Financial Statements of

CHAPLEAU PUBLIC UTILITIES CORPORATION

Year ended December 31, 2013

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Chapleau Public Utilities Corporation

We have audited the accompanying financial statements of **Chapleau Public Utilities Corporation**, which comprise the balance sheet as at December 31, 2013 and the statements of income and comprehensive income and deficit and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of the Chapleau Public Utilities Corporation as at December 31, 2013, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 8, 2014
Sudbury, Canada

CHAPLEAU PUBLIC UTILITIES CORPORATION

Balance Sheet

December 31, 2013, with comparative information for 2012

		2013		2012
Assets				
Current assets:				
Cash	$	56,652	$	50,903
Short-term investments		249,240		249,230
Trade receivables (note 2)		67,386		81,366
Plant materials and supplies		53,669		55,429
Prepaid expenses		9,923		9,575
Unbilled revenue - energy sales		569,669		484,422
Unbilled revenue - distribution		56,302		44,572
Advances to related company (note 3)		54,954		2,391
		1,117,795		977,888
Property, plant and equipment (note 4)		2,650,263		2,562,037
Less accumulated amortization		1,550,797		1,478,772
		1,099,466		1,083,265
Regulatory assets (note 5)		229,386		325,861
	$	2,446,647	$	2,387,014
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities (note 6)	$	442,524	$	390,906
Other liabilities:				
Regulatory liabilities (note 5)		125,498		275,564
Customer deposits		27,904		26,754
		153,402		302,318
		595,926		693,224
Shareholder's equity:				
Share capital (note 8)		2,243,058		2,243,058
Deficit		(392,337)		(549,268)
		1,850,721		1,693,790
Contingency (note 11)				
Commitment (note 15)				
	$	2,446,647	$	2,387,014

See accompanying notes to financial statements.

On behalf of the Board:

____________________________ Director

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Income and Comprehensive Income and Deficit

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Revenue:		
Energy sales (note 13)	$ 2,835,527	$ 2,449,277
Distribution services	847,249	691,158
	3,682,776	3,140,435
Expenses:		
Power purchased (note 13)	2,835,527	2,449,277
Operations and maintenance	321,772	293,337
Administration and general	206,736	199,502
Billing and collection	115,086	185,653
Amortization of property, plant and equipment	72,025	113,903
	3,551,146	3,241,672
Income (loss) before the undernoted	131,630	(101,237)
Other income (expenses):		
Interest earned	8,952	14,509
Donations	(2,000)	(2,000)
Late payment charges	7,192	5,624
Miscellaneous	18,327	16,653
Other interest	(7,170)	(19,759)
	25,301	15,027
Net income (loss) and comprehensive income (loss)	156,931	(86,210)
Deficit, beginning of year	(549,268)	(463,058)
Deficit, end of year	$ (392,337)	$ (549,268)

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Cash Flows

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Net income (loss) and comprehensive income (loss)	$ 156,931	$ (86,210)
Item not involving cash:		
Amortization of property, plant and equipment	72,025	113,903
	228,956	27,693
Change in non-cash operating working capital:		
Decrease (increase) in trade receivables	13,980	(25,149)
Decrease (increase) in plant materials and supplies	1,760	(15,268)
Increase in prepaid expenses	(348)	(1,593)
Decrease (increase) in unbilled revenue - energy sales	(85,247)	25,242
Decrease (increase) in unbilled revenue - distribution	(11,730)	1,328
Increase in accounts payable and accrued liabilities	51,618	19,417
Increase in customer deposits	1,150	2,235
	200,139	33,905
Financing activities:		
Decrease in advances from related company	(51,388)	(29,571)
Investing activities:		
Increase short-term investments	(10)	(1,078)
Purchase of property, plant and equipment	(88,226)	(23,456)
Decrease (increase) in regulatory liabilities and assets	(54,766)	35,480
	(143,002)	10,946
Increase in cash position	5,749	15,280
Cash position, beginning of year	50,903	35,623
Cash position, end of year	$ 56,652	$ 50,903
Significant non-cash transactions:		
Approval for the recovery of smart meter capital costs (note 15)	$ -	$ 438,593

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:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") including accounting principles prescribed by the Ontario Energy Board (the "OEB") in the Accounting Procedures Handbook (the "AP Handbook") for Electric Distribution Utilities, and reflect the significant accounting policies as summarized below:

(a) Change in accounting policies:

Publicly accountable enterprises in Canada were required to adopt International Financial Reporting Standards ["IFRS"] in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2011. The Accounting Standards Board has granted a series of deferrals for IFRS adoption for entities subject to rate regulation. The Corporation elected to take the optional deferral of its adoption of IFRS; therefore, it continues to prepare its financial statements in accordance with Canadian GAAP accounting standards in Part V of the CPA Canada Handbook - Accounting.

