</b>                        | <u><b>3,040,192</b></u>     | <u><b>2,169,467</b></u>     |
| <b>Non-Financial Assets</b>                        |                             |                             |
| Tangible capital assets (note 16)                  | 54,692,243                  | 55,645,809                  |
| Prepaid expenses                                   | <u>33,205</u>               | <u>22,209</u>               |
| <b>Total non-financial assets</b>                  | <u><b>54,725,448</b></u>    | <u><b>55,668,018</b></u>    |
| <b>Accumulated Surplus (note 13)</b>               | <u><b>\$ 57,765,640</b></u> | <u><b>\$ 57,837,485</b></u> |

On Behalf Of Council



Mayor



Treasurer

The accompanying notes are an integral part of this financial statement.

Corporation of the Town Of Petrolia  
Statement Of Financial Activities and Accumulated Surplus  
For the Year Ended December 31, 2011

|   | Budget<br>2011<br>(Unaudited - note 18) | Actual<br>2011       | Actual<br>2010       |
|---|---|----------------------|----------------------|
| <b>Revenues</b>                                   |   |                      |                      |
| Net municipal taxation                            | \$ 3,493,809                            | \$ 3,428,127         | \$ 3,305,926         |
| User charges                                      | 2,264,286                               | 1,832,562            | 1,908,824            |
| Water and sewage charges                          | 2,785,313                               | 2,683,156            | 2,735,949            |
| Transfer payments                                 | 1,485,642                               | 1,568,670            | 3,163,000            |
| Other   | 368,282                                 | 521,022              | 625,641              |
| Bluewater Power Corporation, change in equity     | -                                       | 144,442              | 185,546              |
| <b>Total Revenues</b>                             | <u>10,397,332</u>                       | <u>10,177,979</u>    | <u>11,924,886</u>    |
| <b>Expenditures</b>                               |   |                      |                      |
| General government                                | 913,070                                 | 1,002,541            | 1,098,263            |
| Protection to persons and property                | 1,242,608                               | 1,241,291            | 1,189,519            |
| Transportation services                           | 854,466                                 | 1,531,051            | 1,283,023            |
| Environmental services                            | 1,784,023                               | 2,738,463            | 2,700,102            |
| Health services                                   | 103,569                                 | 193,685              | 98,687               |
| Recreation and cultural                           | 3,071,372                               | 3,414,279            | 3,371,623            |
| Planning and development                          | 130,115                                 | 128,514              | 132,903              |
| <b>Total Expenditures</b>                         | <u>8,099,223</u>                        | <u>10,249,824</u>    | <u>9,874,120</u>     |
| <b>Annual Surplus (Deficit)</b>                   | 2,298,109                               | (71,845)             | 2,050,766            |
| <b>Accumulated Surplus, Beginning Of Year</b>     | <u>57,837,485</u>                       | <u>57,837,485</u>    | <u>55,786,719</u>    |
| <b>Accumulated Surplus, End Of Year (note 13)</b> | <u>\$ 60,135,594</u>                    | <u>\$ 57,765,640</u> | <u>\$ 57,837,485</u> |

The accompanying notes are an integral part of this financial statement.

Corporation of the Town Of Petrolia  
Statement Of Cash Flows  
For The Year Ended December 31, 2011

|   | 2011                | 2010                |
|---|---------------------|---------------------|
| <b>Operating Activities</b>                         |                     |                     |
| Annual surplus (deficit)                            | \$ (71,845)         | \$ 2,050,766        |
| Items not requiring cash:                           |                     |                     |
| Amortization  | 1,858,381           | 1,813,437           |
| Share of net income of Bluewater Power Distribution | (223,296)           | (291,544)           |
| Loss on disposal of tangible capital assets         | <u>170,180</u>      | <u>214,387</u>      |
|   | 1,733,420           | 3,787,046           |
| Taxes and interest receivable                       | (9,988)             | (98,007)            |
| Accounts receivable                                 | 627,100             | 379,565             |
| Other receivable                                    | 90,773              | 89,409              |
| Accounts payable and accrued liabilities            | (646,976)           | (716,052)           |
| Interest on municipal debt                          | (2,562)             | (6,908)             |
| Deferred revenue                                    | (90,654)            | (96,431)            |
| Prepaid expenses                                    | <u>(10,996)</u>     | <u>(11,164)</u>     |
| Cash provided from operating activities             | <u>1,690,117</u>    | <u>3,327,458</u>    |
| <b>Capital Transactions</b>                         |                     |                     |
| Proceeds from construction loan                     | 899,700             | -                   |
| Proceeds from sale of tangible assets               | -                   | 79,488              |
| Acquisition of tangible capital assets              | <u>(1,074,995)</u>  | <u>(4,070,259)</u>  |
| Cash (used in) capital transactions                 | <u>(175,295)</u>    | <u>(3,990,771)</u>  |
| <b>Investing Transactions</b>                       |                     |                     |
| Long term receivable                                | 50,000              | 50,000              |
| Dividend from Bluewater Power Corporation           | <u>78,854</u>       | <u>105,998</u>      |
| Cash provided from investing transactions           | <u>128,854</u>      | <u>155,998</u>      |
| <b>Financing Transactions</b>                       |                     |                     |
| (Repayment) proceeds from temporary financing       | (1,240,000)         | 1,240,000           |
| Repayment of long-term debt                         | <u>(820,836)</u>    | <u>(2,061,989)</u>  |
| Cash (used in) financing transactions               | <u>(2,060,836)</u>  | <u>(821,989)</u>    |
| Net (Decrease) In Cash                              | (417,160)           | (1,329,304)         |
| Opening, Cash                                       | <u>4,455,397</u>    | <u>5,784,701</u>    |
| Closing, Cash                                       | <u>\$ 4,038,237</u> | <u>\$ 4,455,397</u> |
| <b>Supplemental Cash Flow Information:</b>          |                     |                     |
| <b>Cash Disbursed For</b>                           |                     |                     |
| Interest on municipal debt                          | <u>\$ 230,929</u>   | <u>\$ 310,584</u>   |

