

Financial Statements of

**CHAPLEAU PUBLIC
UTILITIES CORPORATION**

Year ended December 31, 2004



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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, 2004 and the statements of 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Sudbury, Canada
March 30, 2005

CHAPLEAU PUBLIC UTILITIES CORPORATION

Balance Sheet

December 31, 2004, with comparative figures for 2003

	2004	2003
Assets		
Current assets:		
Cash	\$ 215,244	\$ 53,705
Term deposits and treasury bills	574,796	456,107
Accounts receivable (note 2)	28,376	44,245
Payment in lieu of taxes	4,000	16,400
Prepaid expenses	10,462	-
Unbilled revenue - energy sales	436,609	408,190
Unbilled revenue - distribution	69,141	65,371
Plant materials and supplies - at cost	31,551	25,120
	1,370,179	1,069,138
Capital assets (note 3)	926,890	929,994
	\$ 2,297,069	\$ 1,999,132
Liabilities and Shareholder's Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	\$ 310,757	\$ 262,798
Accrued interest payable	185,368	153,171
Due to related company (note 5)	111,423	76,309
	607,548	492,278
Other liabilities:		
Customer deposits	35,469	45,819
Regulatory liabilities (note 6)	288,948	121,247
Loan payable (note 7)	532,191	210,216
Mortgage payable (note 8)	1,321,494	1,321,494
Shareholder's deficiency:		
Share capital (note 9)	100	100
Deficit	(488,681)	(192,022)
	(488,581)	(191,922)
Commitments (note 12)		
Contingencies (note 14)		
	\$ 2,297,069	\$ 1,999,132

See accompanying notes to financial statements.

On behalf of the Board:

Director

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Earnings and Deficit

Year ended December 31, 2004, with comparative figures for 2003

	2004	2003
Revenue:		
Energy sales	\$ 2,020,259	\$ 2,037,364
Distribution	518,802	533,375
	2,539,061	2,570,739
Expenses:		
Power purchased	2,054,111	2,033,034
Operations and maintenance	309,103	253,568
Administration and general	158,975	177,507
Billing and collection	65,879	71,814
Depreciation	37,890	38,513
	2,625,958	2,574,436
Loss before the undernoted	(86,897)	(3,697)
Other income (expenses):		
Interest on loans and mortgage payable	(229,175)	(191,162)
Other interest	(5,420)	-
Interest earned	10,297	12,004
Late payment charges	5,899	5,056
Miscellaneous	8,637	5,718
	(209,762)	(168,384)
Loss for the year (note 10)	(296,659)	(172,081)
Deficit, beginning of year	(192,022)	(19,941)
Deficit, end of year	\$ (488,681)	\$ (192,022)

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Cash Flows

Year ended December 31, 2004, with comparative figures for 2003

	2004	2003
Cash flows from operating activities:		
Loss for the year	\$ (296,659)	\$ (172,081)
Adjustment for:		
Depreciation	37,890	38,513
	(258,769)	(133,568)
Change in non-cash working capital:		
Accounts receivable	15,869	(9,786)
Payment in lieu of taxes	12,400	(8,600)
Prepaid expenses	(10,462)	-
Unbilled revenue - energy sales	(28,419)	18,398
Unbilled revenue - distribution	(3,770)	4,210
Plant materials and supplies	(6,431)	8,009
Accounts payable and accrued liabilities	47,959	(23,245)
Accrued interest payable	32,197	(15,633)
Due to related company	35,114	12,672
Customer deposits	(10,350)	725
	(174,662)	(146,818)
Cash flows from financing activities:		
Loan payable	321,975	-
Cash flows from investing activities:		
Purchase of capital assets	(34,786)	(10,990)
Regulatory liabilities	167,701	220,526
	132,915	209,536
Net increase in cash	280,228	62,718
Cash and cash equivalents, beginning of year	509,812	447,094
Cash and cash equivalents, end of year	\$ 790,040	\$ 509,812
Cash and cash equivalents are represented by:		
Cash	\$ 215,244	\$ 53,705
Term deposits and treasury bills	574,796	456,107
	\$ 790,040	\$ 509,812
Supplemental cash flow information:		
Interest paid	\$ 321,975	\$ -

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2004

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

1. Significant accounting policies:

(a) General:

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.

