Financial Statements of

CHAPLEAU PUBLIC UTILITIES CORPORATION

Year ended December 31, 2008

KPMG LLP
Chartered Accountants
Claridge Executive Centre
144 Pine Street PO Box 700
Sudbury ON P3E 4R6

Telephone (705) 675-8500
Fax (705) 675-7586
In Watts (1-800) 461-3551
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of **Chapleau Public Utilities Corporation** as at December 31, 2008 and the statements of income and comprehensive income 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, 2008 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
April 27, 2009

CHAPLEAU PUBLIC UTILITIES CORPORATION
Balance Sheet

December 31, 2008, with comparative figures for 2007

	2008	2007
Assets		
Current assets:		
Cash	$ 84,603	$ 158,538
Investments	704,976	679,103
Trade receivables (note 2)	49,860	39,274
Plant materials and supplies	38,959	44,031
Prepaid expenses	9,990	9,023
Unbilled revenue - energy sales	479,084	441,333
Unbilled revenue - distribution	43,505	39,797
	1,410,977	1,411,099
Property, plant and equipment (note 3)	2,218,312	2,175,939
Less accumulated amortization	1,341,746	1,303,139
	876,566	872,800
	$ 2,287,543	$ 2,283,899
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	$ 371,847	$ 298,955
Advances from related company (note 5)	19,533	24,715
	391,380	323,670
Other liabilities:		
Regulatory liabilities (note 6)	371,577	463,201
Customer deposits	22,574	22,619
Mortgage payable (note 7)	1,121,529	1,121,529
Shareholder's equity:		
Share capital (note 8)	1,121,529	1,121,529
Deficit	(741,046)	(768,649)
	380,483	352,880
Contingencies (note 11)		
Subsequent event (note 13)		
	$ 2,287,543	$ 2,283,899

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, 2008, with comparative figures for 2007

	2008	2007
Revenue:		
Energy sales	$ 1,978,596	$ 2,058,195
Distribution	595,173	568,109
Miscellaneous	21,905	-
	2,595,674	2,626,304
Expenses:		
Power purchased	1,978,596	2,058,195
Operations and maintenance	267,327	335,685
Administration and general	252,050	238,927
Billing and collection	78,384	69,731
Amortization of property, plant and equipment	38,607	36,361
	2,614,964	2,738,899
Loss before the undernoted	(19,290)	(112,595)
Other income (expenses):		
Interest earned	41,697	38,184
Late payment charges	4,609	4,461
Miscellaneous	19,179	59,582
Other interest	(18,592)	(14,771)
	46,893	87,456
Net income and comprehensive income (loss)	27,603	(25,139)
Deficit, beginning of year	(768,649)	(743,510)
Deficit, end of year	$ (741,046)	$ (768,649)

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION
Statement of Cash Flows

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Cash provided by (used in):		
Operations:		
Net income and comprehensive income (loss)	$ 27,603	$ (25,139)
Item not involving cash:		
Amortization of property, plant and equipment	38,607	36,361
	66,210	11,222
Change in non-cash operating working capital:		
Decrease (increase) in trade receivables	(10,586)	1,611
Decrease (increase) in plant materials and supplies	5,072	(244)
Decrease (increase) in prepaid expenses	(967)	1,295
Increase in unbilled revenue - energy sales	(37,751)	(16,477)
Decrease (increase) in unbilled revenue - distribution	(3,708)	3,143
Increase in accounts payable and accrued liabilities	72,892	31,907
Increase (decrease) in customer deposits	(45)	630
	91,117	33,087
Financing:		
Increase (decrease) in advances from related company	(5,182)	4,164
Decrease in mortgage payable	-	(199,964)
Decrease in loan payable	-	(360,727)
Issue of share capital	-	560,689
	(5,182)	4,162
Investments:		
Addition to property, plant and equipment	(42,373)	-
Decrease in regulatory liabilities	(91,624)	(24,337)
	(133,997)	(24,337)
Increase (decrease) in cash position	(48,062)	12,912
Cash position, beginning of year	837,641	824,729
Cash position, end of year	$ 789,579	$ 837,641
Represented by:		
Cash	$ 84,603	$ 158,538
Investments	704,976	679,103
	$ 789,579	$ 837,641

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:

Plant materials and supplies:

Effective January 1, 2008, the Company adopted CICA Handbook Section 3031, Inventories. Section 3031 establishes standards for the measurement of plant materials and supplies, recognition of an expense when plant materials and supplies are sold and identifies the information that should be disclosed about them.

Plant materials and supplies are stated at the lower of cost, on a first-in, first-out basis, and net realizable value. Cost comprises all costs to purchase, convert and any other costs in bringing the plant materials and supplies to their present location and condition.

