August 9, 2010

Ms. K. Walli
Board Secretary
Ontario Energy Board
Suite 2701
2300 Yonge Street
Toronto, Ontario M4P 1E4

Re: Response to Boards' Decision - Distribution Rate Application Board File No EB-2009-0219 – Chapleau Public Utilities Corporation.

Dear Ms. Walli;

Please accept from Chapleau Public Utilities Corporation response to the Ontario Energy Boards' decision of June 22, 2010.

Enclosed with this letter are two (2) hard copies and an electronic version of the documents used to develop Chapleau PUC's interrogatory responses.

These documents have been filed on behalf of Chapleau Public Utilities Corporation.

Sincerely,

Original singed by:

Peter Ioannou
Regulatory Compliance Services

Enclosure

cc: Marita Morin, Chapleau Public Utilities Corporation.
File

17a-156 Duncan Mill Road, Toronto, Ontario M3B 3N2
416-386-0299

Chapleau Public Utilities Corporation

Reply Submission to the Ontario Energy Board

2010 IRM3 Electricity Distribution Rates

EB-2009-0219

August 09, 2010

Chapleau Public Utilities Corporation (“Chapleau PUC”)

Reply Submission to Board Staff Submission

Application Number EB-2009-0219

License Number ED-2002-0528

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

AND IN THE MATTER OF an Application by Chapleau Public Utilities Corporation for 2010 electricity distribution rates, effective May 1, 2010, in accordance with the 3rd Generation Incentive Regulation Mechanism (IRM) issued August 24, 2009 by the Ontario Energy Board.

On June 22, 2010 the Board issued its Decision and Order on Motion to Review and Vary on Chapleau Public Utilities Corporation’s 2010 Electricity Distribution Rates Application Board File Number EB-2009-0219.

In the Boards’ Decision, the Board ordered Chapleau PUC to report within 60 days of the issuance of the decision to notify the Board what steps it has taken to ensure its continued financial viability.

The Company submits its’ response, which includes copies of the Audited Financial Statements for the last 3 years 2007, 2008 and 2009.

1. Introduction

1.1 Chapleau Public Utilities Corporation (the “Company”) is a licensed electricity distribution business operating within the municipal boundaries of the Township of Chapleau under License # ED-2002-0528 with special conditions in 14.3 to 14.5 in its’ license.

1.2 Chapleau Public Utilities Corporation is 100% owned by the Town of Chapleau with a current population of just over 2,400.

2. Financial Information and historical overview

Below is a summary of financial results of Chapleau PUC for 4 years ended December 31, 2009.

	2009	2008	2007	2006
Revenue	2,830,279	2,595,674	2,626,304	2,657,000
Expenses	(2,720,906)	(2,614,964)	(2,738,899)	(2,572,031)
Other Income (expenses)	32,406	46,893	87,456	34,500
Interest on loans	0	0	0	0
Net Earnings (loss)	141,779	27,603	(25,139)	119,469
Current Assets	1,110,324	1,410,977	1,411,099	1,387,515
Current Liabilities	367,469	391,380	323,670	287,599
Non-current Liabilities	394,962	394,151	485,820	509,527
Long-term Debt	0	1,121,529	1,121,529	1,682,220
Share Capital	2,243,058	1,121,529	1,121,529	560,840
Debt-to-equity ratio		50:50	50:50	75:25
Current ratio	3.0:1	3.6:1	4.4:1	4.8:1

In reviewing the above results we note the following:

- Chapleau PUC has generated energy sales and distribution revenue, ranging between $2.60 and $2.83 million.
- Chapleau PUC has incurred operating and administration expenses including purchased power, ranging between $2.57 and $2.74 million.

- Chapleau PUC has incurred modest profits in 3 of the last 4 years.
- 2009 Current Asset reduction from prior year of approximately $300,000 is mainly due to the smart meter roll out.
- The Township of Chapleau passed a resolution in 2006 waiving interest charges on the outstanding debt owing from Chapleau PUC, therefore there were no interest charges beyond 2006.
- The Company has been able to maintain a strong current ratio ranging between 3.0:1 and 4.8:1 during the 4 year period which demonstrates that Chapleau is able to discharge its short-term liabilities with its current assets.
- During 2009 the Shareholder converted $1,121,529 of its mortgage payable into 1,121,529 Class B special shares.

3. Current Financial Position

Financial results for fiscal year 2010 are expected to change only in the area of current assets (cash and investments) from the purchase and installation of smart meters and refunds of Regulatory Asset Variances.

In 2008/09 Chapleau embarked in the purchase and installation of smart meters that is expected for completion before the end of the current year. Annual smart meter expenditures to date are $357,390 with an additional $20,000 still required to complete are as follows:

Year	Amount
2008 Actual	$9,429.52
2009 Actual	$314,698.45
2010 Actual 2010 Estimate	$33,262.10 $20,000.00
Total	$377,390.07

Chapleaus Current Asset position for 2010 is expected to be as follows:

	Total Current Assets	Cash and Investments
2009 Actual (December 31, 2009)	$1,110,324	$449,397
2010 Actual – Smart Meters	($33,262)	($33,262)
2010 Est. – Smart Meters	($20,000)	($20,000)
2010 Est. - Rider 1 (12 Months)	($87,116)	($87,116)
2010 Est. – Rider 2 (8 Months)	($39,237)	($39,237)
2010 Est. Profit (Budget)	$43,000	$43,000
2010 Est. Depreciation (non cash)	$35,000	$35,000
2010 Est. (December 31, 2010)	$1,008,709	$347,782

Chapleaus Current Ratio for 2010 is expected to be 2.9:1. Although this is a modest reduction from 2009 the Company will be able to discharge its short term liabilities with its current assets.

Chapleaus financial operating results to June 30, 2010 are as follows:

	Actual	Budget
Revenue	$332,384	$349,816
Other Income (Expense)	$23,094	$20,480
Operating Expenses	($286,043)	($296,730)
Profit (Loss)	$69,435	$73,566

4. Conclusion

Based on the financial results for 2010 Chapleau will be able to successfully service its customers and maintain profitability within a highly regulated industry. However it will remain moderately sensitive to the Regulatory Asset Variances.

It is the belief of the Board of Directors and Management that Chapleau is and will continue to be financially viable.

