

Financial Statements of

**CHAPLEAU PUBLIC
UTILITIES CORPORATION**
(Formerly Chapleau Hydro Electric Commission)

Year ended December 31, 2001



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AUDITORS' REPORT

to the Commissioners and the Members of Council, Inhabitants
and Ratepayers of the Corporation of the Township of Chapleau

We have audited the balance sheet of **Chapleau Public Utilities Corporation (formerly Chapleau Hydro Electric Commission)** as at December 31, 2001 and the statements of operations and utility equity and cash flows for the year then ended. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 Chapleau Public Utilities Corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with the accounting principles disclosed in note 1 to the financial statements.

Chartered Accountants

Sudbury, Canada
March 2, 2002



CHAPLEAU PUBLIC UTILITIES CORPORATION

(Formerly Chapleau Hydro-Electric Commission)

Balance Sheet

December 31, 2001, with comparative figures for 2000

	2001	2000
Assets		
Current assets:		
Cash	\$ 574,828	\$ 389,472
Term deposits and treasury bills	80,525	77,909
Accounts receivable (note 2)	78,491	83,412
Accrued utility revenues	369,059	343,743
Payment in lieu of taxes	2,400	-
Plant materials and supplies - at cost	23,291	23,038
Deferred charges	44,056	32,014
	1,172,650	949,588
Customer securities on deposit	1,000	1,000
Property, plant and equipment, at cost		
less accumulated depreciation (note 3)	995,671	1,194,391
	\$ 2,169,321	\$ 2,144,979
Liabilities and Unappropriated Surplus (Deficit)		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 334,866	\$ 370,251
Interest payable	180,609	29,608
	515,475	399,859
Other liabilities:		
Customer deposits	41,021	40,394
Mortgage payable (note 5)	1,609,539	1,776,481
Shareholders' equity:		
Share capital (note 7)	100	100
Unappropriated surplus (deficit)	3,186	(71,855)
	3,286	(71,755)
Commitments (note 8)		
Payment in lieu of taxes (note 9)		
	\$ 2,169,321	\$ 2,144,979

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

(Formerly Chapleau Hydro-Electric Commission)

Statement of Operations and Utility Equity

Year ended December 31, 2001, with comparative figures for the two months ended December 31, 2000

	2001	2000
Revenue:		
Sale of energy:		
Residential	\$ 1,511,219	\$ 242,551
Commercial	1,233,274	210,777
Street lighting	20,170	2,963
	<u>2,764,663</u>	<u>456,291</u>
Service revenue adjustment	25,316	86,491
	<u>2,789,979</u>	<u>542,782</u>
Expenses:		
Power purchased	2,197,368	508,085
Operations and maintenance	215,514	36,933
Administration and general	132,518	32,247
Billing and collecting	77,570	7,610
Depreciation	66,350	15,844
	<u>2,689,320</u>	<u>600,719</u>
	<u>100,659</u>	<u>(57,937)</u>
Other income (expenses):		
Interest on mortgage payable	(180,609)	(29,608)
Interest earned	10,419	2,908
Late payment charges	15,826	2,370
Miscellaneous	79,944	10,412
Gain on disposal of property and equipment	48,802	-
	<u>(25,618)</u>	<u>(13,918)</u>
Earnings (loss) before payment in lieu of income taxes	75,041	(71,855)
Provision for payment in lieu of income taxes	16,500	-
Recovery due to application of loss carryforwards	(16,500)	-
Net earnings (loss) for the period	<u>75,041</u>	<u>(71,855)</u>
Unappropriated surplus (deficit), beginning of period	(71,855)	-
Unappropriated surplus (deficit), end of period	<u>\$ 3,186</u>	<u>\$ (71,855)</u>

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

(Formerly Chapleau Hydro-Electric Commission)

Statement of Cash Flows

Year ended December 31, 2001, with comparative figures for the two months ended December 31, 2000

	2001	2000
Cash provided by (used in):		
Net earnings (loss) for the period	\$ 75,041	\$ (71,855)
Adjustment for:		
Depreciation	66,350	15,844
Gain on disposal of property and equipment	(48,802)	-
	92,589	(56,011)
Change in non-cash working capital:		
Accounts receivable	4,921	3,499
Accrued utility revenues	(25,316)	(86,491)
Payment in lieu of income taxes	(2,400)	-
Plant materials and supplies	(253)	2,092
Deferred charges	(12,042)	(3,450)
Accounts payable and accrued liabilities	(35,385)	149,726
Interest payable	151,001	29,608
Customer deposits	627	(1,275)
	173,742	37,698
Cash flows from financing:		
Mortgage payable	(166,942)	1,776,481
Cash flows from investing activities:		
Proceeds on disposal of property and equipment (note 6)	196,550	1,250
Purchase of capital assets	(15,378)	-
Transfer of assets and liabilities	-	(1,776,481)
	181,172	(1,775,231)
Net increase in cash and cash equivalents	187,972	38,948
Cash and cash equivalents, beginning of period	467,381	428,433
Cash and cash equivalents, end of period	\$ 655,353	\$ 467,381
Cash and cash equivalents are represented by:		
Cash	\$ 574,828	\$ 389,472
Term deposits and treasury bills	80,525	77,909
	\$ 655,353	\$ 467,381

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

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Notes to Financial Statements

Year ended December 31, 2001

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

1. Significant accounting policies:

(a) Basis of presentation:

The financial statements have been prepared in accordance with accounting principles for municipal electrical utilities in Ontario as required by Ontario Energy Board ("OEB") under authority of Ontario Energy Board Act (1998) and the following policies as set forth in the manual, "Ontario Energy Board Accounting Procedures Handbook".

