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Annual Report 1983

Maritime Electric Company, Limited

Maritime Electric Company, Limited

Board of Directors

A.D. Cameron
Senior Consultant, Montreal Engineering Company, Limited, Montreal
K.V. Cox
Chairman of the Board and President, The New Brunswick Telephone Company, Limited, St. John
A.S. Gordon*
Consultant, Merrill Lynch Canada Inc., Montreal
A.H. Holman
Chairman, R.T. Holman Limited, Charlottetown
A.W. Howard
Chairman, TransAlta Utilities Corporation, Calgary
W.G. Lea
Partner, Campbell, Lea, Cheverie & Michael, Charlottetown
G.A. McMurdo
Farmer, Kensington
M.A. Pavey
Vice-President, Montreal Engineering Company, Limited, Montreal
J.H. Reynolds
President and Chief Executive Officer, Maritime Electric Company, Limited, Charlottetown
D.A. Scales*
President, Island Fertilizers Ltd., Charlottetown
R.W. Smith*
Chairman of the Board, Maritime Electric Company, Limited, Charlottetown

**Member of Audit Committee*

Officers

R.W. Smith .... Chairman of the Board
J.H. Reynolds .... President and Chief Executive Officer
P.H. Newcombe .... General Manager
J.L. Boomhower .... Director of Facilities Planning
D.K. McKenney .... Director of Financial Planning & Secretary-Treasurer
M.A. Pavey .... Director of Strategic Planning
H.B. Curtis .... Assistant Secretary-Treasurer

Head Office

Confederation Court Mall,
134 Kent Street, Charlottetown, P.E.I., C1A 7N2
Telephone: (902)892-6531
Telex: 014-44115

Act of Incorporation

Canada Business Corporations Act

Auditors

Price Waterhouse
Chartered Accountants

Banker

Royal Bank of Canada

Counsel

Campbell, Lea, Cheverie & Michael, Charlottetown
Byers Casgrain, Montreal

Exchange Listings – Common Stock

Toronto Stock Exchange
Montreal Stock Exchange
Ticker symbol – MEC

Transfer Agent and Registrar

Montreal Trust Company
Charlottetown, Halifax, Montreal, Toronto, Winnipeg

About the Company

Maritime Electric Company, Limited is an investor-owned electric utility which has served the people of Prince Edward Island since 1918. It is regulated by the Public Utilities Commission of Prince Edward Island under the provisions of the Electric Power and Telephone Act. The Company owns and operates a fully integrated electric utility system providing for the generation, transmission, and distribution of electricity throughout the Island. The Town of Summerside has its own distribution system and purchases power from the Company under the terms of an interconnection agreement. The Company has its head office in Charlottetown and maintains branch offices in Sherbrooke and Montague.

The Company operates two oil fired generating plants on the Island at Charlottetown and Borden and has a 10 percent equity interest in NB Power's dual fuel coal/oil fired No. 2 Unit located in Dalhousie, New Brunswick. The Charlottetown steam plant has seven units with a combined capacity of 70,500 kilowatts. The Borden generating station, with 38,500 kilowatts of gas turbine capacity, is used for peaking and standby purposes and is operated by remote control from the Energy Control Center in Charlottetown. The Dalhousie unit, the first jointly-owned generating unit in Canada, provides the Company with 20,000 kilowatts of base load generating capacity fuelled primarily by coal.

Two submarine cables between Murray Corner, N.B., and Richmond Cove, P.E.I. link the Island to the mainland power grid. This interconnection is owned by the Province of Prince Edward Island and leased to Maritime Electric which is responsible for its operation and maintenance. Each cable has a capacity of 100,000 kilowatts, and operates at 138,000 volts. At present only one cable is in operation at any given time and the other cable is used as a standby.

Power is transmitted across the Island on 99 km of 138,000 volt and 353 km of 69,000 volt transmission line. The Company also owns and operates 4000 km of distribution lines.

Financial Highlights

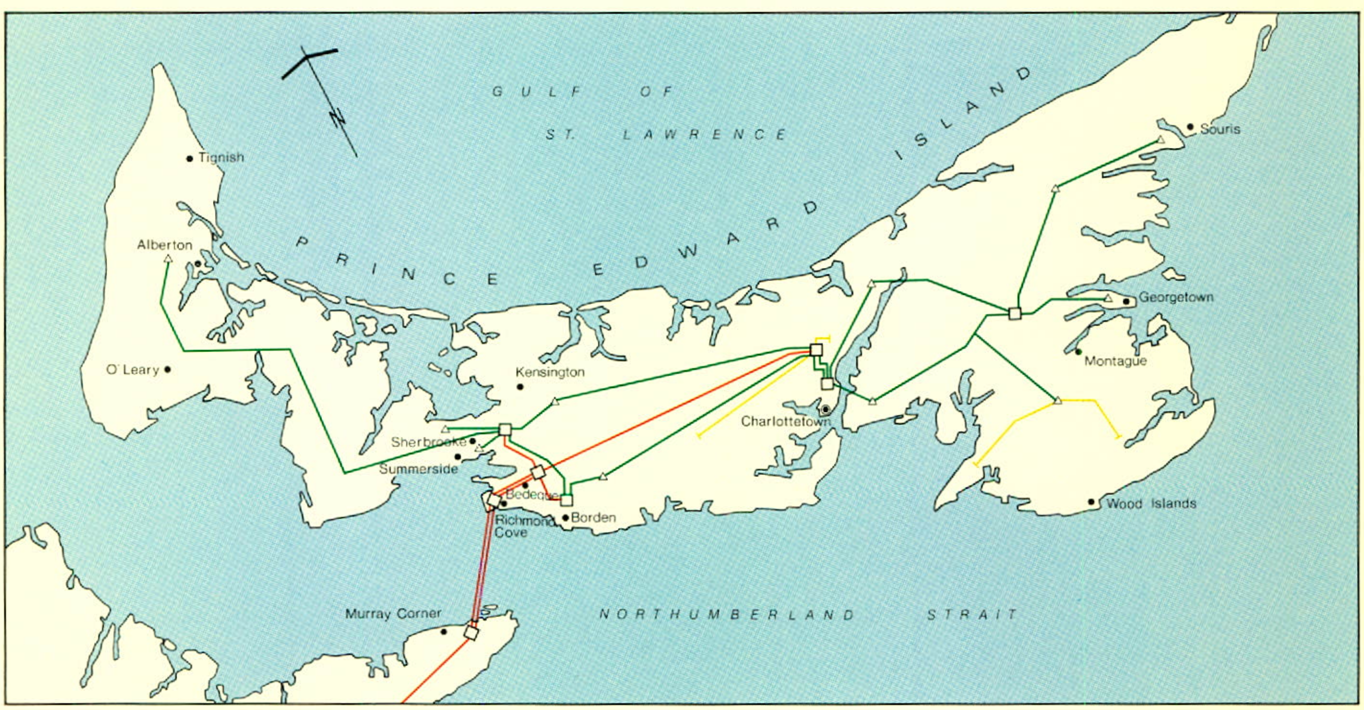
	1983	1982
Operating revenue	$ 56,965,495	$ 53,743,122
Operating expenses	41,360,282	38,460,620
Net earnings	4,531,637	3,927,556
Earnings per common share	3.45	3.47
Dividends declared per common share	1.80	1.70
Capital expenditures	4,538,050	12,467,848
Gross fixed assets	$ 99,472,996	$ 95,452,900
Sales (kWh)	470,409,706	453,466,599
Number of customers	43,108	42,314
Number of common shareholders	907	873

Common Share Quarterly Statistics

1983	First	Second	Third	Fourth
Earnings per share	$ 0.83	0.91	0.94	0.77
Dividends declared per share	$ 0.45	0.45	0.45	0.45
Share price[1] – high	$ 22½	23½	23¾	26⅛
– low	$ 19¾	21½	22½	24
Shares traded[2] (000's)	30.3	12.8	7.4	8.4

1982	First	Second	Third	Fourth
Earnings per share	$ 0.92	0.64	0.96	0.95
Dividends declared per share	$ 0.38	0.42	0.45	0.45
Share price[1] – high	$ 14	14½	17¼	21
– low	$ 12¾	13	13	16⅜
Shares traded[2] (000's)	8.4	25.4	17.0	49.9