Financial Statements of

CHAPLEAU PUBLIC UTILITIES CORPORATION

Year ended December 31, 2009

KPMG LLP
Chartered Accountants
Claridge Executive Centre
144 Pine Street PO Box 700
Sudbury ON P3E 4R6

Telephone (705) 675-8500
Fax (705) 675-7586
In Watts (1-800) 461-3551
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of **Chapleau Public Utilities Corporation** as at December 31, 2009 and the statements of income and comprehensive income and deficit and 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.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Sudbury, Canada
March 18, 2010

CHAPLEAU PUBLIC UTILITIES CORPORATION

Balance Sheet

December 31, 2009, with comparative figures for 2008

		2009		2008
Assets				
Current assets:				
Cash	$	53,755	$	84,603
Investments		395,642		704,976
Trade receivables (note 2)		55,449		49,860
Plant materials and supplies		48,965		38,959
Prepaid expenses		6,948		9,990
Unbilled revenue - energy sales		501,364		479,084
Unbilled revenue - distribution		43,507		43,505
Advances to related company (note 3)		4,694		-
		1,110,324		1,410,977
Property, plant and equipment (note 4)		2,226,567		2,218,312
Less accumulated amortization		1,386,047		1,341,746
		840,520		876,566
Regulatory assets (note 5)		545,646		220,249
	$	2,496,490	$	2,507,792
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities (note 6)	$	367,469	$	371,847
Advances from related company (note 3)		-		19,533
Current portion of regulatory liabilities (note 5)		90,268		126,313
		457,737		517,693
Other liabilities:				
Regulatory liabilities (note 5)		371,943		465,513
Customer deposits		23,019		22,574
Mortgage payable		-		1,121,529
Shareholder's equity:				
Share capital (note 7)		2,243,058		1,121,529
Deficit		(599,267)		(741,046)
		1,643,791		380,483
Contingencies (note 10)				
Commitments (note 14)				
	$	2,496,490	$	2,507,792

See accompanying notes to financial statements.

On behalf of the Board:

______________________________ Director

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Income and Comprehensive Income and Deficit

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Revenue:		
Energy sales (note 12)	$ 2,160,787	$ 1,978,596
Distribution services	669,492	595,173
Miscellaneous	-	21,905
	2,830,279	2,595,674
Expenses:		
Power purchased (note 12)	2,160,787	1,978,596
Operations and maintenance	238,270	267,327
Administration and general	212,702	252,050
Billing and collection	64,846	78,384
Amortization of property, plant and equipment	44,301	38,607
	2,720,906	2,614,964
Earnings (loss) before the undernoted	109,373	(19,290)
Other income (expenses):		
Interest earned	17,854	41,697
Late payment charges	4,780	4,609
Miscellaneous	15,937	19,179
Other interest	(6,165)	(18,592)
	32,406	46,893
Net income and comprehensive income	141,779	27,603
Deficit, beginning of year	(741,046)	(768,649)
Deficit, end of year	$ (599,267)	$ (741,046)

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Cash Flows

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Net income and comprehensive income	$ 141,779	$ 27,603
Item not involving cash:		
Amortization of property, plant and equipment	44,301	38,607
	186,080	66,210
Change in non-cash operating working capital:		
Increase in trade receivables	(5,589)	(10,586)
Decrease (increase) in plant materials and supplies	(10,006)	5,072
Decrease (increase) in prepaid expenses	3,042	(967)
Increase in unbilled revenue - energy sales	(22,280)	(37,751)
Increase in unbilled revenue - distribution	(2)	(3,708)
Increase (decrease) in accounts payable and accrued liabilities	(4,378)	72,892
Increase (decrease) in customer deposits	445	(45)
	147,312	91,117
Financing:		
Decrease in advances from related company	(24,227)	(5,182)
Investments:		
Purchase of property, plant and equipment	(8,255)	(42,373)
Decrease in regulatory liabilities and assets	(455,012)	(91,624)
	(463,267)	(133,997)
Decrease in cash position	(340,182)	(48,062)
Cash position, beginning of year	789,579	837,641
Cash position, end of year	$ 449,397	$ 789,579
Represented by:		
Cash	$ 53,755	$ 84,603
Investments	395,642	704,976
	$ 449,397	$ 789,579

See accompanying notes to financial statements.

Chapleau Public Utilities Corporation (the "Corporation") was incorporated August 18, 1999 to operate as an electricity distribution company.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") including accounting principles prescribed by the Ontario Energy Board (the "OEB") in the Accounting Procedures Handbook (the "AP Handbook") for Electric Distribution Utilities, and reflect the significant accounting policies as summarized below:

(a) Change in accounting policies:

Effective January 1, 2009, the Corporation adopted the amended sections of CICA Handbook Section 1100, Generally Accepted Accounted Principles and Accounting Guideline 19 – “Disclosures by Entities Subject to Rate Regulation”.

The amendment to CICA Handbook Section 1100 removed the temporary exemption pertaining to the application of that section to the recognition and measurement of assets and liabilities arising from rate regulation. In response to the removal of the exemption, the Corporation established accounting policies for the recognition and measurement of assets and liabilities arising from rate regulation. In accordance with the Canadian GAAP hierarchy guidance framework outlined in CICA Handbook Section 1100, the Corporation has determined that its assets and liabilities arising from rate regulation 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 (“FAS71”). The Corporation concluded that its polices for assets and liabilities arising from rate regulation were consistent with the primary sources of Canadian GAAP and were developed through the exercise of professional judgement. As a result, there was no change in the Corporation’s opening deficit at January 1, 2009 or the Corporation’s results from operations for the year ended December 31, 2009.

(b) Regulation:

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfil obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles ("GAAP") for enterprises operating in a non-rate regulated environment.

1. Significant accounting policies (continued):

(b) Regulation (continued):

The following regulatory treatments have resulted in accounting treatments that differ from GAAP for enterprises operating in a non-regulated environment:

i) Regulatory assets and liabilities:

Regulatory assets represent costs that have been deferred because it is probable that they will be recovered from customers in future periods through the rate-making process. Regulatory liabilities represent future reduction in revenues or limitations of increase in revenues associated with amounts that are expected to refunded to customers through the rate-making process.

ii) Payment in lieu of corporate income taxes and capital taxes:

The current tax-exempt status of the Corporation under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Corporation is wholly owned by municipalities. This tax-exempt status might be lost in a number of circumstances, including if the municipality ceases to own 90% or more of the shares or capital of the Corporation, or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Corporation.

Commencing October 1, 2001, the Corporation is required, under the Electricity Act 1998, to make payments-in-lieu of corporate income taxes ["PILs"] to Ontario Electricity Financial Corporation, which will be used to repay the stranded debt incurred by the former Ontario Hydro. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act 1998 and related regulations.

ii) Payment in lieu of corporate income taxes and capital taxes (continued):

As a result of becoming subject to PILs, the Corporation's taxation year was deemed to have ended immediately beforehand and a new taxation year was deemed to have commenced immediately thereafter. The Corporation was therefore deemed to have disposed of each of its assets at their then fair market value and to have reacquired such assets at that same amount for purposes of computing its future income subject to PILs. For purposes of certain provisions, the Corporation was deemed to have a new company and, as a result, tax credits or tax losses not previously utilized by the Corporation would not be available to it after the change in tax status. Essentially, the Corporation was taxed as though it had a "fresh start" at the time of its change in tax status.

1. Significant accounting policies (continued):

(c) Revenue recognition and power purchased:

Revenue is recorded in the accounts to various dates on the basis of monthly or bi-monthly meter readings. At the end of an accounting cycle, there is energy used by consumers for which meter readings are not available. The unbilled revenue is estimated and recorded in the accounts at the end of each fiscal year. The related cost of energy is recorded on the basis of energy used.

