Financial Statements of

CHAPLEAU PUBLIC UTILITIES CORPORATION

Year ended December 31, 2007

KPMG

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AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of **Chapleau Public Utilities Corporation** as at December 31, 2007 and the statements of earnings and comprehensive 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, 2007 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, Licensed Public Accountants

Sudbury, Canada

March 5, 2008

CHAPLEAU PUBLIC UTILITIES CORPORATION

Balance Sheet

December 31, 2007, with comparative figures for 2006

		2007		2006
Assets				
Current assets:				
Cash	$	158,538	$	173,608
Investments		679,103		651,121
Trade receivables (note 2)		39,274		40,885
Plant materials and supplies - at cost		44,031		43,787
Prepaid expenses		9,023		10,318
Unbilled revenue - energy sales		441,333		424,856
Unbilled revenue - distribution		39,797		42,940
		1,411,099		1,387,515
Capital assets (note 3)		2,175,939		2,175,939
Less accumulated amortization		1,303,139		1,266,778
		872,800		909,161
	$	2,283,899	$	2,296,676
Liabilities and Shareholder's Equity (Deficiency)				
Current liabilities:				
Accounts payable and accrued liabilities (note 4)	$	298,955	$	267,048
Advances from related company (note 5)		24,715		20,551
		323,670		287,599
Other liabilities:				
Regulatory liabilities (note 6)		463,201		487,538
Customer deposits		22,619		21,989
Loan payable (note 7)		-		360,727
Mortgage payable (note 8)		1,121,529		1,321,493
Shareholder's equity (deficiency):				
Share capital (note 9)		1,121,529		560,840
Deficit		(768,649)		(743,510)
		352,880		(182,670)
Contingencies (note 12)				
	$	2,283,899	$	2,296,676

See accompanying notes to financial statements.

On behalf of the Board:

____________________________ Director

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Earnings and Comprehensive Earnings and Deficit

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Revenue:		
Energy sales	$ 2,058,195	$ 2,089,075
Distribution	568,109	567,925
	2,626,304	2,657,000
Expenses:		
Power purchased	2,058,195	2,043,433
Operations and maintenance	335,685	262,647
Administration and general	238,927	164,663
Billing and collection	69,731	63,918
Amortization of capital assets	36,361	37,370
	2,738,899	2,572,031
Earnings (loss) before the undernoted	(112,595)	84,969
Other income (expenses):		
Interest earned	38,184	48,509
Late payment charges	4,461	4,684
Miscellaneous	59,582	17,421
Other interest	(14,771)	(36,114)
	87,456	34,500
Net earnings and comprehensive earnings (loss)	(25,139)	119,469
Deficit, beginning of year	(743,510)	(862,979)
Deficit, end of year	$ (768,649)	$ (743,510)

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Cash Flows

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operations:		
Net earnings and comprehensive earnings (loss)	$ (25,139)	$ 119,469
Item not involving cash:		
Amortization of capital assets	36,361	37,370
	11,222	156,839
Change in non-cash operating working capital:		
Decrease (increase) in trade receivables	1,611	(10,710)
Increase in plant materials and supplies - at cost	(244)	(14,478)
Decrease (increase) in prepaid expenses	1,295	(1,118)
Decrease (increase) in unbilled revenue - energy sales	(16,477)	24,445
Decrease in unbilled revenue - distribution	3,143	27,247
Increase (decrease) in accounts payable and accrued liabilities	31,907	(275,325)
Decrease in accrued interest payable	-	(203,905)
Increase (decrease) in customer deposits	630	(5,270)
	33,087	(302,275)
Financing:		
Increase (decrease) in advances from related company	4,164	(101,352)
Decrease in mortgage payable	(199,964)	-
Decrease in loan payable	(360,727)	(356,833)
Issue of share capital	560,689	560,740
	4,162	102,555
Investments:		
Addition to capital assets	-	(24,293)
Increase (decrease) in regulatory liabilities	(24,337)	26,040
	(24,337)	1,747
Increase (decrease) in cash position	12,912	(197,973)
Cash position, beginning of year	824,729	1,022,702
Cash position, end of year	$ 837,641	$ 824,729
Represented by:		
Cash	$ 158,538	$ 173,608
Investments	679,103	651,121
	$ 837,641	$ 824,729
Supplemental cash flow information:		
Interest paid	$ -	$ 203,905

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) Change in accounting policies:

Effective January 1, 2007, the Corporation adopted new Canadian Institute of Chartered Accounts (CICA) accounting standards; Section 3855 (Financial Instruments - Recognition and Measurement), Section 3861 (Financial Instruments - Presentation and Disclosure), Section 3865 (Hedges), Section 1530 (Comprehensive Income) and Section 3251 (Equity). The requirements of the new standards, related accounting policies adopted by the Corporation and the resulting financial statement impact are further discussed below.