[1]*Prices quoted on The Toronto Stock Exchange.*
[2]*Combined volume of shares traded on The Toronto and Montreal Stock Exchanges.*



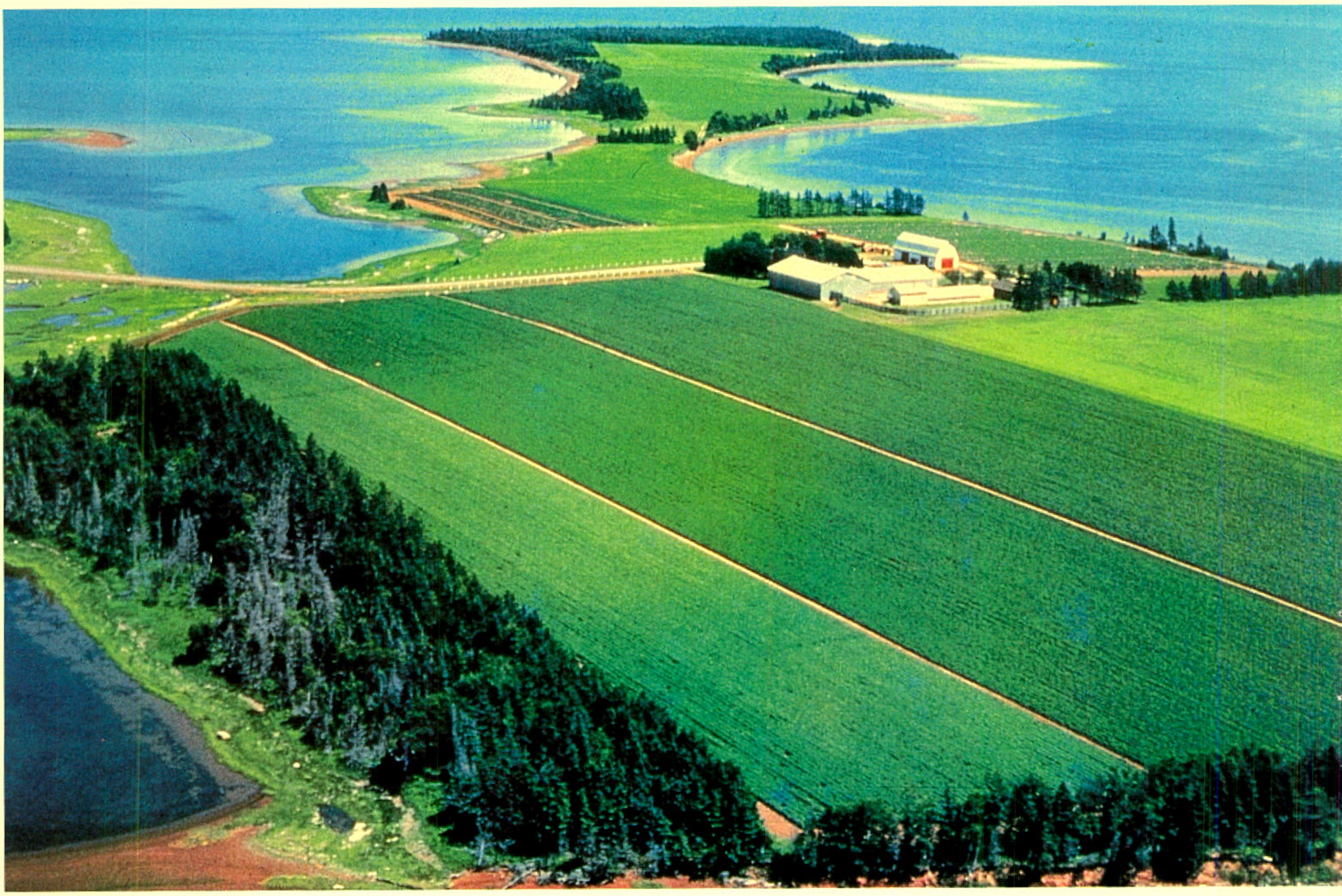
Agriculture

A Farming Province

Prince Edward Island, Canada's smallest province, is often called the Garden Province. It lies in the Gulf of St. Lawrence, separated from the east coast of New Brunswick and the north shore of Nova Scotia by the Northumberland Strait.

Farm holdings account for half of the Island's 1.4 million acres. There are 122,500 residents on Prince Edward Island and about 10 percent of them live on 3150 farms throughout the Province. Farm cash receipts have totalled just under $200 million annually in recent years.

A 1982 study by the P.E.I. Department of Agriculture of Island farms indicates the majority of farm customers have an average monthly consumption of 2000 – 3000 kilowatthours of electricity. Lower usage would be representative of many smaller part-time or mixed farms in the Province.



Potatoes are the most important cash crop on Prince Edward Island. The value of provincial potato sales in recent years has ranged from over $30,000,000 to nearly $90,000,000. They account for one-third of total farm cash receipts on P.E.I. and their dollar value is more than double the combined value of all other crops including barley, oats, wheat, and hay.

About 800 Island farmers plant a total of approximately 69,000 acres each year. Half of the crop is sold for the tablestock market. Quality seed potatoes are an Island specialty and they are shipped all over the world. While potato processing is a relatively new industry on Prince Edward Island, it has rapidly grown in importance. The annual production from over 12,000 acres is used to make french fries and canned products.

About two thirds of Prince Edward Island's cultivated acreage is in cereal and forage crops. Most of these crops are used by the local dairy and livestock industry. Mixed grain, barley, oats and wheat are grown in significant acreages and the ideal growing conditions which prevail on the Island provide excellent yields. Farmers who do not have their own storage facilities for grain can market it to one of three elevators which have been constructed at strategic locations across the Province. These elevators are a convenient source of local feed grains for livestock producers.

In today's highly competitive marketplace, Island farmers run highly mechanized, efficient operations. Prince Edward Island has a good reputation as a producer of high quality purebred beef and dairy cattle, swine and sheep in addition to potatoes and other farm crops. Exhibitors have traditionally placed very prominently in judging classes in exhibitions and fairs throughout Canada, and have won numerous national championships.

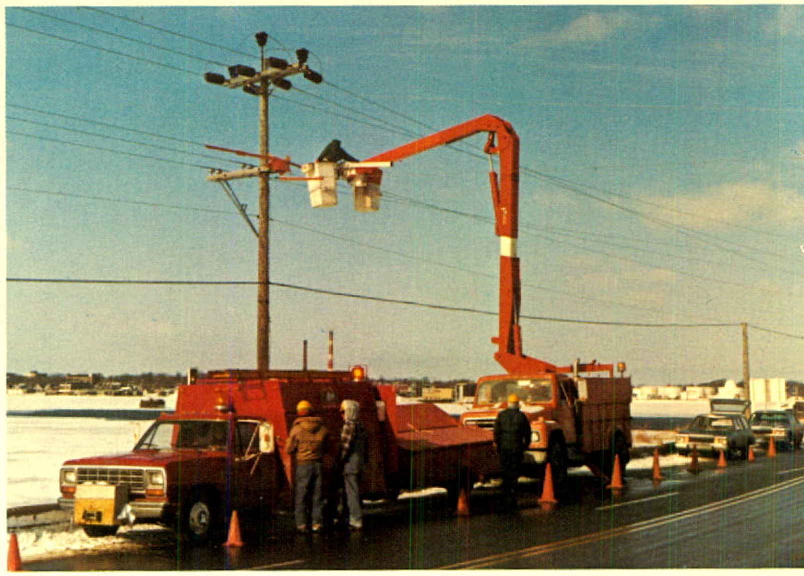
Dairying has been one of the most stable and profitable types of farming on Prince Edward Island accounting for about 18 percent of farm cash receipts. Over half of the 900 dairy farmers sell industrial milk. This is used for the manufacture evaporated milk, cheese, ice-cream, and powdered milk. About 140 farms produce fluid milk (milk that is sold for drinking). The remaining dairy farms sell only cream which is separated from whole milk on their farm. This cream is used for making butter. Total production amounts to over 100 million litres of milk annually for the Island's 14 processing plants – 7 fluid plants, 5 creameries making butter and two industrial plants. About 12 percent of the dairy production is needed to satisfy demand for fluid milk while 88 percent of P.E.I.'s production is processed.