(d) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Amortization is charged to operations on a declining-balance basis using the following methods and annual rates:

Asset		Rate
Computer equipment and software	Declining-balance	55%
Meters	Declining-balance	10%
Transmission and distribution systems	Declining-balance	4%

Amortization is taken at 50% of the above rate in the year of acquisition.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(e) Asset retirement obligations:

The Corporation recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Corporation concurrently recognizes a corresponding increase in the carrying amount of the related long lived asset that is amortized over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit adjusted risk free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long lived asset that is amortized over the remaining life of the asset.

1. Significant accounting policies (continued):

(e) Asset retirement obligations (continued):

Some of the Corporation's transmission and distribution assets may have asset retirement obligations. As the Corporation expects to use the majority of its installed assets for an indefinite period, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

(f) Use of estimates:

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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates including changes as a result of future decisions made by the OEB, Minister of Energy, or the Minister of Finance.

(g) Customer deposits:

Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as customer deposits which are held in trust by the Corporation.

(h) Pension plan:

The Corporation provides a pension plan for its employees through the Ontario Municipal Employees Retirement System [“OMERS”]. OMERS is a multi-employer pension plan, which operates as the Ontario Municipal Employees Retirement Fund [the “Fund”] and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Corporation recognizes the expense related to this plan as contributions are made.

(i) International Financial Reporting Standards "IFRS":

On February 13, 2008, the Accounting Standards Board of Canada [“AcSB”] announced that publicly accountable enterprises will be required to change over to IFRS effective January 1, 2011. Some of the converged standards will be implemented in Canada during the transition period with the remaining standards adopted at the change over date. The Corporation has launched an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its financial statements.

1. Significant accounting policies (continued):

(j) Financial instruments - recognition and measurement:

The Corporation accounts for its financial assets and liabilities in accordance with Canadian generally accepted accounting principles.

The financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and charges in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

The Corporation has classified its financial instruments as follows:

Cash	Held-for-trading
Investments	Held-for-trading
Trade receivables	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Advances to/from related company	Other liabilities
Customer deposits	Other liabilities

(k) Comprehensive income:

In the event that the Corporation has any financial instruments that would impact other comprehensive earnings, a statement of comprehensive earnings would be included in the financial statements displaying the effects of the current period net income plus the impact on other comprehensive earnings resulting from these financial instruments.

2. Trade receivables:

	2009	2008
Electrical	$ 69,312	$ 62,036
Provision for doubtful accounts	(13,863)	(12,176)
	$ 55,449	$ 49,860

3. Advances to/from related company:

The amounts advanced to/from related company are non-interest bearing, unsecured and will be collected within the next twelve months. The Corporation is related by virtue of common ownership.

4. Property, plant and equipment:

			2009	2008
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 141	$ -	$ 141	$ 141
Computer equipment and software	11,847	7,719	4,128	8,110
Meters	169,148	97,585	71,563	79,515
Transmission and distribution systems	2,045,431	1,280,743	764,688	788,800
	$ 2,226,567	$ 1,386,047	$ 840,520	$ 876,566

5. Regulatory assets and liabilities:

		2009		2008
(i) Regulatory assets consist of the following:				
Long-term portion of regulatory assets:				
Retail settlement variance - network charges	$	149	$	-
Retail settlement variance - power charges		89,413		111,837
Retail settlement variance - low voltage charges		93,946		96,400
Retail settlement variance - retail services		2,456		-
Recovery of regulatory asset balance - interest		954		954
Hydro One OMERS		8,320		8,320
Smart meter funding and cost recovery		333,999		-
IFRS transition costs		15,000		-
OEB carrying charges		961		961
Pension carrying costs		448		448
RCVA retail		-		1,329
Total regulatory assets	$	545,646	$	220,249
(ii) Regulatory liabilities consist of the following:				
Current portion of regulatory liabilities:				
Recovery of regulatory asset balance - principal	$	72,645	$	72,645
Hydro One - other regulatory		15,246		45,792
Other regulatory liabilities		2,377		7,876
		90,268		126,313
Long-term portion of regulatory liabilities:				
Retail settlement variance - connection charges		206,488		204,386
Retail settlement variance - wholesale market charge		67,948		55,605
Recovery of regulatory asset balance-principal		85,417		170,033
Conversion and demand management		12,090		12,090
Retail settlement variance - network charges		-		6,371
Smart meters		-		1,782
Hydro One - other regulatory		-		15,246
		371,943		465,513
Total regulatory liabilities	$	462,211	$	591,826

6. Accounts payable and accrued liabilities:

		2009		2008
Independent Electricity System Operator	$	251,282	$	253,885
Miscellaneous		116,187		117,962
	$	367,469	$	371,847

7. Share capital:

	2009	2008
Authorized:		
Unlimited common shares		
Unlimited class B special shares		
Issued:		
1,121,529 class B special shares	$ 1,121,529	$ -
1,121,529 common shares	1,121,529	1,121,529
	$ 2,243,058	$ 1,121,529

During the year, the Corporation converted $1,121,529 of its mortgage payable into 1,121,529 Class B special shares.

8. Payment in lieu of taxes:

For payment in lieu of tax purposes, the Corporation has losses of $498,146 (2008 - $647,374) carried forward which can be applied to reduce future years' taxable income. These losses will expire as follows:

2014	$ 206,908
2015	266,099
2027	25,139

9. Related party transactions:

The Corporation is related to the Township by virtue of the fact that the Township is the sole shareholder of the Corporation. The Corporation is related to Chapleau Energy Services Corporation by virtue of common ownership.

During the year, the Corporation billed the Township $300,708 (2008 - $269,713) for power purchased.

Also, the Corporation was charged $381,430 (2008 - $412,614) by Chapleau Energy Services Corporation, for the Corporation's portion of certain shared costs.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration agreed to by the related parties.

10. Contingencies:

Purchasers of electricity in Ontario are required to provide security to the IESO to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by default notice issued by the IESO. At December 31, 2009, no amounts have been drawn on this letter of credit in the amount of $209,813.

11. Credit risk and financial instruments:

(a) Fair value of financial assets and financial liabilities

The carrying value of cash, investments, trade receivables, unbilled revenue, accounts payable and accrued liabilities, advances to/from related company and customer deposits approximate their fair value due to the relatively short periods to maturity of these items.

(b) Credit risk

For distribution retail customers, credit losses are generally low across the sector. The Corporation provides for an allowance for doubtful accounts to absorb credit losses.

At December 31, 2009, there are no significant concentrations of credit risk with respect to any class of financial assets.

(c) Interest rate risk

Cash balances not required to meet day-to-day obligations of the Corporation are invested in Canadian money market instruments, with terms not more than one year or 365 days, exposing the Corporation to fluctuations in short-term interest rates. These fluctuations could affect the level of interest income earned by the Corporation.