The accompanying notes are an integral part of this financial statement.

Corporation of the Town Of Petrolia  
Statement of Change in Net Financial Assets  
December 31, 2011

|   | 2011                | 2010                |
|---|---------------------|---------------------|
| Annual surplus (deficit)                    | \$ (71,845)         | \$ 2,050,766        |
| Amortization of tangible capital assets     | 1,858,381           | 1,813,437           |
| Change in prepaid expenses                  | (10,996)            | (11,164)            |
| Loss on disposal of tangible capital assets | 170,180             | 214,387             |
| Proceeds from sale of tangible assets       | -                   | 79,488              |
| Acquisition of tangible capital assets      | <u>(1,074,995)</u>  | <u>(4,070,259)</u>  |
| Increase in net financial assets            | 870,725             | 76,655              |
| Net financial assets, beginning of year     | <u>2,169,467</u>    | <u>2,092,812</u>    |
| Net financial assets, end of year           | <u>\$ 3,040,192</u> | <u>\$ 2,169,467</u> |

The accompanying notes are an integral part of this financial statement.

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**1. Significant Accounting Policies**

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The Financial Statements of the Corporation of the Town of Petrolia (the "Town") are the representation of management prepared in accordance with local government accounting standards established by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants.

Significant accounting policies adopted include:

**(a) (i) Reporting Entity**

These financial statements reflect the financial assets, liabilities, operating revenues and expenditures, reserves and changes in investment in tangible capital assets of the Town.

**(ii) Government Business Enterprises**

The investment in Petrolia Electricity Holdings Inc. and the investment in Bluewater Power Corporation is accounted for on the modified equity basis which reflects the Town of Petrolia's investment in the enterprises and its share of net income since acquisition. Under the modified equity basis, the enterprise's accounting principles are not adjusted to conform with those of the municipality and inter-organizational transactions and balances are not eliminated.

**(iii) Accounting for County and School Board Transactions**

The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of the school boards and the County of Lambton are not reflected in the balances of these financial statements.

**(iv) Trust Funds**

Trust funds and their related operations administered by the Town are not consolidated, but are reported separately on the Trust Funds Statement of Continuity and Balance Sheet.

**(b) Basis of Accounting**

**(i) Basis of Accounting**

Sources of financing and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

**(ii) Cash and Cash Equivalents**

Cash and cash equivalents include cash on account and short-term investments with original maturities of three months or less and are stated at cost, which approximates market value.

**1. Significant Accounting Policies cont'd....**

**(b) Basis of Accounting cont'd..**

**(iii) Inventories**

Inventory of material held for resale is recorded at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

**(iv) Non-Financial Assets**

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenditures, provides the Change in Net Financial Assets for the year.

**(a) Tangible Capital Assets**

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

| Asset                        | Years          |
|------------------------------|----------------|
| Land improvements            | 75 years       |
| Buildings                    | 50 years       |
| Equipment                    | 4 to 15 years  |
| Vehicles                     | 7 to 20 years  |
| Road infrastructure          | 30 to 75 years |
| Environmental infrastructure | 45 to 60 years |

Assets under construction are not amortized until the asset is available for productive use.

**(b) Contribution of Tangible Capital Assets**

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and are also recorded as revenue

**(c) Works of Art and Cultural and Historic Assets**

Works of art and cultural and historic assets are not recorded as assets in these financial statements.

**(v) Investment Income**

Investment income earned on surplus operating fund, capital fund and reserves (other than deferred revenue) is reported as revenue in the period earned. Investment income on deferred revenue is added to the fund balance and forms part of the respective deferred revenue balances.

Corporation of the Town Of Petrolia  
Notes To Consolidated Financial Statements  
December 31, 2011

1. Significant Accounting Policies cont'd....

(b) Basis of Accounting cont'd..

