Financial Statements of

CHAPLEAU PUBLIC UTILITIES CORPORATION

Year ended December 31, 2014

KPMG LLP
Claridge Executive Centre
144 Pine Street
Sudbury, Ontario P3C 1X3
Canada

Telephone (705) 675-8500
Fax (705) 675-7586
Internet www.kpmg.ca

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, 2014 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, 2014, 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

March 31, 2015
Sudbury, Canada

CHAPLEAU PUBLIC UTILITIES CORPORATION
Balance Sheet

December 31, 2014, with comparative information for 2013

		2014		2013
Assets				
Current assets:				
Cash	$	91,805	$	56,652
Short-term investments		254,819		249,240
Trade receivables (note 3)		347,538		67,386
Plant materials and supplies		51,704		53,669
Prepaid expenses		6,554		9,923
Unbilled revenue - energy sales		411,121		569,669
Unbilled revenue - distribution		51,873		56,302
Advances to related company (note 4)		146,914		54,954
		1,362,328		1,117,795
Property, plant and equipment (note 5)		2,694,186		2,650,263
Less accumulated amortization		1,623,263		1,550,797
		1,070,923		1,099,466
Regulatory assets (note 6)		848,205		743,753
	$	3,281,456	$	2,961,014
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities (note 7)	$	439,054	$	442,524
Other liabilities:				
Regulatory liabilities (note 6)		814,562		639,865
Customer deposits		28,634		27,904
		843,196		667,769
		1,282,250		1,110,293
Shareholder's equity:				
Share capital (note 9)		2,243,058		2,243,058
Deficit		(243,852)		(392,337)
		1,999,206		1,850,721
Contingency (note 12)				
	$	3,281,456	$	2,961,014

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, 2014, with comparative information for 2013

	2014	2013
Revenue:		
Energy sales (note 14)	$ 3,507,606	$ 2,835,527
Distribution services	928,309	847,249
	4,435,915	3,682,776
Expenses:		
Power purchased (note 14)	3,507,606	2,835,527
Operations and maintenance	322,041	321,772
Administration and general	292,074	206,736
Billing and collection	135,609	115,086
Amortization of property, plant and equipment	72,466	72,025
	4,329,796	3,551,146
Income before the undernoted	106,119	131,630
Other income (expenses):		
Interest earned	14,074	8,952
Late payment charges	7,546	7,192
Miscellaneous	28,783	18,327
Donations	(2,000)	(2,000)
Other interest	(6,037)	(7,170)
	42,366	25,301
Net income and comprehensive income	148,485	156,931
Deficit, beginning of year	(392,337)	(549,268)
Deficit, end of year	$ (243,852)	$ (392,337)

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION
Statement of Cash Flows

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Net income and comprehensive income	$ 148,485	$ 156,931
Item not involving cash:		
Amortization of property, plant and equipment	72,466	72,025
	220,951	228,956
Change in non-cash operating working capital:		
Decrease (increase) in trade receivables	(280,152)	13,980
Decrease in plant materials and supplies	1,965	1,760
Decrease (increase) in prepaid expenses	3,369	(348)
Decrease (increase) in unbilled revenue - energy sales	158,548	(85,247)
Decrease (increase) in unbilled revenue - distribution	4,429	(11,730)
Increase (decrease) in accounts payable and accrued liabilities	(3,470)	51,618
Increase in customer deposits	730	1,150
	106,370	200,139
Financing activities:		
Decrease in advances from related company	(91,960)	(51,388)
Investing activities:		
Increase short-term investments	(5,579)	(10)
Purchase of property, plant and equipment	(43,923)	(88,226)
Decrease (increase) in regulatory liabilities and assets	70,245	(54,766)
	20,743	(143,002)
Increase in cash position	35,153	5,749
Cash position, beginning of year	56,652	50,903
Cash position, end of year	$ 91,805	$ 56,652

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) Regulation:

Chapleau Public Utilities Corporation is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. 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.