12. Electric energy services:

	2009	2008
Revenue		
Electricity	$ 1,820,231	$ 1,653,905
Transmission services	340,556	324,691
	$ 2,160,787	$ 1,978,596
Costs		
Electricity	$ 1,820,231	$ 1,653,905
Transmission services	340,556	324,691
	$ 2,160,787	$ 1,978,596

13. General liability insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ["MEARIE"], which is a pooling of general liability insurance risks. Members of MEARIE would be assessed on a pro-rata basis should losses be experienced by MEARIE, for the years in which the Corporation was a member. To December 31, 2009, the Corporation has not been made aware of any additional assessments.

14. Commitments:

In support of the Province of Ontario's decision to install smart meters throughout Ontario by 2010 and pursuant to Ontario Regulation 427/06, the Corporation launched its smart meter initiative in 2009. The Corporation has committed to install 1,253 smart meters and supporting infrastructure by the end of 2010. Approximately 1,184 smart meters or 95% deployment was completed in 2009.

The OEB adopted the policy that specific funding for the capital cost of smart meters should be included in distribution rates by all Ontario electric distribution companies. The Board decided that "seed" funding equivalent to $0.27 per customer per month be included in the Corporation's distribution rates commencing May 1, 2006. This funding was increased to $1.00 per customer per month effective May 1, 2009 pursuant to OEB Decision and Order of March 10, 2009. Revenue has been reduced by the amount funded in rates, and have been deferred and netted against smart metering capital costs incurred in accordance with the AP Handbook. Unfunded costs including financing expense, are expected to be recovered through future distribution rates once the project is completed, pursuant to the Ontario Energy Board's guidelines.

15. Corporate income and capital taxes:

	2009	2008
Rate reconciliation:		
Income from continuing operations before income taxes	$ 141,779	$ 27,603
Statutory Canadian Federal and Provincial income tax rate	33.00%	33.50%
Expected taxes on income	$ 46,787	$ 9,247
Decrease in income taxes resulting from:		
Loss carry forwards applied	$ 46,787	$ 9,247
Income tax expense	$ -	$ -
Effective tax rate	0%	0%

16. Change in estimate:

During 2009, the Corporation changed its estimate of the useful lives of the meters. The changes have been applied prospectively. The change in the basis of amortization has had the effect of increasing amortization expense by $4,771 in 2009.

17. Comparative figures:

Certain 2008 comparative figures have been reclassified to conform with the financial statement presentation adopted per the current year.

Financial Statements of

CHAPLEAU PUBLIC UTILITIES CORPORATION

Year ended December 31, 2008

KPMG

KPMG LLP
Chartered Accountants
Claridge Executive Centre
144 Pine Street PO Box 700
Sudbury ON P3E 4R6

Telephone (705) 675-8500
Fax (705) 675-7586
In Watts (1-800) 461-3551
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of **Chapleau Public Utilities Corporation** as at December 31, 2008 and the statements of income and comprehensive income and deficit and 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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Sudbury, Canada
April 27, 2009

CHAPLEAU PUBLIC UTILITIES CORPORATION
Balance Sheet

December 31, 2008, with comparative figures for 2007

	2008	2007
Assets		
Current assets:		
Cash	$ 84,603	$ 158,538
Investments	704,976	679,103
Trade receivables (note 2)	49,860	39,274
Plant materials and supplies	38,959	44,031
Prepaid expenses	9,990	9,023
Unbilled revenue - energy sales	479,084	441,333
Unbilled revenue - distribution	43,505	39,797
	1,410,977	1,411,099
Property, plant and equipment (note 3)	2,218,312	2,175,939
Less accumulated amortization	1,341,746	1,303,139
	876,566	872,800
	$ 2,287,543	$ 2,283,899
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	$ 371,847	$ 298,955
Advances from related company (note 5)	19,533	24,715
	391,380	323,670
Other liabilities:		
Regulatory liabilities (note 6)	371,577	463,201
Customer deposits	22,574	22,619
Mortgage payable (note 7)	1,121,529	1,121,529
Shareholder's equity:		
Share capital (note 8)	1,121,529	1,121,529
Deficit	(741,046)	(768,649)
	380,483	352,880
Contingencies (note 11)		
Subsequent event (note 13)		
	$ 2,287,543	$ 2,283,899

See accompanying notes to financial statements.

On behalf of the Board:

_________________________________ Director

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Income and Comprehensive Income and Deficit

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Revenue:		
Energy sales	$ 1,978,596	$ 2,058,195
Distribution	595,173	568,109
Miscellaneous	21,905	-
	2,595,674	2,626,304
Expenses:		
Power purchased	1,978,596	2,058,195
Operations and maintenance	267,327	335,685
Administration and general	252,050	238,927
Billing and collection	78,384	69,731
Amortization of property, plant and equipment	38,607	36,361
	2,614,964	2,738,899
Loss before the undernoted	(19,290)	(112,595)
Other income (expenses):		
Interest earned	41,697	38,184
Late payment charges	4,609	4,461
Miscellaneous	19,179	59,582
Other interest	(18,592)	(14,771)
	46,893	87,456
Net income and comprehensive income (loss)	27,603	(25,139)
Deficit, beginning of year	(768,649)	(743,510)
Deficit, end of year	$ (741,046)	$ (768,649)

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Cash Flows

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Cash provided by (used in):		
Operations:		
Net income and comprehensive income (loss)	$ 27,603	$ (25,139)
Item not involving cash:		
Amortization of property, plant and equipment	38,607	36,361
	66,210	11,222
Change in non-cash operating working capital:		
Decrease (increase) in trade receivables	(10,586)	1,611
Decrease (increase) in plant materials and supplies	5,072	(244)
Decrease (increase) in prepaid expenses	(967)	1,295
Increase in unbilled revenue - energy sales	(37,751)	(16,477)
Decrease (increase) in unbilled revenue - distribution	(3,708)	3,143
Increase in accounts payable and accrued liabilities	72,892	31,907
Increase (decrease) in customer deposits	(45)	630
	91,117	33,087
Financing:		
Increase (decrease) in advances from related company	(5,182)	4,164
Decrease in mortgage payable	-	(199,964)
Decrease in loan payable	-	(360,727)
Issue of share capital	-	560,689
	(5,182)	4,162
Investments:		
Addition to property, plant and equipment	(42,373)	-
Decrease in regulatory liabilities	(91,624)	(24,337)
	(133,997)	(24,337)
Increase (decrease) in cash position	(48,062)	12,912
Cash position, beginning of year	837,641	824,729
Cash position, end of year	$ 789,579	$ 837,641
Represented by:		
Cash	$ 84,603	$ 158,538
Investments	704,976	679,103
	$ 789,579	$ 837,641

See accompanying notes to financial statements.

Chapleau Public Utilities Corporation (the "Corporation") was incorporated August 18, 1999 to operate as an electricity distribution company.

1. Significant accounting policies:

(a) Change in accounting policies:

Plant materials and supplies:

Effective January 1, 2008, the Company adopted CICA Handbook Section 3031, Inventories. Section 3031 establishes standards for the measurement of plant materials and supplies, recognition of an expense when plant materials and supplies are sold and identifies the information that should be disclosed about them.