(vi) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

2. Operations Of School Boards And The County Of Lambton

Further to note 1(a)(iii), the taxation, other revenues and requisitions of the School Boards and the County of Lambton are comprised of the following:

|                           | School<br>Boards    | County              | 2011<br>Total       | 2010<br>Total       |
|---------------------------|---------------------|---------------------|---------------------|---------------------|
| Taxation and user charges | \$ 1,626,876        | \$ 1,939,089        | \$ 3,565,965        | \$ 3,621,711        |
| Grants-in-lieu            | -                   | 14,022              | 14,022              | 14,099              |
| Total                     | \$ <u>1,626,876</u> | \$ <u>1,953,111</u> | \$ <u>3,579,987</u> | \$ <u>3,635,810</u> |

3. Cash and Short-Term Investments

This represents a consolidation of cash and short-term investments from the operating fund and the reserve funds (including those funds set aside in respect of deferred revenue as detailed in note 10). The composition is as follows:

|                  | 2011                |             | 2010                |             |
|------------------|---------------------|-------------|---------------------|-------------|
|                  | Cash                | Investments | Cash                | Investments |
| Operating Fund   | \$ 4,022,014        | \$ -        | \$ 4,439,483        | \$ -        |
| Restricted Funds | 16,223              | -           | 15,914              | -           |
| Total            | \$ <u>4,038,237</u> | \$ <u>-</u> | \$ <u>4,455,397</u> | \$ <u>-</u> |



Corporation of the Town Of Petrolia  
Notes To Consolidated Financial Statements  
December 31, 2011

| 4. Taxes and Interest Receivable | 2011              | 2010              |
|----------------------------------|-------------------|-------------------|
| Current year                     | \$ 448,990        | \$ 381,384        |
| Arrears from previous years      | <u>219,292</u>    | <u>276,910</u>    |
|                                  | 668,282           | 658,294           |
| Less allowance                   | <u>30,000</u>     | <u>30,000</u>     |
|                                  | <u>\$ 638,282</u> | <u>\$ 628,294</u> |

The allowance of \$30,000 has been established to cover the Town's share of potential adjustments from unresolved appeals, vacancy rebates and penalty and interest adjustments.

5. Other Receivable

This amount represents a surplus in the OMERS pension plan. The employee portion of this surplus has been returned to the affected employees and the remaining balance of the surplus, plus any interest earned, is restricted in that it may only be used by the Town to fund the Town's portion of OMERS pension plan contributions in future years.

6. Long-Term Receivable

In 2000, the Town reached a settlement with regards to royalties to be paid for waste deposited in the landfill site formerly owned by the Town. Under the terms of the settlement, the Town received a settlement of \$5,000,000, of which \$4,000,000 was paid during the year 2000 and the remaining \$1,000,000 is to be paid without interest over 20 years with an annual payment of \$50,000 per year commencing January 1, 2001. At the end of 2011, \$450,000 (2010 - \$500,000) was still outstanding. The outstanding principal balance or any portion thereof may be prepaid at any time.

7. Hydro Investments

In recognition of the requirements of Bill 35 (The Energy Competition Act, 1998) the Town, along with the City of Sarnia, Township of Warwick, Village of Point Edward, Village of Oil Springs and Village of Alvinston passed in the year 2000 transfer by-laws that transferred, effective October 31, 2000, all of their hydro assets and liabilities to Bluewater Power Distribution Corporation. Upon determination of the fair value of assets and liabilities transferred, each municipality received a promissory note from Bluewater Power Distribution Corporation and shares of Bluewater Power Corporation, which owns 100% of Bluewater Power Distribution Corporation, equal to the percentage of the fair market value of assets and liabilities each municipality contributed compared to the total fair market value of the assets and liabilities contributed by the municipalities. The fair market value of the assets and liabilities contributed by the Town of Petrolia was determined to be 7.36% of the fair market value of all of the assets and liabilities contributed by all of the six participating municipalities.

Corporation of the Town Of Petrolia  
Notes To Consolidated Financial Statements  
December 31, 2011

7. Hydro Investments cont'd...

Commencing May 1, 2009, the interest payable on the promissory note increased from 7.25% to 7.62%, the deemed debt cost rate allowed by the Ontario Energy Board.

|  | 2011                | 2010                |
|--|---------------------|---------------------|
| Promissory Note  | \$ 1,430,914        | \$ 1,430,914        |
| Petrolia Electricity Holdings Inc. common shares                 | 1,327,163           | 1,327,163           |
| Share of net income since acquisition, net of dividends received | <u>1,112,112</u>    | <u>967,670</u>      |
|  | <u>\$ 3,870,189</u> | <u>\$ 3,725,747</u> |
| <b>Continuity of Investment</b>                                  |                     |                     |
| Balance, beginning of year                                       | \$ <u>3,725,747</u> | \$ <u>3,540,201</u> |
| Share of net income for the year                                 | 223,296             | 291,544             |
| Dividends received during the year                               | <u>78,854</u>       | <u>105,998</u>      |
| Net increase (decrease) in equity during the year                | <u>144,442</u>      | <u>185,546</u>      |
| Balance, end of year   | <u>\$ 3,870,189</u> | <u>\$ 3,725,747</u> |

The promissory note due from Bluewater Power Distribution Corporation is unsecured, subordinated and due twelve months following demand for payment. During 2011, the Town of Petrolia received \$109,035 (2010 - \$107,712) of interest income on the promissory note.