On Prince Edward Island, the beef industry is closely tied to dairying, and the Island's dairy industry provides many surplus animals for beef feedlots. The feedlots are integrated in mixed family farms and the majority handle 200 head or less. Many farmers specialize in raising high quality purebred beef animals like Hereford, Aberdeen Angus and Shorthorns. The beef industry provides about 13 percent of farm cash receipts on Prince Edward Island.

Swine production has been growing in P.E.I. during the past few years and in 1982 amounted to about 14 percent of farm cash receipts. Just under 1000 P.E.I. farmers are engaged in the swine industry and about one-half run "farrow-to-finish" operations; they raise the young pigs and feed them until ready for market throughout the Atlantic region.

Prince Edward Island farmers also produce vegetables, small fruits – especially strawberries – tobacco, and other specialty crops. Cole crops – cabbage, cauliflower, broccoli, and brussel sprouts – thrive in the Island's sandy loam soil and cool, moist climate.

Report to Shareholders



1983 was a year of recovery for the provincial economy, with positive consequences for the level of electricity sales which increased by 3.7 per cent during the year following several years of virtually no growth and an actual reduction in sales in 1982. The improved provincial performance was also reflected in the Company's financial results with earnings available to common shares increasing from $3.18 million in 1982 to $3.50 million in 1983. Earnings per common share declined slightly from $3.47 in 1982 to $3.45 this year after giving effect to the common share rights issue completed in November 1982.

The strength of the Island economy is dependent in large measure on the performance of the agriculture, fishery and tourism sectors. While results in these sectors were somewhat uneven, overall the performance was positive with gross provincial product estimated to have grown 2.8 per cent during the year.

Potato prices were up significantly and the positive effects of this development are expected to flow over into 1984 as the 1983 harvest moves to market. A further encouraging development was the rejection late in the year by U.S. Federal Authorities of demands by Maine growers for import duties on Canadian potatoes.

The Island fishery on balance experienced a good year with the value of all landings up about ten per cent due mainly to good prices for lobster which represented over 70 per cent of all landed values. In the tourism sector the number of visitors to the Island was slightly below the levels experienced in 1982. The expansion of the Charlottetown Airport and completion of new hotel and convention facilities in Charlottetown should improve the outlook for this sector in 1984.

Earnings and Dividends

Consolidated net earnings for the year were $4.53 million compared to $3.93 million in 1982. After payment of $1.03 million of preferred dividends, net earnings applicable to common shares were $3.50 million, an increase of ten per cent above the level achieved in 1982. However, earnings per share decreased slightly from $3.47 in 1982 to $3.45 due to the larger number of common shares outstanding after the Company's November 1982 rights issue.

In keeping with the Company's policy of paying out about 50 per cent of common share earnings, four common dividends of 45 cents each were declared during the year.

Revenue and Expenses

Operating revenue for 1983 was $57.0 million, an increase of six per cent over 1982 operating revenue of $53.7 million. Operating expenses for the year increased by eight per cent from $38.5 million in 1982 to $41.4 million in 1983. Fuel and purchased power expense, the Company's largest single expense item, amounted to $26.0 million in 1983 up from $24.7 million in 1982.

There was a marked decline in income deductions from $4.91 million in 1982 to $4.10 million in 1983 reflecting lower interest rates and the conversion of short term borrowings to preferred and common equity in the latter part of 1982. Preferred dividends increased to $1,032,000 in 1983 from $746,000 in 1982 due to the first full year of dividends on the Series C preferred shares issued in September 1982.

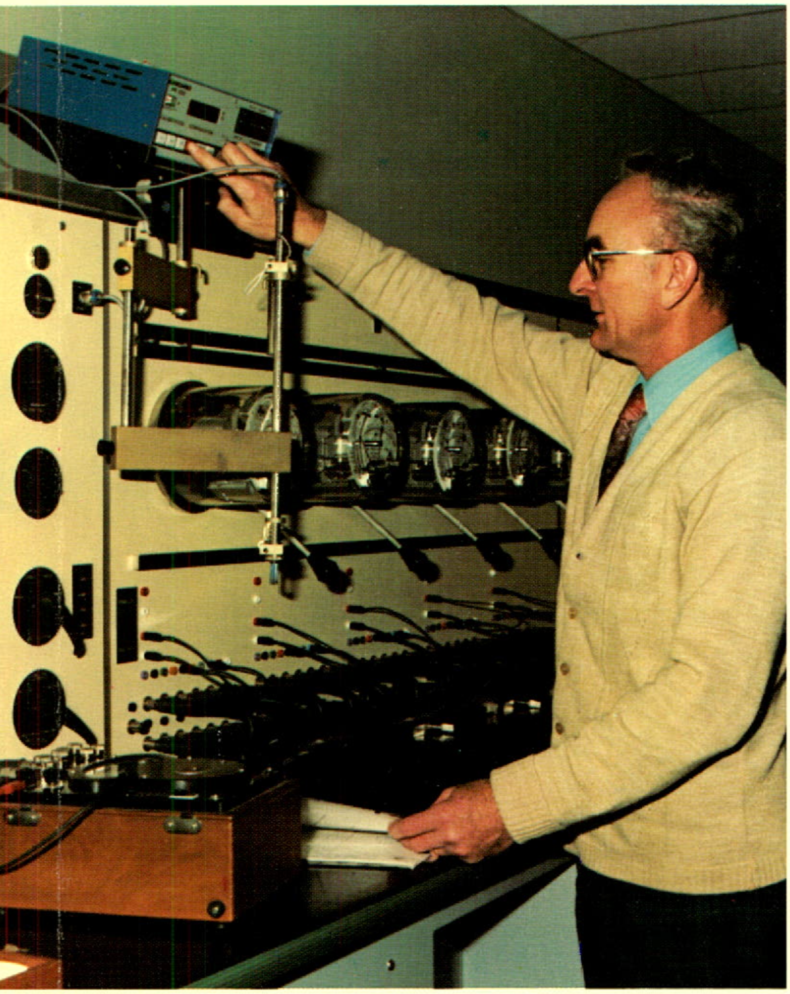
Operations

Electricity sales for 1983 were 470.4 million kilowatt-hours compared to 453.5 million kilowatt-hours in 1982, an increase of 3.7 per cent. This level of sales is the highest in the Company's history and ends a three year period of virtually flat energy sales. The growth in sales was experienced primarily in the rural areas of the Province and was led by a 15.2 per cent increase in large general service sales due to an increase in processing activity in the agriculture sector.

In order to supply its customers' demand, the Company generated or purchased 530.8 million kilowatt-hours of electricity, an increase of 4.0 per cent over 1982. Almost 98 per cent of the Island's requirements were obtained from the Mainland, with 133.9 million kilowatt-hours generated at the Company's jointly-owned plant located in Dalhousie, New Brunswick and 385.5 million kilowatt-hours of interruptible energy purchased from the New Brunswick Electric Power Commission. The balance was obtained from Island sources.

The Company maintains enough capacity to supply provincial needs with its Charlottetown and Borden plants and access to additional diesel capacity from the Town of Summerside. However these plants are relatively small by utility standards, are fuelled by oil and consequently are expensive to operate. Fuel for the Charlottetown plant cost an average of 8.1 cents per kilowatt-hour in 1983 while the comparable figure for the Borden gas turbine plant was 10.8 cents per kilowatt-hour. One of the Company's primary operating objectives is to minimize generation from these sources. The Island plants are, however, maintained in a state of readiness to provide protection to the Company's customers against loss of power from Mainland sources, to satisfy the Company's obligations to contribute to the total capacity of the Maritime Provinces interconnected system, and to qualify the Company to purchase energy from New Brunswick on an "as available" or interruptible basis (economy energy). The purchase price for economy energy is calculated according to standard utility practice and is basically the average of the additional costs incurred by NB Power to produce the energy (fuel and variable operation and maintenance costs) and the costs avoided by Maritime Electric by not producing the energy. The average cost of economy energy in 1983 was 5.1 cents per kilowatt-hour compared to 4.7 cents in 1982. Economy energy is less costly than electricity produced on the Island, however the cost of this electricity is affected by the cost of Island generation and will increase with rising oil prices.