Plant materials and supplies are stated at the lower of cost, on a first-in, first-out basis, and net realizable value. Cost comprises all costs to purchase, convert and any other costs in bringing the plant materials and supplies to their present location and condition.

(b) Regulation:

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfil obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles ("GAAP") for enterprises operating in a non-rate regulated environment.

The Corporation was requested to be in the first group of Licensed Distribution Company ("LDC") to file for rate rebasing for rates to be effective May 1, 2008. The Corporation's final submission was filed with the OEB on November 22, 2007. Adjusted distribution rates were implemented in 2008 based on the OEB's decision.

1. Significant accounting policies (continued):

(b) Regulation (continued):

The following regulatory treatments have resulted in accounting treatments that differ from GAAP for enterprises operating in a non-regulated environment:

i) Regulatory assets and liabilities:

Regulatory assets represent costs that have been deferred because it is probable that they will be recovered from customers in future periods through the rate-making process. Regulatory liabilities represent future reduction in revenues or limitations of increase in revenues associated with amounts that are expected to refunded to customers through the rate-making process.

ii) Payment in lieu of taxes:

As a municipally owned utility, the Corporation is exempt from Federal corporate income taxes. However, under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income and capital taxes to Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

The Corporation provides for payments in lieu of corporate income taxes using the taxes payable method. Under the taxes payable method, provisions are not made for future income taxes as a result of temporary differences between the tax bases of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from customers.

(c) Revenue recognition and power purchased:

Revenue is recorded in the accounts to various dates on the basis of monthly or bi-monthly meter readings. At the end of an accounting cycle, there is energy used by consumers for which meter readings are not available. The unbilled revenue is estimated and recorded in the accounts at the end of each fiscal year. The related cost of energy is recorded on the basis of energy used.

1. Significant accounting policies (continued):

(d) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Amortization is charged to operations on a declining-balance basis using the following methods and annual rates:

Asset	Rate
Transmission and distribution systems	4%

Amortization is taken at 50% of the above rate in the year of acquisition.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(e) Asset retirement obligations:

The Corporation recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Corporation concurrently recognizes a corresponding increase in the carrying amount of the related long lived asset that is amortized over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit adjusted risk free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long lived asset that is amortized over the remaining life of the asset.

Some of the Corporation's transmission and distribution assets may have asset retirement obligations. As the Corporation expects to use the majority of its installed assets for an indefinite period, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

1. Significant accounting policies (continued):

(f) Use of estimates:

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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(g) Customer deposits:

Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as customer deposits which are held in trust by the Corporation. Interest is paid on customer balances at rates established from time to time by the Corporation in accordance with regulation.

(h) Future accounting changes:

(i) Rate regulated entities:

During 2007, the Accounting Standards Board ("AcSB") issued an exposure draft proposing to remove all specific references to rate regulated accounting from the CICA Handbook. In August 2007, the AcSB decided to remove a temporary exemption in CICA Handbook Section 1100 "Generally Accepted Accounting Principles", retain existing references to rate regulated accounting in the CICA Handbook, amend CICA Handbook Section 3465 "Income Taxes" to require the recognition of future income tax liabilities and assets as well as a corresponding regulatory asset or liability, and retain existing requirements to disclose the effects of rate regulation per AcG-19. The new rules will apply prospectively to annual financial statements relating to fiscal years beginning on or after January 1, 2009.

(ii) International Financial Reporting Standards:

In February 2008, the Canadian Accounting Standards Board ('AcSB") confirmed that Canadian publicly accountable enterprises and government business enterprises will need to adopt International Financial Reporting Standards ("IFRS") effective for annual periods beginning on or after January 1, 2011. The Company is planning its approach for evaluating and assessing the impact the adoption of IFRS will have on its financial statements and accounting processes.

1. Significant accounting policies (continued):

(i) Financial instruments - recognition and measurement:

The Company accounts for its financial assets and liabilities in accordance with Canadian generally accepted accounting principles.

The financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and charges in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

The Corporation has classified its financial instruments as follows:

Cash	Held for trading
Investments	Held for trading
Trade receivables	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Advances from related company	Other liabilities
Customer deposits	Other liabilities
Mortgage payable	Other liabilities

(j) Comprehensive income:

In the event that the Corporation has any financial instruments that would impact other comprehensive earnings, a statement of comprehensive earnings would be included in the financial statements displaying the effects of the current period net income plus the impact on other comprehensive earnings resulting from these financial instruments.

2. Trade receivables:

	2008	2007
Electrical	$ 62,036	$ 48,874
Provision for doubtful accounts	(12,176)	(9,600)
	$ 49,860	$ 39,274

3. Property, plant and equipment:

			2008	2007
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 141	$ -	$ 141	$ 141
Transmission and distribution systems	2,218,171	1,341,746	876,425	872,659
	$ 2,218,312	$ 1,341,746	$ 876,566	$ 872,800

4. Accounts payable and accrued liabilities:

	2008	2007
Power purchased	$ 309,255	$ 283,595
Miscellaneous	62,592	15,360
	$ 371,847	$ 298,955

5. Advances from related company:

The amounts advanced from related company are non-interest bearing, unsecured and have no specified terms of repayment. The Corporation is related by virtue of common ownership.

6. Regulatory liabilities:

Net regulatory assets (liabilities) comprise:

	2008	2007
Regulatory asset recovery account	$ (253,814)	$ (10,767)
Pension contributions	447	19,069
OEB cost assessments	9,281	3,435
Smart meters	(1,782)	(4,582)
Settlement variances	(125,709)	(470,356)
	$ (371,577)	$ (463,201)

6. Regulatory liabilities (continued):

The regulatory assets and liabilities balances of the Corporation are defined as follows:

(a) Regulatory assets recovery account:

The OEB ordered that the approved regulatory asset balances be aggregated into a single regulatory account. Approved regulatory assets consisting of transition costs, OEB annual costs and settlement variances less recoveries were transferred to the "regulatory asset recovery account". This approved balance will be recovered over a three year period ending May 1, 2011. The account is credited with recovery amounts and is debited by OEB prescribed carrying charges.

(b) Pension contributions:

The OEB has allowed the LDC to defer the incremental OMERS pension expenditures for the fiscal years starting after January 1, 2005 and to end on April 30, 2006. Accordingly, the Corporation has deferred these expenditures in accordance with the criteria set out in the AP Handbook. Under such regulation, the deferred expenditures would have been expensed under Canadian GAAP for unregulated businesses. On July 17, 2008, the OEB approved this balance for recovery over a three year period ending May 1, 2011.

(c) OEB annual cost:

The OEB has allowed the LDC to defer a portion of the OEB annual cost assessments for the fiscal years starting after January 1, 2004 and to end on April 30, 2006. Accordingly, the Corporation has deferred these expenditures in accordance with the criteria set out in the AP Handbook. Under such regulation, the deferred expenditures would have been expensed under Canadian GAAP for unregulated businesses.

On July 17, 2008, the OEB approved this balance for recovery over a three year period ending May 1, 2011.