The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would apply to enterprises operating in a non-regulated environment. Specifically, the following accounting treatments have been applied:

(i) Costs incurred with respect to deregulation of the electricity industry in Ontario, have been deferred pursuant to regulations underlying the Electricity Act, 1998, ("EA") and are subject to review and approval for recovery by the OEB.

(ii) An amount to represent the cost of funds used during construction and development has been added to the carrying value of assets under construction based on the value of construction-in-progress for those projects with a construction life greater than one year.

(iii) The Corporation has deferred the recognition of certain pre-market opening cost of power variances and post-market opening retail settlement variances in accordance with Article 490 of the OEB's AP Handbook.

(b) Revenue recognition:

Revenue is recognized on the accrual basis, which includes an estimate of unbilled revenue, representing customer usage from the date of each customer's last meter reading until the end of the fiscal year. Actual results could differ from estimates made of actual electricity usage.

Billed and unbilled revenues presented on the balance sheet include distribution revenue as well as power charges billed and collected on behalf of the Independent Electricity System Operator ("IESO").

1. Significant accounting policies (continued):

(b) Revenue recognition (continued):

The Corporation presents distribution revenue earned on a gross basis but presents amounts billed in respect of power, connection, transmission and wholesale market service charges on a net basis.

Services and other revenue are recognized as services are rendered.

(c) 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.

(d) 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	2014 Rate	2013 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):

(e) 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.

(f) 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.

(g) 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):

(h) 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.

(i) 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.

(j) 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, 2014

1. Significant accounting policies (continued):

(k) Regulatory assets and liabilities:

Regulatory assets and liabilities are comprised principally of the following:

(i) Retail settlement variances - represent accumulated variances that have occurred since January 1, 2012 and that have accumulated pursuant to direction from the OEB. Specifically, these amounts include:

- variances between the amount charged by the IESO and Hydro One Network Inc. for the operation of the markets and grid, as well as various wholesale market settlement charges, transmission charges as compared to the amount billed to consumers based on the OEB approved wholesale market services rate; and
- variances between the amounts charged by the IESO to allow for purchases of imported power as compared to the amounts billed to consumers based on the OEB approved rates.

(ii) Regulatory asset and liability recoveries - represent accumulated recoveries of regulatory assets through increased rates until April 30, 2015.

Regulatory assets incur interest at a rate of 1.47% (2013 - 1.47%) per annum, calculated using the simple interest method.

(l) 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 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 period.

Trade accounts receivable, unbilled revenue – energy sales and unbilled revenue - distribution are stated after evaluation of amounts expected to be collected or recovered and an appropriate allowance for doubtful accounts.

Due to inherent uncertainty involved in making estimates, actual results could differ from those estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the OEB and Minister of Energy. Any adjustments to the estimates made will be recorded in the year they are identified.

1. Significant accounting policies (continued):

(m) Payments in lieu of corporate income taxes ("PILs"):

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

Pursuant to the Electricity Act ("EA"), 1998, the Corporation is required to compute payments in lieu of taxes under the ITA and OCTA and remit such amounts there under to the Ontario Electricity Financial Corporation ("OEFC"). These amounts, referred to as PILs under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC.

The Corporation applies the asset and liability method of accounting for payments in lieu of income taxes. Under the asset and liability method, future tax assets and liabilities are recognized, to the extent such are determined likely to be realized, for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Future income taxes recoverable have been recorded in the accounts and a corresponding regulatory liability has been set up as future income taxes are recovered through future rate increases/decreases.

2. Transition to International Financial Reporting Standards:

(a) 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. On September 10, 2010, the Accounting Standards Board granted an optional one-year deferral for IFRS adoption for entities subject to rate regulation.

In February 2013, the Accounting Standards Board (AcSB) decided to extend the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities by an additional year to January 1, 2015. The Company elected to take the deferral of its adoption of IFRS; therefore, it continues to prepare its financial statements in accordance with Part V of the CPA Canada Handbook – Accounting.

