

Financial Statements of

**CHAPLEAU PUBLIC
UTILITIES CORPORATION**

Year ended December 31, 2002

AUDITORS' REPORT

To the Shareholder of Chapleau Public Utilities Corporation

We have audited the balance sheet of **Chapleau Public Utilities Corporation** as at December 31, 2002 and the statements of earnings and retained earnings (deficit) 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 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 Chapleau Public Utilities Corporation as at December 31, 2002 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.

A handwritten signature in black ink that reads "KPMG LLP". The letters are stylized and cursive.

Chartered Accountants

Sudbury, Canada
April 8, 2003

CHAPLEAU PUBLIC UTILITIES CORPORATION

Balance Sheet

December 31, 2002, with comparative figures for 2001

	2002	2001
Assets		
Current assets:		
Cash	\$ 160,648	\$ 574,828
Term deposits and treasury bills	286,446	80,525
Accounts receivable (note 2)	34,459	78,591
Payment in lieu of taxes	7,800	2,400
Plant materials and supplies - at cost	33,129	23,191
Unbilled revenue - energy sales	426,588	369,059
Unbilled revenue - distribution	69,581	-
	1,018,651	1,128,594
Customer securities on deposit	-	1,000
Property, plant and equipment, at cost		
less accumulated depreciation (note 3)	957,517	995,671
Regulatory assets (note 6)	99,279	44,056
	\$ 2,075,447	\$ 2,169,321

Liabilities and Shareholder's Equity (Deficiency)

Current liabilities:		
Accounts payable and accrued liabilities (note 4)	\$ 349,680	\$ 334,866
Interest payable	168,804	180,609
	518,484	515,475
Other liabilities:		
Customer deposits	45,094	41,021
Mortgage payable (note 5)	1,531,710	1,609,539
Shareholder's equity (deficiency):		
Share capital	100	100
Retained earnings (deficit)	(19,941)	3,186
	(19,841)	3,286
Commitments (note 7)		
Payment in lieu of taxes (note 8)		
	\$ 2,075,447	\$ 2,169,321

See accompanying notes to financial statements.

On behalf of the Board:

Director

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Earnings and Retained Earnings (Deficit)

Year ended December 31, 2002, with comparative figures for 2001

	2002	2001
Revenue:		
Energy sales	\$ 2,650,317	\$ 2,789,979
Distribution	276,207	-
	<u>2,926,524</u>	<u>2,789,979</u>
Expenses:		
Power purchased	2,276,296	2,197,368
Operations and maintenance	241,013	215,514
Administration and general	179,586	132,518
Billing and collecting	61,677	77,570
Depreciation	39,855	66,350
	<u>2,798,427</u>	<u>2,689,320</u>
Earnings before undernoted items	128,097	100,659
Other income (expenses):		
Interest on mortgage payable	(194,519)	(180,609)
Interest earned	15,061	10,419
Late payment charges	10,503	15,826
Miscellaneous	17,731	79,944
Gain on disposal of property and equipment	-	48,802
	<u>(151,224)</u>	<u>(25,618)</u>
Net earnings (loss)	(23,127)	75,041
Retained earnings (deficit), beginning of year	3,186	(71,855)
Retained earnings (deficit), end of year	\$ (19,941)	\$ 3,186

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Cash Flows

Year ended December 31, 2002, with comparative figures for 2001

	2002	2001
Cash provided by (used in):		
Net earnings (loss)	\$ (23,127)	\$ 75,041
Adjustment for:		
Depreciation	39,855	66,350
Gain on disposal of property and equipment	-	(48,802)
	16,728	92,589
Change in non-cash working capital:		
Accounts receivable	44,132	4,921
Payment in lieu of taxes	(5,400)	(2,400)
Plant materials and supplies	(9,938)	(253)
Unbilled revenue - energy sales	(57,529)	(25,316)
Unbilled revenue - distribution	(69,581)	-
Customer securities on deposit	1,000	-
Accounts payable and accrued liabilities	14,815	(35,385)
Interest payable	(11,805)	151,001
Customer deposits	4,073	627
	(73,505)	185,784
Cash flows from financing:		
Mortgage payable	(77,829)	(166,942)
Cash flows from Investing activities:		
Purchase of capital assets	(1,702)	(15,378)
Regulatory assets	(55,223)	(12,042)
Proceeds on disposal of property and equipment	-	196,550
	(56,925)	169,130
Net increase (decrease) in cash and cash equivalents	(208,259)	187,972
Cash and cash equivalents, beginning of year	655,353	467,381
Cash and cash equivalents, end of year	\$ 447,094	\$ 655,353
Cash and cash equivalents are represented by:		
Cash	\$ 160,648	\$ 574,828
Term deposits and treasury bills	286,446	80,525
	\$ 447,094	\$ 655,353

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2002

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

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and policies set forth in the Accounting Procedure Manual issued by the Ontario Energy Board ("OEB") under the authority of the Ontario Energy Board Act, 1998 ("OEBA"). The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. In its capacity to set or approve rates, the OEB has the authority to specify regulatory treatments that may result in accounting treatments that differ from Canadian GAAP for enterprises operating in a non-rate regulated environment.