(d) Smart meters:

Effective May 1, 2006, the OEB has allowed the LDC to defer capital expenditures, operating expenditures, amortization expense and revenues relating to smart meters. Accordingly, the Corporation has deferred these items in accordance with the criteria set out in the AP Handbook. The manner and timing of disposition of these smart meter regulatory assets have not been determined by the OEB at this time.

6. Regulatory liabilities (continued):

(e) Retail settlement variances:

The OEB has allowed the LDC to defer retail settlement variances from 2005 to 2006. This balance represents the variances between amounts charged by LDC to customers (based on regulated rates) and the corresponding cost of non competitive electricity service incurred by LDC. The settlement variances relate primarily to service charges, non-competitive electricity charges, imported power charges and the global adjustment. Accordingly, the Corporation has deferred these recoveries in accordance with the criteria set out in the AP Handbook.

Retail settlement variances of $261,340 relating to the period from 2005 to 2006, were approved on an interim basis for recovery by the OEB and are included in the regulatory asset recovery account balance. The remaining balance, representing retail settlement variances arising after January 1, 2007, is deferred in a regulatory liability account. The manner and timing of disposition of that variance have not been determined by the OEB.

7. Mortgage payable:

The mortgage payable is repayable to the Township of Chapleau ("Township"), is secured by a general security agreement and specific assets of the Corporation, bears interest at 6.25% and has no specified terms of repayment. Payment of interest has been postponed indefinitely (see note 13).

8. Share capital:

	2008	2007
Authorized:		
Unlimited common shares		
Issued:		
1,121,529 common shares	$ 1,121,529	$ 1,121,529

9. Payment in lieu of taxes:

For payment in lieu of tax purposes, the Corporation has losses of $688,377 (2007 - $754,587) carried forward which can be applied to reduce future years' taxable income. These losses will expire as follows:

2010	$ 52,967
2014	296,896
2015	338,514

10. Related party transactions:

The Corporation is related to the Township by virtue of the fact that the Township is the sole shareholder of the Corporation. The Corporation is related to Chapleau Energy Services Corporation by virtue of common ownership.

During the year, the Corporation billed the Township $269,713 (2007 - $268,716) for power purchased.

Also, the Corporation was charged $412,614 (2007 - $379,102) by Chapleau Energy Services Corporation, for the Corporation's portion of certain shared costs.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration agreed to by the related parties.

11. Contingencies:

Purchasers of electricity in Ontario are required to provide security to the IESO to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by default notice issued by the IESO. At December 31, 2008, no amounts have been drawn on this letter of credit in the amount of $209,813.

12. Financial instruments and credit risk:

(a) Fair value of financial assets and financial liabilities

The carrying value of cash, investments, trade receivables, unbilled revenue, accounts payable and accrued liabilities, advances from related company and customer deposits approximate their fair value due to the relatively short periods to maturity of these items.

It was not practicable to estimate the fair value of the mortgage payable as there are no principal repayment terms.

(b) Credit risk exposure

Financial assets held by the Corporation expose it to credit risk. As at December 31, 2008, there were no significant concentrations of credit risk with respect to any class of financial assets.

The Corporation earns its revenue from a broad base of customers located principally in Chapleau. No single customer would account for revenue or an accounts receivable balance in excess of 10% of the respective reported balances.

13. Subsequent event:

Subsequent to year end, the Corporation passed a resolution authorizing the conversion of remaining balance of $1,121,529 of the mortgage payable to the Township into Class B special shares held by the Township in the Corporation. This transaction was authorized in resolution passed by the Township on March 9, 2009.

14. Comparative figures:

Certain 2007 comparative figures have been reclassified to conform with the financial statement presentation adopted per the current year.

Financial Statements of

CHAPLEAU PUBLIC UTILITIES CORPORATION

Year ended December 31, 2007

KPMG LLP
Chartered Accountants
Claridge Executive Centre
144 Pine Street PO Box 700
Sudbury ON P3E 4R6

Telephone (705) 675-8500
Fax (705) 675-7586
In Watts (1-800) 461-3551
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of **Chapleau Public Utilities Corporation** as at December 31, 2007 and the statements of earnings and comprehensive earnings and deficit and 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Sudbury, Canada

March 5, 2008

CHAPLEAU PUBLIC UTILITIES CORPORATION
Balance Sheet

December 31, 2007, with comparative figures for 2006

	2007	2006
Assets		
Current assets:		
Cash	$ 158,538	$ 173,608
Investments	679,103	651,121
Trade receivables (note 2)	39,274	40,885
Plant materials and supplies - at cost	44,031	43,787
Prepaid expenses	9,023	10,318
Unbilled revenue - energy sales	441,333	424,856
Unbilled revenue - distribution	39,797	42,940
	1,411,099	1,387,515
Capital assets (note 3)	2,175,939	2,175,939
Less accumulated amortization	1,303,139	1,266,778
	872,800	909,161
	$ 2,283,899	$ 2,296,676
Liabilities and Shareholder's Equity (Deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	$ 298,955	$ 267,048
Advances from related company (note 5)	24,715	20,551
	323,670	287,599
Other liabilities:		
Regulatory liabilities (note 6)	463,201	487,538
Customer deposits	22,619	21,989
Loan payable (note 7)	-	360,727
Mortgage payable (note 8)	1,121,529	1,321,493
Shareholder's equity (deficiency):		
Share capital (note 9)	1,121,529	560,840
Deficit	(768,649)	(743,510)
	352,880	(182,670)
Contingencies (note 12)		
	$ 2,283,899	$ 2,296,676

See accompanying notes to financial statements.

On behalf of the Board:

______________________________ Director

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Earnings and Comprehensive Earnings and Deficit

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Revenue:		
Energy sales	$ 2,058,195	$ 2,089,075
Distribution	568,109	567,925
	2,626,304	2,657,000
Expenses:		
Power purchased	2,058,195	2,043,433
Operations and maintenance	335,685	262,647
Administration and general	238,927	164,663
Billing and collection	69,731	63,918
Amortization of capital assets	36,361	37,370
	2,738,899	2,572,031
Earnings (loss) before the undernoted	(112,595)	84,969
Other income (expenses):		
Interest earned	38,184	48,509
Late payment charges	4,461	4,684
Miscellaneous	59,582	17,421
Other interest	(14,771)	(36,114)
	87,456	34,500
Net earnings and comprehensive earnings (loss)	(25,139)	119,469
Deficit, beginning of year	(743,510)	(862,979)
Deficit, end of year	$ (768,649)	$ (743,510)

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Cash Flows

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operations:		
Net earnings and comprehensive earnings (loss)	$ (25,139)	$ 119,469
Item not involving cash:		
Amortization of capital assets	36,361	37,370
	11,222	156,839
Change in non-cash operating working capital:		
Decrease (increase) in trade receivables	1,611	(10,710)
Increase in plant materials and supplies - at cost	(244)	(14,478)
Decrease (increase) in prepaid expenses	1,295	(1,118)
Decrease (increase) in unbilled revenue - energy sales	(16,477)	24,445
Decrease in unbilled revenue - distribution	3,143	27,247
Increase (decrease) in accounts payable and accrued liabilities	31,907	(275,325)
Decrease in accrued interest payable	-	(203,905)
Increase (decrease) in customer deposits	630	(5,270)
	33,087	(302,275)
Financing:		
Increase (decrease) in advances from related company	4,164	(101,352)
Decrease in mortgage payable	(199,964)	-
Decrease in loan payable	(360,727)	(356,833)
Issue of share capital	560,689	560,740
	4,162	102,555
Investments:		
Addition to capital assets	-	(24,293)
Increase (decrease) in regulatory liabilities	(24,337)	26,040
	(24,337)	1,747
Increase (decrease) in cash position	12,912	(197,973)
Cash position, beginning of year	824,729	1,022,702
Cash position, end of year	$ 837,641	$ 824,729
Represented by:		
Cash	$ 158,538	$ 173,608
Investments	679,103	651,121
	$ 837,641	$ 824,729
Supplemental cash flow information:		
Interest paid	$ -	$ 203,905

See accompanying notes to financial statements.