(b) The International Accounting Standards Board ("IASB") issued 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.

3. Trade receivables:

	2014	2013
Electrical	$ 389,679	$ 84,036
Provision for doubtful accounts	(42,141)	(16,650)
	$ 347,538	$ 67,386

4. 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.

5. Property, plant and equipment:

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 141	$ -	$ 141	$ 141
Computer equipment and software	134,323	94,634	39,689	47,921
Meters	411,207	20,084	391,123	391,614
Transmission and distribution systems	2,148,515	1,508,545	639,970	659,790
	$ 2,694,186	$ 1,623,263	$ 1,070,923	$ 1,099,466

6. Regulatory assets and liabilities:

		2014		2013
(i) Regulatory assets consist of the following:				
Long-term portion of regulatory assets:				
Smart meter funding and cost recovery	$	24,533	$	39,419
Recovery of regulatory asset balance - principal		594,870		528,961
Recovery of regulatory asset balance - interest		17,183		16,151
Retail settlement variance - connection charges		-		1,079
Retail settlement variance - network charges		-		10,681
IFRS transition and carrying costs		5,987		5,904
Retail settlement variance - retail services		3,845		2,560
Recovery of regulatory asset balance - global adjustment		125,652		111,815
Ontario clean energy		30,275		12,663
Retail settlement variance - low voltage charges		39,576		7,220
HST / OVAT		4,684		5,386
SME variance		1,600		1,914
Total regulatory assets	$	848,205	$	743,753
(ii) Regulatory liabilities consist of the following:				
Current portion of regulatory liabilities:				
Long-term portion of regulatory liabilities:				
Retail settlement variance - wholesale market charge		28,302		63,889
Retail settlement variance - connection charges		1,765		-
Retail settlement variance - network charges		2,268		-
Recovery of regulatory liability balance - principal		542,958		497,210
Recovery of regulatory liability balance - interest		22,978		30,819
Retail settlement variance - power charges		162,082		14,832
Lost revenue adjustment mechanism		9,754		8,702
Accounting changes under CGAAP		44,455		24,413
		814,562		639,865
Total regulatory liabilities	$	814,562	$	639,865

7. Accounts payable and accrued liabilities:

		2014		2013
Independent Electricity System Operator	$	372,630	$	361,921
Miscellaneous		66,424		80,603
	$	439,054	$	442,524

8. 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, 2014, no amount has been drawn on this line of credit (2013 - $Nil).

9. Share capital:

	2014	2013
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

10. Payment in lieu of taxes:

For payment in lieu of tax purposes, the Corporation has losses of $40,729 (2013 - $189,214) 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	$ 26,326
2032	14,403

11. 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 $476,044 (2013 - $386,883) for power purchased.

Also, the Corporation was charged $436,750 (2013 - $435,832) 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.

12. 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, 2014, no amounts have been drawn on this letter of credit in the amount of $209,813.

13. 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, 2014, 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.

14. Electric energy services:

	2014	2013
Revenue:		
Electricity	$ 3,010,124	$ 2,452,747
Transmission services	497,482	382,780
	$ 3,507,606	$ 2,835,527
Costs:		
Electricity	$ 3,010,124	$ 2,452,747
Transmission services	497,482	382,780
	$ 3,507,606	$ 2,835,527

15. 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, 2014, the Corporation has not been made aware of any additional assessments.

16. Corporate income and capital taxes:

	2014	2013
Rate reconciliation:		
Income from continuing operations before income taxes	$ 145,485	$ 156,931
Statutory Canadian federal and provincial income tax rate	26.5%	26.5%
Expected taxes on income	38,553	41,587
Increase (decrease) in income taxes resulting from:		
Loss carryforwards	(38,553)	(41,587)
Effective tax rate	0%	0%