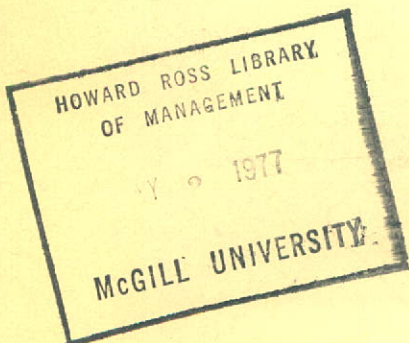


POWER

Canadian
International
Power
Company
Limited

Annual Report

December 31, 1976



Description of the Company's Business

C I Power is a Canadian based holding company which for many years has been primarily engaged through subsidiary companies in the generation, transmission and sale of electric power in areas of Venezuela, El Salvador, Bolivia and the entire Island of Barbados. In October 1976, the Company's electric utility subsidiaries in Venezuela were sold to an agency of the Venezuelan Government for a net amount, after liabilities and taxes, of U.S. \$85 million. The remaining three utility companies – The Barbados Light & Power Company Limited; Bolivian Power Company Limited and Compañía de Alumbrado Eléctrico de San Salvador – reported total earnings of \$7,188,000, with C I Power receiving approximately \$2,000,000 in net dividends from their operation. In 1976 the Company's consolidated operating revenues, revised to allow for the Venezuelan divestiture, were \$58,971,000.

Electricity is produced in Barbados by generation equipment powered by diesel and fuel oil; in Bolivia by two hydro-electric systems utilizing the water flow of two separate Andean watersheds. The El Salvador subsidiary primarily purchases power from the Government. Installed generating and purchased capacity at year end was: Barbados 101,000 kilowatts; Bolivia 134,000 kilowatts; and El Salvador 162,000 kilowatts.

The Company's power subsidiaries operate under governmental franchises or contracts and are regulated by government ministries or agencies.

With the exception of Barbados, the Government in each country of operation is engaged directly or indirectly in the power business. Information on the sale of the Venezuelan electric utility subsidiaries will be found in the "To the Shareholders" letter and in note 9 to the Financial Statements.



CANADIAN INTERNATIONAL POWER COMPANY LIMITED

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TELEPHONE — 514-285-1414
TELEX — 05-268620
CABLE ADDRESS — CIPOWER

April 29, 1977

TO THE SHAREHOLDERS:

On behalf of the Board of Directors of Canadian International Power Company Limited, we are pleased to enclose this Company's 1976 Annual Report.

May we take this opportunity to advise you that we expect to mail to all shareholders on or about June 1, 1977, the Proxy Information Circular — Prospectus which will contain all details of the proposal to distribute the assets of the Company and surrender its charter.

As previously announced, the Special General Meeting of Shareholders and the Annual General Meeting have been called for June 30, 1977.

For the Board of Directors,

A handwritten signature in blue ink, appearing to read 'Morley P. Thompson'.

Morley P. Thompson,
Chairman

A handwritten signature in blue ink, appearing to read 'Eric H. Campbell'.

Eric H. Campbell,
President

Canadian International Power Company Limited

Board of Directors

- *Eric H. Campbell
Montreal, President,
Canadian International Power
Company Limited
- **Leo F. Daley
Boston, Member,
Honorary Advisory Board,
Smith Barney, Harris Upham &
Co. Incorporated
- ***William R. Eakin
Montreal, Chairman,
Board of Governors,
McGill University
- Alan S. Gordon
Montreal, Consultant,
Merrill Lynch, Royal Securities
Limited
- *William M. Hickey
New York, Chairman,
The United Corporation
- *John R. Hughes
Montreal, Director,
Maritime Electric Company,
Limited
- *Alejandro J. Lara
Caracas, Venezuela, President,
Fiveca, S. A., and Banco
Royal Venezolano, S. A.
- Harold W. Smith
Waterbury, Connecticut,
President,
First Federal Savings and
Loan Association of Waterbury
- Richard Joyce Smith
New York, Partner, Whitman &
Ransom,
Attorneys-at-law, Trustee,
New York, New Haven and
Hartford Railroad Company,
In Reorganization
- *Morley P. Thompson
Cincinnati, Ohio, President,
D. H. Baldwin Company
and The United Corporation

*Members of the Executive Committee
**Members of the Audit Committee

Officers

- Morley P. Thompson (1975)
Chairman
 - William M. Hickey (1943)
Chairman of the Executive
Committee
 - Eric H. Campbell (1936)
President
 - Alfred E. Houghton (1958)
Vice-President—Engineering
 - Guy-Paul Massicotte (1976)
Vice-President—Law and
Secretary
 - David C. Mitchell (1953)
Vice-President—Operations
 - Richard G. Munro (1974)
Vice-President and Treasurer
 - Frederic J. Ahern (1951)
Vice-President
 - Manuel Cano G. (1936)
Vice-President
 - John H. Nelson (1955)
Vice-President
 - P. Declan O'Sullivan (1958)
Vice-President
 - Henning J. Porsaa (1957)
Assistant Treasurer
- ### Executives of Operating Companies
- Barbados:
John H. Nelson (1955)
Managing Director
 - Bermuda:
John Kazakoff (1938)
President and General Manager
 - Bolivia:
Bruce F. Junkin (1947)
President
 - Carlos R. Mier (1968)
General Manager
 - El Salvador:
Manuel Cano G. (1936)
President and General Manager
 - Venezuela:
Dr. Alfredo Anzola M. (1972)
President, Inversiones
Indesven, S. A.

Office

- 2020 University Street,
Suite 1800
Montreal, Quebec, Canada,
H3A 2A5
Telephone: Area Code: 514 -
285-1414

Registrars

- Montreal Trust Company
1 Place Ville Marie
Montreal, Quebec, Canada
- The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, N.Y.

Auditors

- Arthur Young, Clarkson,
Gordon & Co.
630 Dorchester Boulevard West
Montreal, Quebec, Canada

Transfer Agents

- Montreal Trust Company
- 1695 Hollis Street
Halifax, Nova Scotia
- 1 Place Ville Marie
Montreal, Quebec
- 15 King Street West
Toronto, Ontario
- Notre Dame at Albert Street
Winnipeg, Manitoba
- 8th Avenue at 3rd Street
Calgary, Alberta
- 466 Howe Street
Vancouver, British Columbia
- Citibank, N.A.
111 Wall Street
New York, N.Y.

(Dates indicate year of first employment
with associated companies)

1976 Highlights

	1976	1975
Consolidated Net Income Before Extraordinary Item	\$ 13,785,000	\$ 15,916,000
Preferred Stock Dividends	\$ 263,000	\$ 269,000
Earnings Per Common Share Before Extraordinary Item	\$ 2.33	\$ 2.70
Common Stock Dividends	\$ 8,719,000	\$ 8,075,000
Installed and Purchased Generating Capacity (kilowatts)*	397,000	348,000
Peak Demand (kilowatts)*	281,000	222,000
Electric Sales in megawatt-hours*	1,309,000	1,215,000
Number of Electricity Customers*	334,000	316,000

*Adjusted to exclude Venezuelan companies sold.

