

Financial Statements of

**CHAPLEAU ENERGY SERVICES  
CORPORATION**

Year ended December 31, 2016



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## INDEPENDENT AUDITORS' REPORT

To the Shareholder of Chapleau Energy Services Corporation

We have audited the accompanying financial statements of Chapleau Energy Services Corporation which comprise the statement of financial position as at December 31, 2016, the statements of loss and comprehensive loss, changes in equity and cash flows for the year 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the 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 Chapleau Energy Services Corporation as at December 31, 2016, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

April 20, 2017  
Sudbury, Canada

# CHAPLEAU ENERGY SERVICES CORPORATION

## Statement of Financial Position

As at December 31, 2016, with comparative information 2015

	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 181,540	41,463
Accounts receivable	30,160	28,069
Short-term investments	296,507	506,832
Inventory (note 5)	38,498	34,832
Prepaid expenses	834	8,784
Accrued interest receivable	4,551	944
	<u>552,090</u>	<u>620,924</u>
Property, plant and equipment (note 6)	119,292	132,532
	<u>\$ 671,382</u>	<u>753,456</u>
<b>Liabilities and Shareholder's Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 48,090	37,730
Advances from related parties (note 12)	126,151	144,127
	<u>174,241</u>	<u>181,857</u>
Shareholder's equity:		
Share capital (note 8)	641,826	641,826
Deficit	(144,685)	(70,227)
Total shareholder's equity	<u>497,141</u>	<u>571,599</u>
Commitments and contingences (note 9)		
	<u>\$ 671,382</u>	<u>753,456</u>

See accompanying notes to financial statements.

Approved by the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# CHAPLEAU ENERGY SERVICES CORPORATION

## Statement of Loss and Comprehensive Loss

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Revenue	\$ 78,246	68,069
Expenses:		
Operations and maintenance	81,726	67,188
Salaries and benefits	32,247	29,829
Amortization of property, plant and equipment	17,616	18,282
Recovery of costs	(14,660)	(10,301)
	116,929	104,998
Loss from operating activities	(38,683)	(36,929)
Other income:		
Finance income	17,733	11,940
Unrealized gain (loss) on investments	(53,508)	7,463
Net finance costs	(35,775)	19,403
Loss and comprehensive loss for the year	\$ (74,458)	(17,526)

See accompanying notes to financial statements.

# CHAPLEAU ENERGY SERVICES CORPORATION

## Statement of Changes in Equity

Year ended December 31, 2016, with comparative information for 2015

		Share Capital	Deficit	Total
Balance, January 1, 2015	\$	641,826	(52,701)	589,125
Loss and comprehensive loss		-	(17,526)	(17,526)
Balance, December 31, 2015		641,826	(70,227)	571,599
Loss and comprehensive loss		-	(74,458)	(74,458)
Balance, December 31, 2016	\$	641,826	(144,685)	497,141

See accompanying notes to financial statements.

# CHAPLEAU ENERGY SERVICES CORPORATION

## Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash flows from operating activities:		
Net loss and comprehensive loss	\$ (74,458)	(17,526)
Item not involving cash:		
Amortization of property, plant and equipment	17,616	18,282
	(56,842)	756
Changes in non-cash working capital:		
Increase in accounts receivable	(2,091)	(25,433)
Increase in inventory	(3,666)	(456)
Decrease (increase) in prepaid expenses	7,950	(1,173)
Decrease (increase) in accrued interest receivable	(3,607)	2,207
Increase in accounts payable and accrued liabilities	10,360	1,942
Net cash from operating activities	(47,896)	(22,157)
Cash flows from financing activities:		
Decrease in advances from related parties	(17,976)	(65,767)
Net cash from financing activities	(17,976)	(65,767)
Cash flows from investing activities:		
Decrease (increase) in short-term investments	210,325	(21,609)
Purchase of property, plant and equipment	(4,376)	(40,690)
Net cash from investing activities	205,949	(62,299)
Increase (decrease) in cash	140,077	(150,223)
Cash and cash equivalents, beginning of year	41,463	191,686
Cash and cash equivalents, end of year	\$ 181,540	41,463

See accompanying notes to financial statements.

# CHAPLEAU ENERGY SERVICES CORPORATION

Notes to Financial Statements

Year ended December 31, 2016

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## 1. Reporting entity:

Chapleau Energy Services Corporation (the "Corporation") was incorporated on December 19, 2001 and its primary purpose is to facilitate the provision of non-distribution related services to the residents of Chapleau. The Corporation is located in the Township of Chapleau. The address of the Corporation's registered office is 110 Lorne Street, Chapleau, Ontario.

## 2. Basis of presentation:

### (a) Statement of compliance:

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors on April 20, 2017.