The following tables provide condensed financial information from the municipality's government business enterprises.

| Bluewater Power Corporation   | 2011                 | 2010                 |
|-------------------------------|----------------------|----------------------|
| <b>Financial Position</b>     |                      |                      |
| <b>Assets</b>                 |                      |                      |
| Current assets                | \$ 28,287,879        | \$ 32,323,774        |
| Property, plant and equipment | 48,212,831           | 48,173,407           |
| Other assets                  | <u>15,724,078</u>    | <u>14,602,664</u>    |
| Total assets                  | <u>\$ 92,224,788</u> | <u>\$ 95,099,845</u> |
| <b>Liabilities</b>            |                      |                      |
| Current liabilities           | \$ 18,512,120        | \$ 26,036,464        |
| Long-term liabilities         | <u>40,570,348</u>    | <u>37,883,581</u>    |
|                               | <u>59,082,468</u>    | <u>63,920,045</u>    |
| <b>Equity</b>                 |                      |                      |
| Share capital                 | 18,032,105           | 18,032,105           |
| Retained earnings             | <u>15,110,215</u>    | <u>13,147,695</u>    |
|                               | <u>33,142,320</u>    | <u>31,179,800</u>    |
| Total liabilities and equity  | <u>\$ 92,224,788</u> | <u>\$ 95,099,845</u> |

Continued on page 11....

Corporation of the Town Of Petrolia  
Notes To Consolidated Financial Statements  
December 31, 2011

| 7. Hydro Investments cont'd....                              | 2011                | 2010                |
|--|---------------------|---------------------|
| <b>Bluewater Power Corporation</b>                           |                     |                     |
| Results of Operations  |                     |                     |
| Revenues   |                     |                     |
| Expenditures   | \$ 87,639,940       | \$ 90,731,554       |
| Payment in lieu of income taxes                              | 83,734,030          | 85,477,352          |
|  | <u>872,000</u>      | <u>1,293,000</u>    |
| Net income   | <u>\$ 3,033,910</u> | <u>\$ 3,961,202</u> |
| Town of Petrolia share of net income @ 7.36%                 | <u>\$ 223,296</u>   | <u>\$ 291,544</u>   |
| Dividends  | <u>\$ 1,071,390</u> | <u>\$ 1,440,191</u> |
| Petrolia Electricity Holdings Inc. share of dividend @ 7.36% | <u>\$ 78,854</u>    | <u>\$ 105,998</u>   |
| Change in equity   | <u>\$ 144,442</u>   | <u>\$ 185,546</u>   |
| <b>Petrolia Electricity Holdings Inc.</b>                    |                     |                     |
| Current assets   | \$ 78,854           | \$ 105,998          |
| Investment in Bluewater Power Corporation                    | <u>1,327,163</u>    | <u>1,327,163</u>    |
| Total assets   | <u>\$ 1,406,017</u> | <u>\$ 1,433,161</u> |
| <b>Liabilities</b>   |                     |                     |
| Current liabilities  | \$ 78,854           | \$ 105,998          |
| Equity   | <u>1,327,163</u>    | <u>1,327,163</u>    |
| Total liabilities and equity                                 | <u>\$ 1,406,017</u> | <u>\$ 1,433,161</u> |
| <b>Results of Operations</b>                                 |                     |                     |
| Revenue  |                     |                     |
| Expenditures   | \$ 78,854           | \$ 105,998          |
| Net income   | <u>-</u>            | <u>-</u>            |
| Dividends  | <u>78,854</u>       | <u>105,998</u>      |
|  | <u>(78,854)</u>     | <u>(105,998)</u>    |
| Change in equity   | <u>\$ -</u>         | <u>\$ -</u>         |

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Corporation of the Town Of Petrolia  
Notes To Consolidated Financial Statements  
December 31, 2011

**8. Municipal Debt**

(a) The balance of municipal debt reported on the consolidated statement of financial position is made up of the following:

|   | 2011                | 2010                |
|---|---------------------|---------------------|
| 4.60% bank loan, due October 3, 2015          | \$ 789,008          | \$ 973,000          |
| 4.19% bank loan, due December 9, 2015         | 2,343,712           | 2,870,888           |
| 3.99% CMHC loan payable, due November 1, 2024 | 1,111,785           | 1,176,127           |
| 3.97% CMHC loan payable, due December 1, 2024 | <u>782,078</u>      | <u>827,404</u>      |
|   | <u>\$ 5,026,583</u> | <u>\$ 5,847,419</u> |

(b) Principal repayments are as follows:

|              |                     |
|--------------|---------------------|
| 2012         | \$ 856,365          |
| 2013         | 893,436             |
| 2014         | 932,115             |
| 2015         | 934,918             |
| 2016         | 133,311             |
| 2017 to 2021 | 750,530             |
| 2022 to 2024 | <u>525,908</u>      |
|              | <u>\$ 5,026,583</u> |