(b) Regulation:

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfil obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles ("GAAP") for enterprises operating in a non-rate regulated environment.

1. Significant accounting policies (continued):

(b) Regulation (continued):

The following regulatory treatments have resulted in accounting treatments that differ from GAAP for enterprises operating in a non-regulated environment:

i) Regulatory assets and liabilities:

Regulatory assets represent costs that have been deferred because it is probable that they will be recovered from customers in future periods through the rate-making process. Regulatory liabilities represent future reduction in revenues or limitations of increase in revenues associated with amounts that are expected to refunded to customers through the rate-making process.

ii) Payment in lieu of corporate income taxes and capital taxes:

The current tax-exempt status of the Corporation under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Corporation is wholly owned by municipalities. This tax-exempt status might be lost in a number of circumstances, including if the municipality ceases to own 90% or more of the shares or capital of the Corporation, or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Corporation.

Commencing October 1, 2001, the Corporation is required, under the Electricity Act 1998, to make payments-in-lieu of corporate income taxes ("PILs") to Ontario Electricity Financial Corporation, which will be used to repay the stranded debt incurred by the former Ontario Hydro. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act 1998 and related regulations.

As a result of becoming subject to PILs, the Corporation's taxation year was deemed to have ended immediately beforehand and a new taxation year was deemed to have commenced immediately thereafter. The Corporation was therefore deemed to have disposed of each of its assets at their then fair market value and to have reacquired such assets at that same amount for purposes of computing its future income subject to PILs. For purposes of certain provisions, the Corporation was deemed to have a new company and, as a result, tax credits or tax losses not previously utilized by the Corporation would not be available to it after the change in tax status. Essentially, the Corporation was taxed as though it had a "fresh start" at the time of its change in tax status.

1. Significant accounting policies (continued):

(c) 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 unbilled revenue is estimated and recorded in the accounts at the end of each fiscal year. The related cost of energy is recorded on the basis of energy used.

(d) Plant materials and supplies:

Inventories consist of parts, supplies and materials held for future capital expansion. Inventories are valued at the lower of cost and net realizable value, and items considered major spare parts are recorded as capital assets. Inventory write-downs are reversed if the circumstances resulting in the original write-down have reversed.

(e) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Amortization is charged to operations using the following methods and annual rates:

Asset	Basis	2013 Rate	2012 Rate
Computer equipment and software	Declining-balance	55%	55%
Meters	Declining-balance	5 - 6.67%	10%
Transmission and distribution systems	Declining-balance	2%	4%

Amortization is taken at 50% of the above rate in the year of acquisition.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

1. Significant accounting policies (continued):

(f) Asset retirement obligations:

The Corporation recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Corporation concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is amortized over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit adjusted risk free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long lived asset that is amortized over the remaining life of the asset.

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 Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

(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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates including changes as a result of future decisions made by the OEB, Minister of Energy or the Minister of Finance.

(h) Customer deposits:

Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as customer deposits which are held in trust by the Corporation.

1. Significant accounting policies (continued):

(i) Pension plan:

The Corporation provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan, which operates as the Ontario Municipal Employees Retirement Fund (the "Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Corporation recognizes the expense related to this plan as contributions are made.

(j) Financial instruments - recognition and measurement - Section 3855:

This Section establishes the standards for the recognition and measurement of financial assets and financial liabilities. At inception, all financial instruments which meet the definition of a financial asset or financial liability are to be recorded at fair value, unless fair value cannot be reliably determined. Depending on the nature of the financial instrument, revenues, expenses, gains and losses would be reported in either net income or other comprehensive income. Subsequent measurement of each financial instrument will depend on the balance sheet classification elected by the Corporation. The Corporation has elected the following balance sheet classifications with respect to its financial assets and financial liabilities:

- Cash is classified as "Assets Held-for-Trading" and is measured at fair value.
- Investments are classified as "Held-to-Maturity Investments" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value.
- Accounts receivable are classified as "Loans and Receivables" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities and the long-term debt are classified as "Other Financial Liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

1. **Significant accounting policies (continued):**

(k) Comprehensive income:

Section 1530 describes the recognition and disclosure requirements with respect to comprehensive income. Comprehensive income consists of net income and other comprehensive income. Other comprehensive income represents the changes in the fair value of a financial instrument which have not been included in net income.