### (b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for the following:

- (i) Where held, financial instruments at fair value through profit or loss, including those held for trading, are measured at fair value.
- (ii) Contributed assets are initially measured at fair value.

The methods used to measure fair values are discussed further in note 13.

### (c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

### (d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.



# CHAPLEAU ENERGY SERVICES CORPORATION

Notes to Financial Statements

Year ended December 31, 2016

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## 2. Basis of presentation (continued):

### (d) Use of estimates and judgments (continued):

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

- (i) Note 6 - Property, plant and equipment
- (ii) Note 9 – Commitments and contingencies

## 3. Significant accounting policies:

The accounting policies set out below have been applied consistently in all years presented in these financial statements.

### (a) Financial instruments:

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(f). The Corporation does not enter into derivative instruments.

Hedge accounting has not been used in the preparation of these financial statements.

Cash equivalents include short-term investments with maturities of three months or less when purchased.

### (b) Revenue recognition:

The Corporation recognizes revenue from rendering services in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on the work performed as of the year end date.

### (c) Dividends:

Dividends are recognized as revenue when the Corporation has a right to receive the dividend. Dividends are included within investment income on the statement of comprehensive loss.

### (d) Inventory:

Inventory, comprising material and supplies, the majority of which is consumed by the Corporation in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on an average cost basis, and includes expenditures incurred in acquiring the material and supplies and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

# CHAPLEAU ENERGY SERVICES CORPORATION

Notes to Financial Statements

Year ended December 31, 2016

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### 3. Significant accounting policies (continued):

(e) Property, plant and equipment:

Items of property, plant and equipment are measured at cost.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the weighted average cost of debt incurred on the Corporation's borrowings. Qualifying assets are considered to be those that take in excess of six months to construct.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on the disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal, if any, with the carrying amount of the item of property, plant and equipment and are recognized net within other income in profit or loss.

Major spare parts and standby equipment are recognized as items of property, plant and equipment.

The cost of replacing a part of an item of property, plant and equipment is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. In this event, the replaced part of property, plant and equipment is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation is calculated over the depreciable amount and is recognized in profit or loss on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment. The depreciable amount is cost. Land is not depreciated.

The estimated useful lives are as follows:

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Building	25 years
Office equipment	5 years
Equipment	5 years
Vehicles	5 years

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Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate.

# CHAPLEAU ENERGY SERVICES CORPORATION

Notes to Financial Statements

Year ended December 31, 2016

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### 3. Significant accounting policies (continued):

(f) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its current carrying amount (using prevailing interest rates), and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

# CHAPLEAU ENERGY SERVICES CORPORATION

Notes to Financial Statements

Year ended December 31, 2016

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### 3. Significant accounting policies (continued):

(g) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(h) Employee future benefits:

Pension plan:

The Corporation provides a pension plan for all its full-time employees through 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 and public utilities. 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. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss when they are due.

(i) Finance income:

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest and dividends earned on cash and short-term investments.

(j) Income taxes:

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

# CHAPLEAU ENERGY SERVICES CORPORATION

Notes to Financial Statements

Year ended December 31, 2016

### 3. Significant accounting policies (continued):

(j) Income taxes (continued):

Deferred tax is recognized using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

### 4. Cash and cash equivalents:

Cash and cash equivalents consist of overnight deposits at a Canadian chartered bank.

### 5. Inventory:

The amount of inventories consumed by the Corporation and recognized as an expense during 2016 was \$3,667 (2015 - \$456).

### 6. Property, plant and equipment:

(a) Cost:

	Land	Building	Equipment	Office Equipment	Vehicles	Total
Balance at January 1, 2016	\$ 30,000	\$ 127,750	\$ 31,964	\$ 26,203	\$ 325,891	\$ 541,808
Additions	-	2,295	2,081	-	-	4,376
Balance at December 31, 2016	\$ 30,000	\$ 130,045	\$ 34,045	\$ 26,203	\$ 325,891	\$ 546,184

	Land	Building	Equipment	Office Equipment	Vehicles	Total
Balance at January 1, 2015	\$ 30,000	\$ 126,834	\$ 31,964	\$ 26,203	\$ 286,117	\$ 501,118
Additions	-	916	-	-	39,774	40,690
Balance at December 31, 2015	\$ 30,000	\$ 127,750	\$ 31,964	\$ 26,203	\$ 325,891	\$ 541,808

# CHAPLEAU ENERGY SERVICES CORPORATION

Notes to Financial Statements

Year ended December 31, 2016

## 6. Property, plant and equipment (continued):

### (b) Accumulated depreciation:

	Land	Building	Equipment	Office Equipment	Vehicles	Total
Balance at January 1, 2016	\$ –	\$ 68,741	\$ 31,784	\$ 25,098	\$ 283,653	\$ 409,276
Depreciation charge	–	5,110	72	848	11,586	17,616
Balance at December 31, 2016	\$ –	\$ 73,851	\$ 31,856	\$ 25,946	\$ 295,239	\$ 426,892