The Company's ten per cent ownership interest in the 200,000 kilowatt coal/oil fired No. 2 unit at Dalhousie New Brunswick was purchased to help stabilize its energy costs and reduce its dependance on oil. The unit continued to perform well in 1983 and resulted in 133.9 million kilowatt-hours of electricity for the Company at an equivalent average fuel cost of 2.8 cents per kilowatt-hour. The energy obtained as a result of ownership in Dalhousie allowed the Company to reduce its economy energy purchases based on Island generating costs and save approximately $3.6 million in fuel and purchased power expense compared to $2.3 million in 1982.



To reduce service interruptions particularily in the rural areas, the Company has embarked on a comprehensive program of inspection and treatment or replacement of its distribution poles. The program will continue until the end of the decade and will ultimately involve approximately 100,000 poles at a total estimated cost of about $9 million. It is expected that treatment of the poles in place with preservatives will extend pole lives by 10 to 12 years on average. In 1983, 4,300 poles were treated and 900 were replaced at a total cost of $660,000. Expenditures for this program in 1984 are expected to be approximately $1.0 million.

Future Supplies

The decline in the rate of growth of electrical demand in Canada as a whole has resulted in significant surpluses of electricity in various parts of the country and led many provincial utilities to adopt more aggressive and innovative approaches to the marketing of this excess energy for export. As a purchaser of bulk power, these developments should have positive consequences for Maritime Electric provided it has reasonable access to these surpluses.

In this regard the Company appeared before the Royal Commission on the Economic Union and Development Prospects for Canada (the MacDonald Commission) to express its concern over present approaches to interprovincial bulk power interchanges. Currently, the transmission of electricity across provincial boundaries is effectively controlled at the provincial level and is at times frustrated by interprovincial disputes. It is the Company's view that obstacles to the flow of electricity across provincial boundaries should be removed where possible through co-operation of the provinces concerned and under the aegis of the Federal Government. All Canadians have a right to expect access to electricity at a price that reasonably reflects the cost of production, and that industry and regulatory practices promote the rationalization of power generation among provinces, thus ensuring that the cost of production, in the national context, is as low as it can be.

The Company is assisting the government of the Province in its continuing dialogue with the governments of New Brunswick and Quebec concerning different approaches to the purchase of electricity from the New Brunswick Electric Power Commission or Hydro-Quebec.

Although the Company has sufficient generating capacity to satisfy its customers' needs until the end of the decade, it continues to examine the benefits of advancing the installation of new facilities or of purchasing firm capacity in order to effect savings in its energy costs.

Capital Expenditures

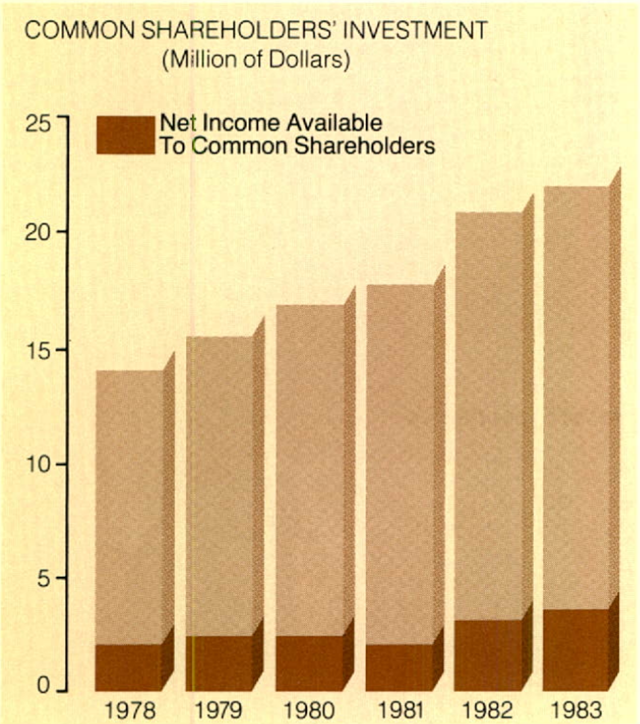
The Company invested $4.5 million in 1983 for capital additions or replacements to existing plant. Of this amount almost $3.0 million was spent to strengthen and expand the Company's distribution system and over $750,000 was used to improve the transmission system.

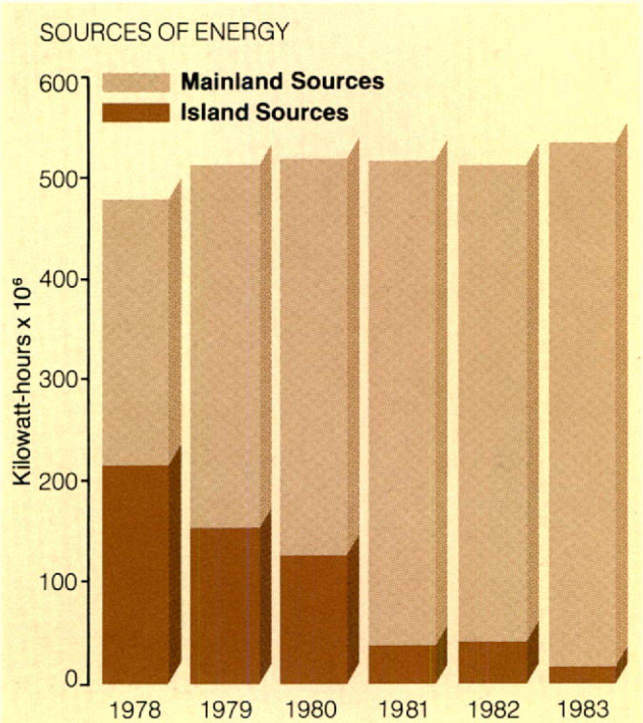
Financial

In its financial planning, the Company attempts to maintain a capital structure that gives it the flexibility required in today's uncertain capital markets and assures the financial integrity of the firm. At the same time it is incumbent on the Company to hold its overall cost of capital at the lowest possible level in order to minimize the cost of service to its customers. The decision of the Provincial Government to rebate to the Company's customers the income tax paid by the Company to the Federal Government and returned to the Province under the provisions of the Public Utilities Income Tax Transfer Act has reduced the cost to its customers of servicing the Company's equity capital. In recognition of this change the Company has reviewed its financial policies and concluded that a target capital structure of 40 to 45 per cent debt, 15 to 20 per cent preferred and 35 to 40 per cent common equity is more appropriate and will be planning its future securities issues to move towards this target. At year end the Company's capital structure was 49.8 per cent debt, 14.1 per cent preferred and 36.1 per cent common equity.

With the significant improvement in the performance of the Company's common shares which traded on the stock markets above book value through most of 1983, the Company's directors approved a Customer Share Purchase Plan and an Employee Share Purchase Plan during the year. The principal objectives of these plans are to increase the level of ownership in the Company by Prince Edward Island residents and increase employee involvement in the Company. An initial allotment of 50,000 shares was provided for the Customer Share Purchase Plan under which a customer, resident on the Island, may make an annual subscription of up to $4,000 worth of common shares at market value free of brokerage costs. A further 10,000 shares were allotted for the Employee Share Purchase Plan. Under this plan, an employee may subscribe up to 10 per cent of salary annually for the purchase of common shares at 90 per cent of market value with no further transaction costs. Subscriptions totalling $85,809 were received by year end with 3420 common shares issued from treasury in January 1984 and 161 new Island shareholders added to the Company's share register as a result of these plans.

Despite the fact that rates of inflation may have stabilized at much lower levels than have been experienced in recent years, the electric utility industry, which is highly capital intensive and heavily invested in long lived fixed assets, will continue to feel the effects of inflation for many years into the future as it replaces existing low cost plant and equipment. The Company has been concerned for some time with the impact of inflation on both the level of electricity rates and its ability to finance the replacement of its productive assets and has provided estimates of the current cost of its facilities and the corresponding estimates of depreciation expense in its annual report since 1979. Maritime Electric supports the efforts of the Canadian Institute of Chartered Accountants to develop a meaningful method of reporting the effects of changing prices on the financial well-being of Canada's corporations and institutions. In accordance with CICA recommendations, this annual report includes, on pages 18-19, supplementary information on the impact of inflation on the Company.