Ten Year Record

(at December 31)

	1976	1967
Cash and Bank Deposits	\$114,766,000	\$ 23,577,000
Preferred Stock Outstanding	\$ 4,585,000	\$ 6,261,000
Consolidated Operating Revenue	\$ 58,971,000	\$ 17,140,000
Earnings before Extraordinary Item		
– for Common Stock	\$ 13,522,000	\$ 11,514,000
– per Share	\$ 2.33	\$ 1.99*
Earnings (loss)		
– for Common Stock	\$ (42,055,000)	\$ 11,514,000
– per Share	\$ (7.23)	\$ 1.99*

All figures in this Report are in U.S. Dollars unless otherwise noted.

*As restated for 5-4 stock split in 1968 and 2-1 stock split in 1972:

To the Shareholders

The most important event of 1976 for C I Power was the sale of the Company's Venezuelan electric public utilities to an agency of the Government of that country for cash. Of more immediate interest, however, is the decision made by the Board of Directors on February 11, 1977, to propose to the shareholders the distribution to them of the assets of the Company. This proposal will be submitted to the shareholders at a Special General Meeting to be held on June 30, 1977 prior to the Annual General Meeting scheduled for such date.

An Information Circular (Proxy Statement) giving full details of the proposal will be included with the shareholders' Notice of the Meetings.

The Asset Distribution Proposal

The four Venezuelan properties, Maracaibo, Barquisimeto, Carora and Perijá, comprised 41.5 per cent of the consolidated unappraised net assets of C I Power as of September 30, 1976. Their sale made for a considerable change in the value of the Company's holdings. The necessary realignment of the Company's business was anticipated and contemplated the operation of the Company as a holding company with financial service and insurance businesses in the United States and Canada. Various investment proposals were investigated and your Board had authorized the negotiation of an agreement for the acquisition of a United States life insurance company as a first step. Upon further study of this program, it was decided in the early part of December 1976 to consider terminating the negotiations relative to the proposed insurance company acquisition and a Special Committee of the Board of Directors was established on December 16, 1976 to study various alternatives, including liquidation.

After consultation with financial advisors, study of alternatives and the tax and business considerations of each, the Committee reported its unanimous recommendation that the Company distribute its assets and surrender its charter under the provisions of the

Canada Corporations Act. On February 11, 1977 the Board of Directors unanimously decided to submit a proposal for the liquidation of the Company to the shareholders. On April 1, 1977, the Board of Directors adopted a by-law authorizing the payment or provision for payment of all of the Company's obligations, the distribution of its assets rateably among its shareholders and an application to surrender its charter. A Special General Meeting of Shareholders has been called for June 30, 1977, to consider, among other things, a proposal to sanction this by-law.

The proposed plan would call (after provision for liabilities) for the retirement of the outstanding 5.2% Cumulative Redeemable Preferred Shares, 1965 Series, the distribution in kind of the shares of the three operating utility subsidiaries in Barbados, Bolivia, and Salvador, the liquidation and distribution of other subsidiaries and other assets of the Company. As of February 1, 1977, the assets of C I Power, not including the three operating utility subsidiaries, consisted of short-term money market securities of approximately \$110 million, amounts receivable from the previous sale of the Venezuelan subsidiaries of approximately \$6 million, payable on or before April 30, 1977, shares in other subsidiaries, portfolio investments and other assets. After deduction of liabilities and retirement of the preferred stock, the Company would have remaining assets estimated as of February 1, 1977 of U.S. \$120 million, excluding the shares of the three operating utility subsidiaries. As of April 1, 1977, there were 5,851,390 common no par value shares outstanding and approx-

imately 48 per cent of the outstanding voting securities of C I Power is owned by The United Corporation, a United States based closed-end investment company.

As for the preferred stock, there were 246,103 shares outstanding on March 1, 1977. Under the plan these shares would be retired at the price of Canadian \$20.40 per share plus accrued dividends.

Net income from the three operating utility subsidiaries in Barbados, Bolivia and Salvador, for the year ended December 31, 1976, amounted to \$1,544,000, \$2,773,000 and \$2,185,000 respectively. Dividends received by C I Power from these companies in 1976 amounted to approximately \$2 million, with similar dividends expected in 1977. It should be noted that at this time there is no established market for the shares of these three companies.

Again, it should be noted that complete, detailed data on the asset distribution proposal will be supplied to shareholders in the Information Circular (Proxy Statement) to be mailed with the Notice of the Meetings to be held on June 30, 1977.

The Venezuela Sale

Nearly six years of complex negotiations with the Government of Venezuela on the partial or complete acquisition of the C I Power electric utility properties in western Venezuela ended October 29, 1976, in what management considered a fair and satisfactory resolution of a difficult problem. The Fondo de Inversiones de Venezuela, an agency of the Venezuelan Government, purchased the Maracaibo, Barquisimeto, Carora and Perijá companies for the cash price of U.S. \$90,005,000.

Net proceeds to C I Power, after deducting Venezuelan taxes, employee indemnities and other liabilities, amounted to U.S. \$85,098,000. The book value of the assets of the utility subsidiaries sold, which included an appraisal increment of \$60,746,000, was \$140,675,000 at the time of the sale. The difference between this amount and the net proceeds of \$85,098,000 is treated as a book loss of \$55,577,000. The appraisal increment of \$60,746,000 has been transferred to the retained earnings of the Company so that the impact of the Venezuelan sale on the consolidated retained earnings is an increase of \$5,169,000.

In 1971 when it became obvious that some form of Government ownership would have to be carried out, the Company appointed a Negotiating Committee including the Presidents of C I Power and the Venezuelan utility subsidiaries, and four leading citizens of Venezuela, to confer with the Government Agency responsible for utility matters. This Committee held a series of discussions with the Government representatives during the Presidency of Dr. Rafael Caldera. Government proposals at that time ranged from the concept of mixed ownership by the Government, C I Power and private Venezuelan investors, to that of joint Government-Company ownership of the Barquisimeto and Carora companies. But, before leaving office after the election of President Carlos Andres Perez, Dr. Caldera attempted to finalize negotiations under threat of expropriation, but his term of office concluded without agreement being reached.

The Perez Government, on assuming office, passed a law on April 29, 1974, requiring that in a period of three years, foreign ownership in electric utilities and other infrastructure industries, must be reduced to twenty per cent.

Conditions of sale offered by the Government late in 1974 were rejected by the Company early in 1975, and in April the Government was proposing to take unilateral steps to acquire the utilities, but wiser counsels prevailed and it was agreed to continue negotiations. Late in 1975 a new Ministry of State was created, and the Minister was placed in

charge of the negotiations for the Government. In 1976 it was believed several times that the matter was finally to be concluded, only to have further difficulties arise. A final series of negotiations resulted in the long awaited settlement outlined above. The Negotiating Committees of both parties are to be congratulated for helping to bring this matter to a satisfactory conclusion.

1976 Income

Consolidated income for the year before extraordinary losses, amounted to \$13,785,000, compared with \$15,916,000 for 1975. The contribution to income from the continuing operations was 76 cents per common share, and from the sold operations \$1.57, for a total of \$2.33 per share, compared with \$2.70 for the previous year.

The financial statements in this report, pending a recommendation of the Canadian Institute of Chartered Accountants, do not reflect the unrealized gains on the translation of foreign currencies into U.S. dollars, as is currently recommended for companies under the rules of the Financial Accounting Standards Board of the United States.