	Land	Building	Equipment	Office Equipment	Vehicles	Total
Balance at January 1, 2015	\$ –	\$ 63,650	\$ 31,712	\$ 23,566	\$ 272,066	\$ 390,994
Depreciation charge	–	5,091	72	1,532	11,587	18,282
Balance at December 31, 2015	\$ –	\$ 68,741	\$ 31,784	\$ 25,098	\$ 283,653	\$ 409,276

### (c) Carrying amounts:

	Land	Building	Equipment	Office Equipment	Vehicles	Total
At December 31, 2016	\$ 30,000	\$ 56,194	\$ 2,189	\$ 257	\$ 30,652	\$ 119,292
At December 31, 2015	30,000	59,009	180	1,105	42,238	132,532

# CHAPLEAU ENERGY SERVICES CORPORATION

Notes to Financial Statements

Year ended December 31, 2016

## 7. Income tax expense:

Reconciliation of effective tax rate:

	2016	2015
Loss for the period	\$ (74,458)	\$ (17,526)
Income tax using the Corporation's statutory tax rate	(19,731)	(4,644)
Change in valuation allowance	19,731	4,644
	\$ -	\$ -

The Corporation has non-capital losses of \$52,855 (2015 - \$41,973) which can be applied to reduce future years taxable income. The benefit of these losses have not been reflected in these financial statements.

## 8. Share capital:

	2016	2015
Authorized:		
Unlimited number of common shares		
Unlimited number of Class B shares		
Issued:		
320,913 common shares	\$ 320,913	\$ 320,913
320,913 Class B special shares	320,913	320,913
	\$ 641,826	\$ 641,826

# CHAPLEAU ENERGY SERVICES CORPORATION

Notes to Financial Statements

Year ended December 31, 2016

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## 9. Commitments and contingencies:

### General

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

## 10. Pension agreement:

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2016, the Corporation made employer contributions of \$6,067 to OMERS (2015 - \$6,404).

The Corporation estimates that total contributions of \$34,600 to OMERS during the next fiscal year, for both the Corporation and Chapleau Public Utilities Corporation.

## 11. Employee benefits:

	2016	2015
Salaries, wages and benefits	\$ 22,618	\$ 41,086
CPP and EI remittances	3,562	3,540
Contributions to OMERS	6,067	6,404
	<u>\$ 32,247</u>	<u>\$ 51,030</u>



# CHAPLEAU ENERGY SERVICES CORPORATION

Notes to Financial Statements

Year ended December 31, 2016

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## 12. Related party transactions:

(a) Parent and ultimate controlling party:

The sole shareholder of the Corporation is the Corporation of the Township of Chapleau. Chapleau Energy Services Corporation is a wholly-owned subsidiary of the Township of Chapleau. The Township produces financial statements that are available for public use.

The Corporation provides services associated with street light maintenance and other services. Revenue from these services totalled 2016 - \$20,140 (2015 - \$17,961).

(b) Entity with common ownership:

The Corporation is related to Chapleau Public Utilities Corporation by virtue of common ownership.

(c) Key management personnel:

The key management personnel of the Corporation have been defined as members of its board of directors and executive management team members, and is summarized below.

	2016	2015
Directors' fees	\$ 3,400	\$ 3,300
Salaries and other short-term benefits	17,699	14,865
Post-employment benefits	6,067	6,404
	<u>\$ 27,166</u>	<u>\$ 24,569</u>

(d) Transactions with entity with common ownership:

In the ordinary course of business, the Corporation has a cost sharing agreement with Chapleau Public Utilities. The Corporation charged \$474,738 (2015 - \$412,494) to Chapleau Public Utilities Corporation for their portion of certain shared costs. At December 31, 2016, there was \$63,171 (2015 - \$81,147) owing to Chapleau Public Utilities Corporation relating to the purchase of hydro. The 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.

# CHAPLEAU ENERGY SERVICES CORPORATION

Notes to Financial Statements

Year ended December 31, 2016

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## 13. Financial instruments and risk management:

### Fair value disclosure:

Cash and cash equivalents are measured at fair value. The carrying values of accounts receivable, and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

### Financial risks:

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

#### (a) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk.

#### (b) Market risk:

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity or foreign exchange risk.

#### (c) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure.

The majority of accounts payable and accrued liabilities, as reported on the balance sheet, are due within 30 days.

#### (d) Capital disclosures:

The main objectives of the Corporation, when managing capital, are to ensure prudent management of its capital structure and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholder's equity. As at December 31, 2016, shareholder's equity amounts to \$497,141 (2015 - \$571,599).

## 14. Comparative information:

The comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.