Chapleau Public Utilities Corporation (the "Corporation") was incorporated August 18, 1999 to operate as an electricity distribution company.

1. Significant accounting policies:

(a) Change in accounting policies:

Effective January 1, 2007, the Corporation adopted new Canadian Institute of Chartered Accounts (CICA) accounting standards; Section 3855 (Financial Instruments - Recognition and Measurement), Section 3861 (Financial Instruments - Presentation and Disclosure), Section 3865 (Hedges), Section 1530 (Comprehensive Income) and Section 3251 (Equity). The requirements of the new standards, related accounting policies adopted by the Corporation and the resulting financial statement impact are further discussed below.

Financial instruments - recognition and measurement:

The standards require that all financial instruments be classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale financial assets or other financial liabilities. Financial instruments classified as held for trading, and available for sale are to be measured at fair value. Financial instruments classified as held to maturity, loans and receivables or other financial liabilities are recorded at amortized cost. In addition, the standard requires that all derivatives be measured at fair value. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using various valuation techniques.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Classification of financial instruments:

Held for trading financial assets are securities purchased for resale, generally within a short period of time. They are measured at fair value at the balance sheet date. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations continue to be reported in earnings as investment income. Other income and expenses related to these instruments are also included in financial income or financial expenses respectively.

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, which the Corporation has the positive intention and ability to hold to maturity. These financial assets are initially recognized at fair value including direct and incremental transaction costs. They are subsequently accounted for at amortized cost using the effective interest rate method.

1. Significant accounting policies (continued):

(a) Change in accounting policies (continued):

Classification of financial instruments (continued):

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale, or that are not classified as loans or receivables, held to maturity or held for trading. Assets in this category comprise of debt or equity securities. Except for equities that do not have quoted market values in an active market, the available for sale securities are carried at fair value whereby the unrealized gains or losses are included in accumulated other comprehensive earnings until either sale, or other than temporary impairment, when the cumulative gain or loss is transferred to the Statement of Earnings. Equities that do not have quoted market values in an active market are carried at cost.

Loans and receivables continue to be accounted for at amortized costs.

Financial liabilities are recorded at amortized cost and include all liabilities, other than derivatives and liabilities designated as held for trading.

Derivatives are considered to be held for trading and as such are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases derivative instruments require market valuation. Derivatives may be embedded in other financial instruments. The Corporation does not engage in any derivative trading or speculative activities.

The Corporation has classified its financial instruments as follows:

Cash	Held for trading
Investments	Held for trading
Trade receivables	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Advances from related company	Other liabilities
Customer deposits	Other liabilities
Mortgage payable	Other liabilities

Comprehensive earnings:

In the event that the Corporation has any financial instruments that would impact other comprehensive earnings, a statement of comprehensive earnings would be included in the financial statements displaying the effects of the current period net income plus the impact on other comprehensive earnings resulting from these financial instruments.

1. Significant accounting policies (continued):

(b) Regulation:

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles ("GAAP") for enterprises operating in a non rate regulated environment.

The Corporation was requested to be in the first group of Licensed Distribution Company ("LDC") to file for rate rebasing for rates to be effective May 1, 2008. The Corporation's final submission was filed with the OEB on November 22, 2007. Adjusted distribution rates will be implemented in 2008 based on the OEB's decision which has not been rendered.

The following regulatory treatments have resulted in accounting treatments that differ from GAAP for enterprises operating in a non regulated environment:

i) Regulatory assets and liabilities:

Regulatory assets represent costs that have been deferred because it is probable that they will be recovered from customers in future periods through the rate-making process. Regulatory liabilities represent future reduction in revenues or limitations of increase in revenues associated with amounts that are expected to refunded to customers through the rate-making process.

ii) Payment in lieu of taxes:

As a municipally owned utility, the Corporation is exempt from Federal corporate income taxes. However, under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income and capital taxes to Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

1. Significant accounting policies (continued):

(b) Regulation (continued):

ii) Payment in lieu of taxes (continued):

The Corporation provides for payments in lieu of corporate income taxes using the taxes payable method. Under the taxes payable method, provisions are not made for future income taxes as a result of temporary differences between the tax bases of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from customers.

(c) Revenue recognition and power purchased:

Revenue is recorded in the accounts to various dates on the basis of monthly or bi-monthly meter readings. At the end of an accounting cycle, there is energy used by consumers for which meter readings are not available. The unbilled revenue is estimated and recorded in the accounts at the end of each fiscal year. The related cost of energy is recorded on the basis of energy used.

(d) Capital assets:

Capital assets are recorded at cost. Amortization is charged to operations on a declining-balance basis using the following methods and annual rates:

Asset	Rate
Transmission and distribution systems	4%

Amortization is taken at 50% of the above rate in the year of acquisition.

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

1. Significant accounting policies (continued):

(e) Asset retirement obligations:

The Corporation recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Corporation concurrently recognizes a corresponding increase in the carrying amount of the related long lived asset that is amortized over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit adjusted risk free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long lived asset that is amortized over the remaining life of the asset.

Some of the Corporation's transmission and distribution assets may have asset retirement obligations. As the Corporation expects to use the majority of its installed assets for an indefinite period, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

(f) Use of estimates:

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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(g) Customer deposits:

Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as customer deposits which are held in trust by the Corporation. Interest is paid on customer balances at rates established from time to time by the Corporation in accordance with regulation.

1. Significant accounting policies (continued):

(h) Future accounting changes:

During 2007, the CICA made revisions to Section 3465 Income taxes for rate regulated enterprises. The new rules will apply to fiscal years beginning on or after January 1, 2009 and will result in accrual accounting being followed for payments in lieu of corporate taxes. Such amounts are currently accounted for on a cash basis consistent with specific OEB rate-setting direction. Commencing January 1, 2009, the regulatory impact of the OEB's direction will be reflected through the recognition of regulatory assets and/or liabilities. There will be no impact on results of operations.