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

(b) 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 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 declining-balance basis, in accordance with the following rates:

Transmission and distribution systems	25 - 40 years
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(d) Asset retirement obligations:

During 2004, the Corporation adopted the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3110, Asset Retirement Obligations. This accounting standard requires the Company to determine the fair value of the future expenditures required to settle legal obligations to remove capital assets. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures. An equivalent amount is capitalized as an inherent cost of the associated capital asset.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2004

1. Significant accounting policies (continued):

(d) 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 Company is legally required to remove, an asset retirement obligation will be recognized at that time.

(e) 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 Income Tax Act (Canada) ("ITA") and Ontario Corporations Tax Act ("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 provides for amounts in lieu of income taxes using the taxes payable method. Under the taxes payable method, no provision is made for future income taxes as a result of temporary differences between the tax basis 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 rates approved by the OEB and recovered from customers at that time.

(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) 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 at the date of the financial statements and the reported amounts of revenue and expenses during the periods specified. Actual results could differ from those estimates.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2004

2. Accounts receivable:

	2004	2003
Electrical	\$ 41,876	\$ 34,939
Miscellaneous	-	17,806
	41,876	52,745
Less allowance for doubtful accounts	13,500	8,500
	\$ 28,376	\$ 44,245

3. Capital assets:

	2004		2003	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	\$ 140	\$ -	\$ 140	\$ -
Transmission and distribution system	2,118,427	1,191,677	2,083,641	1,153,787
	2,118,567	1,191,677	2,083,781	1,153,787
Less accumulated depreciation	1,191,677		1,153,787	
	\$ 926,890		\$ 929,994	

4. Accounts payable and accrued liabilities:

	2004	2003
Power purchased	\$ 257,007	\$ 210,260
Miscellaneous	53,750	52,538
	\$ 310,757	\$ 262,798

5. Due to related company:

The amount is unsecured, non-interest bearing and has no specified terms of repayment. The Corporation is related by virtue of common ownership.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2004

6. Regulatory liabilities:

The regulatory liabilities arise as a result of the rate setting process by the OEB. In 2003, the Minister of Energy authorized the recovery of regulatory assets as at December 31, 2002 through the distribution rate application.

	2004	2003
Deferred transition costs (a)	\$ 54,718	\$ 54,718
Retail settlement variances (b)	(301,581)	(133,880)
Pre-market opening energy variances (c)	(42,085)	(42,085)
	\$ (288,948)	\$ (121,247)

- (a) The OEB had established a process for the recording of costs incurred by the Corporation to be market ready including related carrying costs, as deferred transition costs to be recovered in the future through the regulatory rate setting process.

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 and related carrying costs which will be recovered in the future.
- (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. Loan payable:

The loan is repayable to the Corporation of the Township of Chapleau. The loan bears interest at 10%, is unsecured and is not due within the next 12 months.

8. Mortgage payable:

The mortgage is repayable to the Corporation of the Township of Chapleau. The mortgage bears interest at 10%, is not due within the next 12 months 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, 2004

9. Share capital:

The authorized share capital of the Corporation is as follows:

	2004	2003
Issued and authorized: 100 common shares	\$ 100	\$ 100

10. Payment in lieu of taxes:

For payment in lieu of tax purposes, the Corporation has losses of \$546,000 carried forward which can be applied to reduce future years' taxable income. These losses will expire as follows:

2011	\$ 53,700
2012	23,100
2013	172,300
2014	296,900

11. Related party transactions:

During the year, the Corporation was charged \$185,368 (2003 - \$153,171) of interest by the Corporation of the Township of Chapleau ("Township") and billed the Township \$242,796 (2003 - \$221,251) for power purchased.

12. Commitments:

The Corporation has issued a \$300,205 Letter of Credit to the IMO for market opening on May 1, 2002. At December 31, 2004, no amounts have been drawn on this financing arrangement.

13. Fair value of financial instruments:

The fair values of the cash, term deposits and treasury bills, accounts receivable, unbilled revenue and accounts payable and accrued liabilities, accrued interest payable, due to related company and customer deposits approximate their carrying values due to the relatively short periods to maturity.

It is management's estimate that the carrying value of the mortgage payable and loan payable approximates its fair value based on the borrowing rates presently available to the Corporation for loans with similar terms and maturities.

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Notes to Financial Statements

Year ended December 31, 2004

14. Contingencies:

A class action lawsuit claiming \$500 million in restitutionary payments, plus interest, was served on Toronto Hydro Electric Commission, continuing as Toronto Hydro Corporation, on November 8, 1998. This action was initiated against 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 defense of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Corporation.

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.

15. Comparative figures:

Certain 2003 comparative figures have been reclassified to conform with the financial presentation adopted in 2004.