Revenue for the above principal repayments will be raised from the following sources:

|                              | 2012<br>to<br>2016  | 2017<br>to<br>2021 | 2022<br>to<br>2024 | Total               |
|------------------------------|---------------------|--------------------|--------------------|---------------------|
| From water and sewer charges | \$ 2,441,141        | \$ 118,434         | \$ 82,988          | \$ 2,642,563        |
| From taxation                | <u>1,309,004</u>    | <u>632,094</u>     | <u>442,922</u>     | <u>2,384,020</u>    |
|                              | <u>\$ 3,750,145</u> | <u>\$ 750,528</u>  | <u>\$ 525,910</u>  | <u>\$ 5,026,583</u> |

(c) Municipal debt approved after January 1, 1993 have been approved by by-law. The annual principal and interest payments required to service these liabilities are within the annual debt limit prescribed by the Ministry of Municipal Affairs and Housing.

d) Total interest charges for the year for municipal debt which is reported on the Statement of Financial Position was \$228,367 (2010 - \$303,676).

Corporation of the Town Of Petrolia  
Notes To Consolidated Financial Statements  
December 31, 2011

9. Construction Loan

The Town received an advance of \$899,700 from CMHC for the financing of the construction of tangible capital assets. This advance bears interest at the rate of 3.17% and will be converted to a debenture once the applicable by-law is passed by Council. On February 1, 2012 this bylaw was passed by Council and the debenture is to be repaid over 15 years, commencing August 1, 2012, with semi-annual payments of \$37,916 principal and interest. Principal repayments are as follows:

|              |    |                |
|--------------|----|----------------|
| 2012         | \$ | 23,655         |
| 2013         |    | 48,442         |
| 2014         |    | 49,988         |
| 2015         |    | 51,587         |
| 2016         |    | 53,235         |
| 2017 to 2021 |    | 292,803        |
| 2022 to 2024 |    | 342,666        |
| 2027         |    | <u>37,324</u>  |
|              | \$ | <u>899,700</u> |

The annual principal and interest payments required to service this debenture are within the annual debt limit prescribed by the Ministry of Municipal Affairs and Housing.

10. Deferred Revenue

2011 2010

The deferred revenue is comprised of the following:

|  |    |                |    |                |
|--|----|----------------|----|----------------|
| Recreational land                      | \$ | 16,038         | \$ | 15,914         |
| Canada gas tax funding                 |    | 186            |    | 191            |
| OMERS pension plan type 3 excess funds |    | <u>198,403</u> |    | <u>289,176</u> |
|  | \$ | <u>214,627</u> | \$ | <u>305,281</u> |

The net change during the year in the deferred revenue balances is as follows:

|                        | OMERS<br>Excess Funds | Canada Gas<br>Tax Funding | Parkland<br>Fees |
|------------------------|-----------------------|---------------------------|------------------|
| Balance, beginning     | \$ 289,176            | \$ 191                    | \$ 15,914        |
| Investment income      | <u>17,810</u>         | <u>1</u>                  | <u>124</u>       |
|                        | 306,986               | 192                       | 16,038           |
| Transfer to operations | <u>108,583</u>        | <u>6</u>                  | <u>-</u>         |
| Balance, ending        | \$ <u>198,403</u>     | \$ <u>186</u>             | \$ <u>16,038</u> |

Corporation of the Town Of Petrolia  
Notes To Consolidated Financial Statements  
December 31, 2011

**11. Pension Agreements**

The Municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), a multi-employer plan, on behalf of members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

For 2011 the contribution made by the Town to OMERS was \$111,911 (2010 - \$92,593).

**12. Public Sector Salary Disclosure**

During 2011, no town employees were paid a salary, as defined in the Public Sector Salary Disclosure Act, 1996, of \$100,000 or more.

**13. Accumulated Surplus**

2011

2010

Accumulated surplus consists of the following individual fund surplus and reserves as follows:

| Surplus  | 2011                 | 2010                 |
|--|----------------------|----------------------|
| Invested in tangible capital assets                          | \$ 54,692,243        | \$ 55,645,809        |
| Reduce (recover) from future taxation                        | (106,862)            | (82,435)             |
| Equity in Bluewater Power Corporation                        | 3,870,189            | 3,725,747            |
| Unfunded   | <u>(5,975,705)</u>   | <u>(6,312,248)</u>   |
|  | <u>\$ 52,479,865</u> | <u>\$ 52,976,873</u> |
| <br>Reserves set aside for specific purposes by Council for: |                      |                      |
| Working capital  | \$ 196,584           | \$ 123,903           |
| Fire   | 148,937              | 111,811              |
| Recreation facilities  | 101,773              | 89,496               |
| Planning and development                                     | 615,425              | 715,655              |
| Capital projects   | 574,365              | 619,364              |
| Waterworks   | 1,443,083            | 1,252,490            |
| Sewage   | 2,169,133            | 1,919,022            |
| Cemetery   | 15,503               | 15,503               |
| Library  | 8,368                | 8,368                |
| Other Cultural   | <u>12,604</u>        | <u>5,000</u>         |
| <b>Total Reserves</b>  | <u>\$ 5,285,775</u>  | <u>\$ 4,860,612</u>  |
| <b>Accumulated Surplus</b>                                   | <u>\$ 57,765,640</u> | <u>\$ 57,837,485</u> |

Continued on page 15....

