Financial Statements of

CHAPLEAU PUBLIC UTILITIES CORPORATION

Year ended December 31, 2005

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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, 2005 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, 2005 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

Sudbury, Canada
March 26, 2006

CHAPLEAU PUBLIC UTILITIES CORPORATION

Balance Sheet

December 31, 2005, with comparative figures for 2004

	2005	2004
Assets		
Current assets:		
Cash	$ 495,139	$ 215,244
Term deposits and treasury bills	527,563	574,796
Accounts receivable (note 2)	30,175	28,376
Payment in lieu of taxes	-	4,000
Prepaid expenses	9,200	10,462
Unbilled revenue - energy sales	449,301	436,609
Unbilled revenue - distribution	70,187	69,141
Plant materials and supplies - at cost	29,309	31,551
	1,610,874	1,370,179
Capital assets (note 3)	922,239	926,890
	$ 2,533,113	$ 2,297,069
Liabilities and Shareholder's Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	$ 542,374	$ 310,757
Accrued interest payable	203,905	185,368
Due to related company (note 5)	121,903	111,423
	868,182	607,548
Other liabilities:		
Customer deposits	27,259	35,469
Regulatory liabilities (note 6)	425,485	288,948
Loan payable (notes 7 and 15)	717,559	532,191
Mortgage payable (notes 8 and 15)	1,321,494	1,321,494
Shareholder's deficiency:		
Share capital (note 9)	100	100
Deficit	(826,966)	(488,681)
	(826,866)	(488,581)
Commitments (note 12)		
Contingencies (note 13)		
Subsequent event (note 15)		
	$ 2,533,113	$ 2,297,069

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, 2005, with comparative figures for 2004

	2005	2004
Revenue:		
Energy sales	$ 2,143,133	$ 2,020,259
Distribution	494,734	518,802
	2,637,867	2,539,061
Expenses:		
Power purchased	2,185,831	2,054,111
Operations and maintenance	291,278	309,103
Administration and general	181,879	158,975
Billing and collection	52,929	65,879
Depreciation	37,731	37,890
	2,749,648	2,625,958
Loss before the undernoted	(111,781)	(86,897)
Other income (expenses):		
Interest on loans and mortgage payable (note 11)	(203,905)	(185,368)
Other interest	(8,815)	(5,420)
Interest earned	19,207	10,297
Late payment charges	5,090	5,899
Miscellaneous	8,459	8,637
Chargebacks (note 11)	(46,540)	(43,807)
	(226,504)	(209,762)
Loss for the year (note 10)	(338,285)	(296,659)
Deficit, beginning of year	(488,681)	(192,022)
Deficit, end of year	$ (826,966)	$ (488,681)

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Cash Flows

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Cash flows from operating activities:		
Loss for the year	$ (338,285)	$ (296,659)
Adjustment for:		
Depreciation	37,731	37,890
	(300,554)	(258,769)
Change in non-cash working capital:		
Accounts receivable	(1,799)	15,869
Payment in lieu of taxes	4,000	12,400
Prepaid expenses	1,262	(10,462)
Unbilled revenue - energy sales	(12,692)	(28,419)
Unbilled revenue - distribution	(1,046)	(3,770)
Plant materials and supplies	2,242	(6,431)
Accounts payable and accrued liabilities	231,617	47,959
Accrued interest payable	18,537	32,197
Due to related company	10,480	35,114
Customer deposits	(8,210)	(10,350)
	(56,163)	(174,662)
Cash flows from financing activities:		
Loan payable	185,368	321,975
Cash flows from investing activities:		
Purchase of capital assets	(33,080)	(34,786)
Regulatory liabilities	136,537	167,701
	103,457	132,915
Net increase in cash	232,662	280,228
Cash and cash equivalents, beginning of year	790,040	509,812
Cash and cash equivalents, end of year	$ 1,022,702	$ 790,040
Cash and cash equivalents are represented by:		
Cash	$ 495,139	$ 215,244
Term deposits and treasury bills	527,563	574,796
	$ 1,022,702	$ 790,040
Supplemental cash flow information:		
Interest paid	$ 185,368	$ 321,975

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) 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 fulfills 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) ("Electricity Act") 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. Depreciation is provided annually, on a declining-balance basis, in accordance with the following rates:

Transmission and distribution systems	25 - 40 years

(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 Corporation 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.

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 obligation 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.

(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.

2. Accounts receivable:

		2005		2004
Electrical	$	36,175	$	41,876
Less allowance for doubtful accounts		6,000		13,500
	$	30,175	$	28,376

3. Capital assets:

	2005				2004			
		Cost		Accumulated depreciation		Cost		Accumulated depreciation
Land	$	140	$	-	$	140	$	-
Transmission and distribution system		2,151,507		1,229,408		2,118,427		1,191,677
		2,151,647		1,229,408		2,118,567		1,191,677
Less accumulated depreciation		1,229,408				1,191,677		
	$	922,239			$	926,890		

4. Accounts payable and accrued liabilities:

		2005		2004
Power purchased	$	303,889	$	257,007
Miscellaneous		238,485		53,750
	$	542,374	$	310,757

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.