Financial instruments - recognition and measurement:

The standards require that all financial instruments be classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale financial assets or other financial liabilities. Financial instruments classified as held for trading, and available for sale are to be measured at fair value. Financial instruments classified as held to maturity, loans and receivables or other financial liabilities are recorded at amortized cost. In addition, the standard requires that all derivatives be measured at fair value. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using various valuation techniques.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Classification of financial instruments:

Held for trading financial assets are securities purchased for resale, generally within a short period of time. They are measured at fair value at the balance sheet date. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations continue to be reported in earnings as investment income. Other income and expenses related to these instruments are also included in financial income or financial expenses respectively.

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, which the Corporation has the positive intention and ability to hold to maturity. These financial assets are initially recognized at fair value including direct and incremental transaction costs. They are subsequently accounted for at amortized cost using the effective interest rate method.

1. Significant accounting policies (continued):

(a) Change in accounting policies (continued):

Classification of financial instruments (continued):

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale, or that are not classified as loans or receivables, held to maturity or held for trading. Assets in this category comprise of debt or equity securities. Except for equities that do not have quoted market values in an active market, the available for sale securities are carried at fair value whereby the unrealized gains or losses are included in accumulated other comprehensive earnings until either sale, or other than temporary impairment, when the cumulative gain or loss is transferred to the Statement of Earnings. Equities that do not have quoted market values in an active market are carried at cost.

Loans and receivables continue to be accounted for at amortized costs.

Financial liabilities are recorded at amortized cost and include all liabilities, other than derivatives and liabilities designated as held for trading.

Derivatives are considered to be held for trading and as such are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases derivative instruments require market valuation. Derivatives may be embedded in other financial instruments. The Corporation does not engage in any derivative trading or speculative activities.

The Corporation has classified its financial instruments as follows:

Cash	Held for trading
Investments	Held for trading
Trade receivables	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Advances from related company	Other liabilities
Customer deposits	Other liabilities
Mortgage payable	Other liabilities

Comprehensive earnings:

In the event that the Corporation has any financial instruments that would impact other comprehensive earnings, a statement of comprehensive earnings would be included in the financial statements displaying the effects of the current period net income plus the impact on other comprehensive earnings resulting from these financial instruments.

1. Significant accounting policies (continued):

(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 fulfill 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.

The Corporation was requested to be in the first group of Licensed Distribution Company ("LDC") to file for rate rebasing for rates to be effective May 1, 2008. The Corporation's final submission was filed with the OEB on November 22, 2007. Adjusted distribution rates will be implemented in 2008 based on the OEB's decision which has not been rendered.

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 taxes:

As a municipally owned utility, the Corporation is exempt from Federal corporate income taxes. However, under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income and capital taxes to Ontario Electricity Financial Corporation ("OEFC"). 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.

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

(b) Regulation (continued):

ii) Payment in lieu of taxes (continued):

The Corporation provides for payments in lieu of corporate income taxes using the taxes payable method. Under the taxes payable method, provisions are not made for future income taxes as a result of temporary differences between the tax bases 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 the rates approved by the OEB and recovered from customers.

(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) Capital assets:

Capital assets are recorded at cost. Amortization is charged to operations on a declining-balance basis using the following methods and annual rates:

Asset	Rate
Transmission and distribution systems	4%

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

Capital assets 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.

(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. Interest is paid on customer balances at rates established from time to time by the Corporation in accordance with regulation.

1. Significant accounting policies (continued):

(h) Future accounting changes:

During 2007, the CICA made revisions to Section 3465 Income taxes for rate regulated enterprises. The new rules will apply to fiscal years beginning on or after January 1, 2009 and will result in accrual accounting being followed for payments in lieu of corporate taxes. Such amounts are currently accounted for on a cash basis consistent with specific OEB rate-setting direction. Commencing January 1, 2009, the regulatory impact of the OEB's direction will be reflected through the recognition of regulatory assets and/or liabilities. There will be no impact on results of operations.

The CICA has issued a new accounting standard: Section 3031, Inventories, which is effective for the Corporation in 2008. The recommendations apply to materials and supplies inventory and require major spare parts to be classified as future use fixed assets rather than inventory. The Corporation does not expect a significant impact of this new accounting standard on its financial statements.

2. Trade receivables:

	2007	2006
Electrical	$ 48,874	$ 50,785
Provision for doubtful accounts	(9,600)	(9,900)
	$ 39,274	$ 40,885

3. Capital assets:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 141	$ -	$ 141	$ 141
Transmission and distribution systems	2,175,798	1,303,139	872,659	909,020
	$ 2,175,939	$ 1,303,139	$ 872,800	$ 909,161

4. Accounts payable and accrued liabilities:

	2007	2006
Power purchased	$ 283,595	$ 224,317
Miscellaneous	15,360	42,731
	$ 298,955	$ 267,048

5. Advances from related company:

The amounts advanced from related company are non-interest bearing, unsecured and have no specified terms of repayment. The Corporation is related by virtue of common ownership.