Corporation of the Town Of Petrolia  
Notes To Consolidated Financial Statements  
December 31, 2011

**14. Classification Of Expenditures By Object**

The Consolidated Statement of Financial Activities presents the expenditures by function. The following classifies those same expenditures by object:

|   | 2011                 | 2010                |
|---|----------------------|---------------------|
| Salaries, wages and employee benefits       | \$ 2,596,150         | \$ 2,539,701        |
| Operating materials and supplies            | 3,379,174            | 3,192,591           |
| Contracted services                         | 1,977,179            | 1,753,413           |
| Rents and financial expenses                | 25,367               | 43,368              |
| External transfers to others                | 15,115               | 13,547              |
| Loss on disposal of tangible capital assets | 170,180              | 214,387             |
| Interest on long-term debt                  | 228,278              | 303,676             |
| Amortization                                | <u>1,858,381</u>     | <u>1,813,437</u>    |
| Total expenditures by object                | <u>\$ 10,249,824</u> | <u>\$ 9,874,120</u> |

**15. Contingencies**

**Federal Grants**

Under the terms of an agreement with the Government of Canada with respect to a \$350,000 grant received for the restoration of Victoria Hall, the Town must operate and maintain Victoria Hall in its restored state for a period of 42 years, commencing from 1992. If Victoria Hall is damaged by fire and not restored to its original condition, then the Town must repay the grant to the Government of Canada. Any repayments, if any, will be recognized as an expense in the year of repayment.

**Insurance**

At December 31, 2011, the Town was in dispute over various insurance claims. The outcome of these disputes is indeterminable at this time. Any payments, if any, made by the Town from these disputes will be recognized as an expense in the year any settlements are made.

**Line of Credit**

The Town approves a line of credit for Actors' Equity whereby a line of credit in the form of a bond in the amount of \$106,591 to be issued on behalf of Actors' Equity. This bond is to insure payment to the actors performing at the Victoria Playhouse Theatre. Any payments required under this bond will be recognized as an expense in the year payment is made.

**Oil Heritage District Community Centre ("OHDCC")**

As part of the condition of receiving the Ontario SuperBuild Corporation grant of \$1,686,000 used in financing the construction of the OHDCC, the Town may not transfer ownership of the OHDCC until March 31, 2027 unless the Town receives the prior written consent of the Ministry of Tourism and Recreation ("Ministry"). As a condition of its consent, the Ministry may specify any conditions including the requirement that the Town repay some or all of the Ontario SuperBuild Corporation grant. The repayment amount, if any, is to be determined by the Ministry and to be repaid within a time period specified by the Ministry.

Continued on page 16....

Corporation of the Town Of Petrolia  
Notes To Consolidated Financial Statements  
December 31, 2011

**16. Tangible Capital Assets**

**Asset Cost 2011**

|                       | Land              | Land<br>Improve-<br>ments | Buildings            | Equipment           | Vehicles            | Infrastructure       | Assets<br>Under<br>Construction | Total                |
|-----------------------|-------------------|---------------------------|----------------------|---------------------|---------------------|----------------------|---------------------------------|----------------------|
| Balance,<br>beginning | \$ 900,770        | \$ 1,035,416              | \$ 23,324,507        | \$ 5,904,071        | \$ 1,518,894        | \$ 48,788,999        | \$ 696,232                      | \$ 82,168,889        |
| Additions             | 17,311            | 26,548                    | 592,719              | 30,311              | 111,640             | 778,291              | 119,567                         | 1,676,387            |
| Disposals             | -                 | -                         | -                    | -                   | (62,900)            | (314,521)            | (601,392)                       | (978,813)            |
| Balance,<br>ending    | <u>\$ 918,081</u> | <u>\$ 1,061,964</u>       | <u>\$ 23,917,226</u> | <u>\$ 5,934,382</u> | <u>\$ 1,567,634</u> | <u>\$ 49,252,769</u> | <u>\$ 214,407</u>               | <u>\$ 82,866,463</u> |

**Accumulated Amortization**

|                       |             |                   |                     |                     |                     |                      |             |                      |
|-----------------------|-------------|-------------------|---------------------|---------------------|---------------------|----------------------|-------------|----------------------|
| Balance,<br>beginning | \$ -        | \$ 305,290        | \$ 6,119,050        | \$ 1,929,615        | \$ 1,007,143        | \$ 17,161,982        | \$ -        | \$ 26,523,080        |
| Amortization          | -           | 32,535            | 472,766             | 221,638             | 68,332              | 1,063,110            | -           | 1,858,381            |
| Disposals             | -           | -                 | -                   | -                   | (60,900)            | (146,341)            | -           | (207,241)            |
| Balance,<br>ending    | <u>\$ -</u> | <u>\$ 337,825</u> | <u>\$ 6,591,816</u> | <u>\$ 2,151,253</u> | <u>\$ 1,014,575</u> | <u>\$ 18,078,751</u> | <u>\$ -</u> | <u>\$ 28,174,220</u> |

