

Fort Frances Power Corporation
Financial Statements
For the year ended December 31, 2001

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BDO Dunwoody LLP
Chartered Accountants
and Consultants

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Fort Frances, Ontario, Canada P9A 1H1
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Auditors' Report

**To the Shareholders of
Fort Frances Power Corporation**

We have audited the balance sheet of the Fort Frances Power Corporation as at December 31, 2001 and the statements of operations 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, 2001, and the results of its operations and cash flows for the year then ended in accordance with the Canadian generally accepted accounting principles.

Chartered Accountants

Fort Frances, Ontario
March 04, 2002

Fort Frances Power Corporation Balance Sheet

December 31	2001	2000
Assets		
Current		
Cash	\$ 529,203	\$ 435,099
Investments (Note 1)	1,045,243	989,463
Accounts receivable (Note 2)	239,119	464,973
Unbilled revenue	356,017	311,235
Inventory	163,589	174,590
Prepaid expense	13,959	8,367
	<u>2,347,130</u>	<u>2,383,727</u>
Capital assets (Note 3)	4,021,210	4,088,320
Other assets (Note 4)	54,972	61,079
	<u>\$ 6,423,312</u>	<u>\$ 6,533,126</u>
Liabilities		
Current		
Accounts payable	\$ 559,387	\$ 722,158
Customer deposits	58,560	59,206
Sick benefits payable	103,966	114,558
	<u>721,913</u>	<u>895,922</u>
Shareholders' equity		
Share capital (Notes 6 & 7)	5,807,391	5,807,391
Deficit	(105,992)	(170,187)
	<u>5,701,399</u>	<u>5,637,204</u>
	<u>\$ 6,423,312</u>	<u>\$ 6,533,126</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

Fort Frances Power Corporation Statement of Operations and Deficit

For the year ended December 31 (with comparative figures for the two month period ended December 31)	2001	2000
Service revenue		
Residential	\$ 2,415,750	\$ 414,274
General	2,281,379	367,180
Street lighting	68,905	10,632
Reconnection charges	3,864	-
	<u>4,769,898</u>	<u>792,086</u>
Cost of power		
Power purchased	3,697,913	819,832
	<u>1,071,985</u>	<u>(27,746)</u>
Gross margin on service revenue	1,071,985	(27,746)
Other operating revenue (Note 5)	182,780	40,099
	<u>1,254,765</u>	<u>12,353</u>
Operating and maintenance expense		
High voltage transformation distribution	248,069	43,216
Billing and collection	96,924	12,906
General and administrative expense	531,422	79,658
Amortization	323,105	46,760
Interest	1,050	-
	<u>1,200,570</u>	<u>182,540</u>
Net income before the following	54,195	(170,187)
Gain on disposal of capital assets	10,000	-
	<u>64,195</u>	<u>(170,187)</u>
Net income (loss) for the year	64,195	(170,187)
Surplus (deficit), beginning of year	(170,187)	-
Deficit, end of year	<u>\$ (105,992)</u>	<u>\$ (170,187)</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

Fort Frances Power Corporation Statement of Cash Flows

For the year ended December 31

2001

2000

(with comparative figures for the two month period ended December 31)

Cash provided by (used in)

Operating activities

Excess (deficiency) of expenditures over revenue for the year	\$ 64,195	\$ (170,187)
Items not involving cash		
Amortization	323,105	46,760
Gain on disposal of capital asset	(10,000)	-
	<u>377,300</u>	<u>(123,427)</u>
Changes in non-cash working capital balances		
Accounts receivable	225,854	(464,973)
Unbilled revenue	(44,782)	(311,235)
Inventory	11,001	(174,590)
Prepaid	(5,592)	(8,367)
Accounts payable	(162,771)	722,158
Sick benefits	103,966	-
	<u>504,976</u>	<u>(360,434)</u>

Investing activities

Net increase in capital assets	(239,888)	(4,134,119)
Net increase in other assets	-	(62,040)
	<u>(239,888)</u>	<u>(4,196,159)</u>