The Ten-Year Record

Earnings for the Common Stock from 1967-1976 rose 17 per cent. During the period, purchases of Preferred Shares for retirement totalled \$1,793,000. During this same period, the Company financed and developed new and expanded facilities for a total expenditure of \$85,658,000. In all countries it has served, the Company has maintained excellent relationships with the people and their governments by supplying their developing nations with the needed electric power at reasonable cost.

C I Power Services

In recent years, C I Power Services has functioned as the engineering and purchasing subsidiary of Canadian International Power. As a consequence of the sale of the Venezuelan subsidiaries, the Company has been engaged in negotiating the cancellation of its 70 per cent interest in C I Power Services under a procedure whereby certain employees of Services will gain sole control and ownership of that Company. No definitive agreement with respect to this transaction has been reached.

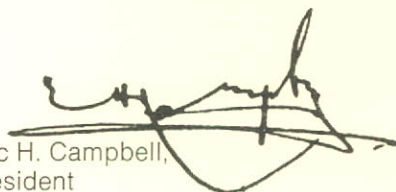
A Concluding Note

In issuing what, if the shareholders accept the Board's proposal for distribution of assets, may be the last Annual Shareholders Letter of Canadian International Power, the Board would like to express our gratitude to all those who have kept this a strong, well managed Company through the years. Producing and distributing electric energy for developing nations with diverse economies and varying government structures, takes considerable character, as well as expertise. More, it takes a real understanding of differing cultures with differing viewpoints. That C I Power has managed to maintain amicable relations with all of its host countries is a tribute to its people: property managers, engineers, accountants and workers, all who have done their jobs so loyally and well.

For the Board of Directors,



Morley P. Thompson,
Chairman



Eric H. Campbell,
President

Montreal, Canada
April 29, 1977.

1976 Operations Review, Subsidiary Companies

The Barbados Company

In 1976, sales rose 6.3 per cent above 1975, the first time they had shown an increase over 1972 levels. The number of customers increased as well. Yet higher operating expenses and a delay in lower fuel cost benefits caused by the late commissioning of the new 40,000 kilowatt steam plant at Spring Garden, adversely affected income.

Manufacturers' delay in delivering equipment and unusual construction problems retarded the commissioning of the steam plant months behind schedule. Before it could be placed in operation, the Company was plagued by a series of mechanical breakdowns of the diesel and gas turbine generators. This forced the Company to program a month of power rationing, the first such power rationing program since 1949.

As a result of high operating expenses, as well as repayments and interest on the loans required for the new steam plant, the Company in December applied to the Public Utilities Board for a rate revision. With the more efficient steam plant in operation, using lower cost fuel, the Company combined this projected rate increase with a reduction in the fuel charge, and is applying for only a moderate increase in a consumer's total bill, taking into account the effect of the reduction in the fuel charge.

No report on Barbados for 1976 is complete without noting that the island nation celebrated the tenth year of its independence, and in the same year saw the opposition party taking over the Government administration in a hotly contested but peaceful election.

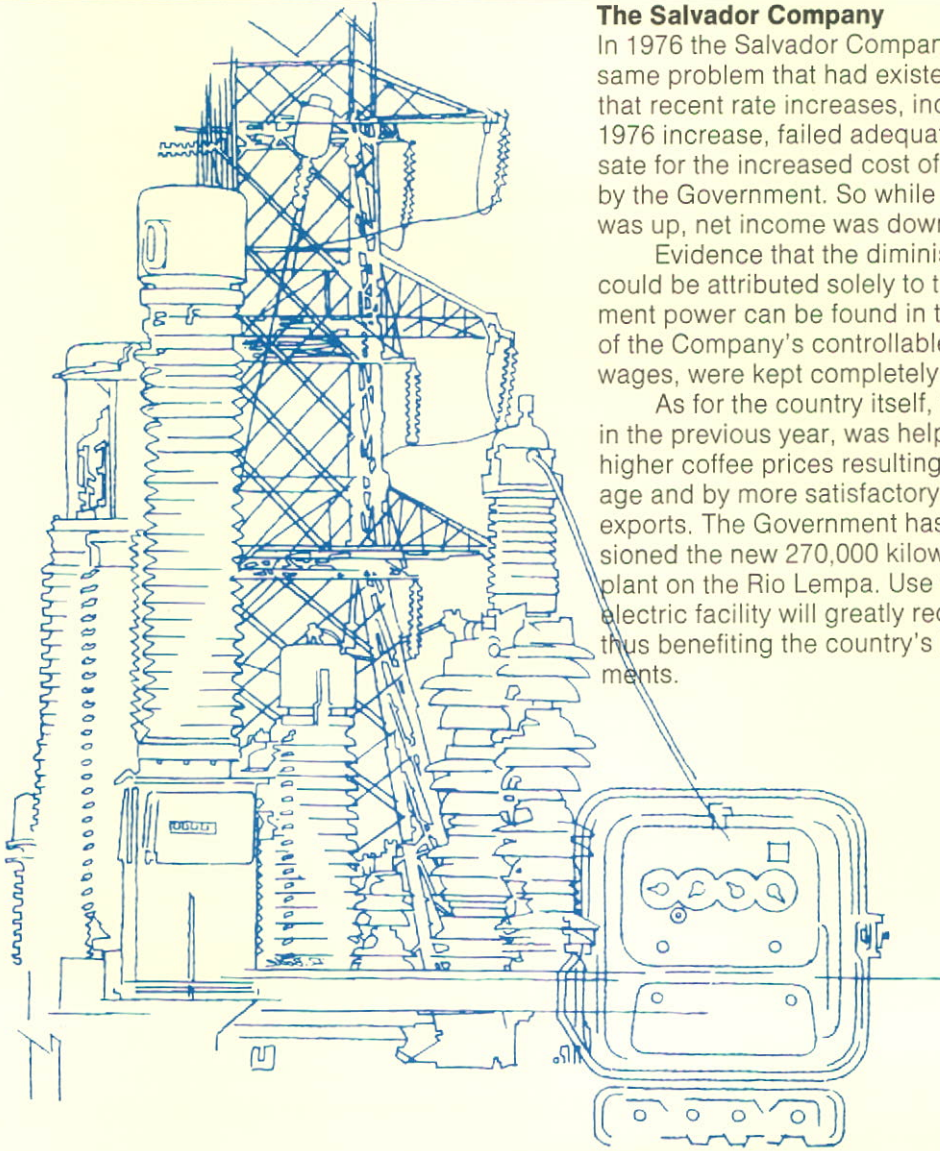
The Bolivia Company

The Bolivia Company enjoyed a moderately improved financial status in 1976. Sales volume and net income increased over the previous year. The Company, which, in June 1975, paid its first substantial cash dividend since 1969, paid preferred dividends in each quarter of 1976.

This betterment in the Company's financial condition resulted from the Government's favourable response to management's continuous requests for the rate increases needed to meet increased operating expenses. In early 1976 the Government allowed a 5 per cent rate increase, and in January 1977 it has allowed a 12 per cent increase. This latest rate rise is the fourth rate increase under the present Bolivian administration.

During the year, the Company continued with capital expenditures which had been deferred due to financial stringency. Among new construction was the building of three much needed substations. Over the years, the Company had invested impressive sums in the construction of a series of hydro-electric power stations in the Zongo Valley, which supply the City of La Paz with electric power. Government authorities have recently informed the Company that it should not have to invest in further generation development in view of the Government's intention to increase generating capacity for La Paz by linking the Company's power system with the Government's own system and to assume itself any additional generating requirements. This would mean that the Company's future capital expenditures would be limited to transmission and distribution development.