**Net Book**

|       |                   |                   |                      |                     |                   |                      |                   |                      |
|-------|-------------------|-------------------|----------------------|---------------------|-------------------|----------------------|-------------------|----------------------|
| Value | <u>\$ 918,081</u> | <u>\$ 724,139</u> | <u>\$ 17,325,410</u> | <u>\$ 3,783,129</u> | <u>\$ 553,059</u> | <u>\$ 31,174,018</u> | <u>\$ 214,407</u> | <u>\$ 54,692,243</u> |
|-------|-------------------|-------------------|----------------------|---------------------|-------------------|----------------------|-------------------|----------------------|

**Asset Cost 2010**

|                       | Land              | Land<br>Improve-<br>ments | Buildings            | Equipment           | Vehicles            | Infrastructure       | Assets<br>Under<br>Construction | Total                |
|-----------------------|-------------------|---------------------------|----------------------|---------------------|---------------------|----------------------|---------------------------------|----------------------|
| Balance,<br>beginning | \$ 900,770        | \$ 744,202                | \$ 22,207,306        | \$ 5,885,850        | \$ 1,522,293        | \$ 44,654,717        | \$ 2,825,294                    | \$ 78,740,432        |
| Additions             | -                 | 291,214                   | 1,117,201            | 27,144              | 114,106             | 4,649,656            | 679,366                         | 6,878,687            |
| Disposals             | -                 | -                         | -                    | (8,923)             | (117,505)           | (515,374)            | (2,808,428)                     | (3,450,230)          |
| Balance,<br>ending    | <u>\$ 900,770</u> | <u>\$ 1,035,416</u>       | <u>\$ 23,324,507</u> | <u>\$ 5,904,071</u> | <u>\$ 1,518,894</u> | <u>\$ 48,788,999</u> | <u>\$ 696,232</u>               | <u>\$ 82,168,889</u> |

**Accumulated Amortization**

|                       |             |                   |                     |                     |                     |                      |             |                      |
|-----------------------|-------------|-------------------|---------------------|---------------------|---------------------|----------------------|-------------|----------------------|
| Balance,<br>beginning | \$ -        | \$ 275,971        | \$ 5,645,710        | \$ 1,699,357        | \$ 973,549          | \$ 16,462,983        | \$ -        | \$ 25,057,570        |
| Amortization          | -           | 29,319            | 473,340             | 236,147             | 60,531              | 1,014,100            | -           | 1,813,437            |
| Disposals             | -           | -                 | -                   | (5,889)             | (26,937)            | (315,101)            | -           | (347,927)            |
| Balance,<br>ending    | <u>\$ -</u> | <u>\$ 305,290</u> | <u>\$ 6,119,050</u> | <u>\$ 1,929,615</u> | <u>\$ 1,007,143</u> | <u>\$ 17,161,982</u> | <u>\$ -</u> | <u>\$ 26,523,080</u> |

**Net Book**

|       |                   |                   |                      |                     |                   |                      |                   |                      |
|-------|-------------------|-------------------|----------------------|---------------------|-------------------|----------------------|-------------------|----------------------|
| Value | <u>\$ 900,770</u> | <u>\$ 730,126</u> | <u>\$ 17,205,457</u> | <u>\$ 3,974,456</u> | <u>\$ 511,751</u> | <u>\$ 31,627,017</u> | <u>\$ 696,232</u> | <u>\$ 55,645,809</u> |
|-------|-------------------|-------------------|----------------------|---------------------|-------------------|----------------------|-------------------|----------------------|

**Assets Under Construction**

Assets under construction having a value of \$214,407 (2010 - \$696,332) have not been amortized. Amortization of these assets will commence when the asset is put into service.

**Works Of Art And Historical Treasures**

The Town manages and controls various works of art and historical cultural treasures. These assets are not recorded as tangible capital assets and are not amortized.

**Writedown Of Tangible Capital Assets**

The writedown of tangible capital assets during the year was \$Nil (2010 - \$Nil).



Corporation of the Town Of Petrolia  
Notes To Consolidated Financial Statements  
December 31, 2011

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17. Trust Funds

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Trust funds administered by the Town amounting to \$378,687 (2010 - \$370,852) are not included in the Statement of Financial Position nor have their operations been included in the Statement of Financial Activities.

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18. Budget Data

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The unaudited budget data presented in these financial statements is based upon the 2011 operating and capital budgets approved by Council. Amortization was not included in the development of the budget. Below is a reconciliation of the approved budget to the budget figures reported in these financial statements.

|                          | Budget Amount       |
|--------------------------|---------------------|
| <b>Revenues</b>          |                     |
| Operating budget         | \$ 10,242,416       |
| Capital budget           | <u>992,501</u>      |
| Total revenue            | <u>11,234,917</u>   |
| <b>Expenses</b>          |                     |
| Operating budget         | 10,043,018          |
| Capital budget           | <u>1,155,251</u>    |
| Total expenditures       | 11,198,269          |
| Budgeted surplus         | 36,648              |
| Debt principal payments  | 820,837             |
| Transfers to other funds | 1,755,659           |
| Debt incurred            | <u>(315,035)</u>    |
| Annual surplus           | \$ <u>2,298,109</u> |

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19. Comparative Figures

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Certain of the prior year's figures have been reclassified to conform to the current year's presentation.