Financing activities

Increase in customer deposits held	(646)	59,206
Issue of shares	-	5,807,391
	<u>(646)</u>	<u>5,866,597</u>

Increase in cash during the year

264,442 1,310,004

Cash, beginning of year

1,310,004 -

Cash, end of year

\$ 1,574,446 \$ 1,310,004

Represented by

Cash	\$ 529,203	\$ 435,099
Investments	1,045,243	874,905
	<u>\$ 1,574,446</u>	<u>\$ 1,310,004</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

Fort Frances Power Corporation Summary of Significant Accounting Policies

December 31, 2001

Nature of Business	The company is incorporated under the laws of Ontario and is engaged in the operation and distribution of retail electricity.												
Financial Instruments	The Company's financial instruments consist of cash, accounts receivable, unbilled revenue, accounts payable and customer deposits. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.												
Inventory	Inventory is stated at the lower of cost and net realizable value. Cost is generally determined on a first-in, first-out basis.												
Capital Assets	<p>Capital assets are recorded at cost. Amortization based on the estimated useful life of the asset is as follows:</p> <table><tr><td>Buildings</td><td>- 3% straight line basis</td></tr><tr><td>Transmission and distribution equipment</td><td>- various straight line basis</td></tr><tr><td>Other equipment</td><td>- 10% straight line basis</td></tr><tr><td>Computer equipment and software</td><td>- 20 and 100% straight line basis</td></tr><tr><td>Automotive equipment</td><td>- various straight line basis</td></tr><tr><td>Office equipment</td><td>- 10% straight line basis</td></tr></table>	Buildings	- 3% straight line basis	Transmission and distribution equipment	- various straight line basis	Other equipment	- 10% straight line basis	Computer equipment and software	- 20 and 100% straight line basis	Automotive equipment	- various straight line basis	Office equipment	- 10% straight line basis
Buildings	- 3% straight line basis												
Transmission and distribution equipment	- various straight line basis												
Other equipment	- 10% straight line basis												
Computer equipment and software	- 20 and 100% straight line basis												
Automotive equipment	- various straight line basis												
Office equipment	- 10% straight line basis												
Other Assets	<p>Other assets are recorded at cost. Amortization is provided as follows:</p> <table><tr><td>Organization expense</td><td>- 10% straight line basis</td></tr></table>	Organization expense	- 10% straight line basis										
Organization expense	- 10% straight line basis												
Cash and Cash Equivalents	Cash and cash equivalents consist of cash on hand, bank balances and investments in money market instruments and bond funds with maturities of three months or less.												

Fort Frances Power Corporation

Notes to Financial Statements

December 31, 2001

1. Investments

Investments are recorded at the lower of cost or market value and are made up as follows:

	2001	2000
Money market and bond mutual funds	\$ 1,045,243	\$ 989,463
Investments are held in money markets and bond funds.		
Cost of investments	\$ 1,058,157	\$ 898,907

2. Accounts Receivable

	2001	2000
Electrical energy	\$ 178,625	\$ 424,047
Own municipality	7,528	18,483
Sundry	52,966	22,443
	\$ 239,119	\$ 464,973

3. Capital Assets

Capital Assets	2001			2000
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 100,000	\$ -	\$ 100,000	\$ 100,000
Buildings	1,068,548	871,224	197,324	197,288
Transmission and distribution equipment	6,837,118	3,281,114	3,556,004	3,697,112
Other equipment	91,493	77,311	14,182	12,413
Automotive equipment	502,852	365,708	137,144	62,436
Computer equipment and software	41,165	33,898	7,267	8,408
Office equipment	76,485	67,196	9,289	10,663
	\$ 8,717,661	\$ 4,696,451	\$ 4,021,210	\$ 4,088,320

Fort Frances Power Corporation Notes to Financial Statements

December 31, 2001

4. Other Assets

	2001	2000
Organization costs	\$ 62,010	\$ 62,010
Accumulated amortization	7,038	931
	<u>\$ 54,972</u>	<u>\$ 61,079</u>