Bolivia continues to enjoy an exceptionally low inflation rate, about 6 per cent. The country received substantial backing from both private and inter-governmental financial groups, evidencing considerable international confidence in the country's economic future.



The Salvador Company

In 1976 the Salvador Company encountered the same problem that had existed in 1975, namely that recent rate increases, including the January 1976 increase, failed adequately to compensate for the increased cost of power supplied by the Government. So while sale volume was up, net income was down.

Evidence that the diminished income could be attributed solely to the cost of Government power can be found in the fact that all of the Company's controllable costs, including wages, were kept completely in line.

As for the country itself, the economy, as in the previous year, was helped by much higher coffee prices resulting from world shortage and by more satisfactory prices for cotton exports. The Government has recently commissioned the new 270,000 kilowatt hydro-electric plant on the Rio Lempa. Use of this large hydro-electric facility will greatly reduce oil imports, thus benefiting the country's balance of payments.

The Monterey Company

In 1976, Monterey Railway, Light and Power Company, a financial subsidiary of C I Power, incurred a loss of \$369,403 as against a profit of \$318,594 in 1975. Due primarily to the devaluation of the peso, the investments in the equity of Aluminio, S.A. de C.V. and Fundidora de Monterrey, S.A. were written down by an amount of \$994,000, reflecting current market values. Income from investments was \$662,777, compared with \$625,796 in 1975, a gain of 6 per cent. This increase in investment income was mainly due to the gradual conversion of the proceeds of the 6½ per cent Nacional Financiera notes into higher yielding Government of Mexico bonds. However, the increase in investment income was more than offset by the increased Canadian income tax. The Company was subject to the full Canadian corporate income tax rate in 1976, compared with four-fifths of the full rate applicable in 1975, and three-fifths in 1974.

The regular dividends on the Company's preference stock totalling Cdn. \$5.00 per share annually were declared and paid during the year 1976. A dividend of Cdn. \$2.00 per share was paid quarterly on the ordinary stock of the Company for a total of Cdn. \$8.00 per share for the year 1976, marking the first time in the history of the Company that regular quarterly ordinary stock dividends have been paid.

Since 1962 and through the end of 1976, the Company has been able to pay off all indebtedness, including arrears on the preference stock. It is worth noting that in addition to having a balance sheet virtually free of indebtedness, almost all of the assets of the Company are now represented by U.S. dollar external sinking fund Government of Mexico bonds and by portfolio positions in Mexican industrial enterprises, Aluminio, S.A. de C.V., and Fundidora de Monterrey, S.A., an important steel company.

Of particular interest was the final payment on January 15, 1977, in the amount of \$407,218.81, on the semi-annual series of 6½ per cent Nacional Financiera notes, originally received in the 1962 sale of the Company's physical public utility assets to an agency of the Mexican Government. Each of the thirty serial notes was paid on the due date over the fifteen years.

Inversiones Indesven, S.A.

After the sale of the electric utility properties, C I Power, through Indesven, continues to own other miscellaneous investments in Venezuela, principally in a real estate enterprise, Fiveca, S.A. Some of the investments have been disposed of and consideration will be given to the eventual disposal of all C I Power's interests in Venezuela.

Financial Statements 1976

The Special General Meeting of Shareholders and Annual General Meeting of Shareholders of Canadian International Power Company Limited will be held on Thursday, June 30, 1977 at 9:30 a.m. (Eastern Daylight Saving Time), at the Ritz-Carlton Hotel, 1228 Sherbrooke St. West, Montreal, Quebec, Canada.

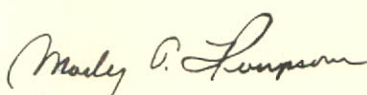
Consolidated Balance Sheets

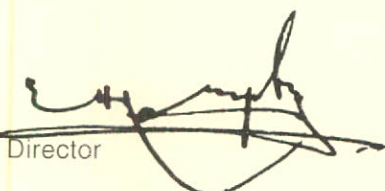
December 31, 1976 and 1975
(expressed in United States currency)

Assets

	1976	1975
Property, plant and equipment (Note 1(f))		
Production	\$ 67,117,000	\$ 62,624,000
Transmission and distribution	60,522,000	55,402,000
Other	11,266,000	10,447,000
	<u>138,905,000</u>	<u>128,473,000</u>
Less accumulated depreciation	<u>31,499,000</u>	<u>28,354,000</u>
Net Property, plant and equipment	<u>107,406,000</u>	<u>100,119,000</u>
Net assets of Venezuelan companies sold (at appraised value) (Note 9)	<u>—</u>	<u>141,112,000</u>
Investments and other assets (Note 3)	<u>14,085,000</u>	<u>15,355,000</u>
Current Assets:		
Cash	1,302,000	1,034,000
Bank term deposits payable in U.S. dollars	112,776,000	26,515,000
Other term deposits	688,000	602,000
Accounts receivable	15,955,000	9,097,000
Materials and supplies, at cost	5,405,000	4,633,000
Prepaid expenses	<u>104,000</u>	<u>125,000</u>
Total current assets	<u>136,230,000</u>	<u>42,006,000</u>
Deferred charges	<u>456,000</u>	<u>2,251,000</u>
	<u>\$258,177,000</u>	<u>\$300,843,000</u>

On behalf of the Board:


Director


Director

See accompanying notes

Shareholders' Equity and Liabilities

	1976	1975
Shareholders' equity:		
Capital stock (Note 4)		
Preferred	\$ 4,585,000	\$ 4,701,000
Common	17,877,000	17,692,000
	<u>22,462,000</u>	<u>22,393,000</u>
Appraisal increment to property, plant and equipment (Notes 1(f), 9)	—	60,746,000
Retained earnings (Note 8)	176,944,000	166,938,000
Total shareholders' equity	<u>199,406,000</u>	<u>250,077,000</u>
Minority interest in subsidiary companies	<u>7,381,000</u>	<u>7,048,000</u>
Long-term debt (Note 5)	<u>23,309,000</u>	<u>23,587,000</u>
Current Liabilities:		
Bank loans	4,181,000	3,009,000
Accounts payable	12,586,000	6,362,000
Customers' deposits, including interest thereon	861,000	690,000
Income and other taxes payable	1,189,000	1,265,000
Dividends payable	2,160,000	2,163,000
Long-term debt, due within one year (Note 5)	2,484,000	1,757,000
Total current liabilities	<u>23,461,000</u>	<u>15,246,000</u>
Employees' service and severance indemnities (Note 7)	<u>1,746,000</u>	<u>1,572,000</u>
Provision for contingencies	—	641,000
Customers' contributions for line extensions	<u>2,874,000</u>	<u>2,672,000</u>
	<u>\$258,177,000</u>	<u>\$300,843,000</u>

See accompanying notes

Consolidated Statements of Retained Earnings

Years ended December 31, 1976 and 1975
(expressed in United States currency)