(b) Property, plant, equipment and depreciation:

Property, plant, equipment and depreciation are recorded at cost. Amortization is provided annually, on a straight-line basis, in accordance with the following rates as set out in the manual "Ontario Energy Board Accounting Procedures Handbook".

Transmission and distribution systems	25 - 40 years
Vehicles	4 - 8 years

(c) Accrued utility revenues:

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

CHAPLEAU PUBLIC UTILITIES CORPORATION

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Notes to Financial Statements

Year ended December 31, 2001

1. Significant accounting policies (continued):

(d) Payment in lieu of taxes:

The Corporation is current exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Act ("OCTA").

Commencing October 1, 2001 and pursuant to the Electricity Act, 1998 (Ontario) (the "EA"), the Corporation is required to compute taxes under the ITA and OCTA and remit such amounts thereunder computed to the Ministry of Finance (Ontario). These amounts, referred to as payments in lieu of corporate taxes ("PILS") under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro continuing in Ontario Electricity Financial Corporation.

The Corporation has accounted for all significant timing and permanent differences between amounts computed for accounting and tax purposes. Timing differences are recorded in deferred PILS on the balance sheet at current enacted statutory tax rates (under the ITA and OCTA). Permanent differences are recorded as an adjustment to the provision for PILS at the current enacted statutory tax rates.

PILS recoverable from loss carryforwards are recorded in deferred payments in lieu of income taxes on the balance sheet at the current enacted statutory tax rate.

(e) Regulation:

The Corporation is regulated by the OEB and any rate adjustments require OEB approval.

(f) Deferred charges:

Deferred charges represent the costs of incorporating and creating the Corporation including all legal, accounting and professional services. The charges will be amortized beginning January 1, 2002 over 10 years.

(g) Measurement uncertainty:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and note disclosures related thereto. Due to the inherent uncertainty in making estimates, actual results could differ from these estimates.

CHAPLEAU PUBLIC UTILITIES CORPORATION

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Notes to Financial Statements

Year ended December 31, 2001

2. Accounts receivable:

	2001	2000
Electrical energy	\$ 61,464	\$ 69,874
Miscellaneous	36,527	19,638
	97,991	89,512
Less allowance for doubtful accounts	19,500	6,100
	\$ 78,491	\$ 83,412

3. Property, plant and equipment:

	2001		2000	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	\$ 140	\$ -	\$ 5,345	\$ -
Transmission and distribution system	2,070,949	1,075,418	2,070,949	1,033,940
Building and equipment	-	-	262,295	133,179
Vehicles	-	-	172,010	149,089
	2,071,089	1,075,418	2,510,599	1,316,208
Less accumulated depreciation	1,075,418		1,316,208	
	\$ 995,671		\$ 1,194,391	

4. Enactment of the Energy Competition Act, 1998:

The Ontario Government enacted the Energy Competition Act, 1998 to introduce competition to the Ontario electricity market by the year 2002. Under the provisions of this legislation, 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.

5. Mortgage payable:

The mortgage is repayable to the Corporation of the Township of Chapleau, bears interest at 10%, has no specified terms of repayment and is secured by a general security agreement and specified assets of the Corporation.

CHAPLEAU PUBLIC UTILITIES CORPORATION

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Notes to Financial Statements

Year ended December 31, 2001

6. Transfer of assets:

On December 31, 2001, certain assets of the Corporation were transferred to the Chapleau Energy Services Corporation. The proceeds received from the transfer were used to reduce the mortgage payable to the Corporation of the Township of Chapleau. Certain assets with a net book value of \$147,748 were transferred at their fair market value of \$196,550, resulting in a gain on disposal of \$48,802. The assets transferred to Chapleau Energy Services Corporation are as follows:

	Net Book Value	Fair Market Value
Land	\$ 5,204	\$ 30,000
Building	102,039	104,500
Vehicles	16,044	37,500
Equipment	24,461	24,550
	\$ 147,748	\$ 196,550

7. Share capital:

Share capital of the Corporation is comprised of:

	2001	2000
Authorized:		
Unlimited non-voting Class A special shares		
Unlimited non-voting Class B special shares		
100 common shares		
Issued:		
100 common shares	\$ 100	\$ 100

8. Commitments:

Subsequent to year-end, the Corporation has arranged and received approval for a \$250,000 Letter of Credit to the Independent Market Operator ("IMO") subject to finalization of security documentation. This is a requirement of the IMO for market opening on May 1, 2002. At March 2, 2002, no amounts have been drawn on this financing agreement.

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Notes to Financial Statements

Year ended December 31, 2001

9. Payment in lieu of taxes:

For payment in lieu of tax purposes, the Corporation has a loss of \$25,763 carried forward from a prior year which can be applied to reduce future years' taxable income. This loss expires in 2008.

10. Industry restructuring:

The Electricity Act, 1998 (Ontario) provides for a competitive marketplace in the sale of electricity. Such marketplace is expected to be deregulated and electricity retailers will be competing for customers effective May 1, 2002.

Effective October 1, 2001, the Corporation and its affiliates were required, to compute and remit to the Province of Ontario PILS. PILS are computed in accordance with the rules for computing income, capital and other taxes provided for in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the EA and the related regulations.

The OEBA conferred on the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity consumers, and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions to electricity distributors which may include, among other things, specified accounting records, regulatory accounting principles, separation of accounts for distinct businesses and filing and process requirements for rate setting purposes.

11. Comparative figures:

The Corporation began operations on November 1, 2000. Since the comparative figures were the first fiscal period of operations for the Corporation, a two month period ended have been presented.