5. Other Operating Revenue

	2001	2000
Interest earned	\$ 67,134	\$ 16,203
Late payment charges	36,128	3,951
Pole rentals	20,756	1,307
Reconnection charges	-	630
Miscellaneous revenue	58,762	18,008
	<u>\$ 182,780</u>	<u>\$ 40,099</u>

6. Industry Restructuring

The Ontario Government enacted the Energy Competition Act, 1998 to introduce competition to the Ontario electricity market by the year 2000. Under the terms of this legislation, the Ontario Energy Board (the "OEB") will regulate industry participants by issuing licences for the right to generate, transmit, distribute or retail electricity. These licences will require compliance with established market rules and codes.

Pursuant to this legislation, the Town of Fort Frances, as owners of the Commission, enacted a By-Law on November 6, 2000, to authorize the transfer of assets, liabilities and equity to Fort Frances Power Corporation created for the purpose of continuing the distributing activities of the Commission.

The transfer price was at fair market value and was financed as follows:

	2001	2000
Issue of 5,807,391 Class A common shares at \$1 per share	<u>\$ 5,807,391</u>	<u>\$ 5,807,391</u>

Fort Frances Power Corporation Notes to Financial Statements

December 31, 2001

7. Share Capital

Unlimited number of common shares

Issued share capital is as follows:

	<u>2001</u>	<u>2000</u>
5,807,391 Common shares	<u>\$ 5,807,391</u>	<u>\$ 5,807,391</u>

8. Comparative Figures

The comparative figures are for a 55 day period including December 31, 2000 and have been restated to conform to current years presentation.

9. Related Party Transactions

Fort Frances Power Corporation and Fort Frances Network Services are related due to common control of Board Membership.

	<u>2001</u>	<u>2000</u>
Sales to Fort Frances Network Services	<u>\$ 7,264</u>	<u>\$ -</u>



Ministry of Finance
Corporations Tax Branch - Hydro PIL
PO Box 620
33 King Street West
Oshawa ON L1H 8E9

Account No
1800090

35
PX5003

FORT FRANCES POWER CORPORATION
MARK MCCAIG
320 PORTAGE AVE

FORT FRANCES
P9A 3P9

ON

Remittance Advice - Payment-in-Lieu (PIL)
Electricity Act, 1998
Corporations Tax Act, R.S.O. 1990

Taxation Year End: (YYYYMMDD)

Payment Amount: \$

Taxation Year End: (YYYYMMDD)

Payment Amount: \$

**Total Payment
Enclosed:** \$

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Ministry of Finance
Corporations Tax Branch - Hydro PIL
PO Box 620
33 King Street West
Oshawa ON L1H 8E9

Keep this portion for your records.

Notice of Assessment

Electricity Act, 1998 • Corporations Tax Act, R.S.O. 1990
from 2001/10/01 to 2001/12/31

FORT FRANCES POWER CORPORATION
ASSESSMENT NO. 2

Account No.	Assessment Date (year, month, day)	Page
1800090	2002/10/07	1 of 1

Tax: Federal and Provincial PIL
Total Assessment Liability

634.00
634.00

SUMMARY OF 2001/12/31 TAXATION YEAR TRANSACTIONS

Payments/Transfers

634.00CR

Sub-Total

TAXATION YEAR BALANCE

634.00CR
0.00

In accordance with s.s.80(8) of the Corporations Tax Act, as made applicable
by s.95 of the Electricity Act, 1998, notice is hereby given of the amount of
tax, penalty and interest for which you are assessed.

Tax Assessment as per Company Estimate.

ASSESSMENT ONLY

Tax (Re)Assessment Enquiries:

- Toronto (416) 730-5585
- FAX (416) 730-5593

Account Billing Enquiries & Change of Address Information:

- Oshawa and Local (905) 433-6708
- Toronto (416) 920-9048 ext 3036
- Toll-Free 1-800-262-0784 ext 3036
- FAX (905) 433-5197