	1976	1975
Balance, beginning of year as previously reported	\$164,723,000	\$157,203,000
Prior period adjustment (Note 1(f))	2,215,000	1,992,000
Balance as restated	<u>166,938,000</u>	<u>159,195,000</u>
Add:		
Net Income (loss)	(41,792,000)	15,916,000
Transfer from Appraisal Increment (Note 9)	60,746,000	—
Discount less expenses on Preferred Shares purchased (Note 4)	34,000	171,000
	<u>185,926,000</u>	<u>175,282,000</u>
Deduct:		
Preferred Share dividends (Cdn. \$1.04 per share)	263,000	269,000
Common Share dividends (per share – \$1.50 in 1976 and \$1.39 in 1975)	8,719,000	8,075,000
	<u>8,982,000</u>	<u>8,344,000</u>
Balance, end of year (Note 8)	<u>\$176,944,000</u>	<u>\$166,938,000</u>

See accompanying notes

Consolidated Statements of Income

Years ended December 31, 1976 and 1975
(expressed in United States currency)

	1976	1975
Operating Revenue	<u>\$ 58,971,000</u>	<u>\$ 46,536,000</u>
Operating Revenue Deductions:		
Operating and maintenance expenses	46,580,000	35,882,000
Taxes (Note 6)		
Income	3,829,000	3,243,000
Other	616,000	596,000
Provision for depreciation (Note 1(f))	3,645,000	3,395,000
	<u>54,670,000</u>	<u>43,116,000</u>
Operating Income	4,301,000	3,420,000
Income from Venezuelan companies sold (Note 9)	9,154,000	11,055,000
Investment Income	2,633,000	3,342,000
Gross Income	<u>16,088,000</u>	<u>17,817,000</u>
Income Deductions:		
Interest expense – long-term debt	2,043,000	1,726,000
– other	388,000	296,000
Interest charged to construction (credit)	(971,000)	(971,000)
Minority interest	843,000	850,000
	<u>2,303,000</u>	<u>1,901,000</u>
Income before extraordinary item	13,785,000	15,916,000
Extraordinary item (Note 9)	<u>(55,577,000)</u>	<u>—</u>
Net Income (loss) for the year	<u><u>\$ (41,792,000)</u></u>	<u><u>\$ 15,916,000</u></u>
Earnings (loss) per common share (Note 4)		
Before extraordinary item	<u>\$ 2.33</u>	<u>\$ 2.70</u>
After extraordinary item	<u>\$ (7.23)</u>	<u>\$ 2.70</u>

See accompanying notes

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1976 and 1975
(expressed in United States currency)

	1976	1975
Source of Funds:		
Current operations:		
Income before extraordinary item	\$ 13,785,000	\$ 15,916,000
Charges (credits) to income not involving a flow of funds in the current period:		
Depreciation	3,645,000	3,395,000
Provision for employees' indemnities	721,000	137,000
Provision for contingencies no longer required	(641,000)	—
Minority interest	843,000	850,000
Share of earnings of Venezuelan companies sold	(9,154,000)	(11,055,000)
Dividends from Venezuelan companies sold	9,591,000	8,655,000
Working capital provided from operations	<u>18,790,000</u>	<u>17,898,000</u>
Deferred charges	1,248,000	895,000
Additional borrowing – long-term debt	1,598,000	6,391,000
Proceeds on stock options exercised	185,000	46,000
Proceeds on sale of Venezuelan companies	85,098,000	—
Disposal of other assets and investments	1,270,000	—
Customers' contributions for line extensions	202,000	276,000
	<u>\$108,391,000</u>	<u>\$ 25,506,000</u>
Application of Funds:		
Additions to property, plant and equipment	10,932,000	13,843,000
Dividends	8,982,000	8,344,000
Additions to investments and other assets	—	1,291,000
Dividends paid by subsidiaries to minority shareholders	510,000	505,000
Purchase for cancellation of 5.2% preferred shares	82,000	328,000
Reduction of working capital net of proceeds on sale of interest in a subsidiary previously consolidated	—	789,000
Reduction of long-term debt	1,876,000	1,309,000
	<u>22,382,000</u>	<u>26,409,000</u>
Increase (decrease) in working capital	86,009,000	(903,000)
Working capital, beginning of year	26,760,000	27,663,000
Working capital, end of year	<u>\$112,769,000</u>	<u>\$ 26,760,000</u>

See accompanying notes

	1976	1975
Changes in components of working capital:		
Increase (decrease) in current assets –		
Cash	\$ 268,000	\$ 122,000
Bank term deposits payable in U.S. dollars	86,261,000	452,000
Other term deposits	86,000	(133,000)
Accounts receivable	6,858,000	1,367,000
Materials and supplies, at cost	772,000	(1,809,000)
Prepaid expenses	(21,000)	(19,000)
	<u>94,224,000</u>	<u>(20,000)</u>
Increase (decrease) in current liabilities –		
Bank loans	1,172,000	1,278,000
Accounts payable	6,224,000	(271,000)
Customers' deposits, including interest thereon	171,000	93,000
Income and other taxes payable	(76,000)	(237,000)
Dividends payable	(3,000)	304,000
Long-term debt, due within one year	727,000	(284,000)
	<u>8,215,000</u>	<u>883,000</u>
Increase (decrease) in working capital	<u>\$ 86,009,000</u>	<u>\$ (903,000)</u>

See accompanying notes

Notes to Consolidated Financial Statements

December 31, 1976 and 1975

1 Significant Accounting Policies

a) Basis of Financial Statement Presentation

The Company's investments in subsidiaries and other companies are accounted for as follows:

• Subsidiaries

The accounts of all companies which were subsidiaries at December 31, 1976, are consolidated.

• Venezuelan Electric Utility Companies

The Company's share of the earnings of the Venezuelan electric utility companies to September 30, 1976 is accounted for on the equity basis.

• Investments in other Companies

The investment in an effectively controlled company is carried at the lower of equity value and net realizable value. Investments in other companies are carried at cost unless a permanent impairment in market value has occurred in which case the investments are carried at market.

b) Property, Plant and Equipment

Property, plant and equipment are carried at cost (see note 1(f)). Provision for depreciation on all assets is computed in the accounts principally on a straight line basis at rates required to amortize the asset values over the estimated service lives of the assets. The percent relationship between the annual provision for depreciation and the average gross book value of depreciable property was 2.7% in 1976 and 2.8% in 1975.

When depreciable property is retired, the gross book value less proceeds is charged to accumulated depreciation except for El Salvador where net book value less proceeds is charged to income.

c) Translation of Foreign Currencies

Assets and liabilities, except for property, plant and equipment, have been translated into U.S. dollars at rates prevailing at the balance sheet dates. Property, plant and equipment have been translated at rates prevailing at the time of acquisition. The items in the statement of income are translated at the average rates of exchange prevailing during the years, except for depreciation, which is translated at the same rates as used for the related assets.

Pending a recommendation by the Canadian Institute of Chartered Accountants, the unrealized gains and losses on the translation of foreign currencies into U.S. dollars are deferred. Had the Company followed the rules of the Financial Accounting Standards Board of the United States, which require that unrealized foreign exchange gains or losses

be included in the determination of net income, net income for the year would have been increased by \$1,031,000 in 1976 and by \$930,000 in 1975. Management believes that the adoption of this requirement could give rise to unrealistic fluctuations in earnings from period to period.

d) Employees' Service and Severance Indemnities and Pension Plans

• Bolivia

The Company accounts for the current year's cost of employees' service and severance indemnities on an accrual basis. This policy results in the creation of a liability which would only be totally required in the unlikely event of complete separation of all employees.