(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.

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 were implemented in 2008 based on the OEB’s decision.

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 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.

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.

1. Significant accounting policies (continued):

(d) Property, plant and equipment:

Property, plant and equipment 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.

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.

(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.

1. Significant accounting policies (continued):

(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.

(h) Future accounting changes:

(i) Rate regulated entities:

During 2007, the Accounting Standards Board ("AcSB") issued an exposure draft proposing to remove all specific references to rate regulated accounting from the CICA Handbook. In August 2007, the AcSB decided to remove a temporary exemption in CICA Handbook Section 1100 "Generally Accepted Accounting Principles", retain existing references to rate regulated accounting in the CICA Handbook, amend CICA Handbook Section 3465 "Income Taxes" to require the recognition of future income tax liabilities and assets as well as a corresponding regulatory asset or liability, and retain existing requirements to disclose the effects of rate regulation per AcG-19. The new rules will apply prospectively to annual financial statements relating to fiscal years beginning on or after January 1, 2009.

(ii) International Financial Reporting Standards:

In February 2008, the Canadian Accounting Standards Board ('AcSB") confirmed that Canadian publicly accountable enterprises and government business enterprises will need to adopt International Financial Reporting Standards ("IFRS") effective for annual periods beginning on or after January 1, 2011. The Company is planning its approach for evaluating and assessing the impact the adoption of IFRS will have on its financial statements and accounting processes.

1. Significant accounting policies (continued):

(i) Financial instruments - recognition and measurement:

The Company accounts for its financial assets and liabilities in accordance with Canadian generally accepted accounting principles.

The financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and charges in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

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

(j) Comprehensive income:

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.

2. Trade receivables:

	2008	2007
Electrical	$ 62,036	$ 48,874
Provision for doubtful accounts	(12,176)	(9,600)
	$ 49,860	$ 39,274

3. Property, plant and equipment:

			2008	2007
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 141	$ -	$ 141	$ 141
Transmission and distribution systems	2,218,171	1,341,746	876,425	872,659
	$ 2,218,312	$ 1,341,746	$ 876,566	$ 872,800

4. Accounts payable and accrued liabilities:

	2008	2007
Power purchased	$ 309,255	$ 283,595
Miscellaneous	62,592	15,360
	$ 371,847	$ 298,955

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:

	2008	2007
Regulatory asset recovery account	$ (253,814)	$ (10,767)
Pension contributions	447	19,069
OEB cost assessments	9,281	3,435
Smart meters	(1,782)	(4,582)
Settlement variances	(125,709)	(470,356)
	$ (371,577)	$ (463,201)

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 three year period ending May 1, 2011. 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. Under such regulation, the deferred expenditures would have been expensed under Canadian GAAP for unregulated businesses. On July 17, 2008, the OEB approved this balance for recovery over a three year period ending May 1, 2011.

(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.

On July 17, 2008, the OEB approved this balance for recovery over a three year period ending May 1, 2011.

(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) Retail settlement variances:

The OEB has allowed the LDC to defer retail settlement variances from 2005 to 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. 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.

Retail settlement variances of $261,340 relating to the period from 2005 to 2006, were approved on an interim basis for recovery by the OEB and are included in the regulatory asset recovery account balance. The remaining balance, representing retail settlement variances arising after January 1, 2007, is deferred in a regulatory liability account. The manner and timing of disposition of that variance have not been determined by the OEB.

7. Mortgage payable:

The mortgage payable is repayable to the Township of Chapleau ("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 (see note 13).

8. Share capital:

	2008	2007
Authorized:		
Unlimited common shares		
Issued:		
1,121,529 common shares	$ 1,121,529	$ 1,121,529

9. Payment in lieu of taxes:

For payment in lieu of tax purposes, the Corporation has losses of $688,377 (2007 - $754,587) carried forward which can be applied to reduce future years' taxable income. These losses will expire as follows:

2010	$ 52,967
2014	296,896
2015	338,514

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 $269,713 (2007 - $268,716) for power purchased.

Also, the Corporation was charged $412,614 (2007 - $379,102) 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. Contingencies:

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, 2008, no amounts have been drawn on this letter of credit in the amount of $209,813.

12. 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, 2008, 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.

13. Subsequent event:

Subsequent to year end, the Corporation passed a resolution authorizing the conversion of remaining balance of $1,121,529 of the mortgage payable to the Township into Class B special shares held by the Township in the Corporation. This transaction was authorized in resolution passed by the Township on March 9, 2009.

14. Comparative figures:

Certain 2007 comparative figures have been reclassified to conform with the financial statement presentation adopted per the current year.