(b) Accrued utility revenues:

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 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.

(c) Capital assets:

Capital assets are recorded at cost. Amortization is provided annually, on a straight-line basis, in accordance with the following rates:

Distribution systems	25 - 40 years
Automotive	4 - 8 years

(d) Payment in lieu of taxes:

Effective 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 computed thereunder to the Ontario Electricity Financial Corporation ("OEFC"). These amounts, referred to as payments in lieu of taxes ("PILS") under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro now owing by the OEFC.

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.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2002

1. Significant accounting policies:

(e) Regulation:

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

(f) Deferred transition costs:

The Corporation has incurred costs related to the transition to a competitive electricity market mandated by the Electricity Act, 1998. The OEB has established rules in respect of transition costs which qualify for deferral and amortization against future revenue. Transition costs which are capital in nature, such as software, are not recorded as part of capital assets. Amortization of such costs are recorded to the deferred transition cost account. To the extent that transition costs have been incurred which do not qualify for deferral, these costs have been capitalized or expensed during the period they were incurred.

(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.

2. Accounts receivable:

	2002	2001
Trade	\$ 53,076	\$ 61,464
Miscellaneous	883	36,627
	53,959	98,091
Less allowance for doubtful accounts	19,500	19,500
	\$ 34,459	\$ 78,591

Included in miscellaneous accounts receivable is \$100 (2001 - \$100) owed from the Corporation of the Township of Chapleau and \$783 (2001 - \$nil) owed from Chapleau Energy Services Corporation.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2002

3. Property, plant and equipment:

		2002		2001	
		Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	\$	140	\$ -	\$ 140	\$ -
Transmission and distribution system		2,072,650	1,115,273	2,070,949	1,075,418
		2,072,790	1,115,273	2,071,089	1,075,418
Less accumulated depreciation		1,115,273		1,075,418	
	\$	957,517		\$ 995,671	

4. Accounts payable and accrued liabilities:

	2002	2001
Power purchased	\$ 233,517	\$ 295,678
Miscellaneous	116,163	39,188
	\$ 349,680	\$ 334,866

Included in miscellaneous accounts payable is \$63,637 (2001 - \$nil) owed to Chapleau Energy Services Corporation.

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

Notes to Financial Statements

Year ended December 31, 2002

6. Regulatory assets:

The regulatory assets arise as a result of the rate setting process by the OEB. The Minister of Energy has indicated in a letter to the Company that these amounts will be recoverable no later than 2006.

	2002	2001
Deferred transition costs (a)	\$ 54,718	\$ 44,056
Retail settlement variances (b)	86,646	-
Pre-market opening energy variances (c)	(42,085)	-
	\$ 99,279	\$ 44,056

- (a) The OEB had established a process for the recording of costs incurred by the Corporation to be market ready, as deferred transition costs to be recovered in the future by some means deemed appropriate by the OEB.

The OEB requires the Corporation to track certain variances that are to be disposed of pending further direction from the OEB.

- (b) The amount paid to the Independent Market Operator ("IMO") for energy less corresponding amounts billed by the Company to its customers, as well as other deregulation costs incurred by the company which will be recovered in the future by some means deemed appropriate by the OEB.
- (c) The cost of energy purchased and amounts billed to customers from January 1, 2002 to April 30, 2002. The electricity market was opened to competition on May 1, 2002. The variances arise as a result of the differing rates on time of use energy purchases by the Corporation as compared to the average rates charged to its customers.

7. Commitments:

The Corporation has issued a \$250,000 Letter of Credit to the Independent Market Operator ("IMO") for market opening on May 1, 2002. At December 31, 2002, no amounts have been drawn on this financing arrangement.

8. Payment in lieu of taxes:

For payment in lieu of tax purposes, the Corporation has a loss of \$24,983 carried forward from a prior year which can be applied to reduce future years' taxable income. This loss expires in 2008.

CHAPLEAU PUBLIC UTILITIES CORPORATION

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9. Industry restructuring:

The Electricity Act, 1998 (Ontario) provides for a competitive marketplace in the sale of electricity. The marketplace was deregulated effective May 1, 2002.

10. Related party transactions:

During the year, the Company paid \$168,804 (2001 - \$180,609) of interest to the Corporation of the Township of Chapleau.

11. Comparative figures:

Certain of the 2001 comparative figures have been reclassified to conform with the financial presentation adopted in 2002.