• Other Countries

The liability arising for past service benefits under pension plans established in other countries is charged to income over a period from five to twelve years from dates of the actuarial valuations.

e) Income taxes

In accounting for income taxes, the Company follows the tax allocation method except in Barbados where income taxes are recorded on the flow-through basis as required by the regulatory authority, the effect on net income not being material.

The Company follows the flow-through method of accounting for investment tax credits whereby the provision for income taxes is reduced in the year by the amount of credits available.

f) Accounting Change

In prior years, it was the policy of the Company to have, when appropriate, the properties of the electric utility subsidiary companies appraised periodically and to record appraisal increments in the accounts.

Following the disposal of the Venezuelan utility companies, the Company adopted the policy of carrying all fixed assets in the consolidated statements at historical cost and accordingly removed, for consolidation purposes, the appraisal increment on its remaining assets carried on an appraisal basis all of which were located in Barbados. As a result of this change, which was applied retroactively, net income for 1976 increased by \$335,000 (1975 - \$223,000), retained earnings increased by \$2,215,000 (1975 - \$1,992,000) and the appraisal increment to property, plant and equipment decreased by \$10,692,000.

2 Summary of Assets, Liabilities, Operating Revenue and Income of the Companies by Location – Thousands of U.S. Dollars

	Venezuela	Bolivia	EI Salvador	Barbados	Mexico	Bermuda	Canada	Total
Property, plant and equipment	\$ 584	\$ 63,470	\$ 30,410	\$ 44,212	\$ —	\$ 4	\$ 225	\$138,905
Less: Accumulated depreciation	84	15,701	9,186	6,401	—	2	125	31,499
	500	47,769	21,224	37,811	—	2	100	107,406
Investments and other assets and deferred charges	3,324	784	84	(247)	6,669	—	3,927	14,541
Current assets	1,341	4,580	5,736	4,028	1,577	107,495	11,473	136,230
	5,165	53,133	27,044	41,592	8,246	107,497	15,500	258,177
Current liabilities	829	1,903	6,150	6,080	595	6	7,898	23,461
Long-term debt	168	5,114	—	18,027	—	—	—	23,309
Customers' contributions for line extensions and service and severance indemnities	225	1,521	—	2,874	—	—	—	4,620
Minority interest	123	231	2,384	3,640	761	—	242	7,381
	1,345	8,769	8,534	30,621	1,356	6	8,140	58,771
Net assets	\$ 3,820	\$ 44,364	\$ 18,510	\$ 10,971	\$ 6,890	\$107,491	\$ 7,360	\$199,406
	*145,963	*42,519	*18,294	*9,660	*7,522	*21,181	*4,938	*250,077
Operating revenue	\$ 1,907	\$ 8,997	\$ 32,038	\$ 15,692	\$ —	\$ —	\$ 337	\$ 58,971
	*687	*7,458	*24,032	*14,177	*—	*—	*182	*46,536
Income before extraordinary item	\$ 7,759**	\$ 2,576	\$ 1,182	\$ 1,497	\$ (284)	\$ 1,365	\$ (310)	\$ 13,785
	*10,267**	*1,772	*1,493	*1,441	*447	*1,486	*(990)	*15,916
Percent of income	56%	19%	9%	11%	(2%)	10%	(3%)	100%
	*65%	*11%	*9%	*9%	*3%	*9%	*(6%)	*100%

* Comparative figures for 1975.

** Includes net income from subsidiaries sold in 1976 net of dividend withholding taxes.

3 Investments and Other Assets

At cost	1976	1975
Nacional Financiera – 6½ % promissory notes due semi-annually to January 15, 1977	\$ 394,000	
Less amounts due within one year	<u>394,000</u>	\$ 394,000
Government of Mexico – 6½ % to 10% external sinking fund bonds due from 1980 to 1997 in principal amounts of \$5,508,000 (1975 – \$4,080,000)	5,235,000	3,858,000
Fundidora de Monterrey, S.A. 7% convertible debentures, due July 1984 in the principal amount of \$283,000 (1975 – \$305,000)	274,000	296,000
Norcen Energy Resources Limited 19,000 preference shares – 1.7% of issued shares of Series B	463,000	
287,100 common shares – 1.5% of issued shares	<u>3,273,000</u>	3,736,000
Fiveca, S.A., Caracas, Venezuela 36,800 common shares – 15.3% of share capital	1,642,000	1,589,000
Banco Hipotecario Venezolano, C.A., Caracas, Venezuela – 8,208 common shares – 5.1% of share capital	581,000	486,000
Government accounts receivable contracted to be repaid from 1977 to 1982	32,000	581,000
Note receivable repayable in instalments to 1980 (10% interest)	411,000	524,000
Other	<u>339,000</u>	<u>443,000</u>
Total at cost (Estimated market value: 1976 – \$15,000,000; 1975 – \$14,000,000)	<u>12,250,000</u>	<u>11,907,000</u>
 At market (1975 at cost)		
Aluminio, S.A. de C.V., Mexico 464,000 common shares – 4.6% of share capital	1,164,000	1,998,000
Fundidora de Monterrey, S.A. 22,993 common shares – 0.1% of share capital	35,000	196,000
	<u>1,199,000</u>	<u>2,194,000</u>
 At net realizable value (1975 at equity)		
Metalúrgica Eléctro-Industrial, C.A. 1,228 common shares – 40.9% of share capital	636,000	1,254,000
	<u>\$14,085,000</u>	<u>\$15,355,000</u>

4 Capital Stock

Preferred Stock

Preferred shares of the par value of Cdn. \$20 each, issuable in series, of which 350,000 shares were designated as 5.2% Cumulative Redeemable Preferred shares, 1965 Series –

	1976	1975
Authorized shares, less redeemed	1,896,903	1,903,153
Issued, less redeemed	246,903	253,153
Carrying value	\$4,585,000	\$4,701,000

The Company is required to purchase for cancellation each year preferred shares in an amount not less than Cdn. \$70,000. During the year, 6,250 shares having an aggregate par value of Cdn. \$125,000 (U.S. \$116,000) were purchased and cancelled.

The 1965 series is redeemable at the option of the Company at Cdn. \$20.40 plus any unpaid preferential dividends.

Common Stock

At December 31, 1976 and 1975, the number of authorized convertible common shares was 8,000,000 each of Class A and Class B with an aggregate authorized value not to exceed \$26,000,000.

	1976	1975
Issued and outstanding		
Class A shares	5,387,238	5,470,423
Class B shares	439,652	341,467
Total	<u>5,826,890</u>	<u>5,811,890</u>
Carrying Value	<u>\$17,877,000</u>	<u>\$17,692,000</u>

Under a Stock Option Plan for officers and key employees of the Company and its subsidiaries, a maximum of 250,000 common shares were reserved for issue at a price which cannot be less than 100% of fair market value at the date of grant. In 1976 options for 15,000 shares were exercised for an amount of Cdn. \$186,000. No options were granted in 1976. There were outstanding and exercisable at December 31, 1976, options on 56,500 shares

(including 12,000 shares granted to directors and officers) having an aggregate option price of Cdn. \$722,000 leaving 174,750 shares available for future grants.

Details of common shares under option as at December 31, 1976 are as follows:

Number of shares	Option price per share	Expiry date of option
42,500	Cdn. \$12.60	February 8, 1978
5,000	Cdn. \$14.06	May 9, 1978
2,000	Cdn. \$17.00	May 8, 1979
5,000	Cdn. \$12.00	April 18, 1979
2,000	Cdn. \$10.97	May 16, 1979

Earnings per common share were determined by dividing the number of common shares outstanding during each year into net income less preferred share dividends. There would be no material dilution of such earnings per common share if all stock options were exercised.