6. Regulatory liabilities:

Net regulatory assets (liabilities) comprise:

	2007	2006
Regulatory asset recovery account	$ (10,767)	$ (32,908)
Pension contributions	19,069	44,914
OEB annual cost	3,435	4,950
Smart meters	(4,582)	(2,470)
Settlement variances	(470,356)	(502,024)
	$ (463,201)	$ (487,538)

6. Regulatory liabilities (continued):

The regulatory assets and liabilities balances of the Corporation are defined as follows:

(a) Regulatory assets recovery account:

The OEB ordered that the approved regulatory asset balances be aggregated into a single regulatory account. Approved regulatory assets consisting of transition costs, OEB annual costs and settlement variances less recoveries were transferred to the "regulatory asset recovery account". This approved balance will be recovered over a period ending March 31, 2008. The account is credited with recovery amounts and is debited by OEB prescribed carrying charges.

(b) Pension contributions:

The OEB has allowed the LDC to defer the incremental OMERS pension expenditures for the fiscal years starting after January 1, 2005 and to end on April 30, 2006. Accordingly, the Corporation has deferred these expenditures in accordance with the criteria set out in the AP Handbook.

(c) OEB annual cost:

The OEB has allowed the LDC to defer a portion of the OEB annual cost assessments for the fiscal years starting after January 1, 2004 and to end on April 30, 2006. Accordingly, the Corporation has deferred these expenditures in accordance with the criteria set out in the AP Handbook.

Under such regulation, the deferred expenditures would have been expensed under Canadian GAAP for unregulated businesses. In April 2006, the OEB approved the recovery of the deferred amount of $1,029. Accordingly, the balance was transferred to the regulatory asset recovery account for recovery commencing May 1, 2006 and ending March 31, 2008.

(d) Smart meters:

Effective May 1, 2006, the OEB has allowed the LDC to defer capital expenditures, operating expenditures, amortization expense and revenues relating to smart meters. Accordingly, the Corporation has deferred these items in accordance with the criteria set out in the AP Handbook. The manner and timing of disposition of these smart meter regulatory assets have not been determined by the OEB at this time.

6. Regulatory liabilities (continued):

(e) Settlement variances:

The OEB has allowed the LDC to defer settlement variances from May 1, 2002 to December 31, 2006. This balance represents the variances between amounts charged by LDC to customers (based on regulated rates) and the corresponding cost of non competitive electricity service incurred by LDC after May 1, 2002. The settlement variances relate primarily to service charges, non competitive electricity charges, imported power charges and the global adjustment. Accordingly, the Corporation has deferred these recoveries in accordance with the criteria set out in the AP Handbook.

Settlement variances of $310,643 relating to the period from May 1, 2002 to December 31, 2004, were approved for recovery by the OEB and are included in the regulatory asset recovery account balance. The remaining balance, representing settlement variances arising after January 1, 2005, is deferred in a regulatory liability account. The manner and timing of disposition of the variance have not been determined by the OEB.

7. Loan payable:

During the year, the Corporation converted the remaining balance of $360,727 (2006 - $560,740) of the loan payable into 360,727 (2006 - 560,740) common shares of the Corporation.

8. Mortgage payable:

The mortgage payable is repayable to the Township, is secured by a general security agreement and specific assets of the Corporation, bears interest at 6.25% and has no specified terms of repayment. Payment of interest has been postponed indefinitely and the Township has indicated they will not demand repayment within the next twelve months.

During the year, the Corporation converted $199,964 of the mortgage payable into 199,964 common shares of the Corporation.

9. Share capital:

	2007	2006
Authorized:		
Unlimited common shares		
Issued:		
1,121,529 common shares (2006 - 560,840 common shares)	$ 1,121,529	$ 560,840

10. Payment in lieu of taxes:

For payment in lieu of tax purposes, the Corporation has losses of $754,587 (2006 - $728,423) carried forward which can be applied to reduce future years' taxable income. These losses will expire as follows:

2010	$ 92,324
2014	296,896
2015	338,514
2027	26,853

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 $268,716 (2006 - $286,995) for power purchased.

Also, the Corporation was charged $379,102 (2006 - $403,241) by Chapleau Energy Services Corporation, for the Corporation's portion of certain shared costs.

During the year, the Corporation paid $1,200 (2006 - $1,181) to the Township on account of municipal taxes.

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. Contingencies:

(a) 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, 2007, no amounts have been drawn on this financing arrangement.

(b) 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. The Electricity Distributors Association has undertaken the defence of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements. Accordingly, no provision has been made in these financial statements with respect to any possible losses that may arise as a result of this matter.

13. Financial instruments and credit risk:

(a) Fair value of financial assets and financial liabilities

The carrying value of cash, 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.

It was not practicable to estimate the fair value of the mortgage payable as there are no principal repayment terms.

(b) Credit risk exposure

Financial assets held by the Corporation expose it to credit risk. As at December 31, 2007, there were no significant concentrations of credit risk with respect to any class of financial assets.

The Corporation earns its revenue from a broad base of customers located principally in Chapleau. No single customer would account for revenue or an accounts receivable balance in excess of 10% of the respective reported balances.

14. Comparative figures:

Certain 2006 comparative figures have been reclassified to conform with the financial statement presentation adopted per the current year.