Regulation

Maritime Electric is regulated by the Public Utilities Commission of Prince Edward Island under the provisions of the Electric Power and Telephone Act. The Commission has jurisdiction over, among other things, rates, capital expenditures and the issue of securities. In its most recent ruling on rate of return on March 8, 1983, the Commission issued an order setting the allowed range of rate of return on earnings base at 11.60 to 11.75 per cent. Implicit in this range was a rate of return on average common equity of 15.5 to 16.0 per cent. In 1983 the Company achieved a rate of return on earnings base of 10.70 per cent and a rate of return on average common equity of 15.96 per cent.

Since 1975 the Company's rate structure has included a cost of commodity clause which has permitted Commission approved monthly changes of one per cent up or down in basic rates to keep the rate of return on earnings base within the approved range. The Commission, in an order, dated November 29, 1983 directed the Company to file evidence on or before June 15, 1984 to justify the continued use of the cost of commodity adjustment. The Company is preparing evidence in response to this order.

Staff

The Company signed a new collective agreement with local No. 1432 of the International Brotherhood of Electrical Workers covering its plant, outside, and office workers on October 5, 1983. The agreement expires on June 30, 1985.

A comprehensive review of the Company's organization was conducted during the year to provide for the orderly succession of the Company's management with particular reference to the major changes in the nature of the Company's activities that have occurred since the installation of the cable interconnection. The review was completed in the fall of 1983, and while it may be several years before the entire reorganization process is completed, senior appointments were made effective January 1, 1984.

R.W. Smith has been appointed Chairman of the Board, succeeding A.D. Cameron, who retired as Chairman at the end of the year after some 25 years as an officer of the Company. The Company will continue to benefit from Mr. Cameron's electric utility experience in his capacity as a director of the Company. Mr. Smith has been with the Company for 21 years, as General Manager from 1963 until 1978 at which time he became President. He was appointed a director in 1970.

J.H. Reynolds has been appointed President and Chief Executive Officer. Mr. Reynolds has been General Manager since 1977. He was appointed a director in 1979 and Vice-President in 1981.

Succeeding Mr. Reynolds as General Manager is P.H. Newcombe. Mr. Newcombe joined Maritime Electric in 1971, became Production Superintendent in 1975 and was appointed Assistant General Manager in 1982.

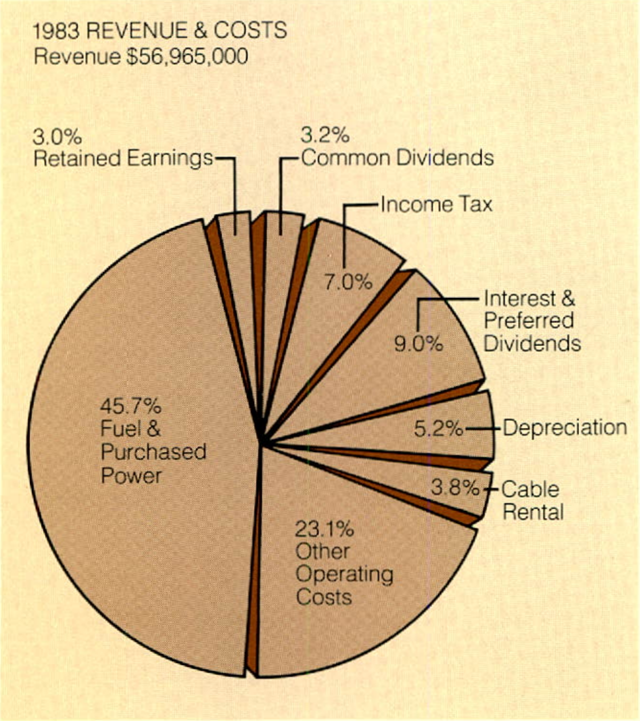
Other senior appointments included J.L. Boomhower – Director of Facilities Planning, D.K. McKenney – Director of Financial Planning and M.A. Pavey – Director of Strategic Planning.

Mr. M.A. Pavey was appointed to the Board of Directors of the Company at a meeting of the directors on March 31, 1983 to fill a vacancy created by the resignation of Mr. G.N.C. Rivington.

The continued efforts of the Company's staff towards the objective of the best possible service at the lowest possible cost is one of the Company's greatest strengths. Your directors wish to express their appreciation to the staff for their efforts on behalf of the Company and its customers.

R.W. Smith
Chairman of the Board

J.H. Reynolds
President and Chief Executive Officer



Maritime Electric Company, Limited
Consolidated Balance Sheet December 31

Assets

	1983	1982
Fixed assets (Note 1):		
Land, buildings, plant and equipment	$99,472,996	$95,452,900
Less: Accumulated depreciation	29,723,405	26,999,772
	69,749,591	68,453,128
Current assets:		
Cash	167,793	76,040
Accounts receivable	4,732,683	4,536,897
Materials and supplies, at cost	2,801,951	2,480,910
Deferred fuel costs (Note 2)	1,688,355	1,654,583
Prepaid expenses	96,774	137,688
	9,487,556	8,886,118
Deferred charges (Note 2):		
Fuel Costs	842,734	1,565,074
Other	657,220	852,866
	1,499,954	2,417,940
	$80,737,101	$79,757,186

APPROVED BY THE BOARD:

Alan S. Gordon

Alan S. Gordon, Director

David A. Scales

D.A. Scales, Director

See accompanying summary of accounting policies and notes.

Shareholders' Equity and Liabilities

	1983	1982
Shareholders' equity (Note 3):		
Common shares	**$ 3,398,444**	$ 3,312,635
Retained earnings	**19,415,842**	17,740,302
	22,814,286	21,052,937
Preferred shares	**8,900,000**	9,000,000
	31,714,286	30,052,937
Long-term debt (Note 4)	**27,793,000**	28,110,000
Current liabilities:		
Bank indebtedness	**3,598,228**	2,292,000
Accounts payable and accrued liabilities	**3,963,922**	3,467,580
Dividends payable	**691,378**	694,003
Income and other taxes payable	**1,000,712**	1,236,423
Deferred income taxes	**936,398**	904,963
Long-term debt due within one year	**140,000**	2,240,000
	10,330,638	10,834,969
Deferred credits:		
Deferred income taxes	**5,985,419**	5,937,166
Contributions	**4,913,758**	4,822,114
	10,899,177	10,759,280
	$80,737,101	$79,757,186

See accompanying summary of accounting policies and notes.

Consolidated Statement of Earnings Year ended December 31

	1983	1982
Operating revenue	$56,965,495	$53,743,122
Operating expenses	41,360,282	38,460,620
Provision for depreciation	2,979,230	2,832,334
	44,339,512	41,292,954
Operating income	12,625,983	12,450,168
Deduct:		
Interest – long-term debt	4,031,133	3,546,589
– other	116,360	1,373,956
– charged to construction	(77,736)	(50,426)
Amortization of financing costs	68,950	44,705
Discount on bonds redeemed	(34,331)	—
	4,104,376	4,914,824
Earnings before income taxes	8,521,607	7,535,344
Provision for income taxes:		
Current	3,910,282	2,940,845
Deferred	79,688	666,943
	3,989,970	3,607,788
Net earnings	4,531,637	3,927,556
Preferred dividend requirements	1,031,781	746,405
Earnings applicable to common shares	$ 3,499,856	$ 3,181,151
Earnings per common share	$3.45	$3.47

Consolidated Statement of Retained Earnings Year ended December 31

	1983	1982
Balance at beginning of year	$17,740,302	$16,140,230
Net earnings	4,531,637	3,927,556
	22,271,939	20,067,786
Dividends:		
Preferred shares –		
5%	30,000	30,000
Series A	140,000	149,625
Series B	419,280	419,280
Series C	442,501	147,500
Common shares	1,824,316	1,581,079
	2,856,097	2,327,484
Balance at end of year	$19,415,842	$17,740,302

See accompanying summary of accounting policies and notes.