5 Long-Term Debt

	1976	1975
Bolivia		
5½ % loan from International Development Association through the Bolivian Government due in semi-annual instalments to 1989*	\$ 3,512,000	\$ 3,704,000
6% and 8% loan payable in Canadian dollars to Export Development Corporation due in semi-annual instalments to 1983	1,401,000	1,604,000
Equipment notes with interest from 6.7% to 8½ % due in varying instalments to 1978	400,000	597,000
Other	490,000	490,000
	<u>5,803,000</u>	<u>6,395,000</u>
Barbados		
8½ % loan payable in Canadian dollars to Export Development Corporation due in semi-annual instalments from 1977 to 1985	8,420,000	7,850,000
7% loan from Lloyds Bank guaranteed by Export Credit Guarantee Department payable in pounds sterling from 1976 to 1983	3,033,000	3,491,000
8½ % and 9¼ % debentures payable to Commonwealth Development Corporation in pounds sterling to 1990	2,402,000	3,062,000
10½ % bank loan due 1981*	3,000,000	1,500,000
9½ % debentures due 1989 to 1993*	2,000,000	1,400,000
Bills of Exchange with interest from 5½ % to 7% payable in pounds sterling to 1981	420,000	813,000
Other	533,000	641,000
	<u>19,808,000</u>	<u>18,757,000</u>
Venezuela		
Other*	\$182,000	\$192,000
	25,793,000	25,344,000
Less amounts due within one year included in current liabilities	2,484,000	1,757,000
	<u>\$23,309,000</u>	<u>\$23,587,000</u>

*Repayable in the currency of the country indicated.

Long-term debt secured by charges against property, plant and equipment totalled \$16,387,000 (1975 – \$17,145,000).

The aggregate amounts of long-term debt maturing after December 31, 1977 are as follows:

Year	Amount
1978	\$ 1,689,000
1979	1,658,000
1980	1,663,000
1981	3,120,000
Subsequently	15,179,000
	<u>\$23,309,000</u>

6 Income Taxes

All of the countries in which the subsidiaries operate, except Bermuda, impose withholding taxes upon cash dividends paid to the Company. It is a policy of the Company to pay cash dividends out of earnings of subsidiaries in excess of amounts required for reinvestment. Substantially all undistributed earnings are reinvested in the subsidiaries, and consequently, no provision is made for withholding taxes on the reinvested earnings.

Income taxes have been reduced by \$469,000 (1975 – \$805,000) as a result of credits permitted under income tax laws for investments in property, plant and equipment in Barbados and Venezuela.

7 Employees' Service and Severance Indemnities and Pension Plans

The unamortized amount for service and severance indemnities in Bolivia and the unrecorded liability arising for past service benefits in other countries, aggregate approximately \$1,000,000 (1975 – \$1,600,000).

8 Legal Reserves

In El Salvador and Venezuela, the Company is required to appropriate a percentage of its earnings as a general reserve designated "legal reserve". The amount in each subsidiary is determined through the operation of law in the jurisdiction concerned. The total amount of "legal reserves" included in Retained Earnings was \$1,984,000 at December 31, 1976 (1975 – \$1,808,000).

9 Sale of Venezuelan Utility Companies

On October 29, 1976 the sale of the Venezuelan utility subsidiary companies to Fondo de Inversiones de Venezuela, a Venezuelan Government agency, was finalized for a cash purchase price of \$90,005,000 plus an additional amount of approximately \$6,000,000, to be received by April 30, 1977.

Out of these proceeds the Company has paid and/or provided \$10,994,000 to cover income taxes, employees' severance and service indemnities and other liabilities. The consolidated book value of the assets of the companies sold, which included an appraisal increment of \$60,746,000 was \$140,675,000. The difference between this amount and the net proceeds was treated as a book loss of \$55,577,000 on consolidation.

The non-recovered portion of the carrying value of the assets was represented by the appraisal increment which at the same time was transferred to retained earnings. The impact of this transaction on consolidated retained earnings was a net increase of \$5,169,000 determined as follows:

Transfer from appraisal increment	\$60,746,000
Extraordinary loss	55,577,000
Net increase in retained earnings	<u>\$ 5,169,000</u>

Through banks in Venezuela, guarantees to the extent of Bs18,600,000 (\$4,325,587) for a period of 5 years were given by the Company in favour of the Fondo de Inversiones de Venezuela to cover contingencies arising from possible income tax claims and other liabilities in respect to the utilities sold.

10 Remuneration of Directors and Officers

During the year, the Company had ten Directors and fourteen Officers, three of whom were also Directors.

Aggregate remuneration paid by the Company and its subsidiaries to Directors and Officers of the Company, including past Directors and past Officers, was as follows:

	To Directors		To Officers	
	1976	1975	1976	1975
Canadian International Power Company Limited Subsidiary Companies	\$62,000	\$64,000	\$477,000	\$384,000
	8,000	8,000	258,000	276,000
	<u>\$70,000</u>	<u>\$72,000</u>	<u>\$735,000</u>	<u>\$660,000</u>

11 Anti-Inflation Program

Under the Anti-Inflation Act and Regulations effective as of October 14, 1975, the Company is subject to compliance with controls on dividend increases and its subsidiary, C I Power Services Limited, is subject to controls on prices, profits, employee compensation and dividend increases.

12 Comparative Figures

Comparative figures have been restated when necessary to conform to the presentation adopted in the current year.

13 Subsequent Events

On February 11, 1977, the Directors of the Company adopted a resolution which called for the liquidation of the Company. This proposal is to be considered at a special meeting of shareholders to be held on June 30, 1977. The plan contemplates, among other things, the retirement of the preferred shares, the distribution of the shares in the Barbados, Bolivian and El Salvador electric utility companies to the shareholders of the Company and the distribution of the remaining net assets in cash once the assets have been realized and liabilities extinguished. Because these financial statements are presented on a going concern basis, pending the approval by the shareholders of the plan of distribution mentioned above, they do not necessarily reflect the distribution value of the shares of the Barbados, Bolivian and El Salvador companies, which may be different than the carrying value of the shares on an unconsolidated basis or the carrying value of the assets on a consolidated basis.

14 Replacement Cost Data (Unaudited)

The following table is presented to meet disclosure requirements prescribed in Rule 3-17 of Regulation S-X promulgated by the Securities and Exchange Commission. It sets forth the Companies' original cost of investment in property, plant and equipment at December 31, 1976, the related accumulated depreciation and the reported depreciation expense for the year then ended together with these items on an estimated replacement cost basis.

The Company cautions readers that these data are inherently imprecise in nature and many subjective judgements were required in estimating replacement cost.

The replacement cost data are not a representation of the current value of the assets nor an estimate of the amounts which could be realized if the assets were to be sold. It is, instead, an estimate of the cost to replace these assets on the assumption that the Companies' entire existing productive capacity were replaced in kind at prices in effect in late 1976. Furthermore, as these data are limited to selected categories of assets and related

depreciation, and because of the rate regulated status of the Companies there are very significant inherent limitations in using this information to reach any conclusions regarding the effects of inflation on the Companies.

The replacement cost for property, plant and equipment at December 31, 1976 was for the most part derived by applying combined North and South American indices to previously determined historical appraisal valuations of reproduction cost new.