The CICA has issued a new accounting standard: Section 3031, Inventories, which is effective for the Corporation in 2008. The recommendations apply to materials and supplies inventory and require major spare parts to be classified as future use fixed assets rather than inventory. The Corporation does not expect a significant impact of this new accounting standard on its financial statements.

2. Trade receivables:

	2007	2006
Electrical	$ 48,874	$ 50,785
Provision for doubtful accounts	(9,600)	(9,900)
	$ 39,274	$ 40,885

3. Capital assets:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 141	$ -	$ 141	$ 141
Transmission and distribution systems	2,175,798	1,303,139	872,659	909,020
	$ 2,175,939	$ 1,303,139	$ 872,800	$ 909,161

4. Accounts payable and accrued liabilities:

	2007	2006
Power purchased	$ 283,595	$ 224,317
Miscellaneous	15,360	42,731
	$ 298,955	$ 267,048

5. Advances from related company:

The amounts advanced from related company are non-interest bearing, unsecured and have no specified terms of repayment. The Corporation is related by virtue of common ownership.

6. Regulatory liabilities:

Net regulatory assets (liabilities) comprise:

	2007	2006
Regulatory asset recovery account	$ (10,767)	$ (32,908)
Pension contributions	19,069	44,914
OEB annual cost	3,435	4,950
Smart meters	(4,582)	(2,470)
Settlement variances	(470,356)	(502,024)
	$ (463,201)	$ (487,538)

6. Regulatory liabilities (continued):

The regulatory assets and liabilities balances of the Corporation are defined as follows:

(a) Regulatory assets recovery account:

The OEB ordered that the approved regulatory asset balances be aggregated into a single regulatory account. Approved regulatory assets consisting of transition costs, OEB annual costs and settlement variances less recoveries were transferred to the "regulatory asset recovery account". This approved balance will be recovered over a period ending March 31, 2008. The account is credited with recovery amounts and is debited by OEB prescribed carrying charges.

(b) Pension contributions:

The OEB has allowed the LDC to defer the incremental OMERS pension expenditures for the fiscal years starting after January 1, 2005 and to end on April 30, 2006. Accordingly, the Corporation has deferred these expenditures in accordance with the criteria set out in the AP Handbook.

(c) OEB annual cost:

The OEB has allowed the LDC to defer a portion of the OEB annual cost assessments for the fiscal years starting after January 1, 2004 and to end on April 30, 2006. Accordingly, the Corporation has deferred these expenditures in accordance with the criteria set out in the AP Handbook.

Under such regulation, the deferred expenditures would have been expensed under Canadian GAAP for unregulated businesses. In April 2006, the OEB approved the recovery of the deferred amount of $1,029. Accordingly, the balance was transferred to the regulatory asset recovery account for recovery commencing May 1, 2006 and ending March 31, 2008.

(d) Smart meters:

Effective May 1, 2006, the OEB has allowed the LDC to defer capital expenditures, operating expenditures, amortization expense and revenues relating to smart meters. Accordingly, the Corporation has deferred these items in accordance with the criteria set out in the AP Handbook. The manner and timing of disposition of these smart meter regulatory assets have not been determined by the OEB at this time.

6. Regulatory liabilities (continued):

(e) Settlement variances:

The OEB has allowed the LDC to defer settlement variances from May 1, 2002 to December 31, 2006. This balance represents the variances between amounts charged by LDC to customers (based on regulated rates) and the corresponding cost of non competitive electricity service incurred by LDC after May 1, 2002. The settlement variances relate primarily to service charges, non competitive electricity charges, imported power charges and the global adjustment. Accordingly, the Corporation has deferred these recoveries in accordance with the criteria set out in the AP Handbook.

Settlement variances of $310,643 relating to the period from May 1, 2002 to December 31, 2004, were approved for recovery by the OEB and are included in the regulatory asset recovery account balance. The remaining balance, representing settlement variances arising after January 1, 2005, is deferred in a regulatory liability account. The manner and timing of disposition of the variance have not been determined by the OEB.

7. Loan payable:

During the year, the Corporation converted the remaining balance of $360,727 (2006 - $560,740) of the loan payable into 360,727 (2006 - 560,740) common shares of the Corporation.

8. Mortgage payable:

The mortgage payable is repayable to the Township, is secured by a general security agreement and specific assets of the Corporation, bears interest at 6.25% and has no specified terms of repayment. Payment of interest has been postponed indefinitely and the Township has indicated they will not demand repayment within the next twelve months.

During the year, the Corporation converted $199,964 of the mortgage payable into 199,964 common shares of the Corporation.

9. Share capital:

	2007	2006
Authorized:		
Unlimited common shares		
Issued:		
1,121,529 common shares (2006 - 560,840 common shares)	$ 1,121,529	$ 560,840

10. Payment in lieu of taxes:

For payment in lieu of tax purposes, the Corporation has losses of $754,587 (2006 - $728,423) carried forward which can be applied to reduce future years' taxable income. These losses will expire as follows:

2010	$ 92,324
2014	296,896
2015	338,514
2027	26,853

11. Related party transactions:

The Corporation is related to the Township by virtue of the fact that the Township is the sole shareholder of the Corporation. The Corporation is related to Chapleau Energy Services Corporation by virtue of common ownership.

During the year, the Corporation billed the Township $268,716 (2006 - $286,995) for power purchased.

Also, the Corporation was charged $379,102 (2006 - $403,241) by Chapleau Energy Services Corporation, for the Corporation's portion of certain shared costs.

During the year, the Corporation paid $1,200 (2006 - $1,181) to the Township on account of municipal taxes.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration agreed to by the related parties.

12. Contingencies:

(a) Purchasers of electricity in Ontario are required to provide security to the IESO to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by default notice issued by the IESO. At December 31, 2007, no amounts have been drawn on this financing arrangement.

(b) A class action lawsuit claiming $500 million in restitutionary payments plus interest was served on the former Toronto Hydro Electric Commission, continuing as Toronto Hydro Corporation, on November 8, 1998. This action was initiated against the former Toronto Hydro Electric Commission as the representative of the defendant class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills after April 1, 1981. The claim is that late payment penalties result in municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under section 347(1)(b) of the Criminal Code. The Electricity Distributors Association has undertaken the defence of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements. Accordingly, no provision has been made in these financial statements with respect to any possible losses that may arise as a result of this matter.

13. Financial instruments and credit risk:

(a) Fair value of financial assets and financial liabilities

The carrying value of cash, investments, trade receivables, unbilled revenue, accounts payable and accrued liabilities, advances from related company and customer deposits approximate their fair value due to the relatively short periods to maturity of these items.

It was not practicable to estimate the fair value of the mortgage payable as there are no principal repayment terms.

(b) Credit risk exposure

Financial assets held by the Corporation expose it to credit risk. As at December 31, 2007, there were no significant concentrations of credit risk with respect to any class of financial assets.

The Corporation earns its revenue from a broad base of customers located principally in Chapleau. No single customer would account for revenue or an accounts receivable balance in excess of 10% of the respective reported balances.

14. Comparative figures:

Certain 2006 comparative figures have been reclassified to conform with the financial statement presentation adopted per the current year.