Consolidated Statement of Changes in Financial Position Year ended December 31

	1983	1982
Funds were provided from:		
Net earnings	**$ 4,531,637**	$ 3,927,556
Items not involving funds –		
Provision for depreciation	**2,979,230**	2,832,334
Deferred income taxes	**48,253**	481,834
Amortization of financing costs	**68,950**	44,705
Discount on bonds redeemed	**(34,331)**	—
Amortization of storm damage costs	**86,627**	178,580
Amortization of inquiry costs	**40,069**	—
	7,720,435	7,465,009
Issue of common shares	**85,809**	1,702,635
Issue of preferred shares	—	3,000,000
Increase in long-term debt	—	6,000,000
Current recovery of deferred fuel costs	**722,340**	722,340
Contributions for extensions	**354,001**	290,814
Increase in bank indebtedness	**1,306,228**	—
	$10,188,813	$19,180,798
Funds were applied to:		
Expenditure for fixed assets – net	**$ 4,538,050**	$12,467,848
Redemption of preferred shares	**100,000**	100,000
Reduction in long-term debt	**282,669**	1,985,000
Dividends –		
Preferred	**1,031,781**	746,405
Common	**1,824,316**	1,581,079
Deferred charges – storm damage costs	—	259,883
– commission of inquiry costs	—	207,501
Bond and share financing costs	—	295,071
Reduction in bank indebtedness	—	4,339,000
Increase (decrease) in working capital exclusive of changes in bank indebtedness	**2,411,997**	(2,800,989)
	$10,188,813	$19,180,798

See accompanying summary of accounting policies and notes.

Management's Report

The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using procedures established by management and the framework of accounting policies outlined below. In management's opinion they fairly reflect, within reasonable limits of materiality, the Company's financial position, results of operations, and changes in financial position for the fiscal period ending December 31, 1983. Financial and other operating data contained elsewhere in this report are consistent with the consolidated financial statements.

Responsibility for the financial statements to shareholders rests with the Board of Directors. An Audit Committee of Directors is appointed by the Board to review the financial statements in detail with management and the external auditors, and to report to the Directors prior to their approval of the financial statements for publication.

The Company's external auditors, Price Waterhouse, are appointed by the shareholders to provide an independent review of management's discharge of their responsibilities as they relate to the financial statements prepared by management. The auditors' report is set out opposite.

J.H. Reynolds
President and Chief
Executive Officer

D.K. McKenney
Director of
Financial Planning

Auditors' Report

To the Shareholders of
Maritime Electric Company, Limited:

We have examined the consolidated balance sheet of Maritime Electric Company, Limited as at December 31, 1983 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec
February 17, 1984

PRICE WATERHOUSE
Chartered Accountants

Summary of Accounting Policies

Principles of consolidation:

These consolidated financial statements include the accounts of Maritime Electric Company, Limited and its wholly-owned subsidiary, Maritime Electric (P.E.I.) Limited.

Regulation:

The Company and its subsidiary are engaged in the purchase and production of electricity and its sale in Prince Edward Island and are regulated by the Public Utilities Commission of Prince Edward Island under The Electric Power and Telephone Act.

Fixed assets:

Additions are made to fixed assets and costs are capitalized in accordance with the regulations established by the Public Utilities Commission.

The cost of additions to fixed assets represents the cost of materials, related services, direct labour, interest during construction and other applicable indirect overheads.

Interest during construction is calculated on a monthly basis at a rate equal to the rate of return approved by the Public Utilities Commission.

Retirements from fixed assets are made to accumulated depreciation on the basis of original cost plus retirement expenses less salvage.

Depreciation is provided on a straight-line basis using a composite rate of 3.25% per annum. This rate is reviewed by the Public Utilities Commission from time to time and is estimated to amortize the cost of fixed assets, less salvage value, over their useful lives. Depreciation on the cost of contributed assets is charged to the contributions account.

Materials and supplies:

Materials and supplies are valued at average cost.

Contributions:

Contributions towards the cost of construction for service connections and those arising from the purchase of lines from the government are deferred. These amounts are written off over the life of the assets by an annual depreciation charge.

Revenue:

Revenue is recognized on billings rendered monthly to customers on a cyclical basis.

Deferred charges:

Fuel costs –

The Company's rates include a fuel cost adjustment factor which permits the recovery of increased fuel costs; however, there is a time-lag between the periods in which fuel costs above a base level are incurred and the periods in which they are billed to customers. Therefore, to achieve a proper matching of costs and revenue, fuel costs above the base level are deferred to the periods in which they are billed to customers.

Storm damage costs –

Special repair costs attributable to major storms are amortized over a three year period commencing in the year of occurrence.

Financing costs –

Costs relating to the issue of bonds and preferred shares are amortized over the estimated minimum life of the issue and those relating to the issue of common shares are amortized over 20 years.

Inquiry costs –

Expenses relating to the 1982 Commission of Inquiry into the cost of electricity on Prince Edward Island are being amortized over a four year period commencing in 1983.

Maritime Electric Company, Limited
Notes to Consolidated Financial Statements December 31, 1983

1. Fixed assets:

As at December 31	1983	1982
Generating plants	$42,135,704	$41,887,924
Distribution systems	39,261,772	36,713,049
Transmission lines and substations	15,890,539	15,128,235
Other	2,018,036	1,547,226
Property under construction	166,945	176,466
	99,472,996	95,452,900
Accumulated depreciation	29,723,405	26,999,772
	$69,749,591	$68,453,128

2. Deferred charges:

As at December 31	1983	1982
Current –		
Fuel costs –		
Current year's excess costs recoverable in following months	$ 966,015	$ 932,243
Current portion of 1980 deferred fuel cost	722,340	722,340
	$1,688,355	$1,654,583
Non-current –		
Fuel costs –		
Balance of 1980 deferred fuel cost of $3,611,704 recoverable over 60 months commencing March 1981	$ 842,734	$1,565,074
Other –		
Unamortized financing costs	403,160	472,110
Storm damage costs	86,628	173,255
Inquiry costs	167,432	207,501
	657,220	852,866
	$1,499,954	$2,417,940

3. Shareholders' equity:

(1) Authorized capital –

The authorized capital consists of:

(a) An unlimited number of common shares with no par value.

(b) An unlimited number of cumulative redeemable voting preferred shares, issuable in series with the quantities, rights, restrictions and conditions established by the Board of Directors at time of issue.

(c) 6,000 5% cumulative non-voting preferred shares redeemable at $100 per share.

(d) An unlimited number of 6% non-cumulative non-voting preferred shares subordinate to all other preferred shares and redeemable at $10 per share.

(2) Issued capital –

As at December 31	1983 (shares)	1982 (shares)	1983 (amount)	1982 (amount)
Common shares	1,013,509	1,013,509	$3,312,635	$3,312,635
Subscriptions received	—	—	85,809	—
	1,013,509	1,013,509	$3,398,444	$3,312,635
Voting preferred:				
Series A	65,000	70,000	$1,300,000	$1,400,000
Series B	40,000	40,000	4,000,000	4,000,000
Series C	150,000	150,000	3,000,000	3,000,000
5% non-voting preferred	6,000	6,000	600,000	600,000
	261,000	266,000	$8,900,000	$9,000,000

3. Shareholders' equity (continued)

(3) Voting preferred shares series rights –

(a) Series A shares are entitled to a 10½% dividend and are redeemable after January 31, 1984 at a premium of 6% which reduces to zero by 1992. Five thousand shares are to be redeemed at par each year to meet sinking fund requirements.

(b) Series B shares are entitled to a dividend equal to 52% of the average interest rate on specified five year guaranteed investment certificates plus 3.25 percentage points. This dividend rate, currently 10.482%, is to be adjusted at five year intervals commencing in 1986. Commencing in 1987 the shareholders can require an annual redemption of up to 5% of the original issue at subscription value. In 1991 and every five years thereafter either the Company or the shareholders may require redemption, in whole or in part, of the balance of the issue at subscription value.