Management is of the opinion that the historical valuations of the reproduction cost new figures would not be significantly different from the replacement cost of such assets at that time.

The accumulated provision for depreciation has been estimated on a replacement cost basis by applying the results of existing asset lives to the December 1976 replacement cost. Depreciation expense based on replacement cost was developed by applying the Companies' composite depreciation rate to the average replacement cost of productive capacity for the year.

(Thousands of dollars)	Original Cost Basis As of December 31, 1976			
	Original Investment	Accumulated Depreciation	Net Investment	Depreciation Expense for the Year 1976
Total property, plant and equipment	\$138,905	\$31,499	\$107,406	\$3,645
Less: Items excluded from replacement cost data, principally construction work in progress, intangibles and land and land rights	6,576	210	6,366	93
Investment in property, plant and equipment in service reflected in amounts shown below on estimated replacement cost basis	<u>\$132,329</u>	<u>\$31,289</u>	<u>\$101,040</u>	<u>\$3,552</u>

Estimated Replacement Cost Basis as Defined Above As of December 31, 1976

Original Investment	Accumulated Depreciation	Net Investment	Depreciation Expense for the Year 1976
<u>\$267,000</u>	<u>\$63,500</u>	<u>\$203,500</u>	<u>\$7,300</u>

Noncapitalized leases are not significant and have been excluded from the replacement cost information.

Replacement cost data relating to materials and supplies have not been included in the replacement cost analysis because, for the most part, these items are construction and maintenance related.

15 Unaudited Quarterly Financial Data

Quarterly financial data for 1976 is summarized below:

(Thousands of dollars)	Three Months Ended			
	March 30	June 30	Sept. 30	Dec. 31
Operating revenue as restated *	<u>\$14,584</u>	<u>\$15,138</u>	<u>\$15,341</u>	<u>\$ 13,908</u>
Operating income	<u>\$ 995</u>	<u>\$ 556</u>	<u>\$ 1,047</u>	<u>\$ 1,703</u>
Other income	<u>\$ 3,553</u>	<u>\$ 4,056</u>	<u>\$ 3,811</u>	<u>\$ 367</u>
Net income (loss)	<u>\$ 4,097</u>	<u>\$ 4,191</u>	<u>\$ 4,195</u>	<u>\$ (54,275)**</u>
Net income (loss) per share				
Before extraordinary item	<u>\$0.69</u>	<u>\$0.71</u>	<u>\$0.71</u>	<u>\$ 0.22</u>
After extraordinary item	<u>\$0.69</u>	<u>\$0.71</u>	<u>\$0.71</u>	<u>\$ (9.34)</u>

* Operating revenue has been restated to conform to the presentation adopted in the third quarter with respect to the disposal of the Venezuelan electric utility subsidiaries.

** In the fourth quarter of 1976, the extraordinary item referred to in note 9 was recorded. Also, in the fourth quarter, the retroactive change in the application of an accounting principle referred to in note 1(f) was recorded.

Auditor's Report

To the Shareholders of
Canadian International Power
Company Limited:

We have examined the consolidated balance sheets of Canadian International Power Company Limited and subsidiary companies as at December 31, 1976 and 1975 and the consolidated statements of income, retained earnings and changes in financial positions for the years then ended. Our examination of the financial statements of Canadian International Power Company Limited, and those subsidiary companies of which we are the auditors, was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of other public accountants with respect to their examination of the financial statements of the subsidiary located in Barbados, which financial statements are summarized in note 2.

In our opinion, these consolidated financial statements present fairly on a going concern basis, the financial positions of the companies as at December 31, 1976 and 1975 and the results of their operations and the changes in their financial positions for the years then ended in accordance with accounting principles generally accepted in Canada applied on a consistent basis during the two years, after giving retroactive effect to the accounting change described in note 1(f).

In our report dated March 12, 1976 relating to the financial statements at December 31, 1975, and for the year then ended, our opinion was qualified with respect to the effect that the negotiations with the Government of Venezuela on the disposition of the Company's utility properties in that country, would have on the financial position of the Company at

December 31, 1975. As described in note 9, the Company's Venezuelan utility subsidiaries were sold to an agency of the Government of Venezuela in 1976 and the effect of this transaction now being reflected in the financial statements, we no longer require a qualification of our opinion in that respect.

Attention is called to note 13 to the financial statements, in respect of the proposed distribution of the assets and the subsequent liquidation of the Company, which is subject to the approval of the shareholders. In this note it is pointed out that the distribution values of the shares of the Barbados, Bolivian and El Salvador companies may be different than the values on a going concern basis of these shares and the underlying assets.

Arthur Young, Clarkson, Gordon & Co.
Chartered Accountants

Montreal, Canada,
March 23, 1977.

Management's Comments on Consolidated Statements of Income

1975

Operating revenues at over \$46 million, restated to exclude the Venezuelan utility subsidiaries sold in 1976 were 13 percent higher than 1974, resulting from an increase of 5.4 percent in kwh sales, as well as higher rates in Bolivia and a fuel adjustment charge in Barbados. In addition, the full impact of a 35 percent rate increase in El Salvador which went into effect on July 2, 1974 was reflected in the increase.

Operating expenses rose by 14 percent over 1974, due primarily to higher costs of purchased power, labour and fuel costs.

Income taxes expense increased by about \$863,000 due to higher withholding taxes on increased dividends from Venezuela and Bolivia and a new 10 percent withholding tax in Barbados

1976

Operating revenues for the remaining operations at \$59 million showed an increase of 27 percent over 1975, reflecting a 7.8 percent increase in sales and a rate increase in El Salvador which went into effect January 1, 1976.

Operating expenses at \$46.6 million increased by approximately 30 percent over 1975 due primarily to higher costs of purchased power in Salvador and abnormal maintenance expenses in Barbados and El Salvador.

Income before extraordinary loss decreased by approximately \$2.1 million or 13 percent from 1975, reflecting the loss of income from September 30, 1976, from the Venezuelan utility companies sold as well as a write-down of certain investments in Mexico and Venezuela.

Listed below are dividends paid on the Common Stock as well as the High and Low Trading prices on the Montreal Stock Exchange by quarter for the years 1975 and 1976.

<i>Quarter Ending</i>	<i>Dividend</i>	<i>High*</i>	<i>Low*</i>
March 31, 1975	\$0.32	14 1/8	10 3/4
June 30, 1975	0.32	14 3/4	12 1/4
September 30, 1975	0.375	14 3/4	14
December 31, 1975	0.375	15	14 1/2
March 31, 1976	0.375	16 1/2	14 3/4
June 30, 1976	0.375	16	14 1/2
September 30, 1976	0.375	16 3/8	14 3/4
December 31, 1976	0.375	16 5/8	14 1/8

* Quoted in Canadian dollars

Further Information

A more comprehensive description of the business of the Company and other aspects of its affairs is contained in its annual report on form 10-K on file with the U.S. Securities and Exchange Commission. A copy of this report will be furnished free of charge to any shareholder upon written request addressed to the Company, attention The Secretary, Suite 1800, 2020 University Street, Montreal, Quebec, Canada H3A 2A5.

Shares of both preferred and common stock in the Company are listed on the Montreal Stock Exchange; shares of common stock are also listed on the Toronto Stock Exchange and the American Stock Exchange in New York.



POWER