The Corporation had no adjustments to other comprehensive income during the year ending December 31, 2013.

(j) Change in estimates:

Effective January 1, 2013, the Corporation revised its estimates of useful lives of certain items of property, plant and equipment and as a result changed its amortization rates. A comparative table of amortization rates is provided in Note 1(e). The impact of the change in 2013 was a reduction of amortization expense of approximately $24,413. Further, in accordance with OEB accounting requirements, an offsetting reduction of $24,413 has been recorded against distribution revenue and an increase to regulatory liabilities. As a result, the impact on net income before PILs is nil.

2. **Trade receivables:**

	2013	2012
Electrical	$ 84,036	$ 95,119
Provision for doubtful accounts	(16,650)	(13,753)
	$ 67,386	$ 81,366

3. Advances from related company:

The amounts advanced from related company are non-interest bearing, unsecured and will be paid within the next twelve months. The Corporation is related by virtue of common ownership.

4. Property, plant and equipment:

			2013	2012
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 141	$ -	$ 141	$ 141
Computer equipment and software	109,323	61,402	47,921	42,047
Meters	411,207	19,593	391,614	391,245
Transmission and distribution systems	2,129,592	1,469,802	659,790	649,832
	$ 2,650,263	$ 1,550,797	$ 1,099,466	$ 1,083,265

5. Regulatory assets and liabilities:

		2013		2012
(i) Regulatory assets consist of the following:				
Long-term portion of regulatory assets:				
Smart meter funding and cost recovery	$	39,419	$	52,585
Retail settlement variance - power charges		-		229,444
Recovery of regulatory asset balance - principal		30,747		-
Retail settlement variance - connection charges		1,079		2,324
Retail settlement variance - network charges		10,681		3,953
IFRS transition and carrying costs		5,904		4,697
Retail settlement variance - retail services		2,560		1,759
Recovery of regulatory asset balance - global adjustment		111,813		862
Ontario clean energy		12,663		24,149
Retail settlement variance - low voltage charges		7,220		-
HST / OVAT		5,386		6,088
SME variance		1,914		-
Total regulatory assets	$	229,386	$	325,861
(ii) Regulatory liabilities consist of the following:				
Current portion of regulatory liabilities:				
Long-term portion of regulatory liabilities:				
Retail settlement variance - wholesale market charge		63,889		56,275
Recovery of regulatory liability balance - interest		13,663		37,640
Retail settlement variance - low voltage charges		-		31,254
Recovery of regulatory liability balance - principal		24,412		150,395
Retail settlement variance - power charges		14,832		-
Lost revenue adjustment mechanism		8,702		-
		125,498		275,564
Total regulatory liabilities	$	125,498	$	275,564

6. Accounts payable and accrued liabilities:

		2013		2012
Independent Electricity System Operator	$	361,921	$	284,602
Miscellaneous		80,603		106,304
	$	442,524	$	390,906

7. Bank borrowing facilities:

The Corporation has a line of credit in the amount of $200,000 available, bearing interest at prime plus 1%. At December 31, 2013, no amount has been drawn on this line of credit (2012 - $Nil).

8. Share capital:

	2013	2012
Authorized:		
Unlimited class B special shares		
Unlimited common shares		
Issued:		
1,121,529 class B special shares	$ 1,121,529	$ 1,121,529
1,121,529 common shares	1,121,529	1,121,529
	$ 2,243,058	$ 2,243,058

9. Payment in lieu of taxes:

For payment in lieu of tax purposes, the Corporation has losses of $189,214 (2012 - $418,138) carried forward which can be applied to reduce future years' taxable income. The benefit of these loss carryforwards have not been reflected in the financial statements These losses will expire as follows:

2015	$ 174,811
2032	14,403

10. Related party transactions:

The Corporation is related to the Township by virtue of the fact that the Township is the sole shareholder of the Corporation. The Corporation is related to Chapleau Energy Services Corporation by virtue of common ownership.

During the year, the Corporation billed the Township $386,883 (2012 - $356,183) for power purchased.

Also, the Corporation was charged $435,832 (2012 - $416,343) by Chapleau Energy Services Corporation, for the Corporation's portion of certain shared costs.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration agreed to by the related parties.

11. Contingency:

Purchasers of electricity in Ontario are required to provide security to the IESO to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by default notice issued by the IESO. At December 31, 2013, no amounts have been drawn on this letter of credit in the amount of $209,813.