Collins Barrow

Chartered Accountants

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**Independent Auditors' Report**

[www.collinsbarrow.com](http://www.collinsbarrow.com)

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**To The Members Of Council, Inhabitants and Ratepayers  
Of The Corporation of the Town of Petrolia**

We have audited the accompanying financial statements of the Corporation of the Town of Petrolia Trust Funds, which comprise the statement of financial position as at December 31, 2011 and the statement of continuity 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 public sector accounting standards, 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 an 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 amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's 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 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 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, these financial statements present fairly, in all material respects, the financial position of the Corporation of the Town of Petrolia Trust Funds as at December 31, 2011 and the results of its financial activities for the year then ended in accordance with Canadian public sector accounting standards.

Sarnia, Ontario  
June 4, 2012

*Collins Barrow Sarnia*  
Chartered Accountants  
Licensed Public Accountants

**Corporation Of The Town Of Petrolia**  
**Trust Funds**  
**Statement Of Continuity**  
**For The Year Ended December 31, 2011**

|                      | Total<br>\$           | Englehart<br>\$     | Colvin<br>\$        | Fulton<br>\$        |
|----------------------|-----------------------|---------------------|---------------------|---------------------|
| Balance, Beginning   | <u>370,852</u>        | <u>8,911</u>        | <u>3,216</u>        | <u>4,695</u>        |
| Receipts             |                       |                     |                     |                     |
| Care and maintenance | 7,757                 | -                   | -                   | -                   |
| Interest             | <u>5,684</u>          | <u>44</u>           | <u>13</u>           | <u>21</u>           |
|                      | <u>13,441</u>         | <u>44</u>           | <u>13</u>           | <u>21</u>           |
| Expenditures         |                       |                     |                     |                     |
| Transfer to Town     | <u>5,606</u>          | <u>-</u>            | <u>-</u>            | <u>-</u>            |
| Balance, Ending      | <u><u>378,687</u></u> | <u><u>8,955</u></u> | <u><u>3,229</u></u> | <u><u>4,716</u></u> |

**Statement of Financial Position**  
**December 31, 2011**

|                      | Total<br>\$           | Englehart<br>\$     | Colvin<br>\$        | Fulton<br>\$        |
|----------------------|-----------------------|---------------------|---------------------|---------------------|
| Assets               |                       |                     |                     |                     |
| Cash                 | 101,429               | 8,955               | 3,229               | 4,716               |
| Investments (note 2) | <u>277,258</u>        | <u>-</u>            | <u>-</u>            | <u>-</u>            |
|                      | <u><u>378,687</u></u> | <u><u>8,955</u></u> | <u><u>3,229</u></u> | <u><u>4,716</u></u> |
| Surplus              |                       |                     |                     |                     |
| Capital              | <u><u>378,687</u></u> | <u><u>8,955</u></u> | <u><u>3,229</u></u> | <u><u>4,716</u></u> |

Corporation Of The Town Of Petrolia  
 Trust Funds  
 Statement Of Continuity  
 For The Year Ended December 31, 2011

|                      | Care And<br>Maintenance<br>Fund<br>Markers<br>\$ | Care And<br>Maintenance<br>Fund<br>Cemetery<br>\$ |
|----------------------|--|---|
| Balance, Beginning   | <u>44,144</u>                                    | <u>309,886</u>                                    |
| Receipts             |  |   |
| Care and maintenance | 1,557  | 6,200   |
| Interest             | <u>283</u>                                       | <u>5,323</u>                                      |
|                      | <u>1,840</u>                                     | <u>11,523</u>                                     |
| Expenditures         |  |   |
| Transfer to Town     | <u>283</u>                                       | <u>5,323</u>                                      |
| Balance, Ending      | <u><u>45,701</u></u>                             | <u><u>316,086</u></u>                             |

Statement of Financial Position  
 December 31, 2011

|                      | Care And<br>Maintenance<br>Fund<br>Markers<br>\$ | Care And<br>Maintenance<br>Fund<br>Cemetery<br>\$ |
|----------------------|--|---|
| Assets               |  |   |
| Cash                 | 22,549   | 61,980  |
| Investments (note 2) | <u>23,152</u>                                    | <u>254,106</u>                                    |
|                      | <u><u>45,701</u></u>                             | <u><u>316,086</u></u>                             |
| Surplus<br>Capital   | <u><u>45,701</u></u>                             | <u><u>316,086</u></u>                             |

Corporation Of The Town Of Petrolia  
Trust Funds  
Notes To Financial Statements  
December 31, 2011

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**1. Significant Accounting Policy**

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**Basis Of Accounting**

Capital receipts and income are reported on the cash basis of accounting.

Expenditures are reported on the cash basis of accounting with the exception of administrative expenses which are reported on the accrual basis of accounting, which recognizes expenditures as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

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**2. Investments**

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The total for investments by the trust funds of \$277,258 (2010 - \$276,069) reported on the Balance Sheet at cost, have a market value of \$277,258 (2010 - \$276,069) at the end of the year.