(c) Series C shares are entitled to a 14¾% dividend and are redeemable after August 31, 1988 at a premium of 5% which reduces to zero by 1993. The shareholders have the right to require redemption, in whole or in part, on September 1, 1988 at subscription value. The Company is obligated to purchase for cancellation a limited number of shares each year if they are available at subscription value.

(4) Share option programs

(a) In October 1983, the Company established a Customer Share Purchase Plan under which each customer may make an annual subscription for up to $4,000 worth of common shares of the Company at market value. An initial allotment of 50,000 shares has been made for this plan.

The Company also established an Employee Share Purchase Plan whereby each employee may subscribe up to 10% of his pay for the purchase of common shares of the Company at 90% of market value. An initial allotment of 10,000 shares has been made for this plan.

Subscriptions of $85,809 had been received under these plans at December 31, 1983 for which 3,420 shares were issued from treasury in January 1984.

(b) Through an optional stock dividend program, holders of common shares may elect to receive all or part of their dividends in the form of the 6% preferred shares. During 1983, 43,723 shares were issued and redeemed (1982 – 37,405). No shares were outstanding at the end of 1983 or 1982.

4. Long-term debt:

As at December 31	**1983**	1982
First mortgage sinking fund bonds –		
5¾% due 1983	**$ —**	$ 1,950,000
7¾% due 1987	**1,823,000**	2,150,000
8¾% due 1993	**2,750,000**	2,750,000
11% due 1996	**4,000,000**	4,000,000
10⅜% due 1997	**3,000,000**	3,000,000
10⅜% due 1998	**2,500,000**	2,500,000
18¾% due 1987	**7,920,000**	8,000,000
17¼% due 1990	**5,940,000**	6,000,000
	27,933,000	30,350,000
Less: Portion due within one year	**140,000**	2,240,000
	$27,793,000	$28,110,000

The first mortgage sinking fund bonds have a sinking fund requirement of 1% of the principal per annum. The annual requirement for sinking fund and for repayment of maturing debt for each of the next five years is: 1984 – $140,000; 1985 – $290,000; 1986 – $290,000; 1987 – $9,613,000; 1988 – $185,000.

Pursuant to the terms of the Deed of Trust and Mortgage, the Company has mortgaged or pledged, either by way of a first and specific charge or by way of a floating charge, all of its and its subsidiary's properties and assets as security for the first mortgage bonds.

5. Lease commitments and contingent liabilities:

Minimum annual rental commitments under long-term leases amount to approximately $2.2 million payable until 2009 for the use of the submarine cable interconnection between the electrical systems of Prince Edward Island and New Brunswick. Total rental expense amounted to approximately $2.3 million in 1983 and in 1982.

6. Pensions:

In 1981 the Company adopted a revised pension plan covering all of its regular employees. All the assets of the previous plan have been absorbed into the 1981 plan, which is fully funded for all entitlements arising since inception.

The Company makes payments, to retired employees, of supplements to pensions received under the previous plan. Under the 1981 plan it makes payments to retiring employees to bring the pensions payable from the plan assets up to the levels specified under the 1981 plan. Such payments, on the direction of the Public Utilities Commission, are expensed as paid.

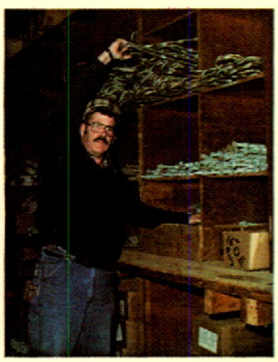
Total pension costs in 1983 amounted to $578,004 (1982 – $532,997).

Maritime Electric Company, Limited

We bring good things to light











Maritime Electric Company, Limited

The Impact of Inflation

Conventional financial reporting is based on the use of historical costs, with the cost of assets expressed in terms of the value of the dollar at the time of their acquisition. For Maritime Electric this means that the reported cost of its electric generating, transmission and distribution facilities is significantly below current replacement cost. In consequence, the depreciation charges which are allowed in determining profits, calculating income taxes and establishing power rates, are much lower than would be needed to pay for the replacement of these facilities as they wear out.

Corporations and accounting bodies in many countries have been studying ways of measuring and reporting this phenomenon for a number of years and, recently, public companies in the United States and United Kingdom have been required to publish a range of inflation information.

This year the Canadian Institute of Chartered Accountants (CICA) has recommended that major public companies participate in an experiment by including certain current cost data in their annual reports. It is hoped that over the period of this experiment standard methods of measurement and reporting will evolve for general use.

Because of the gravity of the impact of inflation on capital intensive companies like electric utilities, Maritime Electric has agreed to participate in this experiment and the full amount of data recommended by the CICA is given below along with an explanation of how it was calculated and what it means. *It should however be emphasized that this information is of an experimental nature and many approximations and judgements were required in developing it.*

Price Waterhouse, the Company's auditors, have reviewed the principles and techniques used in preparing this data; however, they have not examined it in detail and it is not covered by their report to the shareholders on page 14.

The Company has been calculating the impact of inflation on its assets and operations for several years and has reported to shareholders its estimates of the current cost of its facilities and the related depreciation expense. For 1983 these estimates along with those of inventories and contributions are (in thousands of dollars):

	Historical Cost		Current Cost	
	1983	1982	**1983**	1982
Land, buildings, plant and equipment (net of depreciation)	**$69,750**	$68,453	**$133,216**	$139,957
Inventories	**2,802**	2,481	**3,178**	2,833
Contributions (net of amortization)	**4,914**	4,822	**7,981**	8,275
Net assets of the Company (Common shareholders' equity)	**22,814**	21,053	**83,589**	87,360
Depreciation expense	**$ 2,979**	$ 2,832	**$ 7,165**	$ 7,311

The current cost of land, buildings, plant and equipment has been calculated in accordance with electrical industry practice by applying to the original cost of each unit of property indices specifically related to the current cost of the particular type of asset. Inventories were costed at the prevailing market price and contributions restated so that each contribution maintained the same relationship to the current cost of the asset for which the contribution was made as the historical amount of the contribution bore to the historical cost of the asset.

In determining the depreciation expense for the year the Company uses a composite rate of 3.25% on original cost of all assets. For calculating current cost depreciation expense the separate class percentage rates that underlie the composite rate were applied to the current cost of each class of fixed asset.

Comparative 1982 current cost figures are stated in dollars of 1983 purchasing power.

The result of carrying these adjustments to the Company's income statement is given below.

	Historical Cost		Current Cost	
	1983	1982	**1983**	1982
Operating Revenue	**$56,965**	$53,743	**$56,965**	$56,237
Operating Expenses	**41,360**	38,461	**41,455**	40,332
Depreciation	**2,979**	2,832	**7,165**	7,311
Interest	**4,104**	4,915	**4,104**	5,143
	48,443	46,208	**52,724**	52,786
Earnings Before Income Taxes	**8,522**	7,535	**4,241**	3,451
Current Income Taxes	**3,910**	2,941	**3,910**	3,077
Deferred Income Taxes	**80**	667	**80**	698
	3,990	3,608	**3,990**	3,775
Net Earnings (Loss)	**$ 4,532**	$ 3,927	**$ 251**	$ (324)

These figures have been presented in accordance with the principles recommended by the CICA. They are not intended to be management's representation of what would have happened had the Company been operating in a current cost environment since both the revenues and income taxes have not been changed from the historical cost numbers. However, it would not be unreasonable to anticipate that, were all financial reporting to be mandated on a current cost basis, there might be changes both in the rates charged to the Company's customers that are presently established by the Public Utilities Commission on the basis of historical costs and also in the income tax expense, as the Income Tax Act allows at present only the deduction of historical cost depreciation. Nevertheless, the above figures clearly demonstrate that under present legislation and regulations the Company is not able to fund out of allowed depreciation the replacement of its facilities and that the significantly higher cost of future replacements will have to come from new funds and new rates.

The CICA recommends that companies also provide information on three different methods of measuring the impact of inflation on their capital so that readers can assess this impact under each method.

Each method starts by calculating the changes in asset costs and their effect on depreciation and operating expense in the manner given earlier. However, they differ in the extent to which these cost changes should be reflected in shareholders' income for that year. They also differ as to whether the objective should be to measure how well a company has maintained its ability to replace its productive assets (the operating capability maintenance concept) or whether the objective is to measure how well it has preserved the purchasing power of its shareholders' funds (the financial capital maintenance concept).