12. Credit risk and financial instruments:

(a) Fair value of financial assets and financial liabilities

The carrying value of cash, short-term investments, trade receivables, unbilled revenue, accounts payable and accrued liabilities, advances from related company and customer deposits approximate their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

(b) Credit risk

For distribution retail customers, credit losses are generally low across the sector. The Corporation provides for an allowance for doubtful accounts to absorb credit losses.

At December 31, 2013, there are no significant concentrations of credit risk with respect to any class of financial assets.

(c) Interest rate risk

Cash balances not required to meet day-to-day obligations of the Corporation are invested in Canadian money market instruments, with terms not more than one year or 365 days, exposing the Corporation to fluctuations in short-term interest rates. These fluctuations could affect the level of interest income earned by the Corporation.

13. Electric energy services:

	2013	2012
Revenue:		
Electricity	$ 2,452,747	$ 2,103,735
Transmission services	382,780	345,542
	$ 2,835,527	$ 2,449,277
Costs:		
Electricity	$ 2,452,747	$ 2,103,735
Transmission services	382,780	345,542
	$ 2,835,527	$ 2,449,277

14. General liability insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"), which is a pooling of general liability insurance risks. Members of MEARIE would be assessed on a pro-rata basis should losses be experienced by MEARIE, for the years in which the Corporation was a member. To December 31, 2013, the Corporation has not been made aware of any additional assessments.

15. Commitment:

In support of the Province of Ontario's decision to install smart meters throughout Ontario by 2010 and pursuant to Ontario Regulation 427/06, the Corporation launched its smart meter initiative in 2009. The Corporation has committed to install 1,253 smart meters and supporting infrastructure by the end of 2010. 1,253 Smart meters or 100% deployment was completed in 2012.

The OEB adopted the policy that specific funding for the capital cost of smart meters should be included in distribution rates by all Ontario electric distribution companies. The Board decided that "seed" funding equivalent to $0.27 per customer per month be included in the Corporation's distribution rates commencing May 1, 2006. This funding was increased to $1.00 per customer per month effective May 1, 2009 pursuant to OEB Decision and Order of March 10, 2009. Revenue has been reduced by the amount funded in rates, and have been deferred and netted against smart metering capital costs incurred in accordance with the AP Handbook. Unfunded costs including financing expense, are expected to be recovered through future distribution rates once the project is completed, pursuant to the Ontario Energy Board's guidelines.

In 2012, following completion of the Smart Meter Initiative, the Corporation applied to the OEB for smart meter cost recovery (EB-2011-0322). The OEB's decision allowed the Corporation to transfer $438,593 million of smart meter assets to its Balance Sheet and to implement rate riders effective December 1, 2012 and April 30, 2016 to recover the costs associated with the smart meters and supporting infrastructure.

16. Corporate income and capital taxes:

	2013	2012
Rate reconciliation:		
Income (loss) from continuing operations before income taxes	$ 156,931	$ (86,210)
Statutory Canadian Federal and Provincial income tax rate	26.5%	26.25%
Expected taxes on income	41,587	(22,630)
Increase (decrease) in income taxes resulting from:		
Loss carry forwards	(41,587)	22,630
Effective tax rate	0%	0%

17. Emerging accounting changes:

International Financial Reporting Standards ["IFRS"]:

On February 13, 2008, the Accounting Standards Board of Canada ["AcSB"] announced that publicly accountable enterprises will be required to change over to IFRS effective January 1, 2011.

The International Accounting Standards Board ("IASB") has approved IFRS 14 Regulatory Deferral Accounts in January 2014. This standard provides specific guidance on accounting for the effects of rate regulation and permits first-time adopters of IFRS to continue using previous GAAP to account for regulatory deferral account balances while the IASB completes its comprehensive project in this area. Adoption of this standard is optional for entities eligible to use it. Deferral account balances and movements in the balances will be required to be presented as separate line items on the face of the financial statements distinguished from assets, liabilities, income and expenses that are recognized in accordance with other IFRSs. Extensive disclosures will be required to enable users of the financial statements to understand the features and nature of and risks associated with rate regulation and the effect of rate regulation on the entity's financial position, performance and cash flows.

In February 2013, the AcSB extended the deferral of mandatory transition to IFRS to rate-regulated entities to January 1, 2015. This is the fourth such deferral granted by the AcSB.

Some of the converged standards will be implemented in Canada during the transition period with the remaining standards adopted at the change over date. The Corporation has launched an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its financial statements.