6. Regulatory liabilities:

Net regulatory liabilities represent costs incurred by the Corporation less than amounts billed to the consumer at OEB approved rates less recoveries. These amounts have been accumulated pursuant to the Electricity Act and deferred in anticipation of their future recovery in electricity distribution rates. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

	2005	2004
Deferred transition costs (a)	$ 54,718	$ 54,718
Post market opening retail settlement variances (b)	(418,108)	(301,581)
Pre-market opening energy variances (c)	(42,085)	(42,085)
Deferred payments in lieu of taxes (d)	(20,010)	-
	$ (425,485)	$ (288,948)

(a) Deferred transition costs - represent specific and incremental costs to the Corporation for systems and process changes to support the opening of the competitive electricity market in Ontario on May 1, 2002 ("Market Opening"). These costs have been deferred pursuant to regulation underlying the EA and are subject to review and approval for recovery by the OEB. The Corporation filed for recovery of these costs in March 2005 and it is expected that these costs will be recovered over a three year period.

(b) Post-market opening retail settlement variances - represent amounts that have accumulated since Market Opening and comprise:

(i) variances between amounts charged by the Independent Electricity System Operator ("IESO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges and transmission charges, and the amounts billed to customers by the Corporation based on the OEB approved wholesale market service rate; and

(ii) variances between the amounts charged by the IESO for energy commodity costs and the amounts billed to customers by the Corporation based on OEB approved rates.

(c) Pre-market opening energy variances - represent the deficiency of the costs of the commodity electricity of the Corporation over the amount billed to its customers prior to Market Opening. The Corporation filed for recovery of these costs in March 2005 and it is expected that these costs will be recovered over a three year period.

6. Regulatory liabilities (continued):

(d) Deferred payments in lieu of taxes - represent variances that result from the difference between OEB approved PILs recoverable in electricity distribution service charges and the actual amount of these charges to customers that relates to the recovery of PILs.

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders, may affect the distribution rates that the Corporation may charge and the costs that the Corporation may recover, including the balance of its regulatory assets.

In the absence of rate regulation, Canadian generally accepted accounting principles would require the Corporation to record the costs and recoveries described above in the operating results of the year in which they are incurred and reported earnings before income taxes would be $20,010 (2004 - $Nil) higher than reported.

The Corporation filed for recovery of these costs in March 2004 over a four year period. The application was approved by the OEB effective March 2005.

7. Loan payable:

The loan is repayable to the Corporation of the Township of Chapleau (the "Township"). The loan bears interest at 10%, is unsecured and is not due within the next 12 months (see note 15).

8. Mortgage payable:

The mortgage is repayable to the Township. 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 (see note 15).

9. Share capital:

The authorized share capital of the Corporation is as follows:

	2005	2004
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 $884,500 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
2015	338,500

11. Related party transactions:

During the year, the Corporation was charged $203,905 (2004 - $185,368) of interest by the Township and billed the Township $272,606 (2004 - $242,796) for power purchased.

Also, the Corporation was charged $46,554 (2004 - $43,807) by Chapleau Energy Services Corporation, for the Corporation's portion of certain shared costs.

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, 2005, no amounts have been drawn on this financing arrangement.

13. Contingencies:

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. This action is at a preliminary stage. Pleadings have been closed but examinations for discovery have not been conducted and the classes have not been certified. The Electricity Distributors Association is undertaking the defense of this class action on behalf of the Defendant Class.

13. Contingencies (continued):

On April 22, 2004, in a decision in a class action commenced against The Consumers' Gas Company Limited (now Enbridge Gas Distribution Inc.), the Supreme Court of Canada ruled that Consumers' Gas was required to repay that portion of certain late payment charges collected from its customers that were in excess of the interest limit stipulated in section 347 of the Criminal Code. Although the claim related to charges collected by Consumers' Gas after the enactment of section 347 of the Criminal Code in 1981, the Supreme Court limited recovery to charges collected after the action was initiated in 1994.

The Corporation is not a party to the Consumers' Gas class action, however, it is anticipated that the above noted class action will now proceed for determination in light of the reasons of the Supreme Court in the Consumers' Gas class action.

The Defendant Class may have defences available to it in this action that were not disposed of by the Supreme Court in the Consumers' Gas class action. Also, the determination of whether the late payment charges collected by the Corporation from its customers were in excess of the interest limit stipulated in section 347 of the Criminal Code, is fact specific in each circumstance.

At this time, given the preliminary status of this action, it is not possible to quantify the effect, if any, on the financial statements of the Corporation. Consequently, no provision has been made in these financial statements with respect to any possible losses that may arise as a result of this matter.

14. Fair value of financial instruments:

The fair values of the Corporation's 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 of these items.

It is not practicable to determine the fair value of the loan payable and mortgage payable as there are no principal repayment terms.

15. Subsequent event:

On April 24, 2006 the Township passed a resolution agreeing to waive interest charges on the loans payable and mortgage payable advanced to the Corporation for fiscal 2006. As well, the Township agreed to convert the loans payable of $717,559 into equity of the Corporation.

16. Comparative figures:

Certain 2004 comparative figures have been reclassified to conform with the financial presentation adopted in 2005.