Under each of these concepts the total increase in the cost of replacing the assets is shared between common shareholders and debtholders (including preferred shareholders). The amount borne by debtholders is referred to as the 'financing adjustment' and, in calculating the earnings of the Company attributable to common shareholders, the financing adjustment is treated as a reduction of interest and preferred share dividend expense. Based on the asset valuations given above, the three alternative financing adjustments for Maritime Electric are:

	1983	1982
	(000's)	(000's)
Operating Capability Maintenance Concept:		
(1) Total changes in year When the current year's increase in the cost of replacing assets is allocated between debtholders and shareholders the financing adjustment is	**$ 865**	$2,552
(2) Realized changes in year When the increase in depreciation and operating expense for the year (i.e. the part of the cumulative increase in costs that was charged to expense in the year) is allocated between debtholders and shareholders the financing adjustment is	**$1,413**	$1,526
(3) Financial Capital Maintenance Concept: Benefit to the Company from having net monetary liabilities (i.e. having more debt than cash and accounts receivable) in a period when the purchasing power of money went down	**$1,870**	$3,393

However, under the financial capital maintenance concept a company needs to earn enough to cover the decline in the purchasing power of the shareholders' capital invested in properties and inventories and so, when calculating the earnings attributable to common shareholders, there would be a charge to income for the increase in asset costs based on the general inflation rate with an offsetting credit for the increase in their current cost.

For Maritime Electric the increase in the cost of properties and inventories were:

	1983	1982
	(000's)	(000's)
Based on general inflation rate	**$5,520**	$9,608
Based on Company's estimate of current cost of the assets	**$2,622**	$7,411

Under these concepts the 1983 earnings attributable to common shareholders would be:

	Operating Capability Maintenance Concept		Financial Capital Maintenance Concept
	Total Changes (000's)	Realized Changes (000's)	(000's)
Current cost net earnings (as calculated previously)	**$ 251**	**$ 251**	**$ 251**
Financing adjustment	**865**	**1,413**	**1,870**
	1,116	**1,664**	**2,121**
Charge to maintain purchasing power of capital	—	—	**5,520**
Less: Increase in current cost of assets	—	—	**2,622**
	—	—	**2,898**
	1,116	**1,664**	**(777)**
Preferred Dividends	**1,031**	**1,031**	**1,031**
Earnings attributable to common shareholders	**$ 85**	**$ 633**	**$(1,808)**

Maritime Electric Company, Limited

Ten-Year Summary

	1983	1982	1981	1980
Statement of Income ($'000)				
Operating Revenue	**56,965**	53,743	45,651	36,261
Operating Expenses	**41,360**	38,460	35,614	27,512
Depreciation	**2,979**	2,832	2,256	1,998
Finance Charges	**4,104**	4,915	2,752	1,943
Provision for Income Taxes	**3,990**	3,608	2,474	2,267
Net Earnings	**4,532**	3,928	2,555	2,541
Balance Sheet Data ($'000)				
Fixed Assets	**99,473**	95,453	83,268	70,140
Accumulated Depreciation	**29,723**	27,000	24,199	22,131
Capitalization:				
• Total Debt	**31,531**	32,642	30,981	23,829
• Shareholders Equity				
• Preferred	**8,900**	9,000	6,100	2,200
• Common	**22,814**	21,053	17,750	16,954
Share Data				
Earnings per Common Share ($)	**3.45**	3.47	2.30	2.60
Dividends per Common Share ($)	**1.80**	1.70	1.42	1.18
Number of Common Shares				
• Outstanding at Year End (000's)	**1,014**	1,014	900	900
Book Value per Common Share ($)	**22.51**	20.77	19.72	18.84
Market Value per Common Share:(d)				
• High ($)	**26⅛**	21	15½	16
• Low ($)	**19¾**	12¾	13	11½
Market Volume – Shares Traded(e) (000's)	**58.9**	100.7	37.4	148.9
Financial Ratios				
Capital Structure (percent)				
• Total Debt	**50**	52	57	55
• Preferred	**14**	14	11	5
• Common	**36**	34	32	40
Coverage (times)				
• Total Debt Interest	**3.0**	2.5	2.7	3.2
• Total Debt Interest and Preferred Dividends	**2.1**	2.0	2.0	2.7
Return on Average Common Equity (percent)	**16.0**	16.4	12.0	14.3
Regulatory Data				
Rate Base ($'000)	**51,491(f)**	49,942(f)	49,711	47,204
Return on Rate Base (percent)				
• Allowed	**11.60-11.75(f)**	10.75-12.25(f)	10.75-12.25	9.25-10.0
• Earned	**10.70(f)**	11.59(f)	9.34	9.49
Operating Data				
Sources of Energy (million kWh)				
• Mainland	**519.4**	476.0	483.6	387.8
• Island	**11.4**	34.5	30.8	126.8
• Total	**530.8**	510.5	514.4	514.6
Sales (million kWh)				
• Residential	**212.4**	200.3	204.8	202.4
• General Service & Other	**258.0**	253.2	255.9	257.4
• Total	**470.4**	453.5	460.7	459.8
Customers (000's)				
• Residential	**36.0**	34.9	34.3	34.3
• General Service & Other	**7.1**	7.4	7.7	7.8
• Total	**43.1**	42.3	42.0	42.1
Number of Employees	**193**	196	196	200

Notes: (a) Operating expenses after deduction of Provincial Government oil subsidy.
(b) Includes extraordinary item of $261,160 – gain on sale of office building.
(c) Includes Dividend out of Tax Paid Undistributed Surplus on Hand.
(d) Prices quoted on the Toronto Stock Exchange.
(e) Combined volume of shares traded on the Toronto and Montreal Stock Exchanges.
(f) Maritime Electric (Unconsolidated).

1979	1978	1977	1976	1975	1974
31,809	26,749	23,376	19,749	14,798	12,288
24,182	19,028	17,392	13,376[a]	9,963[a]	8,478[a]
1,789	1,866	1,744	1,865	1,430	1,293
1,552	1,616	1,351	1,000	1,016	917
1,942	1,901	1,255	1,496	1,077	784
2,605[b]	2,338	1,634	2,012	1,312	816
64,830	59,518	55,656	51,349	45,762	41,913
20,316	18,647	16,825	15,180	13,597	12,154
21,880	19,358	18,654	17,251	16,934	15,526
2,300	2,400	2,500	2,600	600	600
15,675	14,145	12,677	11,869	10,628	9,896
2.66[b]	2.35	1.56	1.99	1.42	.87
.96	.72	.66[c]	.61[c]	.60[c]	.60[c]
900	900	900	900	900	900
17.42	15.72	14.09	13.19	11.81	11.00
15½	15	10¼	9	8½	10
11	9⅝	8¼	7	6	7
76.1	66.7	53.1	37.6	53.4	27.0
55	54	55	54	60	60
6	7	7	8	2	2
39	39	38	38	38	38
3.4	3.4	2.9	3.8	3.0	2.6
2.8	2.8	2.3	2.9	2.8	2.5
16.1[b]	15.8	11.4	15.9	12.5	8.0
40,147	39,508	37,342	34,265	28,696	26,520
9.25-10.0	9.25-10.0	9.25-10.0	9.25-10.0	9.25-10.0	8-8.5
9.70	9.96	8.02	8.95	8.40	6.55
361.2	268.8	67.0	—	—	—
151.1	209.7	385.2	445.3	419.6	382.8
512.3	478.5	452.2	445.3	419.6	382.8
198.4	188.2	193.6	189.6	176.1	158.1
257.8	239.6	214.7	213.6	202.3	187.6
456.2	427.8	408.3	403.2	378.4	345.7
33.6	32.6	31.8	30.1	29.5	28.3
7.5	6.9	6.1	5.9	5.7	5.3
41.1	39.5	37.9	36.0	35.2	33.6
204	198	195	186	182	179

CREDITS:

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■ *Photos of Maritime Electric personnel courtesy of Clair Perry Photography.*

■ *Information contained in the Agriculture section courtesy of Prince Edward Island Department of Agriculture.*